Conspicuous Consumption Reflects How Redistribution Influences Perceived Social Justice

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We examine how redistribution preferences affect the value of status consumption: people who favor less (more) fiscal redistribution value status consumption more as a meaningful signal because they consider income more deserved (i.e., a stronger belief in a just world). Data come from a national consumer survey and two experiments.

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Redistribution and Social Justice in Consumer Behavior

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Paper #4: Conspicuous Consumption Reflects How Redistribution Influences Perceived Social Justice
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SESSION OVERVIEW

The financial crisis of 2008 that originated in the U.S. and the subsequent, ongoing economic crisis across the industrialized economies of Western Europe have focused societal attention on the importance of consumer preferences for (in)equality and social justice. This session sheds light on two questions that are at the core of the current political and public debate on inequality in many countries: How much (in)equality do consumers prefer, and what effects do different redistribution regimes designed to reduce income inequality have on consumer behavior and motivation? 

Maddux, Frank, and Wertenbroch examine preferences for income (in)equality. They observe cultural differences in preferences for economic redistribution, both via individual incentive schemes as well as fiscal redistribution via income taxation, and demonstrate that these cultural differences are due to cultural variations in consumer just-world beliefs about the sources and deservedness of individual success. Kiatponsan and Norton examine preferences for income-based health (in)equality. They assess Americans’ perceptions of (in)equality of health-related outcomes along with their ideal distributions of these outcomes, showing not only that respondents underestimate the concentration of gains in life expectancy among the wealthy and overestimate gains in life expectancy among the poor but also that respondents prefer greater health equality among the rich and the poor than is currently the case. Rick, Paolacci, and Burson examine how income redistribution affects motivation to work. Contrary to normative predictions, they show that the mere presence of taxes decreases effort and accuracy in a repeated labor task. However, people who favor both redistribution and government intervention are actually motivated by the presence of a tax, resulting in increased productivity and earnings. Briers, Wertenbroch, and Riley examine how people’s redistribution preferences affect consumption behavior. Specifically, they posit that people who favor less rather than more fiscal redistribution are more inclined to perceive and display status consumption as a meaningful signal because they consider income to be more deserved, that is, because they have a stronger belief in a just world.

The objective of the session is to broaden the scope of consumer research into the political and macroeconomic realm, by linking theories from economics and social psychology to derive implications for consumer behavior in its social context. Because the papers in the session address key questions in the current political, public, and academic debate of (in)equality and social justice, we expect it draw a large and diverse audience of consumer researchers. In turn, we hope this session will foster further scientific efforts that will contribute to such debate with novel angles. The papers have experienced consumer researchers as authors and/or presenters, which may also help increase the visibility of the session. All empirical studies described in this session proposal are complete.

Desired Fruits of Labor? Culture, Just-World Beliefs, and Preferences for Redistributive Incentive Schemes

EXTENDED ABSTRACT

Until recently, managers and business leaders have tended to assume that organizational reward systems are equally acceptable around the world. However, several recent high-profile failures highlight the potential hazards of applying a “one-size-fits-all” reward system around the world. For example, the failure of Wal-Mart’s entry into Germany has been attributed in part to its unwillingness to embrace egalitarian German wage-setting practices (Knorr and Arndt 2003). Similarly, the Lincoln Electric Company, the subject of the best-selling Harvard Business School case study, failed initially when it tried to expand abroad from the U.S. The CEO said executives had mistakenly assumed that all cultures would be equally receptive to the company’s performance pay system (Hastings 1999). The cultural acceptability of these systems, especially of “high-powered,” individual performance incentives (Lazear 2000), is also of increasing relevance in the context of growing income inequality (Plender 2012). Thus, the French government recently discussed limiting top executive salaries in state-controlled companies from exceeding those of the lowest-paid employees to a ratio of 20:1. What makes different incentive schemes more or less preferable in different cultures?

