Welfare state reform

A survey of what Europeans want

SUMMARY

The fundamental problems facing European welfare states – high unemployment and unsustainable public pensions plans in particular – have been in the political debate for years, so why have we seen so little reform? To find out, we surveyed the opinions of citizens in France, Germany, Italy and Spain on their welfare states and on various reform options. This is what we found. First, most workers underestimate the costs of public pensions, though they are aware of their unsustainability. Second, the status quo is a majoritarian outcome: a majority of citizens opposes cuts to social security and welfare spending, but also opposes further increases. Since population ageing without reform implies an automatic expansion, our results suggest that most citizens would favour reforms that stabilize but do not shrink the current welfare states. Third, many would welcome changes in the allocation of benefits. A large number of workers in Italy and Germany would be willing to opt out of public pensions and replace them with private pensions, though the details of how this scheme is formulated matter for its popularity. And many Italians and Spaniards would welcome an extension of the coverage of unemployment insurance. Fourth, conflicts over the welfare state are mainly shaped by the economic situation of the respondent, while political ideology plays a limited role. Disagreements are found along three dimensions: young versus old, rich versus poor, and 'outsider' versus 'insider' in terms of labour market status. From a practical point of view, this suggests that there is scope to bundle reforms strategically in order to build a large and mixed coalition of supporters.

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Would you like to shrink the welfare state? A survey of European citizens

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1. INTRODUCTION

Europe's welfare states face big, deep problems. Long-term unemployment remains unacceptably high and most believe that the shape of the welfare state plays an important role in keeping it that way. Pensions of today's workers are at risk since population ageing threatens the current systems' sustainability. Of course, these problems have been prominent for years and the remedies seem evident, so why have we seen so little fundamental reform?

Some blame European politicians for lacking leadership and courage. Others blame politically powerful minorities of workers who block all sensible reforrn to guard their privileged position. We decided to find out by asking Europeans their opinions on the welfare state and its reforms. Specifically, we surveyed 5500 Europeans focusing our questions on the two most urgent policy areas, protection against unemployment risk and pension policy, although we also asked about general attitudes on desired size and shape of the welfare state.

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The answers suggest four main conclusions. First, most respondents underestimate the true costs of the pension system, but nevertheless expect a crisis in the next two decades. This misinformation matters; better-informed voters are more likely to favour reforms. Second, a clear majority supports the overall size of the welfare state, not just a powerful minority. But at the same time, a broad majority opposes further increases of taxes and expenditures. This is noteworthy since population ageing under existing legislation implies an automatic expansion of the welfare state. Hence, our results can also be interpreted as showing that a majority of the citizens favours reforms preventing further expansions, but not reforms that would shrink the current size of the welfare state. Third, although a majority opposes changing the overall *size* of the welfare state, large segments of the population would welcome changes in the *way* these benefits are allocated. Specifically, a majority of employees is willing to opt out of the public pension system, replacing it with private pensions, and, in Italy, a majority wants to shift transfers away from pensions towards unemployment benefits. Fourth, conflicts over the welfare state generally line up along three dimensions, young versus old, poor versus rich and 'insider' versus 'outsider' in terms of labour market status. From a theoretical point of view, this suggests that median voter models, where conflict is constrained to be one-dimensional, are overly simplistic. From a practical point of view, this result suggests that there is scope to package and bundle reforms strategically in order to build a large and mixed coalition of supporters.

The outline of the paper is as follows. In Section 2, we sketch the main elements of the four welfare states. Section 3 describes our questionnaire and our sample. The main results are presented in Sections 4 (unemployment protection), 5 (pensions) and 6 (size and shape of the welfare state). Section 5 summarizes our findings and concludes the paper with their implications for public policy. A 'Web Appendix' on http://www.economic-policy.org and http://www.frdb.org provides more extensive detail on the questionnaire, the survey methodology and the institutional detail of the welfare states in these four countries.

2. THE STATUS QUO: FOUR DIFFERENT WELFARE STATES

Table 1 sketches the broad outlines of the French, German, Italian and Spanish economies and their welfare states. The nations share a comparable level of development, though Spain has a lower GDP per capita, and Italy and Spain have slightly higher levels of income inequality. The table also illustrates the two big challenges confronting these welfare states – high unemployment and ageing populations. The unemployment situation overall is worse in Spain, and youth unemployment is a marked problem in Spain and Italy. A rapidly greying population is a problem in all four, although France faces a somewhat more favourable situation. This is shown by the rising 'dependency ratio' which roughly indicates what percentage of a public pension must be paid for by the contributions of an average worker. The figures currently stand at about 40% but will double in the next 30 years and rise to over

Table 1. Economic, demographic and social welfare features

	France	Germany	Italy	Spain
Per capita income (PPP $, 1998)	22 320	20 810	20 200	16 060
Index of income inequality (%, 0 = perfect equality)[a]	30.3	28.0	34.8	35.4
Unemployment rate (%, 1999)	11.3	8.7	11.4	15.9
Youth unemployment[b] (%, 1999)	22.1	11.3	32.0	28.6
Dependency ratio[c] 2000 (%)	38.2	41.8	42.9	37.7
Dependency ratio[c] 2030 (%)	65.3	82.5	79.2	67.3
Dependency ratio[c] 2050 (%)	84.0	101.7	104.2	104.9
Total government spending (% of GDP)[d]	52.2	45.6	48.3	38.6
Public employment (% of total employment)[e]	20.2	14.1	18.2	15.1
Total social spending (% of GDP)[f]	30.8	29.9	25.9	21.4
Pensions (% of total social spending)[f]	43.6	41.9	65.1	46.2
Unemployment spending (% of total social spending)[f]	7.8	9.0	2.0	13.9
Retirement income by source (%), mid 90s				
1st pillar (state) (%)	51	85	74	92
2nd pillar (occupational) (%)	34	5	1	4
3rd pillar (individual) (%)	15	10	25	4

Notes:
[a] Gini coefficient of disposable income adjusted by family size, 1994.
[b] Unemployed aged 15–25 as a percentage of total unemployed (authors' calculations on OECD data).
[c] Population aged (60+)/(20–59).
[d] Current outlays plus net capital outlays.
[e] Employment in the limited public sector (central or federal government + regional government or states + local government + municipalities) France (1993); Italy (1994).
[f] 1996 ESSPROS methodology.
1st pillar: Public pensions and all other public transfers; 2nd pillar: Occupational pensions; 3rd pillar: All other income sources (such as asset income, labour income, private transfers).

Sources: World Development Indicators; Bertola *et al.* (2000); OECD Employment Outlook (2000); US Bureau of the Census, International Data Base, Disney *et al.* (1998); country chapters in Gruber and Wise (1999).

100% by 2050. Total government spending amounts to about 50% of GDP in France, Germany and Italy, with Spanish spending not far behind at 40%. Spain also devotes a lower fraction of government expenditures to social spending. Pensions account for the lion's share of social spending in all nations, with the figure ranging from 40% in Germany to 65% in Italy. Spending on the unemployed is small by comparison, with the maximum being Spain's 14%. There are also important differences in the details of the two focal-point policies – protection against unemployment and pensions – and we deal with these in turn.

2.1. Protection against unemployment risk

Governments reduce job insecurity in two basic ways – by providing income insurance that pays unemployment benefits (UB) if a worker becomes unemployed, and by making it hard to dismiss workers via so-called employment protection legislation (EPL). The four nations have chosen very different combinations of UB and EPL. The Italian and

Spanish systems were historically designed to protect the heads of households, since families typically provided income support to the unemployed. EPL is therefore very strong for 'prime' jobs in, for example, large manufacturing firms and the public sector. France and Germany, instead, followed the Bismarckian tradition of contributory social insurance and collective responsibility for individual income support. They have thus relied more heavily on UB than EPL.

This 'trade-off can be clearly seen in Figure 1, which plots the share of unemployed collecting benefits on the vertical axis for the four nations we focus on plus Belgium, The Netherlands, Denmark, Portugal and Greece. The horizontal axis of the left panel plots an index of EPL strictness. The scatter plot thus shows that nations with strict EPL, such as Italy and Spain, tend to have lower UB coverage. The right panel shows a similar, de facto trade-off between early retirement and UB coverage. Italy stands out here, since she has often used early retirement, rather than UB, as a way of dealing with redundancies. We also note that strict job security in Italy and Spain has recently been mitigated by a big expansion of employment under fixed-term contracts that allow employers to downsize at zero costs (it suffices not to renew the contract when it expires). Since firms have favoured this hiring method, the share in employment of

