Croyances Collectives : Organisations, Marchés Financiers et Idéologies Politiques

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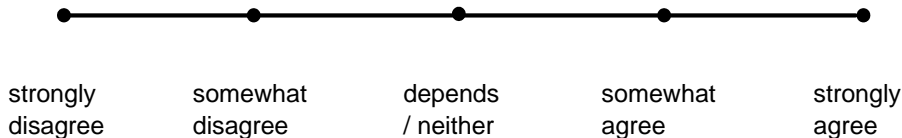Basé en partie sur des travaux joints avec Jean Tirole

Lecture I

- Individual beliefs about self (heath, intelligence, beauty, honesty) and environment (future returns on assets, business performance, deservedness of others), and how they respond to information, reflect a variable mix of:

  - ▸ Standard Bayesian rationality

    though often with cognitive limits: biases and heuristics

  - ▸ Psychological needs / mechanisms:

    - Demand side: arise in response to functional or affective needs

    - Supply side: reflect workings of attention, interpretation, memory processes

- The factors can be modeled, measured, experimentally varied

- Combination of methods: surveys, experiments in lab and field, neuro, mathematical modeling, empirical studies on large datasets⇒

- Evidence shows that beliefs are neither fully responsive to data, nor rigidly fixed by either cognitive heuristics or social determinants. Instead, model...

Main predictions and findings

- Individual beliefs are sensitive to tradeoffs between the costs and benefits (both economic and psychological) of accuracy vs. "desirability":

  - A priori aversion to information: not wanting to know

  - Asymmetric updating and responses to desirable and undesirable news

  - Asymmetric recall of favorable and unfavorable signals

  - Stakes-dependence: belief distortions vary predictably with endowments, strategic interests, opportunities

- Motivated cognition has important consequences for real-world behaviors:

  - Health, business decisions, investments, effort, ethics

- Lecture II: Collective Beliefs

  1. Realism and wishful thinking in "small" groups: firms, teams, governments, public-goods providers, cults. Evidence from NASA, Enron, GM, FED

  2. "Irrational Exuberance" in asset markets. Evidence from finance, housing

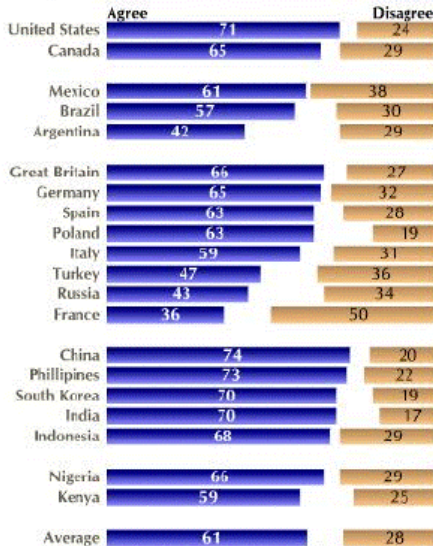 3. Political Ideologies: statism vs. laissez-faire, social-mobility beliefs and redistribution, extremism

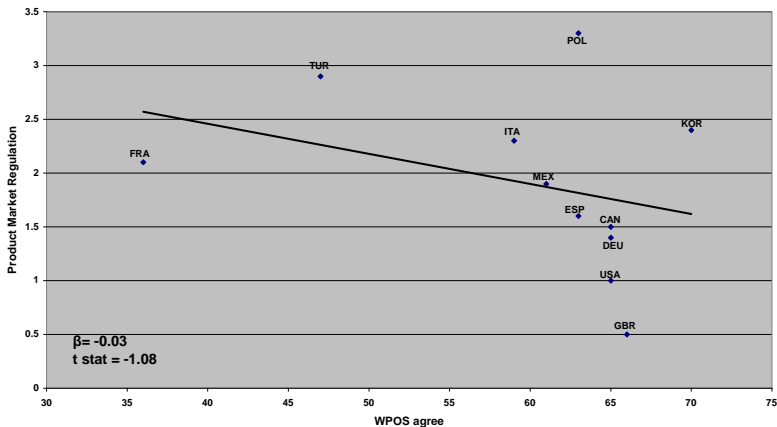*The free enterprise and free market economy is the best system on which to base the future of the world*

