

## Chapter 1

# The Consumer Logic of Taxing, Spending and Voting

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*This is a first draft of the first chapter of my dissertation, which updates the theory that I've been working on for some time and clarifies the stakes of the project. I'd really be curious to hear thoughts about this chapter as a stand-alone argument, as well as possible extensions; but I'm especially curious about the former. As this is a draft, please don't share.*

This dissertation proposes that we can better understand the American voter by remembering that she is also a consumer. It posits that the habits individuals acquire as consumers bleed into their political attitudes and behavior. While the relationship between consumers and voters has been recognized in prior works (Tiebout 1956), the present project draws on contemporary research in consumer psychology and behavior to shed light on how the “consumer” component of the consumer-voter functions. In so doing, it sheds light on several questions that have vexed many social scientists. Why, despite the best predictions of theory (Meltzer and Richard 1981), have citizens not responded to rising inequality by insisting upon increased distribution? Why has America not produced a socialist party akin to those found in similarly industrialized nations (Foner 1984)? What explains the persistent failure of many Americans to vote and express policy preferences in their self-interest (Bartels 2007)? These questions, in turn, orbit around the same, larger question: Why are Americans “anti-government?” My answer, in short: Americans are anti-government because they are “pro”-consumer.

The consumer discussed in this dissertation is neither fully rational nor in possession of complete information. This version squares with recent work (Chetty, Looney and Kroft 2009; Thaler 1985), which portrays the consumer as “boundedly rational,” or engaging in behavior that is suboptimal but nonetheless defensible from the perspective of an agent with limited resources (Simon 1957). By locating the origins of American voters’ bounded rationality in the consumer realm, the project provides further precision to recent research that takes seriously the behavioral challenge to stories of the rational political actor (Bendor et al 2011; Lodge and Tabor 2013).

The idea that Americans rely on their consumer experiences when making political decisions is grounded in intuition and empirical evidence. As one historian put it, after World War II, Americans began to see their society as one “committed to mass consumption” (Cohen 2003). Today, the number of consumer decisions that an individual American faces in any given year at least meets the number of political decisions he or she faces. For citizens having to make complex political decisions, the habits familiar to them from consumer life are useful heuristics. In turn, consumer habits affect citizens’ redistributive preferences and their vote choices.

## 1.1 Consumer Decisions, Political Decisions

Recall the last time you walked into a coffee shop. After walking in, you likely examined the goods for sale, possibly made small talk with the barista, and bought a cup (or did not). Perhaps you consumed the coffee immediately; perhaps you did so shortly thereafter. You evaluated the available goods, made a purchase, and then consumed what you had purchased.

Over the course of the year, a consumer will make many similarly structured decisions. We will define consumer decisions as discrete instances in which an individual chooses to purchase (or not purchase) a good to consume. By consume, we simply mean to use for an end determined by the user. We will define political decisions as discrete instances in which an individual chooses to express (or not) a preference—by talking to friends and relatives, by speaking out in public, by responding to a survey, or by behaving in some way—about a political subject. This definition does not distinguish between “expressive” opinions, or those that are given only when asked for, and “instrumental” actions, which are taken in pursuit of some political end; it accounts for both (Lee 2002). In this dissertation, political subjects include redistributive preferences and vote choice.

In any given year, an individual will likely make more consumer decisions than political ones. This not only appears intuitively true—the number of times one enters a store to shop surely exceeds the number of times one enters a voting booth—but is supported by available empirical evidence. The contrast between the Consumer Expenditure Survey (CES) and the American National Election Study (ANES) is revealing. Sponsored by the Bureau of Labor Statistics, CES is meant to measure the consumer behavior of Americans. The survey includes a diary component in which subjects record their everyday purchases, tallying everything from automobiles to soft drinks. In 2012, the mean subject reported making about 152 purchases over the course of the year. (For details on how this figure was arrived at, consult this chapter’s appendix.) Meanwhile, ANES data from the same year—a presidential election year no less, when political engagement is thought to be at a high-water mark—paint a portrait of an electorate that makes far fewer political decisions than consumer decisions. Only 11% of respondents report donating to a particular candidate’s campaign; only 38% report talking to others, informally, about supporting or opposing a candidate or party; less than 6% report going to a political rally, meeting or speech. When the time horizon is expanded, the picture does not change. When asked about the previous four years, the vast majority of subjects said they had not signed a petition, not given money to a non-religious organization, such as a civic or political one, and not attended a public meeting of their local government (ANES 2012).

