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## Inequality and the State: Comparing U.S. and German Preferences

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# CEifo *Working Paper Series*

## INEQUALITY AND THE STATE: COMPARING U.S. AND GERMAN PREFERENCES

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### Abstract

Survey data from the United States, West Germany and East Germany are analyzed to compare individual attitudes towards political redistribution in each country. In West Germany the “homo oeconomicus effect”, the “social rivalry effect” and the “public values effect” simultaneously retain an independent explanatory power of individual attitudes. In the United States the third effect disappears. In East Germany both the second and the third effect disappear.

Keywords: Governmental redistribution, political preferences, social rivalry

JEL Classification: D31, D72, H23

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# 1 Introduction

The extent to which governments are engaged in reducing income inequality varies a lot across countries [see e.g. Goodin *et al.* (1999), Lindert (1996), Perotti (1996)]. This heterogeneity is likely to mirror systematic differences in the factors that shape the political preferences of citizens in the various countries. The current paper aims at exploring the distinctive forces that drive citizens' preferences for political redistribution in the U.S. and Germany, distinguishing within the latter between West Germany and East Germany.<sup>1</sup>

Comparing the U.S., West Germany, and East Germany is an interesting exercise because such a comparison incorporates two much-discussed dichotomies. The first one may be called the "transatlantic dichotomy". It stresses the major role traditionally played by the state in the economies of western European countries as compared to its relatively minor role in the U.S.. The second one is the "east-west dichotomy". It puts forward the experience of socialism in East Germany as a distinctive feature of this part of Germany. By comparing the U.S. to West Germany and the latter to East Germany, the current paper explores whether and how such dichotomies affect the preferences of individuals for governmental reduction of income inequality.

I build upon Corneo and Grüner (2001), in which an aggregate empirical analysis for a host of countries is undertaken. Following that paper, I put forward three effects which might help explaining the shape of individual preferences for political redistribution: The "homo oeconomicus effect", the "public values effect", and the "social rivalry effect". The distinctive trait of the current paper consists in offering a test of the relevance of those effects at the country level. Thereby one can extrapolate national idiosyncracies that may help explaining country-specific degrees of income redistribution.

The three effects mentioned above can briefly be described as follows. The "homo oeconomicus effect" (HOE) focuses on the net pecuniary gain accruing to individuals from political redistribution. It is the only effect on which the standard economic theory of public choice concentrates. An individual is expected to support the government's intervention towards reducing inequality if his net income is raised by that intervention. In order to test for the HOE one usually employs a measure of the distance separating the individual's gross income to the average income in the community which implements the redistributive scheme, which gives a proxy of the individual's net loss from redistributive taxation [Roberts (1977)].

The "public values effect" (PVE) takes a more generous view of humans. It sees the individuals' attitudes towards political redistribution as reflecting the value system they

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<sup>1</sup>The data used in the empirical analysis refer to 1992, when the German reunification had already taken place. For brevity, I nevertheless refer to the regions of the former GDR as to a "country".

endorse. Thus, people might not support the redistributive program which maximizes their private benefit, but the one which conforms with their vision of what constitutes a good policy for society as a whole [Arrow (1963)].

It might be argued that at a very fundamental level all individuals share the same values, possibly because of a "veil-of-ignorance" argument. However, individuals may entertain idiosyncratic beliefs about the contributions of, respectively, family background and individual effort to personal economic success. An individual who thinks that family background, in terms of wealth and human capital, is the major determinant of the income of individuals is more likely to favor highly redistributive programs. An individual who believes in the importance of personal hard work is less likely to favor it.

A first motive behind the above conjecture relates to distributive justice. People may think it is fair to leave individuals with their income, if that was created by the individuals themselves, whereas one's entitlement to one's income is weaker if the income was not generated under the responsibility of the individual [Roemer (1996)]. The second motive relates to efficiency. The incentive costs of redistributive taxation will be higher if income generation is highly elastic with respect to personal effort decisions. This makes redistribution a more expensive matter for society as a whole. Following this line of reasoning, Piketty (1995) has detailed an argument based on costly experimentation and learning about the contributions of family background and individual effort to personal economic success, which generates a link between an individual's experience of upward income mobility and his degree of political conservatism.

