

# Entitlements and fairness: an experimental study of distributive preferences

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## Abstract

Under three different rules for allocation of initial income we elicit experimental subjects' preferences for income redistribution using an incentive compatible elicitation mechanism. The three income allocation rules are designed to capture preferences for distributive justice among subjects. The concern is motivated by claims in some of the experimental economics literature that non-self-interested motives often underlie individual behavior. We cannot reject self-interest in favor of any redistribution motives based on our observations. Almost all individuals chose the income distribution which maximized their own income — high income individuals chose no redistribution and low income individuals chose perfect equality in income distribution. © 2000 Elsevier Science B.V. All rights reserved.

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## 1. Introduction

In this study we elicit preferences over income distribution in an incentive compatible way and test how such preferences relate to some simple notions of earnings-based justice. We employ a controlled laboratory setting with no income uncertainty and no strategic considerations. Under such conditions, any revealed preferences that are non-payoff-maximizing would be inconsistent with the traditional notion of self-interest, where the individual agent's

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utility is independent of the utilities of other agents. Our results strongly favor self-interest and stand in stark contrast to previous experimental evidence.

Our interest in the question of individual preferences over income distribution arises from the discrepancy between theoretical predictions and previous experimental findings. Mainstream political economy models predict payoff-maximizing behavior based on the assumption that agents are motivated by self-interest. Simply put, within these models individuals' decisions over economic policies do not reflect any preferences that involve a regard for others, whether based on justice or some other consideration. If this assumption is correct, then any preferences over income distribution that are revealed among members of a group *must* be reflections of each member's desire to maximize his own income and not of any desire to satisfy others' wants or needs or to respect others' rights. Consistent with the assumption of self-interested economic decision-making, several theories of distributive justice and social welfare further assume that decisions regarding what distribution is just can only be made by a representative individual in some "original position", where the decision maker by assumption would not be biased by his own self-interest.<sup>1</sup> Such decisions are sometimes referred to as being made behind a veil of ignorance. Individuals not positioned behind such a veil of ignorance are therefore expected to always act in a manner that disregards justice.

Laboratory experiments have been employed to test whether economic agents are generally motivated by self-interest. Based on observing subjects choosing to redistribute income, many such studies have concluded that experimental subjects do not appear to be motivated solely by self-interest, and that this is true in many economic choice situations and not only behind a veil of ignorance.<sup>2</sup> Several experimenters now favor notions of fairness or altruism, in addition to monetary payoffs, as motivating individual choice.<sup>3</sup>

Revealed preferences over income distributions, however, appear to be very sensitive to variations in experimental design. Several experimental studies document results suggesting that the origin of initial entitlements has an effect on the extent of apparently non-self-interested behavior;<sup>4</sup> when subjects are required to earn their initial entitlements, the frequency of apparently non-self-interested behavior is lower than when initial entitlements are allocated according to pure chance. Hoffman and Spitzer (1985, p. 260) propose that experimental subjects behave as if they believe in an earnings-based notion of justice; an unequal income distribution is (un)just when initial entitlements are (randomly assigned) earned. Such results appear to be consistent with equity theory in social psychology, which

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<sup>1</sup> See, for example, Rawls' (1971) definition of the "original position", and Harsanyi's (1955) distinction between "impersonal social considerations" and "subjective" preferences. Binmore (1998) employs the process of the original position for the renegotiation of the social contract among players in the game of morals.

<sup>2</sup> The idea that revealed preferences may reflect moral considerations is not new. Harsanyi offers a definition of subjective preferences that may incorporate moral considerations. Binmore (1994, 1998) offers an alternative definitional classification of preferences into self-interest narrowly conceived and self-interest broadly conceived. He develops these ideas into a complete theory of revealed ethical preferences. See Andreoni and Miller (1998) for a test confirming that distributive preferences obey the Generalized Axiom of Revealed Preferences, suggesting that there may be a trade-off between self-interest and justice motives.

<sup>3</sup> See, for example, Güth et al. (1982), Rabin (1993), Fehr et al. (1993), and Eckel and Grossman (1995, 1996).

<sup>4</sup> We review two such studies below: Hoffman and Spitzer (1985), and Burrows and Loomes (1994).

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