

European Identity and Redistributive Preferences

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We still know relatively little about what shapes preferences for redistribution. The standard political economy theory of redistribution (Meltzer and Richard 1981, Romer 1975), linking the expansion of gross income inequality to increased demands for redistribution, has not been consistently validated in practice (Georgiadis and Manning 2012).

Identity matters and Europe is a ‘natural experiment’

We argue that one of the common missing links lies in considering what individuals identify with (Akerlof and Kranton 2000), and more specifically we examine Europe as a natural experiment. The identity mechanism then confers some sense of social solidarity on the members of the group. If identity plays this role and solidarity is determined within the context of the nation, a move from that setting to another will affect people’s preferences for redistribution. However, it may be that the development of a European identity affects the extent of solidarity and individual experiences within a wider community. The move from the default of national solidarity expression may be pro-redistributive.

Identity and cognitive biases

Identity might contribute to the development of cognitive biases insofar as a person’s reference group is not the whole population but that of his group, or his country. People in relatively rich countries may perceive themselves as being poorer than they really are, not so much because of an information bias, but because their reference point is based on the social group they identify with, and not necessarily the whole population. So an important question for empirical purposes is that of identifying whether an exogenous change in reference point, such as the relevant spatial dimension of identity (Europe v national), exerts an influence on distributional preferences. Ignoring identity and relying on an individualistic model of self-interested demand for redistribution will underestimate the benefits of redistribution itself.

Social identities shape individuals’ preferences by defining a “sense of belonging” to a club good that appears in people’s utility functions (Akerlof 1997). Accordingly, an individual suffers disutility from deviating from his or her category norms, which induces behavior and influences preferences has wide- ranging implications for welfare economics.

Our focus

We examine individuals' redistributive preferences, and we claim that the development of a European identity resulting from institutional reforms such as the introduction of a common currency provides quasi-experimental evidence to examine it. Europe is the ideal setting to study changes in identity, given that the progressive integration process exerts effects on welfare-state institutions, which in turn can influence the existing welfare institutions by affecting people's redistributive preferences. The unique experience of the setting up of a single currency exerted a non-neutral effect on European attachment as measured by confidence in the EU, and reduced national pride.

We draw on an instrumental variable strategy using the last three decades of waves of the European Values Survey and we examine the impact of joining the single currency on preferences for redistribution. This paper has specifically examined the effects of spatial identity in those countries that joined the EU after 2004 where we can identify the introduction of reforms expanding European integration and the effect of joining the single currency. Unlike the case of the founding countries of the Eurozone we can identify the effect of joining a European club more precisely using the recent-joiners sample. We find a positive (negative) impact of European identity (national identity) on preferences for redistribution. The effect of identity is comparable in size to the effect of income and is only exceeded by the effect of tertiary education. Our instrumentation strategy relies on using the exogenous effect of different instrumental variables such as the effect of Olympic medals and national history learning.

Findings

Our findings suggest that furthering European identity increases preferences for redistribution, and that national pride exerts an equivalent reduction in preferences for redistribution. These results indicate that institutional changes involving symbolic features that define one's identity can exert an impact on people's attachments, and more specifically can underpin the formation of a preferences for redistribution.

This result is consistent with other findings that indicate that European identity explains satisfaction with democracy (Hobolt 2012). Similarly, Risse (2010) finds that people who identify themselves as European are more likely to identify with the values of tolerance and democracy.

Implications

When individual's identity is defined by a "broader other," people are more likely to express a preference for true redistribution (redistribution in small communities might be partially explained by exchange motivations instead). Becoming part of the Eurozone club in a setting where redistribution is primarily undertaken by national welfare states should not change the individual's expectation of benefiting from redistribution, and should primarily affect the rescaling of people's spatial identity.

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