Meritocratic Fairness Preferences

When Being a Meritocrat is Tricky: Inheritance Taxation and Other Conundrums

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*The presentation is based on papers coauthored with **Puja Bhattacharya** ("Lucky to work" and "Fairness preferences over parental wealth transfers"), **Alexander Cappelen**, **Bjorn-Atle Reme** and **Bertil Tungodden** ("A meritocratic origin of egalitarian behavior"), Reme and **Erik Sorensen** ("Luck, choice, and responsibility") and on work in progress with **Martin Brun** ("Meritocratic preferences, cognitive ability and cognitive load") and **William Hickman** ("Luck, Effort and Genetics")*

Introduction

- Questions about (in-)equality are high on the agenda for citizens, politicians and researchers alike (e.g. OECD, 2022)
  - Hence important to understand people's social preferences and their demand for redistribution
- A simple way to capture the vast majority's fairness preferences (see e.g. Cappelen et al., 2013; Mollerstrom et al., 2015; Almås et al, 2020):
  - Egalitarians – always redistribute
  - Libertarians – never redistribute
  - Meritocrats – sometimes redistribute

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  - **Meritocrats – sometimes redistribute**

Meritocrats

- The group of meritocrats is the largest by a wide margin and actually encompasses the vast majority of the citizens/voters globally (cf Almås et al., 2022)
  - Both in developed and developing countries, and in countries with smaller vs larger welfare states
  - *Meritocratic principles are the closest we currently get to a universal religion at the global level* (Wooldridge, 2021)
- Meritocrats regard inequalities as fair to the extent that they reflect differences in merit (effort and to varying extent talent), but not when they reflect differences in luck
- The meritocratic principle sounds somewhat straightforward in theory
  - But in practice this is not always the case

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  - "Luck, Choice and Responsibility", *JPubE* 2015

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- How are these resolved in practice?
  - Short answer: with lots of heterogeneity among individual meritocrats (and sometimes by country)

Another Example: **Fairness Preferences over Parental Wealth Transfers**

Another Example: **Fairness Preferences over Parental Wealth Transfers**

- Many parents leave their wealth upon death to their children or provide gifts inter-vivo
- For the rich, such transfers comprise a substantial portion of their lifetime wealth (Black et al., 2022; Acciari et al., 2022)
- In this paper, Puja Bhattacharya and I study individuals' fairness considerations about transfer of wealth from parent to children

Meritocratic Perspectives on Parental Wealth Transfers

- Two contrasting perspectives – both arguably based on meritocratic reasoning (cf. Rawls, 2001; Nozick, 1974; Halliday, 2018):
  1. Transfers hinder equality of opportunity, since being born to wealthy parents is akin to winning a 'birth lottery'
  2. Parents should be free to decide how they want their wealth to be distributed since the wealth was accumulated by them
- *"Discussions tend to focus on whether people (should) have a right to inherit, rather [than] on whether people (should) have a right to bequeath […]. I lack a good explanation of why the usual theories of distributive justice are so receipt oriented, ignoring givers and transferers and their rights."* (Nozick, 1974)

What We Do

- Study third party fairness preferences over passing down inequality between a pair of parents to their children using an incentivized survey experiment
- Focus on aspects of such inter-generational transfers that may be instrumental to fairness judgements:
  1. The importance of the ‘parental link’
  2. The importance of receiving money accumulated by others
  3. The importance of source of parental wealth - hard work versus luck
  4. The importance of parental choice

Types of Participants

- Donors
  - Earn money by completing a task
  - Some of the donors may have a part of their earnings withheld (i.e. they “die”)
- Spectators (our focus)
  - Decide how to allocate a pair of donors’ ‘withheld’ earnings between a pair of beneficiaries
- Beneficiaries
  - Receive the amount allocated by spectators

