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Attitudes to inequality and normative theory

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My topic

- Empirical (positive) investigation of public's values is necessary if we want to *understand* society.

- My question in this talk: what is the *normative* status of the empirical results?

  - Should society act upon them?
  - Can normative theory learn from them?

    "Empirical ethics is inconsistent with the very nature of moral judgments, which are supposed to be rationally contestable, because it implies that the social consensus is always right, and minority views and the views of social reformers are always automatically mistaken" (Daniel Hausman, 2000)

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Reflective equilibrium

- ▶ Reflective equilibrium (RAWLS): trying to construe a coherent view of the world in which intuitive judgments concerning specific matters (either of a factual or a normative nature) cohere with general principles.
- ▶ What are "relevant normative facts"?
  - ▶ own intuitions of ethical observer (Rawls).
  - ▶ "judgments" of other people, "common-sense" opinions in society.
  - ▶ real "justice related" behaviour (e.g. Güth and Kliemt, EJPolEc, 2010).

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Structure

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Values and preferences

▶ General idea:

  ▶ Define alternatives $x, y, z, ...$
  ▶ Define a relation R_i such that xR_iy means that x is "at least as good" for i than y.

INTERPRETATION ALTERNATIVES

  ▶ own income (or consumption bundle)
  ▶ vector of relevant life dimensions
  ▶ income distributions
  ▶ full description of social states

INTERPRETATION RELATION R_i

  ▶ "chosen" (revealed preferences)
  ▶ "more valued" (in terms of my life project)
  ▶ "makes me happier" (or more satisfied)
  ▶ "is socially preferred"
  ▶ "is more just"

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Is this a problem?

- In the empirical literature, the different interpretations often get mixed up. Source of much confusion (between economists, but even more so between economists and other social scientists).

- Hausman (2015) - "Preferences are *total subjective comparative* evaluations of alternatives" (and the rest are "attitudes").

- I have deliberately opted for the term "attitudes" in the title of my talk. (The largest part of the economic literature talks about "redistributive preferences" and "preferences towards inequality").

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Methods

▶ Very many papers, almost all based on the answers to simple questions in representative surveys (GSS, ESS, ISSP, WVS,...)

▶ Typical question:

"Some people think that the government in Washington should do everything to improve the standard of living of all poor Americans (they are at point 1 on this card). Other people think it is not the government's responsibility and that each person should take care of himself (they are at point 5). Where are you placing yourself in this scale?" (GSS)

"It is the responsibility of the government to reduce the difference in income between people with high incomes to those with low incomes" (ISSP)

"The government should take measures to reduce differences in income levels" (ESS)

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General findings,...

- Remarkably large consensus, summarized in specification of Alesina and Giuliano (2011):

$$U_i = \sum_t \beta^t u(y_{it}(..., I_{it})) - \delta_i (I - I_i^*)^2,$$

or, introducing explicitly the distinction between effort and luck

$$U_i = \sum_t \beta^t u(y_{it}(..., I_{it})) - \delta_i^e (I^e - I_i^{e*})^2 - \delta_i^l (I^l - I^{l*})^2.$$

- This captures: 1. own income; 2. effect of inequality on own income; 3. mobility (POUM); 4. concern for justice, distinction between different factors that contribute to income creation.

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...but much variation

Attitudes towards inequality show a lot of variation:

- ▶ Own income and education (self-interest).

- ▶ Personal experiences:
  - ▶ Misfortune in the past (e.g. growing up in a recession, Giuliana and Spilimbergo, REcStud 2014).
  - ▶ Number of siblings and position in order children (younger children more in favour of redistribution, Yamamura SIR 2015).

