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## SOEP-IS 2014 – Determinants of attitudes to income redistribution

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# **SOEP-IS 2014 – Determinants of attitudes to income redistribution**

**Module Title in SOEP Documentation: Determinants of Attitudes to Income Redistribution**

**Christina Fong, Ilpo Kauppinen, Panu Poutvaara**

# Determinants of attitudes to income redistribution

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## Abstract

SOEP has several questions that could be used to explain attitudes to income redistribution, but no measures of these attitudes. We propose including such questions. Together with existing SOEP questions, this would enable researchers to estimate the relative importance of self-interest, risk attitudes, fairness considerations, trust, personal economic experiences, and various other factors in explaining attitudes towards redistribution. We also suggest a pair of measures of beliefs about the causes of low and high income which have been shown to be important determinants of preferences for redistribution. Including these questions in the SOEP will afford researchers an unprecedented opportunity to investigate the effects of the factors listed above on the combination of beliefs about the causes of low and high income and attitudes to redistribution.

## 1 Introduction

Reducing income differences by redistribution is one of the major tasks of the public sectors in developed countries. However, different perceptions about the desirable extent of redistribution are an important dividing line between political parties. There are also big cross-country differences in attitudes towards redistribution. Western European countries redistribute a lot more income than the United States. Less redistribution may, in turn, be associated with the United States having a culture that is more oriented towards risk-taking and personal responsibility (Alesina and Angeletos 2005; Piketty 1995). A common argument in favor of a low degree of redistribution is that redistribution has a harmful effect on the incentive structures of the economy as it makes work and entrepreneurship less productive from the individual point of view. On the other hand, redistribution can also function as insurance and thus encourage risk taking. For instance, Poutvaara (2000) has found that redistribution may encourage investment in risky education. Given the role that human capital plays in economic growth, modest redistribution can, therefore, also have a positive effect on growth. Understanding attitudes to redistribution and how they interact with risk attitudes could illuminate the dynamic interaction between redistribution and growth. Understanding what determines individual preferences for redistribution can also shed light on determinants of economic and political preferences in general.

Using American survey data, Fong (2001) finds that people who believe that luck determines success support more redistribution than those who have more faith in the role of an individual's effort and choices. She uses a combined measure of various questions to study this. It has also been found that people in former socialist countries prefer more redistribution than those in Western countries (Corneo and Grüner 2002). Previous research using SOEP has found that people from former East Germany are more likely to view it as state's responsibility to provide financial security in case of illness, unemployment, and old age, and to provide for families and those needing care than people from former West Germany (Alesina and Fuchs-Schündeln 2007). These findings suggest that the society people live in greatly shapes preferences for redistribution (Corneo 2001, Alesina and Glaeser 2004).

These papers have made important contributions to understanding the role of social preferences and fairness concerns in determining attitudes to income redistribution. Nonetheless, a challenge in many of the previous studies is that questions on attitudes to redistribution are often not written to precisely capture the concepts that experts on redistributive politics believe matter most. An important exception is Alesina and Fuchs-Schündeln (2007), who use SOEP questions from 1997 and 2002. However, even they do not have an ideal question on attitudes to income redistribution. They use questions on specific areas of social insurance, where people may feel entitled to state support. This leaves open the broader question of what determines attitudes to income redistribution to low-income, working-age people in general.

Thus, SOEP, which has an exceptionally rich pattern of questions that could help explain attitudes to income redistribution, has no suitable question on these attitudes. In this proposal, we suggest adding a set of questions to bridge this gap.

## **2 Our proposed new questions**

We suggest the following two measures of attitudes to redistribution:

### **What is your opinion on the following proposals?**

**"Taxes on those with high incomes in Germany should be increased."**

Strongly in favor  
Somewhat in favor  
Neither in favor nor against  
Somewhat against  
Strongly against  
Prefer not to answer/don't know

**"Financial help to those with low incomes in Germany should be increased."**

Strongly in favor  
Somewhat in favor  
Neither in favor nor against  
Somewhat against  
Strongly against  
Prefer not to answer/don't know

These questions may extend our understanding of attitudes towards redistribution in important ways. One difference is that our questions take as their starting point the status quo taxation and financial help and ask whether people would like to redistribute more. Those who are in favor clearly prefer more taxation or financial help than currently, and at least those strongly against can be inferred to prefer less taxation or financial help than currently.

