

The fairness of inequality due to risk and effort choices

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Motivation

- Study on lay people's perceptions of inequality
- Experimental data
- Normative motivation

- Rise in inequality but **no rise in support for redistribution**
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- Recent empirical literature: role of **perception of fairness** of the inequality (see Roemer and Trannoy, 2016, for an overview)
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People's fairness perceptions matter for their redistributive choices and attitudes

This study: inequality that is due to a choice on effort and a choice on risk

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- Big share of the wealth of the wealthy is due to stock market activity (Saez and Zucman, 2016)
- However, capital gains taxed at a lower rate than labour income (or not taxed at all if the gains are not realized) (Piketty et al., 2018; Saez and Zucman, 2019)
- Capital gains and appropriate taxation have become a main topic in the debate on inequality

Motivation III

Moral considerations

- Philosophical theory of luck egalitarianism: inequalities due to choices on effort and choices on risk fair (Cohen, 1989)
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- **Antagonism between “idle money” and “hard work”**: Risk-taking is costly, effort is costly and difficult (Roemer and Trannoy, 2016)

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Do people perceive inequalities due to choices on effort as more fair than inequalities due to choices on risk-taking?

Third party spectator design: elicit fairness views free from self-interest (Cappelen et al., 2007)

Stages of the experiment

1. Choice stage:
Workers make choices on risk and effort and complete effort task.
 2. Earnings stage:
Workers are matched in pairs. Initial earnings according to choices assigned.
 3. Redistribution stage:
Spectators decide whether and how much to redistribute within the pair.
 4. Payment stage:
Workers are paid according to the decision of the spectator.
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Worker choice stage

1. **Effort:** 5 vs. 10 vs. 15 tables
2. **Risk:** 100 points per table vs. 70 or 130 points per table with equal probability

Initial point assignment: $x(i) = \alpha(i) \times e(i)$

- **No redistribution (NR):**
Fairness of allocation based on choice
- **Egalitarianism (EGA):**
Fairness of allocation based on equality of the outcomes
- **Effort proportionality (EFF):**
Fairness of allocation based on choice on effort

Expectation that some people's redistribution decisions are most consistent with EFF.

- **Observational** (e.g. Fong, 2001; Alesina and Angeletos, 2005; van Oorschot, 2006; Alesina and Giuliano, 2011)
→ Effort within control, risk out of control
- **Experimental: Effort** (e.g. Konow, 2000; Cappelen et al., 2007; Cappelen et al., 2010; Becker et al., 2012)
→ Effort within control, risk out of control
- **Experimental: Risk** (e.g. Trhal and Radermacher, 2009; Cettolin and Tausch, 2015; Cappelen et al., 2013; Mollerstrom et al., 2015)
→ Risk within control vs. out of control, no effort

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Contribution this study: Inequality due to **self-chosen effort** *and* **self-chosen risk**

Table 1: The four situations of interest

Situation	Safe-player			Risk-taker		
	e	α	x	e	α	x
LuHi	10	100	1000	15	130	1950
LuLo	10	100	1000	5	130	650
UnHi	10	100	1000	15	70	1050
UnLo	10	100	1000	5	70	350

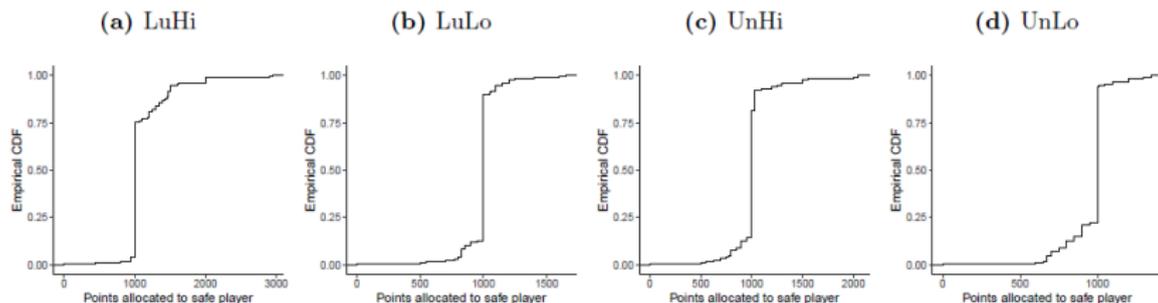
Lu/Un = Lucky/Unlucky, Hi/Lo = High effort/Low effort, α = wage, e = number of tables chosen and x = initial earnings