- ▶ Intercultural differences that persist after moving to another country (Luttmer and Singhal AEJ: EcPol 2011).
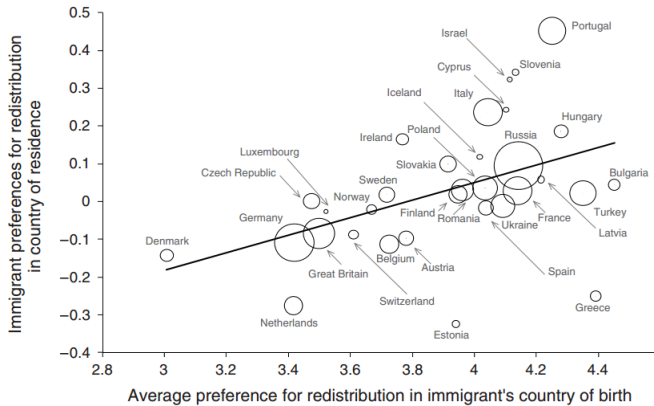
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FIGURE 1. IMMIGRANT PREFERENCES FOR REDISTRIBUTION BY PREFERENCES IN COUNTRY OF BIRTH

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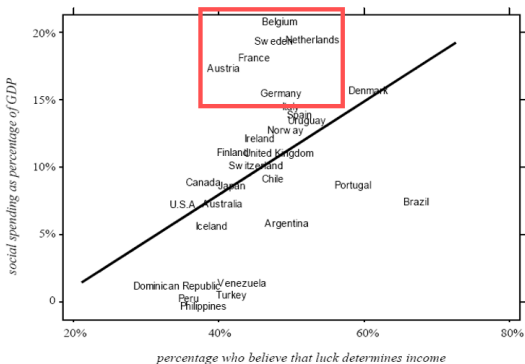**Normative interpretation?**
How to move forward?

A. Attitudes and institutions

▶ Attitudes of respondents are influenced by the institutions they know (in which they are living). The argument was made by David Miller, but is also in line with the theoretical framework of Alesina and Angeletos (AER, 2005):

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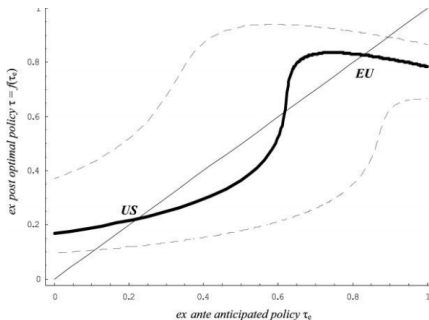
Attitudes and institutions 2

▶ Differences between "pure redistribution" and "social insurance" is to a large extent neglected in this literature.

percentage who believe that luck determines income

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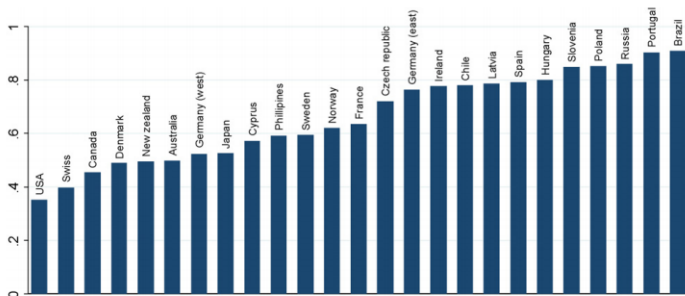**Normative interpretation?**
How to move forward?

Attitudes and institutions 3

▶ Alesina and Angeletos (AER, 2005) suggest that there is a kind of "general idea about justice", and that the main differences between countries are due to beliefs about the relative importance of effort and luck in determining incomes.

▶ If true, this would open interesting interpretational possibilities. But is it true?

▶ Analysis of intercountry differences by Isaksson and Lindskog (JEBO, 2009).

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Differences towards income redistribution

[1] 'It is the responsibility of the government to reduce the difference in income between people with high incomes and those with low incomes'

Fig. 1. Share of respondents agreeing or strongly agreeing with the redistributive statement[1].

