



# Real household income and attitude toward immigrants: an empirical analysis

Leonardo Becchetti<sup>a,\*</sup>, Fiammetta Rossetti<sup>a</sup>, Stefano Castriota<sup>b</sup>

<sup>a</sup> University of Tor Vergata, Rome

<sup>b</sup> EURICSE, Trento, Italy

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## ABSTRACT

Previous studies have analyzed the (aggregate) effects of unemployment on attitudes towards immigrants and on right-wing crimes. In this paper, we investigate the effects of economic prosperity on attitudes towards immigrants, focusing not only on unemployment status but also on real household income. Using panel data from the German Socioeconomic Panel on around 33,000 individuals over the period 1992–2004 we find a robust negative relationship between real personal household income and self-declared concern about immigrants, both in levels and first differences. Both job loss and income reduction concerns about immigration. Our findings document an interesting interaction between economic variables and social attitudes which does not depend on economic growth *per se* but on its capacity to generate higher economic wellbeing at individual level, not only for unemployed people but also for those in employment, who may face a fall in real income during economic downturns.

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## 1. Introduction

[I]t is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of society. The stationary is dull; the declining melancholy.

Adam Smith, *Wealth of Nations*

Evaluating the non-economic consequences of economic choices is extremely important for the correct definition of policy objectives. In fact, moral values, social attitudes and individual preferences are crucially oriented by the former. Many theoretical and empirical studies highlight that *economic outcomes affect values*, or that the same market structure and economic growth may produce alternative cultural values (such as antagonism and self-interest) as side products, thereby interacting with “civic virtues” and helping to strengthen or deplete the moral fabric.

In this regard, two opposite theoretical schools of thought maintain that economic growth has respectively positive or negative consequences on moral values. A first argument emphasizing the *negative* consequences of economic growth on moral values is the well-known trade-off between comfort and stimulation (Scitowsky, 1976), where affluence generated by economic growth increases individual comforts. This, in turn, dampens incentives to build those values and virtues which require effort to be maintained and strengthened. A second argument has been put forward by Hirsch (1976) who holds a well-known critical position on the moral consequences of market economy and economic growth. In his book entitled *Social Limits to Growth*, Hirsch identifies three main negative effects of market economies on moral values: the “tyranny of small decisions”, the “commercialization bias”, and the “depleting moral legacy”. The first is related to the classical coordination failure problem.<sup>1</sup> The second refers to a typical Marxian argument which holds that in a free market economy everything, including moral values, becomes the object of exchange, generating

<sup>1</sup> “Individual choices, each made separately and thereby necessarily without taking account of the interaction between them, combine to have destructive social consequences. These consequences are destructive in the sense that they produce a worse result for the individual concerned than could have been obtained by coordination of individual choices with some method that took account of the mutual interaction.” (Hirsch, 1976, p. 37).

\* Tel.: +39 06 36300723; fax: +39 06 2020500.

E-mail address: [Becchetti@economia.uniroma2.it](mailto:Becchetti@economia.uniroma2.it) (L. Becchetti).

corruption and venality and deteriorating the society's moral fabric. Thirdly, social morality is a "legacy of the precapitalist and preindustrial past" (Hirsch, 1976, p. 117) which is necessary if economic transactions have to work. Market economies, especially since industrialization, are characterized by negative values like individualism and avarice, and by negative social framework due to anonymity, mobility of workers, and the like, which deplete that legacy.

An opposite school of thought challenges this view by emphasizing that economic growth has also beneficial consequences in terms of higher tolerance and openness (Friedman, 2005). According to Friedman, "Economic growth – meaning a rising standard of living for a clear majority of citizens – more often than not fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness and dedication to democracy." And conversely, when there is economic stagnation or decline the citizen's "moral character" tends to decline accordingly, there being less tolerance, less openness, and less generosity to the poor and the disadvantaged".

Intuitively, Friedman's contention has a sound economic rationale. A large part of public opinion believes that economic activity is a zero sum game in which the aggregate payoffs of losers and winners must necessarily be clear.<sup>2</sup> In fact, from an algebraic point of view, this is true only when the GDP growth rate is non-positive. If the zero sum game is a crucial cause of worry, it is reasonable to assume that such worry is higher in stagnation periods, when economics is effectively a zero or a negative sum game in the aggregate,<sup>3</sup> than it is in expansion periods, when the size of the "cake" grows and everyone can, in principle, have a larger slice of it.<sup>4</sup>

From an empirical viewpoint, a number of works have studied the determinants of tolerance towards immigrants, but to our knowledge those analyzing the relevance of economic variables have focused on the unemployment status, without considering the role played by real household income, which is the original contribution that this paper seeks to make. People's attitudes are the results of individual inherited traits, family background and education, age, the number of immigrants present in a certain region, the immigration policies adopted by the government, and the economic situation, which may make natives perceive immigrants as a threat to their employment situation or economic welfare.

