

Social Identity and Political Economy: Consumption, Voting, Judicial Decisions and Brexit

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ERINN, April 2017

The Passions and the Interests

1. (Political) behavior not just about economic interests
 - Or entirely about “issues”
 - A significant part is “us vs. them”
 - Social Identity (SI)
2. SI (which “us”) is endogenous
 - Conflict; inequality & redistribution; immigration; international integration
3. But relative importance of passions vs interests also endogenous

The Washington Post

In 2013, when Barack Obama was president, a Washington Post-ABC News poll found that only 22 percent of Republicans supported the U.S. launching missile strikes against Syria in response to Bashar al-Assad using chemical weapons against civilians.

A new Post-ABC poll finds that 86 percent of Republicans support Donald Trump's decision to launch strikes on Syria for the same reason.

[By James Hohmann, April 11, 2017](#)

Social Identity

- Defining social identity
 - Conformity to group norms & behavior
 - Social preferences

- Identification is not automatic
 - Responds to the environment in systematic ways

- Thinking about equilibrium is important

Conformity to Group Norms & Behavior

Atkin, Shayo & Sihra (2017)

Food in India is closely tied to the moral and social status of individuals and groups. Food taboos and prescriptions divide men from women, gods from humans, upper from lower castes, one sect from another.

Appadurai (1983),

“How to Make a National Cuisine: Cookbooks in Contemporary India”

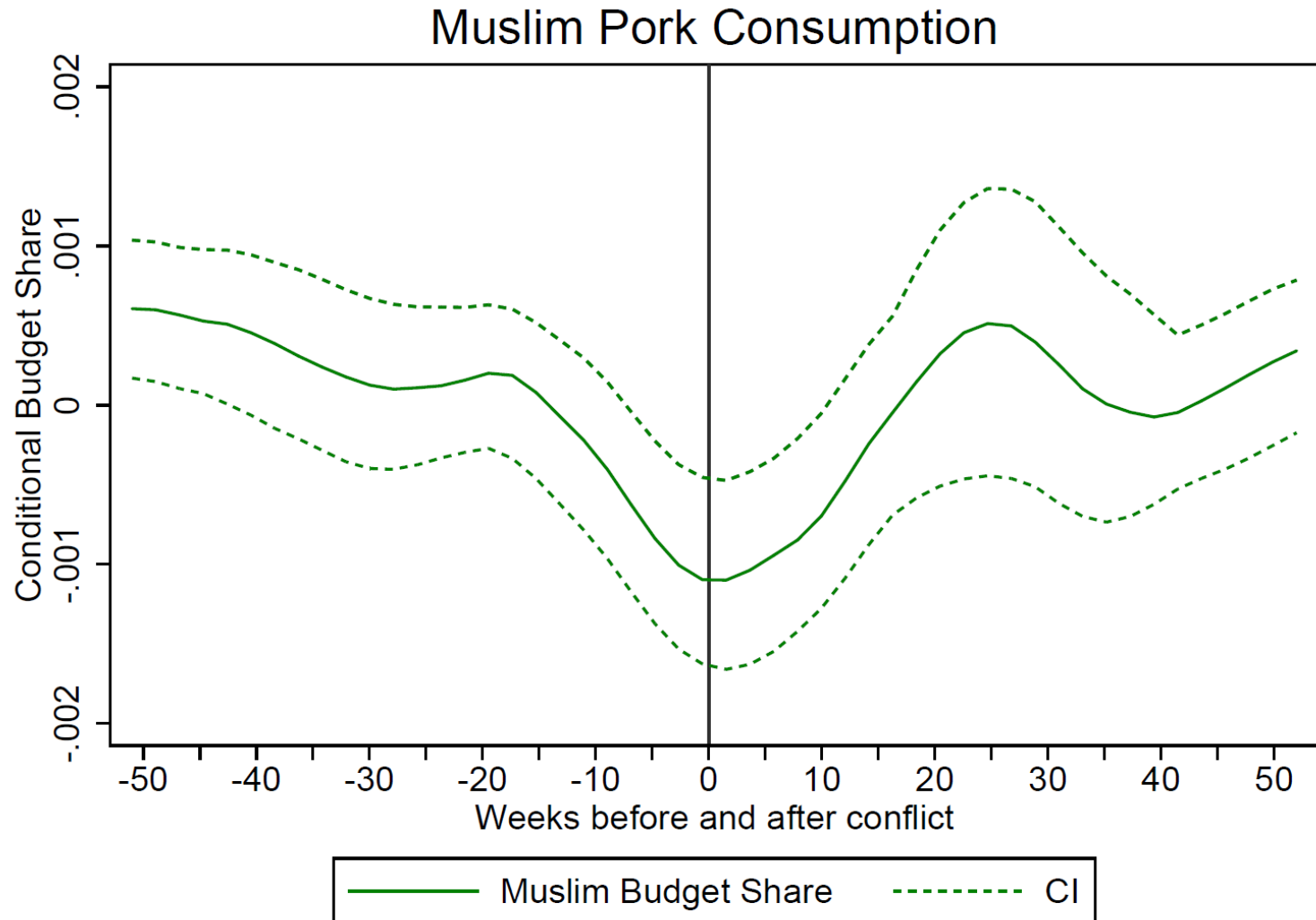
Conformity to Group Norms & Behavior

Atkin, Shayo & Sihra (2017)

- Gujarati or Hindu?
- Consumption bundle reveals identity
- Choice of identity is endogenous
 - Conflict
 - Group status
 - Cost of identity-bundle

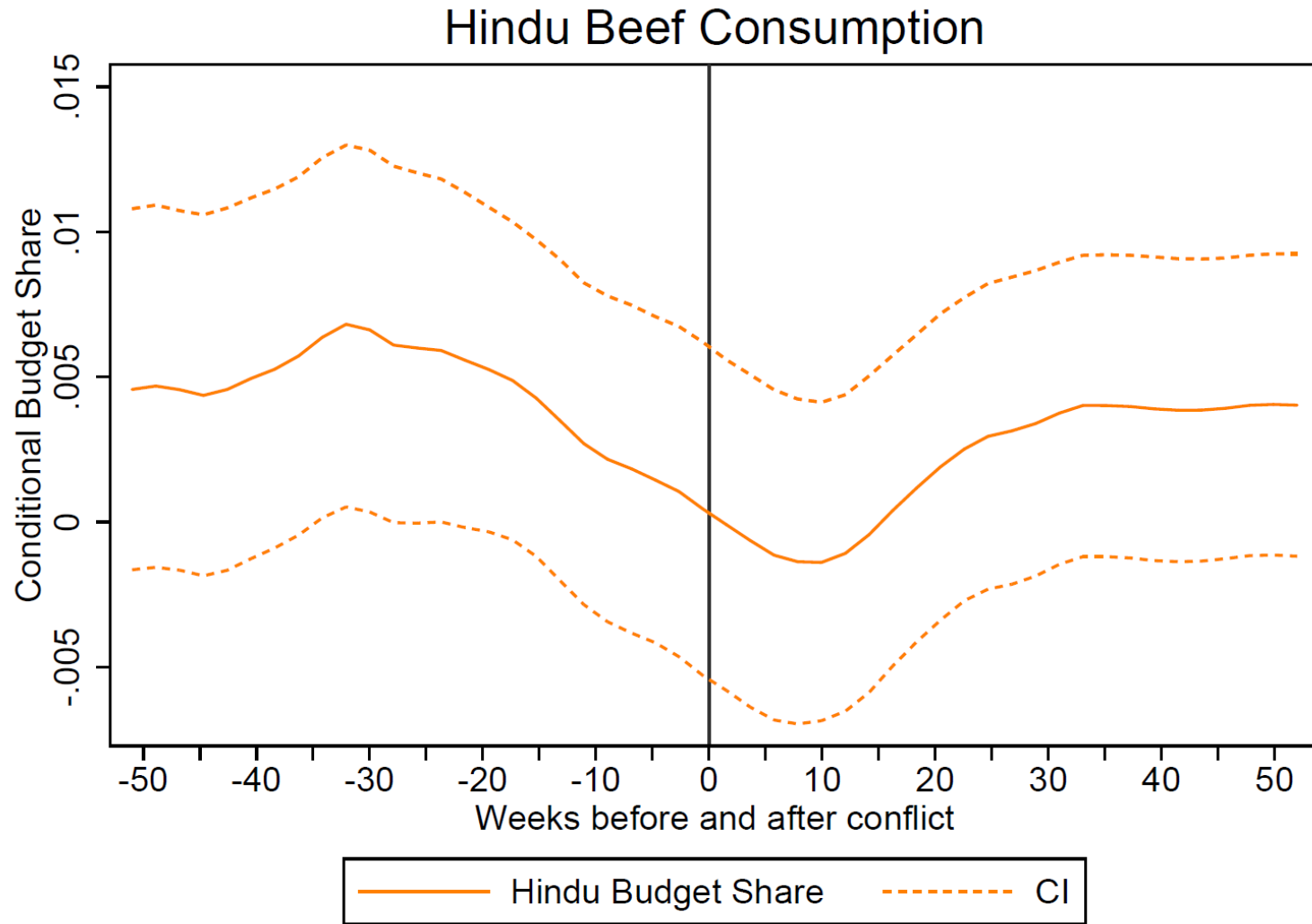
- Data:
 - Indian National Sample Surveys on Consumption and Expenditure, rounds 43 (1987-1988), 50 (1993-1994) and 55 (1999-2000).
 - Varshney-Wilkinson Dataset on Hindu-Muslim Violence in India, 1950-1995, extended by Mitra and Ray (2014) to 1995-2000.

