Belief in a Just World and Redistributive Politics

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Introduction

- Persistent differences in the extent of redistribution / the “social contract” across similarly developed countries. Welfare State vs. Laissez Faire. US vs. Europe, but also other notable cross-country differences.

- American exceptionalism, belief in the “American Dream” (noted since De Toqueville; Lipset, etc.). Why does the belief in self-reliance, personal responsibility vs. “societal” causes—vary so much across countries?

- What limits the extent of redistribution in a democracy?

- Broader aim: introduce some psychology into political economy.
I - Economics - statistical evidence

1. Exogenous institutional differences. Federal vs. centralized state, majoritarian vs. proportional political system. Geography, ethnic fractionalization.

2. Vicious or virtuous cycles in wealth accumulation and political power. High income inequality ⇒ the politically powerful will block redistributive policies (fiscal, educational) ⇒ inequality persists, together with low / regressive redistribution. Converse equilibrium with low inequality, high redistribution. South vs. North American development paths.

3. Differences in beliefs / ideology: different views about the costs and benefits of redistribution, or the poor’s prospects for upward social mobility. What is the source of these perceptions, and how accurate are they?

• Will focus here on differences in beliefs about "self reliance": link between effort or investment and market rewards. Magnitudes are really striking.
Table 13. Relationship between Leftist Political Orientation and Beliefs about the Poor

<table>
<thead>
<tr>
<th>Item</th>
<th>European Union</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify themselves as on the left of political spectrum</td>
<td>30</td>
<td>17</td>
</tr>
<tr>
<td>Believe poor are trapped in poverty</td>
<td>60</td>
<td>29</td>
</tr>
<tr>
<td>Percent of the above who are on the left</td>
<td>34</td>
<td>26</td>
</tr>
<tr>
<td>Do not believe poor are trapped in poverty</td>
<td>40</td>
<td>71</td>
</tr>
<tr>
<td>Percent of the above who are on the left</td>
<td>27</td>
<td>14</td>
</tr>
<tr>
<td>Believe luck determines income</td>
<td>54</td>
<td>30</td>
</tr>
<tr>
<td>Percent of the above who are on the left</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>Do not believe luck determines income</td>
<td>46</td>
<td>70</td>
</tr>
<tr>
<td>Percent of the above who are on the left</td>
<td>25</td>
<td>16</td>
</tr>
<tr>
<td>Believe the poor are lazy</td>
<td>26</td>
<td>60</td>
</tr>
<tr>
<td>Percent of the above who are on the left</td>
<td>23</td>
<td>11</td>
</tr>
<tr>
<td>Do not believe the poor are lazy</td>
<td>74</td>
<td>40</td>
</tr>
<tr>
<td>Percent of the above who are on the left</td>
<td>34</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on data for 1981–97 from the World Values Survey (see appendix B).
Figure 6. Relationship between Social Spending and Belief That Luck Determines Income

Social spending (percent of GDP)\textsuperscript{a}

Belief that luck determines income\textsuperscript{b}

Source: Authors’ calculations based on data from the World Values Survey.
\textsuperscript{a} Average for 1960–98.
\textsuperscript{b} Mean value for country, measured as an index from 1 to 10, with 10 indicating strongest belief. Data for 1981–97.
• At the individual level, these beliefs also play a central role in explaining voters’ attitudes towards redistribution (Fong (2001)).

• Why such huge differences across countries?

  – Role of history: attitudes and characteristics of early immigrants to US; availability of free land ⇒ more equal opportunities. Yes, but through what channels do these “initial conditions” have effects that persist for so long after the “fundamentals” have changed?

  – Traditional Marxist explanation: workers have “false consciousness”; victims of propaganda / brainwashing by capitalists, who control education, media, etc. Perhaps, but are they really so naive, and why would they be more susceptible to such deceptions in the US than in Europe?

