Belief in a Just World and Redistributive Politics

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International surveys reveal striking differences between the views held in different countries concerning:

- the causes of wealth and poverty;
- the extent to which individuals are responsible for their own fate;
- the long-run rewards to personal effort.

Why does the prevalence of the belief in a just world vary considerably across countries?

What are the implications for redistributive policies and the stigma borne by the poor.
Because of imperfect willpower, people continuously strive to motivate themselves (or their children) toward effort.

In such circumstances, maintaining somewhat rosy beliefs about the fact that everyone will ultimately get their “just desserts” can be very valuable.

If enough people end up with the view that economic success is highly dependent on effort, they will represent a pivotal voting bloc and set a low tax rate.

Conversely, when people anticipate little redistribution, the value of a proper motivation is much higher; everyone thus has greater incentives to believe in self-sufficiency.
Due to these complementarities between individuals’ ideological choices, there can be two equilibria.

- American equilibrium is characterized by a high prevalence of just-world beliefs and a relatively laissez-faire public policy.
- European equilibrium is characterized by more pessimism and a more extensive welfare state.

More generally, the paper proposes a mechanism for the emergence and persistence of collective beliefs and ideologies.
The extent of direct and indirect redistribution – through taxes and transfers, social insurance, education finance, and labor market regulation – differs remarkably across advanced democracies.

Considerable evidence suggests that citizens’ beliefs about the causes of wealth and poverty.

Only 29% of Americans believe that the poor are trapped in poverty and only 30% believe that luck, rather than effort or education, determines income.

The figures for Europeans are 60% and 54%, respectively.

There is a strong correlation between beliefs and the levels of redistributions.
It should be noted that these popular perceptions are often distinctly at odds with reality.

There is a significant discrepancy between the widespread view of the US as an exceptionally mobile society and the actual evidence on income mobility which shows no significant difference from European welfare states.

Evidence also suggests that the hours worked by the bottom quintile are very comparable on both sides of the Atlantic.

The paper hypothesizes that individuals’ beliefs are shaped by their own functional goals and psychological needs: people believe what they want to believe.
Self-reliance and redistribution: motivated beliefs

- People obstinately hold on to a belief that effort, hard effort, good deeds will ultimately pay off: people get what they deserve and they deserve what they get.
- At the same time, they face daily reminders that the world is not always so just and constantly struggle with the resulting cognitive dissonance.
- People tend to preserve those beliefs by selective recall/awareness or parental indoctrination.
A model of ideology

The economy is populated by a continuum of agents $i \in [0, 1]$.

There are two classes of agents: the (minority) advantaged and the (majority) disadvantaged, with $\psi < 0.5$ being the fraction of the advantaged.

Each agent chooses the effort level $e_i$.

The output $y_i \in \{0, 1\}$ is given by

$$\text{prob}(y_i = 1 \mid e_i) = \pi_i + \theta e_i.$$
A model of ideology

- Agents vote over a linear tax rate $\tau \leq 1$.
- The true extent to which effort is rewarded in the long term $\theta$ is unknown.
- Each agent observes a signal $\sigma$ of the long-run return.
A model of ideology

- The mode consists of three periods.
- Period 0: each agent receives a signal $\sigma$ and chooses recall or awareness rate $\lambda$ for oneself or one’s children.
- Period 1: each agent votes on the tax rate $\tau$ and chooses the effort level $e^i$.
- Period 2: the output is realized and redistributed.
A model of ideology

- The expected utility perceived by agent $i$ at $t = 0, 1$ is
  
  $$U_t^i = E \left[ (1 - \tau)y^i + \tau\bar{y} - \frac{(e^i)^2}{2\alpha\beta_t} \mid \Omega_t^i \right].$$

- $\Omega_t^i$ is the information set for agent $i$ at period $t$.
- $\beta_t$ represents a salience of the present, where $\beta_1 = \beta < 1$ and $\beta_0 = 1$.
- A formally equivalent interpretation is that $U_0^i$ represents parental preferences and $U_1^i$ the preferences of children themselves.
A model of ideology