Moving Towards One's Religious Identity: Muslim Pork Consumption and Hindu-Muslim Violence



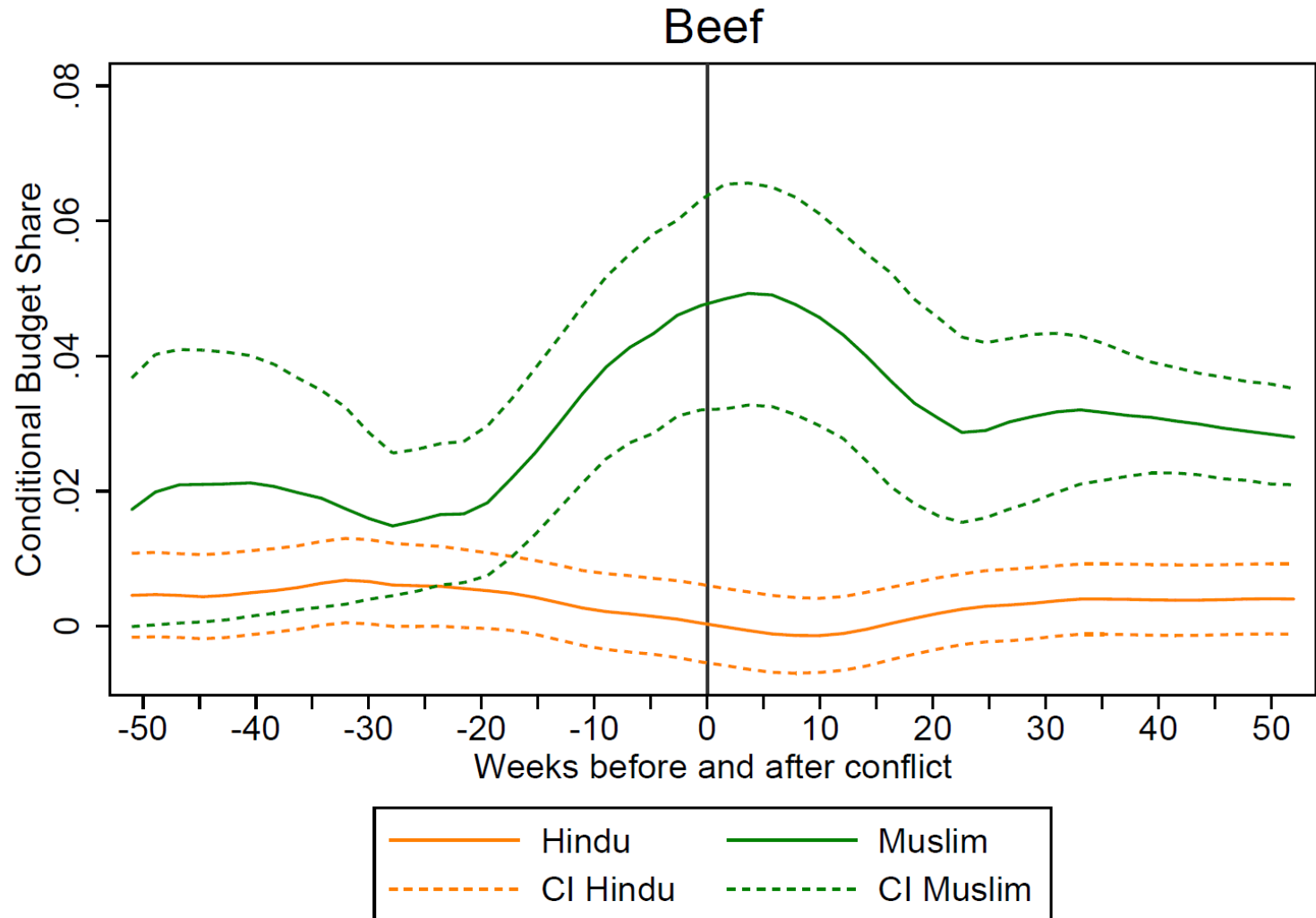
NSS 50 (1993-94). Food budget shares conditional on price, real income, month of survey and region.

Moving Towards One's Religious Identity: Hindu Beef Consumption and Hindu-Muslim Violence



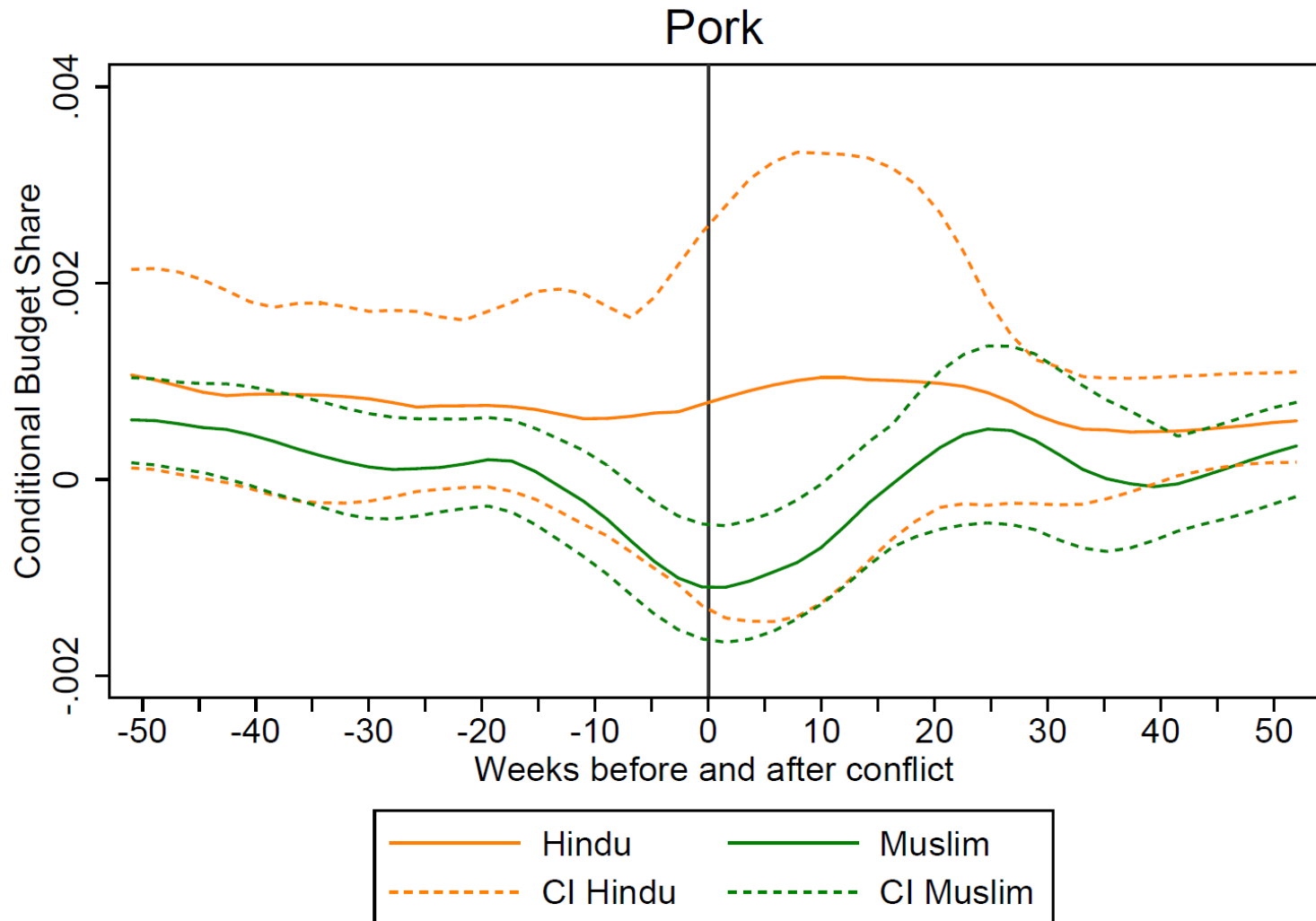
NSS 50 (1993-94). Food budget shares conditional on price, real income, month of survey and region.

Moving Away from the Common Identity: Muslim Beef Consumption



NSS 50 (1993-94). Food budget shares conditional on price, real income, month of survey and region.

Hindu Pork Consumption



NSS 50 (1993-94). Food budget shares conditional on price, real income, month of survey and region.

DD (adding Sikhs and Christians and using all 3 NSS rounds)

	Beef (1)	Pork (2)
Muslim	1.890*** (0.0742)	-0.0327*** (0.00639)
Christian	1.528*** (0.105)	0.559*** (0.0660)
Sikh	-0.0140 (0.0268)	-0.0156 (0.0129)
Hindu \times conflict 1q	-0.0449*** (0.0140)	0.0104* (0.00628)
Muslim \times conflict 1q	0.490*** (0.114)	-0.00964** (0.00474)
Christian \times conflict 1q	-0.473*** (0.157)	-0.300*** (0.0660)
Sikh \times conflict 1q	-0.0863 (0.0953)	-0.0272* (0.0144)
Observations	300557	300346
Adjusted R^2	0.212	0.124
log prices and income	Yes	Yes
FE round	Yes	Yes
FE district	Yes	Yes

Adding other meats

	Beef (1)	Pork (2)	Mutton (3)	Chicken (4)
Muslim	1.890*** (0.0742)	-0.0327*** (0.00639)	1.421*** (0.0800)	0.158*** (0.0263)
Christian	1.528*** (0.105)	0.559*** (0.0660)	-0.157* (0.0892)	0.510*** (0.0868)
Sikh	-0.0140 (0.0268)	-0.0156 (0.0129)	-0.602*** (0.0840)	-0.000988 (0.0823)
Hindu \times conflict 1q	-0.0449*** (0.0140)	0.0104* (0.00628)	-0.00728 (0.0258)	-0.00903 (0.0114)
Muslim \times conflict 1q	0.490*** (0.114)	-0.00964** (0.00474)	-0.129** (0.0564)	-0.0146 (0.0161)
Christian \times conflict 1q	-0.473*** (0.157)	-0.300*** (0.0660)	0.802** (0.319)	-0.00846 (0.167)
Sikh \times conflict 1q	-0.0863 (0.0953)	-0.0272* (0.0144)	0.992*** (0.258)	0.137 (0.0889)
Observations	300557	300346	300557	300557
Adjusted R^2	0.212	0.124	0.127	0.115
log prices and income	Yes	Yes	Yes	Yes
FE round	Yes	Yes	Yes	Yes
FE district	Yes	Yes	Yes	Yes

Next: Entire Food Bundle

- 124 food items
- Estimate AIDS-like demand system with identity choice
- Intuitively: Check if tilt consumption towards the prototypical religious/ethnic share
 - For today: prototypical = overall group mean excluding my village

Choice of Identity Revealed by Consumption Bundle

	(1)	(2)	(3)	(4)	(5)	(6)	
	food share	food share	food share	food share	food share	food share	
Status (religious -ethnic)	s_r × lmpce_r-lmpce_e	0.143*** (0.0201)	0.150*** (0.00960)	0.100*** (0.0155)	0.141*** (0.0200)	0.144*** (0.00957)	0.0992*** (0.0155)
	s_e × lmpce_r-lmpce_e	-0.123*** (0.0201)	-0.266*** (0.0108)	-0.171*** (0.0171)	-0.119*** (0.0201)	-0.262*** (0.0108)	-0.170*** (0.0171)
Total cost of bundle (religious - ethnic)	s_r × tot_wpm	-1.097*** (0.0460)	-0.0149 (0.0346)	-0.393*** (0.0442)	-1.089*** (0.0460)	-0.0152 (0.0346)	-0.391*** (0.0442)
	s_e × tot_wpm	0.991*** (0.0406)	0.131*** (0.0350)	0.600*** (0.0412)	0.982*** (0.0406)	0.130*** (0.0350)	0.598*** (0.0412)
Hindu- Muslim Conflict	s_r × conflict 1y dist	0.0129*** (0.00143)	0.0351*** (0.00275)	0.00901*** (0.00249)			
	s_e × conflict 1y dist	-0.0222*** (0.00181)	-0.0352*** (0.00348)	-0.0121*** (0.00337)			
	s_r × conflict 1q dist				0.0225*** (0.00533)	0.0187*** (0.00452)	0.00116 (0.00450)
	s_e × conflict 1q dist				-0.0402*** (0.00664)	-0.0114* (0.00598)	0.00386 (0.00591)
Observations	33977758	33976270	33976270	33977758	33976270	33976270	
Adjusted R ²	0.676	0.736	0.743	0.676	0.736	0.743	
log price and income terms	Yes	Yes	Yes	Yes	Yes	Yes	
product*religion*ethny*round	Yes	No	Yes	Yes	No	Yes	
product*distid*round	No	Yes	Yes	No	Yes	Yes	