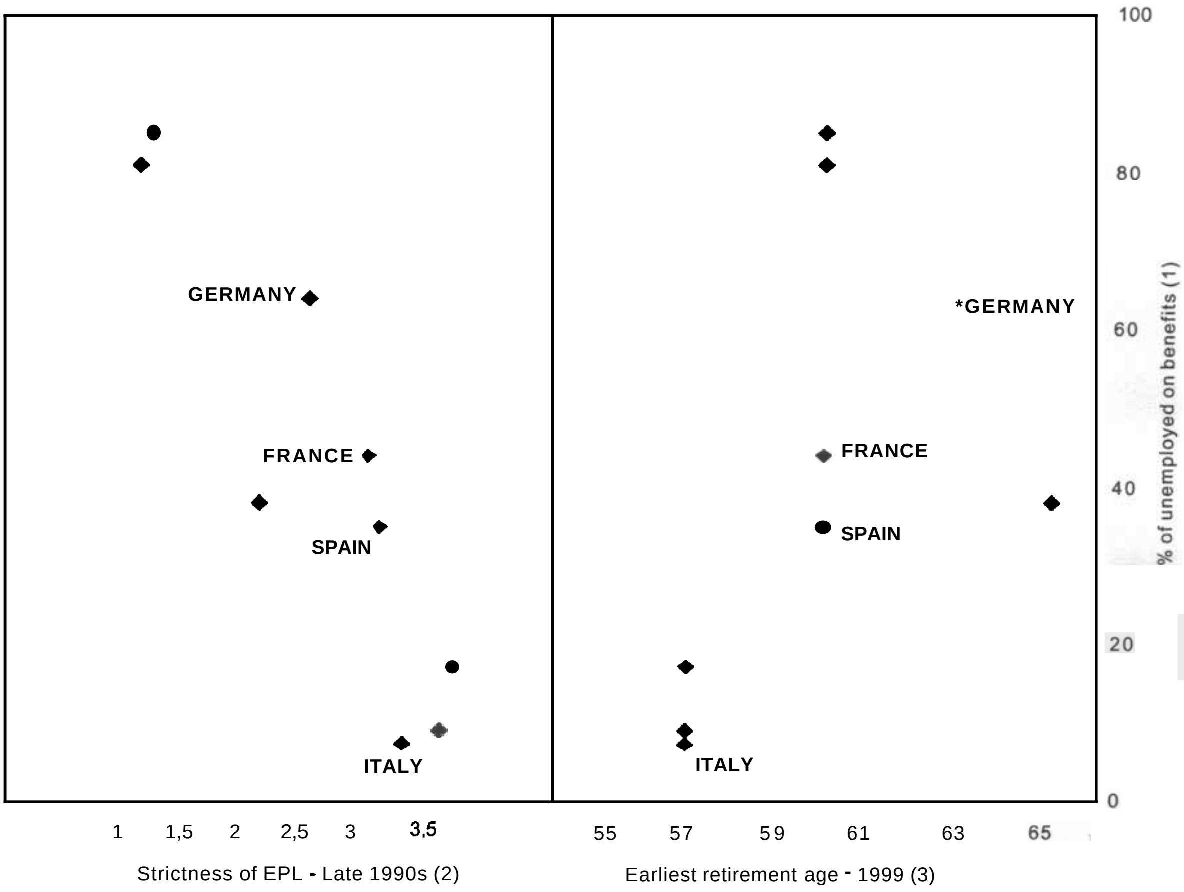

Figure 1. Job protection, early retirement and unemployment benefits

Sources: (1) Jobs Study (OECD, 1994); data on Italy refer to 1999 and are calculated on the basis of micro-data from the LFS; (2) OECD (1999); (3) EC-MISSOC (1999); Social Security Administration (1999).

temporary jobs has steadily increased, reaching about one-third in Spain and about 10% in Italy.

2.2. Public pension systems

Retirement schemes in France, Germany, Italy and Spain are quite similar. All are dominated by so-called pay-as-you-go (PAYG) public pensions where pension contributions of workers are used entirely to pay for the pensions of retirees rather than being saved to finance their own future pensions. The bottom panel of Table 1 shows the distribution of retirement income by 'pillar', where the first and second pillars comprise public and occupational pensions. All other income sources (e.g., asset income including private pensions, earnings and family transfers) are subsumed in the third pillar. The French second pillar resembles other nations' first pillar since it is mandatory, state-run and pay-as-you-go financed. In all four countries, contribution rates are high, ranging from 19.3% of gross earnings in Germany to 32.7% in Italy. Nevertheless, these high rates do not suffice to pay for all pension expenditures and government subsidies (in the order of a third of the budget in Germany, France and Spain, about 25% in Italy) are needed to fill the financing gap.

Again, there are important differences on closer inspection. Fragmentation of a pension system is important since it makes pension reform more difficult. That is, fragmentation, particularly that driven by special interests, raises the number of coalitions that may oppose reform. We note that the German system is quite monolithic (over 90% of workers are covered by a single system GRV – *Gesetzliche Rentenversicherung*). Italy and Spain have more fragmented systems but in both countries the largest 'general regime' (*Istituto Nazionale per la Previdenza Sociale (INPS)* in Italy and *Régimen General de la Seguridad Social* (RGSS) in Spain) covers about two-thirds of the workforce. France, on the other hand, has a very complex and fragmented system, consisting of a base pension (about 40% of the retirement income) augmented by mandatory sector-specific plans.

The Web Appendix (http:llwww.economic-policy.org, or http:llwww.frdb.org) provides further detail for each nation.

3. THE SURVEY

Our survey is unique, and uniquely adapted for policy analysis for several reasons. First, compared to existing surveys, we do not ask open questions ('Do you want more benefits?'), but we pose specific trade-offs among specific policy options ('Are you willing to pay x% higher contributions in order to obtain y% higher benefits?'). These trade-off type questions are in the tradition of 'contingent valuation', and we use the 'stated preference' questionnaire techniques described in Louviere *et al.* (2000). We combine this technique with a focus on two specific aspects of the welfare state, namely unemployment protection and pensions. Second, we seek to relate these rather specific answers to general attitudes towards the welfare state. Third, we tried to design survey instruments that were as similar as possible across the four countries in order to exploit the cross-national institutional and historical differences that we have highlighted in the previous section and to identify how and why answers to our questions diverge across countries. We also relate policy preferences to individual characteristics of the respondents (this is not always possible with other publicly available surveys). Finally, we made strenuous efforts to avoid so-called 'framing' biases and the posing of unrealistic hypothetical situations.

We are not the first in gathering public sentiments towards the welfare state in Europe and in the US, but we are the first to conduct a consistent, cross-country survey that focuses on the two key reform debates, unemployment policies and pensions. We note that two of the authors, Boeri and Tabellini (1999), conducted a similar survey on a sample of 2000 Italians in spring 1999. It is encouraging that their results were very similar to ours as far as Italians are concerned. A previous version of this paper, available from the authors upon request, summarizes the results of other existing surveys. See in particular the Eurobarometer survey in 1992 summarized by Ferrera (1993), and the surveys made by the International Social Survey Program used by Corneo and Gruner (2000) and by Toš et al. (2000) among others.

3.1. Questionnaire and sample design

The questionnaire is divided into four parts. Part 1 collects information on the individual respondent, such as age, family situation, employment status, sector of occupation and so on. In Germany and Italy, these questions were part of an omnibus survey. We augmented this general background information by information on general political opinions and whether or not the workers are affiliated to a trade union. These latter and more sensitive questions were asked at the end of the interview.

The other parts assess the respondents' opinions on three aspects of the welfare state. Part 2 asks respondents whether they would be prepared to pay for unemployment insurance and how much. Part 3 assesses how informed they are about the costs and sustainability of the public pension system, and whether they would like to opt out of it (eventually at some cost). The questions are designed to obtain information about the respondents' preferences on these programs; we try to elicit their demand for unemployment insurance and for a pay-as-you-go public pension system. Finally, part 4 solicits their general opinions on possible directions of reforms. The questions in this part are formulated to assess the respondents' political opinion on the desirability of reforms in general, not just for their own personal situations.

The interviews were carried out in all countries by the means of Computer Assisted Telephone Interview (CATI) techniques in the last week of February and the first week of March 2000. Co-ordination among the four agencies carrying out the survey (ASP in Spain, Demoskopea in Italy, Infas in Germany, CREP in France) was provided by Fondazione Rodolfo Debenedetti. The survey universe is the population aged 16 to 80 living in households with telephone connections. In each country we sampled 1000 households. In Germany, where we had a larger budget, we chose to sample 1500 households in the West and 1000 households in the East to accommodate separate analyses for both parts of the country. It took about 10 minutes to carry out the interview. The random sample design is described in the Web Appendix. This appendix also provides the exact questions and the distribution of our sample by gender and age, and compares it to the national labour force surveys, showing that the weighted samples represent the main socio-demographic population characteristics very well.

3.2. Caveats

Our survey is a cross section at a specific point in time. This has several limitations and potential biases. If we had observations at a different point in the business cycle, we could shed light on whether our results are influenced by the boom that prevailed in spring of 2000. Moreover, with multiple observations of the same individual we could purge some of the large heterogeneity in the responses that is not related to measurable attributes. This is left to future work. Finally, our contingent valuation method allows us to identify just one point along the demand curve for unemployment insurance or pension benefits (i.e., the willingness to pay for the particular scheme proposed). We could have varied these schemes to map out the entire demand curve; however, this would had required a much longer survey and larger samples.

Economists are used to 'hard data' (i.e., preferences revealed via costly actions) and many mistrust survey data (where preferences are stated). While there are certainly limitations to survey data, we defend our approach in two ways. First, given the overwhelming importance and enormous difficulty of welfare-state reform, any fresh insights must be welcome. Second, we feel that the respondents' answers do reflect true preferences, for several reasons. Our results largely confirm similar findings of earlier surveys, at least in those questions where there is overlap (see in particular the ISSP project; Ferrera, 1993; and Boeri and Tabellini, 1999). Moreover, we checked the answers for internal consistency, for example, by ascertaining that a respondent did not say 'no' to an offer if he had already accepted a less generous version of it, and the results are satisfactory. Lastly, we check answers against individual characteristics and find that the stated preferences are broadly in line with what individual optimization would lead us to expect.