We identify a particular psychological mechanism, linking cultural variations in social preferences for egalitarian versus performance-based compensation schemes to beliefs about the relationship between effort and success. Building on recent economic research on preferences for fiscal redistribution, we propose that cultural differences in preferences for compensation schemes are at least partly driven by cultural differences in “just-world beliefs” (JWBs, e.g., LeRer 1980). JWBs refer to individuals’ general beliefs about whether the world is a fair place where people largely get what they deserve. In cultures where JWBs are relatively strong and the typical individual is seen to generally get what s/he deserves, performance-based compensation should be seen as fair and compensation schemes should be relatively motivating and desirable for employees. Thus, Lincoln Electric’s reward system in the United States, a country relatively high in JWBs (e.g., Bénabou and Tirole, 2006), reflects James Lincoln’s philosophy that each worker “must have a reward that he feels is commensurate with his contribution” (Lincoln 1951, p. 33)
which is consistent with the country’s dominant cultural ethos. In contrast, in cultures where JWBs are weaker and the link between effort and performance is generally believed to be more tenuous, more equal payment schemes should be seen as fairer and thus more preferred. Thus, in Europe, where JWBs are lower overall and where Lincoln stumbled, performance-based incentives were less successful. There, compensation practices are more regimented due to widespread collective bargaining (e.g., Flanagan 1999), which leads to wage compression (e.g., Kahn, 2000). This wage compression weakens the link between an individual’s reward and her contribution and makes compensation inherently more redistributive than a system that aims to match wages and productivity.

An impact of JWBs on cultural differences in organizational reward systems and preferences for incentive schemes has not been noted in the literature. In hypothesizing an effect of JWBs on these preferences, we leverage recent cross-national analyses in economics of a link between JWBs and attitudes towards redistribution in the context of taxation and social spending (e.g., Alesina and Angeletos, 2005; Bénabou and Tirole, 2006). We build on the structural similarity between tax-based, fiscal redistribution and organizational incentive schemes, both of which can be designed to reward the results of individual performance (by taxing higher incomes at relatively low rates or by paying performance-based wages) or to redistribute them across group members (by taxing higher incomes at relatively high rates or by paying more equal wages for different degrees of performance). Based on this similarity between tax- and wage-based redistribution, we propose that cultural differences in JWBs impact preferences for more or less redistributive individual compensation schemes much like they impact preferences for more or less fiscal redistributive tax policies. Study 1 demonstrated a general correlation between the JWBs of a culturally diverse sample of former managers (measured with items from Rubin and Peplau 1975) and their preferences for performance pay on an individual task, controlling for expected task performance. Study 2 showed that American participants had stronger preferences for individual performance pay in an experimental task (controlling for task performance) and for lower general tax rates than French participants and that these differences were mediated by JWBs. Study 3 held culture constant in a moderation-of-process design and replicated these effects by experimentally manipulating instead of measuring JWBs, demonstrating the causal effect of JWBs on preferences for performance based reward systems while controlling for possible differences in cultural value systems (e.g., Siegel and Larson, 2009, on the role of egalitarian value systems; Tosi and Greckhamer, 2004, on the role of Hofstede’s, 1980, power-distance and individualism).

In the current political and social debate about growing income inequality in countries around the world, our research provides guidance to policy makers and executives in gauging the cultural acceptability of different tax regimes and pay practices. We demonstrate that cultural variations in fundamental social beliefs about the causes of individual performance and success—about “how the world works”—are responsible not only for cultural variations in preferences for fiscal redistribution but also for redistributive reward systems.

Spreading the Health: Americans’ Estimated and Ideal Distributions of Death and Health(care)

EXTENDED ABSTRACT

Recent debates in the United States about universal health care—with some viewing the 2010 Patient Protection and Affordable Care Act (or “Obamacare”) as a moral imperative but others viewing it a government intrusion—have highlighted differences in opinion about how the costs and benefits of health care should be distributed among poor and rich Americans. Using two metrics—life expectancy and access to healthcare—we sought to measure people’s understanding of how health is currently distributed among Americans, as well as assess their preferences for how health should be distributed. We then compared these estimates to the actual distribution. Importantly, we also explored whether Americans from across the political and income spectrums (rich and poor, liberal and conservative) showed consensus in their ideals.

