

**How Does Macroeconomic Change Affect Social Identity (and Vice Versa?): Insights  
from the European Context**

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## MACROECONOMY AND IDENTITY

**Abstract**

Economic strategies are largely driven by political and economic considerations. However, we contend that social psychological processes, particularly identity, play an important role and should also be a focus for policy strategies. We review evidence on how changes in the macroeconomy can impact social identities, and vice versa. Drawing on social psychological theories of identity and categorization, and using the current European context as a main example, we consider how large scale events (both positive and negative) affect the economy and how this articulates with people's identities. The review considers how consumerism, consumption patterns, and consumer confidence relate to changes in identity. It also considers the consequences of macroeconomic change for social cohesion. We describe a novel model that sets out the likely opportunities and challenges for individuals, groups, and society, in the context of future macroeconomic scenarios: recession, stagnation, and growth. The review highlights the bidirectional nature of the relationship between the economy and social identity, and calls for policy makers to consider social psychological perspectives when developing economic strategies.

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What are the social and psychological factors that link economic and other ‘external’ changes to people’s sense of identity, and how does identity bear on social and economic behavior? In this article, using Europe as our example, we first set the scene in terms of the European economic context and its wider relevance, then, propose a framework for understanding identity and economic change. We begin by reviewing the effects of large scale events on the macroeconomy and on people’s identities. We consider the relationship between consumerism, consumption patterns, and identity. We propose ways that the macroeconomy impacts how people categorize one another into different groups, as well as how these categorizations can have a bearing upon the macroeconomy. After reviewing literature relating macroeconomic circumstances to social cohesion we conclude by setting out scenarios for possible changes in social identities and social relations in the context of three different economic futures – recession, stagnation, and growth.

The motivation for this article stems from the need to understand psychological processes associated with the major 2007 banking crisis that affected many western countries, albeit with distinctive effects in the USA and in Europe. In the European context, following the collapse of Lehman Brothers and the Wall Street crash, it became clear that European banks were also deeply overcommitted and had insufficient funds to cover their debts. The banking crash affected all European countries. Major defaults and bailouts occurred in Iceland, Ireland and Greece. Cyprus, Slovenia and countries including Italy, Portugal, and Spain are in very serious economic difficulties and some non-Eurozone countries, such as the UK, have also had to introduce severe austerity measures. Across the EU, wealthier economies such as Germany and France have had to make enormous contributions to enable the European Central Bank to bolster the Euro and help to guarantee the debts of other member countries. This turmoil has resulted in people and organizations losing investments, long term substantial cuts in public sector salaries, massive rises in unemployment, particularly youth unemployment, and cuts to

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services, pensions and welfare benefits. In addition, governments have increased levels of taxation, both via direct and indirect methods (Clarke & Daley, 2010; Eurozone crisis explained, 2012). It seems inconceivable that such events have left citizens' social identities untouched, and it also seems likely that social identity itself plays a part in their responses to these circumstances. Countries in the European Union are explicitly interdependent but economic crisis within Europe also intersects with and influences economic conditions elsewhere in the world, highlighting our global interdependence. Moreover, patterns of responses to downturn in Europe (e.g., conflicts among regions and countries, the rise of nationalist and neo-fascist movements such as the English Defence League in the UK, and Golden Dawn in Greece) may have parallels in, and relevance to, other continents and federations.

### **A Social Identity Perspective**

Based on social identity theory (Tajfel & Turner, 1979), our starting assumption is that people's identities can be considered in terms of their linkage to different levels of social structure – in terms of interpersonal relationships, small or local group memberships, and in terms of societal systems and organizations (Abrams & Christian, 2007; Doise, 1978). Identity can become more or less engaged (linking in) with these levels, and thereby becomes implicated in responses ranging from cooperation to competition, acceptance or resistance, mobilization or indifference. The questions we pose are: how do economic (and other) conditions relate to these different types of engagement, and what are the bidirectional implications of positive and negative economic (and other) changes, and changes in identity?

There are many social scientific perspectives on these questions, including economic, sociological and anthropological. The goal of this article, however, is to consider specifically how social identity, a social psychological concept, is implicated. Thus we address the psychological processes that relate macrosocial structures and changes to the collective self-concept and related motives and behavior. We also recognize that different approaches in

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psychology might have different things to say (e.g., evolutionary, neuroscience, discursive). In this paper, we offer a perspective framed predominantly by social psychological theory and research, in particular social identity theory (Tajfel & J. C. Turner, 1979; see also Hogg & Abrams, 1988).

Social identity theory holds that identity is defined along a continuum from the personal to the social, and is derived relationally within a broader social context of power and social relations. Throughout the paper we refer to identities that are ascribed (such as gender or race) or elective (such as a political or protest group) but also identities derived from roles or statuses that may be involuntary (e.g., unemployment). In a nutshell, we regard identity as the self-perception or ascription of a social category together with the meaning and value of that self-categorization. Therefore it can embrace ascribed, achieved and other types of identity, both long term and transitory (see Abrams, 2013 for a more detailed review).

Tajfel's (1974, 1981) original work yielded two connected but distinguishable parts of the theory, both of which are relevant for the present discussion. The "social identity theory of intergroup relations" (Tajfel & J. C. Turner, 1979) addressed conflict and struggle between groups within a larger social structure – the intergroup dynamics of social change. Tajfel wanted to understand how shared categorization or social identity affects people's actions in the context of the wider social structure. The theory considered how ingroups and relevant outgroups acquire psychological value and meaning through people's understanding of their relationship in the context of society as a whole (Tajfel, 1974; Tajfel & J. C. Turner, 1979).

Subsequently the "social identity theory of the group" (J. C. Turner, 1985), later formulated as self-categorization theory (J. C. Turner, Hogg, Oakes, Reicher & Wetherell, 1987), explained the social cognitive processes that link the self and a group. These group and intergroup parts of social identity combine to provide a framework to explain phenomena such as prejudice, group cohesion, leadership, social influence, and the self-concept. Centrally, the theory holds that

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intergroup relations, intragroup relations, and the self are strongly interconnected so that they can have reciprocal influence. Thus, the theory is highly relevant for considering the impact of social structural change on identity and vice versa.