To be sure, ANES and CES offer an imprecise comparison. The CES leaves out all non-decisions, when individuals intentionally decide not to purchase a good; non-decisions are more evident in the ANES data. (*A future version of this chapter will present results from a between-subject experiment in which Americans will relay how many consumer or political decisions they make over certain time periods.*) But when comparing like to like—that is, consumer decisions that result in a purchase to political decisions that result in a preference expression—the result is clear. The number of political decisions is vastly outweighed by the number of consumer decisions. And even if we had reason to

believe that political decisions and consumer decisions occurred in roughly equal frequency, this would not change the impulse behind the theory presented. Americans are constantly making consumer decisions. To the best of my knowledge, no work in the literature has tried to account for the relationship between common consumer habits and political decisions.

This chapter is structured as follows. First, by drawing on research across the social sciences, a bird's-eye view of the American consumer is presented. Then, I describe the ways in which consumer and political decisions differ. Next, by building on the consumer literature and keeping in mind the differences between consumer and political decisions, a theory—the Consumer Model of taxing, spending and voting—is sketched out. I then specify what the theory predicts. Finally, I lay out the plan for the rest of the project.

## 1.2 The American Consumer: Fairness and Mental Accounting

American consumers are busy people. Pressed for time, they abide by a version of fairness that does not penalize profit but looks askance at transactions that negatively stand out when compared to similar transactions. To make purchasing decisions, and to calculate fairness, they rely on naive accounting practices that they make in their head and that often deviate from optimal behavior. Kahneman (2011) distinguishes between Type 1 and Type 2 thinking. The first is motivated by impulse and intuition, and tends to make decisions quickly; the second is guided by reason, and its deliberations take longer. Type 1 thinking has a pronounced role in the consumer realm. In two recent field experiments, the mere exposure to consumer decision-making dilemmas induced less materially well-off subjects (on the bottom 50% of the income ladder) to perform less well than their peers on subsequent intelligence tests (Anandi and Mullainathan et al, 2013). If just *thinking* about, say, upcoming car payments can make subjects less measurably intelligent—as Anandi and Mullainathan show—there is little hope for Type 2 thinking among consumers.

Some of the concepts will appear familiar to readers of the political science literature. The consumer versions of these concepts, and of course the consumer applications of them, will likely not.

### 1.2.1 Consumer Fairness

Consumer fairness has little to do with higher-order theories of justice, or with Americans' conceptions of fairness in political contexts (Rawls 1971; Hochschild 1986). Instead, it is grounded in everyday consumer behavior which, with repetition, produces its own norms; the shared etymological origins of norms and normal are instructive in this regard. Scholarship has coalesced around a version of

consumers fairness in which individuals expect the costs they pay to be roughly in line with the costs that firms bear, along with a profit margin that does not exceed the profits they perceive firms in similar contexts to be drawing. When consumers think fairness has not been achieved, they will penalize the unfair firm. Conversely, they are willing to pay higher prices when, contextually, they believe it is fair to do so.

Kahneman, Knetsch and Thaler (1986a) used survey data to show that concerns about fairness effectively prevented firms from maximizing profits. The vast majority of their respondents regarded a firm that would raise shovel prices after a snowstorm as engaging in unfair behavior; the same was true for a car dealership that raised prices for a particularly in demand yet hard-to-come-by automobile. One of their chief contributions was showing that consumers do not reflexively think of profit-making as unfair. In one vignette, survey respondents were told about a landlord whose rising costs forced him to raise the rent on a poor tenant, even though the increase might force the tenant to move. 75% of respondents found the action to be fair. Given certain conditions, consumers do not begrudge firms a profit motive. Respondents viewed salary cuts undertaken by a struggling company as fair, but unfair when undertaken by a profitable company. Ultimately, consumer fairness flows from a *dual entitlement principle* that binds both buyers and sellers. Buyers—consumers—are entitled to a purchase price roughly comparable to a “reference transaction,” or a transaction that recently occurred within both firm and customers’ community or frame of reference. Sellers, meanwhile, are entitled to a profit within the limits of the reference transaction” (Kahneman, Knetsch and Thaler 1986a; Kahneman, Knetsch and Thaler 1986b).

Consumer fairness has been found to hold not just in survey research, but when real money is on the field. The “ultimatum game,” a popular tool in behavioral and experimental economics, offers strong laboratory evidence that fairness matters. In the game, one player unilaterally proposes how to divide a pot of money between himself and another player. If the second player does not accept the first player’s proposal, then neither player receive the money. If fairness did not matter—that is, if players were just maximizing all that they could—then the other player should accept any amount that is offered to him by the proposer. After all, any amount of money is better than no amount of money (Camerer, 2003). And yet, despite theoretical predictions, this sort of behavior is almost never observed (Thaler 1988). Proposers rarely offer the minimal amount possible, and when they do, that offer is usually rejected (Guth, Schmittberger and Schwarze 1982; Guth and Teitz 1990). Indeed, even when analysts think that the role of fairness has been overstated, they nonetheless observe players voluntarily giving up a “nontrivial” portion of their money (Forsythe et al 1994).