415 Americans (58% female; age range: 18 to 74) estimated the distribution of outcomes for Americans in each of the five income quintiles in two domains: a) unmet need for prescription medications (unable to obtain prescription medication due to cost in the previous year) and b) gains in life expectancy (average increase in the number of months people lived over the previous 20 years). Respondents also reported their ideal distributions of death and healthcare—how they thought each should be distributed among Americans. These estimated and ideal distributions were then compared with the actual distributions.

Respondents’ estimated distributions of unmet need for prescription medications as a function of income were fairly accurate. However, respondents underestimated the extent to which gains in life expectancy were concentrated among the wealthy and overestimated the extent to which gains in life expectancy were shared by the poor. Most importantly, estimated and ideal distributions differed significantly on both dimensions—unmet need for prescription medications and gains in life expectancy—such that respondents wanted these health outcomes to be spread more evenly among the rich and poor than they estimated them to be. Female, Democrats and lower income respondents preferred more equal health distributions compared to Male, Republicans and higher income respondents, respectively (p<0.05 for all the comparisons). However, all respondents—male and female, rich and poor, conservative and liberal—desired more equal distributions of health outcomes than the current actual distributions in the United States.

In sum, estimated and ideal distributions of health and healthcare differ significantly, suggesting that Americans across the political and economic spectrum would prefer health and healthcare to be more equally distributed among the rich and poor.

The Effect of Income Tax on the Motivation to Work Depends on People's Cultural Philosophies

EXTENDED ABSTRACT

When income is based on effort and performance, daily decisions about how much and how hard to work can add up to influence one’s financial well-being. We investigate how income tax influences the decision to work. Some have famously promised to exit the labor force in response to income tax. For example, many Tea Party enthusiasts have considered “going Galt” (quitting their jobs to reduce the amount of income tax the government can collect), inspired by Atlas Shrugged protagonist John Galt. However, despite decades of empirical research, economists have yet to reach a consensus on how income taxes influence labor force participation (Keane 2011). The lack of a definitive answer may be due to the conflicting effects of income tax posed by neoclassical economic theory. Income taxes make leisure relatively less expensive (substitution effects), but also make people poorer, producing a greater need to work (income effects).

Beyond income and substitution effects, income tax may impose psychological costs that influence labor force participation. Although people across the political spectrum prefer a more equi-
table distribution of wealth than currently exists in the United States (Norton and Ariely 2011), the interventions required to achieve that more equitable distribution (e.g., income tax) may be psychologically aversive to many.

To examine the psychology of taxation, some previous experimental research has investigated the effects of the mere presence of taxation (taxation that did not reduce net wages or increase consumer prices, and thus, from an economic perspective, should not influence behavior). Some studies have found that taxes are more aversive than comparable non-tax price increases (Hardisty, Johnson, and Weber 2010; Sussman and Olivola 2011), whereas others have found that people respond positively to taxes (e.g., Djanali and Sheehan-Connor 2012).

We propose that an important source of the mixed results is heterogeneity in what Kahan (2012) and colleagues refer to as “cultural philosophies.” Taxes involve both redistribution and government intervention, and thus the extent to which people find inequality aversive and endorse government intervention are likely to be influential. Such cultural philosophies are separable (correlated but distinct), stable, and differ widely across individuals. Regarding inequality, “Egalitarians” find it distressing, whereas “Hierarchs” are comfortable with existing levels of inequality. Regarding government intervention, “Communitarians” believe that it is needed to protect citizens, whereas “Individualists” object to government intervention.

To examine whether cultural philosophies influence reactions to income tax, we conducted a multi-round, incentive-compatible labor experiment in which we controlled for net wages. From a normative perspective, the presence of taxation that does not affect net wages should not influence productivity (persistence and accuracy). Psychologically, however, taxes may be irritating enough to forgo income unless people favor both redistribution and government intervention. As a result, the mere presence of taxation may reduce productivity among everyone except Egalitarian-Communitarians, who may actually be motivated by income taxes.