Another difference is that our questions allow us to investigate attitudes to policies that are targeted at low and high income groups. Fong (2013) shows that the determinants of attitudes to policies that target the rich are different from the determinants of attitudes to policies that target the poor. There are several reasons why this could occur. Burden on the transfers to the poor could fall on the middle class, or tax revenues from the rich could be spent in a way that benefits the middle class. There could also be lack of awareness of or desire for balanced budget constraints.

The questions proposed above would already enable extensive analysis of determinants of attitudes towards income redistribution when combined with existing questions in SOEP. However, we

could investigate such preferences even more thoroughly if afforded the unique and promising opportunity to combine all of this with two critical questions on beliefs about the determinants of low and high incomes. Fong (2013) found that beliefs about why the rich are rich have very large effects on attitudes to taxation of the rich and beliefs about why the poor are poor have very large effects on attitudes to support for the poor. In contrast, the effects of other beliefs are much smaller. Beliefs about why the poor are poor have smaller effects on attitudes to taxation of the rich and beliefs about why the rich are rich have smaller effects on attitudes to support for the poor. The effects of general beliefs – namely, consistent beliefs that luck matters for both groups or that effort matters for both groups – are also much smaller.

The effects of target-specific beliefs are large and robust. Thus, a promising avenue of research would be to investigate empirically how such beliefs are formed and updated. In particular, we would like to investigate how existing variables in SOEP may affect attitudes to redistribution via their potential effects on target-specific beliefs. We are aware of no existing panel data that contain suitable measures for this investigation. Thus, we propose the following pair of questions:

**Just in your opinion, if a working-age person's income is low in Germany, which is most often the reason - lack of effort on his or her part, circumstances beyond his or her control, or both?**

- 1 Lack of effort
- 2 Circumstances beyond his/her control
- 3 Both

**Just in your opinion, if a working-age person's income is high in Germany, which is most often the reason - strong effort on his or her part, circumstances beyond his or her control, or both?**

- 1 Strong effort
- 2 Circumstances beyond his/her control
- 3 Both

These questions are somewhat related to what was in SOEP earlier: “No one can escape their fate, everything in life happens as it must happen” in 1996, and “What one achieves in life is mainly a question of luck or fate” in 1999. There are two important differences between these questions and the ones we propose. First, our proposed questions measure a different concept. We want to contrast own effort not only with luck but with circumstances beyond one's control. People who would be reluctant to use terms like luck and fate may nonetheless believe that success is beyond volitional control. Furthermore, social psychologists have focused on beliefs about the degree of volitional control as an important factor in attributions of responsibility. Attributions of responsibility, in turn, are important determinants of willingness to help others: people are more willing to help recipients who are needy for reasons beyond their control. (Weiner 1995)

### **3 Previous studies and the gap to be filled**

The questions that are most closely linked to our suggested question about redistribution are in the European Social Survey (ESS) and in the World Values Survey (WVS). ESS measures opinions about the statement “The government should take measures to reduce differences in income levels”, without specifying what type of policy would be used to accomplish this. In the WVS, one question asks respondents to choose, on a 1 to 10 scale, between the following cases: “Incomes should be made more equal” versus “We need larger income differences as incentives for individual effort”. This question does not specify how incomes should be made more equal. Therefore, different respondents may interpret the question differently.

Another question is “Government should take more responsibility to ensure that everyone is provided for” versus “People should take more responsibility to provide for themselves.” While this question may appear rather close to what we suggest, there are two important differences. First, it

does not specify how the government should “ensure that everyone is provided for”. One option is indeed redistribution, but one could also think about a corporatist policy in which the government would push employers to increase wages and would make firing people more difficult. One could also interpret this question to be more general than just on income redistribution, taking a stance on, say, to what extent the government should pay for health care and to what extent health care should be bought privately.