Donor Experiment

- Donors complete a task to earn money
  - Payment: Depending on the outcome of their task, they are assigned either high ($4.50) or low ($2.50) earnings
- At the end of the survey the computer may impose an earnings limit of $1.50:
  - If the earnings limit is not imposed, donors receive all of their above earnings
  - If the earnings limit is imposed, donors receive only $1.50 and the rest ($3/$1) is withheld from them
- Donors have complete information about the earnings procedure at the start of their task

Spectator Experiment

- Spectators are provided information on two donors - Donor A and Donor B.
  - Donor A earned $4.50 while Donor B earned $2.50
  - They both had the earnings limit imposed and received $1.50
  - Their withheld earnings will be allocated between two people - Beneficiary a and Beneficiary b
  - Spectator decides allocation between Recipient a and b:

- I.e., spectators are deciding how much of the inequality to pass on

Variable of interest

- Earnings inequality implemented between Beneficiary a and Beneficiary b by the spectator:

$$x_a - x_b$$

- where x_a is the amount allocated to Beneficiary a and x_b is the amount allocated to Beneficiary b
- $x_a - x_b \in \{-2, -1.5, -1, -0.5, 0, 0.5, 1, 1.5, 2\}$

- $x_a - x_b = 2$ Preserves the inequality between donors among the beneficiaries
- $x_a - x_b = -2$ Reverses the inequality between donors among the beneficiaries
- $x_a - x_b = 0$ Eliminates the inequality between beneficiaries

Beneficiary “Experiment” (rather: E-mail)

- Beneficiaries received the amount allocated by the spectators via an Amazon e-gift card

Main Study - Aim

- Measure attitudes towards transfer of wealth from parents to children
- Focus on...
  1. ...the importance of the parental (as compared to non-parental) link
  2. ...the importance of receiving money accumulated by someone else (and not by oneself)
  3. ...the importance of parent's source of wealth - effort vs luck

Main Study - Treatments

- 3 × 2

1. Relationship between donor and recipient
   - **Parent:** recipients are the adult children of the donors
   - **Stranger:** recipients are randomly selected individuals unrelated to the donors
   - **Self:** recipients are the donors
2. Source of earnings inequality between donors
   - **Effort:** Donors complete an encoding task. Earnings assigned based on performance
   - **Luck:** Donors complete a coin toss task. Earnings assigned based on outcome of coin flip

The Effort Task

- **Time Remaining**: 00:20

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
15	8	20	18	13	17	23	12	24	5	9	16	14	25	19	21	26	2	6	3	22	4	11	1	7	10

Letter: P

Code:

Next

Data

- Data collected through market research firm Bilendi in the US
- Spectators: 1,981 observations (in a main experiment and an extension focusing on choice), nationally representative on gender, age, and race
- Donors: 700 observations (for parents only, i.e. individuals with adult children could participate)
- Surveys lasted between 10 and 15 minutes

Spectator Decisions in Main Experiment

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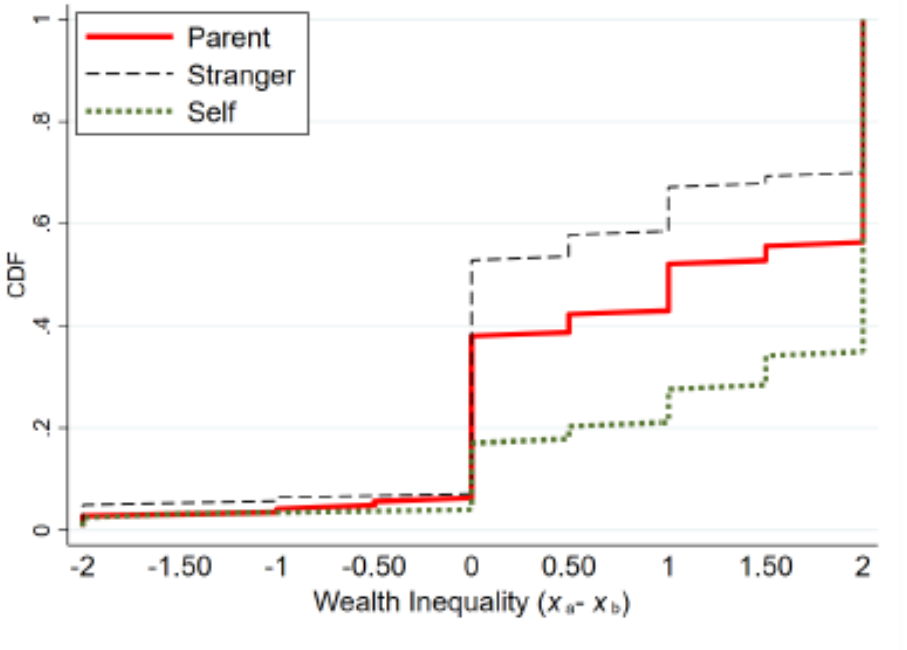