Evidence abounds that consumer fairness matters outside the laboratory as well. Consumers weigh

the fairness of a particular price when deciding whether to purchase it (Martins and Monroe 1994). When they feel that a vendor is not being fair, consumers are more likely to be dissatisfied with the good sold, if not outright angry (Oliver and Swann 1989a and b). They are also likely to tell other consumers about the perceived unfairness, leading to negative costs for the vendor (Zeelenberg and Pieters 2004). For their part, vendors are acutely aware of consumers' perceptions about unfairness.<sup>1</sup> Examples testifying to vendors' concerns with fairness are all around us. Why, for example, do events such as concerts and sporting events sell out well before all the demand has been captured and reflected in higher possible prices (Okun 1981; Kahneman, Knetsch and Thaler 1986a)? Why do popular restaurants not engage in "dynamic pricing" and charge extra for reservations during peak hours? In both cases, firms are willfully leaving excess demand—and thus profits—on the table. The likely explanation is that firms anticipate that such actions would generate accusations of unfairness, sowing the seeds of resentment and diminishing future profits. Indeed, recent experimental work has found that consumers do regard dynamic pricing as an unfair practice (Haws and Bearden 2006).<sup>2</sup>

### 1.2.2 Mental Accounting

Underlying consumers' perceptions of fairness is their ability to engage in what Kahneman, Knetsch and Thaler (1986a) termed "naive accounting." Obviously, this kind of accounting does not rely on accurate computations of a firm's costs and profits; rather, it develops via a consumer's ability to sense, without necessarily articulating, the relationship between price and the costs that went into producing a particular good. Early evidence for the importance of naive accounting appears in Thaler (1985). In this paper, he demonstrates when evaluating various hypothetical transactions, consumers are willing to pay more for the same good when the context of the transaction differs. For example, a consumer is willing to spend more on a beer when it is sold by a beachfront resort than by a nondescript liquor store (when all else is held constant). More recent evidence can be found in Bolton and Alba (2006), who find over the course of multiple experiments that, when forming perceptions of fairness, consumers consider the *alignability* of price increases with cost increases. If their naive accounting suggests that a price increase has occurred due to a cost increase, the price increase will be regarded as fair; if price increase cannot be explained by a cost increase, then the increase will be regarded as unfair.

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<sup>1</sup>As employers, vendors also seem aware of fairness concerns, as demonstrated by lower-than-expected drops in wages during recessionary periods (Solow 1980).

<sup>2</sup>Research into the role of fairness in the market helped birth a broader research agenda into the use of other non-pecuniary market motives. Roth (2006) offers a theory of "repugnant markets" to account for the ways throughout history in which various goods and services have been deemed repugnant and thus removed from the marketplace. Slavery was once an above-board market practice; now it is considered repugnant and prohibited. Conversely, money-lending was long regarded as repugnant but is now perfectly legal. Fairness is but one example of how norms can structure decision-making even, and perhaps especially, when those norms lack consistent logical structure.

Naive accounting is naive because it is not conducted formally on a ledger, instead taking place solely in the mind of the consumer, which is why it is also called “mental accounting” (Tversky and Kahneman 1981). Although classical models of consumer behavior assume fungibility, consumers who are engaging in mental accounting do not adhere to this assumption (Heath and Soll 1996; Thaler 1999). Consumers keep different mental accounts for different purposes. A dollar spent (or not spent) at the coffee shop is a dollar not spent (or spent) is likely drawn from an account devoted to similar decisions. For example, a consumer may have different accounts for lunch and rent. Mental accounts are likely to exist on different time horizons, scheduled to be closed out at at different times (Thaler 1999). Mental account is a form of “choice bracketing,” whereby consumers respond to the items they bracket into a particular set while ignoring those items bracketed into other sets. It is precisely the restrictiveness of this bracketing that can result in suboptimal decision-making. For example, a household that keeps strict, separated accounts for necessities and non-necessities may not respond quickly enough to economic downturns (Read, Lowenstein and Rabin 1998).<sup>3</sup>

### 1.2.3 The Determinants of Mental Accounting

#### Salience and Shrouding

Generally, salience refers to the degree to which a characteristic in a decision environment is emphasized, compared to other characteristics in the same decision environment (Taylor and Thompson 1982). A more precise definition is offered in the model articulated by Boradlo Gennaioli and Shleifer (2013). In their model, salient characteristics are those the farthest distance away from the reference good. The reference good is comprised of the average of each characteristic of all goods in the choice set. To increase the salience of price, the coffee shop could do something as subtle as increasing the font size of the price advertised. Likewise, if it wanted to emphasize the salience of critical acclaims, the shop could emphasize the brews that that had garnered the best notices in the local papers. Salience may seem like a too-obvious tool for vendors to deploy; surely consumers are capable of accounting for it in advance, and not reacting reflexively to it. If you walk into a coffee shop planning to buy a medium-roast, but the coffee shop has other plans, you might like to think that you’d to stick to your original plans.