- At $t = 0$, each agent receives a binary signal about $\theta$ which is assumed to be perfectly correlated across agents.
- The signal takes either $L$ or $\emptyset$, with probability $1 - q$ and $q$, respectively.
- This means that “no news is good news.”
- The expected returns are

$$\theta_L = E[\theta | \sigma = L], \quad \theta_H = E[\theta | \sigma = \emptyset],$$

where $\Delta \theta := \theta_H - \theta_L > 0$. 
A model of ideology

• Just after receiving the signal, the information set is $\Omega^i_0$.
• Later on, however, he may no longer be aware of the initial news: the agent “forgets” about the signal with some probability.
• Equivalently, his parents may have learned $\sigma$ but withheld the information.
• Agent $i$’s information set at $t = 1$ is based on the recollection of the original signal $\hat{\sigma}^i \in \{L, \emptyset\}$.
A model of ideology

- The recall probability is given by

\[
\text{prob}(\hat{\sigma} = L | \sigma = L) = \lambda.
\]

- The probability \(\lambda\) can be increased or decreased at some cost \(M(\lambda)\).

**Assumption**

*The memory cost function is given by* \(M(\lambda) = +\infty\) *for* \(\lambda < \underline{\lambda}\), \(M(\lambda) = m(\underline{\lambda} - \lambda)\) *for* \(\lambda \in [\underline{\lambda}, \lambda]\), \(M(\lambda) = m'(\lambda - \lambda)\) *for* \(\lambda \geq \lambda_0\).
In equilibrium, the optimal awareness rate will be determined jointly with the political outcome $\tau$ and be the same for all agents.

They assess the reliability of a “no bad news” message as

$$r = r^*(\lambda | \chi) = \frac{q}{q + \chi(1 - q)(1 - \lambda)}.$$

The posterior belief, denoted by $\mu^i := \text{prob}(\sigma = \emptyset | \Omega^i_1)$, is either $\mu^i = 0$ for pessimists who recall $\hat{\sigma}^i = L$ or $\mu^i = r$ for optimists who observe $\hat{\sigma}^i = \emptyset$. 
A model of ideology

- Each agent chooses

\[ e^i = \alpha \beta (1 - \tau) \theta (\mu^i), \]

where \( \theta (\mu^i) := E(\theta \mid \Omega_1^i) = \mu^i \theta_H + (1 - \mu^i) \theta_L \).

- His policy preferences depend also on his beliefs about other agents’ beliefs:

\[ E(\bar{y} \mid \Omega_1^i) = \bar{\pi} + E(\theta \bar{e} \mid \Omega_1^i) = \bar{\pi} + \alpha \beta (1 - \tau) \Gamma (\mu^i), \]

where

\[ \Gamma (\mu^i) := \mu^i \theta_H \theta (r) + (1 - \mu^i) \theta_L [\lambda \theta_L + (1 - \lambda) \theta (r)]. \]
Agent $i$’s expected utility is given by

$$V(\tau, \pi^i, \mu^i) = (1 - \tau)[\pi^i + \alpha \beta (1 - \tau) \theta(\mu^i)^2]$$

$$+ \tau[\bar{\pi} + \alpha \beta (1 - \tau) \Gamma(\mu^i)] - \frac{\alpha \beta^2}{2 \gamma} (1 - \tau)^2 \theta(\mu^i)^2,$$

where $\gamma = 1$ for ex ante and $\gamma = \beta$ for ex post preferences.
A model of ideology

- Agent $i$’s ideal tax rate is given by

$$T(\pi^i, \mu^i) = 1 - \frac{1 + (\pi^i - \bar{\pi})/[\alpha \beta \Gamma(\mu^i)]}{2 - (2 - \beta/\gamma)\theta(\mu^i)^2/\Gamma(\mu^i)}.$$ 

- A lower relative endowment $\pi^i - \bar{\pi}$ naturally increases the desired tax rate.