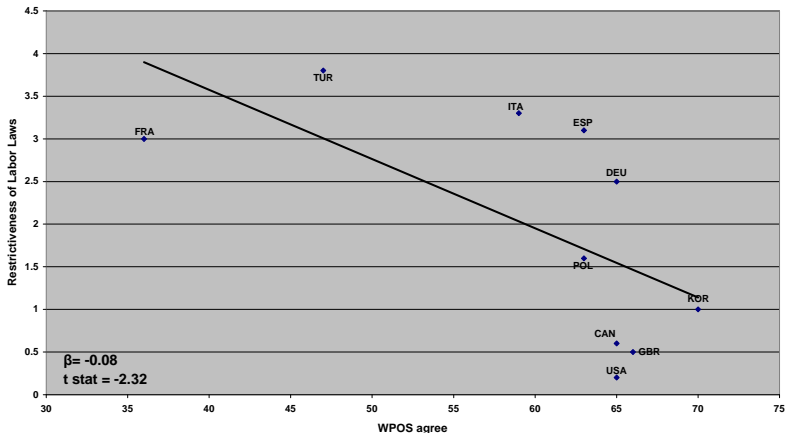| strongly disagree	somewhat disagree	depends / neither	somewhat agree	strongly agree

World Public Opinion Survey (2005)

These belief differences translate into policy differences...
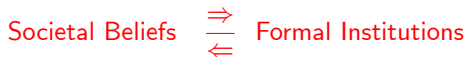

Beliefs and product market regulation

... but where do they come from?

Beliefs and labor market regulation

- Or could it be policies, status quo, that translate into beliefs?
- Persistence, role of history?

Basic idea

Societal Beliefs $\underset{\Leftarrow}{\overset{\Rightarrow}{-}}$ Formal Institutions

- *"The subjective mental constructs of the society's participants will evolve an ideology that not only rationalizes the society's structure but accounts for its poor performance. As a result, the economy will evolve policies that reinforce the existing incentives and organizations"*

  (D. North, economic historian and Nobel, 1990)

Pro-state and pro-market ideologies

- Statist ideology

  1. Beliefs $\Rightarrow$ Institutions. Majority has statist beliefs $\Longrightarrow$ will vote, bring about large public sector, regulations, lasting public capital.

  2. Institutions $\Rrightarrow$ Beliefs. People have strong psychological incentives (stakes) to "rationalize" system they have to live in (anticipatory utility): ignore, dismiss evidence (L) of "government failure," that markets should play larger role

- Laissez-faire ideology

  1. Beliefs $\Rightarrow$ Institutions. Majority has pro-market beliefs $\Longrightarrow$ will vote, bring about minimal public sector, regulations, mostly reliance on private choices and markets.

  2. Institutions $\Rrightarrow$ Beliefs. People have strong psychological incentives (stakes) to "rationalize" system have to live in (anticipatory utility): ignore, dismiss evidence (L) of "market failure," that government should play larger role

- In both cases, similar to a collective version of the Stockholm syndrome. . . with everyone both hostage and hostage-taker

Cues

- Do we see signs of such rationalizations and persistence-inducing feedbacks between ideology and social structure, socioeconomic institutions, policies?

- Laissez-faire: "Capitalism is based on self-interest and self-esteem; it holds integrity and trustworthiness as cardinal virtues and makes them pay off in the marketplace, thus demanding that men survive by means of virtues, not of vices. It is this superlatively moral system that the welfare statists propose to improve upon by means of preventative law, snooping bureaucrats, and the chronic goad of fear." (Alan Greenspan, 1963)

- Statist: "The French Social Model is neither inefficient nor outdated. It has a great ambition which can be expressed simply: permanently to level up. We must keep it. In a way it's our national genius. It is a necessity." (J. Chirac, 2005)
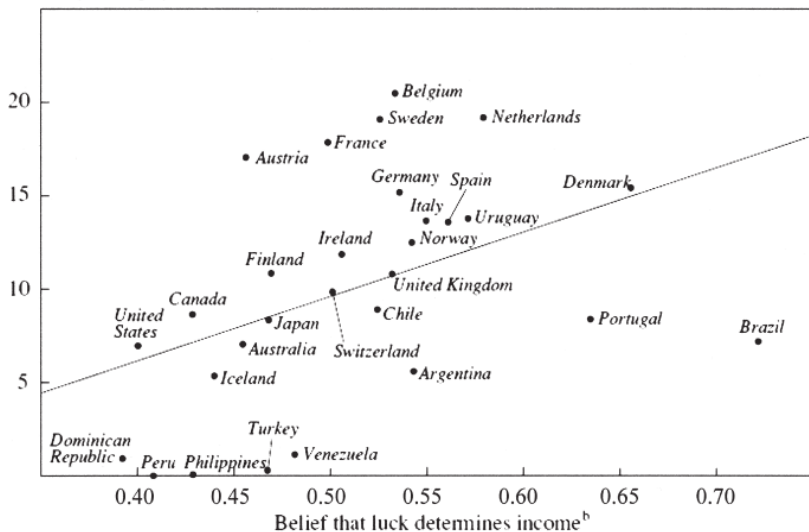
The causes of inequality

- World Values Survey: how much do you agree / disagree, from 1 to 10?

