It's Not All about the Benjamins: Political Economy and Social-Psychology Theories of Welfare-State Preferences

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In a democracy, the relationship between the preferences of the citizens and the policies of the government is, in principle, fundamental. There has been considerable debate as to whether this principle holds, but this dissertation focuses on a different question, namely, what are the determinants of mass preferences over welfare-state policies? In political science, the Meltzer-Richard model is the starting point for any discussion of preferences for redistribution. The Meltzer-Richard model is a rational-choice, general equilibrium model that essentially says that those with above-average wages will oppose any redistribution, and the extent to which those with below-average wages favor redistribution depends on how poor they are.

The discussion in political science too often stops not far from the Meltzer-Richard model. Others have extended the Meltzer-Richard model to future income, which introduces public insurance motivations. However, these theoretical extensions have not been able to overcome the fundamental empirical shortcoming of traditional political economy models that they do not predict individuals' preferences well. When the dependent variable is preference for redistribution and the independent variables are the individual's income, risk exposure, and other socio-demographic variables, such a regression will explain five to ten percent of the variation in preferences within a country.

However, an alternative theory with deep roots in sociology, psychology, and some corners of political science has recently become influential in the economics, with support from experiments and even neuroscience. This theory maintains that citizens care about how redistribution affects *others*, at least in part. We seek to take the results of lab experiments that show that many subjects will pay a personal monetary cost in order to achieve a more equitable distribution of payoffs and confront them with data on the behavior of citizens when real political issues are at stake. We have nationally-representative samples from many developed countries but face two key obstacles. First, most surveys lack questions that correspond directly to the dynamics of a lab experiment. Second, the methods that are typically used to study survey data are too crude to gain sufficient leverage on this issue.

To overcome the first problem, we simultaneously model preferences for domestic redistribution and preferences for *international* redistribution. The decision to support a transfer of money from a citizen of a rich country to a citizen of a poor country is quite analogous to the decision in a Dictator experiment where player 1 unilaterally chooses how to divide $10 with player 2. More generally, it is difficult to ascribe any traditional political economy motivation to international redistribution. Thus, if we can show that in many developed countries whatever explains the variation in support for international redistribution also explains a substantial amount of the variation in support for domestic redistribution, then there is a major shortcoming of the traditional political economy theories that is consistent with the inequality aversion theory.

In order to demonstrate so, we derive, implement, and apply two new estimators based on partially-formed psychometric ideas from the first half of the twentieth century. The first estimator realizes the potential of a theorem proved by Louis Leon Thurstone in the early 1930s that allows us to simultaneously estimate the number of independent variables that are necessary to explain the variation in the observed data and estimate the proportion of the variance in the observed data that is random noise. Importantly, these two estimates can be obtained without specifying a particular model for the survey responses, and the results are difficult to reconcile with the political economy tradition. For starters, the percentage of noise in the survey respondents is usually estimated to be about half, in contrast to the ninety or ninety five percent obtained in traditional political economy regressions. Also, three explanatory variables are usually necessary to explain almost all the systematic variance in the survey responses, in contrast to traditional political economy models that assume voters differ on one or two dimensions that are relevant to preferences for redistribution.

The second estimator obtains the coefficient estimates for these three unknown variables based on a theorem proved by Olav Reiersøl in the late 1940s, which showed that the free coefficients can be identified via a certain number and configuration of exclusion restrictions, without knowing in advance *which* coefficients are zero in the population. To make use of this theorem for the first time, we require an algorithm that will simultaneously find the optimal locations of the exclusion restrictions and the optimal values of the non-zero coefficients. The results are important in at least two respects. First, as would be expected, the effect of respondents' income and risk exposure on their support for international redistribution is negligible. Second, the bulk of the variation in support for international redistribution is driven by a inequality aversion, which also explains a substantial amount of the variation in support for domestic redistribution, controlling for the respondents' income and risk exposure.

These results do not deny that some individuals' preferences for redistribution are motivated by private self-interest to some extent. They do, however, deny the traditional political economy assumption that all individuals' preferences are motivated exclusively by private self-interest. Thus, political scientists should expand our theoretical vision of how coalitions of individuals come to support or oppose welfare-state policies in democracies. Rather than simply asking whether the median income-earner would benefit from a proposed policy change, we need to ask whether and why the beneficiaries are perceived as deserving and if the incidence of the change in tax burden is seen as legitimate. Only then can we investigate how a coalition of voters might affect welfare-state policy in democracies.