Psychological research has shown that people apply and use categories to simplify their complex worlds and save cognitive energy (Crisp & Hewstone, 2007; Doise, 1978; Fiske & Taylor, 1991; Macrae & Bodenhausen, 2001; J. C. Turner, Hogg, Oakes, Reicher, & Wetherell, 1987), but also, to fulfill their need to belong, and have a structured and meaningful environment (Williams, 2007). People display ingroup favoritism by preferring other individuals who share a common category membership with themselves (LeVine & Campbell, 1972; Sherif, Harvey, White, Hood, & Sherif, 1961). This ingroup bias happens even in experiments when people are put into 'minimal' groups randomly without any prior interpersonal contact (Tajfel, 1978, 1981). Moreover, in real groups, where ingroup/outgroup boundaries are well-established, and people view one another in terms of 'us' and 'them', various factors can continually reinforce the divisions, and differences become imbued with value to the point where they become non-negotiable and result in intractable conflict. Examples might be the Palestinian and Israeli conflict, and the struggles in Northern Ireland (Bar-Tal, 2013).

Social psychologists have sought to establish ways in which this ingroup favoritism can be ameliorated. One approach is to bring groups into situations in which members can have positive contact and form friendships across group boundaries. Intergroup contact interventions are undoubtedly effective (Pettigrew & Tropp, 2006), but not always feasible. Much effort has succeeded in finding feasible alternatives to actual contact. These range from education, indirect or 'extended' contact through friends of friends, and even merely imagining contact (R. N. Turner, Crisp, & Lambert, 2007; see Dovidio, Eller, & Hewstone, 2011). Other interventions have sought to emphasize the common, overarching identities that people share as a way to decrease perceptions of intergroup differences (Gaertner & Dovidio, 2000).

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Though the social identity perspective has inspired a vast body of literature, there has been relatively little effort to connect social identity theory to the extant literature on real world macroeconomic change. This is surprising given that social identity theory highlights that a group's status in a wider intergroup context impacts directly on its members' identification and motivation (Abrams, 2013). By status, we refer to the standing, prestige, power and resources that affect a group's claim to superiority or its perceived inferiority relative to other relevant groups. Because a group's status can be vulnerable in terms of its perceived wider legitimacy, its stability, and the prospects for change, factors that have implications for a group's social status are likely to motivate different types of behavior among its members (Ellemers, Spears, & Doosje, 1999). Note that the term 'minority' is often used to describe lower status, marginalized or stigmatized groups. However, we prefer to reserve the term minority for numerical minorities because some numerical minorities are actually elites within status systems. Therefore, rather than use the term 'minority' we refer to lower and higher status groups in this article. Moreover status as defined by social identity theory does not simply mean socio-economic status, which is defined by objective factors such as income and education (cf. Diemer, Mistry, Wadsworth, López, & Reimers, 2012). Instead it refers to a groups ranking in a social hierarchy relative to other *psychologically relevant* groups.

Recently, Fadjukoff, Kokko, and Pulkkinen (2010) provided preliminary evidence relating changing macroeconomic circumstances to people's identities in adulthood. In a longitudinal study, they found that during a macroeconomic boom individuals were more committed to their occupational identities than their political identities, but the reverse pattern was apparent in times of macroeconomic downturn. However, because the time of macroeconomic downturn coincided with participants' older age pre-retirement, their lower endorsement of occupational identities during downturns may have been an artifact of the current pre-occupations of the aging participants that were nearing retirement. More importantly, Fadjukoff et al. did not

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consider the possibility that the macroeconomy and identity could be bidirectionally influential, as proposed in this article.

In the section that follows we consider the impact of large scale external events on the economy and on people's identities. This prepares the ground for our overall framework for the bidirectional relationships between the economy and people's identities.

### **Impact of External Events on Economies and Identity**

Previous literature has described how significant events affect the economy, and also there has been separate literature looking at how world events impact people's identities but there has been no concerted attempt to relate these diverse literatures. Significant world events such as the 9/11 terrorist attack on the World Trade Centre have a substantial effect on the macroeconomy within and across countries, which in turn impacts consumer confidence. For example, consumer confidence in the USA and globally dropped sharply following the 9/11 attacks, resulting in reduced consumer spending. Consumers preferred to save, and repay their credit card debts, and engaged in less consumerism. This was particularly noticeable in the airline, hotel, travel, and tourism industries (Virgo, 2001). Lower consumer confidence was accompanied by a sharp increase in global unemployment, which had implications for people's ascribed identities (i.e., gender, race) as well as elective identities (i.e., protest groups, support football teams). Consumer confidence started to recover by the end of 2001 (Garner, 2002), and the macroeconomy managed to recover rather well, demonstrating high levels of resilience to catastrophic sudden events (Jackson, 2008). Similar evidence for macroeconomic resilience was highlighted by Varvares (2001) who pointed out that when consumer confidence was shaken by previous large scale events, such as Pearl Harbor (1941), the Cuban missile crisis (1962), or the Gulf War of 1990, subsequent downturns of the macroeconomy were short lived, and in most cases recovered within two years. It is also noteworthy that some countries appear to have coped with catastrophic events without undergoing obvious wholesale changes in either economic



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prospects or identities. Examples include the 2010 eruption of the Eyjafjallajökull volcano in Iceland, the Tōhoku earthquake and tsunami and the related melt down of the Fukushima nuclear plant in Japan (2011). Indeed, while some events appear to be a catalyst for people's rejection of authority (such as may have happened in the 2011 London riots) other events, often tragedies such as mass shootings (Tyrifjorden in Norway, 2011; Sandy Hook in the USA, 2012) or accidents (BP Oil spill, 2010), seem to produce greater cohesion, caring and mutual tolerance within communities that are affected (Hawdon, Oksanen, & Rasanen, 2012). It seems plausible that, in the face of such external events, this resilience may reflect the way that identities and economic circumstances become intertwined.

Consumer confidence and consumerism are not the only variables that are affected by large scale events. In the salient example of the 9/11 terrorist attacks some scholars argue that people's identities also changed (Wee, 2004). For example, people showed heightened patriotism and more prejudicial attitudes towards Muslims (Coryn, Beale, & Myers, 2004). They became more conservative and showed increased support for leaders, such as Bush, and for radical anti-terrorist legislation (Landau et al., 2004). At the same time, in the aftermath of 9/11, some Muslims became more radical and showed increased support for Islamic fundamentalism (Rabasa et al., 2004). Although there is a common presumption that external events affect economic conditions, which then constrain or determine individuals' identities and actions, such evidence highlights that the influence between economic behavior and identity is unlikely to be unidirectional.