Spectators make choices for all four situations of interest

Results I

$N = 563$, data collected on Amazon Mechanical Turk

Figure 1: Redistribution in the four situations of interest

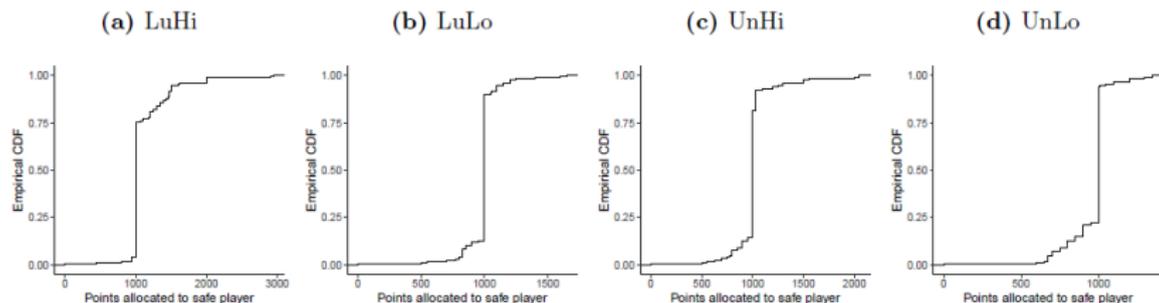


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Result 1: In 72% of the choice situations spectators do not redistribute at all.

Results II

Points to safe player:

$$F^{NR} = e_S \times \alpha_S$$

$$F^{EGA} = \frac{e_S \times \alpha_S + e_R \times \alpha_R}{2}$$

$$F^{EFF} = \frac{e_S}{e_S + e_R} \times (e_S \times \alpha_S + e_R \times \alpha_R)$$

α = wage

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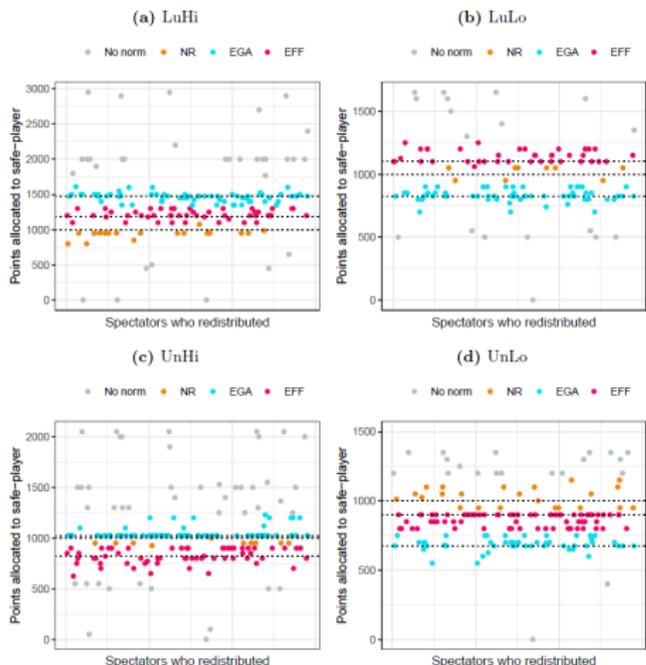
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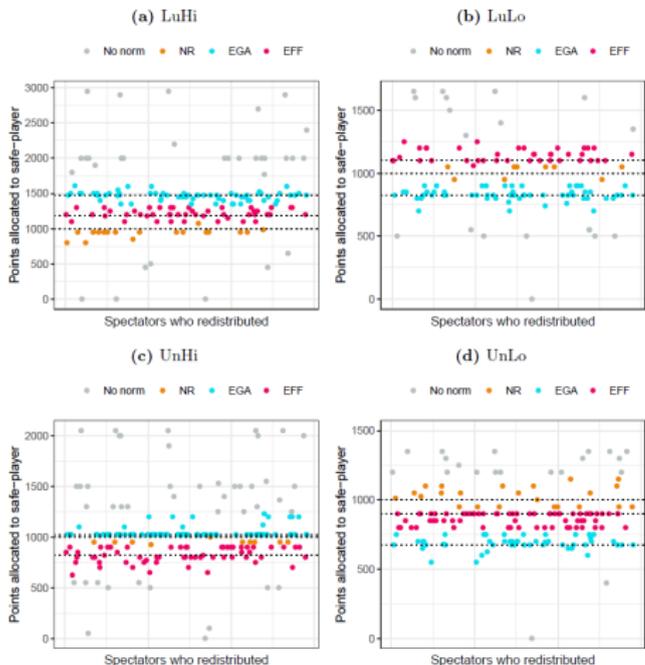
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Result 2: 76% of the choices are best approximated by NR, 134% by EGA and 10% by EFF.

