

Why Does It Matter Who They Are? Fairness, Ingroup Favoritism, and Preferences for Redistribution

Verena Rebecca Fetscher

At least two major developments threaten the current social and political order: the global rise of economic inequality and migration waves from economically developing to economically advanced countries. Previous research shows that more racially and ethnically fragmented societies reveal lower levels of support for income redistribution (Alesina and Glaeser 2004; Luttmer 2001). There is little consensus on why this is the case. The main argument I make rests on the idea that people are heterogeneous in the fairness ideals they endorse, and that fairness ideals define both, whether social identity influences redistribution preferences, and the channel through which it operates. I unite two streams of literatures. One stream focuses on mechanisms through which social identity influences redistribution preferences (Alt and Iversen (2017) and Shayo (2009) for an extended self-interest argument, Rueda (2017), Lupu and Pontusson (2011), and Kristov, Lindert, and McClelland (1992) for “parochial altruism” approaches, and Enos and Gidron (2018) and Habyarimana et al. (2007) for mechanism identification approaches), the other stream of literature shows that people are concerned about others, but that other-regarding concerns are motivated by distinct fairness ideals (Cappelen et al. 2007; Fisman, Kariv, and Markovits 2007; Andreoni and Miller 2002). This article therefore goes beyond previous approaches which focus on a “typical” individual and makes a case for analyzing behavioral heterogeneity.

I propose that fairness principles provide specific reasons for whether and how the identity of the poor influences redistribution preferences by the rich. I differentiate between information-based and preference-based mechanisms through which identity may operate. In information-based approaches, social identity matters because social group belonging alters the structure of available information on how others behave (Bowles and Gintis 2004). In preference-based approaches, in contrast, who the poor are matters because people develop attachment and positive affect towards an ingroup. These two mechanisms, I argue further, are more or less compatible with fairness considerations, depending on which fairness ideal an individual endorses. I build on libertarianism (one owns what one produces), luck egalitarianism (rewards depend on individual choices), welfare maximization (in the utilitarian sense), and egalitarianism (people are morally equal). To substantiate the main idea, for a welfare maximizer, who the poor are may not matter as long as their choices do not influence total welfare. A luck egalitarian, in contrast, may employ social identity as a signal for effort provision, while, finally, an egalitarian person may be concerned about others in general, but feel stronger attached to people of his or her own kind (parochial egalitarianism).

I test my theoretical approach in the laboratory. The allocation problems combine social identity, production with unequal rates of return, uncertainty about effort provision, and redistribution contingent welfare gains. Participants make allocation decisions separately for ingroup and for outgroup recipients. The experimental treatments allow to segregate people into fairness types and to test for variation in the social identity effect across fairness types. Results based on a finite mixture model reveal that three distinct fairness types capture the treatment responses best. One type follows selfish behavior (which, in this case, coincides with a liberal fairness principle), another type maximizes aggregate welfare. Only the parochial/luck egalitarian third type reveals ingroup favoritism. The evidence supports a preference-based explanation and suggest that information is important for absolute levels of inequality reduction

References

- Alesina, Alberto, and Edward L. Glaeser. 2004. *Fighting poverty in the US and Europe: A world of difference*. Oxford: Oxford University Press.
- Alt, James, and Torben Iversen. 2017. "Inequality, Labor Market Segmentation, and Preferences for Redistribution." *American Journal of Political Science* 61 (1): 21–36.
- Andreoni, James, and John Miller. 2002. "Giving According to GARP: An Experimental Test of the Consistency of Preferences for Altruism." *Econometrica* 70 (2): 737–753.
- Bowles, Samuel, and Herbert Gintis. 2004. "Persistent parochialism: Trust and exclusion in ethnic networks." *Journal of Economic Behavior & Organization* 55 (1): 1–23.
- Cappelen, Alexander W., Astri Drange Hole, Erik Sørensen, and Bertil Tungodden. 2007. "The Pluralism of Fairness Ideals: An Experimental Approach." *American Economic Review* 97 (3): 818–827.
- Enos, Ryan D., and Noam Gidron. 2018. "Exclusion and Cooperation in Diverse Societies: Experimental Evidence from Israel." *American Political Science Review*: 1–16.
- Fisman, Raymond, Shachar Kariv, and Daniel Markovits. 2007. "Individual Preferences for Giving." *American Economic Review* 97 (5): 1858–1876.
- Habyarimana, James, Macartan Humphreys, Daniel N. Posner, and Jeremy M. Weinstein. 2007. "Why Does Ethnic Diversity Undermine Public Goods Provision?" *American Political Science Review* 101 (04).
- Kristov, Lorenzo, Peter Lindert, and Robert McClelland. 1992. "Pressure groups and redistribution." *Journal of Public Economics* 48 (2): 135–163.
- Lupu, Noam, and Jonas Pontusson. 2011. "The Structure of Inequality and the Politics of Redistribution." *American Political Science Review* 105 (02): 316–336.
- Luttmer, Erzo F. P. 2001. "Group Loyalty and the Taste for Redistribution." *Journal of Political Economy* 109 (3): 500–528.
- Rueda, David. 2017. "Food Comes First, Then Morals: Redistribution Preferences, Parochial Altruism, and Immigration in Western Europe." *The Journal of Politics* 80 (1): 225–239.
- Shayo, Moses. 2009. "A Model of Social Identity with an Application to Political Economy: Nation, Class, and Redistribution." *American Political Science Review* 103 (02): 147–174.