Altruism and democratic politics

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Abstract

In the present paper we analyse the effect of altruism on democratic politics under two approaches: intra-group altruism and universal altruism. In the present paper we analyse the effect of altruism on democratic politics under two approaches: intra-group altruism and universal altruism.

As in Acemoglu and Robinson (2006) (which builds on Romer (1975), Roberts (1977), and Meltzer and Richard (1981)), we consider a representative democracy made up of two main social groups: an Elite, that is a rich minority, and a poor majority. Voters derive utility from their after tax income. The formulation of altruism corresponds to the maximization of the group’s welfare (see Wittman (2005)) under two different approaches: intra-group altruism and universal altruism. We assume that this altruistic motive has two components: utility depends positively on the average income of the individuals in the group (or in the society) and negatively on the level of inequality in the group (or in the society).

As each social group has different preferences on the tax rate, the choice of public policy is inherently conflictive. The equilibrium policy adopted is the one preferred by the median voter. We only consider one public policy: a fully redistributive tax rate while we take gross income to be fixed and known. As the proceeds from the tax rate are redistributed via lump sum transfers to the whole population, the policy proffered by the median voter refers to tax rate. Altruism implies an increase in the welfare of a democracy if it implies a reduction of the income inequality and/or a Pareto improvement.

In the model, for each social group there are two competing factors that determine the equilibrium tax rate: the general level of altruism (intragroup or universal) and the relative weight given to inequality aversion relative to average income within the group (or the society). In general, we show that high altruism is beneficial for a society. However, the relative

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weight given to inequality aversion also plays a role. These forces may lead to complex predictions as the following paragraphs illustrate.

We obtain two sets of results. First, we show that the median voter who exhibits intra-group altruism prefers a greater tax rate than she would do if she were egotistic. The intra-group inequality aversion has always a positive effect on the tax rate, that is, a rise in inequality aversion, keeping fixed all other parameters, increases the equilibrium tax rate. The role of the intra-group altruism depends on the level of inequality aversion. In particular, for low weights given to inequality aversion, the greater is the intra-group altruism exhibited by the median voter, the greater is the equilibrium tax rate.

The second set of results concern the effect of universal altruism. A first result shows that the inequality aversion has always a positive effect on the tax rate, that is, a rise in inequality aversion, keeping fixed all other parameters, increases the equilibrium tax rate. The role of universal altruism is ambiguous and depends on the weight given to inequality aversion.

A second result shows that, for high weights given to inequality aversion, the median voter who exhibits universal altruism prefers a greater tax rate than she would do if she were egotistic. Even more, in this case, the greater is the universal altruism exhibited by the median voter, the greater is the equilibrium tax rate.

A third result shows that, for low weights given to inequality aversion, the median voter who exhibits universal altruism prefers a lower tax rate than she would do if she were egotistic. Even more, in this case, the greater is the universal altruism exhibited by the median voter, the lower is the equilibrium tax rate.

The third result is surprising. Indeed it shows that, contrary to common wisdom, altruism could lead to less redistribution if the median voter places a low weight to inequality aversion. Even more, the amount of redistribution reduces as the median voter increases her altruism to the whole population.

This result is important because it depicts a situation in which altruism is Pareto inefficient. Indeed, altruism leads to a Pareto improvement when the median voter places a greater weight to inequality aversion: the welfare of the poor increases because of greater redistribution and the welfare of the rich increases because of their altruism.