Varying the salience of different features of goods tends to have affects on fairness calculations. For example, Buell and Norton (2011) show that that consumers prefer firms that make salient the effort is being done on their behalf. This is why travel websites such as Kayak.com flip through various websites while searching for fares. They want to make salient the work that is being done on your

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<sup>3</sup>A recent investigation reveals that 89% of subjects engage in narrow bracketing (Rabin and Weizcker 2009).



behalf. In turn, you come to think of the costs you pay as more “fair,” and are willing to pay more. Not all features can be made more salient and make consumers more willing to pay more. For example, Bolton, Warlop and Alba (2006) show that even when a firm’s added non-material costs are made more salient, consumers are unwilling to pay more.

In an especially novel demonstration of salience’s power, Chetty, Looney and Kroft (2009) report results from vendors in California that varied the salience of sales tax of certain goods. For goods in the treatment group, both pre-tax and post-tax prices were included in the price tag on the shelf; control goods’ price tags only showed the pre-tax price. Traditional models of consumer responses to taxation expect the consumer to have incorporated the tax into the decision to purchase (Ramsey 1927). In other words, if a coffee costs \$2 exclusive of a 10% sales tax, the expectation is that a consumer would decide whether to purchase it or not while fully anticipating the \$2.20 post-tax price. Chetty et al found the opposite. Increasing the salience of the sales tax of a particular good significantly diminished consumer demand for that good. Compared to control goods, treated goods generated 8% less revenue and total quantity sold.

In the control condition in the Chetty experiment, sales tax is non-salient. In some cases, characteristics are not only non-salient; they are in fact intentionally hidden by firms. Gabaix and Laibson (2006) call such characteristics “shrouded” characteristics, and document numerous cases of it in the market. The market for printers relies on shrouding the prices of replacement printer cartridges. Believing that consumers would be less likely to purchase printers if they were fully aware of the costs of replacement cartridges, printing companies strive to shroud the cost of such cartridges. The authors present a model which posits that, in fact, firms lack incentive to educate consumers about their competitors’ shrouded costs; this may explain the persistence of shrouding. Brown, Hossain and Morgan (2010) use eBay to test the effects of shrouding, by randomly disclosing, or not, the shipping costs of various items. Their findings put in two different—yet not contradictory—directions. On the one hand, shrouding small shipping costs reduces revenue. On the other hand, shrouding an increase in shipping costs increases revenue. Both findings attest to consumers’ responsiveness to shrouding.

## **Framing**

Much of the contemporary literature on consumer behavior and decision-making is indebted to Kahneman and Tversky’s pioneering work on framing, which shows that individuals express different preferences to the same problem when the content remains the same but is expressed differently (1981). One particularly influential finding from that research agenda holds that individuals respond differently to decisions depending on whether the decision is framed as likely leading to either a loss or a gain.

When a decision is framed as likely leading to a gain, individuals become risk averse; when a decision is framed as likely leading to a loss, individuals become risk-seeking. This finding, and others in the same literature, revolves around one central idea: Individuals are surprisingly sensitive to small changes in descriptions of the same outcome or object.

Of course, the advertising industry knows this well; indeed, one might think of the advertising industry as devoted, above all, to the generation of framing effects. In one study, consumers were found to prefer beef that is described as 75% lean over beef that is described as 25% fat (Levin 1987). Though it shrank in size, this effect persisted even *after* subjects consumed the meat in question and other covariates were taken into account (Levin and Gaeth 1988). When a store is offering a “sale,” it is engaging in framing behavior, framing goods as gain for the consumer. According to one paper, some department stores account for half of all revenue through such “sales” (Ortmeyer, Quelch and Salmon 1991). The framing strategies employed by advertisers have significant effects on purchasing decisions. They can cause consumers to abandon brands they were previously loyal to (Deighton, Henderson and Neslin 1994); adopt new brands altogether (Ackerberg 2001); and perhaps even induce more ethical behavior (Bateman, Fraedrich and Iyer).

### 1.3 Consumer Decisions v. Political Decisions

Americans’ reliance on consumer habits would mean little if political decisions and consumer decisions occurred in the same context and were made about the same kinds of objects. This is not the case.