4. RESULTS: UNEMPLOYMENT INSURANCE

All European governments use employment protection legislation (EPL) and unemployment insurance (UB) to lessen the impact of job uncertainty. While both lessen uncertainty, EPL also introduces inflexibility that may be harmful to an economy's overall performance. Moreover, EPL protect only employees with permanent contracts, concentrating labour market risk on the remaining segments of the labour force. In Spain and Italy, in particular, the strict EPL and the narrow UB coverage means that many sectors are too rigid and unable to adapt to changing economic circumstances, while at the same time leaving many workers uninsured. To date, reform has been politically unpopular and confined to the introduction of 'flexibility at the margin' via the expansion of fixed-term contracts and temporary work agency. But protection granted to workers with permanent contracts was not touched. Our survey results – by highlighting citizens' attitudes towards such protection – can help in designing a reform that introduces flexibility and is politically acceptable.

4.1. The questions asked

Following our general approach of facing respondents with specific trade-offs, we focus exclusively on attitudes towards UB (specific trade-offs at the individual level cannot be formulated for EPL). In particular, we divided respondents into three groups – the unemployed, employees who are currently covered by UB, and employees who are not covered (the self-employed were not asked) – and asked each group if they would pay for more unemployment insurance. The additional insurance schemes proposed were tailored to reflect each group's status quo situation with the replacement rates (not the maximum duration of benefits!) chosen broadly in line with the most generous states in the sample, France and Germany. Specifically, unemployed respondents were offered an insurance scheme granting 70% of the last salary for up to one year with instant eligibility (currently, eligibility requires a minimum employment period). Employees not covered by UB were offered 50% of the last wage for the first year of unemployment and 30% for the second year. Employees already covered by UB were offered an extension, by one extra month, of the maximum duration of their benefits. In all three cases, the individuals were asked how much they were willing to pay for such an insurance scheme, with the interviewer offering a range, from 1 to 10% of the respondent's gross wage. This range is centred on the French and German ranges, with the maximum exceeding the highest contribution rate currently charged in the OECD. Respondents could refuse to answer and refusals ranged from 8% in Italy to 13% in Spain. Germany offers UB to almost everyone in the workforce, so only the case of covered employees is considered. The exact questions posed, and the main results, are reproduced in Table 2.

We stress four main results. First, most of those who are not covered by UB would be willing to pay for it. In all three nations, the unemployed group was the most keen on UB, with 60% or more interested in paying for unemployment insurance. The numbers were lower for uncovered employees, but we still find a majority interested in paying for extra UB in Italy and Spain; in France, only about one-third of such workers were interested. Second, already covered employees are generally in favour of the status quo, with at most one-third of the respondents wishing to pay for longer benefits. Third, taking all three categories of workers together, we find that a majority of the surveyed favours the status quo UB coverage, except in Italy where half would like to pay for extending UB. In Spain, the status quo majority was rather narrow with 40% in favour of an extended coverage of UB. Since EPL is strongest in Italy and Spain, this finding

Table 2. How many want more unemployment insurance? Analysis of 3 groups

	France (%)	Germany (%)	Italy (%)	Spain (%)
Unemployed respondents				
Question: 'Suppose that tomorrow you were offered a job that, in case of layoff, gives you the right to receive 70% of your salary during each month of unemployment, with a maximum of one year. Would you be willing to give up every month a fraction of your salary (ranging from less than 1% to 10%) in order to be covered by such an insurance?'				
Unemployed as % of all respondents	5.8[a]	—[b]	5.9	3.0
Responses: % wishing to pay for UB	**78.0**	—[b]	**81.4**	**60.0**
Average % of gross salary willing to pay	5.7	—[b]	6.3	6.4
Employed respondents *not* covered by UB				
Question: 'Suppose that you were offered the right to receive, in case of job loss, half of your salary during your first year of unemployment and 30% in the following year, but nothing else afterwards. Would you be willing to give up every month (ranging from less than 1% to 10%) of your salary in order to be covered by such an insurance?'				
Uncovered employees as % of all respondents	3.8	—[b]	25.2	6.2
Responses: % wishing to pay for UB	**35.9**	—[b]	**51.2**	**57.7**
Employed respondents covered by UB				
Question: 'Suppose that you were offered an unemployment insurance scheme giving you, in addition to Ghat you are already entitled to, the right to receive one extra month of your salary in case of job loss. Would you be willing to give up every month a fraction (ranging from less than 1% to 10%) of your salary in order to be covered by this insurance?'				
Covered employees as % of all respondents	32.2	37.7	9.0	33.4
Responses: % wishing to extend UB	**16.5**	**35.4**	**26.0**	**34.9**
Aggregate over all three groups				
% all respondents willing to pay for more UB (as a fraction of the labour force)	**26.8**		**50.0**	**40.0**

Notes:
[a] Percentage of entire survey population, *not* of the labour force as with official unemployment rates.
[b] In our sample, there are too few German uncovered employees and unemployed to warrant statistically reliable results.

Source: Authors' survey.

indicates that the status quo is more widely accepted in nations offering more UB and less EPL. Fourth, judging from their willingness to pay, the unemployed seem to be ready to accept wage reductions of between 5 and 10% if the entry job proposed to them is covered by unemployment insurance. Insofar as the insurance would cost significantly less than this, extended coverage of UB reduces wage aspirations of the unemployed thereby possibly contributing to reduce unemployment. Additional insights can be gained from inspecting group-specific results more closely and we start with the unemployed.

As Table 2 shows, most of the unemployed want UB and are ready to pay for it, with the average willingness to pay being 5.7% of the gross wage in France, 6.3% in Italy and 6.4% in Spain. These numbers are remarkable since they are significantly higher than the 'break even', or 'actuarially fair' contribution rate for the average worker, that is, the rate that would equate the expected contributions and receipts (see Table **3** for details). There seems to be two explanations for this.

First, the unemployed may be particularly risk adverse and thus willing to pay more than the actuarially fair price for insurance. Second, the unemployed may not perceive themselves as average workers. For example, the unemployed are particularly exposed to the risk of job loss when they are hired due either to personal characteristics (e.g., low educational attainments), or because new jobs are less secure (e.g., involve fixed-term or temporary-work-agency contracts as in France, Italy and Spain). This idea is buttressed by the fact that long-term unemployed respondents (those unemployed for at least a year), were willing to pay even more: 6.4% in France, 8.9% in Gerrnany and 8.3% in Spain. Further support can be found in the fact that the 'fair' contribution rate for workers on temporary contracts (see last row in Table 3) are much higher and thus much closer to the rates of survey respondents. Importantly, our rough calculations suggest that the amount the unemployed would be willing to pay would cover the cost of offering such UB.

The next group – employees who are not currently covered by UB – mainly consists of workers who have temporary jobs. In terms of numbers, Italians dominate this group since a quarter of the respondents were employed but did not have access to unemployment insurance. Among those wishing to buy insurance, the average stated contribution rate is again fairly high – about 5% of gross earnings. As in the case of unemployed individuals, this is higher than actuarially fair for average workers, but about right for workers on temporary contracts.

The final group is covered employees. In three of the four nations – the exception being Italy – something like a third of all respondents fall into this category. On average this group is content with the UB they have. In Germany and Spain only about a third would pay for extended benefits, while in France the figure is half of that.

Table 3. 'Fair' contribution rate for the proposed unemployment insurance

	France (%)	Germany (%)	Italy (%)	Spain (%)
Actuarially fair contribution rate for an average worker				
Probability of job loss	3.6	4.0	2.1	3.4
Job finding probability	33	27	23	26
Discount factor	0.9	0.9	0.9	0.9
Fair contribution rate	0.8	1.0	0.5	0.9
Actuarially fair contribution rate for unemployed workers hired on temporary contracts				
Unemployed hired on temporary contracts	60	42	75	90
Job-loss probability such workers	25	11	19	23
Fair contribution rate	4.1	1.8	4.1	5.8

Notes: For an average worker, the fair contribution rate equals $\rho\delta\lambda(1-\pi)/[1+\delta(1-A)]$, where ρ is the proposed replacement rate (70%), and δ, A and π are the discount rate, the job-loss and job-fmding probability respectively. For a worker hired from unemployment on a temporary contract, the formula is more complex since re-hiring following job-loss might not be on a temporary contract.

Source: Authors' calculations (available upon request) and authors' survey.

4.2. Who wants to buy more insurance?

Why do answers vary so much between employed and unemployed individuals? Does employment protection play any role in this asymmetry? More broadly, what are the characteristics of those demanding more unemployment insurance? In order to shed light on these issues, we match survey responses to the personal traits of the respondents. In particular, we transcribe respondents' answers into a simple 1, 2, 3 variable with 1 indicating unwillingness to pay for more UB, 2 a willingness to pay only 1% of gross wages for the UB, and 3 a willingness to pay more. We then try to explain this variable with various characteristics of the respondents (the technical name for this procedure is 'ordered logit').[1] The resulting coefficients and their statistical significance are listed in Table 4, where a positive coefficient, such as 1.257, means that having the listed trait, for example being male, increases the likelihood that the respondent is willing to pay for more insurance.