Standard errors in parentheses

SI and Social Preferences

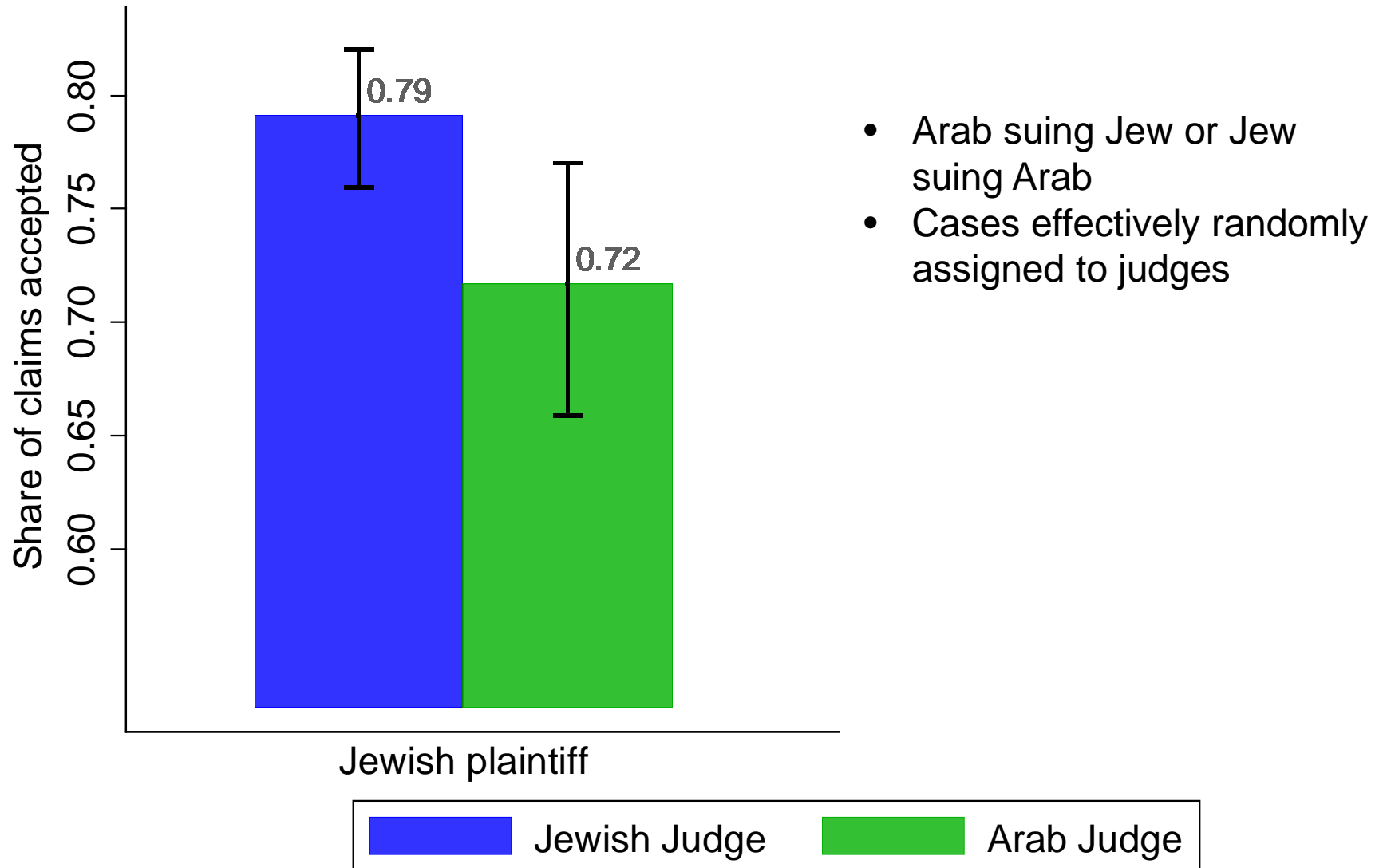
Shayo & Zussman (2011)

- Care about group status
 - Ingroup-love (altruism)
 - Possibly outgroup-hate

- Judicial decisions, civil cases
 - Cases effectively randomly assigned within court
 - Mimic lab settings: transfer between ingroup and outgroup
 - But:
 - naturally occurring data
 - high stakes
 - professional DMs
 - natural groups

Judicial Ingroup Bias

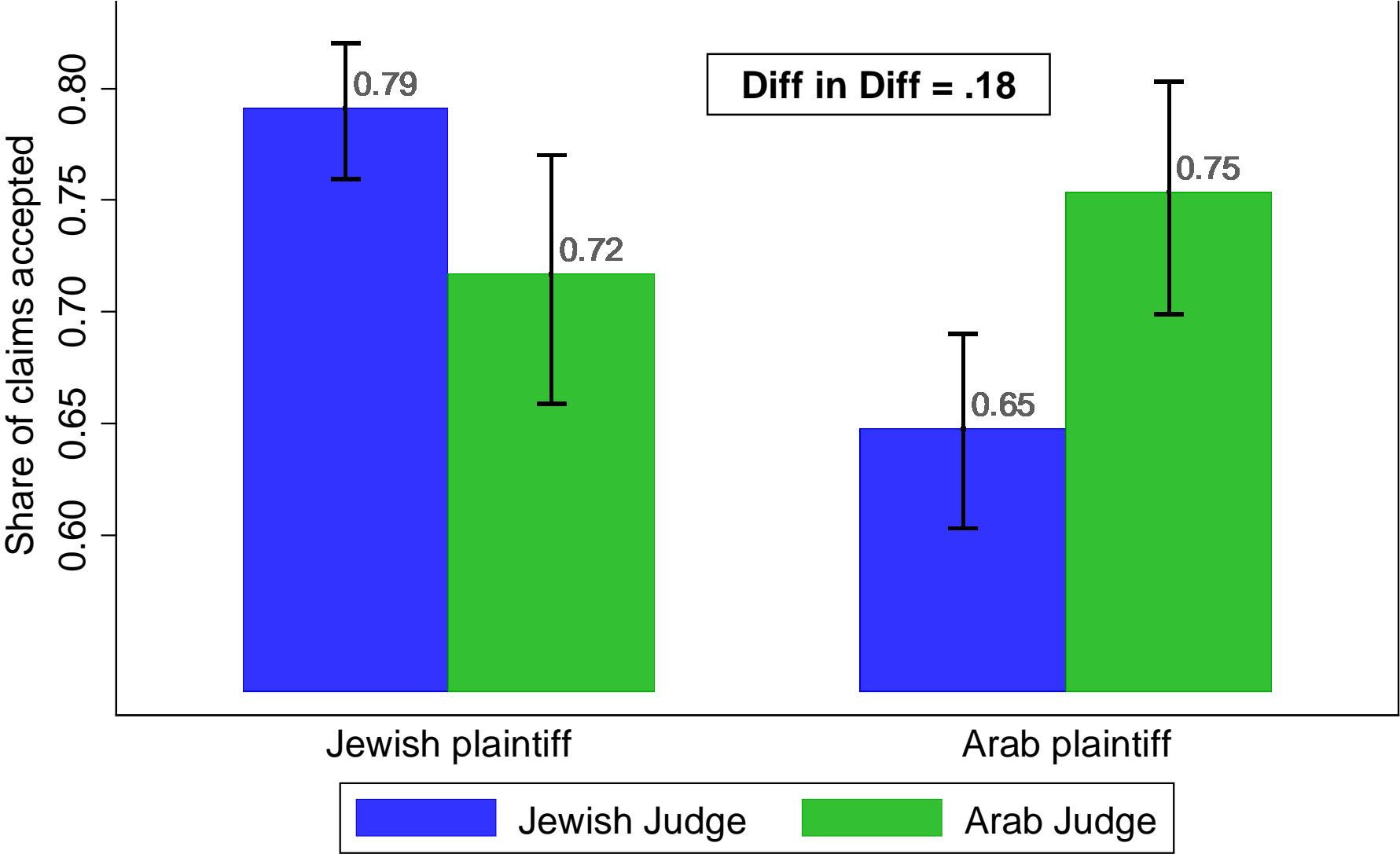
Civil cases, Israel during Intifada (2000-2004)



Based on 1748 mixed cases. Capped ranges indicate 95% confidence intervals.

Judicial Ingroup Bias

Civil cases, Israel during Intifada (2000-2004)