- An optimistic individual, with $\mu^i = r$, plans on working hard and hence prefers a low tax rate.

- When agents use fiscal policy to correct for the suboptimality of effort ($\gamma = 1$), the desired tax rate is lower than when they do not ($\gamma = \beta$).
A model of ideology

In equilibrium, agents are either pessimists ($\mu^i = 0$) or optimists ($\mu^i = r$).

Define $T_{pess}(\pi) := T(\pi, 0)$ and $T_{opt}(\pi) := T(\pi, r)$.

Proposition

Suppose $\Delta \theta / \theta_L < 2\beta / \gamma$ and $(\bar{\pi} - \pi_0) / \beta \alpha < \theta_L^2$. Each agent’s preferences are strictly concave in $\tau$ and his ideal policy is $\tau^i = T_{pess}(\pi^i)$ or $\tau^i = T_{opt}(\pi^i)$, depending on the recalled signal. These tax rates are decreasing in $\pi^i$ and ordered as $T_{opt}(\pi_1) < T_{opt}(\pi_0) < T_{pess}(\pi_0) < 1$. 
A model of ideology

- These political preferences are aggregated through voting.
- Things are quite simple in the no-information state: everyone has $\mu^i = r$, so with the poor forming a majority, the equilibrium tax outcome is $T_{opt}(\pi_0)$.
- There are two cases in the informative state:
  - If $\lambda$ is high enough, the pessimistic poor, who always want the highest tax rate, will be a majority and impose their choice.
  - If $\lambda$ is low enough, the pivotal vote switches from the pessimistic poor to a group that desires a lower tax rate.
American versus European equilibria

- When agents have a high recall rate ($\lambda = \bar{\lambda} > \lambda^*$), enough of the poor end up with pessimistic beliefs to constitute a majority and impose a high tax rate.
- The expectation of substantial redistribution and a low net return to effort generates only weak incentives to deny that $\theta$ is low.
- When agents try hard to ignore discouraging news ($\lambda = \underline{\lambda} < \lambda^*$), enough people end up with relatively optimistic beliefs to make the optimistic poor the pivotal group.
- The expectation of a relatively low tax rate in turn generates strong incentives to belief that $\theta$ is high.
Proposition

Under some additional assumptions, there are two politico-economic equilibria such that:

1. The awareness rate in the informative state is \( \lambda \) in the American “Belief in a Just World (BJW)” equilibrium and \( \bar{\lambda} \) in the European “Realistic Pessimism (RP)” equilibrium, with associated tax rates \( \tau \) and \( \bar{\tau} \). Average effort and output are higher in the BJW equilibrium.

2. In the no-information state, the ranking of tax rates, effort, and output across the two equilibria depend on parameters. If \( \pi_1 - \pi_0 \) and \( \chi \) are small enough, there exist values of \( \lambda \) and \( \bar{\lambda} \) such that these rankings remain the same as in the informative state.
American versus European equilibria

- The central results of the paper pertain to the informative state, as only then are individuals faced with an actual cognitive decision.
- Both awareness and redistribution are lower in the BJW equilibrium than in the RP equilibrium.
- This “American Dream” ideology has several important implications: it results in higher aggregate effort and output; it improves agents’ effort motivation and causes less distortions to the tax base while it leads them to incur greater cognitive costs.
- It is worth emphasizing that neither the model’s main message nor the source of its results is that “Americans” have a less accurate vision of economic mobility: the model can be extended to the “no news is bad news” case.
Conclusion

- There is more optimism in the American equilibrium, which affects effort and output.
- The endogenously shared ideology can have important growth and efficiency benefits, including people’s motivation to effort.
- The net benefit to the poor is more ambiguous, since they receive less transfers and are more likely to be stigmatized.
- More generally, the model provides a theory of collective beliefs, based on endogenous complementarities between individuals’ cognitive choices and economic rationality.