The first two columns of Table 4 pertain to the unemployed and three results stand out here. Young unemployed individuals and those based in high unemployment regions demand more insurance, while those with compulsory education only demand less of it. The latter effect is unexpected (since one usually thinks of higher educational attainment as providing some self-insurance) but it is consistent with other findings in this survey. The role of age may be explained by the partial labour market reforms carried out in all countries in the 1990s. Due to these, most youths are hired on temporary contracts. Since these imply a higher degree of job uncertainty, the young are likely to have an above-average appreciation of unemployment insurance. This interpretation is supported by the fact that the effect of age on the demand for UB vanishes in the regressions for the employees already covered by UB, who for the most part have permanent contracts. Similar reasoning may account for the role of high unemployment regions. Interestingly, political opinions and union membership do not seem to affect the demand for unemployment insurance. We also find no effect of unemployment duration on the willingness to pay for unemployment insurance. The responses of the next group – employees who are not currently covered by UB – are studied in the third and fourth columns; this group's sample size is larger but still relatively small and, as Table 2 shows, Italians dominate it. As with the unemployed, we see that younger workers are willing to pay more. Moreover, the results provide further indications that the cross-country differences in the coverage of UB are not in line with the preferences of the outsiders (unemployed and workers on temporary contracts); other things equal, the demand for UB protection is higher in Italy and Spain than in France. Further evidence for the substitutability between UB and public pensions comes from the 'Pension crisis belief

[1] We ran a number of alternative specifications, including ordinary least squares, ordered logit and probit (taking the stated contribution rate as an ordinal measure of the willingness to pay), and binomial logit and probit. Results were broadly consistent across the various specifications. We display ordered logit estimates as this specification minimizes the effect of imprecise answers *vis-à-vis* ordinary least squares and uses more information than the binary logit specifications. All variables are dummy variables.

Table 4. Willingness to pay for unemployment benefits (ordered logit)

Dependent variable: 1 = not wishing to subscribe, 2 = 1% of the gross wage, 3 = more than 1% of the gross wage

	Unemployed		Employed, not covered		Employed, covered	
	Coefficient	Std.-Error	Coefficient	Std.-Error	Coefficient	Std.-Error
Young (<35)	1.257	0.537**	0.767	0.306**	−0.206	0.150
Old (>54)	0.397	0.977	0.653	0.499	0.361	0.214*
Male	−0.541	0.484	−0.335	0.313	−0.128	0.158
Compulsory education only	−0.934	0.517*	−0.092	0.347	−0.264	0.240
University degree	−0.826	0.667	−0.205	0.375	−0.446	0.180**
Union member	0.402	0.931	−0.087	0.346	0.023	0.168
Left	−0.156	0.549	0.122	0.348	−0.092	0.219
Right	1.184	0.897	−0.659	0.361*	−0.023	0.206
France					−0.527	0.246**
Italy	−0.370	0.626	0.955	0.448**	−0.073	0.331
Spain	−0.459	0.671	1.122	0.518**	0.656	0.244***
High job-loss risk (own opinion)			1.418	0.597**	0.542	0.252**
Poor			0.190	0.451	0.659	0.225***
Middle income			0.045	0.290	0.202	0.166
Public sector worker			0.012	0.386	0.112	0.249
Manufacturing worker			−0.439	0.356	0.124	0.153
Blue collar			−0.304	0.447	0.193	0.369
White collar			0.012	0.411	0.057	0.352
Household head	0.611	0.565	−0.002	0.325	0.114	0.161
High unemployment region[a]	1.697	0.750**	0.147	0.306	0.537	0.146***
Pension crisis belief	−0.115	0.465	0.873	0.306***	0.364	0.177**
Informed about pension system			0.414	0.338	0.086	0.173
Long-term unemployed (>1 yr)	0.475	0.521				
First time job seeker	−0.054	0.130				
	Obs. = 135 LR = 20.9		Obs. = 276 LR = 37.2		Obs. = 1174 LR = 93.9	

Notes: [a] Mezzogiorno, Andalucia, Extremadura, Galicia, Asturias, the Eastern lander and all French regions with above average unemployment rates.

The reference individual is middle-aged, female, high school educated, middle third of the income distribution, and centre political ideology. Significance is denoted by asterisks (* = 10%, ** = 5%, *** = 1%). LR = likelihood ratio test that all coefficients except the constant are zero. The number of valid responses among the unemployed is relatively small, so we must be cautious in our interpretations (this is also why so few variables are statistically significant). The French dummy is omitted for the first two groups since Germany is not included.

Source: Authors' calculations based on survey data.

variable. This variable indicates that the respondent believes that there will be a crisis in the state-run pension plans. Since all four countries have made a widespread use of early retirement and liberal access to invalidity pensions to deal with redundancies, one interpretation of the positive coefficient is that the fear of pension problems makes people more inclined to rely on UB. Importantly, workers who judge that they face a high job-loss risk are more willing to buy UB protection.

As emphasized above, the third group (covered employees) generally judges the system sufficiently generous. Two results stand out. First, the degree of employment insecurity is once more found to increase the demand for insurance. Second, country effects remain very important even after adding individual controls. The sign of the coefficients (positive in Spain and negative in France, while the reference group is Gerrnan workers) are in line with the incidence of long-term unemployment in the various countries. While differences in the statutory maximum duration of UB – the other dimension likely to matter in this context – could be one explanation, Boeri et al. (2000) show that this is a factor of second order when considering differences among France, Germany and Spain. Italy is a peculiar case as the incidence of long-term unemployment duration is large but falls mostly on those who are not covered by UB. Local labour demand conditions are also important, with high and long-duration unemployment being associated with a demand for extended benefits. Finally, poor and less educated individuals demand more UB. This may have to do with the fact that the German unemployment benefit system redistributes more in favour of low-wage earners than in Italy and Spain, and Gerrnan workers were not represented in the other regressions.

4.3. The main conclusions

Our results are in line with the recent political economics literature (Saint-Paul, 1997; Persson and Tabellini, 2000). EPL concentrates unemployment risk among the 'outsiders'. Tighter EPL are thus predicted to have two opposite effects on the demand for unemployment insurance: to decrease it among the 'insiders', to increase it among the 'outsiders'. This is what we find in the data: on the one hand, those covered by EPL demand less UB; on the other hand, countries offering stricter EPL and less UB coverage are marked by larger coalitions of workers demanding extended coverage of unemployment insurance, and prepared to pay more for it. Finally, note that the current UB coverage is a majoritarian outcome in three of the four nations. In Italy half the respondents in the labour force wanted more UB, though even here we are a long way from the notion of a powerful minority imposing its will on the society.

As far as reforms are concerned, our results suggest that an extension to the coverage of UB could be self-financed: potential beneficiaries seem to be willing to pay more than a fair contribution rate. Since both UB and EPL lessen job uncertainty but EPL has deleterious effects on the mobility of workers across jobs, firms and regions, southern European governments should consider these trade-offs in trying to reduce EPL and increase UB. Reforms of UB systems requiring, on the one hand, shorter contribution records to qualify for benefits and, on the other hand, reducing the maximum duration of benefits for those already covered, would also seem to be politically feasible in France and Germany in the light of our results. Such reforms are desirable in that they could contribute to lower long-duration unemployment. We turn next to the pension results.

5. RESULTS: PENSIONS

Economists are rarely good at predicting the distant future. The looming pension crisis, however, is an exception. Think of the PAYG system as a contract whereby workers pay their parents' pensions in exchange for the promise that their own children will pay theirs. In an expanding or stable population, this can work since there are always enough children to pay their parents' pensions. Europe's ageing populations and life-lengthening medical progress, however, mean that fewer working children will have to finance more parents' pensions. Since most of this demographic change has already happened, there is no need for sophisticated predictions. Indeed, simple back-of-the-envelop calculations show that the current PAYG systems will require one of three things in the next two decades – a large increase in contributions by workers, a large increase in general taxes, or a cut in the generosity of pensions already promised. In short, governments who do not reform will face a pension crisis.

While the facts are clear, politics stands in the way of a solution. The crux of the problem is that all sensible reforms impose 'pain' today in order to avoid 'pain' in the future – an exchange that few politicians find attractive – and this simple fact hinders reform in the industrialized world. But is it only politicians that are reluctant, or is it public opinion at large?

To shed light on this question, it is important to investigate attitudes towards the current system and towards some of the likely reforms. In particular, since pension reform will involve painful trade-offs, we are especially interested in attitudes towards these trade-offs. The first thing, however, is to find out how informed individuals are about the cost of public pensions, about their sustainability and the likelihood of future reforms.

5.1. Do you know how much you are paying?

We posed two pension-information questions to employees in the four countries, one on the contribution rate and another on the balance of the PAYG system. The first question asked for an estimate of the size of the combined employers' and employees' contribution. Several brackets were suggested, with these being listed fully by the interviewer before respondents made their choice. The brackets were large and located to fit each country's correct value. In two of the four countries, only three brackets were suggested, one that was too low, one that was correct and one that was too high. In Germany and France, a larger number of brackets were offered but to make the data more manageable and comparable, we sorted these answers into the same three categories. While the brackets were very wide in France, Italy and Spain, we chose narrower brackets in Germany because Germany has the least fragmented system and has experienced the fewest changes in the past.