Changes in consumer confidence and people's identities may both arise from the greater uncertainty that ensues after events such as 9/11 (Bird, 2002; Hand, Paez, & Sprigg, 2005; Jackson, 2008); from the increased anxiety (Coryn et al., 2004); or from the heightened 'mortality salience' – the psychological threat arising from being forced to consider one's own mortality (Landau et al., 2004). Increased conservatism as well as increased radicalism can be explained by

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people's desire for meaning in moments of uncertainty (Abrams & Hogg, 1988; Hogg & Abrams, 1993). According to uncertainty-identity theory (Hogg, 2007) in order to reduce uncertainty people are motivated to be part of a group characterized by a clear prototype and this presses individuals and groups towards more extreme or entrenched positions with less tolerance for internal dissent or diversity (Hogg & Blaylock, 2012). Similarly, uncertainty may polarize people such that they either cling more firmly to, and reinforce, existing social and political systems, or they strongly reject them, perhaps engaging in grassroots collective actions (e.g., Jost et al., 2012).

It is important to note that it is not only negative large scale world events like 9/11 that can impact consumer confidence, consumerism, and people's identities. Major sporting events such as the modern Olympic Games and the Football World Cup are largely portrayed as positive global events that attract as much, if not more, attention than natural disasters and economic changes in particular areas. Indeed, these particular sporting events provide a vehicle for rhetoric and ideologies that are used to frame sport as a tool to bring people and nations together in a healthy competitiveness, at the same time acting as a force for international peace and harmony amongst nations (Guillain, 1998; Tomlinson & Young, 2006). Since their inception these two large sporting events have been cultural and political in character, allowing remote cultures to present themselves to the world, but also on a political scale enabling even very small nations to attract attention and status globally (Simson & Jennings, 1992; Sugden & Tomlinson, 1998).

Such events have served, sometimes deliberately, to shape people's identities. The 1934 World Cup in Italy served to strengthen consensus under fascism, and construct "a civic, nationalist religion through rituals such as sport and myths of the strong, heroic, 'pure' Italian" (Tomlinson & Young, 2006, p.7). Likewise, the 1936 Olympic Games in Germany served as a propaganda vehicle for the Nazi ideology and political regime (Guttman, 1992). A good deal of social psychological research shows that people's identification with national teams readily

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provides as basis for loyalty and cohesion, even among young children (see Abrams, Rutland, Pelletier, & Ferrell, 2009; Barrett, 2007; Bennett & Sani, 2004). These (sometimes temporary) identifications may be double edged as they can be good for identity, group cohesion and solidarity, but bad for tolerance and diversity (Abrams et al., 2009).

Increasingly, sporting events have become a vehicle for promoting economic and commercial growth (Tomlinson & Young, 2006). For instance, Whang (2006) describes how, for Japan, hosting the 1964 Olympic Games was an opportunity to demonstrate its healing after World War II and even more importantly to demonstrate its technological advances on the international stage. Similarly, the 1988 Seoul Olympics were used by South Korea to propel the country into the world's industrial and trade elite. As such, both these events were used to increase consumer confidence and encourage consumerism of goods (in particular technology) coming from Japan and South Korea. At the same time, these events helped change the publicly defined images projected by the two nations, showing their more open and modern character. In Japan's case, this marked a departure from its association with Nazi Germany. In South Korea's case, it bolstered an assertion of autonomy from the imperial oppression by Japan, and its growing economic presence in Asia (Whang, 2006). A group's public image can be an important part of its members' identity (cf. Luhtanen & Crocker, 1999). Therefore these geopolitical changes combined with economic resurgence, bolster the country's status in an international context, with favorable implications for identity among their populations.

### **Consumer Confidence, Consumerism, Consumption Patterns, and Identity**

Levels of consumer confidence can have important and drastic effects on the macroeconomy. Increased consumer confidence results in greater growth via a demand effect, which increases output (Caleiro & Ramalho, 2007; European Commission, 2005a, 2006; Ludvigson, 2004; Nahuis & Jansen, 2004; Taylor & McNabb, 2007). However, the opposite effects can also occur. Output (growth), directly or unemployment, indirectly, can influence

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consumer confidence (European Commission, 2005b; Mueller, 1966). Furthermore, consumer confidence is influenced by political evaluations and media coverage of economic conditions (Caleiro & Ramalho, 2007; De Boef & Kellstedt, 2004).

Regardless of economic conditions, identity is bound up with consumerism (as a behavioral profile) because products form a symbolic and sociological bridge between people and society (Carrier, 1990; Shaw & Shiu, 2002). For example, consumption of branded products and leisure choices such as music preferences are affected by people's desire to endorse or display a particular identity (Abrams, 2009; Berger & Heath, 2007). People use consumption to attain both a comfortable level of uniqueness or distinctiveness (Brewer, 2003) and positive evaluation from others in the form of acceptance or respect for their social identity (Abrams, 1994; Emler & Reicher, 1995; Wicklund & Gollwitzer, 1982). For example, after the reunification of East and West Germany, residents of East Germany internalized consumerism by approximating to the consumption level of West Germany. Furthermore, they expressed regional pride and nostalgia (coined *Ostalgie*) by buying certain types of products, such as East German foods, and previously popular Wartburg and Trabant cars (Staab, 1997). In a similar vein, Polish nationals increased their level of consumption with the emergence of the liberalized new market economy that replaced the shortage economy that dominated Poland prior to the 1990s (Mroz, 2010).

Conversely, governments seem quick to blame other countries for problems with consumer products. For example, when horsemeat was found in a Findus 'beef burger' in the UK, it sparked a Europe-wide outcry followed by scientific analysis of burger meat DNA across the continent, with immediate 'suspects' being pointed to recent and lower status minority member states such as Romania and Hungary (Findus Beef lasagna contained up to 100% horsemeat FSA says, 2013). Over time it emerged that the suspect meat was more likely to have come from or through the Netherlands (a high status country). Similarly, when a fungus affected

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UK ash trees ('Ash dieback' fungus *Chalara fraxinea* in UK countryside, 2012), this was blamed on the lack of control of the disease being imported from Denmark. These outcries seemed to focus as much on blaming an outgroup as on the actual control and nature of the problem itself.

