

How to tighten social security: attitudes in the general population

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- A social security system contains a complex set of rules that determines eligibility, benefit generosity, and benefit duration. Different countries employ a different mix of these rules, which are all defining features of the welfare state.
- In recent years, many OECD countries have faced pressure to cut the costs of their social security systems and different strategies have been utilized.
 - Stricter eligibility requirements.
 - Reduced level of benefits.
 - Reduced maximum duration of benefits.
- In order to understand the political support for such strategies, it is important to study attitudes in the general population.

How should the burden of cost reductions be distributed

- A key difference between these different strategies is how they distribute the burden of cost reductions between different benefit recipients: Should the benefit reduction be equally distributed among all recipients or should it be concentrated on some groups?
- The main argument in favour of an equal distribution is that it would minimize the benefit reduction experienced by any particular individual.
- Several potential arguments for an unequal distribution:
 - Some individuals could be less deserving, e.g. because they are more responsible for their situation.
 - There could be a larger fraction "cheaters" in some groups than in other groups.
 - There could be larger efficiency gains from reducing benefits to some groups than from other groups.

A trade-off

- For a given reduction in total costs, there is a trade-off between the desire to avoid large individual benefit reductions and the concern for protecting some groups of benefit receivers more than other groups.
- Different preferences for how cost cuts should be achieved will reflect how this trade-off is made.

Theoretical framework

- Our point of departure is a model assuming that all individual benefit recipients initially receive the benefits they deserve and that people therefore dislike benefit reductions, c_i . We furthermore assume that they dislike large deviations more than small deviations (Cappelen et al 2007, 2013).

$$V(\mathbf{c}; \cdot) = - \sum_{i \in N} (c_i)^2 \quad (1)$$

- where the sum of individual reductions must be equal to the total cost cut required, C

$$\sum_{i \in N} (c_i) = C \quad (2)$$

- This model implies that all reductions should be equalized,
 $c_i^* = \frac{C}{N}$.

Theoretical framework

- We expand on this model to allow for the possibility that people care less about a benefit reduction for one subgroup, N^{ND} , than for other benefit recipients, N^D :

$$V(y; \cdot) = - \sum_{i \in N^D} (c_i)^2 - \beta \sum_{j \in N^{ND}} (c_j)^2 \quad (3)$$

- where β is the relative weight attached to the benefit reductions for the individuals in N^{ND} .
- A $\beta < 1$ could reflect that this group is believed to be less deserving or that the efficiency costs, in terms distortion of behavior is believed to be higher for this group.

Implications of the model

- To illustrate the implications of this model, consider the choice between having the same reduction in the benefit level for all individuals, $c_i = c_j = \frac{C}{N}$, or having the N^{ND} group take the entire cut, $c_i = 0$ and $c_j = \frac{C}{N^{ND}}$.
- For $\beta = 1$, the first alternative is clearly preferred.
- There exist, however, a critical level of β , $\bar{\beta} < 1$ for which the second alternative is preferred.

A survey study

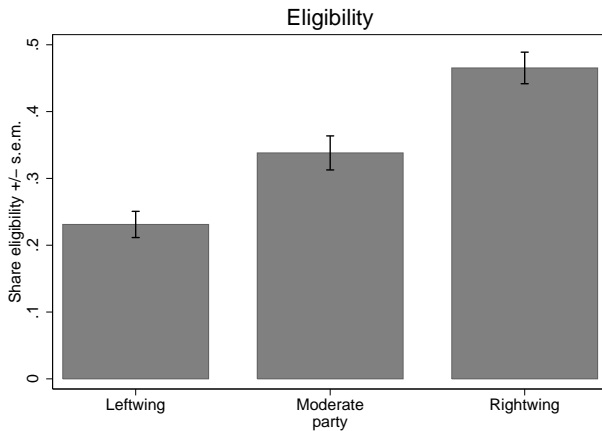
- We asked a sample of the general population how they would prefer to cut social security benefits if they had to choose between three alternatives
 - Making the eligibility requirements stricter.
 - Reducing the maximum duration of benefits.
 - Reducing the level of benefits.
- The first alternative, "eligibility", implies that the cost reductions are centred on a limited group of people, while "level" distributes the costs equally among all recipients. The distribution of the burden of cost reductions associated with "duration" depends on the fraction who affected by the reduced maximum duration.
- We also collected data on political party affiliation and attitudes to redistribution.

