Preferences for Redistribution: a European Comparative Analysis

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Abstract

The aim of the paper is to determine who supports the Welfare State in Europe and who would benefit from a shrinking - or at least a retrenchment - of the European social model. The assumption underlying this research is that the evolution of social policies in Europe and the differences that persist across European countries are pushed by the changing risk of agents, depending mainly on their employment status (employers and workers, public vs. private, industrial vs. services sector, level of knowledge and responsibility that is required). We broadly define the European Welfare State as a set of policies that aim at reducing income or status inequalities stemming from the functioning of market mechanisms. Hence, we are interested in the national differences that exist regarding the demand for redistributive policies.

A recent body of the economic literature tries to address the problem of the formation of preferences for redistribution. The standard viewpoint is to consider a purely pecuniary factor as determining individual preferences (Meltzer and Richards [1981]). Adding the "prospect of upward mobility" to enrich the standard model, Benabou and Ok [2001] leave a room for individuals whose income is just below the mean to rationally oppose redistributive policies. Then, there can be a "preference for inequality" linked to the fact that a majority of voters expect an upward mobility, thus a net cost to redistribution.

This idea is very close to the one exposed in Piketty [1995], who assumes a learning process that leads individuals to take into account not only their current income, but also their expected income. This expected income is based on the personal mobility history of individuals.

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and on the beliefs they formed about the role of effort in determining income. Hence, relative income does also play a role in determining preferences, as pointed out by Ravallion and Lokshin [2000] who take advantage of the “tunnel effect” originated by Hirschman [1973]: Beliefs are strongly related to the way other people move in the society. Ravallion and Lokshin [2000] and Corneo and Gruner [2000, 2002] find empirical support for this relative social mobility argument, using Russian data for the former, and international survey data for the latter. Recently, Alesina and La Ferrara [2005] have used objective measure of social mobility to test the argument.

Finally, a growing body of the literature focuses on cultural values as determinants of preferences for redistribution. Alesina, Glaeser and Sacerdote [2001] and Roemer and Van der Straaten [2004] focus on the racial conflict that could explain the refusal of redistribution when individuals expect migrants to take all the benefit from it. Scheve and Stasavage [2005] and Clark and Lelkes [2005] highlight the role of religion as a mean to dampen social distress due to economic shocks. In these studies, the insurance motive of redistributive policies is tackled.

The present paper takes the egoistic motives for redistribution seriously, and tries to determine the relative importance of socioeconomic factors in terms of current and expected gain. Thus, we identify the following factors as explanatory variables: Current work occupation and income (to measure the pecuniary factors and the related risk faced by agents), self-employment and public employment (as a measure of risk aversion), religious denomination and church attendance (to measure the role of a potential social network), and personal history of social mobility and class feeling (to measure the impact of the relative position of individuals).

Furthermore, all the studies reviewed above were done on pooled country data, while our analysis will emphasize the heterogeneity of countries. Indeed, using pooled country regression render coefficients directly comparable, but the underlying assumption is one of homogeneity of the unobserved variables (the residual variance is constrained to be the same across countries). To the contrary, the separated country approach has the enormous advantage, in our view, to allow for country heterogeneity and to put apart the mechanical effect due to pooled regressions that might find correlation where there are none (e.g. age is an often cited example). Hence, separated country regression will help us to assess the crucial differences that exist between countries in the formation of preferences for redistribution.

Our micro-econometric analysis is based on the ISSP dataset "So-
We select four countries in the dataset, that correspond to four ideal cases relative to the Welfare State in Europe, according to the literature: Germany, France, Sweden and Great Britain. We proceed to an ordered logit regression, since variables to be explained are discrete choices that can be easily ordered on a Likert scale. Ordered models assume the existence of threshold values, thus implying an ordering to the categories of the dependent variable. More precisely, a latent variable is supposed to determine the outcome, following a decision rule based on those cut-points parameters that need to be estimated. Interpretation of categorical variables estimations is not straightforward. Coefficients give us the marginal effects of 1 unit variation of the independent variable on the value of the latent variable. Thus, to help us interpreting the results (and to check the robustness of our results), we also run binary logit regressions and base our interpretation on odds ratios.

The estimations confirm the importance of a pure revenue effect on preferences. Indeed, work occupation, family income, subjective social class or expected social mobility all point to the same direction: The poorer (in terms of current or expected income), the more supportive to redistribution. But importantly, the social background of individuals can somehow temper this effect: We find that the social position of fathers has a long lasting impact on the attitudes of children.

Furthermore, the revenue effect does not act similarly on all individuals. It can be reinforced or to the contrary dampened by risk aversion or risk willingness of individuals. Indeed, looking at the employment status of individuals, we find that being publicly employed sensitively increases the probability to support redistribution, while being self-employed decreases it.

Finally, one of the most empirical issue in the literature on redistribution remains the question of whether religion plays an active role in shaping preferences. Following our regressions, the conclusion is far to be obvious: It is impossible to say if Catholics are pros or cons redistribution, and the same for Protestants since the sign of coefficients differs from one country to another. However, one can take a different view: The literature states that religion (without looking at specific denomination) dampens the social distress of individuals, hence decreasing the insurance motive for redistribution. Taking the major religion of each country, results clearly confirm this view.

Eventually, it seems that a cluster of countries might be drawn from the comparison of separated country regressions: Results for France
and Sweden are quite similar, while Germany and Great Britain are closer than one would imagine. Indeed, the major determinants of preferences for redistribution, apart from occupation and income, are the following by cluster: Great Britain and Germany regressions highlight the importance of religion and current social class of individuals; France and Sweden regressions render obvious the importance of risk aversion and lower-class feeling in determining preferences for redistribution. Each country has then its specificity: East Germans are more prone to favour redistribution, which can probably be linked to a revenue effect; French people are impregnate by the social history of their fathers, while Swedes are clearly not; finally Britons do not pay much attention to their past social mobility, but do prize their current subjective social position.