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Patriotism and Taxation

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Abstract
The provision of public goods by any government generally requires a significant amount of financial resources. Yet, the inherent characteristics of public goods imply that individuals who refuse to contribute financially cannot easily be excluded from the benefits provided by public goods. This chapter explores how, and when, patriotism can increase private incentives to make contributions to the common good—and thereby mitigate the free-rider problem at the heart of public finances. We discuss this patriotism-taxation relation in times of war as well as peace, and evaluate whether patriotism might help to (partially) moderate the incentives to avoid or even evade taxes. Finally, we consider the role of two potential mechanisms – i.e., migration and identification – underlying the patriotism-taxation relation, and examine governments’ incentives to invest in instilling patriotic sentiments in the population for fiscal reasons.

Key words: Patriotism, fiscal policy, warm glow, migration, identification.

JEL classification numbers: H26, H41

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1. Public finance and patriotic feelings – an introduction

Public finance is a field within economics that studies how to overcome a fundamental collective action problem. Members of a large social group – such as a nation, region or municipality – may benefit from the provision of important common or public goods (e.g., national defense, flood control or health care). However, the provision of these goods requires funding, and this funding involves difficult incentive problems. A contribution by any individual group member toward funding the public good makes its contributor bear the full financial burden of her payment. Yet the benefits resulting from this payment in terms of the provision of the public good emerge not only for the contributor. Indeed, since it is impossible to exclude group members from the consumption of the public good once it is provided, all members of the group benefit.¹ A natural consequence of this non-excludability is that each individual group member would prefer to avoid paying her share. She would like to leave the task of funding public goods to other citizens and take the position of a free-rider. When citizens try to avoid paying their contributions this does not mean that they dislike or disregard the benefits brought by the provision of public goods. Rather, they would like to enjoy these benefits without contributing their share in the funding of them.

This free-rider problem lies at the heart of the theory of public finance. In order to overcome this fundamental incentive problem, one needs to bring individual incentives to contribute to the public good in line with the collective benefits that emerge from the contributions. For this purpose, the modern state largely relies on mandatory contributions (i.e., taxes), and a tax administration endowed with strong enforcement mechanisms. The lack of congruence between the individual cost of a citizen’s own tax payment and her own direct benefit from these contributions, however, remains a challenge. That is, individuals will still prefer to avoid paying their taxes, either by legal efforts aimed at minimizing one’s tax bill (i.e., tax avoidance) or by tax evasion. Overcoming this incentive mismatch and stimulating individual agents’ willingness to pay taxes may therefore be seen as a useful task that benefits the entire social group. But how can this be achieved?

It is insightful at this point to consider groups lacking the superstructure of a powerful government that can enforce what is in the common interest of the group. Such spontaneous or anarchic groups sometimes do quite well in dealing with the problem posed by the provision of public goods. As has been pointed out in different areas of science, the members of social groups often develop what is referred to as in-group spirit or a group identity (Tajfel 1982; Tajfel and Turner 1979; Akerlof and Kranton 2000). Numerous experiments in several fields of social science, including social psychology and economics, show that it does not take much for a collection of human animals to develop such a group identity (Sherif et al. 1961; Haslam 2001). For instance, Tajfel et al. (1971) show that arbitrary criteria for categorization into groups can be enough – even in the absence of face-to-face interaction between subjects. Once this group-feeling is achieved, the group members often show

¹ A classic example is public defense, since it is, for purely practical reasons, impossible to exclude individual residents of a given country from protection of this country by the army. The same principle likewise holds for individual houses protected from flooding by a publicly provided dam, and a myriad other public goods.
behavior that is described as in-group favoritism or parochial altruism (Bernhard et al. 2006). They make voluntary contributions to the common good that substantially exceed what would be the outcome from a narrow consideration of their own individual cost and their own direct benefit of making this contribution.2