Corneo and Grüner (2002) use data from the International Social Survey Programme (ISSP), 1992 Social Inequality II Module. There the question is whether respondents agree with the statement: ‘It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes.’ The question does not specify how the government should do this.

Fong (2001) uses a composite measure of various questions. The most closely related question to ours is “Do you think our government should or should not redistribute wealth by heavy taxes on the rich?” An answer to this question does not necessarily tell how the respondent would like to change the current tax burden on the rich. Also, people may differ not just in their opinion on whether current taxes on the rich are too low or high, but also on what constitutes heavy taxes.

Alesina and Fuchs-Schündeln (2007) use SOEP question from 1997 and 2002: “At present, a multitude of social services are provided not only by the state but also by private free market enterprises, organizations, associations, or private citizens. What is your opinion on this? Who should be responsible for the following areas?” The areas are “financial security in case of unemployment”, “financial security in case of illness”, “financial security of families”, “financial security for old-age”, and “financial security for persons needing care”.

Our approach is different. We wish to measure attitudes to taxation of people with high incomes, in general, and financial support to people with low incomes, in general. We hope to have the opportunity to analyze these questions together with beliefs about the causes of low and high incomes. We hope to use the rich set of existing SOEP questions to illuminate how economic experiences, including mobility and past economic stability or instability, and preferences and beliefs, including risk and trust, may determine target-specific beliefs, general beliefs, and preferences for redistribution.

#### **4 What type of analysis would our new questions allow?**

SOEP collects exceptionally rich data on earnings and other variables that allow estimating the effects of economic experiences on attitudes to redistribution. Traditionally, economists have interpreted economic experiences as mattering via pecuniary self-interest. It is now widely accepted that fairness concerns matter too. However, the exact mechanism through which economic experiences may affect fairness-related demands for redistribution is poorly understood. We follow a solid theoretical foundation which attempts to understand how economic experiences might affect general beliefs about the roles of luck and effort in life outcomes. Empirical progress in this area has been slow, however. We believe the reason for this is that general beliefs about causes of income (for oneself as well as for others) are not as important as specific beliefs about causes of income for specific groups of people. Even more problematic, it is not even clear that general beliefs about effort and luck are a strongly held concept for most people. These questions may capture more noise than specific beliefs, and thus lead to large measurement error biases. By investigating the effects of economic experiences on specific beliefs, we hope to capture a more empirically valid concept, and advance the understanding of where beliefs come from – beliefs which have already been shown to be very strongly associated with preferences for redistribution.

Most notably among existing questions, questions about income, household, employment and income transfers, and social mobility reveal to us important information about pecuniary interests in

redistribution as well as experiences that may shape views about why *other* people are rich or poor, and thus may or may not deserve to pay high taxes or receive government transfers. We will be able to separate self-interested motives from other-regarding beliefs about moral worthiness with the four questions we have proposed.

We would also like to explore how risk attitudes and trust, measured by various SOEP questions, are related to attitudes towards redistribution. In such an analysis, we would also study the effects of controlling for self-interest and beliefs about the determinants of success. We would also study the connection between individual health and preferences.

Further, we would use SOEP questions about party preferences and on how interested the respondent is in politics in general to see how important beliefs about the determinants of success are in determining party preferences. We would also like to see how strongly party preferences are predicted by attitudes towards redistribution, possibly in connection with answers to certain other SOEP questions. Party preferences can be assumed to be more closely connected to actual voting behavior than stated preferences, especially if one limits the analysis to respondents who state that their party preference is relatively strong. This type of analysis would shed light on the practical relevance of the findings.

## 5 Requirements concerning the survey

The computer assisted personal interviewing that has been the core mode of data collection for SOEP is suitable also for the suggested questions, and we would preferably use the entire SOEP-IS as the sample. The estimated interview time needed for the proposed questions altogether would be 2-3 minutes.

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