  – Imperfect learning: people / countries “accidentally” stuck with wrong beliefs: because costly to learn the returns to effort (you have to try working / not working and find out what happens), at some point they stop experimenting.
II- Sociology – ethnographic studies

Lane (1959), Hochschild (1981, 1996), Lamont (2000): detailed ethnographic interviews with hundreds of working class / moderate income workers (Black and White). Consistently find:

1. “False consciousness” is desired and valued

1a.– Obstinately / desperately cling to a belief that effort, hard work, good deeds will ultimately pay off: *people get what they deserve*. Conversely, what they get, they must deserve (good or bad).

1b – At the same time, some recognition that world is not so just; constant struggle with this “cognitive dissonance”.

[Maria, cleaning lady]. “Once Maria wonders if executives deserve their $60,000 annual salary: “I don’t think they do all that [much] work, do you? Sit at their desk – they got it easy”. But she suppresses the thought immediately” “Well, maybe it is a lot of work. Maybe they have a lot of writing to do, or they have to make sure things go right. So maybe they are deserving of it”. (Hochschild (1996)).
“My mom always told me that hard work, loyalty and respect for others will bring me success,” wrote J. K., who was let go from Credit Suisse in late October. “That’s why I came back to CSFB after b-school... and did all that other stuff. Apparently it doesn’t always work that way.”


- Notable parallel with the following gaps between popular perceptions and empirical reality:

  a) prevalent and persistent perception of the United States as an exceptionally mobile society, especially in the US itself. But: comparative empirical evidence on intergenerational income mobility: shows no significant difference with European welfare states, and even sometimes more mobility in the latter

  b) poor in the U.S. much more likely to be seen as lazy. But: actually work similar hours / year as in Europe. Also, no relationship across countries between these laziness perceptions and the poor’s work hours relative to those of the rich.
2. **Key role (in outcomes and in “values”) of willpower**

(What Lamont (2000) terms “the disciplined self”).

2a – Key challenge of their lives: struggle to “keep it going,” not give up, persevere in the face of adversity. Otherwise: welfare, homelessness, drugs...

2b– Very harsh judgements on the (very) poor / welfare recipients (especially Blacks); poverty attributed in large part to “giving up”, not caring, no “values”, no direction in life.

- “General view that success is a triumph of the will and a reflection of ability”. (Lane (1980)).

- WVS question: is whether people think that the poor “… are lazy, or lack willpower”.
III-Psychologists - experiments

A. **Self-Control Problem**: excessive tendency to sacrifice long-run objectives and welfare to short-run impulses, instant gratification. Such “momentary” preferences ⇒ insufficient effort or perseverance (school, work), low savings, addiction, etc.

B. **Cognitive Biases**：“Fundamental attribution error” (Ross and Nisbett (1991)): excessive tendency to explain behavior of others by dispositions (personal actions or attributes) rather than circumstances (luck, etc.). “Illusion of control”, overconfidence: excessive beliefs that they, and others, have control over their environment.

C. **Belief in a Just World**: (Lerner (1980), Peplau and Tyler (1975)): “Individuals have a **need** to believe that they live in a world where people generally get what they deserve”. When confronted with contradictory information, people try hard to ignore, reinterpret, distort, forget it.

Many experiments: a) reinterpretation of explicitly fortuitous rewards as deserved; b) blaming the victim
Pandora’s Box?

• Started with a classical political economy puzzle: “redistributive politics”

• Looked for insights from sociology, psychology. No fully articulated story, but many interesting leads. Most valuable / recurrent seem to involve: (a) desire to maintain a “belief in a just world”; (b) role of willpower in daily life and in attributions about success or failure.

• But these key insights are themselves puzzles / challenges for traditional economic view of human behavior

  – *Self-control*: Homo Economicus always acts in his own (perceived) best-interest.

  – *Self-deception*: Homo Economicus always values accurate information: wants both the good and the bad news (to make better decisions).
Enriching the Tool Box

• To say that some behaviors do not fit the usual Homo Economicus paradigm does not mean that they are not amenable to formal modeling and economic analysis.

• The challenge is how to improve / refine relevant assumptions about preferences and cognition, guided by findings from other disciplines.

• Much work of this nature is currently going on in economics: imperfect self-control, overconfidence, wishful thinking, loss-aversion, altruism, fairness and reciprocity...This work is an example, with applications to political economy.
Questions at Hand

– **Why** do people want / “need” to believe in a just world?