Applying these notions of group identities and in-group favoritism to the key problem of public finance appears quite natural. When the members of a nation constitute the group, its group identity is usually referred to as the national identity, the feeling of belonging to a nation or a love for, and devotion to, one’s country (Marshall 1950; Johnston et al. 2010; Qari et al. 2012; Wright and Reeskens 2013). Patriotism may be the appropriate name for these partially overlapping emotions, and in-group spirit or parochial altruism may emanate from this group identity. Patriotism as defined here is thus theoretically and conceptually distinct from nationalist feelings and can in essence best be understood as referring to a feeling of “devotion to one’s country” (OED 2003: 2122; see also Blank and Schmidt 2003; Huddy and Khatib 2007, and references therein).3

There exists a substantial academic literature linking patriotism and patriotic sentiments to political and socio-economic outcomes including, for instance, individuals’ vote choice (Sullivan et al. 1992), their reactions to (inter)national crises (Baker and Oneal 2001; Hetherington and Nelson 2003), their likelihood of opting into military service (Levi 1997; Fordham 2016) or even their investment decisions (Morse and Shive 2011; Pradkhan 2016). Some of the contributions in this Handbook address issues like these. In sharp contrast, however, the academic literature assessing the potential relation between patriotism and fiscal outcomes has remained very limited. This is particularly surprising given the often substantial attention in the public domain related to tax-paying as a patriotic duty – or to tax evasion as a form of disloyalty to the nation. Although such an association between patriotism and taxation becomes more obvious in periods of war, it is also likely to carry significant weight in times of peace. One key example is Joe Biden’s statements in this direction during the 2008 presidential campaign (see Joe Biden on ABC News, September 22, 2008, and the discussion his statement induced).

Nations are rather large groups, and the free-riding problem that emerges in such groups is much more severe than within groups that naturally develop (such as families, clans or tribes). It is therefore unlikely that patriotism will provide sufficiently strong incentives to overcome the enormous free-riding problem that exists with respect to public good provision within nations. Nonetheless, if the feeling of patriotism can increase the private incentives to make contributions to the common good, at least to some extent, this helps to (partially)

2 Evolutionary biologists provide a number of possible explanations for why such behavior may develop through the forces of mutation and selection, and thus could be genetically hard-wired.
3 In both public and academic discussions, patriotic sentiments are often confounded with blind and unquestioning nationalism inducing hostility toward the out-group (e.g., Druckman 1994; Mummendey et al. 2001). In our view, ‘patriotism’ and ‘nationalism’ should be viewed as clearly distinct concepts with potentially substantively different economic and political implications. Note also that the existence of an out-group is important to make the boundaries of the group visible. Other nations are therefore important for patriotism – though arguably not nationalism – to exist.
moderate the incentives to avoid or even evade taxes. The reach and explanatory power of patriotism for the funding of a nation is, however, essentially an empirical question.

In the remainder of this chapter, we first discuss a number of historical instances highlighting that fiscal policy is likely to be affected by patriotic sentiments (section 2). One of the earliest accounts of the relationship between patriotism and tax policy occurs in the context of war. Compared to peaceful periods, a country in a state of war with another country typically induces exceptionally high military expenses. These are usually funded either by taxes or by deferred taxes (i.e., public debt). Section 3 then considers whether the patriotism-taxation logic that is well-known in the context of war can also be meaningful in peaceful times. Next, acknowledging that patriotism affects taxation, section 4 discusses how this might make patriotism an important characteristic in the political process. Politicians may indeed have an incentive to instill patriotism in their population to help reduce the cost of tax revenue collection. Sections 5 and 6 subsequently take a closer look at the fiscal consequences of two more specific implications of patriotic sentiments: i.e., patriotic citizens’ intrinsic preference for living in their native country (section 5) and patriotic citizens’ identification with their home country (section 6). Section 7 provides a concluding discussion.