In order to test for the PVE, I use data on individual beliefs about success factors as well as data on the mobility experience of individuals.

The "social rivalry effect" (SRE) bases upon the idea that an individual's well-being is affected by the *relative* living standard of that individual. In that case, one's judgement about political redistribution will depend on its impact upon the distribution of consumption in one's social environment, and not only on one's consumption. By way of an example, reducing the inequality of disposable income will make it harder for a middle-class individual to consume in such a way that he can readily be distinguished from a working-class individual. In turn, this may reduce the deference he receives in everyday social interactions and make him feel less worthy. If this effect is strong enough, he may oppose political redistribution even if his net pecuniary benefit from political redistribution is positive.<sup>2</sup>

How can the empirical relevance of the SRE be evaluated? Suppose that within a given country it is possible to identify the social value of different income classes. The

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<sup>2</sup>A formal model in that spirit is developed by Corneo and Grüner (2000).

social value of a given income class can be thought of as the average contribution to their social environments made by people with that income. So, if there are  $K$  income classes denoted by  $k = 1, \dots, K$ , people inside each class are associated with a social value  $v_k$ . If the income classes are monotonically ordered, so that class  $k + 1$  is always richer than class  $k$ , then each class  $k \in \{2, \dots, K - 1\}$  has two neighboring classes, denoted respectively  $k - 1$  and  $k + 1$ . Suppose that income classes are so defined that a marginal increase in the government's redistributive program increases the amount of social contact between neighboring classes, without affecting the contact with more distant classes. Increasing the degree of political redistribution therefore changes the average quality of social contacts of class- $k$  individuals in two ways. First, their milieu will consist of an increased fraction of class- $k - 1$  individuals, which tends to decrease the expected utility from social interactions proportionally to  $v_k - v_{k-1}$ . Second, their social environment will be made up by an increased portion of individuals from class  $k + 1$ , which tends to improve the quality of social life of class- $k$  individuals in proportion to  $v_{k+1} - v_k$ . The SRE for an individual of class  $k$  can then be defined as  $SRE_k \equiv 2v_k - (v_{k-1} + v_{k+1})$ . The prediction to be tested is that increasing the SRE makes the individual less likely to support political redistribution.

This paper attempts to understand how powerful those three effects are in shaping people's preferences for redistribution. Section 2 introduces the empirical sources I use and describes how the social values of income classes within a single country can empirically be determined. The econometric investigation is conducted in Section 3, where the main findings are discussed. The final Section 4 provides some concluding remarks.

## 2 The data

### 2.1 The ISSP Social Inequality II Module

I use data from the International Social Survey Programme (ISSP), 1992 Social Inequality II Module. This empirical source provides data obtained from surveys conducted in 1992 with representative samples of the population of several countries. Data from the U.S. and Germany are especially complete, reliable and comparable, which additionally motivates the choice of these countries for an international comparison.

TABLE 1: Responses to question V57

”It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes.” (in percent)

Country	strongly agree	agree	neither agree nor disagree	disagree	strongly disagree
Germany (West)	20.0	45.5	14.6	14.7	5.2
Germany (East)	42.4	46.8	5.0	5.5	0.2
United States	9.5	28.8	19.8	29.3	12.7

TABLE 2: Responses to question V84

”If income became more equal in (country of the respondent), some people would get higher incomes and some would get lower incomes. Do you think your income:” (in percent)

Country	would definitely go up	would probably go up	would stay the same	would probably go down	would definitely go down
Germany (West)	13.1	32.8	46.8	6.4	0.8
Germany (East)	40.7	45.1	13.1	0.9	0.1
United States	22.5	37.2	34.5	5.2	0.7

The data set contains an indicator of the support given by individuals to political redistribution. Survey question V57 asks individuals whether they agree with the following statement: *"It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes."* Respondents can choose among "strongly agree", "agree", "neither agree nor disagree", "disagree", "strongly disagree". This empirical variable is the one I employ in order to recover the individual preferences for political redistribution in the various countries. Table 1 reports the frequencies of the various answers in each country.