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- Focus on factors within vs. out of individual control too narrow to understand fairness intuitions
- Choice domain relevant and should be included to understand moral and political discussions

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- Focus on factors within vs. out of individual control too narrow to understand fairness intuitions
- Choice domain relevant and should be included to understand moral and political discussions
- Blind spots in philosophical theory
→ promising roads for empirical questions

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RQ 2: Are hard-working risk-takers perceived as more worthy of compensation or credit than idle risk-takers?

Figure 2: Redistribution between risk-taker and safe-player

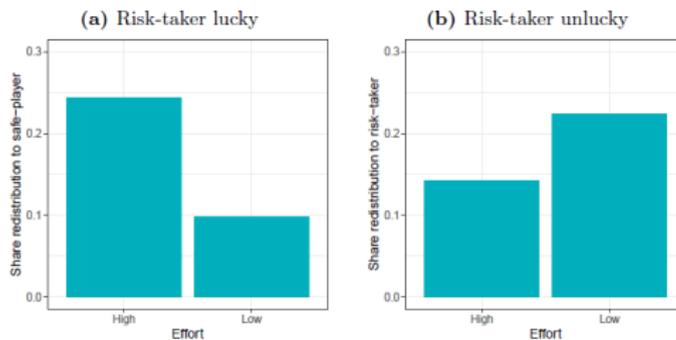
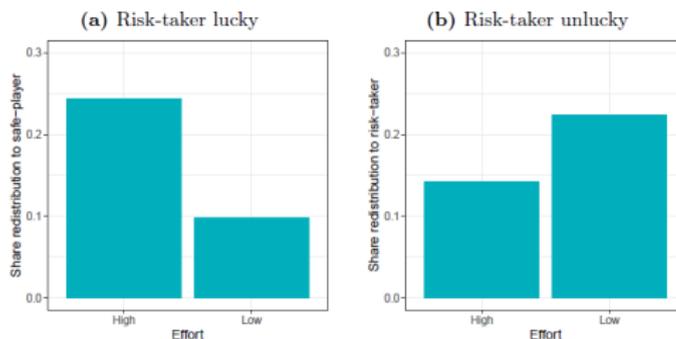


Figure 2: Redistribution between risk-taker and safe-player



Result: Risk-takers that exerted high effort are not treated more favourably than risk-takers that exerted low effort.

$$V(i) = -\frac{(x_S(i) - F^k)^2}{t} \quad (1)$$

$x_S(i)$ = points allocated to the safe player

F^k = fair allocation under the respective fairness norm k

t = total amount of points that can be allocated

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