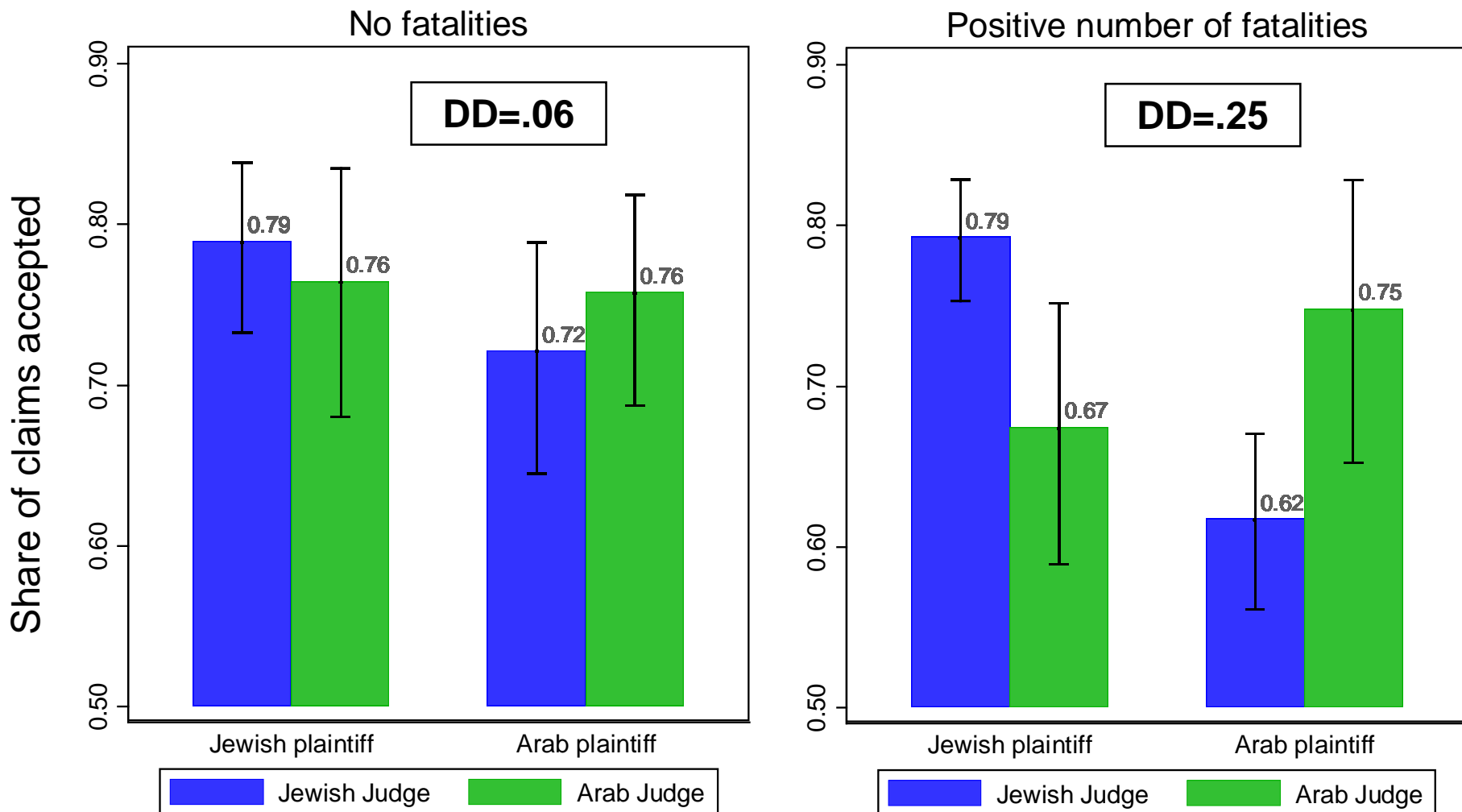


Based on 1748 mixed cases. Capped ranges indicate 95% confidence intervals.

Identification is endogenous

Figure 2: Terrorism and Ingroup Bias

By number of fatalities in natural-area in the preceding year



Based on 1744 mixed cases, 711 with no fatalities in the natural area in the year preceding the trial. Capped ranges indicate 95% confidence intervals.

Channels of Persistence

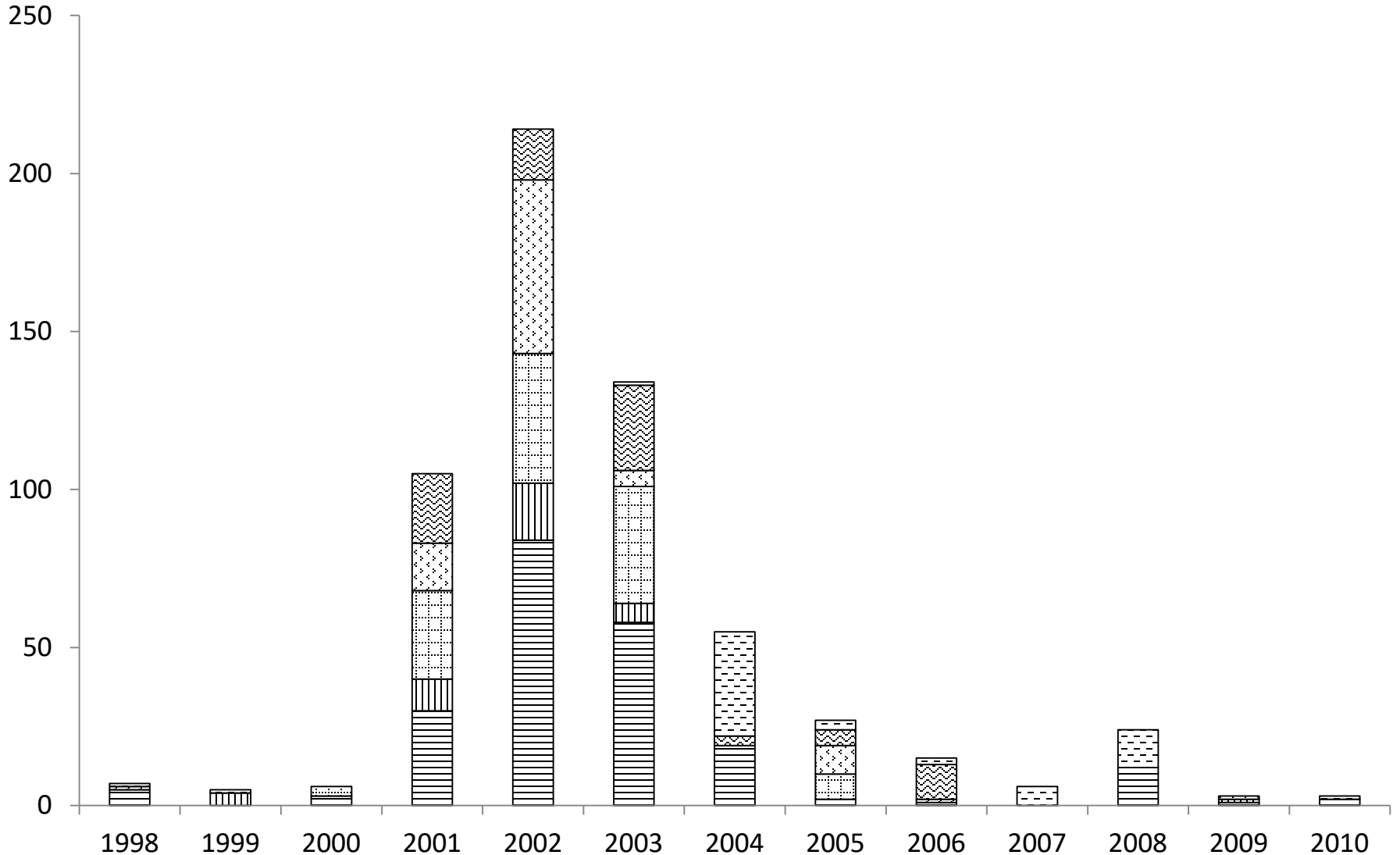
Shayo & Zussman (forthcoming)

Why does bias persist after conflict subsides?

1. Conflict irreversibly hardens ethnic identities
 - Individuals exposed to violence are “scarred”
 2. Multiple equilibria
 - Identities adapt to the environment
- Collect data on judges’ personal history of exposure to violence

Civilian Fatalities by Year and District

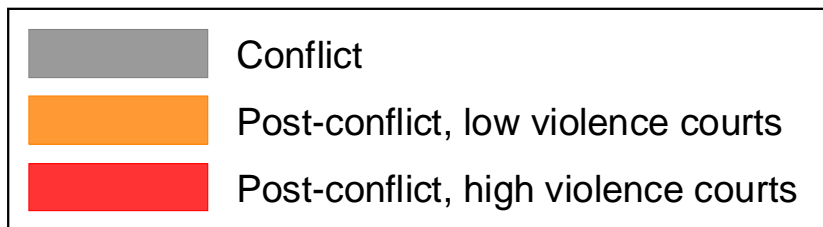
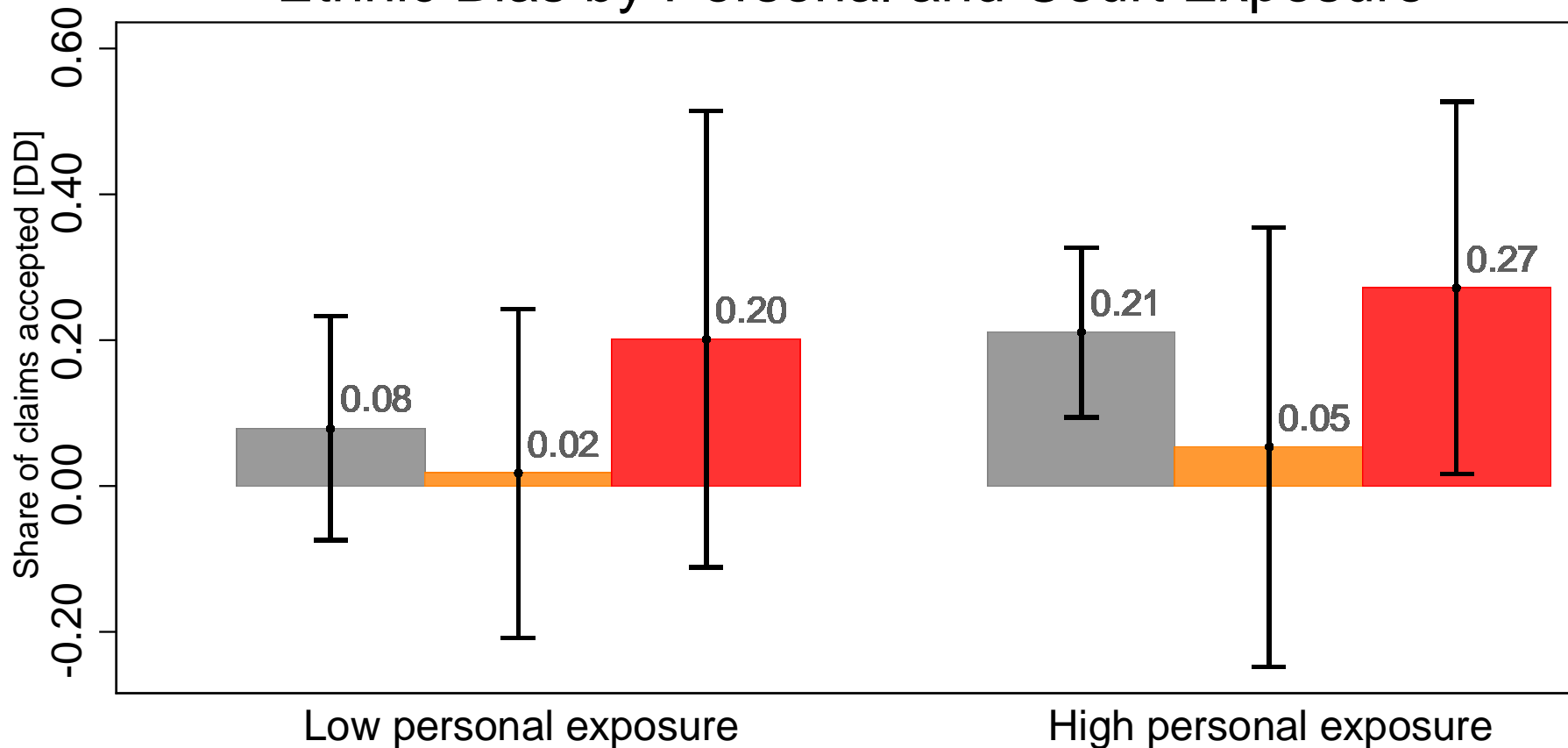
Jerusalem North Haifa Center Tel Aviv South



“Conflict”

“Post-Conflict”