The relevance of mentality – as the product of inherited traits and cultural background – has been well described by Dustmann and Preston (2007), who explain the factors determining individuals' opinions in regard to future immigration. They use three types of question on the perception of foreigners by native respondents in the BSAS: (i) questions related to race, (ii) questions related to the labor-market impact of foreigners, and (iii) questions related to the impact of foreigners on the economy's welfare. Dustmann and Preston find that racist attitudes constitute the main determinant

of opposition against future immigration, whereas labor market or welfare considerations are less decisive factors.

The role of background was highlighted by one of the first studies in this field. The research was conducted in the 1940s in the United States by Adorno et al. (1950), who assumed that the character's structure is influenced by the environment where a person has grown up: economic and social background, own and parents' education, and so on, are considered the most influential factors in the personality's development. The importance of education for tolerance has been confirmed, among others, by Fertig and Schmidt (2002) with German data, and by Bauer et al. (2000) using ISSP data. Age is another important driver of attitudes towards foreigners: using data on Germany from the 1988 wave of the Eurobarometer, Gang and Rivera-Batiz (1994) found that students have the most positive attitudes and retired people the most negative ones. Tolerance is also influenced by the concentration of ethnic minorities in certain areas, because it increases the hostility of native respondents towards these groups (Dustmann and Preston, 2000b; Gang et al., 2002), and by the immigration policies adopted by governments, since in countries with a more skill-based immigration policy (e.g. Canada) respondents tend to have a more positive attitude towards immigrants (Bauer et al., 2000).

The role of economic variables is still a source of debate, given that studies on individual attitudes have not demonstrated a clear positive relationship between unemployment and resentment against immigrants, while studies on the role of real income are lacking (Falk and Zweimueller, 2005). Gang et al. (2002), using data from the Eurobarometer on several European countries over the period 1988–1997, find that negative attitudes are affected by the degree of competition in the labor market with immigrants, although they do not find any difference between employed and unemployed people. Negative effects of unemployment on tolerance have been found with German data by Gang and Rivera-Batiz (1994) and Bacher (2001a, 2001b). By contrast, no effect of unemployment on tolerance was found by Bauer et al. (2000), while the negative effects determined by Fertig and Schmidt (2002) become insignificant in the structural model.

Our purpose in what follows is to shed more light on this much-debated issue, our original contribution being the analysis of the effect of changes in real income on attitudes towards immigrants. During economic downturns, a significant share of the population registers a fall in family income. Clearly, the most damaged in relative terms are those who become unemployed; but an analysis of the effect of diminishing purchasing power is necessary. In fact, Falk and Zweimueller (2005) show that unemployment is a driver of right-wing extremist crimes which are committed mainly by young males. However, real household income drops are experienced not only by those who lose their jobs, but also by many other individuals. These latter may express their frustration not through violent actions but rather through democratic votes in favor of less tolerant political parties, thereby depleting the society's moral fabric.

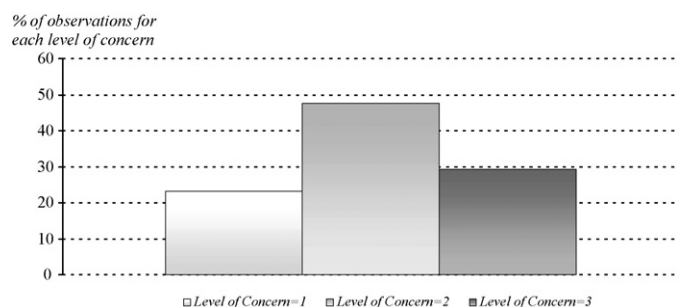


Fig. 1. The distribution of self-declared concern about foreigners.

<sup>2</sup> The idea of economics as a zero sum game finds an analogy in the second law of thermodynamics on the conservation of energy, which states that the total energy going into a system must equal the total energy coming out of it, and cannot be created or destroyed.

<sup>3</sup> This is true at least from a static point of view when it is not considered that, even under constant GDP, a change in the share of investment may be crucial for raising the growth rate in the future. Furthermore, the nature itself of market transactions is such that, even in a zero growth economy, market trades increase individual well-being in proportion to the sum of consumer and producer surpluses. The zero sum game argument is therefore valid only in a static perspective and if the focus is exclusively on observable economic payoffs.

<sup>4</sup> On translating our reasoning into terms of the happiness effects of material wellbeing, relative income and hedonic adaptation may make economic activity a zero sum game even in the presence of growth. In fact, if both per capita GDP and people's expectations increase by the same amount, the overall population's wellbeing is unchanged. Therefore, the only way to increase one's satisfaction is by increasing one's relative income, which can happen only if somebody else's relative income diminishes.

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