Main question

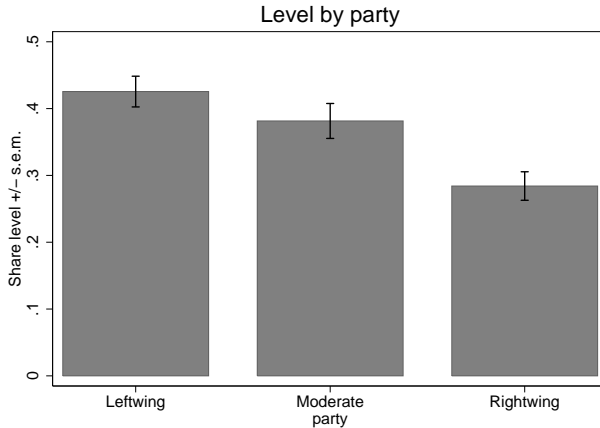
- *Imagine a situation where the government has to tighten various social security schemes, such as sick leave and unemployment compensation. There are essentially three ways to tighten social security, and we ask you to check the option that you think the government should choose:*
 - ① *Raise the requirements for obtaining social security (this would mean that applicants must have worked longer in order to receive benefits, and implies that some who previously could receive social security no longer are insured).*
 - ② *Reduce the maximum duration of benefits (this would mean that people cannot receive social security benefits as long as before).*
 - ③ *Reduce the benefit level (this would mean that all the recipients receive less in social security than they would previously have received).*

- A total sample of 1256 participants recruited through the Norwegian Citizen Panel 2016.
- Panel members - around 10 000 - were initially drawn from the National Registry in Norway. Total recruitment rates were around 23 percent.
- The data collection was conducted during the month of March 2016. The overall response rate was 67.3 percent.

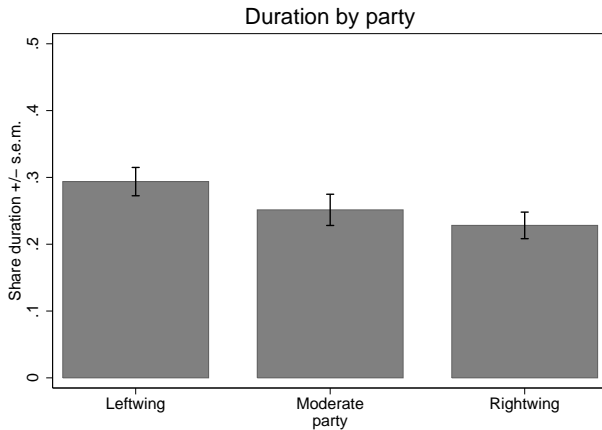
Eligibility



Level



Duration



Political affiliation

	Eligibility	Eligibility
rightwing	0.127*** (0.035)	0.127*** (0.035)
leftwing	-0.107*** (0.032)	-0.103*** (0.032)
female		-0.039 (0.027)
loweducation		-0.001 (0.028)
old		-0.022 (0.027)
Constant	0.338*** (0.025)	0.366*** (0.032)
Observations	1256	1256
R^2	0.044	0.046

Standard errors in parentheses

Attitude to redistribution

- Do preferences for how to tighten social security reflect attitudes to redistribution?
- Are people who believe that the government should equalize income more/less likely to prefer a tightening of eligibility requirements?
- Strong correlation between political party affiliation and views on redistribution

Attitude to redistribution

	Eligibility	Eligibility	Eligibility
rightwing			0.099*** (0.037)
leftwing			-0.096*** (0.033)
redistribution	0.042*** (0.009)	0.041*** (0.009)	0.018* (0.010)
female		-0.061** (0.027)	-0.044 (0.027)
loweducation		0.010 (0.028)	0.003 (0.028)
old		-0.007 (0.027)	-0.019 (0.027)
Constant	0.217*** (0.029)	0.251*** (0.037)	0.319*** (0.043)
Observations	1238	1238	1238

Conclusion

- Important heterogeneity in how people prefer to reduce social security costs.
- A strong political gradient, with right-wing voters much more likely to prefer stricter eligibility requirements and left-wing voter less likely to prefer the same.
- This difference does not primarily reflect different attitudes to redistribution, but are likely to reflect views about the deservingness of different groups and the importance of efficiency considerations.