In our experiment, participants were given the opportunity to earn money by performing a tedious task. In each round, participants counted the number of zeros that appeared in a matrix of zeros and ones (cf. Abeler et al. 2011). Participants were assigned to a No Tax or Tax condition. In the No Tax condition, participants were paid 20 cents per acceptable response (a response within ± 1 of the correct response). In the Tax condition, participants were paid 40 cents per acceptable response, and 20 cents in tax was immediately deducted. The tax was redistributive: participants were told that their taxes would go to “students who participate in different studies with different tasks that do not allow participants to earn money themselves.” A paycheck, indicating their pay-rate and net pay for that round, appeared at the end of each round. Participants were told they could stop working at any time, and (unbeknownst to participants), they could complete up to 20 rounds. At the end of the study, following several filler items, participants completed the short form of the Cultural Cognition WorldView scales (Kahan et al. 2011). Our manipulation did not influence responses to these trait scales.

Overall, we found that taxed participants earned significantly less than non-taxed participants (even though taxes, by design, did not influence net wages). This was driven by taxed participants’ greater tendency to make more mistakes and to quit sooner. However, as predicted, we also found a three-way interaction between condition, communitarianism, and egalitarianism. Among Egalitarian-Communitarians, the mere presence of tax increased persistence, accuracy, and earnings.

The results raise the possibility that populations that include a high proportion of Egalitarian-Communitarians may be less resistant to income tax. To address this question, we compared state-by-state responses to the 2010-2012 ANES Evaluations of Government and Society Study (EGSS) with state income tax rates (a proxy for resistance to income tax). The EGSS uses a representative U.S. sample and measures respondents’ state of residence. The EGSS includes nine items that capture Egalitarian/Hierarchical philosophies (e.g., “When women demand equality these days, they are actually seeking special favors.”) and three items that capture Communitarian/Individualist philosophies (e.g., “How much of the time do you think you can trust the federal government in Washington DC to do what is right?”). (In a pre-test, these EGSS subscales correlated strongly with the Kahan et al. (2011) subscales.) We averaged responses on the two subscales among respondents in each state, and then ran two regressions. In the first, we regressed the lowest income tax rate in each state on average Egalitarian/Hierarchical responses within the state, average Communitarian/Individualist responses within the state, and their interaction. The second regression utilized the highest income tax rate in each state as the dependent measure. As predicted, each regression revealed a significant interaction between egalitarianism and communitarianism: State income taxes were highest in states that were highest in both egalitarianism and communitarianism, and clearly lower elsewhere.

Taken together, the results suggest that income tax may generally reduce productivity, unless the population enduring the tax has a large proportion of Egalitarian-Communitarians. Such populations may support high income tax and work harder when income taxes are high.

Conspicuous Consumption Reflects How Redistribution Influences Perceived Social Justice

**EXTENDED ABSTRACT**

The market-based economies in the United States and Western Europe face what has been called a crisis of legitimacy. At the heart of this crisis lie questions about the extent to which unequal rewards and the resulting inequality of incomes in society are justified and deserved. The wealth gap between the top one percent of U.S. earners and the rest of society has more than doubled in the last 20 years (The Economist 2011), while growth rates of Western economies have slowed. Among calls for increasing taxes on higher earners to reduce income inequality and fiscal debt, policy makers have to stimulate consumer spending. To inform this debate, we examine whether perceptions of, and preferences for, status consumption as a reliable signal depend on redistribution preferences and their mutual association with just-world beliefs (BJW; Lerner 1980), specifically beliefs about how deserved variations in people’s income are.