Table 5 shows the distribution of the answers. About a third of the respondents did not know how to answer this question (more than a half in Spain but only a fifth in Germany). Of those who responded, generally less than half got it right. Of those who got it wrong, almost all underestimated the true contribution rate. In Spain in particular, underestimation is huge. About 70% of those who answered picked the interval 0–21%, rather than the correct middle interval 20–45%. Among German employees the absolute size of the mistake is smaller, but it remains an underestimate; the average estimated contribution rate was 16.4%, which is about 3% below the correct value of 19.3% for when the survey was done (in 1998 and 1999 it was 19.5%). Only the Italians appear to be well informed about their pension system.

The overall level of misinformation is impressive, but which individuals are misinformed? The answer is contained in Table 6. Using a statistical technique ('binary logit') that is similar to the one in Table 4, we try to line up the respondents' personal characteristics with their answers. To keep things simple, we classify the answers into right (correct bracket) or wrong (either no answer or too high or too low). The results are not too surprising. More informed individuals tend to be middle aged, male, richer, more educated and have permanent contracts. Union members and individuals to the right of the political spectrum tended to answer incorrectly. The Spanish, and to a lesser extent the French, are less informed than Italians and Germans. This may be an effect of two factors, the intensity of the public debate and the fragmentation of the pension system. In Germany, a single contribution rate applies to all workers and this features prominently in newspaper articles on the future of the German pension system. In contrast, every French sector has a different contribution rate. And while the Italian system is more fragmented than the German one, the pension debate is much more in the news than in

Table 5. Knowledge about the pension contribution rate

Question: 'As you know, both employers and employees pay pension contributions. Which fraction of your gross monthly salary/wage goes to public pensions? (Please take into account also your employer contributions)'

	France	Germany (%)	Italy (%)	Spain
Don't know/no answer	35.3	21	35.4	50.8
Too low (of those who answered)	52	45	24	68
Correct (of those who answered)	**43**	42	64	28
Too high (of those who answered)	4	13	13	5

Notes: The three intervals for re-coding were as follows: France: 0–20, 20–(24.5)–45, 45+; Germany: 0–16, 16–(19.3)–25; 25+; Italy: 0–20, 20–(32.7)–45, 45+; Spain: 0–21, 21–(28.3)–35, 35+. The centre interval has the correct value enclosed in parentheses.

Source: Authors' survey.

Table 6. Who is informed about the correct contribution rate? (logit estimates)

Dependent variable: Probability of correctly answering the question in Table 5.

Respondent characteristics	Coefficient	Std error	Respondent characteristics	Coefficient	Std error
Young (<35)	−0.249	0.121**	Rich	0.199	0.121
Old (>54)	0.212	0.176	Left	0.388	0.170**
Male	0.178	0.108*	Centre	0.349	0.117***
Compulsory education only	−0.252	0.127**	Union member	−0.250	0.134*
University degree	0.089	0.135	Germany	0.566	0.200***
Permanent job	0.635	0.172***	Italy	0.646	0.163***
Public sector worker	−0.042	0.161	Spain	−0.863	0.188***
Poor	−0.415	0.174**	Constant	−1.615	0.232***

Notes: The reference individual is middle-aged, female, high school educated, middle third of the income distribution, and right of centre political ideology. Significance is denoted by asterisk (* = 10%, ** = 5%, *** = 1%). LR = likelihood ratio test that all coefficients except the constant are zero. There are 1968 observations, the likelihood ratio is 145.59, the pseudo R^2 is 0.06 and the base probability is 46.9%.

Source: Authors' survey.

France and Spain. We make this latter point more precise by taking a census of 1999 newspaper articles. The word 'pensions' and close synonyms appeared in 9% of *Handelsblatt* (Germany) articles, 7% of *Il Sole 24 Ore* (Italy) articles, 4% of *Les Echos* (France) articles and only 3% of *Expansión* (Spain).

The second information question asked respondents whether the employee and employer contributions to the PAYG system are sufficient to finance current pension expenditures. As Table 7 shows, slightly less than a half of the contributors to the system were aware that additional government resources are required to finance current pensions. In Spain, almost a third believed that the PAYG system runs a surplus (in fact the Spanish government subsidy accounts for about a third of pensions).

Table 7. Pension system's balance, deficit, or surplus

Question: 'Given all the contributions currently paid by employers and employees, and the pensions currently paid out to retirees, do you think that (a) the sum of all contributions exactly match the amount necessary to finance the sum of all pensions, (b) the sum of all contributions exceed the amount necessary to finance the sum of all pensions such that money is left over in the pension system, or (c) the sum of all contributions falls short of the amount necessary to finance the sum of all pensions such that there is need to use other government funds to subsidize the pension system?'

	France	Germany (%)	Italy (%)	Spain
Don't know/no answer	25	1	3	23
(a) Balance (of those who answered)	27	39	11	21
(b) Surplus (of those who answered)	18	7	8	28
(c) Deficit (of those who answered)	55	54	82	51

Source: Authors' survey.

In Germany, the questionnaire also asked how the pension system works, that is, pay-as-you-go (financing exclusively current retirees) or funded (financing the own pension). Detailed results can be found in the Web Appendix but here we note that only 47% of the respondents realize that all of their contributions are used to finance current pensioners with nothing going toward their own retirement. Surprisingly, respondents with at least a high school degree have a lower level of knowledge than those with less formal education. Importantly, we found that those who are informed about the system's balance are also likely to know the correct contribution rate and to believe that a crisis of the public pension system is likely. This result is based on statistical analysis (not reported) that is similar to that of Table 6.

Despite this underestimating of the financing burden, respondents as a whole still expected a crisis, as we see from studying the results of the next question.

5.2. Do you expect a pension crisis?

The first 'crisis question' we asked was whether people thought there would be a pension crisis in the next 10–15 years (this was posed to all survey respondents, including people not in the work force). The results, shown in Table 8, reveal that in three of the four nations – Spain is the outlier – the vast majority of respondents expect a crisis. In Spain, only 73% of people answered the question and only 43% of these agreed. In the other nations both the response rate and the share agreeing were much higher. This, of course, may be related to the lack of Spanish media coverage documented above. A detailed analysis of the German data (not reported) shows that blue-collar and white-collar workers – that is, those respondents that are enrolled in the German GRV system – are even more pessimistic than the general population; 91% of the contributors expect an impending crisis, rather than 81% of all respondents. Older individuals and today's pensioners are more optimistic, and so are civil servants – those who are the least

Table 8. Expectations of a pension crisis and major reform

Question: 'Some people speak of a possible crisis in public pension systems, which would mean that, in 10/15 years' time we would not be able to enjoy public pensions at their actual level. Do you agree with this opinion?'

	France (%)	Germany (%)	Italy (%)	Spain (%)
Don't know/no answer	14	6	7	23
Yes (% of those who answered)	82	81	72	43

Question: 'Do you think that in the course of the next 10 years there will be a reform reducing significantly the level of the public pension?'

	France (%)	Germany (%)	Italy (%)	Spain (%)
Don't know/no answer	19	6	16	27
Yes (% of those who answered)	73	75	75	47

Source: Authors' survey.

affected. The higher is the level of education, the more pessimistic was the assessment of the situation. There are no substantial differences between men and women or between East and West Germans on this question.

The pessimism in the ability of the public pension systems to cope with the future is also reflected in our second question on this matter. Respondents were asked whether there would be an incisive pension reform in the next 10 years. As Table 8 shows, more than 70% of the respondents in France, Germany and Italy anticipate a reform that will decrease their pension levels significantly. Consequently, only one-third of the young respondents in Germany (under 45) expect the public pension to be the main source of their income in old age. As with the previous question, Spain is different from Germany, France and Italy – not even half of the respondents expect a pension reform in the medium-run future.

These results should be of some importance to politicians. It seems that Europe's workers already expect pain in the future, so perhaps reforms that would reduce this pain might not be that politically costly.

5.3. Would you like to opt out?

One way to reform the PAYG system is to simply make it lighter by allowing current workers to 'opt out' of the system, where opting out means paying in lower contributions while working, in exchange for agreeing to receive lower benefits in retirement. This makes the pension burden lighter for the workers' children, reducing future pain considerably. During the transition, however, this increases current pain since current workers either have to live with lower benefits or rely more on their own savings.

Given this, we asked how many respondents want to opt out of the current public pension system, who they are, and what they are willing to pay for it. Specifically, we asked all working respondents whether they would like to cut in half their contribution and that of their employer in exchange for receiving only half of the pension rights once they opt out (they were told to value past contribution at the existing benefit level). This opting-out proposal was presented in several versions. In the first – unconditional opt out – no restrictions were placed on the extra cash stemming from the reduced contributions. In the second – conditional opt out – the extra cash had to be invested in a retirement fund. Of course, opting out at the nationwide level requires someone to pay the pension of the current retirees, so in the third version – opt out with transitional burden – we imposed a transition burden in the form of a lower valuation of future pension rights. This version was posed only to those who agreed to one of the first two opting-out proposals. In the German version of the questionnaire we also experimented with a different framing of the question by adding a bit of moral persuasion in the form of the phrase 'if this would help so that the generation of our children and grandchildren does not have to pay still higher contributions'. Not surprisingly, this considerably increased the willingness to opt-out.