1. Role of effort vs. luck in life:
   1. In the long run, hard work usually brings a better life.
   2. Hard work doesn't generally bring success—it's more a matter of luck and connections.

2. Why are there people in this country who live in need? Here are two opinions: Which comes closest to your view?
   1. They are poor because society treats them unfairly.
   2. They are poor because of laziness and lack of will power.

3. In your opinion, do most poor people in this country have a chance of escaping from poverty, or is there very little chance of escaping?
   1. They have a chance.
   2. There is very little chance.

Luck vs. effort beliefs and redistribution

- Alesina et al. (2005)

Social spending (percent of GDP)[a]

Belief that luck determines income[b]

Within the US

Full Sample (N = 2738)

Legend:
- Believes in Luck
- Believes in Effort
- Low Socio-Econ Status
- High Socio-Econ Status

y-axis: Estimated Probability
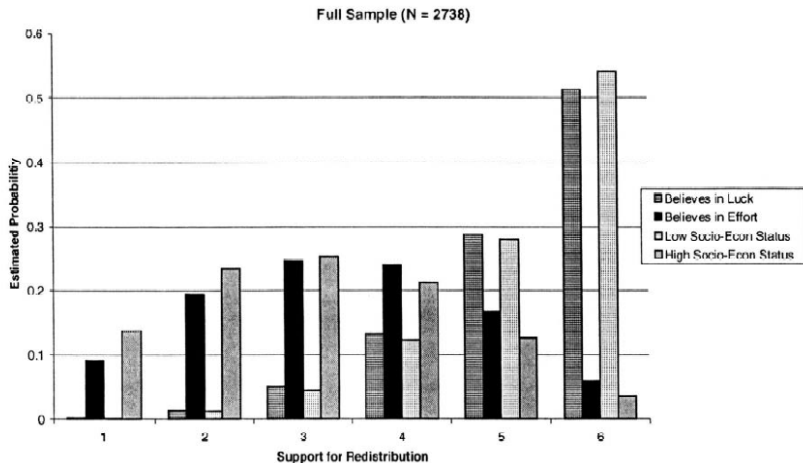
x-axis: Support for Redistribution

Fig. 1. Estimated probabilities for four categories of people.

- Fong (2001)

C. Fong (2001)

- 1998 Gallup Survey, 'Haves and Have-Nots: Perceptions of Fairness & Opportunity," 2738 respondents

$$\text{Support for redistribution} = a + b \cdot \text{Effort or Luck Beliefs}$$
$$+ \ c \cdot \text{(Income, Education)}$$
$$+ \ d \cdot \text{Many Socioeconomic Controls} + \varepsilon$$

- Estimated (marginal) effect of reporting that believes bad luck rather than lack of effort causes poverty are:

  - Twice the effects of being white instead of black, or male instead of female, or having some college education instead of none
  - Larger than effect of having household income above $150,000$ rather than below $10,000$

- "Classical" question in Political Economy: why do many of the poor vote against redistribution / left-wing parties?

  - Focus here on theories linked to beliefs about inequality and mobility

Mobility Beliefs & Redistributional Preferences: Theory

1. **Piketty (QJE 1995):** costly learning-by-doing of return to effort
   - Different countries may end up stuck at $\neq$ beliefs, will choose $\neq$ policies
   - No political economy: voters share social welfare function; mobility exogenous

2. **Benabou-Ok (QJE 2002):** expectations of mobility reduce the poor's demand for redistribution,
   - Even when mobility process is monotonic in expectation, and income distribution remains invariant (steady-state)
   - But: qualitatively insufficient, given risk aversion

3. **Alesina-Angeletos ("Fairness and Redistribution," AER 2005):** Introduce "fairness preferences" - agents want to redistribute only the part of income differences that come from differential investments
   - Multiple self-fulfilling rational expectations equilibria: US high role of effort in mobility, Europe high role of luck
   - Citizens in both countries are correct about mobility process: key to the model –but counterfactual