Status consumption, also conspicuous consumption (Veblen 1899), is a meaningful signal of status only when it involves exerting effort or incurring other costs to obtain the signalled status (Grafen 1990; Miller 2009; Spence 2002). For example, Nelissen and Meijers (2011) found that the social benefits of wearing conspicuous clothing disappear when participants are aware that the clothes are not the beneficiary’s own, that is, when the beneficiary did not pay for the clothes. Status—and conspicuous consumption as a signal of status—is not meaningful when it is undeserved, that is, when it does not reflect exerted effort (Drèze and Nunes 2009).

The degree to which effort is a source of success reflects Lerner’s (1980) theory of the Belief in a Just World (BJW; Alesina and Angeletos 2005; Bénabou and Tirole 2006). BJW refers to the belief that individuals are responsible for their own fate and therefore generally receive what they deserve. Although it is highly functional to believe that individual outcomes are the predictable consequences of
people’s behaviors (Lerner 1980), everyday life as well as statistical data often belie that belief. For example, Hochschild (1982) finds no difference in the effort invested by the top and bottom percentiles of earners, suggesting that hard work is not (highly) correlated with high income (Alesina and Glaeser 2004; Lerner 1980).

Alesina and Angeletos (2005) and Bénabou and Tirole (2006) model how beliefs about the role of effort as a determinant of individuals’ success yield societal preferences for fiscal redistribution to reduce income inequality. A dominant social belief that individual economic success is highly correlated with personal agency and thus deserved (high BJW) yields regimes with relatively low redistribution, whereas a dominant belief that success is not (always) deserved (low BJW) yields regimes with relatively high redistribution. In turn, the resulting redistribution regimes also shape consumers’ BJW and perceptions of deservedness (Alesina and Angeletos 2005; Bénabou and Tirole 2006).

We build on these reciprocal effects between just-world beliefs and redistribution to investigate how redistribution-driven perceptions of deservedness manifest in status consumption. If people in favor of lower redistribution tend to have a stronger BJW and thus a stronger belief that people’s income is deserved, they should place more value on conspicuous consumption as a meaningful signal of deserved status. Alternately, if people in favor of more redistribution tend to have a weaker BJW and thus a weaker belief that people’s income is deserved, they should value conspicuous consumption less as a meaningful signal of deserved status. We thus hypothesize that a preference for lower (higher) redistribution leads to a higher (lower) value of status consumption, and that this effect is driven by BJW.

Data from two experiments and a national consumer survey support this hypothesis.

In Study 1, we directly tested whether manipulated redistribution attitudes affect the perceived deservedness of conspicuous consumption. The results indicate that people with a preference for lower (higher) redistribution are more likely to interpret conspicuous consumption as a signal of deserved status. In Study 2, we then explored the mediating mechanism with a national panel survey that measured consumers’ attitudes toward taxation, their BJW, and their value of possessions as a signal of success. It is shown that consumers’ attitudes toward taxation affect their value of possessions as a signal of success and that this effect is driven by BJW. The correlational results of Study 2 are replicated in Study 3 in which manipulated attitudes toward redistribution via taxation are proven to affect preferences for conspicuous yet not for inconspicuous consumption (Griskevicius et al. 2007), again driven by BJW.

Our work adds to recent research that has begun to examine consumption behavior in its political and macroeconomic context (Cutright et al. 2011). Our contribution is threefold. First, we offer a theory of conspicuous consumption that extends beyond mere status signaling by linking it with recent economic theories of redistribution and beliefs about social justice (Alesina and Angeletos 2005; Bénabou and Tirole 2006). Thus, we show that beliefs about the causes of (in)equality, not just actual inequality (Christen and Morgan 2005) or equality (Ordabayeva and Chandon 2011), influence consumer spending. Second, by shedding light on the effects of redistribution on specific types of consumption, our theory adds a new facet to research on the complex and often contradictory effects of taxation on consumer spending and on the economy (Feldstein and Elmendorf 1990; Romer and Romer 2010). Third, we present initial experimental evidence that redistribution can undermine consumers’ fundamental social beliefs, such as whether hard work results in deserved material wealth, a notion of major motivational importance in society and a key aspect of the American Dream.

REFERENCES