5.3.1. Versions 1 and 2: Unconditional and conditional opting out. The top panel of Table 9 shows the results for the first version. In all four countries only a small fraction do not know or refuses to answer, but nowhere there is an absolute majority willing to opt out. In Germany and Italy, about 47% of those who give a valid answer would like to opt out of the public pension systems, while some 48% would prefer to remain in it. In France and in Spain, the approval of an opting-out deal is much lower.

To shed light on these findings we match respondent characteristics to responses as above, but before turning to the findings, it is useful to think about what we would expect if respondents were rational. Financial markets' returns are expected to be much higher than those in an ageing population's PAYG system, so rational workers should, other

Table 9. Opting out, unconditional and conditional proposals

Unconditional opt out question: 'Suppose that you were offered the following 'less contribution-less pension' deal. Namely, you were offered to reduce your contributions to national public pension system by one half (e.g., rather than paying 30%, you pay 15% adjusted by country), and receive this amount in your pay slip. When you retire, you will get a lower pension as if you had worked at 50% of your salary from tomorrow onwards. Would you accept such a deal?'

	France (%)	Germany (%)	Italy (%)	Spain (%)
Don't know/no answer	6.5	4.3	6.6	7.5
Yes (% of those who answered)	24.4	47.2	46.9	18.9

Use of money question: 'What would you do with the money? (a) save **all** for old age provision, (b) spend all, (c) spend the smaller part, save the larger part for old age provision, (d) spend the larger part, save the smaller part for old age provision'

	France (%)	Germany (%)	Italy (%)	Spain (%)
Don't know	0.5	0.5	2.3	5.3
Save all (% of those answered)	64.3	66.8	64.9	30.1
Spend all (% of those answered)	6.1	1.4	1.8	18.6
Save most (% of those answered)	22.8	28.0	25.7	30.7
Spend most(% of those answered)	6.9	3.8	7.5	20.5

Conditional opt out question: 'Consider a slightly different proposal: The compulsory contributions rather than being put in your pay slip would be put in an investment fund of your choice. You would be free to cash in from that fund only upon retirement. Would you accept such a deal?'

	France (%)	Germany (%)	Italy (%)	Spain (%)
Don't know/no answer	11.8	4.3	9.7	13.2
Yes (% of those who answered)	49.7	71	67	63

Change of opinion between the two opting-out proposals

		Opt out with mandatory retirement savings		
		No (%)	Yes (%)	Total (%)
Unconditional opt out	No	30.3	36.3	66.6
	Yes	10.2	23.2	33.4
	Total	40.5	59.5	100

Source: Authors' survey.

things equal, want at least partially to opt out – unless they are very risk averse. However, all else is not equal since PAYG systems provide some rich-to-poor redistribution. Poor workers might therefore be expected to be less eager to opt out. Age and expected survival after retirement should also matter; for young workers, the higher expected returns outside the system should be more attractive (returns cumulate for more periods), but for workers with a longer expected life (e.g., women) staying in the system should be more attractive. What about education? Since education is probably correlated with greater ease of investing in financial markets and with future income, education should also foster opting out.

The results, shown in Table 10, are quite consistent with what we would expect. This is encouraging since it provides indirect evidence that respondents understood the questions and answered in a serious manner. Specifically, the rate of acceptance decreases with age and rises with income and education. 'Males and more informed

Table 10. Who wants to unconditionally opt out?

	Coefficient	Std.-Error	AProb (%)	Coefficient	Std.-Error	AProb (%)
Young (<35)	0.66	0.11***	10.6	0.63	0.12***	9.9
Old (>54)	−0.48	0.19***	−7.0	−0.44	0.19	−6.3
Male	0.28	0.10***	3.3	0.31	0.11***	3.6
Compulsory educ. only	−0.47	0.12***	−5.0	−0.48	0.13***	−4.9
University degree	0.09	0.13	1.7	0.09	0.14	1.5
Permanent job	−0.27	0.169*	−4.8	−0.27	0.16*	−4.6
Public sector worker	−0.01	0.16	−0.2	0.05	0.16	1.0
Poor	−0.30	0.15*	−4.6	−0.27	0.16*	−4.2
Rich	0.22	0.12*	3.7	0.19	0.12	3.1
Union member	−0.18	0.13	−3.4	−0.15	0.13	−2.7
Germany	1.59	0.20***	21.5	1.56	0.21***	21.0
East Germany	−0.35	0.15**	−6.1	−0.42	0.16***	−6.9
Italy	1.29	0.17***	25.5	1.32	0.17***	26.0
Spain	−0.34	0.18*	−5.8	−0.03	0.19	−0.4
Informed about pensions	0.42	0.11***	7.1	0.45	0.12***	−31.1
Pension crisis belief				0.89	0.14***	6.6
Left				−0.20	0.16	−3.6
Right				−0.01	0.16	−0.2
Constant	−1.512	0.211***		−2.23	0.25***	
	Obs = 2005	Pseudo R2 = 0.12		Obs = 1968	Pseudo R2 = 0.14	
	LR = 322.5	BaseProb = 31.8%		LR = 367.1	BaseProb = 31.8%	

Notes: Logit estimates. The reference individual is middle-aged, female, high school educated, middle third of the income distribution, and centre political ideology. Significance is denoted by asterisks (* = 10%, ** = 5%, *** = 1%). LR = likelihood ratio test that all coefficients except the constant are zero. AProb is the change in the base probability (denoted by BaseProb at the bottom of the table) if the corresponding dummy variable is changed from 0 to 1.

Source: Authors' survey.

individuals (those who answered correctly the questions on pension contributions) are also more likely to accept the proposal. After controlling for these individual attributes, however, there remain significant country effects, with acceptance much more likely in Germany and Italy as compared to France and Spain. In East Germany, workers are less willing to opt out than in the West. In columns 3 and 4 we also included a variable, 'Pension crisis belief, which takes the value of 1 for those individuals who said they expect a pension crisis. Not surprisingly, this dummy variable is highly significant and has the expected positive sign. Moreover with its inclusion, Spain is no longer different from France, suggesting that the Spanish effect detected in columns 1 and 2 is due to the optimistic perspective of Spanish respondents about the future of the pay-as-you-go system. Finally, the political opinion of the respondents does not affect the willingness to opt out, nor does union membership *per se*.

Finally, one may ask whether the individuals who want to opt out of public pensions also want less unemployment insurance, or vice versa, reflecting another dimension of the trade-off depicted in Figure 1. A rigorous answer would entail the joint estimation of two choice models, one for pensions and one for unemployment insurance. As a rough approximation, we added to the explanatory variables in Table 10 an additional dummy variable, that takes the value of one if the individual wants to buy more unemployment insurance than he currently has, and zero otherwise (results not reported). This new variable is statistically significant and has a negative sign, suggesting that individuals who do not have enough unemployment insurance are less willing to opt out, perhaps because they perceive that the pay-as-you-go system also performs a function of insurance against bad labour market outcomes (e.g., via early retirements). If correct, this finding suggests a potential complementarity in reforms. Providing more unemployment insurance in some countries could make some workers feel more secure, and through this channel, it could induce more willingness to opt out. We are not too confident of this inference, however, since it is contradicted by the finding in Table 10 that permanent workers appear less likely to want to opt out.

Overall, these regressions confirm that the willingness to opt out responds as expected to economic and informational variables, while it is little affected by the political or ideological opinions of the respondents.

The second version of the opting-out proposal constrains individuals to invest the rebated contributions. One might expect that this would reduce the willingness to opt out relative to the previous question, but we find the opposite. As Table 9 shows, the acceptance rate *rises* from 47% to 67–71% in Italy and Germany, from 19% to 63% in Spain, and from 24% to 50% in France. Interestingly, this means that a reform involving a mandatory 'private pillar' has more support than a reform relying on voluntary supplemental savings. This is even more surprising as most respondents who accepted the unconditional opting out proposal would anyway invest in old-age provision, as the second panel of Table 9 shows.

To look at the preference for mandatory savings more closely, the bottom panel of Table 9 displays the percentage of respondents who switch opinion between the unconditional and the conditional opt out proposals. The main puzzle lies with the 36% of respondents who say no to an unconditional opt out question but nevertheless want to opt out if they are forced to invest the rebate. Who are these individuals, and why do they switch opinion?

We can only speculate among a number of possible explanations. First, respondents may have simply misunderstood the second question with forced savings. Some evidence for this explanation stems from the fact that it is much harder to relate the responses to the second opting-out proposal to individual attributes. An analysis similar to that of Table 10 provides a similar pattern but with fewer significant results and a weaker statistical 'fit'. A second explanation is that respondents are concerned with 'time inconsistency'. This inconsistency can be either at the personal level (they do not trust their own discipline to save and need the mandate in lieu of self control), or at the societal level (if other individuals do not save, some of them will have to be bailed out because they will end up too poor for society to tolerate, raising the tax burden). A third explanation is that respondents may assume that mandatory pensions would be subsidized, although the interviewers made no mention of this. For example, respondents might be assuming that the subsidy would come via tax relief (as it is often the case today) or through government guarantees (bailing out failing funds).