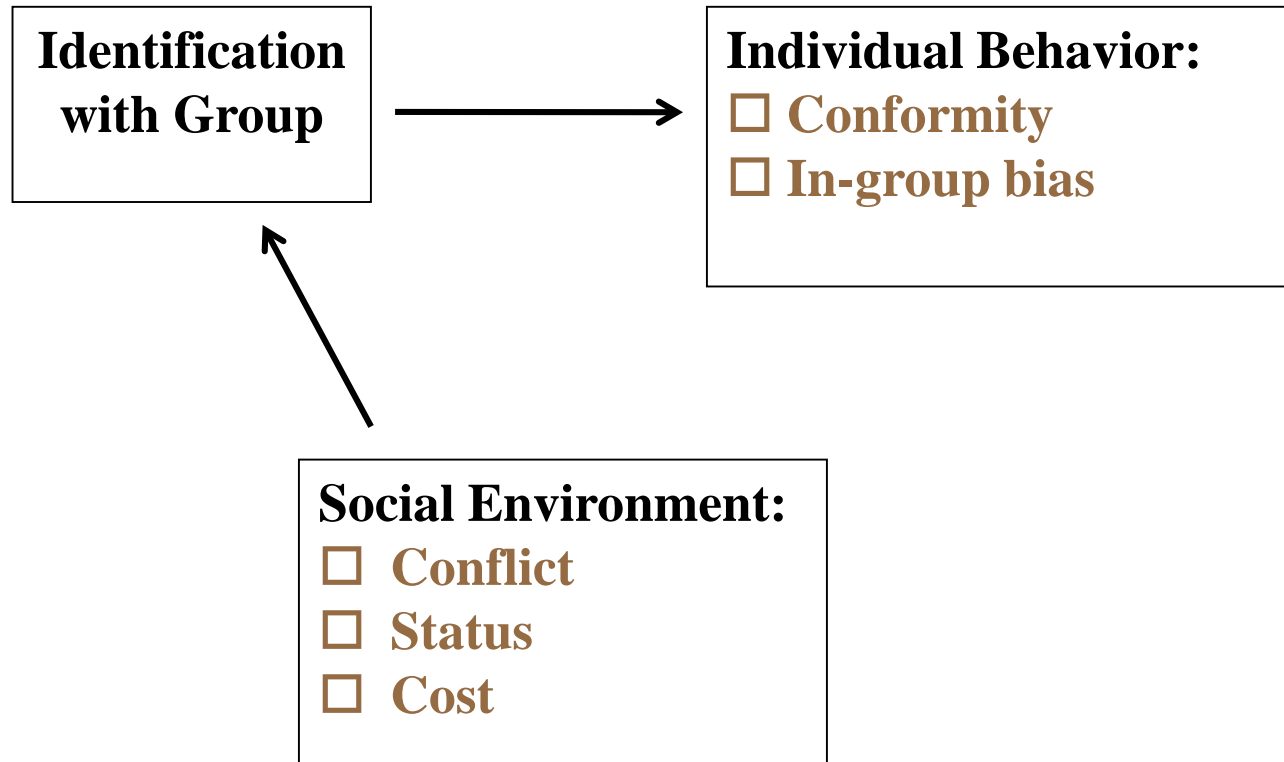
Ethnic Bias by Personal and Court Exposure



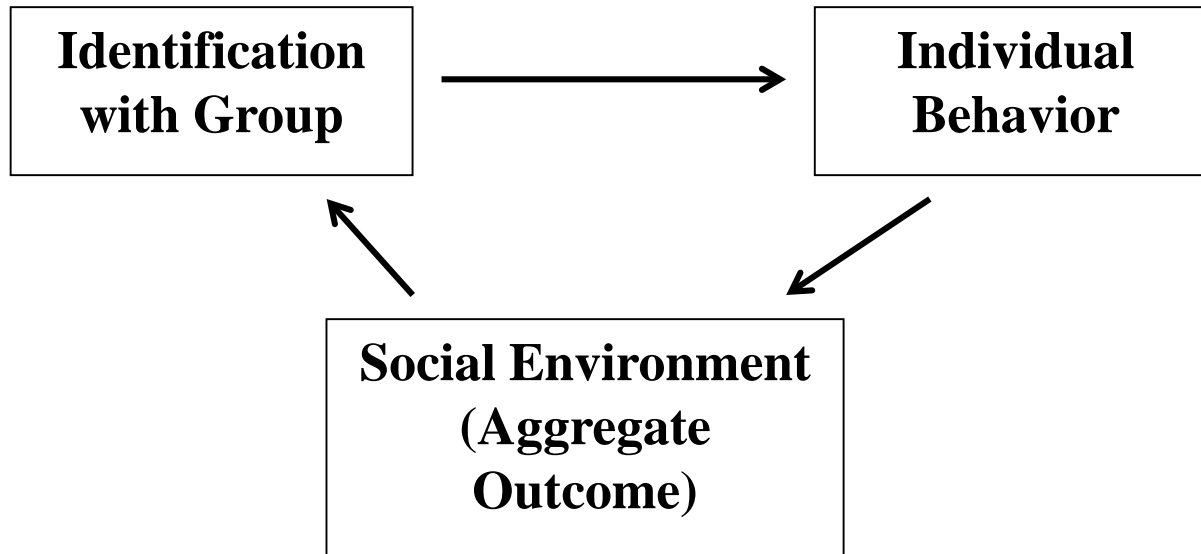
Diff-in-diff estimates. Capped ranges indicate 95% confidence intervals.

Based on 233 judges and 3,070 cases, 870 of which decided by 40 judges that saw no fatalities in their place of employment during the conflict period.

Summing up: Micro Evidence



Thinking about Equilibrium



Look for a steady state (Social Identity Equilibrium):

- Individual behavior consistent with social identification
- Identification consistent with social environment
- Social environment determined by individual behavior

International Integration

Abramson & Shayo (2017)

- Standard political economy: trade off gains to market size and economies of scale against costs of ‘one size fits all’ policy
 - Mundell (1961), Alesina & Spolaore (1997), Bolton and Roland (1997)

- Why no Grexit? Why Brexit?

- Importance of identity well-recognized
 - Popular accounts, EU founders, political scientists

- But what is the equilibrium?
 - Does common identity produce a more stable union?
 - What identity patterns should we expect?

International Integration: Results

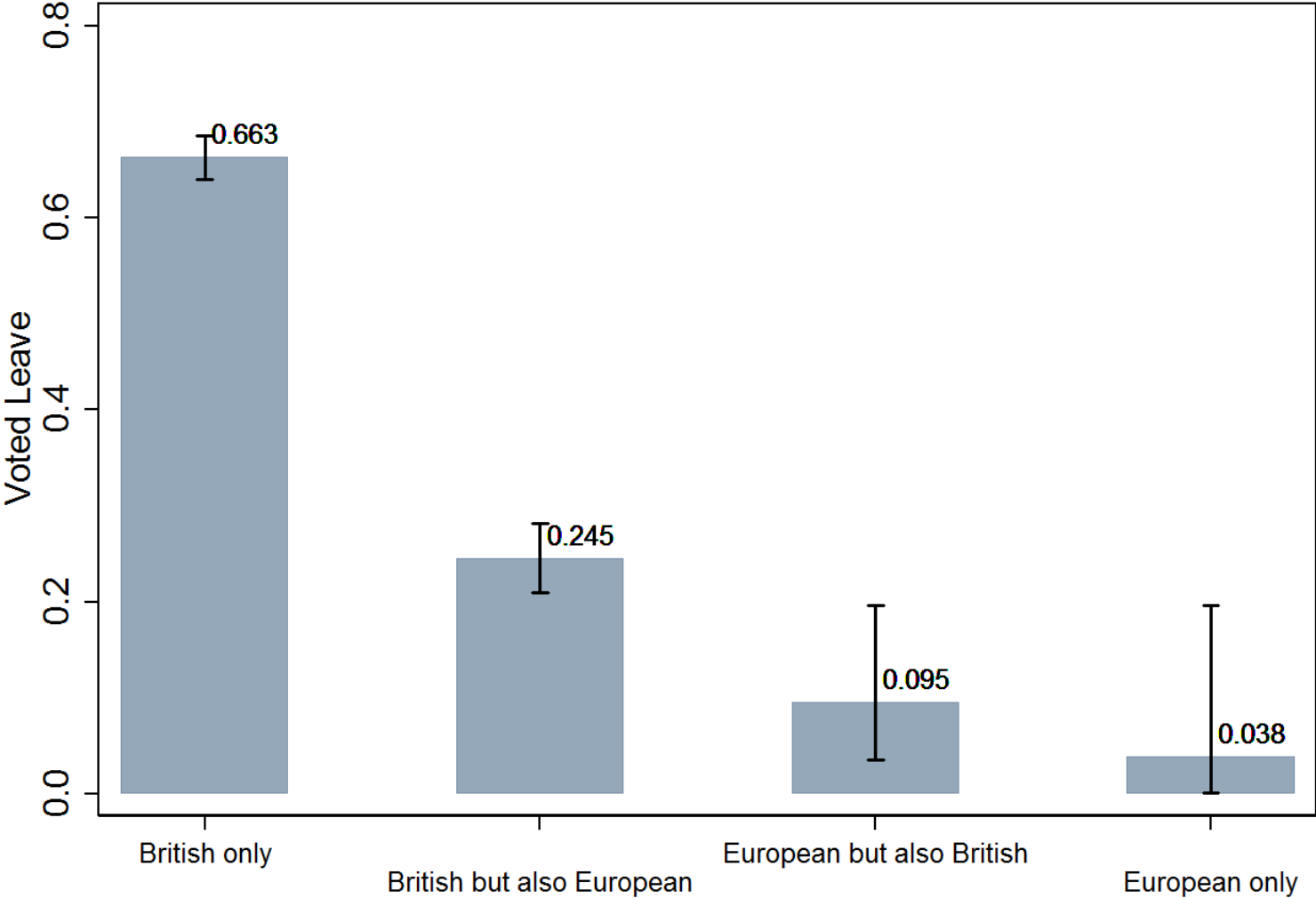
Abramson & Shayo (2017)

- A robust union does not require that all members share a common identity.
 - What is crucial is that members of the periphery (countries contemplating joining or leaving) identify with the union.
 - Most robust when core identify nationally

- National identification in the periphery leads to premature breakup
 - but a common identity can sometimes lead to excessively large unions.