The HOE is based on the individual pecuniary incentives to support a reduction of inequality. An empirical proxy is survey question V84, which asks individuals: *"If incomes became more equal in your country, some people would get higher incomes and some would get lower incomes. Do you think your income: 1. Would definitely go up; 2. Would probably go up; 3. Would stay the same; 4. Would probably go down; 5. Would definitely go down."* Table 2 reports the frequencies of the various answers in each country.

A second way to capture the HOE is to use the transformation  $\ln(y_i/\bar{y})$ , where  $y_i$  is the respondent's gross income and  $\bar{y}$  is average gross income in the respondent's country, i.e. in the U.S. for American respondents and in whole Germany for both respondents in East and West Germany.

In order to test for the PVE one can use the answers given by individuals to question V9, which asks: *How important is hard work for getting ahead in life?* Respondents can choose among "essential", "very important", "fairly important", "not very important", "not important at all". A similar role is played by survey question V4, which asks: *How important is coming from a wealthy family for getting ahead in life?* Tables 3 and 4 record the frequencies of the various answers.

Following Piketty (1995), one can also test the PVE by looking at the mobility experience of individuals. The ISSP data set contains the survey question V75, which asks the following: *Compared with your father when he was about your age, are you better or worse off in your income and standard of living generally?* Respondents can tick one of the following answers: "much better off", "better off", "about equal", "worse off", "much worse off". Table 5 reports the frequencies of the answers to this question.



TABLE 3: Responses to question V9

”How important is hard work for getting ahead in life?” (in percent)

Country	essential	very important	fairly important	not very important	not important at all
Germany (West)	13.9	38.4	35.7	10.1	2.0
Germany (East)	20.1	51.1	22.7	5.0	1.0
United States	37.7	50.4	10.7	1.3	0

TABLE 4: Responses to question V4

”How important is coming from a wealthy family for getting ahead in life?” (in percent)

Country	essential	very important	fairly important	not very important	not important at all
Germany (West)	5.6	14.1	28.4	35.1	16.8
Germany (East)	7.6	15.1	26.0	32.4	18.9
United States	3.4	14.6	32.3	31.6	18.1

TABLE 5: Responses to question V75

”Compared with your father when he was about your age, are you better or worse off in your income and standard of living generally?” (in percent)

Country	much better off than your father	better off	about equal	worse off	much worse off than your father
Germany (West)	25.9	45.2	18.8	7.8	2.3
Germany (East)	22.5	53.6	15.8	7.2	0.9
United States	22.6	37.0	21.4	15.9	3.1

## 2.2 International Prestige Scores

In order to test for the SRE, I proceed as in Corneo and Grüner (2001). The ISSP data set provides detailed information about the occupation of each respondent. These occupations can be made internationally comparable using the International Standard Classification of Occupation 1988 of the International Labor Office. For each occupation identified in this way one can find an index measure of social prestige. Internationally comparable measures of occupational prestige are delivered by the Standard International Occupational Prestige Scale (SIOPS). Prestige scores are computed from responses to survey questions asking people to evaluate occupations according to their social standing. A 0-100 scale is employed, a higher score meaning a higher prestige.<sup>3</sup> I assign each individual in the sample the SIOPS-value corresponding to his occupation. For each income class in each country then an average prestige score can be computed. These average scores have been used as the social values of the various income classes.

For symmetry reasons, five income classes were considered in each country: the poor, the lower class, the middle class, the upper class, and the rich. Income classes were constructed in such a way that in each country the maximal income differences to be found in each class were the same for all classes in that country. Table 6 depicts how the average prestige score varies with income in the countries of the sample. It is worthwhile noticing that the relationship is monotone in the U.S. and West Germany but not so in East Germany.

TABLE 6: Average prestige scores of income classes.

Country	poor	lower	middle	upper	rich
Germany (West)	36.10	42.35	51.05	56.65	65.43
Germany (East)	35.28	42.05	49.59	45.07	48.00
United States	38.86	40.86	45.89	48.36	50.26

The next step has been to employ the empirical social values in order to compute the  $SRE_k$ :

$$SRE_k = 2v_k - (v_{k-1} + v_{k+1}).$$

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<sup>3</sup>The methodology used to construct internationally comparable measures is discussed in depth by Ganzeboom and Treiman (1996).