2. Patriotism and fiscal policy in times of war

As discussed in the introduction, the formation of a group identity and the willingness to contribute to the common cause have been studied in a number of contexts and are seemingly robust phenomena. The existence of an out-group (i.e., individuals not belonging to the own group, and who potentially form another group), and rivalry between the own group and the out-group is well-known to strengthen feelings of in-group favoritism. It may also generate spiteful behavior vis-à-vis the out-group. Choi and Bowles (2007), for instance, survey the history of thought and the theoretical and empirical work on the co-evolution of parochial altruism on the one side and war on the other (see also Bowles 2009). This account of the history of ideas traces back to Charles Darwin and Karl Pearson. The paper highlights the empirical and experimental evidence of parochial altruism (understood as voluntary behavior that benefits fellow group members at one’s own cost) and hostile actions taken voluntarily toward the other group, and offers an evolutionary explanation for the two patterns to evolve jointly.4

A specific context which maps this in-group versus out-group situation is a nation at war. War induces a strong need for public funds. The need for resources for the provision of defense or the fight for victory in wartime makes government expenditures spike. Accurate, reliable, and complete data on the financial cost of military interventions are notoriously hard to obtain and estimates of this cost vary widely (even when provided by government agencies; see Wheeler 2006). One complicating factor is whether to include only costs of

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4 Eaton et al. (2011) and Konrad and Morath (2012) provide brief accounts of this literature and further considerations on this aspect in the context of evolutionary game theory.
actual fighting or whether to also account for broader social, economic or health-care costs. Still, even leaving this (crucial) discussion aside, it is obvious that “the mobilization of military strength costs money” (Colaresi 2007, p.116). Figure 1 in Flores-Macías and Kreps (2013, p.834) illustrates this for the US. It shows that US government expenditures from 1789 to 2010 systematically increased during wartime, with huge spikes during the civil war, the Great War, and the Second World War. In the latter, public expenditures jumped from about 10 percent of GDP to above 45 percent, and remained on a level of around 20 percent during the Cold War period.

As a lot of war spending in the US is incorporated in the Department of Defense budget (Stiglitz and Bilmes 2008, pp.45–50), variation in this department’s spending over time can serve as a valid proxy for changes in war-related spending. Figure 1 in Geys (2010, p.358) displays the quarterly data of the US Department of Defense spending over the period 1948–2008, and highlights that the starting points of the Korean, Vietnam, and Iraq wars are associated with strong increases in defense spending. At the height of the Korean War in 1952–53, for instance, the US Department of Defense spent the equivalent of roughly 15 percent of US GDP, which was more than twice the share of GDP it spent prior to the start of the war (when it consumed roughly 7% of GDP). More recently, the US Department of Defense budget likewise almost doubled in size during the first years of the ‘Global War on Terror’: rising from $311 billion in 2001 to $598 billion in 2007 (US Department of Defense 2007, p.1).

As highlighted by Geys (2010) and Flores-Macías and Kreps (2013), the enormous financial burden of war may threaten the leader’s longevity and popularity, as well as broad-based public support for the war itself. In more recent experimental evidence, Flores-Macías and Kreps (2016, p.1) also illustrate that financing wars via debt rather than taxes “shields the public from the direct costs of war and in turn reduces opposition to it.” Kriner et al. (2016, p.1) furthermore show that the extent to which “a war tax decreases public support for military action critically depends on the design of the taxation instrument.” Nonetheless, researchers have also emphasized the fact that major tax reforms that laid the foundation for the sustainable funding of public goods occurred during wartime. Feldman and Slemrod (2009) discuss this relationship between war and taxation, and Bank et al. (2008, p. xii), start their analysis in *War and Taxes* with the following observation:

> “Beginning with the War of 1812, special taxes have supported every major military conflict in our nation’s history. Moreover, many levies have outlasted the wars they financed. Politicians like to talk about their plans for revamping the country’s tax system, but important tax reform usually happens when it must, not when it should. War has been the most important catalyst for long-term, structural change in the nation’s fiscal system. Indeed, the history of America’s tax system can be written largely as a history of America’s wars.”