Recall that our definitions of consumer and political decisions hinged, respectively, on potential goods to consume and political subjects on which one can express a preference. The differences in this definition underline the differences between the objects under considerations. When making a consumer decision, an individual is evaluating discrete, tangible objects. Questions about government policies, of the type familiar to surveys, ask about topic that are non-discrete and non-unitary. Do you support a recently passed law? How do you feel about your local government? An individual asked to respond to such questions—or an individual who develops responses without provocation—is forming preferences in reference to objects that that are neither discrete nor tangible. This is true with straightforward definitions of both terms: For our purposes, “discrete” objects are those that are defined by boundaries that allow them to be immediately separated by observers, and “tangible” objects are those that an individual can make physical contact with.

Most consumer goods counted on the Consumer Expenditure Survey are both tangible and discrete. To be sure, there are exceptions, such as fees for private insurance and educational classes. But they

constitute a small minority of consumer purchases. (*A future version of this chapter will include a precise estimation of how many goods tracked by the Consumer Expenditure Survey are both tangible and discrete, and how many are not.*) While some political subjects are tangible and discrete, most are not; and for those that are, such as parking tickets and governmental fees, they are but part of a broader, underlying political process. The political subjects at the heart of this dissertation—redistributive preferences and whom to vote for—include such discrete and tangible objects, but they are not limited to them. When we speak of “consumer goods,” we mean those objects that are discrete and tangible and possible to consume; when we speak of “political subjects,” we mean those objects that are not principally discrete or tangible, and that they are animated by political procedure or conflict.

When a consumer good is purchased, the benefits it affords are easily perceptible. As possible benefits, the cup of coffee offers the coffee itself; the caffeinated rush that soon follows; or, depending on quality, the flavor. Furthermore, the benefits arrive in a perceptible time frame of which the consumer is aware. If I purchase a cup of coffee, I know when its benefits will come. Finally, the link between payment for the good—its cost—and arrival of the good—its benefit—is narrow and, again, on a short time horizon. In a coffee shop, I am handed the good immediately after purchasing it.

Government does not work this way. The benefits are not easy to discern. Mettler (2010) has documented the surprisingly large extent to which even cash transfers are not recognized as originating from government. The same is true for the tax expenditures that contribute significantly to the welfare state’s hidden” or ”submerged” character (Howard 1997). Citizens have difficulty “tracing” such benefits to their government sources (Arnold 1992). Taxes are easy to underestimate as well. Citizens routinely have trouble correctly estimating or remembering their personal tax burden (Patashnik 2008). The fiscal illusion literature, birthed by Buchanan and Wagner (1977), proposes that democracy naturally leads citizens to underestimate the costs of government. More recent evidence of fiscal illusion appears in Finkelstein (2009).

Part of the reason that governmental benefits and costs are not easy to discern is that they are distributed and extracted, respectively, over a widely varying time horizon. This means that the link between costs and benefits is wide, not narrow. Costs are extracted via taxes on biweekly payrolls; they are also extracted every mid-April; and they are extracted via various governmental fees. Meanwhile, even material cash benefits are not disbursed to correspond with the schedule in which costs are extracted; Medicare and social security payments are not disbursed at the time that the cost is extracted for them. This brings us to another reason that government costs and benefits are not easy to discern: their non-tangible quality. Surely this explains why, among those items not recognized by subjects as

government benefits by Mettler (2010), the least recognized benefits are those, like the Home Mortgage Interest Deduction, that do not appear in any tangible form, but instead show up as a reduced tax burden to the individual.

Public goods pose special problems for the perception of government costs and benefits. Consumer goods are, by definition, excludable and rivalrous; public goods are neither. Imagining a coffee shop in which public goods are sold is thus an exercise in surrealism. The shop would have to give away coffee to all those who wanted it, and it would have to do so for everyone who wanted it. The coffee-shop-as-government only becomes slightly less surreal when something other than public goods are sold. As the link between government costs and benefits is very wide, the Government Coffee Shop would give customers coffee well before or long after they had paid for it (if they paid for it all). In the Government Coffee Shop, a customer would walk in, have to pay, and not necessarily receive—or not know they have received—coffee in return. And they might harbor the sneaking suspicion that everyone else was getting their coffee for free.

## 1.4 The Consumer Model

The Consumer Model is straightforward. It begins by observing that Americans make hundreds of consumer decisions a year. No matter if this amount is greater, less than or equal to the amount of political decisions they make—though there is good reason to think the number is greater—it is sensible to expect the habits of the consumer realm to cross over into the political realm. Two interconnected consumer habits, the use of mental accounting and the adherence to the consumer version of fairness, are especially consequential when they are deployed in the political realm. These consequences stem from the stark differences between the contexts in which political and consumer decisions occur. When mental accounting techniques are used to form redistributive preferences, the overweighting of government costs relative to benefits, due to differences in salience, diminishes support for redistribution. This is because the overweighting of costs relative to benefits causes Americans to think that government is giving them a deal that violates the norms of consumer fairness and should be penalized accordingly. At the same time, because of their adherence to consumer fairness, Americans do not wish to extract as many benefits from government as possible; they want the government to provide them benefits roughly in line with the costs they have paid.