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Beliefs about importance of effort to explain income differences

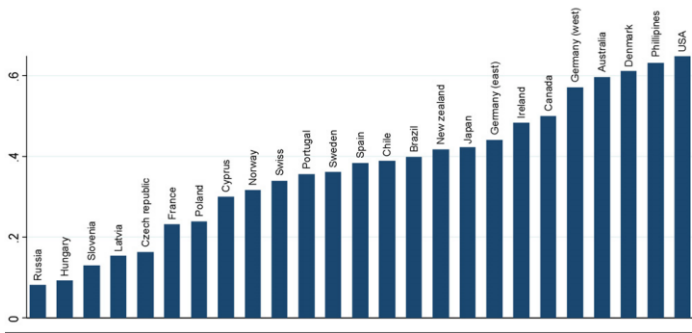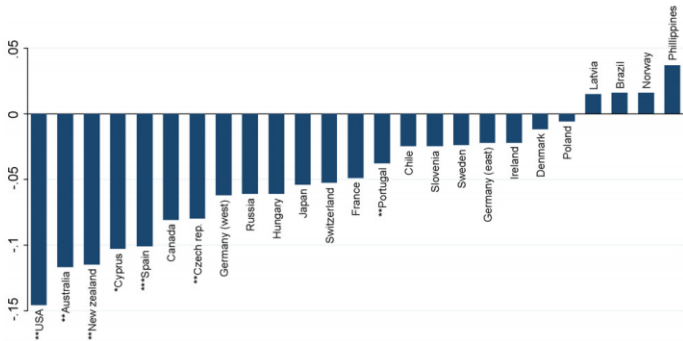**Fig. 7.** Share of respondents agreeing or strongly agreeing to the statement 'In [country] people get rewarded for their effort'.

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Weight of effort differences in justifying income differences

Based on ordered probit estimation of equation 1 for the country sub-samples. Presents the effects of agreeing or strongly agreeing rather than disagreeing or strongly disagreeing to the statement *'In [country] people get rewarded for their effort'* on the probability of agreeing or strongly agreeing with statement, *'It is the responsibility of the government to reduce the difference in income between people with high incomes and those with low incomes'.*

Fig. 4. Country variation in the effects of believing 'effort is rewarded' on support for redistribution.

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Explaining intercountry differences
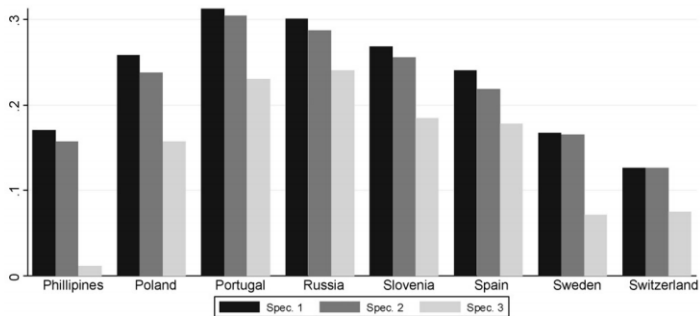
Country dummy effects on the probability to agree or strongly agree with the redistributive statement, from
 ordered probit estimations with the following explanatory variables (see Table A1 for more detail):
Spec. 1: country dummies + other controls
Spec. 2: country dummies + other controls + belief variables
Spec. 3: country dummies + other controls + belief variables + belief*country

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B. What is inequality?

- ▶ The literature is usually not explicit about what it exactly means to "reduce inequality". More specific questions can give surprising answers.
- ▶ Example: Burak (2013), large American sample (N=40,000), cap on high incomes?
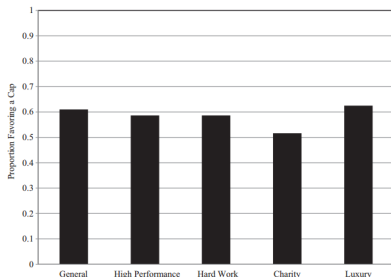
Fig. 3. Proportion supporting a compensation cap, by high earner characteristics.

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C. The importance of (mis)perceptions

- In evaluating the desirability of redistribution, respondents are influenced by their perception of the actual situation. This has to be taken into account when interpreting the results.