To shed further light on this puzzle, we again try to statistically match responses to the traits of respondents. The results in Table 11 show that there are few statistically significant variables and the fit is not very good. Thus, we cannot easily discriminate between alternative explanations. There is a pattern, however, in that opinion-switchers tend to be female, residents of France and East Germany, and individuals who want more unemployment insurance than they currently have. This last result suggests that

Table 11. Who switches opinion?

	Coefficient	Std.-Error		Coefficient	Std.-Error
Young (<35)	−0.170	0.148	Germany	−0.448	0.325
Old (>54)	0.298	0.207	East Germany	0.265	0.179
Male	−0.275	0.132**	Italy	−0.311	0.291
Compulsory educ. only	0.119	0.153	Spain	0.261	0.297
University degree	−0.026	0.179	Informed about pensions	−0.229	0.153
Permanent job	0.062	0.219	Pension crisis belief	−0.125	0.166
Public sector worker	−0.163	0.230	Left	−0.247	0.221
Poor	0.194	0.180	Right	−0.142	0.139
Rich	−0.091	0.154	Wants more UB	0.432	0.134***
Union member	−0.055	0.164	Constant	−0.298	0.369
Obs = 1147	LR = 54.9				

Notes: The reference individual is middle-aged, female, high school educated, middle third of the income distribution, and centre political ideology. Significance is denoted by asterisks (* = 10%, ** = 5%, *** = 1%).

Source: Authors' survey.

individual time inconsistency may indeed play a role. We will again pick up this puzzle below.

5.3.2. Version 3: Opting out with transition burden. For the system as a whole, opting out is only feasible if someone bears the 'transition burden', that is, someone pays for the pensions of current retirees while at the same time saving for their own retirements. This transition burden can be financed either by cutting existing pension benefits, thereby lowering the PAYG contributions of current workers and making room for savings, or by adding savings to the current contributions. Both options are unattractive and are likely to reduce the political support for reform. For this reason, it is important to explore attitudes towards paying for an opt-out that includes a transitional burden. We do this with the third version of our opting-out proposal.

Specifically, all those who accepted the unconditional opt out proposal were asked whether they would still accept a less favourable proposal, offering the same contribution rebate but a smaller future pension. The precise wording and our results are shown in Table 12. We chose to model the transition cost as a cut in pension benefits because the respondents were at this point of the interview used to thinking in dividing up pension levels between PAYG and funded pillars.

Not surprisingly, the acceptance rate is considerably lower. But the extent to which opting out is rejected may surprise and suggests that perhaps the question was not well understood. In Germany and Italy, only a quarter of those who had accepted the previous proposal are still willing to opt out. In France and Spain, where fewer people accepted the unconditional opting out proposal, the decline is less pronounced: 40–50% still wanted to opt out even under a transition burden. Altogether, these numbers convey a similar negative result. In all four countries only little more than 10% of the

Table 12. Opting out with a transition burden

Question: 'Suppose that you were offered the above deal under less favourable conditions. Namely, you were still offered to reduce your contributions to (national public pension system) by one half, but now your pension will be calculated as if you had worked at less than 50%. In particular, would you still accept the deal if your future pension is calculated as if you had worked at: (a) 45% of your salary, (b) 40% of your salary, (c) 35% of your salary, (d) 30% of your salary, (e) 25% of your salary, (f) not at all?'

	France (%)	Germany) (%)	Italy (%)	Spain (%)
45%	27.9	13.8	13.9	18.1
40%	5.0	3.4	5.8	13.4
35%	1.2	1.8	1.9	5.0
30%	1.4	3.3	0.4	3.3
25%	1.8	3.1	4.3	12.3
Acceptance	37.4	24.9	26.3	52.1
Not at all	62.6	75.1	73.7	47.9

Source: Authors' survey.

respondents is willing to opt out if that entails bearing the transition burden envisaged in our question.[2] Perhaps these answers cannot be taken at face value, given the difficulty of the question. But they suggest that the transition towards a fully funded system could be politically difficult, unless the burden is spread across several generations (and is therefore relatively low) and the benefits of reforms are carefully explained to public opinion.

The questions discussed up to now were designed to solicit opinions on the individual demand for specific transfer programs. We turn next to much broader questions, namely peoples' opinions concerning the overall size and tasks of the welfare state.

6. SIZE AND TASKS OF THE WELFARE STATE

Reforming Europe's welfare states is a difficult task that can be made easier by understanding citizens' opinions concerning the size and shape of the welfare state, and more generally, the sources of political conflicts. Are class and ideological conflicts the key, or is it merely a 'neo-corporatist' conflict? What is the role of unions? The answers to such questions should help policymakers craft politically viable reforms by bundling together different reforms that appeal to specific group of supporters, or by finding ways to compensate reform opponents.

Of course the responses to such general questions will be fuzzier and harder to analyse than those discussed above, but we try to minimize the possibility of whimsical answers by again imposing a budget constraint. This distinguishes our approach from that of Eurobarometer and other general surveys. For instance, we did not ask whether the welfare state should be made more generous, but we asked whether the respondent is willing to pay more taxes for a bigger welfare state.

6.1. The size of the welfare state

We start with the size of the welfare state, asking all respondents, whether in the labour force or not, the question reported in Table 13. Our central finding is that the majority of respondents support the status quo. In Italy, more people would like to shrink it than would like to enlarge it, but an absolute majority favours maintaining or increasing the status quo. In all other countries, the status quo was the favourite response and indeed attracted an absolute majority. Germans are most satisfied with the current size of the welfare state: almost 59% are in favour of the status quo. Of those that are not content, two-thirds would like to reduce taxes and expenditures, and one-third would like to increase them. The pattern is very similar in France, with a bit less satisfaction and more

[2] It is interesting to compare that average willingness to pay for the transition with actual pension reform proposals. Calculations for Germany, using today's relation between payroll contributions and pension benefits, permit us to convert the average willingness to give up pension benefits expressed by respondents into a corresponding contribution rate. The results show workers would be ready to pay on average 1.37% of their gross income to opt out. This is just about the 'additional burden' implied by the current reform proposal in Germany, e.g., Birg and Borsch-Supan (1999) and the original 'Pension Reform 2000' proposed by the German government in the Summer of 2000. A similar calculation for Italy yields the almost identical value of 1.36%.

Table 13. Who wants to expand the welfare state?

Question: 'In your opinion, should the state (a) reduce taxes and compulsory contributions, cutting pensions and/or transfers to households, (b) maintain taxes and compulsory contributions at current levels, or (c) increase pensions and/or transfers to households, by raising taxes and/or compulsory contributions?'

	France (%)	Germany (%)	Italy (%)	Spain (%)
Don't know/no answer	19.1	6.5	16.1	27.7
Less transfers and taxes (% of those who answered)	35.0	26.9	42.8	15.9
Maintain (% of those who answered)	51.2	59.1	39.7	53.2
More transfers and taxes (% of those who answered)	13.8	14.0	17.4	30.9

Characteristics of those who wants to shrink the welfare state:
Dependent variable: 1 = reduce, 2 = maintain, 3 = increase

	Coefficient	Std.-Error	Coefficient	Std.-Error	Coefficient	Std.-Error
Public sector worker	0.051	0.079	0.041	0.080	0.004	0.089
Unemployed	−0.012	0.107	−0.003	0.108		
Permanent job	0.040	0.071	0.030	0.072	0.031	0.084
Employed	0.190	0.055***	0.135	0.058**		
Self-employed	−0.352	0.072***	−0.368	0.073***		
Young (<35)	−0.209	0.045***	−0.228	0.046***	−0.243	0.063***
Old (>54)	0.110	0.053**	0.134	0.054**	0.208	0.098**
Male	−0.067	0.037*	−0.070	0.038*	−0.110	0.057*
Poor	0.119	0.046**	0.119	0.047**	0.120	0.084
Rich	−0.031	0.046	−0.030	0.047	−0.016	0.066
Compulsory educ. only	−0.036	0.044	−0.011	0.046	0.011	0.069
University degree	−0.062	0.052	−0.067	0.053	−0.138	0.077*
Unskilled worker	0.165	0.088*	0.133	0.088	−0.050	0.132
Medium skills worker	0.255	0.077***	0.238	0.078***	0.156	0.120
Union member	0.153	0.048***	0.136	0.050***	0.208	0.068***
Left			0.202	0.059***	0.288	0.087***
Right			−0.040	0.056	−0.146	0.086*
Informed about pensions					−0.254	0.065***
Spain	0.616	0.066***	0.651	0.068***	0.890	0.143***
France	−0.116	0.066*	−0.079	0.068	0.090	0.154
Italy	−0.196	0.067***	−0.163	0.069**	−0.003	0.154
East Germany	0.163	0.053***	0.210	0.056***	0.269	0.087***
	Obs = 3978	LR = 346.9	Obs = 3825	LR = 363.3	Obs = 1697	LR = 201.8
	Pseudo R2 = 0.04		Pseudo R2 = 0.04		Pseudo R2 = 0.06	

Notes: Ordered probit. The reference individual is middle-aged, female, high school educated, middle third of the income distribution, and centre political ideology. Significance is denoted by asterisks (* = 10%, ** = 5%, *** = 1%). LR = likelihood ratio test that all coefficients except the constant are zero. 'Don't know' is treated as a missing observation.