### 1.4.1 The Consumer Model: Mental Accounting, Consumer Fairness and Redistributive Preferences

However unknowingly, politicians often make overtures to consumer fairness. Here is Bill Clinton, speaking during a 1992 presidential debate: “I see people in my state, middle class people—their taxes have gone up in Washington and their services have gone down (PBS 2012).” Nearly a decade later, George W. Bush would declare that the American people had been “overcharged,” because the government was “charging more than it needs” (Bush 2001). Both claims share the same presupposition: Americans expect their taxes to yield a roughly equivalent amount of government goods and services and services in return. Across decades and across parties, presidents have relied on this presupposition to animate starkly divergent policy aims. When arguing for tax cuts or tax increases, presidents do not tell the American people that their preferred will result in benefits showered across all beneficiaries at no cost. Presidents thus seem to be aware of what many social scientists are not: In American politics, consumer habits matter.

As Americans keep mental accounts of consumer phenomena, so too do they keep them when it comes to government. Due to differences in salience between costs and benefits, these accounts tend to underestimate governmental benefits relative to costs. As a result, voters come to think that that government is giving them an unfair deal, one in which costs do not align with benefits, and they punish the government as they would a firm. Although they cannot withhold funds from a government that has a monopoly on force, they can express a desire for less-than-expected redistribution.

In the previous section, salience was identified as playing an especially important role in mental accounting. There is ample reason to believe that government benefits are non-salient. A large number of Americans are unaware of what federal benefit programs they themselves are benefiting from. 60% of those who claimed the Home Mortgage Interest Deduction denied that they used a government social program. For student loans, the figure was 53.3%; 41.7% for veterans’ benefits; nearly 40% for Medicare, 28% for Medicaid, and about a quarter of food stamp recipients (Mettler 2010). It turns out that the demand for “government to get its hands off my Medicare” is not just the battle cry of an uninformed few, but representative of a broad swath of public opinion.

What is most surprising about the Mettler data is not that the vast majority of beneficiaries of the Home Mortgage Interest Deduction do not believe that the program originates with the government. (Though surely this is interesting as well.) Instead, the startling fact is the extent to which programs that we might expect to be highly salient among recipients, such as Medicare, food stamps and the G.I. bill, are not regarded as salient by their beneficiaries. Unlike tax expenditures, a la the Home

Mortgage Interest Deduction, these programs provide beneficiaries with actual cash transfers. Yet they are not regarded as originating from the government. When considered as government benefits, they are of low salience.

To understand why this might be, the differences between consumer and political decision contexts are important. In particular, the absence of a narrow link between costs and benefits is what is driving the low salience. If you walk into a coffee shop, the benefit you receive in return is dispensed upon purchase by a potentially uniformed member of the firm. In the case of government, benefits are dispensed with no connection to costs, and in fact, may be dispensed without being clearly identified as originating from the government at all. The work that is being undertaken on your behalf is not made salient for you, in ways that are done in the consumer realm and that can compel consumers to be willing to pay more (Buell and Norton 2011). And given the overlapping jurisdictions that define American government, the problem is even more pronounced. Multiple levels of government means multiple providers of benefits. Being able to identify “government” as the provider of a benefit thus more difficult; the high costs of acquiring correct political information are well-known, and only exacerbated by federalism (Popkin 1991; McDonald 2009). If even cash transfers are not of high enough salience to convince significant numbers of Americans that they are, in fact, government benefits, it is reasonable to expect that even fewer Americans will attribute the benefits of public goods to government. The benefits afforded by, say, eating food that has been deemed safe by a complex government bureaucracy are unlikely to be included in a mental account.

What about costs? The fiscal illusion literature posits that democracy naturally encourages citizens from estimating the true value of taxes. Yet the empirical evidence in favor of this proposition is thin. Finkelstein’s recent paper shows that, when a policy is enacted that diminishes the salience of costs—as with E-Z pass tolls, her subject—then taxes rise faster than they would otherwise, probably due to the low salience of the policy (2011). But this tells us little about the general salience of costs; it focuses on a policy that is non-salient by design. In general, costs would seem to be more salient than benefits; when it comes to government benefits, there is no equivalent of April 15th, a date devoted to their disbursement. *(A future version of this chapter will present results from a simple survey experiment which subjects are asked to estimate the value of their costs or benefits, with their answers then compared to the available, accurate information.)*

Consumers close out their mental accounts at various times, sometimes at their own behest and other times at the behest of market forces. In the political realm, being asked a survey question relating to support for government in general, support for taxation and support for public spending may prompt an individual to close out their governmental account. When, due to differences in salience, consumers

perceive that government's benefits are exceeded by government's costs, they will respond by penalizing government. In this case, the penalty consists of trying to withhold funds from government. That, after all, is what redistribution is all about—how much of my money am I willing to part with? When consumers think the government has violated consumer fairness, they will punish the government as if they were consumers. In this context, punishment means expressing preferences for lower taxes or lower government spending.