- Two cases:

  1. Perception of one's own position in the income distribution (Cruces et al., JubEc, 2013).
  2. Perception of overall inequality (Kuhn, German Economic Review, 2013).

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1. Influence of perception of one's own position

- ▶ Study in Buenos Aires, specifically designed to answer this question (!), N = 1060.
- ▶ Misperception of income distribution:

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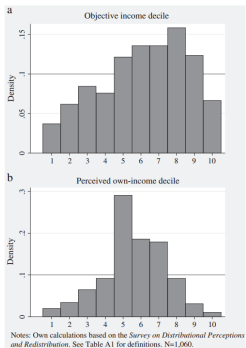
Effect of correcting people's biased perception

	Negative bias: Treatment = telling respondents that position is higher	No bias: Treatment = confirming respondent's positional perception	Positive bias: Treatment = telling respondent that position is lower
	(1)	(2)	(3)
Mean of three government-support-to-the-poor questions (money, food, jobs)			
Treatment group [obs.]	0.459 [296]	0.532 [84]	0.538 [150]
Control group [obs.]	0.463 [286]	0.495 [72]	0.509 [152]
Difference [s.e.]	−0.003 [0.018]	0.036 [0.041]	0.029 [0.029]
Conditional diff. [s.e.]	−0.003 [0.015]	0.015 [0.066]	0.071 [0.026]***

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2. Demand for redistribution: East- and West-Germany

▶ Kuhn (2013) uses the ISPS-questions on the "estimated" and "ethically justified" wages of different occupations.

▶ Differences between Eastern and Western Germans in their willingness to redistribute:

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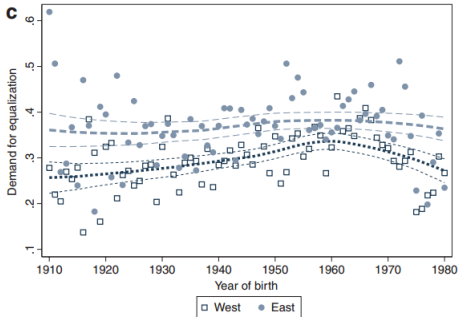
Preferences and beliefs

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Should society act upon these attitudes?

▶ Link between answers to these questions and behaviour is tenuous (what about voting?).

▶ There are some authors that claim that these results should inspire normative tax analysis (e.g. Weinzierl, J. PubEcon 2014: "The promise of positive optimal taxation").

▶ This seems very premature. Too many simplistic interpretations. We first have to understand better what is going on.

▶ What would it mean to "act upon" these attitudes? Consensus is just a myth. How to aggregate conflicting attitudes? Just taking the average (or the median, or the majority) has to be justified.

▶ No coherent ethical framework.

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Need for a normative framework?

- Deutsch (1983) on empirical work, giving him a "feeling of intellectual disorganization".

- On the one hand, it is obvious that respondents do not have a fully worked out ethical framework in mind (who has?); on the other hand it is equally obvious that they are not so primitive as the present empirical work seems to suggest.

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Methodological consequences

- ▶ Empirical work would gain if it started from a normative framework to structure its findings:
  - ▶ Theoretically flexible framework needed:
    - ▶ e.g. different cuts between circumstance (compensation) and effort (responsibility) variables possible in theory of fairness.
    - ▶ e.g. different solutions to the claims problem.
  - ▶ Context dependency taken into account.
- ▶ Specific survey questions to be developed that allow for a richer interpretation.

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Meaningful?

The questionnaire-experimental approach

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Meaningful?

Principles 1. Axiomatic method

- Almost impossible to "test" the acceptance of a general theory of justice. Questions would become too complicated for respondents to answer them.

- The axiomatic approach reduces the intricate reasoning of a complete ethical theory to its essential constitutive building blocks.

- Empirical research can then focus on the acceptance of these "building blocks".