Related to such defensive responses, consumers' identities can influence the macroeconomy more positively through actively localist or nationalistic purchasing preferences (Smith, 1987). For example, Reiersen (1966) found that a sample of American students consistently ranked US products as higher in quality when compared to European and Japanese products (for a similar example in the European context see Vestergaard, 1968). An even more striking example in which consumers impact the macroeconomy can be found in historical records during the period of the Nonimportation movement in the USA (1764-1776). The aim of this movement was very much related to national identity and political causes, namely the fight for independence from the British Empire, which was expressed by boycotting all British products (Santore, 1981; Witkowski, 1989). In addition, it is quite common for governments and companies to appeal to consumers' identities by invoking ingroup symbols in the marketing of their products (e.g., the 'Buy British' campaign in the 1980s, labeling of products with national symbols and flags, etc.). Identity also guides consumption based on principled choices. People who identify as environmentally responsible consumers (or green consumers) are more likely to purchase products that possess eco-friendly attributes (Mainieri, Barnett, Valdero, Unipan, & Oskamp, 1997; Smith, 1990; Sparks & Shepherd, 1992; Tanner & Woelfing Kast, 2003; Whitmarsh & O'Neill, 2010). However, this is not always the case, and research has shown that there is an attitude-behavior gap, whereby people may profess more positive ethical attitudes, that do not necessarily translate into actual ethical purchasing behavior (Boulstridge & Carrigan, 2000; Rogers, 1998), and even consumers who identify as ethically responsible are willing to buy unethical products if the price of these products is considerably lower compared to the more ethical alternative (Creyer, 1997). Furthermore, the macroeconomy can have an impact on

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people's identification with and actual endorsement of socially responsible organizations and products. For example, Elferink (2010) related macroeconomic conditions to green consumerism by showing that in countries with an economic crisis, consumers with lower income who are more price-sensitive have lower preference for green products (see also Tsay, 2009). Moreover, Elferink's analysis showed that only the most devoted green consumers are willing to suffer higher costs for environmentally friendly products during a recession.

Social identity clearly affects rejection of certain consumer options. One salient example is the deliberate boycott and non-consumption of the services of Barclay's Bank in Britain due to the bank's involvement with the Apartheid in South Africa (Smith, 1987). Similar examples include the UK consumer boycott of Argentinean products, such as wine and corned beef during the Falklands crisis; as well as the international boycott of Nestlé for their sales and marketing of baby milk to the Third World.

These examples of principled consumer choices highlight how certain groups within a society establish and reinforce shared identity that supports change in their consumption levels and patterns in response to circumstances within the wider economy. Consumption and investments are not just economic decisions, but are increasingly becoming social and political decisions imbued with moral significance (Vogel, 1975). By making ethical purchases, consumers exercise their consumer sovereignty and may attempt to control the business via the market (Smith, 1987). Furthermore, for many people the ability to verify the social responsibility of a business serves as a basis of trust building towards their products and services (Castaldo, Perrini, Misani, & Tencati, 2009; Chen, 2010; Pivato, Misani, & Tencati, 2008).

### **The Role of the Macroeconomy in Framing Superordinate Social Identity**

Social identity derives its meaning both from lateral and vertical comparisons, but any intergroup comparison is also made in the context of a superordinate system (e.g. UK vs. Germany with Europe, Europe vs. USA within Western economies, etc.). The superordinate

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category is important in terms of the overall goals, aspirations or resources for which groups may compete. Within Europe macroeconomic factors have also been related to attitudes towards the European unified identity. Those living in EU member states that are net recipients of EU resources express more positive attitudes towards the EU than do those living in relatively wealthier donor EU states that are attractive to migrants (Garry & Tilley, 2009). Furthermore, a study investigating mobility between EU states has shown that people who highly identify with the unified EU identity are more likely to migrate to another EU state and demonstrate greater support for EU institutions (Recchi, 2008). Thus, the structure of the macroeconomy appears to influence people's desire to identify with their nation vis-à-vis the EU as a whole.

The unified currency is not just an economic means of integrating separate nations, but also a symbolic tool for strengthening the shared identity that is being molded within the EU. In Spain and Portugal for example both the national and superordinate European identities independently influence attitudes towards the Euro. Stronger European identity is associated with more positive attitudes towards the common currency. The Euro can serve as a symbol of a desirable shared identity, thus attracting support even when people have little understanding of its economic relevance (Luna-Arocas, Guzman, Quintanilla, & Farhangmehr, 2001). Similar findings have emerged in the Austrian context (Meier-Pesti & Kirchler, 2003). Moreover, according to Asher (2005) EU policy makers deliberately use images of architectural bridges on Euro notes to symbolize the integration of multiple nationalities and identities into a single overarching European identity. As the Euro illustrates, an important aspect of the linkage between macroeconomic circumstances and identity is the way that people categorize themselves and others. The UK government's claim that the population must share the burden of spending cuts because 'we are all in it together' is in line with a strategy advocated by Gaertner and Dovidio's (2000) 'common ingroup identity' approach to reducing conflict between groups. However, more recent work has shown that when groups do not have equal social status they receive such

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messages very differently. Members of advantaged groups adopt the message and, perhaps paternalistically, accept some responsibility for the fate of those of lower status. Those from lower status groups are more likely to view such messages with suspicion, usually for good reason because they make resistance to the objectives of powerful groups more difficult (Dovidio, Saguy, Gaertner, & Thomas, 2012).

More recent research has grappled with the fact that people's identities and group memberships are often complex and multifaceted. Identity can be characterized both in terms of hierarchical elements (e.g., social psychologists are a subset of psychologists, who are a subset of social scientists, and so on), and cross cutting categories (e.g., we also have gender, age). In turn each of these elements relates to varying depths of history in terms of connections with other individuals and groups. In the European context, people's identification with their nation can be considered as a 'basic' level of categorization (cf. Rosch, 1978), whilst the superordinate identity of European citizen, and the subordinate regional identities, can be less diagnostic of their alliances within the social structure at any point in time. This could have implications for the future of the European Union because, in times of economic hardship, citizens of individual countries may be less willing to identify with and defend a social structure that does not fit with their basic level of categorization. Thus, the EU may be vulnerable to fracturing into national identities, as a result of strains from the economic crisis.