Notice that this variable is not empirically defined for both the poor ( $k = 1$ ) and the rich ( $k = 5$ ). Therefore, I only use the data for the three central - and more numerous - classes of the sample.

### 3 Estimation Results

The general empirical model is:

$$R_i^* = X_i\beta + \epsilon_i$$

where  $R_i^*$  is a latent variable,  $R_i$  is the observed variable (answer to question V57), equal to 1 for individual  $i$  if  $R_i^* > 0$  and she or he therefore agrees with the statement that the government should reduce income differences (question V57 answered by "strongly agree" or "agree"), and 0 otherwise, and  $X_i$  is a vector of explanatory variables. These include variables that proxy the three effects discussed above as well as several control variables and a constant. Available controls are the marital status, sex, age, years of education and the employment status of the respondent.

#### 3.1 Country-specific Regressions

In order to discover the country-specific traits of preference formation, for each of the three countries a separate logit regression is run. The main results are reported in Table 7.

TABLE 7: Logit for question V57 (Government should reduce inequality)

Variable	Coefficient USA	Coefficient West Germany	Coefficient East Germany
V84	1.0395*** (0.2455)	0.3079** (0.1580)	1.1461*** (0.4334)
INC	-0.3518*** (0.1541)	-0.1226 (0.1814)	0.2129 (0.7707)
V9	-0.5118 (0.8144)	-0.5890*** (0.2758)	-6.3502 (13.3346)
V4	0.1116 (0.2201)	0.0638 (0.1515)	0.4589 (0.3585)
V75	-0.1446 (0.2232)	0.0059 (0.1715)	0.1113 (0.4478)
SRE	-0.0696* (0.0479)	-0.0519* (0.0355)	-0.0307 (0.0383)
SEX	0.3073 (0.2269)	0.1696 (0.1720)	0.6947** (0.3901)
AGE	0.0046 (0.0094)	-0.0077 (0.0060)	0.0096 (0.0160)
MAR	-0.0895 (0.2219)	-0.0077 (0.1563)	0.1990 (0.3852)
EMP	-0.2523 (0.2980)	-0.2567 (0.2238)	-0.2539 (0.5378)
EDU	-0.0488 (0.0456)	-0.0129 (0.0268)	0.0261 (0.0632)
Observations	398	837	368
-2 Log-lik.:	490.579	1030.347	231.675
Note: asymptotic standard errors in parenthesis.			
* = Significantly different from zero at the 15% level.			
** = Significantly different from zero at the 10% level.			
*** = Significantly different from zero at the 5% level.			

Let us begin to scrutinize the estimation results by considering the HOE. This effect is captured by two variables. The first one is a dummy variable ( $V84$ ) that equals one for individual  $i$  if he thinks that his income goes up when inequality is reduced, and zero otherwise. As expected, the coefficient of the  $V84$  variable shows a positive and strongly significant coefficient in all countries. Individuals who claim to derive pecuniary advantages from a reduction of inequality are more likely to support political redistribution of income.

The second proxy for the HOE is the variable  $INC$ , that equals the difference between the natural logarithm of the respondent's income and the natural logarithm of the average income in the respondent's country.<sup>4</sup> In line with the HOE, we find that in the U.S. there is a statistically significant negative effect of an individual's income on the probability with which he is going to favor political redistribution. In Germany this is not the case.

All in all, estimation results show that preferences for political redistribution respond very strongly to the selfish pecuniary incentives put forward by standard economic theory. Support for redistribution is indeed greater for the poor than for the rich in both the U.S. and in Germany. This fact confirms what was found at the aggregate level for a large sample of countries by Corneo and Grüner (2001).

Now, consider the PVE. It is captured by the dummy variables  $V9$ ,  $V4$  and  $V75$ . Variable  $V9$  equals one for individual  $i$  if he thinks that hard work is at least fairly important for getting ahead in life, and zero otherwise. According to the theory, one expects a negative coefficient on the  $V9$  variable, which means that people who think income to be very elastic with respect to effort are less likely to favor political redistribution. This effect is strongly significant only in West Germany.

