

The current recession may be forming a generation that wants more state intervention, redistribution, and will accept higher taxes.

*The Great Recession has meant huge upheavals for millions around the world with massive increases in unemployment and inequality in general. But what have been its effects on people's psychology and attitudes? By comparing people's attitudes over the past four decades with macroeconomic shocks, **Paola Giuliano** and **Antonio Spilimbergo** find that recessions, especially when experienced between the ages of 18 and 25, mean that people have a stronger preference for government redistribution and are more likely to believe that success in life was a matter of luck more than hard work. They write that the current recession may be shaping attitudes towards a further political realignment that leans towards the Democrats in the U.S. in years to come.*



Economic crises have a traumatic effect on peoples' psychology and attitudes, as superbly illustrated by Steinbeck in *The Grapes of Wrath* and *Of Mice and Men*, both written in the middle of the Great Depression. The experience of the dramatic years during the Great Depression had a large impact on people and, ultimately, helped forge the social beliefs and attitudes that sustained a political system for many years. The Great Depression gave the state a new role in stabilizing the economy, created a new political alliance that dominated the US for several decades, and prompted the Keynesian revolution and the birth of macroeconomics. The most recent crisis has also left deep scars, which will affect the economy for many years to come.

What are the psychological and political effects of an economic crisis? Recent research can give an answer to this question. We studied the impact of severe recessions on individual's broad beliefs and attitudes. Our study relies on answers to the General Social Survey, a nationally representative sample that gathers information from about 1,500 American every other year and has been conducted since 1972, to analyze how economic shocks have affected the attitudes of different generations in the US. The basic idea is to match macroeconomic shocks during early adulthood with self-reported answers from the General Social Survey.



Credit: MyEyeSees (Creative Commons BY NC ND)

There is an important challenge in analyzing the effects of shocks on individuals' beliefs. Individuals go through

many experiences over their life cycle and it is important to control for all these additional factors. In particular, other non-economic factors, including wars and the culture revolutions, can affect various generations in different ways. So, for instance, the generations growing up during the Great Depression could have been affected also by the experience of World War II.

In order to disentangle the effects of economic distress from other nationwide events, we use the fact that there is considerable heterogeneity in the economic growth across the nine US regions. For example, in any year, New England may be in a severe recession while the rest of the country experiences positive growth. It turns out that a severe regional recession strikingly alters the attitudes and beliefs of individuals growing up there. Recessions do alter perceptions, especially of people between the ages of 18 and 25. Recession-influenced respondents expressed a stronger preference for government redistribution and tended to believe that success in life was more a matter of luck than hard work; as a result they are also more likely to vote for a democratic president.

Four points are worth noting. First, the effects of a severe recession experienced are large when the individual is between the ages of 18 and 25 – the so-called formative age – during which social psychologists think most of social beliefs are formed; the effects are not so strong when the recession is experienced later in life. Second, these effects are permanent because attitudes of recession-stricken individuals remain significantly altered many years after the severe recession ends.

Third, we control for individuals' endowments such as income, level of education, and ownership of a house that could also have an impact on beliefs. We thus measure the direct effect of a recession on beliefs; this effect could be even bigger if we added also the indirect effect through the personal endowments, which are also affected by a recession. Fourth, our estimation represents a lower bound of the effect of a recession on beliefs because our identification strategy relies only on *regional* shocks implicitly ignoring the effects of *nationwide* recessions.

That same pattern is found in an analysis of the World Value Survey, which includes data from 37 countries. When we work with this larger sample of countries, we also find that coming of age in a lousy economic environment breeds the belief that success in life depends more on luck than effort, which in turn leads to more support for social welfare policies. In addition, we find a positive association between experiencing a macroeconomic disaster and both left-wing ideology and affiliation with a left-wing political party.

Why do beliefs on the importance of luck, the role of the state, and redistribution matter for the economy? Today's experiences and beliefs shape tomorrow's political climate, and, ultimately, determine policies. [Thomas Piketty](#) (1995) has shown that people who believe that luck plays a big role are more comfortable with higher taxes. Similarly, [Alesina and Angeletos](#) (2005) and [Benabou and Tirole](#) (2006) show that the interaction between a belief in fairness or "in a just world" respectively are able to generate an "American" equilibrium with laissez-faire policies and just-world beliefs and a "European" equilibrium with social welfare and a more pessimistic view about how just the world is.

So, it is possible that the experience of the current severe recession is forming a generation that will want more state intervention, believe more in redistribution, and accept higher taxes? Large political realignments in the US have often coincided with traumatic economic events. Our research sheds some light on how economic conditions could affect beliefs and attitudes.

*This article is based on the paper [Growing up in a Recession](#) in the *Review of Economic Studies*.*

[Please read our comments policy before commenting.](#)

Note: This article gives the views of the author, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: <http://bit.ly/1ocZZqd>

About the authors

Paola Giuliano - UCLA Anderson School of Management

Paola Giuliano is an Assistant Professor of Economics in the Global Economics and Management Group at UCLA Anderson School of Management. Her main areas of research are culture and economics and political economy. Recent projects focus on questions related to the role of culture and history in the determination of economic outcomes, and the importance of the family in the transmission of economic values. Professor Giuliano is a faculty research fellow of the NBER and a research affiliate of IZA (Institute for the Study of Labor).



Antonio Spilimbergo – IMF

Antonio Spilimbergo has worked at the Inter-American Development Bank, and since July 1997 at the I.M.F. in the fiscal affairs and research department. His areas of interest are: international trade, development, labor economics, and macroeconomics.



- CC BY-NC-ND 3.0 2014 LSE USAPP