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Luce and Raiffa, 1957

"...rather than dream up a multitude of arbitration schemes and determine whether or not each withstands the best of plausibility in a host of special cases, let us invert the procedure. Let us examine our subjective intuition of fairness and formulate this as a set of precise desiderata that any acceptable arbitration scheme must fulfil. Once these desiderata are formalized as axioms, then the problem is reduced to a mathematical investigation of the existence of and characterization of arbitration schemes which satisfy the axioms."

"By means of a (small) finite number of axioms, we are able to "examine" the infinity of possible schemes, to throw away those which are unfair, and to characterize those which are acceptable. The only alternative - to examine in detail each of the infinity of schemes for each of the infinity of possible conflicts it is supposed to arbitrate - is not practical."

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Principles 2. Specific problems

- ▶ Formulate distributive problems for a specific setting.

- ▶ Allows to "test" for context-dependency.

- ▶ Forces respondents to think carefully and not to limit themselves to generalities.

- ▶ Use, if possible, precise (quantitative!) response possibilities. This is closer to reality and makes the consequences of different choices more transparent.

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Principles 3. Quasi-experimental approach

- ▶ Present different variants of the same story either to the same respondents (*within respondents* design) or to different randomly selected samples of respondents (*between respondents* design).

- ▶ Mostly with inexperienced respondents (students).

  - ▶ It would be intereresting to set up a dynamic process.
  - ▶ Why only students?

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Illustration 1: circumstances, effort, luck

▶ All empirical research on attitudes shows that the distinction effort-circumstances is in line with opinions of people.

▶ Define an outcome function

$$y_i = f(x_i) = f(c_i, e_i)$$

where c_i are "circumstances" for which individuals should be compensated and e_i are efforts for which they are responsible.

▶ The theory is general, in that it can be applied for any "responsibility cut", yet different positions of the cut will lead to very different policies.

▶ The formal properties of this problem are by now well understood.

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Where to draw the cut?

- ▶ Answer 1 (Rawls, Dworkin, Fleurbaey): "PREFERENCES"
    - ▶ autonomous moral agents must get the freedom and assume responsibility of pursuing their own personal conception of the good life.
    - ▶ resulting differences in well-being are their own responsibility.
    - ▶ a just distribution of resources must be endowment-insensitive but ambition-sensitive.

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▶ Answer 2 (Arneson, Cohen, Roemer?): "CONTROL"

  ▶ individuals should only be held responsible for characteristics
    and decisions that are within their own control (e.g. not for
    preferences that are "imposed" upon them by their education).

▶ Answer 3 (Strawson, Roemer?): "RESPONSIBILITY
  PRACTICES"

    "Because the choice by society of these parameters
    (i.e. dimension and fineness of the type grid) cannot but
    be influenced by the physiological, psychological, and
    social theories of man that it has, the present proposal
    would implement different degrees of opportunity
    egalitarianism in different societies". (Roemer,1993)

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Example: Schokkaert and Devooght (SCWE, 2003)

- ▶ Example (Schokkaert and Devooght, SCWE, 2003): between respondents-design with students in Belgium, Burkina Faso, Indonesia.
- ▶ HEALTH:

	Preferences	Resources
Controlled	more comfortable private room	confirmed smoker
Involuntary	private room because of psychological problems	genetic defect

- ▶ INCOME:

	Preferences	Resources
Controlled	working harder and enjoying leisure	developed skills in the past
Involuntary	worker harder because of education	higher natural intelligence

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Results

- ▶ Proportion respondents that is willing to compensate (pooled over three samples):

HEALTH			INCOME		
	Preferences	Resources		Preferences	Resources
Controlled	31.8	41.9	Controlled	10.2	10.2
Involuntary	73.1	84.8	Involuntary	12.6	49.7

- ▶ Some evidence of intercultural differences, but not very strong.
- ▶ Clear suggestion of context-dependency.
- ▶ What can we learn? Definitely not that the control approach is correct (I am at the preference side)!
- ▶ Yet, results show me how difficult it will be for me to convince other people of my opinion.