– To what extent **can they succeed** in achieving such beliefs “false consciousness” (if the word is not-so-just)?

– Why are there such variations in **BJW** across countries? (Also groups, individuals).

– What are the **political economy implications** of **BJW**? Redistribution / welfare, stigma on the poor, etc.

– Can theory also explain other forms of **collective beliefs** and cognitive biases? Money / consumption buys happiness (or not), affective forecasting. Religion.
A Theory of Ideology

1. Demand for motivated beliefs. Rosy worldview where people ultimately get their “just deserts” can serve three broad purposes:

- Functional: imperfect willpower \( \Rightarrow \) need to motivate oneself towards effort, educational investment, not giving up, etc. Equivalently: parents want to motivate their children.

- Hedonic: BJW is intrinsically desirable, reassuring.

- Religion: beliefs over rewards / punishments in the afterlife.

2. Supply of motivated beliefs.

- Self-deception: through selective memory, attention, awareness, etc.

- Indoctrination: trying to impart one’s children with view that effort and sacrifice will be rewarded in the long run.

3. General equilibrium feedbacks. Endogenous complementarities arise between individual’s “demand” for BJW, via their collective political decisions.

\( \Rightarrow \) incentive to believe what others believe, independently of its veracity.
• If many people have BJW, thinking success is highly dependent on effort \( \Rightarrow \) will be a majority or politically pivotal, and want low taxes and transfers.

• If one anticipates little redistribution \( \Rightarrow \) one’s fate is highly dependent on effort \( \Rightarrow \) the costs of insufficient motivation are high: no safety net or welfare state. Conversely, greater rewards from being highly motivated to study, work. \( \Rightarrow \) people have greater incentives to maintain BJW.

Thus, two equilibria (stable configurations of ideology and policy):

• **Laissez-faire / BJW**: high degree of “learned optimism,” little redistribution. Also implies more blaming poverty on lack of effort or willpower by the poor.

• **Welfare state / Realistic-Pessimist**: low degree of BJW (more cynicism), generous welfare state. More “understanding” of the poor.

\( \Rightarrow \) **Role for history**: initial conditions / historical events (free land, beliefs of early immigrants, etc.) can have long lasting effects. *Persistence of ideology.*
### Basic structure of the model

<table>
<thead>
<tr>
<th>Information</th>
<th>Actions</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get signal on the long-run rewards to effort, $R$</td>
<td>Acceptance or denial of bad news about $R$ (for oneself or one’s children): choose recall or awareness rate, $p$</td>
<td>Vote on income tax rate</td>
</tr>
</tbody>
</table>

**Redistribution, Consumption.**

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*Individual knows actual signal*

*Individual (or his children) may have distorted awareness / recall of past signals.*
Economic Setting

Success: income is high
Failure: income is low

- **Effort**: work, perseverance, human capital investment. Current sacrifice for future payoff.

- **“Justness” of the world**: $R$ measures the extent to which effort (or investment) is rewarded, i.e. how much it matters for income determination. True $R$ is unknown. People observe signals (evidence) about it, and then decide how to process / recall them or to transmit them to their children.

- **Advantage**: talent, human or social capital inherited from parents, discrimination, etc. A minority, say 25% of agents are “advantaged”, with a high value. The majority, 75%, are “disadvantaged”, with a low value.

- **Policy**: income redistributed at a rate $\text{tax} \leq 100\%$, determined through majority voting: Revenues redistributed as transfer payments.
Preferences and effort decisions

People care about their disposable income and dislike effort. Their long-run objective (what they would like to do) is to maximize:

\[(1-tax) \times \text{pretax income + transfers received} - \text{cost of effort}\]

At time when effort is actually incurred, its cost is particularly salient \(\Rightarrow\) tendency to procrastinate, give up. Ends up maximizing instead:

\[(1-tax) \times \text{pretax income + transfers received} - \frac{\text{cost of effort}}{\text{willpower}}\]

- **Degree of willpower** or perseverance: less than 100%, say equals 0.5
  \(\Rightarrow\) will choose: \textit{actual effort} = 0.5 \times(1-tax) \times \text{Expectation of return to effort } R
  instead of: \textit{desired effort} = 1 \times(1-tax) \times \text{Expectation of return to effort } R