They also speculate that these developments may have been a merger of necessity and opportunity, and this is where they allude to patriotism: “Wars may foster a feeling of ‘civic engagement’ or a ‘public mood’ as citizens rally ‘round the flag” (Bank et al. 2008, p.xiv). As summarized by Mehrotra (2010, p.1064), the maximum marginal income tax increased
from 7 to 77 percent during the Great War and the share of members of the labor force who paid income taxes increased from about 2 to nearly 17 percent. In a similar spirit to the observations made by Blank et al. (2008), Mehrotra (2010a, p.201) argues that “by weaving direct and graduated taxes into the fabric of US legal institutions and culture, the Great War became a historic moment to further the progressive commitment to shared social responsibility.” He notes that this perception existed among lawyers at the Treasury and that leading officials emphasized appeals to patriotism. The Second World War brought about an even more striking tax reform. Among other tax increases, the top marginal tax rate increased to 94 (!) percent. Moreover, the United States during World War II “not only established the modern mass-based income tax, but also relied more on taxation to extract fiscal sacrifice and fund the war than in any previous American conflict” (Mehrotra 2010b, p.1070). For this reason, observers have often viewed the Second World War tax regime as reflective of the “most compelling example of wartime fiscal sacrifice” (Bank et al. 2008, p.xiv; see also Mehrotra 2010b, p.1070).

To trace the role of patriotism in these fiscal developments, it makes sense to revisit the debate that took place simultaneously with these wartime reforms. Hill (1894) discusses the matter for the American Civil War and the introduction of an income tax. On page 451—very much in line with the idea that times of strong patriotism reduce public tendencies to avoid taxes and makes tax collection easier and economically less expensive—he speculates: “It would have been strange, indeed, if the patriotism which led men to volunteer for the field in such numbers had been inoperative when contributions of money were called for.” In discussions among economists about how to fund the cost of the Great War in the United States, the consideration of patriotism plays a similar role. Anderson (1917, p.870) writes: “And finally, there is an added sustainer of effort in war which peace times do not commonly afford, namely, patriotism.” Durand (1917, p.902) – likewise in reference to the Great War – similarly highlights the fact that patriotism may be a temporary phenomenon, which is likely to be strong during a war, but quickly declines after the war: “The patriotism which during the war itself might induce the rich to willingly pay taxes according to the full measure of their ability is bound to wane considerably when the war is over. There is little enthusiasm about paying for a dead horse.” In line with this, more recently Feldman and Slemrod (2009) quantitatively assess the empirical relationship between conflict and tax compliance. While the correlation between tax compliance and fatalities is negative, the correlation between tax compliance and conflict, measured by years/numbers is positive.

3. Patriotism and taxation in times of peace?

Patriotism during wartime may have been instrumental for governments and made it easier to mobilize support for higher taxes and substantive overhauls of the entire tax system. The examples shown in the previous section suggest that patriotic feelings are likely to have reduced political resistance against the increase in tax rates or the introduction of new taxes. They also suggest that patriotism increased tax compliance on the individual level during times of war. Still, wars are – fortunately – relatively exceptional events for most nations.
This naturally triggers the question of whether certain fiscal policies might be “tolerated in a patriotic period, but rejected during another period characterized by anti-militarism” (Slemrod 2010, p.23). The hostility toward the enemy as the out-group that may have strengthened existing feelings of national identity and in-group favoritism during a war is clearly absent. Nevertheless, a sense of the need to fund certain tasks by the national government and a feeling of national group identity may exist also in times of peace – albeit possibly on a smaller scale.

The key hypothesis would be that a higher sense of altruism toward the group triggers a reward from giving, and this may reduce the subjective net cost of giving more generally. Harbaugh, Mayr and Burghart (2007) use functional magnetic resonance imaging to measure the neural response of players who make gifts. They found that “the larger a person’s neural response to increases in the public good, no matter the source, the more likely they will give voluntarily” (Harbaugh et al. 2007, p.1624). If higher patriotism may go along with higher altruism towards the in-group, the results on the bliss of giving suggest that the relationship between patriotism and the willingness to contribute to the public budget is not limited to wartime.