(a) Effort

(b) Luck

Notes: Graphs show CDFs of wealth inequality implemented by spectators between beneficiaries in each treatment in the *Main Experiment*. *Obs* for Effort: (142 in *Parent*; 140 in *Stranger* and 123 in *Self*). *Obs* for Luck: (142 in *Parent*; 150 in *Stranger* and 153 in *Self*)

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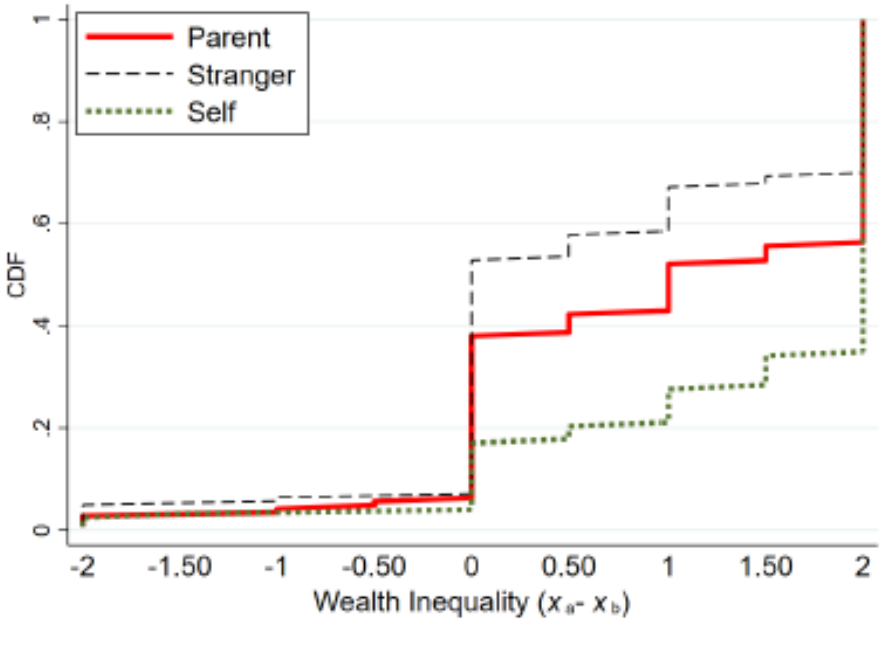
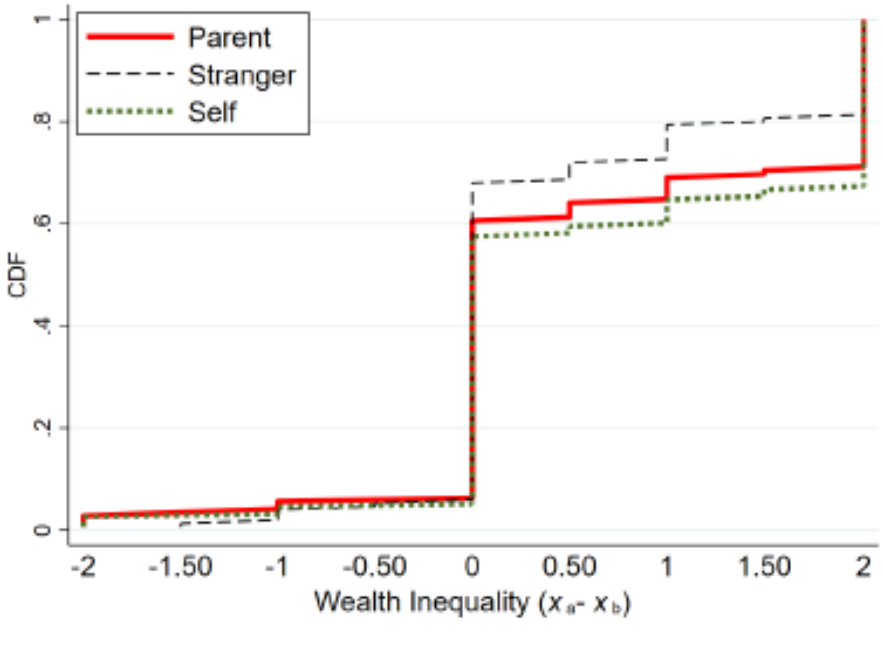