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Be careful: ethics and moralizing

- example: Ubel et al., Bioethics, 1999 respondents: 283 prospective jurors in Philadelphia (selected from voter registration records)

- Q: 200 patients waiting for heart transplant (100 with unhealthy lifestyle), 100 organs available: how should the available organs be allocated over the two groups of patients?

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Results

Behaviour	% chance of 5 year survival		
	90	70	50
Intravenous drug use	33	33	26
Cigarette smoking	45	43	36
High fat diet	48	47	41

▶ two versions where it was explicitly stated that the heart disease could NOT be ascribed to the unhealthy lifestyle: did not make any difference

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Application 2: claims problem

- An amount $E \in R_+$ has to be divided among a set $N = 1, 2, \ldots, n$ of individuals with claims adding up to more than E. Let $c_i \in R^+$ denote individual i's claim and $c = (c_1, c_2, \ldots, c_n)$ the claims vector. Claims are ordered so that $c_1 \leq c_2 \leq \cdots \leq c_n$. The total claim $\sum_{i \in N} c_i$ is assumed to be positive and is denoted by C.

- Individual i's award is denoted $R_i(c, E)$. The difference $c_i - R_i(c, E)$ is said to be individual i's loss.

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Some rules

- ▶ The **proportional rule** makes awards proportional to claims. For all $(c, E) \in C$, we have $P(c, E) = (E/C)c$.

- ▶ The **constrained equal awards rule** equalizes awards under the constraint that no individual receives an award that exceeds her claim. For all $(c, E) \in C$ and all $i \in N$, we have $CEA_i(c, E) = min\{c_i, \lambda\}$. The resulting awards vector typically looks like $(c_1, c_2, \ldots, c_k, \lambda, \lambda, \ldots, \lambda)$.

- ▶ The **constrained equal losses rule** equalizes losses under the constraint that no individual receives a negative award. For all $(c, E) \in C$ and all $i \in N$, we have $CEL_i(c, E) = max\{0, c_i - \lambda\}$. The resulting awards vector typically looks like $(0, 0, \ldots, 0, c_k - \lambda, c_{k+1} - \lambda, \ldots, c_n - \lambda)$.

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Relevance

- The claims problem has a very transparent formal structure. Again, the axiomatic properties of the different rules are well understood.

- The claims problem has obvious (and relevant) "real world" applications:
    - estate division, bankruptcy.
    - cuts in benefits.
    - structure of wage moderation.

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Example: Herrero et al. (SCWE, 2010)

▶ Five different problems (within respondents design - students). "Beauty contest" of the three rules.

▶ Case 1:

"A bank goes bankrupt and a judge has to decide on how the sum of money obtained from its liquidation would best be divided among its creditors. Obviously, as the bank has gone bankrupt, the sum of creditor's claims (i.e. the sum of their deposits) is much higher than the liquidation funds available. The claims and the available liquidation value are shown in the following table:

Creditor	Claim
1	5
2	46
3	49

The liquidation value is 20. The judge has three different options available to him with regard to how the liquidation value should be shared. (numbers given). What would your choice be if you were the judge?"

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▶ Case 3:

"Claimants are all NGO's sponsored by the bank. Each claimant had signed a contract with the bank, before its bankruptcy, that stated that they would receive a contribution in accordance with their social standing. Thus, 'Doctors without Frontiers', for instance, should receive the highest endowment, 'Save the Children' the second highest, and 'Friends of Real Betis Balompié' the least of all. The judge must now decide on the amounts they should each obtain. What sort of distribution would you decide on if you were the judge?"

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Results

n = 164	CEA	P	CEL
Depositors	0.06	0.89	0.05
Shareholders	0.06	0.68	0.26
NGO's	0.12	0.46	0.42
Estate	0.15	0.75	0.10
Bequests	0.38	0.61	0.01

- ▶ Proportional rule clearly dominating.
- ▶ Yet, again: context dependency! Suggests interesting theoretical question: perhaps we need a "metatheory" to differentiate between the different cases?