Konrad and Qari (2009, 2012) exploit data from the International Social Survey Program (ISSP) to study the relationship between patriotism, the shadow economy, and tax morale during periods of peace. The ISSP is a large international survey project conducted in a large number of countries and in several years. The “National Identity” module of the ISSP (fielded in 1995 and 2003) has a number of questions about individuals’ pride in different aspects of their country, and these questions allow the construct of a variable that approximates the strength of individuals’ patriotism. More specifically, individuals’ answers across all questions probing respondents’ ‘pride’ in their home country are combined into one single index (using factor analysis, which effectively extracts the underlying commonality in the information contained in the different pride questions. See Kaiser 1958; Kennedy 2005).

In their 2009 working paper, Konrad and Qari (2009) aggregate the survey-based data on individual-level patriotism to the country level and link it to data on the size of the shadow economy from Schneider (2005) for 1995 and Schneider (2007) for 2003. This leads to an unbalanced panel dataset with 53 observations. Figure 1 presents a scatter plot of these 53 observations with patriotism on the x-axis and the size of the shadow economy on the y-axis. Figure 1 illustrates a strong negative relation between country-level patriotism and the size of the shadow economy. A simple linear regression line through the data suggests that “increasing patriotism by one standard deviation is associated with a decrease of the hidden sector by roughly 50 % of its standard deviation” (Konrad and Qari 2009, p.14). The relation between patriotism is thus found to be substantively strong and different from zero on the 1 percent significance level. Although the authors are very hesitant to interpret this as a causal relationship, the fit of the empirical model nonetheless suggests that their patriotism variable ‘explains’ more than one quarter of the dispersion in the size of the shadow economy.

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Konrad and Qari (2012) instead focus on the relation between individuals’ patriotism (taken from the “National Identity 2003” module of the ISSP) and their tax morale (taken from the “Citizenship 2004” module of the ISSP). This matching across ISSP modules is possible due to the fact that the sets of subjects in both modules were identical for eight countries. Controlling for individual-level socio-economic variables available in the survey, Konrad and Qari (2012) find a strong and statistically significant positive correlation between the strength of patriotism and tax morale. The result is robust with respect to different estimation methods or variations in the set of control variables. As patriotism and tax morale could be driven by unobserved individual-level characteristics, they approach the question of causality using reported participation in elections and membership in sports clubs as instruments for tax morale. They have to admit, however, that this instrumental variables approach is not as perfect as one would like it to be. Still, notwithstanding these methodological limitations, the results from the analysis are in line with the theoretical hypothesis that patriotic individuals tend to be more tax compliant. The suggested underlying reason is that their cost of making these contributions to the national common good is lower than for individuals with lower feelings of patriotism.

Taking both sets of results together suggests that variations in patriotism across countries as well as individuals within countries appear substantively relevant for governments’ ability to collect taxes even in the absence of war. That is, patriotism appears to matter for fiscal policy outcomes also in peaceful times.
4. Instrumentalizing Patriotism

If we take the relationship between an individual’s patriotism and her greater willingness to be tax compliant and contribute to the public good as a given, patriotism becomes a potentially important characteristic in the political process. When patriotism is widely spread in the population of a country, this may reduce the cost of tax revenue collection, and make it easier for the government to collect the tax revenues required for the financing of those public goods that are in the well-understood general interest of the population.

We can focus more narrowly on the discussion of the role of patriotism in the US during the Great War and the Second World War to find further evidence. These two wars indeed constitute striking examples of politicians who nurtured strong national or patriotic group feelings and exploited it to ease or improve the funding of war. Historians and political scientists typically agree that the attack on Pearl Harbor changed the public mood in the US, generated patriotic emotions, and allowed the US government to enter into the Second World War. Henry Morgenthau Jr., the US Secretary of the Treasury at that time, employed an impressive machinery including public radio and other means of public media to spur patriotism. The role of the enemy out-group played a prominent role in this propaganda effort. As Jones (1988, p.721) explains: “During the early stages of America’s involvement in the war, government spokesmen made the point that blame for increased taxation should not be attributed to those in Washington, but rather to ‘the real authors of our tax burden… in Berlin and Tokyo.” She also gives a detailed account about how the Department of the Treasury, with an executive order from President Roosevelt, created the Office of War Information (OWI) in 1942. This Office employed public relations specialists and was led by Elmer Davis, a former journalist and radio commentator. The ‘propaganda’ involved local school teachers as well as other forms of information dissemination, such as pamphlets, news stories and own radio programs, and cinematic projects.