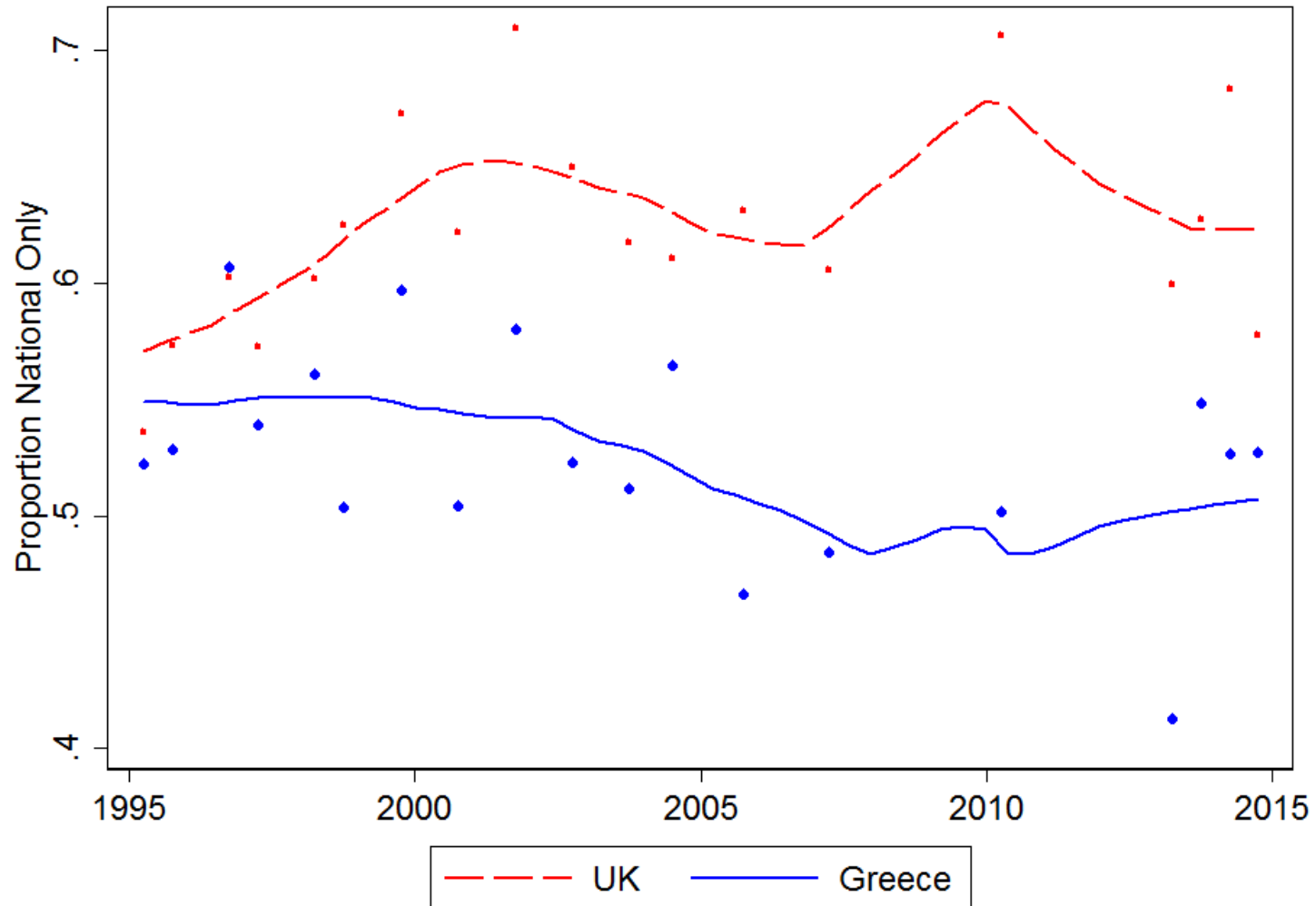
- The union is more fragile when periphery countries have high ex-ante status. Low status countries are less likely to secede (even under large economic differences).
 - Brexit more likely than Grexit
 - Even Frexit not unthinkable, despite economic differences~0.

British Identification and Voting to Leave the EU (May-June 2016)



N=2401

National vs. European identity in the UK and Greece



Nationalism & Redistribution

(Shayo, 2009)

- Voting over redistribution
 - Inequality, POUM, BJW, fairness, culture...
- Again: public discussion and poli-sci lit suggest identity is important.
 - But causality runs both ways. What is the equilibrium?
- Setup:
 - Median voter
 - Identify with economic group (“class”) or with nation
 - Redistribution affects group status

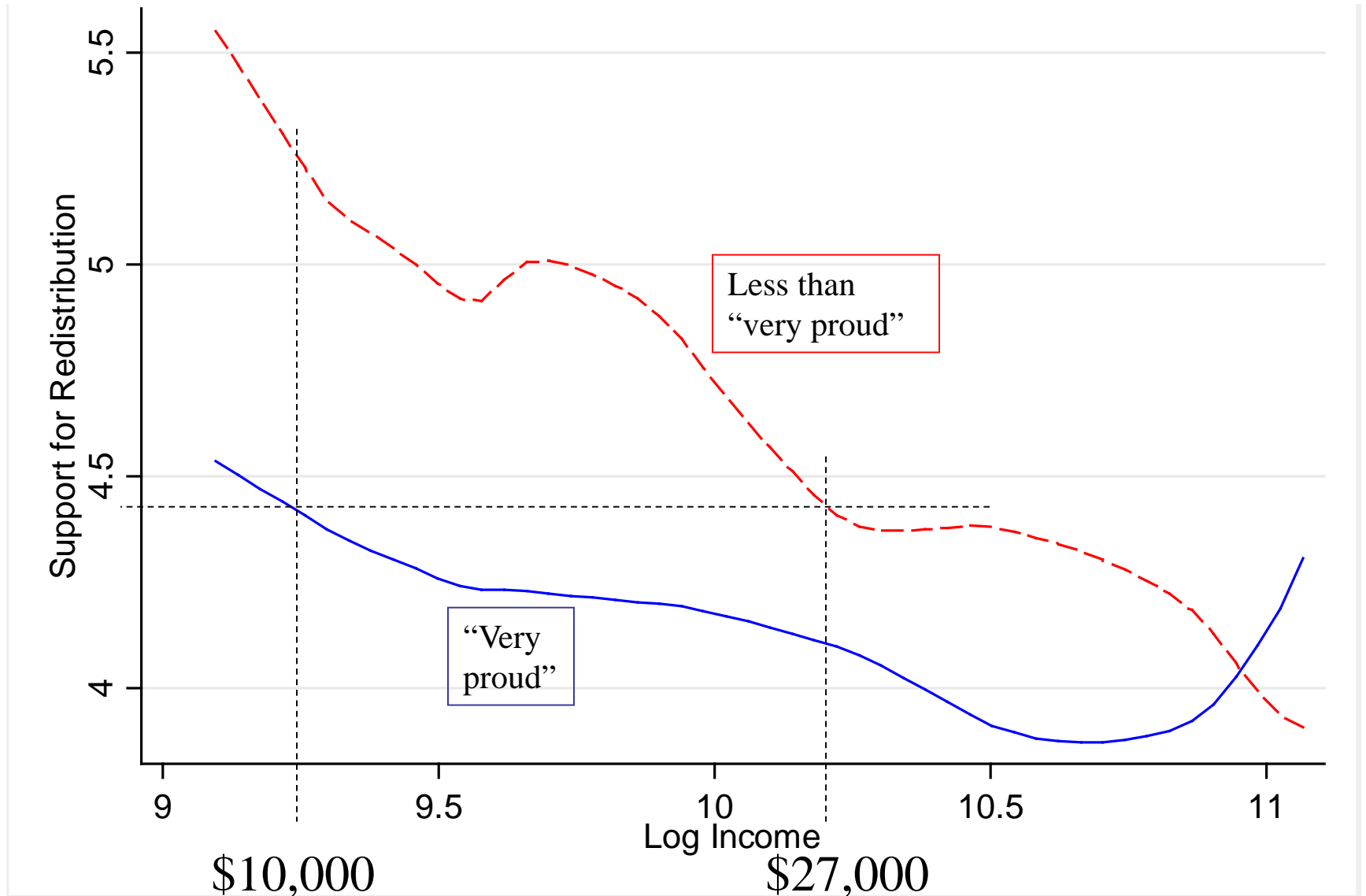
Nationalism & Redistribution: Results

(Shayo, 2009)

- Poorer individuals are more likely to be nationalist.
- Nationalism reduces support for redistribution.
- Increased income inequality leads to a rise in nationalism (which in turn dampens demand for redistribution)
 - This can generate multiple equilibria.
- Immigration of low-skilled workers increases nationalism among the working class
 - especially if immigrants are seen as different (e.g. ethnically) from the native working class.
- Perceived national threats (terrorism...) tend to increase nationalism (and again, lower demand for redistribution).
- A shift towards nationalism is more likely to take place in countries with higher status.

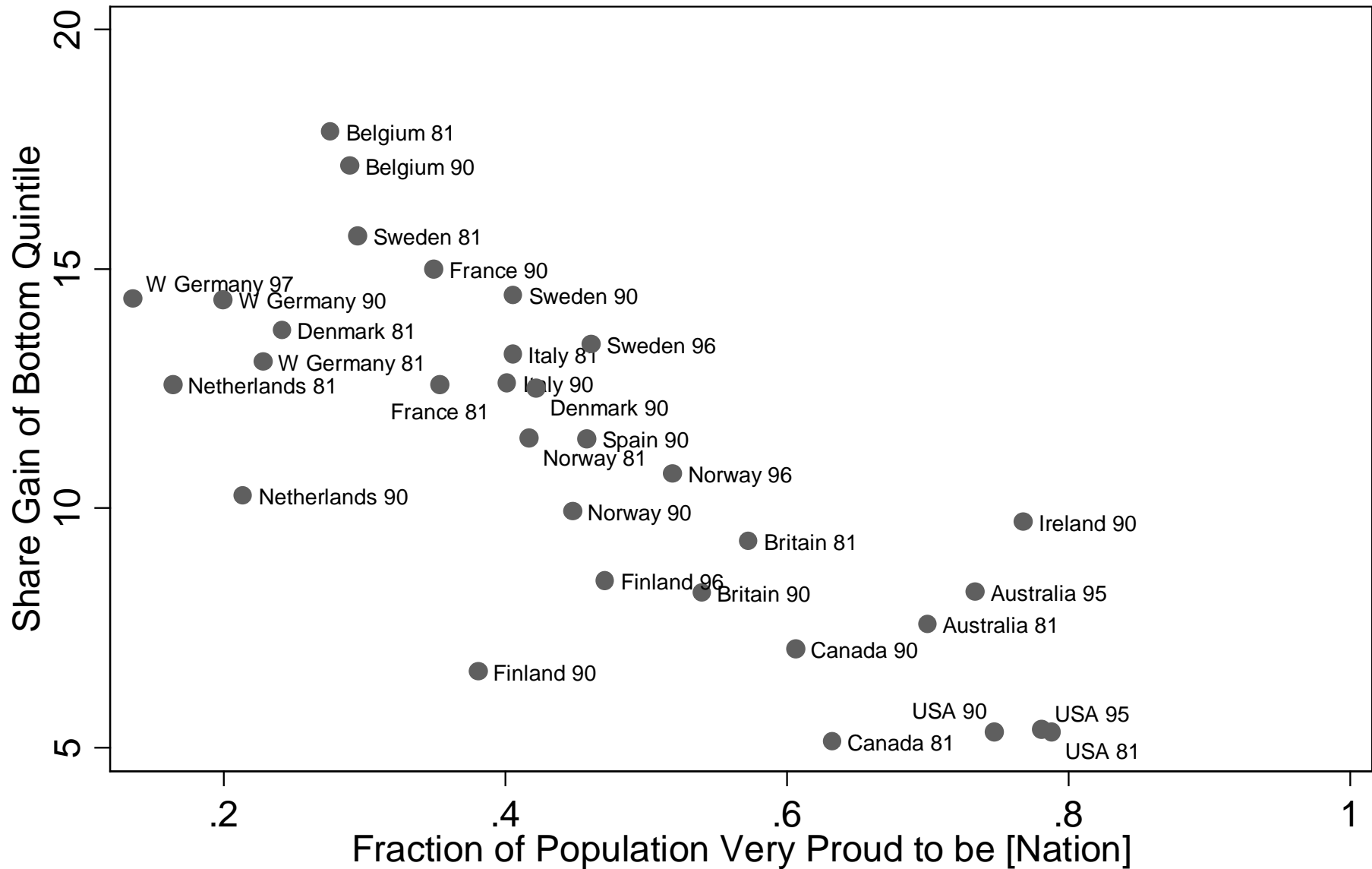
National identification and support for redistribution

WVS, USA 1990



Equilibrium (actual redistribution)

WVS, waves 1-3, Established Democracies



N = 32. R - squared = 0.6

The Passions and the Interests

“The main impact of *The Wealth of Nations* was to establish a powerful *economic* justification for the untrammelled pursuit of individual self-interest, whereas in the earlier literature... the stress was on the *political* effects of this pursuit”

Hirschman (1977), *The Passions and the Interests*, p. 100.

