



## Knowledge, power, and self-interest



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### ABSTRACT

The paper reports the results of a laboratory experiment assessing the impact of social position (endowment) and power (structurally advantaged or disadvantaged network positions) on redistributive decisions, which involve a classical efficiency-equality trade-off. The experiment involves three decision conditions: veil of ignorance, informed dictator, and majority vote. We use a three-person social-preference model in order to derive hypotheses on the effect of knowledge and power on tax choices. Our results confirm that disclosing the social position raises the measured self-interest (Knowledge Effect) and that mandating a majority vote results in concessions, the size of which depends on the player's structural position in the network (Power Effect).

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### 1. Introduction

Next to reciprocal relations and market exchange, redistribution is a fundamental mechanism of the economic integration of societies (Polanyi, 1957). Redistributive policies cancel out or alleviate differences in life chances and living standards by levying a tax on endowments and distributing the revenue among the members of the society. A stylized fact from the experimental literature reviewed in Section 2 is that revealed preferences for redistribution tend to be higher than would be predicted by self-interested utility maximization. Can we conclude from this observation that subjects are indeed altruistic (Fehr and Gintis, 2007)?

Given that there are notable differences in outcomes across experiments, we believe that such a conclusion would currently be premature. In an extensive examination of different potential determinants of preferences for redistribution, self-interest in those with low endowments, insurance motives, and social preferences have been found to play important roles in explaining high rates

of taxation in small experimental societies. Durante et al. (2014, 1084) conclude, “not surprisingly, self-interest stands out as the dominant motive in the involved conditions. However, self-interest cannot explain the willingness of a large majority of subjects to sacrifice some earnings to increase equality of earnings among others in the disinterested decision-maker condition, nor can it explain greater reluctance to redistribute when aggregate earnings must be sacrificed (...)”

In this paper, we build on these results and explore the effect of societal conditions on demand for redistribution, as well as the relation between societal conditions and individual characteristics. We study the extent to which contextual and relational factors help shape variation in demand for redistribution. Next to social preferences, we focus on two additional factors that have been repeatedly highlighted as important determinants of redistribution, but, to our knowledge, have not yet been systematically studied in the context of one integrative experimental framework: social position and structural power. The social position of an individual corresponds to the relative standing in the income distribution, her endowment, and determines whether a particular member of society will benefit from redistribution. The structural power of an individual, derived from her position in a network, corresponds to her ability to enforce her will in a collective decision process.

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In a nutshell, we expect that knowledge about her own social position and structural power in decision making will induce an individual to choose more selfish tax rates. We further test in how far these structural effects interact with individual characteristics, namely social preferences and risk attitudes. In order to explore these effects, we construct a single experimental design in which subjects are asked to state their preferred tax rate in a sequence of increasingly informed conditions, using a random lottery incentive scheme (Cubitt et al., 1998). First, they have to state a preference behind the veil of ignorance (VOI). Second, they have to state a preference after they have been informed about their social position (INFO). Third, they are allocated to different power positions in three-node networks and have to collectively decide on a tax rate by majority rule (IMPL). One treatment uses a three-line network, which connects the three nodes by two edges. The central, powerful, position is a *Broker*, and we call the two outer positions *Takers*. The other treatment uses a triangle network in which all three nodes are connected by edges and structural power is equal on all three positions (Braun and Gautschi, 2006; Lovaglia et al., 1995). By varying the information condition in a within-subject design, we develop a direct and precise estimate of the effect of the informative content (uninformed, social position, power position) on the stated preferences and behaviors of subjects.

In Section 2, we first review the related literature in more detail, and then proceed in Section 3 to specify a model for redistribution under social preferences and a three-nodes network along with the theoretical expectations for distributive decisions derived for this network structure. Section 4 outlines the experimental design and Section 5 discusses findings. Section 6 concludes.

## 2. Related literature

Preferences for redistribution vary across societies and along individual characteristics (Alesina and Giuliano, 2011; Clark and D'Ambrosio, 2015). According to cross-national empirical investigations, a country's welfare system moderates individual attitudes to redistribution. For example, liberal welfare regimes make class differences more salient, conservative regimes foster insider/outsider effects, and universalistic regimes support more egalitarian attitudes (Svallfors, 1997; Linos and West, 2003; Arts and Gelissen, 2001; van Oorschot et al., 2012). Furthermore, the economic regime has a long-lasting impact on preferences toward social policies that entail redistribution (Alesina and Fuchs-Schündeln, 2007) and the level of progressivity in a country's tax scheme moderates the relationship between individual income and redistributive preference (Beramendi and Rehm, 2016). In sum, the historical and cultural background of societies shapes citizens' perceptions of income inequality, their notion of a fair distribution and their demand for redistributive policies (Alesina and Glaeser, 2004).