One very prominent example of these activities described by Jones (1988) is Henry Morgenthau Jr.’s initiative to employ Walt Disney to produce a movie entitled “The New Spirit.” The plot shows Donald Duck listening to the radio and learning about the enemy out-group and the need to defend the nation. Occupied by patriotic feelings that were triggered by this radio broadcast, he desperately wants to contribute and help his country to cope with the threat posed by the enemy. Public radio tells him that the most effective help consists of Donald declaring his income and paying his taxes, which he promptly does. The US Treasury seemingly used advertisements and the public media on a broader scale to mobilize US citizens and aimed at inducing them to improve on their tax compliance (see Jones 1996 for a more detailed account).

Closely related, Kang and Rockoff (2015, p.47) discuss attempts to appeal to patriotism for government loans in war times, and argue that “[E]ven the names of bonds were chosen to emphasize patriotism.” They also allude to posters issued by the Division of Advertising of the Committee for Public Information. Citing from these posters, they reveal that these “showed German soldiers abusing women and children in Belgium” or “showed a German
soldier bayonetting a defenseless woman.” The advertisements thus “explicitly emphasized the bestiality of the Germans,” which in line with theories of in-group altruism was strengthened by an enemy out-group. The agencies responsible for these posters most likely believed in the effectiveness of this type of advertisement. Whether this reference to the enemy out-group successfully increased the willingness to purchase war bonds is a difficult matter to prove. Kang and Rockoff (2015) themselves do not find evidence in support of the hypothesis.

Konrad (2008), who pursues the role of patriotic attachment in a formal model of tax competition, alludes to the fact that instilling patriotism is an element of the educational system in many countries and across history. Much like companies (and their shareholders in particular) that benefit from a large set of loyal customers, the stakeholders in a country’s public finances may benefit if the citizens of the country, or a large share of them, feel attached to the country. In a well-governed country, these stakeholders are the country’s citizens themselves. In a less well-governed country, the congruence between stakeholders and the population need not hold to the same degree. More generally, while this highlights a potential benefit of patriotism, patriotism may have rather dark sides as well. It can certainly become a dangerous characteristic in both well-governed and less well-governed countries (though presumably particularly in the latter).

5. Patriotism and taxpayer mobility

One potential implication of a strong love for and devotion to one’s country may be that it creates an intrinsic preference for living in one’s native country, compared to living elsewhere. Patriotism, in other words, could be conducive to a state of mind which leads individuals to experience a non-monetary benefit (or ‘patriotic rent’) from residing in their native country. This rent can be one of the underpinnings for location preferences such as individuals’ ‘home attachment,’ which has been analyzed by, for instance, Mansoorian and Myers (1993). A number of recent analyses have started linking such home attachment to fiscal policies (Ogura 2006; Konrad 2008).

Qari et al. (2012) theoretically and empirically analyze when and how such a “patriotic lock-in” can provide a supportive base for a government’s fiscal policies. From a theoretical perspective, they build on a standard model of redistributive taxation (first developed by Meltzer and Richard 1981) in which they allow for differences in individuals’ propensity to migrate due to their patriotic feelings. They illustrate that stronger patriotic sentiments in one country relative to another generates a higher equilibrium tax rate in that country. The intuition behind this positive patriotism-taxation relation is that the cost of migration increases for patriotic citizens. Since they derive some inherent utility from living in their home country, the benefits of moving abroad – in terms of, for instance, a lower tax rate – need to be higher before they can offset the loss of patriotic rents that this move entails. This mobility reduction can be exploited by countries through the implementation of higher taxes in the equilibrium.
Empirical evidence at the country as well as the individual level in Qari et al. (2012) appears largely consistent with this theoretical proposition. Abstracting from the technicalities of their analysis, figure 2 visualises their main finding. It links information on the level of patriotic feelings among a country’s inhabitants from the International Social Survey Program “National Identity 2003” study with OECD data on tax burdens. Patriotism is thereby operationalized using a question probing respondents’ ‘pride’ in their home country in a number of dimensions, which are aggregated in one single index using factor analysis (see also Konrad and Qari 2009, 2012). The tax burden in any given country is operationalized as the share of gross income paid in income taxes and social security contributions (taken from the OECD “Benefits and Wages” study). Figure 2 depicts the country-level relation between the average level of patriotism across 21 countries in the year 2003 (on the x-axis) and their average income tax burden (on the y-axis).

