On the Social and Political Effects of Financial Markets: Peace, (In)Equality, and Rationality

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Abstract

How does engagement with markets affect values, attitudes and behavior? A long line of thinkers has debated the nature and direction of such effects, but claims are difficult to assess empirically because market engagement is endogenous. I will discuss results from three studies that randomly assigned large national samples of individuals financial assets or sums of money that they could invest in various financial assets over several weeks.

The first study, joint with Saumitra Jha, examines attitudes towards peace and conflict and voting behavior in the context of the Israeli Palestinian conflict. We find that exposure to financial assets systematically shifted the votes of Israeli voters in the 2015 general elections towards parties more supportive of the peace process. This effect is not due to a direct material incentive to vote a particular way. Rather, the treatment reduces opposition to concessions for peace, and changes awareness of the broader economic risks of conflict. While participants assigned Palestinian assets are more likely to associate their assets' performance with peace, they are less engaged in the experiment. Combined with the superior performance of Israeli stocks during the study period, the ultimate effects of Israeli and Palestinian assets are similar.

The second study, joint with Yotam Margalit, evaluates the impact of financial markets on social-economic values and policy preferences in the UK. Results show that investment in stocks led to a more right-leaning outlook on issues such as merit and deservingness, personal responsibility and equality. Subjects also shifted to the right on policy questions. These results appear to be driven by growing familiarity with, and decreasing distrust of markets.

The third study, joint with Itay Sisso, studies maximizing tendencies, a well-studied trait in behavioral decision making. In the psychology literature “maximizers” are people who strive for the best outcome possible -- as opposed to “satisficers” who strive for "good enough" -- and invest a lot of effort in decision making processes. We find that financial interactions tend to make people into maximizers. One possible implication is that the standard economic approach may perform better when analyzing economic interactions than when applied to non-economic settings.

Speaker Profile

Moses Shayo is the Pinchas Sapir professor of economics at the Hebrew University of Jerusalem and a member of the Federmann Center for the Study of Rationality. He received his PhD in economics from Princeton University in 2005. His main lines of research concern the political economy of redistribution, nationalism, conflict, and international integration; the social and political implications of participation in financial markets; and various aspects of consumer behavior. A major component of his approach to these issues has focused on how and to what extent they are shaped by social identity. His work studies the empirical determinants and implications of social identity, and develops a theoretical framework in which both identities and individual behavior are endogenously determined.