If Americans are indeed relying on consumer fairness to adjudicate the results of their mental (governmental) accounting, this reliance has significant implications for classical accounts of redistribution. In the presidential statements excerpted above, neither president thinks that Americans aim to extract as many benefit as possible from their government. Rather, they construe Americans as expecting a certain degree of services in exchange for the taxes they provide. This stands in stark contrast to standard accounts of Americans' redistributive preferences, which portray citizens as eager to extract as many benefits as possible from the government. Take the classic model offered by Allan Meltzer and Richard (1981). In their story, majority rule makes the voter with the median income decisive. As they explain it: "Voters with income below the income of the decisive voter choose candidates who favor high taxes and more redistribution; voters with income above the decisive voter desire lower taxes and less redistribution. When the mean income rises relative to the income of the decisive voter, taxes rise, and vice versa." In other words, an individual's redistributive preferences can be explained by accounting for those policies that would benefit her individual position on the income ladder the most.

Bringing a notion of consumer fairness into the mix yields a different prediction. In the consumer realm, citizens are willing to pay for the benefits that they receive; indeed, through mental accounting calculations they even are willing to grant firms a profit. They have no expectation of free lunch. Generally speaking, they want the cost of an item to be roughly in line with the firm's costs, and are willing to pay more as costs rise. They appear to have similar attitudes to costs and benefits in the consumer realm. In June 2014, a short survey was fielded of about 100 Americans. After a brief discussion of what constitutes government benefit and government benefits, subjects were asked to use a slider to indicate what cost-to-benefit ratio they wanted government to provide. The scale went from 0-100, with 0 representing all cost and no benefits, and 100 representing all benefits and no costs. The classical story would have expected the average answer to be close to 100. Instead, the mean response was 65.23. Across income levels, the results were the same: Americans do not want their benefits to overwhelm their costs. Rather, they want government's costs to roughly line up with benefits. It is not as if they are without self-interest, as indicated by their preference to receive more benefits than

costs. (A future version of this chapter will present results from a nationally representative version of this study. But they preferred to part with more of their funds than expected.

In the same month, another study was deployed that, at the end, informed subjects that in exchange for having completed the survey successfully, they were being given a bonus dollar. They were offered the chance to pay a voluntary tax on this dollar. The mean subject in the control condition, who had seen no previous information about taxes or government benefits, gave away \$.13. The lesson, once again, is that citizens do not want to extract as much as possible from the government. Drawing on their experiences in the consumer realm, their default preference is for costs and benefits to align. When their mental accounting of government suggests that costs and benefits are aligned, they are likely to be more supportive of redistributive efforts than they would if the accounting suggested that costs greatly outweigh benefits. These results echo the findings in the ultimatum literature. Even skeptics concede that subjects regularly and voluntarily give up “nontrivial” portions of their money (Forsythe et al 1994). In these short experiments, subjects do the same when it comes to government.

When government’s costs are more salient than government benefits, Americans will oppose redistribution. And when benefits and costs are made to roughly align with one another, support for redistribution will increase. This explanation of redistributive preferences departs from the extent literature. Americans’ resistance to redistribution has been noted since Tocqueville (1835); offered theoretical clarity by Hartz (1955); and viewed as a guiding explanation for the absence of socialism in the United States (Foner 1984). More recently, the mystery over redistributive preferences has only deepened. While scholarship has documented a spike in income inequality in the United States since the late 1970s (Piketty and Saez 2007; Piketty 2014), the changes in redistributive policy predicted by Meltzer and Richard (1981) have not materialized. Bonica, McCarty, Poole and Rosenthal (2014) review five potential explanations for this puzzle. The first is a broad ideological shift in favor of free markets and against government-sanctioned redistribution. The second builds on prior work (McCarty, Poole and Rosenthal 2006) to hold that immigration patterns have shifted the electorate toward median incomes. The third posits that increases in real income and wealth have made government insurance schemes less appealing. The fourth says that the wealthy have manipulated the political process to achieve their preferred ends, while the fifth says that procedural matters, such as filibustering and gerrymandering, have made policy change next to impossible. The review concludes by urging social scientists, particularly economists, to appreciate the outsized role that politics has played in the forging of inequality.