There is enormous psychological flexibility in how people construe their identities in response to different situations. Therefore, the same individuals may be as capable of acts of heroism as acts of brutality, and groups that may be internally characterized by great loyalty, devotion and self-regulation can sometimes mobilize their members to become involved in acts of evil against others. An important intervention that can moderate such tendencies is to reinforce factors that frame people's sense of their identity along multiply cross-cutting categorizations, whereby people are reminded of the multitude of identities they espouse and



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share with other individuals (Crisp & Hewstone, 2007; Vasiljevic & Crisp, 2013) rather than dwelling on single group memberships.

The European Union, made up of different national groups from Europe, seems a good example of crossed and multiple categorization principles. During periods of economic upturn (when the macroeconomy is flourishing) people express greater support for the unified currency as well as their unified overarching European identity, especially in poorer member states. However, this appears to be changing in step with the macroeconomic downturn, and the crisis of the Euro which culminated in the establishment of a European Stability Mechanism. This mechanism is intended to ensure the stability of weaker economies such as Greece, Spain, Italy, and Portugal, and at the same time stabilize and maintain the viability of the Euro. However, it also reduces the freedom of member-state governments to pursue fiscal policies different from other EU member states (Wolinetz, 2012). There has been a parallel rise in Euro-skepticism not only amongst member states that have historically been firm supporters of the European identity, such as Italy (Fois, 2006); but also within already Euro-skeptic countries such as the UK, which has retained its independent currency and where there is strong political resistance to any further integration (Kinsman, 2012).

Euro-skepticism in the different parts of Europe might have differing foundations. For example, in the UK such skepticism (exemplified by the UK Independence Party) seems likely to be rooted partly in the triangular relationship that the UK has with the USA and continental Europe, as well as the notion of the democratic British identity that advocates liberalization and enlightenment of other nations (Kinsman, 2012). That is, part of British identity is anchored in its 'special relationship' with the USA -- a high status reference group that shares much history, culture and language. This link perhaps reinforced the UK government's confidence at the December 2011 summit where it vetoed an amendment of the Lisbon 2009 Treaty. Whether or not people in the UK feel that this stance is vindicated, and hence their attraction to or

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disillusion with, the EU may depend in part on whether they view the UK's economic situation as being locked in to that of the EU, and whether or not the USA moves out of step (e.g., faster) with either the UK or the EU as a whole.

For people in the UK, regardless of the objective causal connection between the UK's economic progress and that of the EU and USA, the USA economy offers an alternative possible reality (e.g., faster growth, less consumer regulation, association with an independent currency). Therefore, people's perception of the coincidence and differences in situation may affect their orientation to the EU. It seems plausible that if the UK's economic recovery is sluggish during the next ten years this may deepen the alienation that the British population feels from the EU, resulting in political pressure to loosen its ties.

In other European Union countries, other types of triangular relationship might exist (e.g., Finland's former domination by the Soviet Union, Sweden's links to Norway, which is not part of the EU, etc.). Each of these relationships represents potential new cleavages that might arise if economic circumstances press in particular directions. We expect that identity commitments may play a powerful role, either militating against, or augmenting, economic pressures to create new bonds or break longstanding ones. Powerful historical examples of the strength of identity pressures might be the reunification of Germany despite years of the cold war, and conversely the disintegration of Yugoslavia to return to constituent separate identities. These show that shared identities built solely on economic benefits and utilitarianism may not be robust, whereas shared identities that invoke a common core, as seen amongst East and West Germans, are more likely to be successful. This may well be the reason for the success of the shared American identity which is based on the oft repeated core of liberty and the "American" dream. Thus, the economic benefits of the unified state are downplayed in comparison to the libertarian American dream that can resonate with such a diverse group of people, many of whom are born outside the USA. If the EU countries are to remain as a unified entity may depend on the emergence of a

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coherent core based on shared values and dreams, perhaps contrasting with some of those espoused by the USA.

**The Economy and Social Cohesion**

Social cohesion has been related theoretically and empirically to macroeconomic performance. The term social cohesion is used to describe the ties that bring different groups of people together within a society. As such social cohesion is intrinsically related to the level of trust between different groups in a society (e.g., Forrest & Kearns, 2001). When an economy is performing well (flourishing) social cohesion is improved. The opposite is true when the economy is suffering. Some scholars even suggest that there is a causal link from social cohesion to macroeconomic performance (Dayton-Johnson, 2001). Knack and Keefer (1997) surmise several factors involved in the link from social cohesion to macroeconomic performance: reduced transaction costs, higher investment ratio, encouragement of innovation, better performance of government institutions, lower social costs, more informed citizenry [all via increases in trust] (Dayton-Johnson, 2001; McCracken, 1998).

The relationship between social cohesion and macroeconomic circumstances has been discussed by economic historians such as Friedman (2005) who argues that economic growth is essential to "greater opportunity, tolerance of diversity, social mobility, commitment to fairness and dedication to democracy." It is argued that economic upturns can bring about liberalization, increases in people's rights and improved benefits for the needy. In contrast, macroeconomic downturns may lead to greater authoritarianism, and totalitarianism as in 1920s and 1930s Germany (Inglehart & Welzel, 2005). Thus, Friedman (2005) argues, societies across the world should strive for economic growth which in turn will bring about many associated benefits for their populations. Furthermore, economic growth increases people's optimism about the future, thereby increasing people's overall happiness. Although this seems a plausible argument it does

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not appear to fit all of the evidence (e.g., Easterlin, McVey, Switek, Sawangfa, & Zweig, 2010), suggesting that the relationship between economic growth and other variables is not uniform.