(a) Effort



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“Parent” in Effort Treatments

- 44% pass down the entire parental inequality to the children
- 32% eliminate all parental inequality between the children
- A majority, 62%, choose an allocation favoring the child of the high-earning parent (Beneficiary a)
- $x_a - x_b = \$0.99$ i.e. half of the inequality between parents is passed down to the children.
- \$0.99 vs \$0.65** (Stranger);
- \$0.99 vs \$1.40** (Self)

“Parent” in Luck Treatments

- 29% pass down the entire parental inequality to the children
- 54% eliminate all parental inequality between the children
- A minority, 39%, choose an allocation favoring the child of the high-earning parent (Beneficiary a)
- $x_a - x_b = \$0.57$ i.e. a fourth of of the inequality between parents is passed down to the children.
- \$0.57 vs \$0.47 (Stranger);
- \$0.57 vs \$0.70 (Self)

Formalized results

Dependent variable:	Wealth Inequality ($x_a - x_b$)			Proportion of $x_a - x_b = 2$		
	Effort	Luck	Pooled	Effort	Luck	Pooled
	(1)	(2)	(3)	(4)	(5)	(6)
Stranger	-0.30**	-0.14	-0.32**	-0.34**	-0.32**	-0.34**
	(0.13)	(0.11)	(0.13)	(0.15)	(0.16)	(0.15)
Self	0.48***	0.11	0.48***	0.58***	0.12	0.57***
	(0.12)	(0.12)	(0.12)	(0.16)	(0.16)	(0.16)
Luck			-0.39***			-0.40**
			(0.13)			(0.15)
Stranger × Luck			0.19			0.03
			(0.17)			(0.22)
Self × Luck			-0.37**			-0.44**
			(0.18)			(0.22)
Constant	1.00***	0.53***	0.96***	-0.37	-0.54**	-0.29
	(0.22)	(0.17)	(0.15)	(0.26)	(0.24)	(0.18)
No. of Obs.	405.00	445.00	850.00	405.00	445.00	850.00
R-Squared	0.10	0.01	0.09			

Notes: Results in Columns (1)-(3) are from OLS regressions of the noted dependent variable. Results in Columns (4)-(6) are from probit regressions of the noted dependent variable. *Parent* is the reference category. Controls included in all regressions are: Outcome of task in Part 1 for spectators, age, income, gender, having a college degree, and political affiliation. Robust standard errors in parentheses.