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Example: Bosmans and Schokkaert (SCWE, 2009)

- ▶ WAGE MODERATION:

"Persons A, B, and C own a firm together. A, B, and C contribute to the activities of the firm in different degrees, and for this reason they have agreed that their salaries differ. They receive monthly €1500, €2000 and €2500, respectively. Each of the three persons has also other sources of income. Due to an unexpected deterioration of the economic circumstances, the part of the revenue of the firm that can be used for salaries in a certain month amounts to only €4500, not enough to compensate the three firm directors. What is in your view the most just distribution of the sum of €4500 among persons A, B, and C?"

	Person A	Person B	Person C
a	1500	1500	1500
b	1250	1500	1750
c	1125	1500	1875
d	1050	1500	1950
e	1000	1500	2000

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▶ PENSIONS:

"Persons A, B, and C go on retirement. On the basis of the contributions they have paid during their active career, they are entitled to a monthly pension of €1500, €2000 and €2500, respectively. Due to the demographic ageing, these pension amounts can no longer be paid. The government only has €4500 monthly to spend on the pensions of A, B, and C. What is in your view the most just distribution of the sum of €4500 among persons A, B, and C?

▶ The design included different variants for claims and for total amount to redistribute.

▶ Between-respondents design with 550 students in Leuven and Osnabrück (no significant differences).

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Results

Rule	Consistency		Lowest distance	
	Firm (n=276)	Pensions (n=272)	Firm (n=276)	Pensions (n=272)
CEA	0	0	2	4
Other "progressive"	0	0	6	19
P	36	19	71	56
Other "ambiguous"	0	0	18	20
CEL	2	1	4	2

► "Popularity" of the more progressive ("more egalitarian")
  solutions grows if the distribution problem becomes harsher:

  ► smaller amount to be distributed.
  ► larger inequality in claims.

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Meaningful?

- ▶ Of course, these results do NOt allow to "predict" behaviour, because behaviour is not only motivated by attitudes towards inequality.

- ▶ Yet, from a normative point of view, these results are definitely meaningful.

  - ▶ Why would respondents lie?
  - ▶ Answer are not random and the resulting pattern makes sense (e.g. in the comparisons of the different variants).

- ▶ We are certainly measuring "something" (confirmed also by the experiments). Normative theory can get interesting "puzzles" from these results (in search for a reflective equilibrium) and it may make researchers better aware of their own biases.

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How to move forward?

▶ Exclusive focus on "unexperienced" respondents is exaggerated. Mainly explained by the fact that respondents are usually students.

▶ Student samples are obviously not representative (and the representative surveys show that demographic differences do matter).

▶ Why not implement the main methodological tricks in representative surveys?

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Positive?

- ▶ Definitely more relevant than questionnaires if one wants to predict behaviour.
- ▶ Yet, external validity should be investigated carefully:
  - ▶ large interindividual variation. Students definitely a selected sample.
  - ▶ context dependency also relevant here.

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Normative?

- ▶ Remember Güth/Kliemt-argumentation: experimental results belong to the "normatively relevant" facts, that should be taken into account in the search for a reflective equilibrium. I agree.

- ▶ Experimental results in normatively well-structured settings (effort/luck, e.g. Capellen et al., many papers - claims problem, e.g. Gächter and Riedl, 2005, 2006, Capellen et al., 2015) show that questionnaire and experimental results can be complementary.

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Conclusion 1

- ▶ Should society act upon these empirical results?
    - ▶ OF COURSE NOT. If we (as human beings and as researchers) take our own ethical convictions seriously, we should try to convince other people. This is just the essence of democratic institutions
    - ▶ Yet,
        - ▶ Attitudes of other people are constraints on what can be achieved.
        - ▶ We should always remain critical towards our own convictions and open to change them if good arguments are given.

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Conclusion 2

- ▶ Can normative theory learn from these approaches?
- ▶ OF COURSE.
  - ▶ Let us stop the stupid, simplistic discussions between adepts of the different approaches: they are complementary, and results from all three can help building better normative theories (remember reflective equilibrium).