Variable  $V4$  equals one for individual  $i$  if he thinks that family wealth is essential or very important for getting ahead in life, and zero otherwise. According to the theory, one expects a positive coefficient on the  $V4$  variable. Although that is confirmed by the analysis, estimated coefficients are not statistically significant.

As an alternative, the PVE is proxied by the dummy variable  $V75$ , that equals one for individual  $i$  if he has experienced an upward intergenerational mobility, i.e. he claims that his standard of living is better or much better than his father's. According to Piketty's learning model, upward mobility is predicted to enhance the probability that the individual opposes political redistribution. The results in Table 7 do not support that prediction.

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<sup>4</sup>Recall that average income is jointly computed for East and West Germany since reunification had already occurred in 1992.

The PVE seems to be at work only in West Germany, and only in its direct version - not in Piketty's (1995) mobility version. This finding suggests that both in the U.S. and East Germany political attitudes are mostly shaped by individualistic concerns, whereas collective concerns affect the political attitudes of West Germans. Arguably, individualistic attitudes may stem from quite different sources in those two countries. While in the U.S. culture there exists a myth of the pioneer, which is basically a praise of the power of the single individual, in East Germany that is not the case. The lack of collective concerns in that country might be due to the particular situation faced by East Germans at the beginning of the nineties. On the one hand, the GDR state had disappeared. On the other hand, a large social and economic gap separated the eastern regions of Germany from their western counterparts. In such a situation there was no national community that citizens from East Germany could readily and fully identify with.

In Corneo and Grüner (2001) the PVE turned out to have a fairly strong explanatory power of individual attitudes at an international level. The current work suggests that significant differences between single countries exist.

Let us now turn to the explanatory power of the SRE. One expects income classes with a high prestige as compared to that of neighbouring classes to be less likely to favor political redistribution. In line with that prediction, in all country regressions the variable *SRE* displays a negative coefficient. However, the estimated coefficient is not statistically significant in the case of East Germany.

With respect to the SRE, in the U.S. and West Germany concerns for the own social standing appear to be a significant factor in shaping individual attitudes towards redistributive politics. On the contrary, the SRE does not pass the empirical test in the case of East Germany. A potential reason is the greater job insecurity in East Germany. If the probability to change job and perform "status mobility" is high, there is less a reason for caring about the status position one is currently associated with. Furthermore, one may doubt that the international occupational prestige scores provide a good approximation of the national prestige assessments in the regions of the former GDR. Large random components in determining one's occupation may induce occupational status assessments which deviate from stable ones. Similarly, in Corneo and Grüner (2001) the SRE was significant for a sample of old capitalist countries and it was not in a sample of formerly socialist countries.<sup>5</sup>

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<sup>5</sup>As shown by Table 7, control variables are not statistically significant. There is a single exception, which is gender in East Germany. Women are there more likely to favor political redistribution than men.

## 3.2 Assessing the Two Dichotomies

I now get back to the "transatlantic dichotomy" mentioned in the Introduction. A first way to assess the differences between the U.S. and Westgerman preferences consists of comparing their country-specific regressions in Table 7. The striking point suggested by such a comparison is the following: While in the U.S. public values do not matter for individual attitudes toward political redistribution, they significantly shape individual attitudes in West Germany.

A second issue of interest is whether Westgermans are, *ceteris paribus*, more prone to redistribute income than U.S. citizens. According to the raw data in Table 1, while more than 65% of Westgermans favor the engagement of the state in reducing inequality, only 38% of U.S. respondents share that view. In order to see whether this reflects a genuine country-specific effect, a joint regression using data from the U.S. and West Germany has been run. The first column of Table 8 reports the results of estimating a logit equation in which the dummy variable *EUR* (equal to 1 for German respondents and 0 otherwise) is used. The coefficient on *EUR* displays a strongly significant positive sign. As compared to Westgermans, U.S. individuals are found to be systematically more averse to governmental redistribution.<sup>6</sup>