- Same model: conflicting preferences between parents and children
- **Key point**: being optimistic about long-term rewards to effort helps alleviate undermotivation problem (lack of willpower/perseverance).
Cognitive Decisions – Ideological Choices

Prob: = 80%
Prob: 20%

bad news about return to effort $R$

no news = good news

Initial signal about how “just” the world is

Prob: $p$
Prob: $1-p$

Later recollection of signal, or offspring’s awareness of it

Still aware of bad news

Bad news successfully repressed = No awareness of bad news

“Pessimists”

“Optimists” (with some skepticism)
Distributional Politics

• Minority 25% of advantaged or “rich” agents (high probability of success even with low effort), majority 75% of disadvantaged or “poor” agents.

• Within each group, a fraction $p$ of “pessimists” (believe success mostly predetermined by luck or social advantage), and a fraction $1-p$ of “optimists” / just-world believers (believe effort will pay),

• Being advantaged makes one want less redistribution. Being optimistic also, because:
  a) believes that taxes create large distortions (deadweight loss)
  b) expects to move up the socioeconomic ladder through hard work => does not want the fruits of that effort to be redistributed to others with the “the wrong” beliefs or preferences.
**Low-BJW propensity: p = 2/3 (or more) ⇒ swing voter is disadvantaged and pessimistic**

**High-BJW propensity: p = 0.4 (say) ⇒ swing voter is disadvantaged and optimistic**
Key point #2: The swing vote switches to the optimists as the awareness rate in the population falls below 2/3. This leads to less redistribution.
**Motivated beliefs: Benefits vs. Costs**

*What determines the value of sustaining / passing on to children Just-World beliefs?*

Will choose: \[ \text{effort} = \text{willpower} 	imes (1 - \text{tax}) \times \text{perceived return to effort} \]

Less than desired: \[ \text{effort} = (1 - \text{tax}) \times \text{perceived return to effort} \]

⇒ welfare loss, which is more severe the higher is \((1 - \text{willpower}) \times (1 - \text{tax})\).

- *Optimism* about the long-term rewards to effort provides valuable *motivation*.
- Most importantly: *the value of this psychological or ideological investment decreases with the degree of redistribution*.
- People will *trade off* (consciously or not) the *benefits* of “positive thinking” against the *costs* of maintaining them / inculcating them:
  - time and resources required, selective social interactions
  - reputational costs (deceiving one’s children)
  - psychic costs (stress from repression / denial)
Key point #3: The less redistributive the institutions they face, the more individuals find it desirable to engage in “positive thinking”.
Main result: Multiple regimes (stable policy-ideology configurations)

BJW: Belief in a Just World + Laissez-Faire Equilibrium [US]

RP: Realistic Pessimism + Welfare State Equilibrium. [Europe]
Main Result and Implications

• Theory of differences in ideology and redistributive policies. American Dream / Laissez Faire, vs. Europessimism / Welfare State, each sustained by endogenous complementarities between individuals’ ideological choices.

• Is the “American dream” just a dream, a collective illusion?

1) Yes and no:
   – yes, in the sense that more overestimation of the extent to which “people get what they deserve”, can go from rags-to riches, the poor are not trapped, everyone can become president, etc.,
   – No, in the sense that net incomes / rewards are truly more closely tied to “merit” in a BJW equilibrium: people more likely to overestimate \( R \), but the aftertax \( (1 - \text{tax}) \times R \) is indeed higher.

2) May be a very useful illusion / ideology: higher motivation and effort, higher aggregate output / growth, etc.

3) Much less clear for the poor: lower transfers, more stigma.
Multiple policy-ideology regimes: the more general point

- Sustainable outcomes
- Motivated beliefs
- Political equilibrium
What determines which regime a country is in?