All five explanations are plausible in and of themselves, and none are vitiated by the Consumer Model. However, the Consumer Model is parsimonious in a way that none of the extent explanations



are. It suggests that the preferences are indebted to everyday consumer habits. The Model offers provides a microfoundational explanation for the development of ideological change. Americans have not shifted against redistribution because of any sweeping changes in their normative commitments. Rather, the habits of their everyday lives as consumers have affected their redistributive preferences, precluding preferences from changing in the way that theory predicted. The Model is also plausible, given low levels of political knowledge. There is little reason to think of Americans as engaging in the kind of long-run ideological deliberation that the first explanation of Bonica et al offer. The Consumer Model suggests that what appears to be ideological shifts may be motivated by something much simpler.

One way of thinking about the Consumer Model is as an iteration of heuristic information processing in the political realm. In psychology, heuristically-motivated information processing is said to occur when a subject in a persuasion environment turns to familiar and available heuristics to make sense of the arguments presented (Todorov Chaiken Henderons 2002). The slight twist I offer is that, because of the frequency of consumer decisions, subjects in political decision habits turn to habits they rely on as consumers. Such habits are simply readily available than the alternatives.

### 1.4.2 The Consumer Model, Vote Choice and Policy Uptake

The Consumer Model also has implications for vote choice and policy uptake. If we take think of voters as wanting government to provide them with benefits in alignment with costs, then they should prefer those candidates whom have done best to align both costs and benefits. This theory of voter preferences provides further precision to classic models, which conceive of voters as preferring the candidate who provides them the most benefit at minimal cost. In the classic Downs model, vote choice is governed by the following:

$$E(U_{t+1}^A) - E(U_{t+1}^B)$$

In the above *expected party differential*,  $E$  stands for expected value,  $U$  stands for a voter's utility income,  $A$  is the incumbent party,  $B$  is the opposition party, and  $t + 1$  stands of the coming election period. A positive value instructs the voter to support the incumbent, and vice versa. Crucially, in this model "utility income" is defined as the "flow of benefits" provided by the government (Downs 1957, Pp. 38-39). In other words, the model expects the voter to prefer the incumbent if, during the next election period, she expects to receive more benefits than she would under the opposing party.

The Consumer Model suggests an alternative, in which voters make two calculations and then

compare the results.

$$E(SC - SB_{t+1}^A) | E(SC - SB_{t+1}^B)$$

In the above, the utility income of the Downsian model is replaced by  $SC - SB$ , with  $SC$  standing for salient costs and  $SB$  standing for salient benefits. In the Consumer Model, voters want benefits and cost to align, and so they tend to reward the party that they expect to bring  $B - C$  closer to zero. This aspect of the Consumer Model may be less counterintuitive than it first appears. It explains why politicians do not succeed by promising to shower their constituents with the maximum amount of benefits possible. However, if the difference between costs and benefits for both parties is negligible, the party that promises more benefits will probably prevail. (*A future version of this chapter will work this out in greater detail.*)

The inclusion of salience is only meant to clarify the original Downs account. For his part, Downs seemed aware of the importance of “salience,” writing that “only benefits which voters become conscious of by election day can influence their voting decisions; otherwise their behavior would be irrational.” He writes that an important strategy of government is “making citizens aware of benefits they are already receiving.” On this count, there is good evidence governments are failing (Downs 1957, Pp. 33-38).

As the Consumer Model has implications for voting, so too does it for policy uptake. In a departure from the traditional view, the Consumer Model would suggest that policies where costs and benefits appear to align will receive more uptake than policies that only make salient their benefit. Such policies would be regarded as more alike products purchased on the consumer market, and therefore more in line with consumer fairness. This makes such policies more “credible” in the minds of voters. Indeed, while credibility has been used in various studies of vote choice (Pinkleton 1997; Enelow and Munger 1993), the Consumer Model clarifies this view. Voters find those candidates and policies more credible precisely when they accord with consumer fairness.

## 1.5 Appendix

### CES Data

Averages arrived at by dividing the number of total purchases, represented by the *cost* variable, by the total number of unique consumer units. Unique consumer units identified by removing duplicates from the consumer unit variable, *newid*.

First quarter: 108098 purchases/2885 unique IDs = 37.46 purchases

Second quarter: 105923 purchases /2810 unique IDs = 37.69 purchases

Third quarter: 102277 purchases /2716 unique IDs = 37.65 purchases

Fourth quarter: 108299 purchases /2777 unique IDs: 38.99

151.79 purchases per year

### ANES Data

From ANES 2012 Time Series File

For responses on campaign contributions: mobilpo\_ctbcand

For responses on talking others: mobilpo\_rmob

For responses on rally attendance: mobilpo\_rally

For responses on Internet petitions: dhsinvolv\_netpetition

For responses on paper petitions: dhsinvolv\_petition

For responses on contributions to non-religious orgs: dhsinvolv\_org

For responses on local government: dhsinvolv\_board

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