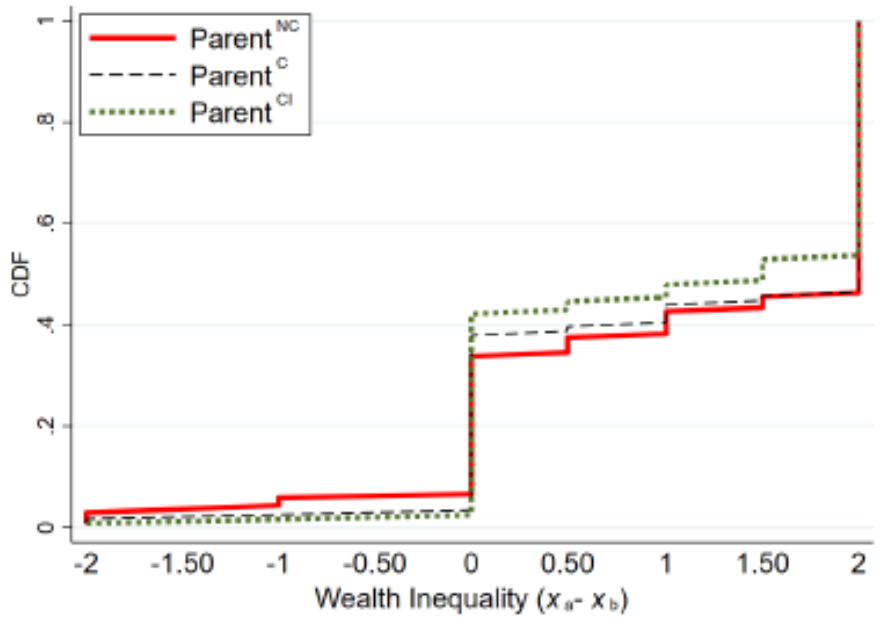
Summary of main experiment

- Wealth accumulated by others is viewed differently compared to wealth accumulated by own self…
  - …at least as long as the wealth is earned through effort and not luck
- Parental link matters: Earnings inequality between recipients is reduced if donors are not related to the recipients as compared to if the donors are the parents
  - This effect is much stronger if parental wealth inequality is due to a difference in effort as compared to a difference in luck
- Source of parental earnings matters
  - Individuals accept more inequality between children when parental inequality is due to a difference in effort

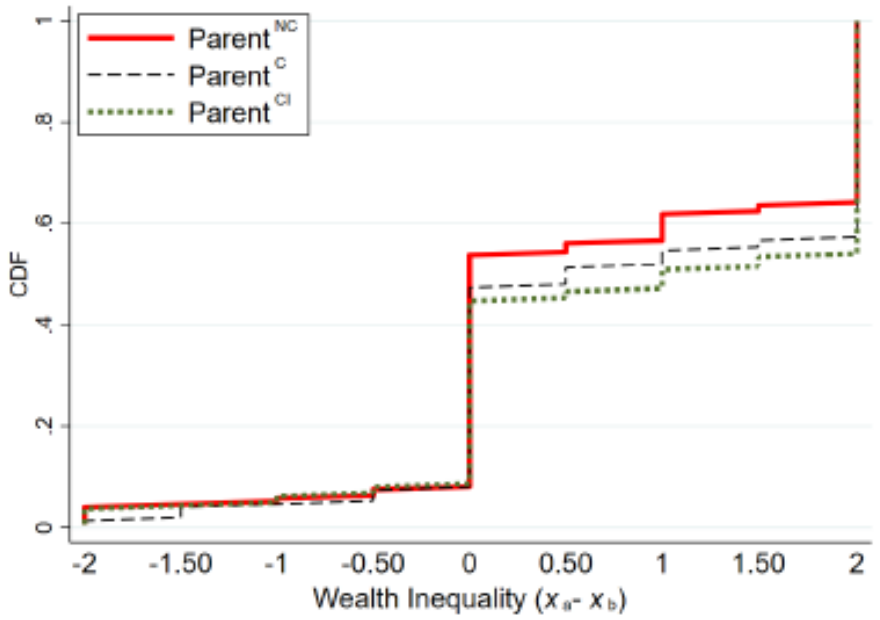
Choice Experiment - Aim

- Focus on…
  1. …the importance of parental choice in giving transfers
  2. ...the importance of parents' knowledge about the opportunity to give transfers before they accumulate wealth
  3. ...the importance of parent's source of wealth – effort versus luck (robustness)
  4. ...the importance of the parental link (robustness)
- Treatments: Parent_NC, Parent_C, Parent_CI