- Public discussion of conflict (and potential peace deals) tends to focus on territory, identity, hostilities, fatalities, holy places.
 - Economic implications often come second
- Financial markets expose individuals to the broader economy
- Can this lead to a re-evaluation of the costs and benefits of conflict and of peace initiatives?

Does exposure to financial markets change political behavior & attitudes?

Jha and Shayo (2017)

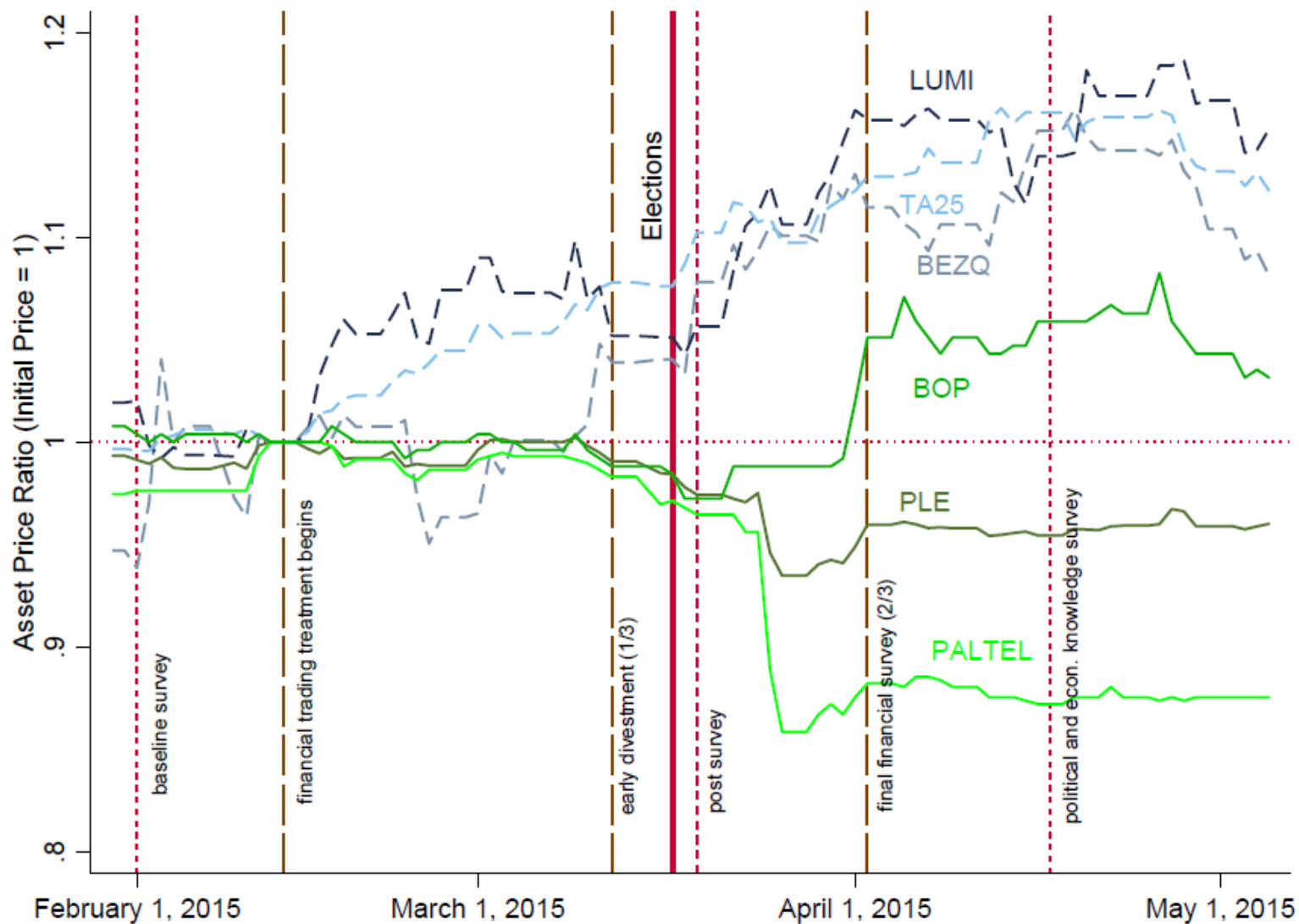
□ Exposure

- Endogenous in any observational data
 - both who invests and in what assets
- Randomly assign 1345 Israeli voters to financial assets. Encourage them to trade during a period of 4-7 weeks
 - ❖ Israeli stocks
 - ❖ Palestinian stocks
 - ❖ Cash to invest in stocks
 - ❖ Control
 - Initial value \$50 or \$100
 - Redeemed before or after elections.

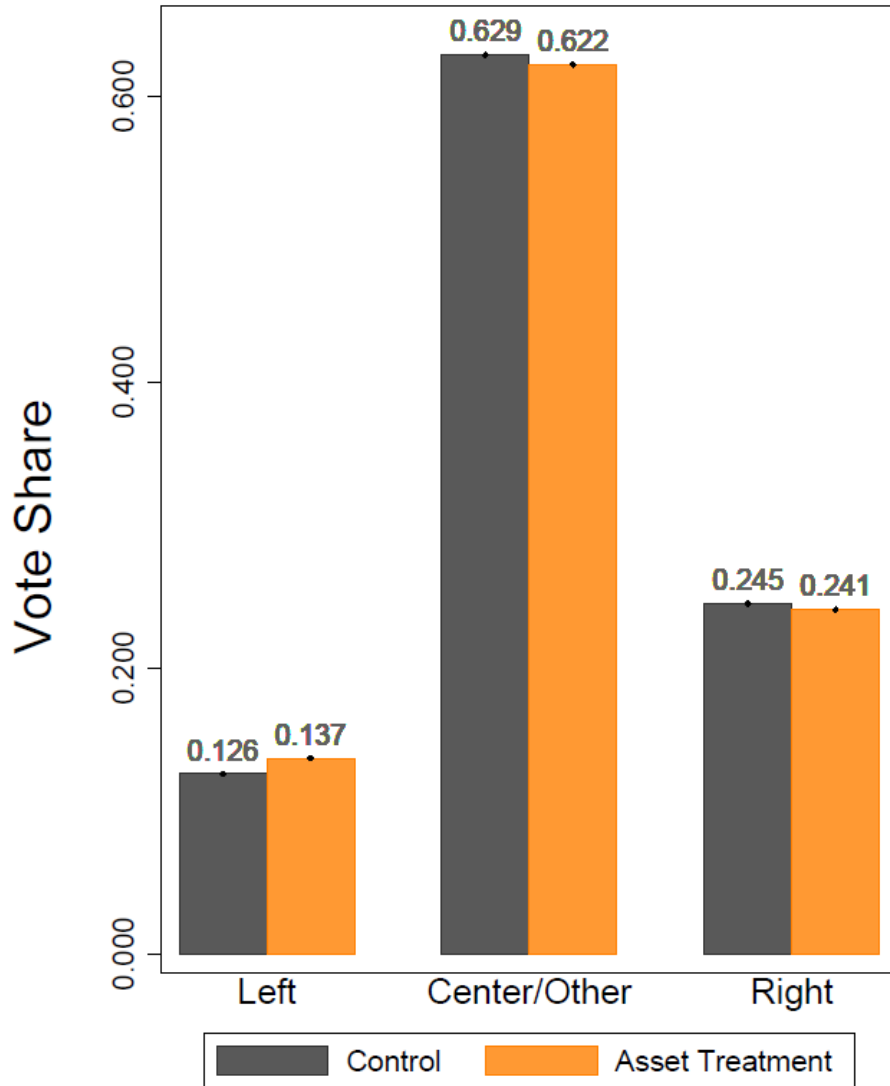
□ Outcomes

- Main outcome: vote in the March 2015 Israeli general elections
- Also: self-reported attitudes towards peace deal and economic policy; financial literacy; media consumption.

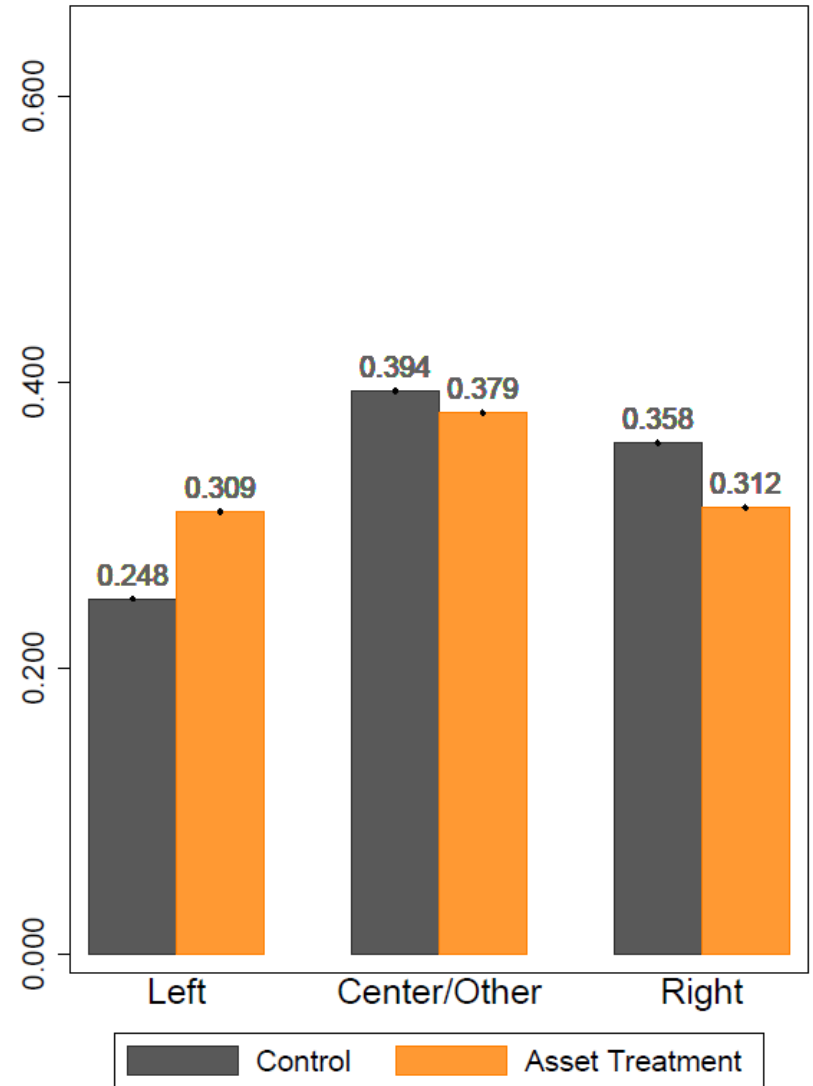
Figure 2: Asset Prices during the Experiment and 2015 Elections.



