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journal homepage: [www.elsevier.com/locate/jebo](http://www.elsevier.com/locate/jebo)Sympathy for the diligent and the demand for workfare<sup>☆</sup>Ricardo Perez-Truglia<sup>a</sup>, Andres Drenik<sup>b,\*</sup><sup>a</sup> University of California, Los Angeles, Anderson School of Management, Office C515, 110 Westwood Plaza, Los Angeles, CA 90403, United States<sup>b</sup> Columbia University, Department of Economics, 420 West 118th Street, New York, NY 10027, United States

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## ABSTRACT

We study the role of fairness concerns in the demand for redistribution through workfare. In the first part of the paper, we present new evidence from a survey. We show that individuals are more generous towards poor people whom they perceive to be diligent workers relative to poor people whom they perceive to be non-diligent, a social preference that we label *sympathy for the diligent*. This preference is much stronger than preferences regarding other characteristics of the poor, such as race, nationality, and disability. More important, we show that subjects with higher sympathy for the diligent have a stronger preference for workfare programs. In the second part of the paper, we incorporate our empirical findings into a model of income redistribution. We consider the case of a benevolent government with fairness concerns that prioritizes the well-being of individuals who exert the most effort. We characterize the optimal conditions under which the government introduces work requirements. Even if wasteful, work requirements can be optimal, because they allow for a better distinction between individuals who exert great effort and individuals who do not. However, if the government lacks commitment power, the availability of screening through work requirements leads to a lower equilibrium effort and, possibly, a Pareto-dominated allocation.

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## 1. Introduction

We study the role of fairness concerns in the demand for social assistance programs with work requirements (hereafter, referred to as workfare) relative to unconditional assistance programs (welfare). We argue that public support for work requirements responds to a type of social preference that we refer to as *sympathy for the diligent*, according to which individuals are more sympathetic towards poor people whom they perceive to exert high effort than they are towards poor people whom they perceive to exert low effort. This social preference translates into a higher demand for redistribution towards one group relative to the other. Consequently, this social preference generates a demand for work requirements in social programs, because these programs can act as screening devices that target social assistance towards the poor who exert high effort.

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A large body of work argues that fairness concerns are important for understanding income redistribution (Alesina and Angeletos, 2005). For example, survey data indicate that the percentage of the population that believes that poor people are lazy has a strong negative correlation with social spending across the set of OECD countries (Alesina and Glaeser, 2004). Within a given country, individuals who believe that the poor are poor because of lack of effort, rather than because of bad luck, tend to have a low demand for redistribution (Alesina and La Ferrara, 2005; Corneo and Grüner, 2002; Fong, 2001). Fairness concerns are also important drivers in a variety of laboratory experiments, such as the dictator, ultimatum, and gift exchange games (Fehr and Schmidt, 1999), and experiments that study the demand for redistribution of income (Durante et al., 2014). More precisely, the laboratory evidence supports the idea that individuals believe it is fair to give more resources to those who exert a higher effort. For example, Cappelen et al. (2013) studies fairness views in a game that consists of a risk-taking phase followed by a redistribution phase. The results show that, when deciding how to redistribute, most individuals distinguish between ex post inequality that reflects differences in luck and ex post inequality that reflects differences in choices. A similar distinction between differences in luck and differences in choices has been documented in a variety of other games, such as double auction (Ball et al., 2001), public good (Clark, 1998), and ultimatum games (Hoffman and Spitzer, 1985). In this paper, we argue that fairness concerns have important implications not only for the overall level of income redistribution, but also for the composition of the spending in different social programs, such as welfare vs. workfare.

In the first part of the paper, we present new evidence about the existence of sympathy for the diligent and its relationship with the demand for workfare. We conducted surveys to 1800 U.S. subjects recruited on Amazon Mechanical Turk. Subjects were asked to provide policy recommendations for the government in a hypothetical scenario. This scenario contained a description about a poor household to whom the government was considering providing social assistance. We randomly varied the characteristics of the household head who would benefit from the social program. Later, subjects were asked to recommend the amount for a cash transfer to be given to that specific household.

Consistent with our definition of sympathy for the diligent, subjects' recommendations were more generous when the description of the beneficiary included an indication that the individual was hard-working, less generous when this indication was omitted, and even less generous when the description included an indication that the individual was lazy. The magnitudes of these differences are large. For example, when the recipient was described as hard-working, subjects recommended a cash transfer that was almost twice as large as when the recipient was described as lazy. These differences are significant even within the sub-populations of Democrats, Independents, and Republicans, although they are larger in magnitude among Republicans. To obtain a benchmark for the quantitative importance of this social preference, we randomized other characteristics of the hypothetical beneficiary. The estimates suggest that subjects are more generous with African-American than White beneficiaries, more generous with U.S.-born than Mexican-born beneficiaries, and more generous with disabled than non-disabled beneficiaries. However, the gap in generosity between hard-working and lazy beneficiaries is between 4.3 and 8.4 times the magnitude of the gaps in generosity between African-Americans and Whites, U.S.-born and Mexican-born, and disabled and not disabled.

Additionally, we provide evidence that more sympathy for the diligent creates more demand for workfare. To do so, we conducted an additional survey that included a direct question about the respondent's degree of sympathy for the diligent, as well as multiple questions about the respondent's preferences regarding welfare and workfare policies. As expected, compared to those with low sympathy for the diligent, subjects with high sympathy for the diligent have a significantly stronger preference for workfare: they are more likely to demand work requirements in social assistance programs, they prefer a higher share of social spending to be allocated to the Earned Income Tax Credit (EITC), and they are more likely to agree with the statement that work requirements are effective at preventing the lazy poor from benefiting from social assistance programs. These differences are not only statistically significant but also large in magnitude.

In the second part of the paper, we incorporate the empirical findings into a model of income redistribution. We characterize the conditions under which it is optimal for a benevolent government to make income transfers that are contingent on effort requirements (i.e., workfare), as opposed to unconditional transfers (i.e., welfare). We use a framework adapted from Netzer and Scheuer (2010). Ex ante, a risk-averse agent can affect the probability distribution over output by choosing different levels of unobservable effort. For example, this effort choice can be interpreted as human capital investment, as in Boadway et al. (1996) and Konrad (2001). Once outcomes have been realized, a benevolent government chooses the income-redistribution policy. Following Netzer and Scheuer (2010) and others (Boadway et al., 1996; Konrad, 2001), we assume that the government cannot commit to a certain redistributive scheme before effort choices are made.<sup>1</sup>

We introduce a benevolent government with merit-based fairness concerns. The government cares more about the utility of individuals who exert the most effort, because they are believed to deserve higher utility. The government cannot directly verify who exerts effort and who does not, but it can take advantage of the fact that, on average, individuals with lower disutility from effort are more likely to have exerted great effort in the past. Because the work requirement is less costly for individuals with low disutility from effort, the government can use workfare to (imperfectly) screen for diligent individuals and direct more resources toward them. We first analyze the partial-equilibrium problem, in which effort and output are determined and the government must then choose a redistribution policy. The government has the option of

<sup>1</sup> This assumption differs from other studies of income redistribution such as Meltzer and Richard (1981) and Alesina and Angeletos (2005). Note that it makes no difference whether the redistribution scheme is decided before the uncertainty is resolved. What is truly important is whether the redistribution scheme can be modified after the outcomes are realized.

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