- **History:**
  
a) initial generations of settlers or migrants self-selected to be hard-working, due to either preferences or religious beliefs;

b) availability of free land (“open frontier”) made initial opportunities truly more equal than in Europe

⇒ US initially settles on the BJW equilibrium. *Even after these original conditions have disappeared, will persist due to mechanisms identified here.*

NB: Historical evidence on intergenerational social mobility: was indeed higher in US than in GB until about 1900. Today very close, but popular perception of a large difference persists (with political implications).
2. Big shocks:

a) *Great Depression* triggered a durable change in attitudes toward the causes of wealth and poverty that made possible a radically new set of redistributive institutions.

b) Inequality-generating (“skill-biased”) *technological change*.

c) *Opening to international trade* of a previously closed country (LDC’s, Eastern Europe).

NB: (b) and (c) push to BJW regime by changing the value of holding beliefs in self-determination, the long-run return to effort, etc.
BJW: Belief in a Just World / Laissez-Faire Equilibrium is *the only one sustainable* when the value of economic success (gap between high and low incomes) – and hence to motivation – becomes large enough.
The Lazy Poor

- A fraction of people -say, 5%- are lazy / have no willpower. So never work, have no / low income.

- Fraction small enough that they do not affect the political outcome

- When one sees a person who has failed in life / is poor (low realized income), what is the probability attributed to laziness?

That probability is higher, the more optimistic the observer is about the productivity of effort \( R \), and the greater he knows non-lazy people’s incentive to work, \( 1 - tax \), to be. Since:

- \( tax \) is lower in a Belief in Just World equilibrium than in a Realistic Pessimism equilibrium;

- more people (a majority) have a high estimate of \( R \) in BJW equilibrium than in RP.
⇒ there is a greater prevalence of “stigma” on the (ex-post) poor in a BJW equilibrium.

- Implications of these negative inferences / stereotypes: emotional (resentment, anger, etc.) and/or economic: less willing to give them transfer less, given social preferences / reciprocity such that people to want to help the non-lazy poor only (a lot of evidence on this).
Affective forecasting: Consumerist vs. leisure-oriented societies

- Does *money buys happiness?* Attitudinal differences, within and across countries, on the extent to which consumption of material goods, rather than leisure and non-market activities, generates lasting increases in well-being.

- Frequent (but debated) claim that in modern societies people excessively value material consumptions relative to “relational” ones: family, friends, community service, etc. (Putnam (2000), Frank (2000)).

- Psychologists point to “hedonic treadmill” and “immune neglect”, i.e. tendency to underestimate the speed at which well being adapts to changes in life circumstances (Gilbert et al. (1998), Kahneman (2000)).

- While adaptation has been found to operate on both material consumptions (changes in income, wealth, tenure) and relational goods (marriage, divorce, etc.), claim is made that affective forecasting fails differentially, leading to bias towards materialism (e.g., Frey-Stultzer (2003)).

- Why it should be so, however, is typically not explained. Provide here a simple, motivation-based, theory.
• Same model but now with known economic process and uncertain long-term preferences:

\[ \text{Happiness} = R \times \left( \text{real disposable income} \right) - \frac{\text{cost of effort}}{\text{willpower}} \]

\( R \) : imperfectly known preference parameter \( \triangleleft \) speed of hedonic adaptation.

Real disposable income = as before (post taxes and transfers), adjusted by consumer price index \( \Rightarrow \) consumer’s purchasing power

• Models are isomorphic \( \Rightarrow \) two sustainable types of societies:

1) Consumerist, laissez faire equilibrium: many agents believe that consumption is a key to happiness \( \Rightarrow \) undertake high levels of effort and vote for low levels of redistribution, to avoid subsidizing pessimistic agents + deadweight losses. Low tax \( \Rightarrow \) greater incentives to believe, or teach, that the fruits of effort will translate into lasting happiness.

2. Leisure-oriented, redistributive equilibrium: mechanism works in reverse, with majority or swing group holding more negative views about the value of material consumption; opt for more leisure, family and social life, etc.
• regime shifts: an increase in productivity or terms of trade can trigger a massive shift from “traditional values” (communal or village life, extended families, social interactions, etc.) to a more atomistic (“bowling alone”) and mass-consumption society.