- Other model of self-fulling beliefs: Aghion-Algan-Cahuc (2009) on trust

Mobility Beliefs & Redistributional Preferences: Theories

4. BT (2006): "Belief in a Just World and Redistributive Politics"

- ▸ "Behavioral" element is beliefs / cognitive dissonance: strong psychological need to believe that people ultimately get what they deserve, and deserve what they get (M. Lerner 1982)

  - ★ Has both affective (reassurance, consolation) and functional (motivation) purposes

- ▸ A lot of experimental evidence: when contrary signals, engage in cognitive dissonance, rationalizations, denial, motivated beliefs: attributing merit for fortuitous rewards, blaming the victim, etc. Related evidence on "Systems Justification" (Jost and Kay).

- ▸ Same tendencies also show up in ethnographical research by sociologists (M. Lamont, J. Hochschild):

  - ★ Substantial cognitive dissonnance, rationalizations of inequality
  - ★ Attributions of success/failure involve key role for "the disciplined self": willpower, or lack thereof

Ethnographic research on the working poor

- Maria, poor cleaning lady interviewed by Hochschild (1981):

  "Once, Maria wonders if executives deserve their \$60,000 annual salary: «I don't think they do all that [much] work, do you? Sit at their desk—they got it easy». But she suppresses the thought immediately. «Well, maybe it is a lot of work. Maybe they have a lot of writing to do, or they have to make sure things go right. So maybe they <u>are</u> deserving of it."

- Lamont (2000) interviews: importance of "the disciplined self."

  - Main reported challenge in the life of the working poor is the daily struggle to "keep it going," to persevere in the face of adversity, lest they share the fate of those around them who are even worse off: welfare dependency, homelessness, crime, substance abuse

  - Often have very harsh judgments on the "underclass," attributing deep poverty in large part to "giving up," "not caring," having "no values," "no direction in life," etc.

Collectively sustained Belief in a Just Word (or not)

- BT 2006: model of ideology and institutions as mutually sustaining:

  1. If many people have BJW, think success is highly dependent on effort ⇒ likely to be a majority or large, politically decisive group ⇒ will vote for and bring about low taxes and transfers, minimal redistribution

  2. When safety net & redistribution are minimal, people have strong incentives to maintain, and pass on to children, beliefs that effort pays, must persevere in face of adversity, etc. ⇒ high fraction of voters will have or maintain just-world beliefs

- Conversely:

  1. If most people think income differences are due to luck and connections ⇒ majority will vote for and bring about high taxes, large welfare state

  2. With high taxes and generous transfers, effort and perseverance-enhancing beliefs that everyone ultimately gets what they deserve are much less adaptive ⇒ fewer people will have or transmit such beliefs

Persistent ideology-policy equilibria
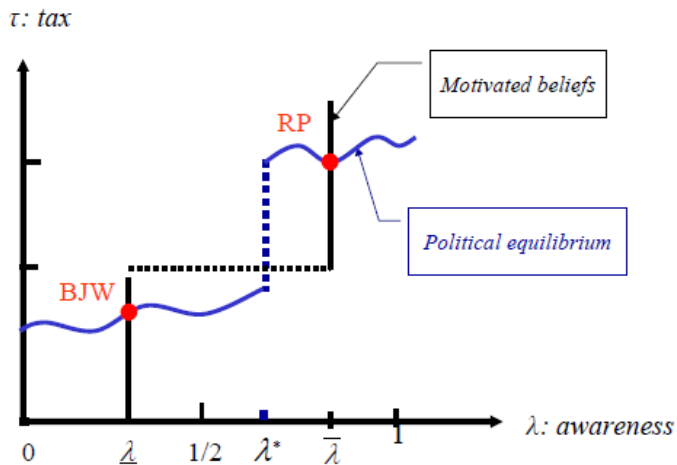
BJW : Belief in a Just World + Laissez-Faire Equilibrium   [US]

RP: Realistic Pessimism + Welfare State Equilibrium.   [Europe]

Societal beliefs ⇄ Institutions

D. North (1990):

- "Ideas and Ideologies shape the subjective mental constructs that individuals use to interpret the world around them and make choices. Moreover, by structuring the interaction of human beings in certain ways, formal institutions affect the price we pay for our actions, and to the degree the formal institutions are deliberately or accidentally structured to lower the price of acting on one's ideas, they provide the freedom to individuals to incorporate their ideas and ideologies into the choices they make." ...

