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Individual Risk Preferences and the Demand for Redistribution

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Abstract: Redistributive policies can provide an insurance against future negative economic shocks. This, in turn, implies that an individual's demand for redistribution is expected to increase with her risk aversion. To test this prediction, we elicit risk aversion and demand for redistribution through a well-established set of measures in a representative sample of the Swedish population. We document a statistically significant and robust positive relation between risk aversion and the demand for redistribution that is also economically important. We show that previously used proxies for risk aversion (such as being an entrepreneur or having a history of unemployment) do not capture the effect of our measure of risk aversion but have distinctly different effects on the demand for redistribution. We also show evidence indicating that risk aversion can explain significant parts of the well-studied relations between age and gender on the one hand and demand for redistribution on the other.

Key words: risk aversion, redistribution, inequality, survey, experiment
JEL: C83, C91, C93, D63, D81, H23

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