Figure 2. Tax burden and patriotism across countries

Source: Qari et al. (2012)

Figure 2 clearly confirms that countries with higher levels of patriotic sentiments within the population (such as Denmark and Germany) tend to impose a higher income tax burden on their inhabitants compared to less patriotic countries (such as Slovakia and South Korea). The trend-line – which reflects a simple linear regression line through the 21 observations – further clarifies the significant positive relation between both variables. This is in line with the theoretical notion that patriots’ higher shadow costs of migration are instrumentalized for government fiscal policy.
6. National identification and preferences for (redistributive) taxation

As previously mentioned, patriotic sentiments may also become embodied in a strong identification with one’s home country. Such social identification with one’s country can be important for individuals’ willingness to pay taxes because social identities not only characterize one’s nature in a descriptive sense, but also directly determine “what one should think and feel and how one should behave” (Hogg and Terry 2001, p.3). As such, social identities influence individuals’ preferences (for instance, for redistribution and taxation) as well as their behavior (for instance, voting for pro-redistribution parties). In line with this way of thinking, Costa Font and Cowell (2015, p.371) recently maintained that the potential effects of “[social] identity cannot be ignored if economic phenomena such as redistributive preferences are to be adequately understood and empirically modelled.”

Clearly, this potential relation between social identities and individuals’ willingness to support redistribution and pay taxes is not new (note that social welfare policies are a typical public good, which triggers the fundamental collective action problem central to all aspects of public finance). Even in the 1950s, political scientists believed that “national identity can function as a social glue underpinning support for the welfare state” (Wright and Reeskens 2013, p.1443; see also Marshall 1950; Johnston et al. 2010). Yet, this notion has recently attracted renewed academic interest, and a series of scholars have started developing more formal theoretical models assessing the exact mechanisms and conditions under which individuals’ preferences for redistributive fiscal policies relate to their embeddedness within a given social group (Shayo 2009; Klor and Shayo 2010; Lindqvist and Östling 2013; Holm 2016).

Interestingly, these models generally suggest that “national identification and support for the welfare state need not always go hand in hand, and that much depends on individuals’ attachment to income-aligned social groups subordinate to the federation which may offer alternatives to federal identification” (Holm 2016, p.47). For instance, in Shayo (2009) and Lindqvist and Östling (2013) individuals can identify either with their nation or their income class. In such a setting, national identification tends to reduce support for redistribution because it undermines lower-class individuals’ sense of similarity to other members of the lower class (as they focus on the entire nation instead). In Holm (2016), the alternative to national identification is a more local or regional jurisdiction. Again, the model illustrates that national identification can undermine support for the redistributive taxation and the welfare state particularly among the poor in a poor region of the country (though the reverse happens among the rich in a rich region).

Recent empirical evidence appears in line with the central predictions from such formal modeling approaches to the identity-redistribution relation. Shayo (2009), for instance, employs a wide range of data covering economically advanced democracies and shows that lower-class individuals’ national – rather than class – identification is associated with a lower level of support for income redistribution. Holm and Geys (2016) use individual-level survey data from the 2008 German General Social Survey (ALLBUS) and a 2013 survey
among local politicians in Belgium to study whether national – rather than regional – identification affects redistributive preferences in economically heterogeneous federations. Both countries provide ideal settings for such analysis since they feature (i) multiple salient regions that individuals can identify with (i.e., East-vs.-West in Germany and Flanders-vs.-Wallonia in Belgium), and (ii) high levels of income variation within and across these regions. The results confirm theoretical predictions that national identifiers are less supportive of redistribution than non-national identifiers in the poorer regions of either country, while the reverse holds in richer regions.