- The subjective mental constructs of the society's participants will evolve an ideology that not only rationalizes the society's structure but accounts for its poor performance. As a result the economy will evolve policies that reinforce the existing incentives and organizations"

Main Results

- "American Dream" equilibrium, with excessively optimistic, just-world beliefs about social mobility, and little redistribution

- "Europessimistic" equilibrium, with more realistic or even excessively pessimistic beliefs about social mobility, and high redistribution

- Moreover:
  - In the former, the poor are more (unjustly) stigmatized as lazy
  - In the latter, total effort (e.g., hours worked) and income are lower

- Across all equilibria (can be > 2) : negative correlation between just-world beliefs and size and welfare state –as observed across countries

Mobility Beliefs & Redistributional Preferences: Evidence

- Alesina, Stantcheva and Teso (2017) "Intergenerational Mobility and Preferences For Redistribution"

1. Compare perceived and actual upward mobility (bottom quintile $Q1 \rightsquigarrow Q_k$), across 5 OECD countries

   - Both absolute, and conditional on effort or talent
   - Large online survey + actual data on social mobility

2. Online experiment

   - Randomly induce perceptions that mobility is very low (first stage)
   - Examine treatment effects on attitudes toward various forms / programs of redistribution: targeting equality of opportunity vs. equality of outcomes.
   - Large sample ($n \approx 2800$), no deception, no incentives - just stated attitudes
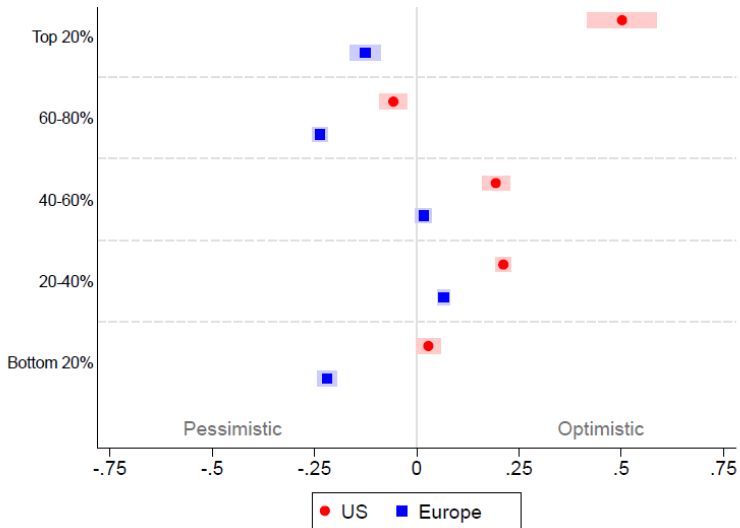
Perceived vs. Actual Intergenerational Mobility

FIGURE 2: MOBILITY MISPERCEPTIONS

(a) All countries

Pessimistic — Optimistic

Legend: ● US ◆ UK ▲ Italy ■ France ✕ Sweden
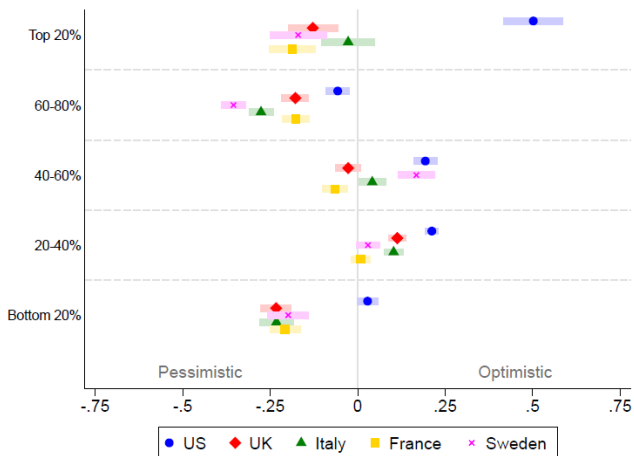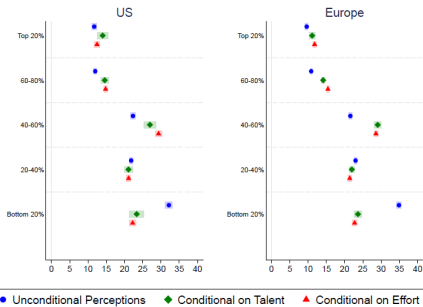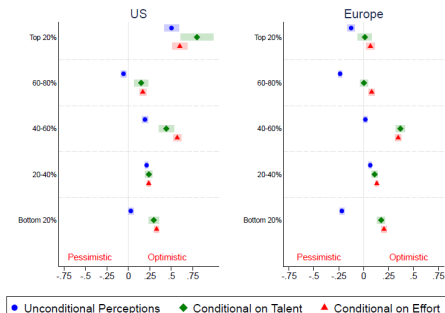
(b) US versus Europe

