BBRL Subject Payment Grant Proposal

Discussions about how economic resources should be distributed between a country's citizens have intensified in the last years, as inequality in most of the world's western democracies has become more pronounced (OECD, 2015). Both experimental and empirical research documents that people, in general, do not seem to approve of situations where there is "too much" inequality. However, what is viewed as "too much" inequality differs widely between countries in practice, which leads to different interpretations about the appropriate role and size of the public sector and the welfare state.

One of the most important building blocks in existing models of demand for redistribution, is the role of luck versus effort in determining income. Previous studies (Alesina and Angeletos (2005), Benabou and Tirole (2006)) show that people are significantly more willing to redistribute income when they believe that an outcome is the result of uncontrollable factors (such as some people being luckier than others) as opposed to controllable ones (some people exerting more effort).

However, in most situations the income-generating process is more complex as controllable and uncontrollable factors are rarely independent. The amount of effort one exerts depends on exogenous factors such as talent, health, country of birth, etc. For example, a physically healthy person is *able* to work longer hours than one in poor health; children from richer families *can* complete school since the marginal returns to education is higher for them as compared to the poor. When optimal effort depends on such initial luck, effort itself is a signal of underlying exogenous shocks with higher effort signaling better luck.

The research proposed here aims to study individual attitudes toward redistribution when opportunity to exert high effort is due to having better luck.

In our current project we ask whether individuals condition on such initial luck realizations, when the lucky person is also the one who is able to exert more effort. We use survey experiments conducted on Mturk in conjunction with representative samples of the US to help answer this question. We start with a minimal design framework, where chance determines whether an agent is able to work on a task or not. Initial earnings are then assigned to agents, with workers receiving higher earnings than non-workers. Finally, impartial spectators determine how much of the initial earnings to redistribute between a worker and non-worker.

Our main variable of interest is the average implemented inequality by the spectators. We compare this to three other treatments to benchmark how salient initial luck is to spectators. Below we give a brief description of our design.

Design (Online Experiment)

In a preliminary version of our study on the online labor platform Mturk, we collect data on agents who complete assigned tasks. Agents can either be assigned to work on an encoding task for 60 seconds or be asked to wait for the same amount of time. Whether agents are assigned to 'Work' or 'Wait' is determined at random. After agents complete their assigned tasks, they are shown their initial earnings. They are told, another participant who has not taken part in the survey will learn of their tasks and determine their final payment.

We use these 'agents' for whom the spectators make redistribution decisions. Spectators are matched with two agents and determine the final earnings of the matched agents. Spectators are paid $2 for making their

decisions. Our 'spectator' experiment has four main treatments that differ in the type of agents they are matched with -

1. (*R-WN*): Spectators are matched with a worker and a non-worker whose roles were determined by chance
2. (*R-WW*): Spectators are matched with two workers whose roles were determined by chance
3. (*R-NN*): Spectators are matched with two non-workers whose roles were determined by chance
4. (*E-WN*): Spectators are matched with a worker and a non-worker whose roles were determined by prior performance. In a previous task, the agent that performed better was assigned the role of the worker while the worse performer was the non-worker.

Overview of Analysis

We hypothesize that if spectators put weight only on the initial source of inequality, then redistribution decisions across treatments 1, 2 and 3 would look similar. However, if we observe redistribution decision significantly different in 1 as compared to 2 and 3, this suggests that spectators base their decision on unequal effort even though the opportunity to exert effort was determined at random.

A natural explanation for observing higher income inequality in *RWN* could be that effort incurs disutility and spectators compensate workers to equalize utility across workers and nonworkers, rather than equalizing income. To understand whether this is the case, we elicit spectators' beliefs about workers' preferences over working and waiting in an incentivized manner.

Finally, we compare *RWN* to *EWN*, where we keep the assigned tasks the same, but vary the process by which they are assigned. Since *EWN* adds another layer of entitlement for the worker (since he was the better performer), we should expect to see lesser redistribution away from him as compared to the worker in *RWN*. However, if we do not observe that, this suggests that when tasks are unequal, the initial determination of inequality is no longer salient.

Design (Representative Sample Survey)

Our representative sample data will be collected with the help of a market research firm (C&T Marketing Group in all probability). A representative sample of n=500 people in the US will be collected (125 in each treatment). The experimental treatments will be the same as described above. In addition, we will add small vignette studies to elicit individuals' perception of fairness in routine situations where outcomes depend both on luck and effort.

The research proposed here breaks new ground in that it broadens the question of redistributive preferences to study situations where luck and effort interact. We use the online survey experiment on Mturk to tease apart different explanations for our results. The data from the representative sample will provide external validity as well as explore how these carefully measured preferences play out in routine settings using vignette studies.

Budget

A) Two Mturk batches = $1453

Batch 1 – 120 participants [Agents]

	$/Participant
Participation fee	$0.10
Mturk Fees (40%)	$0.04
Bonus	$1.50
Mturk Fees (20%)	$0.30
Total	$1.94
	$1.94 X 120 = $233

Batch 2 – 480 participants [Spectators]

	$/Participant
Participation fee	$0.10
Mturk Fees (40%)	$0.04
Bonus	$2.00
Mturk Fees (20%)	$0.40
Total	$2.54
	$2.54 X 120 = $1220

B) Representative Survey with C&T Marketing ≈$2733

1. Batch 3 on Mturk (replication of Batch 1), hence cost apprx. $233
2. 500 spectators – payment of $5 to each = $2500

Total Expected Budget of Project = $4186

Total Requested for Funding = $1500

Remaining amount to be covered by PI's start up fund.