The third question I address is: What effects contribute more to explaining the observed differences in attitudes towards income redistribution? To answer this question, Table 9 provides a simple post-regression accounting. The cells of its first column have been computed as follows. First, I computed the means of all explanatory variables, say  $\bar{x}_i^j$ , where  $i$  denotes one of the regressors in Logit "The West" of Table 8 and  $j$  denotes a country (the U.S. or West Germany). From these I obtained the differences  $\bar{x}_i^{WG} - \bar{x}_i^{US}$ . Each difference was then multiplied by the regression slope  $\hat{\beta}_i$ . The latter equals the corresponding coefficient in Logit "The West",  $\beta_i$ , times the density function of the error term evaluated at the westgerman sample means. The product  $\hat{\beta}_i(\bar{x}_i^{WG} - \bar{x}_i^{US})$  multiplied by 100 appears in the cells of the first column of Table 9. It provides a linear approximation of the contribution by an exogenous variable to explaining the average cross-country difference in political attitudes.

According to Table 9, Logit "The West" predicts about 25 percentage points more people in West Germany favoring redistribution than in the U.S. (recall that the raw data in Table 1 showed a difference of about 27 points). The fixed country effect accounts

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<sup>6</sup>It is interesting to relate this finding to those of cross-culture studies in experimental economics. In that literature, systematic connections between types - like the nationality of the subject - and behavioral patterns are investigated. One such a study, Weimann (1994), did compare German and U.S. students. In the context of a repeated public good game he found that U.S. students play less cooperatively than Germans.

for about 17 out of those 25 points. Surprisingly, the 8 remaining points can virtually all be attributed to the SRE. The explanatory power of the PVE is indeed fairly small, and the explanatory power of the HOE turns out to be negative! Recall that according to Table 2, less than 46% of Westgermans expect an income raise thanks to political redistribution, while almost 60% of U.S. individuals expect it. Thus, the HOE alone would suggest that Westgermans be more conservative than U.S. citizens. Interestingly, a negative explanatory power is also exhibited by variable INC, which measures the distance between personal and the country average income. The fact that U.S. citizens support income inequality more often than Westgermans seems to be strongly related to the "keep them down" force: U.S. citizens resist governmental redistribution because it may bring less desirable people into their residential and consumption neighborhoods.

I now turn to the "east-west dichotomy". The country regressions in Table 7 show that selfish pecuniary motives contribute to shape people's minds in both parts of Germany, and that such an effect is stronger in the eastern regions.<sup>7</sup> They also show a lack of significance of both the PVE and the SRE in the East as opposed to their operative role in the West.

As shown by the raw data in Table 1, while 65% of Westgermans favor the engagement of the state in reducing inequality, as many as 89% of Eastgermans share that view. Given that western citizens are wealthier than eastern citizens, such an alignment of interests seems quite natural. Indeed, as shown by Table 2, while less than 46% of Westgermans claim to raise their incomes thanks to political redistribution, almost 86% of Eastgermans claim it. Still, it is interesting to see whether a country-specific effect exists with respect to attitudes towards income redistribution.

The second column of Table 8 reports the results from a joint regression using data from both parts of Germany, in which the dummy variable *SOC* (equal to 1 for respondents from East Germany and 0 otherwise) is employed. The coefficient on *SOC* displays a strongly significant positive sign. As compared to Germans from the West, individuals from the former GDR are found to be *ceteris paribus* more favourable to a reduction of income inequality.

What effects contribute more to explaining the observed differences in attitudes towards redistribution between the two parts of Germany? The second column of Table 9 provides a post-regression accounting with respect to Logit "Germany" of Table 8. Their cells show the products  $\hat{\beta}_i(\bar{x}_i^{EG} - \bar{x}_i^{WG})$  times 100, computed as in the previous comparison

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<sup>7</sup>This finding bodes well with results from experimental economics. In a study of public good and solidarity experiments Ockenfels and Weimann (1999) found that Eastgermans behave in a significantly more selfish manner than Westgermans.



between the U.S. and West Germany.

According to Table 9, Logit "Germany" predicts about 19 percentage points more people in East Germany favoring redistribution than in West Germany (recall that the raw data in Table 1 showed a difference of about 24 points). The HOE accounts for only about 2 points, the PVE for even less, and the explanatory power of the SRE turns out to be negative. More than the entire difference in attitudes can be attributed to the fixed country effect.