(a) Perceptions — (b) Misperceptions

- Key finding: Americans overoptimistic about mobility, Europeans pessimistic
  - ▸ Matches exactly the main prediction in Bénabou-Tirole QJE 2006
  - ▸ Not multiple rational expectations account in Alesina-Angeletos AER 2005

⇒ Points in the direction of Behavioral Political Economy / Political Psychology

Experiment: Perceptions of Mobility

TABLE 12: FIRST STAGE EFFECTS ON MOBILITY PERCEPTIONS

	Q1 to Q1 (1)	Q1 to Q2 (2)	Q1 to Q3 (3)	Q1 to Q4 (4)	Q1 to Q5 (5)	Q1 to Q4 (Qual.) (6)	Q1 to Q5 (Qual.) (7)	American Dream Alive (8)
All Respondents								
Treated	9.691***	-2.123***	-5.885***	-1.806***	0.123	-0.105***	-0.085***	-0.031***
	(0.560)	(0.278)	(0.304)	(0.201)	(0.344)	(0.010)	(0.009)	(0.009)
Control mean	34.17	22.63	22.23	10.76	10.21	0.38	0.27	0.36
Obs.	8585	8585	8585	8585	8585	8585	8585	8585
Left-Wing Respondents								
Treated	10.170***	-2.117***	-6.076***	-2.052***	0.076	-0.092***	-0.069***	-0.011
	(0.999)	(0.506)	(0.507)	(0.339)	(0.604)	(0.016)	(0.014)	(0.015)
Control mean	37.48	23.01	20.71	9.70	9.11	0.30	0.20	0.24
Obs.	2797	2797	2797	2797	2797	2797	2797	2797
Right-Wing Respondents								
Treated	11.267***	-2.211***	-6.247***	-2.259***	-0.551	-0.135***	-0.097***	-0.046***
	(0.964)	(0.479)	(0.555)	(0.350)	(0.582)	(0.018)	(0.016)	(0.016)
Control mean	32.39	22.84	23.37	11.16	10.24	0.43	0.29	0.46
Obs.	2808	2808	2808	2808	2808	2808	2808	2808

Notes: The outcome variables are all as defined in Table 3 (columns 1-7), and in Table 5 (column 8). All regressions include the same controls of Table 10. "Left-Wing Respondents" and "Right-Wing Respondents" are defined as in Table 10. "Control mean" is the mean of the outcome variable in the control group. Standard errors in parentheses. $^{*}p < 0.1,^{**}p < 0.05,^{***}p < 0.01$

TABLE 14: TREATMENT EFFECTS ON POLICY PREFERENCES

	Budget Education > p(80) (1)	Budget Health > p(80) (2)	Budget Opp. > p(80) (3)	Budget Safety Net > p(80) (4)	High Government Interv. (5)	High Support Equal Pol. (6)	Tax Rate Top 1 > p(80) (7)	Tax Rate Bottom 50 > p(80) (8)	Support Estate Tax (9)	Unequal Opp. Very Serious Problem (10)	Government Tools (11)	Trust Government (12)
All Respondents												
Treated	0.009	0.016**	0.014*	0.008	0.004	0.028***	0.007	0.013	0.015	0.046***	-0.017	-0.018*
	(0.007)	(0.007)	(0.008)	(0.006)	(0.010)	(0.009)	(0.009)	(0.009)	(0.010)	(0.013)	(0.013)	(0.011)
Control mean	0.13	0.12	0.16	0.07	0.48	0.23	0.18	0.17	0.58	0.23	0.72	0.19
Obs.	8585	8585	8585	8585	8585	8585	6851	6851	8584	4281	4281	4281
Left-Wing Respondents												
Treated	0.031***	0.042***	0.036**	-0.005	0.048***	0.047**	0.007	0.007	0.014	0.104***	-0.009	-0.029
	(0.014)	(0.013)	(0.015)	(0.011)	(0.018)	(0.019)	(0.017)	(0.014)	(0.017)	(0.026)	(0.021)	(0.020)
Control mean	0.14	0.13	0.20	0.09	0.63	0.38	0.22	0.13	0.71	0.33	0.79	0.21
Obs.	2797	2797	2797	2797	2797	2797	2309	2309	2797	1391	1391	1391
Right-Wing Respondents												
Treated	-0.003	0.010	-0.000	0.010	0.006	0.017	0.008	-0.005	0.012	0.017	-0.050**	-0.014
	(0.012)	(0.012)	(0.013)	(0.009)	(0.017)	(0.013)	(0.015)	(0.017)	(0.018)	(0.019)	(0.025)	(0.019)
Control mean	0.12	0.12	0.14	0.05	0.36	0.13	0.15	0.22	0.42	0.15	0.65	0.19
Obs.	2808	2808	2808	2808	2808	2808	2282	2282	2808	1442	1442	1442