At the individual level, preferences for redistribution are usually analyzed in terms of the standard model of self-interest (Meltzer and Richard, 1981). Accordingly, redistribution is supported by individuals occupying societal positions below the mean income, while members of society above the mean income oppose redistribution. The empirical inadequacy of this explanation led to the inclusion of intertemporal preferences in the standard model. An interest in social insurance against potential declines in income or a good prospect for upward mobility may alter the optimal level of redistribution (Moene and Wallerstein, 2001; Alesina and Giuliano, 2011; Benabou and Ok, 2001; Piketty, 1995). Other studies have further pointed at the role of other-regarding motives for redistribution, indicating an impact of fairness, reciprocity and equity concerns (Alesina and Angeletos, 2005; Fong, 2001). Findings from survey research support the idea that attitudes toward the welfare state are shaped by an individual's structural position in the societal stratification system

and by her ideological perspective (d'Anjou et al., 1995; Gelissen, 2000; Roosma et al., 2014).

Individual redistributive preferences are highly sensitive to the context and the relationship between subjects. Under induced preference conditions, however, a clear preference for the equity principle combined with a floor constraint seems to emerge, conditional on an agent's relative contribution to the common good (Selten, 1987; Traub et al., 2009; Balafoutas et al., 2013). On the individual level, although self-interest is regarded as the best predictor of distributive choices observed in incentivized experiments, many experimental participants show a concern for others' payoffs, attributed to a variety of motives such as inequality aversion, taste for efficiency and maximin preferences (Durante et al., 2014; Engelmann and Strobel, 2004; Ackert et al., 2007). Support for redistribution is higher if the determinants of success are perceived to be outside of the individual locus of control, such as an arbitrary allocation of endowments. If factors perceived to be inside the locus of control are regarded as the origin of distributional inequality, preferences for redistribution decrease as the pre-redistribution income is seen as a just desert (Krawczyk, 2010; Cappelen et al., 2013; Trhal and Radermacher, 2009).

The effect of an individual's information about her own income position on the demand for redistribution was studied in experiments testing the Rawlsian theory of justice (Rawls, 1971; Frohlich and Oppenheimer, 1992). In open group discussions justice principles combining the maximization of average income with a floor constraint were chosen most often. Decisions made without knowledge of income positions create more equal distributions, without, however, necessarily reflecting Rawlsian floor preferences. These decisions are partly driven by an interest in insurance against the risk of occupying a low-income position, but also by social preferences for equality (Herne and Suojanen, 2004; Schildberg-Hörisch, 2010).

Turning to redistributive group decisions, some evidence suggests that the equality principle is strongly endorsed in majoritarian bargaining contexts (Diermeier and Morton, 2005). Other results point toward more self-serving attitudes, which are only attenuated by insurance against losses that are not self-inflicted (Esarey et al., 2012; Cabrales et al., 2012). In groups, solidarity and in-group favoritism also influence the demand for redistribution (Bolte and Costard, 2015). Overall, as with individual preferences for redistribution, results of redistribution in groups are highly context-dependent, affected not just by institutional rules, but also by the structural composition of the group, for example the relative size of income classes (Höchtel et al., 2012).

In experiments on redistribution, structural power has thus far not received noteworthy attention. In double-blind dictator games, subjects endowed with more power, induced through the ability to determine final payoffs, and with more initial resources expect a greater share of a joint stock (Swope et al., 2008). Under certain bargaining conditions, their less powerful counterparts seem to accept such claims of "moral property rights" (Gächter and Riedl, 2005), although there are clear indications of self-serving bias (Gächter and Riedl, 2006).

In contrast to the literature on redistribution, structural power takes a prominent role in sociological network exchange theory. In a typical network exchange experiment subjects engage in bilateral exchange relations in which they divide a joint benefit. Power results from the position in the network and usually allows the agent to extract larger shares of the joint resource. Findings from network exchange seem to strongly support models based on the self-serving utility maximization principle (Willer and Emanuelson, 2008; Braun and Gautschi, 2006; Skvoretz and Willer, 1993). Only recently have social orientations and fairness identities entered the considerations of exchange theorists (Willer et al., 2013; Savage et al., 2016). The effect of structural power on redistributive decisions in networks has, to our knowledge, not been studied yet.

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