Prejudice towards certain minorities in society is likely to increase when economic conditions decline. A particular danger point is societal responses to immigration, which becomes more salient due to rising unemployment and increased job insecurity (Archer, 2009; Glick, 2005). For example, negative attitudes towards undocumented Mexican immigrants in the USA increased substantially each year from 2006 to 2009 paralleling the slowing of the macroeconomy. Thus, American citizens' attitudes worsened as unemployment rates increased and GDP real growth rate decreased (Diaz, Saenz, & Kwan, 2011). Since immigration does not involve or affect all groups of a society equally, it can lead to heightened xenophobia and prejudice towards immigrants particularly amongst the poor and lower classes. Thus, examples of social unrest such as those in Greece and the UK may become a more common occurrence within the EU if the recession deepens or stagnates (cf. Archer, 2009).

Ethnic prejudice persists even when the immigrant groups are more established and no longer consist only of first generation immigrants. Low status ethnic and racial groups such as Jews in pre-Nazi Germany and Blacks in the USA have been the scapegoats for the high status group's economic woes. For example, between 1882 and 1930 the number of lynchings of Blacks in the Deep South of the USA increased as the price of cotton decreased (Beck & Tolnay, 1990). Realistic Group Conflict theory highlights the powerful effect of perceived competition between groups over the same limited resources that can foster and reinforce such prejudice (LeVine & Campbell, 1972; Sherif, Harvey, White, Hood, & Sherif, 1961; Sherif & Sherif, 1953; Sherif, White, & Harvey, 1955). The theory offers a clear theoretical model for the escalation of prejudice that occurs in time of macroeconomic downturns (Citrin, Green, Muste, & Wong, 1997; Esses, Dovidio, Jackson, & Armstrong, 2001; Esses, Jackson, & Armstrong, 1998). It is

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equally important to note that strategies that highlight common interdependence and mutual fate across group boundaries can help to counteract such prejudices.

Although a common enemy may cement a group and focus its members on the conflict, more recent research suggests that, in times of economic recession, overall social cohesion decreases and this may be particularly seen in diverse societies that are made up of different high/low status and immigrant groups (Costa & Kahn, 2003; Putnam, 2007; Stolle, Soroka, & Johnston, 2008).

In fact the idea of social cohesion is quite problematic. We must immediately question the level of analysis that the concept applies to, and which set or sets of people are implicated. For example, there might be strong cohesion within a cultural or religious or ethnic group that is highly dispersed across an otherwise disparate geographical area. There might equally well be almost no social or emotional cohesion within a demographically uniform area that appears to have no obvious problems.

Abrams (2010) argued that it is useful to treat the two concepts of prejudice and good relations (e.g., social trust and cohesion) as orthogonal (see Table 1). There are situations where relations among people appear to be good, for example a neighborhood or town in which there are no tensions or conflict and in which prejudice may also be low. This results in *harmonious* cohesion that is tolerant, engaged, open and flexible in relation to outsiders – the UK government's concept of 'big society' (Building a Big Society, 2010). However, such communities may also exhibit *rivalrous* cohesion that involves high regard for their own members, but competitive, hostile and exclusionary attitudes towards groups that are viewed as subordinates or rivals. For example, although supporters of the Celtic and Rangers soccer teams are generally Scottish, they are deeply committed to their own teams, which are fierce rivals and have different religions for their fan base. Conversely, when relations are not so good within a community it does not automatically imply that there will be prejudice. People may simply exist in a state of

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*benign indifference*, a community that is atomized, disengaged and unconcerned about others either within or beyond the community. Finally, there is the notion described by the UK Prime Minister, David Cameron, as ‘broken society’. In this scenario there are areas in which good relations are low and prejudices are high, a condition of *malign antipathy*, characterized by fragmented, discontented, disengaged communities of people who feel hostile both to internal and external agencies.

It seems likely that changes in economic circumstances can promote or inhibit social psychological communities of these different types. As we note later, both the malign antipathy and rivalrous cohesion scenarios hold significant risks, while benign indifference surely leads to missed opportunities. Of course, because identity and the economy are intertwined, the degree and type of cohesion in society is likely to facilitate or inhibit the success of the macroeconomy. Thus, societies characterized by harmonious cohesion are likely to value diversity, encourage people to develop, and be creative, all of which could help its economy to flourish. Societies characterized by inequalities and prejudice, and particularly malign antipathy, seem likely to inhibit creativity and productivity which in turn would constrain the economy (e.g., Ritzen, Easterly, & Woolcock, 2000).

### **Longer Term Prospects: Three Scenarios**

Although social psychology often focuses on very short term, even transitory and implicit effects, the relationship between identity and the economic environment needs to be considered over a larger time scale and on a broader canvas. We have provided an illustrative analysis of different economic scenarios in Table 2 to consider how three longer term scenarios – recession, stagnation and growth (in the columns labeled A, B, C, respectively) might relate to different types of outcomes – for identity, for individuals, groups, and society as a whole (represented in rows 1, 2, 3, 4, respectively). We also consider the most significant dangers or threats and the

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greatest potential opportunities or potential benefits implied by these scenarios (rows 5 and 6, respectively). We refer to particular situations using cell references in the following discussion.

**Recession (Scenario A).** It could be that recession follows solely from factors that are internal to a region or country, such as lack of productivity, rising unemployment, and the financial burden of the welfare state. However, external factors are also likely to be involved. For example, in the EU, one of the economically weaker member countries might default and leave the Euro.

Alternatively, the financial burden of supporting weaker groups might weaken the larger group. For example, sustaining bankrupt countries in the EU may mean that the European economy as a whole becomes starved of investment and recedes rather than grows. A likely consequence is that economies of countries may also suffer, whereas they might potentially have flourished if they had been independent.

Under any of these circumstances, in the absence of relevant counteractive forces, evidence suggests that a group would experience a decline in broad (harmonious) social cohesion (A3), while individuals would experience adverse effects in terms of physical and psychological health and wellbeing (A2). These adverse effects for individuals' health and wellbeing are likely to be more pronounced for members of low status groups who would likely be chosen as the scapegoats amidst the decline in social cohesion (cf. Wilkinson & Pickett, 2011). There is also a high risk of rivalrous cohesion (A4) as people shift their attention from potentially negative personal identities and focus instead on potentially enhancing group identities. This could mean they would become more nationalistic or parochial (A1), more hostile toward both superordinate structures (e.g., their government or the EU as a whole), and more defensive of local structures such as their town, street, church, community group, ethnic group and so on. They may also bind more strongly with idiosyncratic 'interest' groups linked by social media. Factors that highlight unjust procedures for distributing resources, that widen group differences, and that

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increase the competitive interdependence between groups will exacerbate such tendencies (A5). On the other hand, such circumstances might be a basis for establishing a stronger communal identity, concern for others and so on, which could serve as important social capital for recovery (A6).