Notes: The budget outcomes are indicators equal to one if the share of budget allocated to the specific category is above the 80th percentile in the variable distribution. *High Government Intervention* is an indicator equal to one if the respondent has a high support for government intervention to improve opportunities. *High Support Equal Pol.* is an indicator equal to one if the respondent strongly supports increasing policies to equalize opportunities. The tax rates outcomes are indicators equal to one if the respondent's preferred income tax rate for the specific income group is above the 80th percentile in the variable distribution within her country. *Support Estate Tax* is defined as in Table 9. *Unequal Opp. Very Serious Problem* is a dummy equal to one if the respondent believes that if children from poor and rich families have unequal opportunities this is a very serious problem. *Government Tools* and *Trust Government* are defined as in Table 8. All regressions include the same controls of Table 10. "Left-Wing Respondents" and "Right-Wing Respondents" are defined as in Table 10. "Control mean" is the mean of the outcome variable in the control group. Standard errors in parentheses. *$p < 0.1$,** $p < 0.05$,*** $p < 0.01$

- Key finding: When made (exogenously) pessimistic about mobility:
  - Left-wingers become more favorable to redistribution, esp. for Equ. of Opp.
  - Right-wingers don't change their minds

Overconfidence and Extremist Political Beliefs

- Increasing polarization of political opinions within most countries
  - ▸ Even though everyone has easier access to much more information

- Ortoleva and Snowberg (2015) "Overconfidence in Political Behavior"

1. Model: voters suffer from "correlation neglect":fail to take account that observations obtained from their local environment, social network and chosen information sources are largely redundant $\Rightarrow$ "double counting"
   - ▸ Exogenous distribution of such cognitive biases. The greater one's bias, the more overconfident, and the more signals one has, the more so!

2. Empirics: representative sample of over 3,000 American adults were asked:
   - ▸ Standard socio-demographic and political-survey questions
   - ▸ To provide their estimates and degrees of confidence for current and next year's rates of inflation and unemployment

     Also use other neutral questions: birth year of Shakespeare, etc.
   - ▸ Can then construct over/underconfidence measure. .
   - ▸ For subsample, can check their actual voting turnout in elections

TABLE 3—OVERCONFIDENCE IS ROBUSTLY RELATED TO IDEOLOGY AND EXTREMENESS

	Ideology			Ideological extremeness purged of economic controls		
Overconfidence	0.22***	0.22***	0.20***	0.23***	0.17***	0.12***
	(0.027)	(0.023)	(0.023)	(0.028)	(0.027)	(0.026)
Economic controls		Yes	Yes		Yes	Yes
Number of signals			Yes			Yes
R^2	0.048	0.16	0.23	0.055	0.19	0.29
Observations			2,868			

- Shows: even controlling for socioeconomic characteristics, more overconfident people are also more politically extreme, on both Left and Right

- Also: the more overconfident are more likely to turn out to vote

TABLE 4—OVERCONFIDENCE IS A SUBSTANTIVELY IMPORTANT PREDICTOR
OF IDEOLOGY AND IDEOLOGICAL EXTREMENESS

A one standard deviation change in _____ is associated with	A ___ standard deviation change in ideology, and		A ___ standard deviation change in extremeness	
	Minimum	Maximum	Minimum	Maximum
Income	0.06	0.08	0.01	0.28
Education	0.10	0.20	< 0.01	0.25
Union member	0.01	0.07	< 0.01	0.08
Home owner	0.02	0.17	< 0.01	0.15
Stock owner	0.06	0.14	< 0.01	0.27
Overconfidence	0.17	0.24	0.12	0.26

Notes: The minimum and maximum effect size come from regressions with no other variables, and all other variables, respectively, across the three different measures of ideology and extremeness. These specifications can be found in the online Appendix. For the controls, we consider extremeness measures both that have, and have not, been purged of the economic effect on ideology. Effect sizes for categorical variables are based on entering them linearly in regressions.

