

# Comments on 'Ethnic stereotypes and preferences on poverty assistance'

## 1. Overview and summary of paper

The paper presents a simple model of poverty assistance. The aim is to model how ethnicity of a potential recipient of poverty assistance affects a tax payer's willingness to compensate a poor person. The main result is to show that people's attitudes towards the very poor are different from the attitudes towards only moderately poor and this is because of ethnic prejudiced towards the former group.

The model starts by presenting the preferences of a 'compassionate' citizen which comprises of two parts: (i) her own living standard and the sum of (dis)utility from the observed distress of her fellow citizens.

The standard of living is the sum of the individual's effort and his luck,  $w_j = e_j + f_j$ . There are two types of citizens: lazy and diligent, where the former exerts zero effort and the latter exerts a positive effort  $e_j \in 0, h$  with  $h > 0$ , whereas the individual's fortune  $f_j$  is conditional on his effort. Thus there are four types of individuals:

- i) Hard-working lucky ones whose living standard  $w_j$  is high.
- ii) Hard-working unfortunate ones whose  $w_j$  is either below or above that of the average hard-working individual.
- iii) Lazy lucky ones whose  $w_j$  is either below or above that of the average hard-working individual.
- iv) Lazy unfortunate ones whose  $w_j$  is very low.

Since type i) does not need poverty assistance, and type iv) does not deserve it, the problem for the tax payer is to distinguish types ii) from types iii) for whom  $w_j < h$  to be able to assess the deservingness of the individual. The tax payer observes the living standard of her fellow citizen,  $w_j$ , but not whether it is due to exerting effort or due to luck. Now, the tax payer holds a prior assumption of the 'personality' of the potential receiver of assistance  $j$  which is based on  $j$ 's ethnicity. The optimal compensation scheme is given by  $c_{ij} = (h - w_j)Pr(e_j = h \mid w_j, p_{ij})$  i.e. the amount of compensation is given by the observed difference of  $j$ 's living standard to that of an average diligent person times the probability with which  $i$  considers  $j$  to be a diligent person, which essentially is  $i$ 's stereotype of  $j$ 's personality (=his ethnicity).

The main result states that a hard-working but unfortunate person  $j$  (type ii) whose his living standard  $w_j$  falls well below that of  $h$  loses all the poverty assistance the tax payer would see him as deserving, if the tax payer's stereotype of him is very negative (i.e. a very low  $p_{ij}$  that  $j$  is likely to exert any effort).

## 2. Comments

### Literature review

The authors should pay more attention to improve the readability of sections 1. and 2. to enable the reader to follow their research question, the main arguments they wish to make and the connection to the previous literature. Furthermore, the contribution of the present paper is not completely clear. Especially with regards to Janky and Varga (2013), it seems

that the current paper is an extension to it, however it is not clear what is the contribution to/departure of the present paper from Janky and Varga.

The authors make references to concepts such as 'heterogeneity kills solidarity' and 'ethnic preferences model'. The readers of the paper are not necessarily familiar with these concepts or the literature on which these are based.

### Model

While the model presented in section 3 is relatively easy to read, the authors should be more careful in making and explaining some of the modelling choices with regards to the following assumptions:

i) The distribution of fortune is different for lazy and diligent persons, so that a diligent person may end up worse than a lazy person who exerts zero effort. This modelling choice is crucial for the results, however, this assumption is not very intuitive. If 'effort' is considered to represent only the work effort, it is not very intuitive why a diligent person would end up with worse living standards than a lazy person exerting zero effort but who happens to be lucky. However, if 'effort' to increase one's living standards includes also some risky financial investments, then the assumption about the distribution for fortune would make more sense. However, since this a model of poverty assistance, I would consider 'effort' as individual's willingness to work hard. In this case I would reconsider how effort-conditional luck is determined.

ii) The prior belief  $p_{ij}$  held by individual  $i$  upon the diligence of individual  $j$  is based on  $j$ 's ethnicity. If  $p_{ij}$  is very low, then  $i$  regards  $j$  to be a lazy person (because people of this ethnicity are regarded as lazy) and therefore it is not in  $i$ 's preferences to allocate poverty assistance to  $j$ .

Since the prior belief of the person's deservingness is the key in determining whether an individual deserves poverty assistance or not, at the current model, no matter how hard the individual works, faced with bad luck, and with other citizens viewing him lazy due to his ethnicity, there is no way for the hard-working but unfortunate citizen to gain access to poverty assistance. To make the model more realistic, I would suggest adding some way for the potential recipient to signal his high effort that would increase the tax payer's information whether he deserves assistance or not. (For instance people have to register as unemployed and report on their efforts to have a job to be eligible to receive unemployment benefits.)

iii) The preferences of tax payer  $i$ , and her beliefs of the fellow citizen  $j$ 's deservingness determine whether  $j$  is eligible for poverty assistance, and by how much. This decisive tax payer is not modelled very carefully. Is he some type of the median voter?