• Welfare: materialistic beliefs are a mixed blessing, helping overcome the tendency to underprovide effort but delivering lower than expected levels of satisfaction.
Intrinsically desirable beliefs in a just world

- Have stressed the potential usefulness of BJW in facilitating the pursuit of long-term goals given conflicting ex-ante and ex-post preferences (intra- or intergenerational).

- Many people also just *like to think* that they live in a Just World. Their sense of fairness may be offended if they believe individuals’ fate to be predetermined by social origins or discrimination; or they may find the idea that their fate is beyond their control anxiety-provoking.

- Such *affective concerns* can easily be substituted for, or combined with, the motivational one.
Figure 1: Religiosity and Social Spending

Source: Scheve and Stasavage (2005)
A simple theory of religion

- Can account for (some) aspects of religious beliefs, their links with political attitudes, and cross-country differences in religiosity.

- Focus on very specific (but economically relevant) set of beliefs: that rewards in the hereafter will be determined according to effort, industriousness, self-sacrifice, etc., during one's lifetime. Linked / similar / to Protestant ethic. Alternative: no afterlife, or rewards independent of / antithetical to / industriousness, material success etc.: good deeds, poverty and asceticism, rituals, contemplation, “extinction” of desires, etc.

- Uncertainty over the existence and or nature of divine rewards (and punishments) can be modelled as follows:

  a) no uncertainty on the production side: everyone agrees on the nature of economic processes.

  b) preferences include no willpower problem (could combine: religion is also a self-discipline mechanism), but include an anticipal value of "the afterlife":
\[ \text{Happiness} = \text{disposable income} - \text{cost of effort} + \text{savoring/dread of fate after death} \]

\[ \text{afterlife rewards/punishments} = R \times \text{how industrious has been during life} \]

\( R \) is unknown, people receive signals (or what they interpret as signals) about it. Bad news: scientific findings that contradict traditional teachings, immoral conduct by religious officials, personal tragedies and injustices in the world (wars, genocides, natural disasters) that challenge one’s faith, believers in some other religion are growing in numbers, etc. Good news: prayers “answered”, “miracles,” etc. Then, decide how to process these signals.

The social cognition mechanism now operates as follows:

- The more religious an individual (the higher he thinks \( R \)), the harder he works and the lower he wants taxes to be, because: i) does not want to redistribute income towards less hard-working “unbelievers”; ii) high taxes will reduce his own effort, and therefore his heavenly rewards.

\[ \Rightarrow \] the greater the proportion of religious individuals, the lower the equilibrium tax rate.
Anticipation of a low tax rate raises the value of holding (or teaching) religious beliefs: if individual expects to work hard \( \Rightarrow \) believing in a high reward to effort in the afterlife will result in high “anticipatory” utility during his lifetime. If he expects to work little (dues to high taxes or personal characteristics), fervent religious beliefs are not very welfare-enhancing.

Therefore, can again have two equilibria:

1) A high-religiosity / Protestant work ethic equilibrium, with low redistribution. More religious individuals are also those with politically conservative (anti-redistribution) beliefs—a robust empirical finding.

2. An equilibrium characterized by a greater predominance of agnosticism, or by religions that do not stress individual industriousness in the pursuit of worldly achievements.

Empirically:

- BJW scores and opposition to redistribution are heavily correlated, at the individual; level, with religious beliefs, esp. Protestantism: Peplau and Tyler (1975), Guiso et al. (2002).

- Religion(s) and growth: Barro and Mc. Cleary (2003): find that a greater prevalence of beliefs in an afterlife characterized by heaven or hell is associated with faster growth (controlling for the usual determinants).
Conclusion

• Developed a formal theory of differences in *ideology and redistributive policies*, (welfare state vs. laissez faire), and of the persistence of the “American dream” in particular.

– Incorporates certain departures from traditional full “rationality” that appear important in the light of survey, ethnographic and experimental studies.

– Yet, retains purposive behavior, explicit treatment of beliefs, general equilibrium analysis of economic and political interactions.

• *Directions for further research:*

– Other collective beliefs: material consumption brings happiness (or not), religion. Gave simple examples, much left to explore.

– Group-level beliefs: minorities, stereotypes, identity.

– Propaganda.