Not about limited information, "rational" inattention...

- The more exposure to media (self-reported, or/and age), has the more individual will be: (1) overconfident and (2) politically extreme
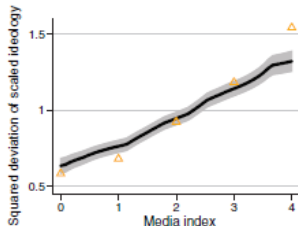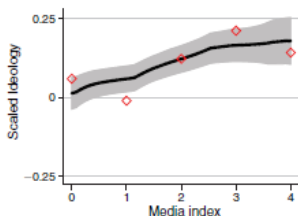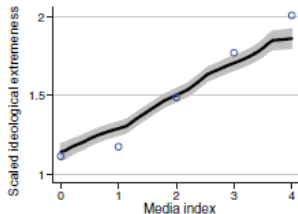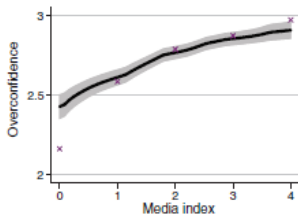
Models of Extremist Beliefs

- Ortoleva and Snowberg: voters suffer from "correlation neglect":fail to take account that observations obtained from their local environment, social network and chosen information sources are largely redundant.

  - Exogenous distribution of such cognitive biases. The greater the bias, the more overconfident, and the more signals one has, the more so
  - More biased (correlation-neglecting) people, in turn, acquire more signals

- Where could the correlation neglect arise from?

  - Wired-in bias, personality trait. Substantial experimental evidence for correlation neglect. Alternatively: endogenous (or endogenously amplified)

- Le Yaouanq (2015) incorporates political-preference heterogeneity into BT 2006 model of motivated political cognition $\implies$

  - More politically extremist agents (higher stakes) are more prone to engage in reality denial $\Rightarrow$ end up more politically overconfident
  - When people can form networks in which political views will be exchanged, ideological homophily will tend to prevail, increasing collective biases and polarization (Della Vigna and Kaplan 2007; Gentzkow and Shapiro 2011).

Political Ideology

- Endogenous complementarities in motivated cognition also help explain persistent differences across countries in dominant beliefs about:

- Role of effort vs. luck in life, social mobility, merits of laissez-faire versus redistribution: Bénabou-Tirole (QJE 2006).
  - Individual demand for beliefs that "effort pays,", "just deserts", etc. serves to motivate oneself or one's children
  - Model also applies to values for consumption vs. leisure (degree of "materialism") and some key aspects of religion. (e.g., divine rewards and punishments)

- Proper scope / effectiveness of State vs. Market in the financing and delivery of education, health insurance, etc.: Bénabou (JEEA 2009).
  - Individual demand for beliefs consistent with dominant ideology/ policies ("system justification") due to anticipatory utility, MAD principle
  - Besides multiple ideology-policy steady states, yields history-dependent dynamics, via stocks of public vs. private capital.

Political Ideology: Going Further

- Le Yaouanq (2016): adds within-country heterogeneity of preferences $\Rightarrow$ also of beliefs (stakes dependence)

  - Agents with more extreme preferences engage in more cognitive distortion, so end up more overconfident in their opinions. Matches evidence by Ortoleva and Snowberg (2015a,b)

- Levy (JPubE 2014): adds politicians whose willingness to engage in costly reform depends + feeds back on the extent to which voters accept to face bad news

  - Yields realistic + "soothing politics" (or: "[voters] don't ask - [politicians] don't tell" about impending problems) equilibria

Main results and implications - collective beliefs

1. **MAD principle:** denial is contagious when it is socially harmful.

2. Collective realism and collective wishful thinking as equilibrium cultures in firms, organizations. Group morale vs. groupthink.

3. **Hierarchies:** cognitive strategies and hence beliefs trickle down from leaders to subordinates

4. **Cassandra's curse:** ex ante vs. ex post treatment of dissenting speech, implying need for "constitutional" guarantees.

5. **Market frenzies and crashes:** contagious wishful thinking about prices, fundamentals.

6. **Ideology:** national beliefs about, e.g., compared virtues of laissez-faire versus redistribution, or state vs. markets in financing/delivery of education, health insurance, etc. Feedback is through voting.