Spectator decisions in the Choice Experiment



(a) Effort



(b) Luck

Notes: Graphs show CDFs of earnings inequality implemented by spectators between beneficiaries in each treatment in the *Choice Experiment*. *Obs* for Effort: (136 in $Parent^{NC}$; 116 in $Parent^{C}$; and 121 in $Parent^{CI}$). *Obs* for Luck:(173 in $Parent^{NC}$; 150 in $Parent^{C}$; and 161 in $Parent^{CI}$)

Results of Choice Experiment

- We do not find evidence that parents actively choosing to pass down wealth affects spectators' fairness views in the Effort condition
- In line with the results from the effort treatment of our main experiment, a majority of spectators pass on the entire inequality from parents to their children in ParentNC, ParentC and ParentCI
- Same in the Luck condition: we find that the modal decision is to equalize wealth, thereby eliminating inequality between the beneficiaries in ParentNC
- **In sum: our results from the choice extension hint at the fact that spectators do not consider the choice of the parents to transfer money as a game changer**

Demographic covariates

	Effort			Luck		
Dependent variable:	Wealth Inequality $(x_a - x_b)$	Proportion of $x_a - x_b = 2$	Proportion of $x_a - x_b = 0$	Wealth Inequality $(x_a - x_b)$	Proportion of $x_a - x_b = 2$	Proportion of $x_a - x_b = 0$
	(1)	(2)	(3)	(4)	(5)	(6)
Male	-0.08	-0.12	0.04	0.04	0.00	-0.17
	(0.11)	(0.12)	(0.13)	(0.10)	(0.11)	(0.11)
Age	-0.00	-0.00	0.01**	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
White	0.18	0.11	-0.12	-0.16	-0.13	0.37***
	(0.12)	(0.13)	(0.14)	(0.11)	(0.13)	(0.13)
Hispanic	-0.01	-0.14	0.06	-0.19	-0.08	0.10
	(0.16)	(0.21)	(0.21)	(0.20)	(0.21)	(0.21)
Children	0.03	0.00	0.04	0.04	0.14	-0.15
	(0.10)	(0.12)	(0.12)	(0.10)	(0.11)	(0.11)
College	0.14	0.13	-0.12	0.09	0.08	0.13
	(0.10)	(0.12)	(0.12)	(0.10)	(0.11)	(0.11)
Inheritance	0.36***	0.37**	-0.43**	0.04	0.09	-0.07
	(0.13)	(0.17)	(0.19)	(0.14)	(0.17)	(0.17)
High Income	-0.12	-0.05	-0.03	-0.05	-0.10	0.10
	(0.13)	(0.14)	(0.15)	(0.12)	(0.14)	(0.14)
Republican	0.09	0.07	-0.26*	-0.08	-0.13	0.13
	(0.11)	(0.14)	(0.14)	(0.10)	(0.12)	(0.12)
No. of Obs.	515.00	515.00	515.00	626.00	626.00	626.00

Summing up

- We study fairness preferences about inter-generational transfer of wealth using an incentivized experiment
- Focus on key dimensions that define inter-generational transfers:
  - Beneficiary is different from earner
  - Parental link
  - Source of parents' income
  - Choice of wealth accumulator
- Potential future work related to this paper
  - Behavioral responses or efficiency concerns of taxes on inter-generational transfers
  - Inheritance of skills vs money (c.f. opportunity and outcome inequality)
  - Unequal transfers due to unequal consumption

When Being a Meritocrat is 'Tricky' – Some More Examples

- What about talent?
  - Is it controllable or not? Especially the talent for working hard?
  - "Talent, Effort and Merit – Perceptions of Controllability", work in progress
- And cognitive ability?
  - Can only smart people be meritocrats?
  - "Meritocratic preferences, cognitive ability and cognitive load", work in progress

Thank you!

Comments extremely welcome:

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