One might formulate some conjectures about the factors behind such a powerful country effect. Two conjectures follow. First, the fixed country effect may reflect "local patriotism". Take the case of someone from East Germany, call him Mr. Müller, who does not expect changes in personal income following a governmental reduction of income inequality. Given the existing income gap between the two parts of Germany, such a governmental intervention mainly transfers income from West Germany to East Germany. Because of various sorts of local externalities, Mr. Müller may support governmental redistribution, even if his preferences do not respond to the factors we have hitherto considered.

The second conjecture can be referred to as "blind socialism". The socialist experience of Eastgermans may have generated a strong inequality aversion. This may lead Eastgermans to support an active role of the state in reducing economic inequality. Notice that this interpretation differs from the PVE, since "blind socialism" supports income redistribution on ground of first principles, i.e. independently of the expected social costs of such a political undertaking. Indeed, according to the raw data in Table 3, the percentage of respondents believing in the importance of hard work is larger in East Germany rather than in West Germany.

TABLE 8: Logit for question V57 (Government should reduce inequality)

Variable	Coefficient The West	Coefficient Germany
EUR	0.8721*** (0.2364)	
SOC		1.5552*** (0.2720)
V84	0.5038*** (0.1292)	0.4359*** (0.1490)
INC	-0.2461*** (0.1107)	-0.0980 (0.1719)
V9	-0.5625*** (0.2594)	-0.7149*** (0.2709)
V4	0.0799 (0.1238)	0.1459 (0.1386)
V75	0.0041 (0.1337)	0.0363 (0.1599)
SRE	-0.0667*** (0.0278)	-0.0414** (0.0241)
SEX	0.1843 (0.1339)	0.2589** (0.1550)
AGE	-0.0034 (0.0048)	-0.0049 (0.0056)
MAR	-0.0380 (0.1268)	0.0332 (0.1443)
EMP	-0.1594 (0.1638)	-0.2396 (0.2060)
EDU	-0.0143 (0.0226)	-0.0037 (0.0243)
Observations	1235	1205
-2 Log-lik.:	1531.964	1273.120

Note: asymptotic standard errors in parenthesis.  
\* = Significantly different from zero at the 15% level.  
\*\* = Significantly different from zero at the 10% level.  
\*\*\* = Significantly different from zero at the 5% level.

TABLE 9: Post regression accounting

Variable	The West	Germany
V84	-1.63	2.19
INC	-1.52	0.38
V9	1.02	-0.60
V4	-0.02	0.00
V75	0.01	0.05
SRE	8.27	-3.82
SEX	-0.15	-0.14
AGE	-0.33	-0.03
MAR	0.04	0.08
EMP	1.00	-0.47
EDU	0.97	-0.01
EUR	17.63	
SOC		21.71
$\Sigma$	25.29	19.34

## 4 Concluding remarks

The current empirical exercise suggests that public choice theory is correct when it posits that agents make the decision to support governmental redistribution of income dependent on how that policy affects the agents' purse. However, the current exercise suggests that individual preferences for redistribution are also driven by social factors, which might sensibly alter the conclusions one should draw from the analysis of any particular redistributive issue. The fear of losing social status and the hope to improve one's social standing influence individual preferences for redistribution. To some extent, individuals also care about moral values and ideologic principles when judging about governmental redistribution.

Observing that preferences for redistribution reflect a broader motivational structure than the one of *homo oeconomicus* is an instance of the more general recognition currently occurring in economics of the role of social interactions and norms in shaping economic behavior. In that perspective, the current study is complementary to the vast literature in experimental economics and on subjective well-being that stresses the powerful role of comparison effects, fairness, and related concepts in explaining observed behavior.

The current work lends support to the presence of cultural demarcation lines in shaping preferences for redistribution. In our sample only Westgermans incorporate collective concerns when making up their mind about redistributive politics. The preferences of U.S. citizens seem to be exclusively driven by egoistic goals, i.e. personal income and social status. Exploring the underlying processes which lead to a multiplicity of societal values is likely to be a fruitful avenue for future research.

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