2013 Elections



2015 Elections

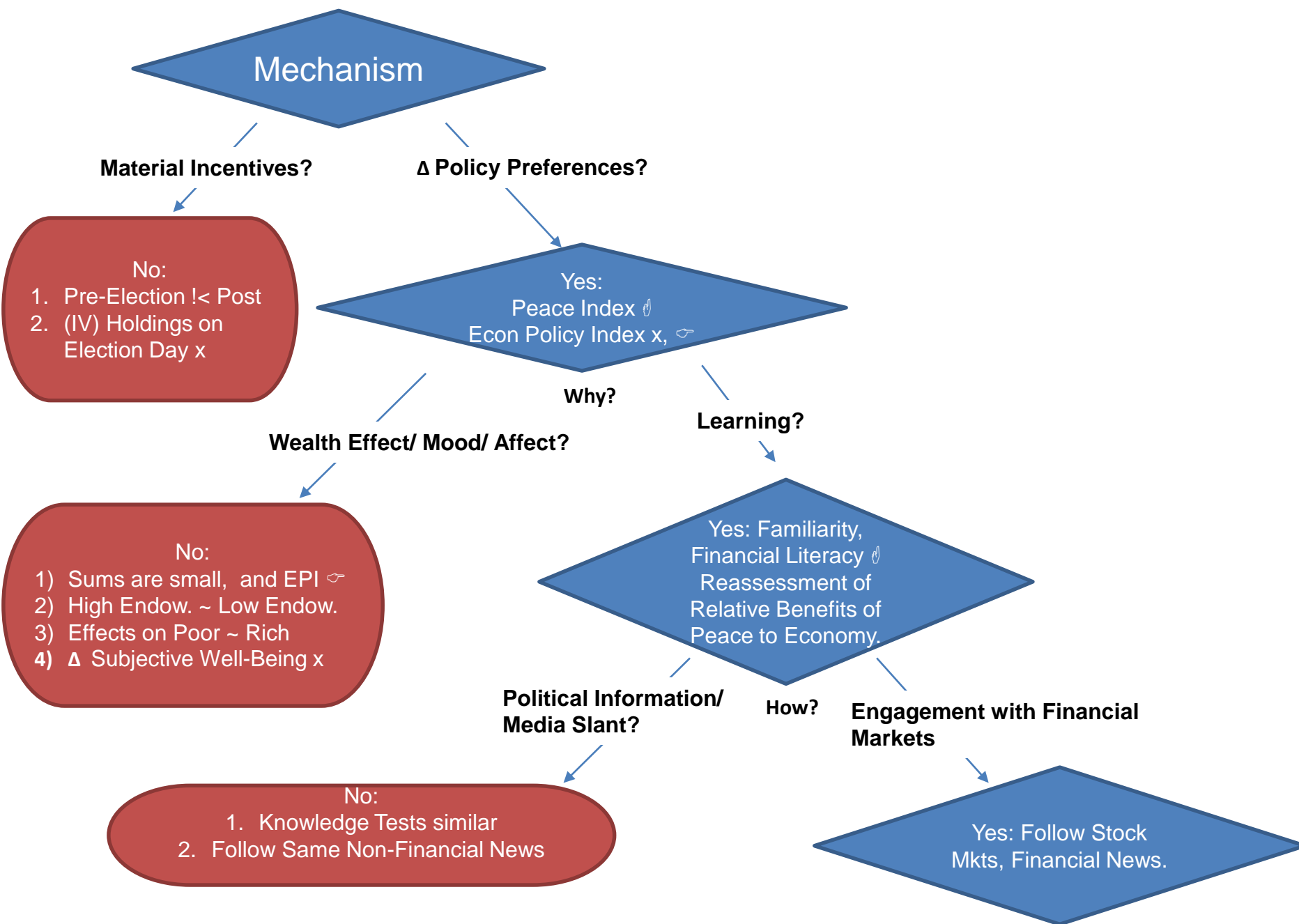


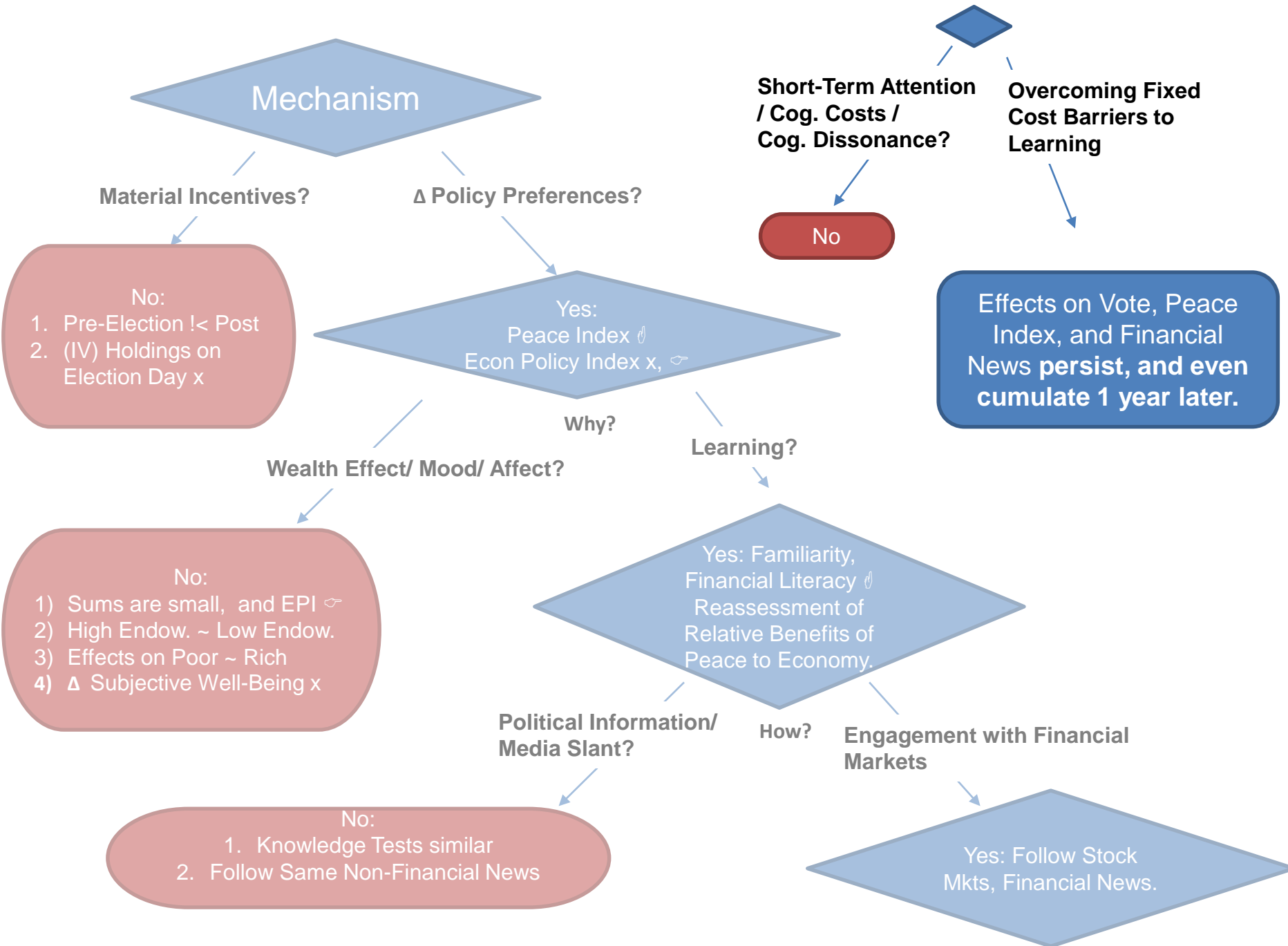
N=1311. The center bars include 71 and 17 individuals who voted for for 'other' parties in 2013 and 2015, respectively, as well as 1 and 27 individuals who did not vote in 2013 and 2015, respectively.

Does exposure to financial markets change political behavior & attitudes?

Jha and Shayo (2017)

- Asset treatment has a strong effect on voting:
 - Vote for the left increases by 5-6 percentage points
 - Similar ballpark to estimated effect of increased rocket threat from Gaza (Getmansky & Zeitzoff APSR 2014)
 - Somewhat weaker effect on vote for the right
 - 4-5 pp
 - Effect of treatment on the treated even larger.





Mechanism

Material Incentives?

Δ Policy Preferences?

No:

- 1. Pre-Election !< Post
- 2. (IV) Holdings on Election Day x

Yes:

Peace Index Ⓛ
Econ Policy Index x, Ⓛ

Why?

Wealth Effect/ Mood/ Affect?

No:

- 1) Sums are small, and EPI Ⓛ
- 2) High Endow. ~ Low Endow.
- 3) Effects on Poor ~ Rich
- 4) Δ Subjective Well-Being x

Learning?

Yes: Familiarity,
Financial Literacy Ⓛ
Reassessment of Relative Benefits of Peace to Economy.

Political Information/
Media Slant?

No:

- 1. Knowledge Tests similar
- 2. Follow Same Non-Financial News

How?

Engagement with Financial Markets

Yes: Follow Stock Mkts,
Financial News.

Short-Term Attention / Cog. Costs / Cog. Dissonance?

No

Overcoming Fixed Cost Barriers to Learning

Effects on Vote, Peace Index, and Financial News persist, and even cumulate 1 year later.

Conclusion

- Individual behavior affected by group membership
 - Consumption
 - Allocation decisions (even by judges)
 - Voting (redistribution, Brexit)
- Which groups people identify with?
 - Conflict
 - Status
 - Costs
- Economics vs. identity?
 - Not necessarily. But there is scope for learning (esp. by doing).