Notably, all these different factors would affect high and low status groups differently. Nationalistic tendencies and their disastrous consequences for low status groups arising from rivalrous cohesion in times of macroeconomic recessions were discussed earlier in relation to Nazi Germany and the American South in the 1880's. More recently, several EU countries have seen a rise in support for nationalistic parties that openly demand for the restriction of rights of immigrants and low status groups (i.e., the British National Party, the UK Independence Party, and the English Defense League within the UK, and the Golden Dawn party in Greece). Our analysis suggests that policy makers would be well advised to consider social identity approaches when devising macroeconomic policies for dealing with recession because the capacity to move towards economic growth may be reduced if, during downturns, a country has become less cohesive and has fractured along group lines.

**Stagnation (Scenario B).** A second scenario, and perhaps the most likely (e.g., following the example of the last decade or so in Japan), is economic stagnation. As various governments, banks and other agencies struggle to satisfy multiple demands for caution, austerity, investment and growth it seems probable that nothing much will change very quickly. However, stagnation may also bring with it another significant risk, a substantial increase in levels of uncertainty. As highlighted earlier, uncertainty throws identity into question (B1), which may result in a retreat to familiar and localized relationships and identities (B2). This could also lead to a gradual decline in wider societal cohesion as people narrow the range of their social identities and commitments to others and a more general state of benign indifference ensues (B5).



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Continuing uncertainty or stagnation could eventually prompt people to seek greater meaning and predictability in their lives. This situation may provide fertile grounds for the emergence of system-rejecting ideologies, resistance, and challenges to social order, potentially including constructive and creative routes for social and economic progress (B3, B4).

Unfortunately it is also likely to stimulate efforts by those with power to consolidate their powers and influence, to impose more restrictive regulations and regimes, to 'crack down' on dissenters, and so forth. Moreover, times of uncertainty may bring greater dangers for low status groups, who may often be blamed for the continuing uncertainty. Thus, stagnation may create conditions that create opportunities for change (on the positive side) but could be very destabilizing (on the negative side). Given that these types of response are likely to arise because of people's need for a secure and predictable identity, it seems possible that strategies to promote constructive responses to economic stagnation might focus on building and supporting positive identities as a driver (not merely a consequence) of economic change (B6).

The relevance of certainty is illustrated by a recent quantitative analysis of the texts of televised leader debates during the 2010 UK general election (Abrams, 2012). This established that both Nick Clegg and David Cameron (the challengers) used the theme of certainty very strongly in their language and arguments, whereas Gordon Brown (the incumbent Prime Minister) focused significantly more on uncertainty. In hindsight, it is not surprising that Labour (Brown) lost the election and that the new coalition government was formed between the Liberals (Clegg) and Conservatives (Cameron), both of whom were trying to offer greater certainty. However, the coalition has been continually criticized for its many 'U-turns', and conflicts of principle (between the two parties), reflecting the problem that in reality both the challenges and solutions are extremely uncertain. One risk is that continuing uncertainty may undermine the electorate's confidence in the political system's ability to deal with uncertainty. If

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this happens we might expect to see an increase in people's use of alternative methods to acquire certainty through secure and stable social identity.

We assume that it is generally desirable to promote harmonious cohesion (even if some rivalrous cohesion is valuable at times). This is not just because harmony is psychologically and socially more pleasant, but because diversity and complexity promote creativity (Crisp & R. N. Turner, 2011). Therefore, attending to the identity dynamics required for such cohesion might be particularly important during long periods of potential uncertainty. Thus, in periods of stagnation governments and policy makers may be wise to promote greater respect for diversity and highlight the value that diverse workforces bring to the economy.

**Growth (Scenario C).** A third scenario is that the macroeconomy strengthens and, in tandem, local or national economy flourishes. In this scenario we may expect people to feel more optimistic, to focus a little more on their personal prospects and identity, and to become more open to different cross-cutting social identities (C1). Although increasing prosperity may feed into greater individualism (and perhaps lack of concern for other groups that remain disadvantaged), overall we would expect improved social cohesion and trust between different groups in society, greater openness and more proactive behavior that creates a virtuous spiral of innovation and productivity (harmonious cohesion – C3, C4, C6; cf. Packer & Kugler, 2013). The improved macroeconomic circumstances should also support an improvement in people's health and wellbeing (e.g., Diener, Diener, & Diener, 2005) [C2]. Furthermore, we would expect that people would identify more strongly with the higher level (e.g., European) unified identity, whereas nationalistic or more parochial ties may be weakened (C3, C4). We would therefore also expect macroeconomic growth to lead to greater integration of low status groups within the wider society.

A further possibility is that people perceive the local economy as succeeding *despite or beyond* wider macroeconomic conditions, and that people identify their ingroup interests as more

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distinct and contrasting with those of other groups (rivalrous cohesion). In the case of the UK vis-à-vis Europe as a whole this seems likely to depend on what happens to the USA economy. For example if the US economy improves faster than the European economy, the UK may treat the US as a reference point to contrast the “failures” of Europe. This scenario could result in a rise of UK ethnocentrism, parochialism, and indifference to the fate of neighboring countries, perhaps together with significantly less tolerance of diversity within the UK, and the potential for increased conflict and tension if particular groups become targeted or scapegoated (C5). This type of reaction would be a type of nationalistic collective pride (Mummendey, Klink, & Brown, 2001), which might be associated with Schadenfruede (Leach, Spears, Branscombe, & Doojse, 2003) in response to other countries’ problems, and indifference to the wider global picture. An implication for policy makers is that times of economic growth should be seized upon to stimulate awareness of multiply categorized and cross-cutting group identities as a means of encouraging creativity and innovation, and hence further growth.

