Social Identity and Preferences over Redistribution

By

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Abstract
We design an experiment to study the effects of social identity on preferences over redistribution. The experiment highlights the trade-off between social identity concerns and maximization of monetary payoffs. Subjects belonging to two distinct natural groups are randomly assigned gross incomes and vote over alternative redistributive tax regimes, where the regime is chosen by majority rule. We find that a significant subset of the subjects systematically deviate from monetary payoff maximization towards the tax rate that benefits their group when the monetary cost of doing so is not significantly high. These deviations cannot be explained by efficiency concerns, inequality aversion, reciprocity, social learning or conformity. Finally, we show that behavior in the lab helps explain the relationship between reported income and stated preferences over redistribution observed in surveys.