Figures 3 and 4 graphically illustrate the main findings in terms of the shift in support for redistributive taxation depending on whether individual respondents in the survey(s) identify nationally (IDNAT=1) rather than non-nationally (IDNAT=0). Figure 3 focuses on the Belgian case, where redistributive support – set out on the x-axis – is a factor score based on responses to four redistribution-related survey questions. The y-axis reflects predicted frequencies of observing given levels of redistributive support in the data (controlling for a wide range of socio-economic background variables). It is clear that there is strong shift in the mass of the distribution when comparing national and non-national identifiers. In Flanders (the richer region) national identifiers are more supportive of redistribution than non-national identifiers, whereas the reverse occurs in Wallonia (the poorer region).

Figure 3. National identity and redistribution preferences in Belgium

Source: Figure provided by Joshua Holm, based on data employed in Holm and Geys (2016).

5 The key independent variable – IDNAT – builds on a series of survey questions assessing respondents’ attachment to their nation (i.e., Belgium or Germany), and their region (East/West or Flanders/Wallonia). IDNAT is set to 1 if a respondent proclaims a strictly higher level of attachment to their nation compared to their region (0 otherwise) (for a similar approach, see Balcells et al. 2015).
Figure 4 moves attention to the German case, where information about individual-level income levels (which is absent for the Belgian data) provides a key opportunity to assess whether these effects are particularly pronounced along the extremes of the income distribution – as predicted by the theoretical model. Figure 4 has the same basic setup as figure 3, except that it zooms in on the poor individuals in the poor region (i.e., East Germany, below-median income individuals) and the rich in the rich region (i.e., West Germany, above-median income individuals). Again, the figure illustrates a substantively meaningful shift in the mass of the distribution in the expected direction when comparing national and non-national identifiers.

Figure 4. National identity and redistribution preferences in Germany

Overall, therefore, the strength of individuals’ identification with their country – relative to their identification with their economic class or geographical region – appears to matter for their support for redistributive taxation. This makes variations in individuals’ identification patterns substantively relevant for governments’ ability to collect taxes aimed at funding the welfare state (as well as other public goods of national relevance). As national identification is likely to be stronger for ‘patriots,’ it determines another facet of the patriotism-taxation relation, which governments and policymakers should take into account when deciding on their fiscal policies.
7. Conclusion

The financing of public goods faces a significant free-rider problem. Since people refusing to contribute cannot be excluded from consuming the public good, each individual obtains an incentive to free-ride on others’ contributions. Overcoming this fundamental collective action problem is not straightforward. Even when governments impose mandatory contributions (i.e., taxes) and implement strong enforcement mechanisms, the incentive to minimize one’s tax bill by all legal (and illegal) means remains. Taking inspiration from a substantial historical and political literature linking the development of modern tax systems to patriotic upsurges during wars, this chapter assessed (i) whether and how patriotism can help to (partially) moderate the incentives to avoid or even evade taxes also in peaceful periods, and (ii) how this affects governments’ incentives to invest in patriotism among its citizenry.

As a final remark, we should stress that we have not closed our eyes to the (possibly numerous) negative effects of patriotic sentiments. There is, for instance, a substantial academic debate on whether patriotism (as well as nationalism) might be conducive to out-group derogation and ethnic prejudice (Viki and Calitri 2008; Wagner et al. 2012, and references therein). As a result, we certainly do not advocate a naïve and simple policy consisting of making our children ‘good patriots’ in order to reap the fiscal benefits in terms of improved tax compliance and reduced tax evasion. Nonetheless, as argued by Qari et al. (2012, p.711), “it is important to stress that the Treasury’s inherent interest in having patriotic subjects as taxpayers may make the political push for patriotism in a country stronger than it would be without this fiscal effect. That is, there might exist an ‘unholy alliance’ between the ‘Chauvinists’ in a country and those who would like to stabilize tax revenue in a world of growing mobility (and tax competition).”
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