### Conclusions

In conclusion, all economic scenarios hold both risks and opportunities. Understanding and anticipating these requires investment in measurement, monitoring and analysis of individual and societal responses to the economic horizon. That is, we believe meeting the challenges of economic change requires an explicitly social psychological analysis and not a purely economic one. Although social identity is by no means the only, or necessarily most important, determinant of behavioral responses, it is certainly an important element. Understanding how people sustain and develop positive social *and* personal identity in different types of socioeconomic climate therefore can help us to anticipate potentially costly problems and reach for potentially beneficial strategies for the future – strategies that should take into account people’s position as individuals, as group members, and as part of society as a whole.

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This paper argued that the macroeconomy and identity are almost inevitably bidirectionally linked. Changes in the macroeconomy affect the salience of, and people's affiliations with, different groups, and thus affect the level of social cohesion and connectedness between different groups in society. However, changes in the identities people espouse or aspire to can also lead to changes in the macroeconomy. Thus, while it is important to sustain distinctive identities, policy makers need to be careful before emphasizing strong fractures (e.g., along political, national or ethnic lines) and be wary of inhibiting people's recognition of their shared identity at higher levels of abstraction (e.g., at a continental or global level). Such strategies may be politically expedient in the short run but seem likely, in the long run, to perpetuate economic downturn or stagnation, and in general greater civic disengagement, and prejudice towards low status social groups.

On the other hand, recognizing and valuing diversity whilst also fostering a common, superordinate identity (as a European citizen) and working on common economic and political goals, seems most likely to help improve macroeconomic circumstances, to promote greater tolerance, and respect for human rights and equality. A key challenge then, is how to maintain diversity and distinctiveness at levels that satisfy people's need for meaning and positive identity (Brewer, 2003), whilst also ensuring there is a unified focus on values, goals and characteristics that bind wider communities together to sustain real social cohesion. We believe that social psychologists should be informing these strategies every bit as much as economists, philosophers, sociologists and politicians.

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Table 1: Societal Characteristics Based on a Typology of Good Relations and Prejudice [reproduced with permission from Abrams (2010), Processes of Prejudice: Theory, Evidence and Intervention]

		Prejudice	
		Low	High
Good relations	Low	<p><b>Benign indifference</b></p> <p>Atomized, disengaged community, unconcerned about others</p>	<p><b>Malign antipathy</b></p> <p>Fragmented, discontented, disengaged community hostile to both internal and external rivals or enemies</p>
	High	<p><b>Harmonious cohesion</b></p> <p>Cohesive, tolerant, engaged community, open and flexible</p>	<p><b>Rivalrous cohesion</b></p> <p>Cohesive, engaged community but competitive towards subordinates, rivals and enemies</p>

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Table 2: Implications of Three Economic Scenarios: Recession, Stagnation and Growth

	<b>A) Recession</b>	<b>B) Stagnation</b>	<b>C) Growth</b>
<b>1) Initial implications for identity</b>	<p><b>Pessimism:</b> Possible depression, anger, disidentification with existing groups, and/or stronger identification with rebellious groups or with independent self-sustaining groups.</p>	<p><b>Disengagement:</b> Uncertainty/ search for meaning. Sense of vulnerability, ambivalence, indifference, hesitancy. Search for new social identities.</p>	<p><b>Optimism:</b> Greater individualism but also increased social diversity and complexity, new groups and identities established.</p>
<b>2) Implications for individuals</b>	<p><b>Dejection:</b> Personal deprivation, isolation, vulnerability, mistrust of others, competitiveness, low self-efficacy, disengagement.</p>	<p><b>Risk aversion:</b> Low behavioral commitment, caution, focus on personal/family rather than group.</p>	<p><b>Greater trust:</b> Wider psychological horizon – more options considered as feasible for self, more proactive response to opportunities. Improved health and well-being.</p>
<b>3) Implications for groups</b>	<p><b>Parochialism:</b> Collective relative deprivation, resentment, scapegoating, xenophobia, prejudice, conflict, system rejection, protest. Lower status groups become targets of prejudice.</p>	<p><b>Extremism and creativity:</b> Identity, distinctiveness becomes a vehicle for recruiting vulnerable individuals (e.g. to religious, political or other groups offering clearly defined positive identity). Could generate both creativity and extremism, but hampered by lack of resources. Social capital may be vital element for group success.</p>	<p><b>Harmonious cohesion:</b> Higher level of security and confidence, less dependence on comparisons with other groups (status concerns attenuate), greater flexibility, more openness to cross cutting and interlinking memberships, immigration, emigration.</p>



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	<b>A) Recession</b>	<b>B) Stagnation</b>	<b>C) Growth</b>
<b>4) Implications for society</b>	<p><b>Intergroup bias and conflict:</b> Fracturing along group lines – powerful and vested interests dominate and exploit, weaker groups atomize or unable to act coherently due to limited resources. Increasing burden on charitable ‘safety net’ and security/emergency services.</p>	<p><b>Stagnancy:</b> Inertia or gradual fracture. No response to promote societal change. Groups focus inward rather than outward. Intranational scramble for status/redistribution rather than aiming for growth and development. Increased focus on individual freedoms and interpersonal justice.</p>	<p><b>Tolerance:</b> Wider acceptance of shared values and tolerance of different values, greater flexibility and responsiveness to opportunities, more ambitious and creative activity, secure national identity, pride etc.</p>
<b>5) Biggest danger</b>	<p><b>Malign antipathy:</b> Social disintegration, increase in prejudice, blame, mistrust, dependency on state or crime, loss of common identity, weakening of consensual values, rise of ethnocentrism and xenophobia.</p>	<p><b>Benign indifference:</b> Graduate decline in societal cohesion, absence of proactive development.</p>	<p><b>Bohemianism and rivalrous cohesion:</b> Break down of engagement with system, structures etc., decadence (unlikely in foreseeable future), complacency. Alternatively, emergence of nation-level rivalrous cohesion based on contempt for other countries or cultures.</p>
<b>6) Biggest opportunity</b>	<p><b>Shared identity:</b> Use adversity as basis for establishing shared identity. Use shared identity as route for cooperative, constructive mutual support, building resilience and social capital for recovery.</p>	<p><b>Harmonious social cohesion:</b> Use identity as route for building/motivating development, change, growth. Increase certainty and harmonious social cohesion.</p>	<p><b>Diversity:</b> Identity-based development and growth, building on diversity, flexibility, new ways of working and being. Cooperation with other superordinate level groups to activate larger shared goals.</p>