Source: Authors' survey.

support for a shrinking welfare state. In Spain, while a majority enjoys the status quo, a significant minority (almost a third) wants an expansion of the welfare state. Importantly, this support for the status quo also means that most are against expanding the welfare state; at least 70% of respondents in all nations, were against expanding taxes and expenditure, with the figure over 80% in France, Germany and Italy.

To investigate who wants to expand the welfare state, we apply our by now familiar statistical technique (ordered probit) in the bottom panel of Table 13. Given the way we have specified the variable to be explained, positive estimated coefficients correspond to preferences for a larger welfare state.

The numbers in the two leftmost columns reveal a pattern that is broadly consistent with what we found in the previous part of the survey. Disagreement is mainly observed along the age, *income* and *insider/outsider* dimensions. The poor and old are more likely to oppose reduction of the welfare state, while the young are for it. The situation in the labour market matters in that the employed are in favour of bigger government compared to non-workers, and self-employed workers are against bigger government. On the other hand, being unemployed, being in the public sector or having a permanent labour contract is not associated with significant preferences either way. Thus, here the conflict between insiders and outsiders is confined to the different preferences of self-employed individuals. Note that union members prefer bigger governments even after controlling for individual attributes – we discuss this finding in more detail below. Education (captured by the 'compulsory education only' and 'university degree' variables) does not seem to matter, though individuals employed in lower and medium skilled jobs are in favour of a bigger size of government.

Cross-country differences remain significant even after controlling for individual attributes. Italy and France are confirmed to be in favour of smaller governments compared to Germany, while Spain is strongly in favour of bigger governments. Not surprisingly, East Germans prefer a larger welfare state than West Germans. These cross-country differences confirm the earlier observation that exposure to different media and debates can shape policy preferences. The cross-country differences also reveal an interesting finding, namely there is some evidence of convergence towards a social model such as that currently present in France and Germany. We conclude this from observing that Spain, with a much smaller size of government, is also the country most in favour of expanding the welfare state. As we had pointed out in Section 2, Spain is also the country with the largest inequality even after controlling for the redistribution through extended families.

To control for political leanings of the respondents, we include dummy variables for left and right ideologies. As the middle two columns of the lower panel of Table 13 show, most estimates remain stable, providing further support to the view that ideology does not swamp individual economic self-interest. Political position, however, does not completely disappear. The variable 'left' is statistically significant.

Recall that political position and union membership were never statistically significant in the unemployment insurance and opting out regressions. Those questions were formulated so as to induce respondents to reveal their perceived economic interests, that is, their 'demand' for unemployment insurance and for public pensions and indeed, ideology seemed to play no role. Here instead we are investigating their view about what public policy ought to be. Economic self-interest continues to play an important role. But now political position and union membership also matter. We conclude that ultimately policy opinions reflect a blend of economic self-interest and ideological views about what is 'right' or 'wrong' for society as a whole. In this respect, left wing ideology seems to matter more than right wing views.

In our third specification, shown in the final two columns of Table 13, we investigate whether information matters by including the variable measuring whether respondents were correctly informed about the contribution rate to the public pension system. The sample of respondents is now much smaller because the information question was asked only to those who currently pay social security contributions. The results show that, once more, information matters. More informed individuals are also more likely to prefer a smaller welfare state. Political positions now becomes even more significant while most other coefficients remain largely unaffected with two exceptions (the income variables are now statistically insignificant, and cross country differences vanish) probably due to the smaller sample size.

One implication is that these results broadly support recent research in political economics; policy preferences are correlated with the individuals' economic situation in general, and, in particular, those who benefit from a large welfare state tend to support it.

6.2. The composition of transfers

We have seen that a majority of respondents wants to maintain the current *size* of the welfare state. What about the *composition* of transfers? To find out, we asked whether individuals favour a reallocation between pensions and unemployment support. The question was asked to all those who, in the previous question, replied that the size of the welfare state is adequate. Precise question and answers are found in Table 14.

The results are quite similar to those from the size-of-welfare-state question. Germans, French and Spaniards appear largely content, while more Italians are in favour of some sort of change, with the shift from pensions to UB garnering almost a half of respondents. In all four countries, the type of change most favoured is that which moves money from pensions towards unemployment benefits and other job seeker support. This is strongest in Italy and Spain, confirming the results in the section on unemployment insurance. The results on Italy are in accord with the observation that the existing transfer system gives much more to pensions and much less to unemployment insurance compared to the rest of Europe. Thus, again, the opinions of European citizens seem to point to some kind of convergence towards a common European social model.[3]

[3] The sample of respondents is confined to those that prefer to maintain the size of government as it is. In the case of Italy, given the pattern of responses to the previous question, it is quite likely that, if the same question had been posed to **all** respondents, we would have obtained an absolute majority in favour of a reallocation away from pensions and towards unemployment insurance. This is what Boeri and Tabellini (1999) had found in a similar opinion poll just for Italy, conducted a year earlier.

Table 14. Opinions about shifting resources from young to old

Question: 'In this case <maintaining size>, should the state (a) allocate more resources to pensions and less to unemployed or young job seekers, (b) allocate less resources to pensions and more to unemployed and young job seekers, or (c) keep the current situation?'

	France (%)	Germany (%)	Italy (%)	Spain (%)
Don't know/no answer	9.0	3.3	7.3	9.0
More to pensions (% of those who answered)	13.9	16.6	18.5	10.2
Less to pensions (% of those who answered)	19.9	21.6	46.2	30.2
Status quo (% of those who answered)	66.2	61.8	35.2	59.6

Who wants to shift resources from the young to the old people, given no change in the size of welfare state? (probit estimates with sample selectivity correction)

	Coefficient	Std.Error	Coefficient	Std.Error
Unemployed	−0.314	0.184*	−0.285	0.180
Young (<35)	−0.014	0.077	−0.014	0.074
Old (>54)	0.240	0.092***	0.201	0.094**
Compulsory educ. only	0.140	0.065**	0.118	0.064*
Union member	−0.030	0.089	−0.056	0.081
Permanent job	0.239	0.124*	0.178	0.121
Spain	−0.234	0.200	−0.155	0.168
France	0.069	0.175	0.069	0.136
Italy	−0.627	0.300**	−0.476	0.277*
High unemployment region			−0.159	0.067**
Constant	0.737	0.439*	1.033	0.260***
	Obs = 4558	Censored = 2525	Obs = 4558	Censored = 2525

Notes: Wald test that all coefficients except the constant in the main equation are zero is 39.9 for the first regression and 31.3 for the second. The selectivity equation (not reported) is highly significant. Main instruments are income and skill levels. Estimation is by joint maximum likelihood.

Source: Authors' survey.

We explore the traits of respondents who favoured shifting resources toward the young in the bottom panel of Table 14. This statistical procedure is a bit more involved since the sample of respondents is not randomly chosen (only those for maintaining the status quo were asked). In particular, we applied a two stage procedure that first modelled the probability of answering 'maintain the size of the welfare state' in a manner similar to the regression in Table 13 (significant variables only). In the second stage, Table 14, we estimate the probability that the respondent wants to give more to the unemployed. The dependent variable is zero or unity, with zero indicating that the respondent wants to give more to the unemployed.

The results confirm our prior expectations and the results we saw above. Individuals who oppose a reallocation of transfers towards unemployment insurance are older, less educated and have a permanent contract, while currently unemployed individuals want a reallocation towards unemployment insurance. Union members do not have significant preferences either way after controlling for individual attributes. Italy is confirmed to be different from the other countries. The third and fourth columns of the bottom panel of Table 14 add to the second-stage specification a dummy variable for high unemployment regions. Not surprisingly, this new variable is significant and has a negative sign, but our previous conclusions remain largely unaffected; only some of the other variables now have a lower significance level.

Overall, we mainly see a conflict between insiders and outsiders on the one hand (or employed and unemployed), and between young and old on the other hand. Political position and income (specifications not reported) do not play a role in affecting preferences over the allocation of social expenditure.

6.3. Are unions conservative?

The attitudes of union members towards these issues deserve special emphasis because any reform of the welfare state in France, Germany, Italy and Spain would have to be negotiated with the trade unions. Table 15 provides some evidence that union members do have a penchant for the status quo. We adopt two alternative definitions of status quo bias. The first and broader definition associates status quo bias with being against any retrenchment of the welfare state (answering 'maintain' or 'increase the size of the welfare state' in Table 13). The second more restrictive definition includes only those individuals who want to maintain the current size of the welfare state without redistributing money in favour of UB (answering 'keep current situation' in Table 13).

Table 15 clearly shows that, for both definitions of the status quo, union members are more prone to preserving the current situation than are non-members. Is this an effect of union membership *per se* which remains significant even after controlling for individual characteristics such as age, gender and income? To answer this question, we go back to the regressions in Table 13 where we controlled for personal characteristics. There we see that union membership per se strongly affects opinions about the size of the welfare state. However, once we turn to the allocation of social spending across generations or

Table 15. Status quo bias of unions

	France (%)	Germany (%)	Italy (%)	Spain (%)
Broad definition: Should the state maintain or increase taxes and benefits?				
Union members (% answering yes)	76.0	76.0	60.5	92.1
Non-members (% answering yes)	63.6	72.2	56.8	82.9
Restrictive definition: Should the size and allocation of spending be maintained?				
Union members (% answering yes)	54.5	46.5	24.7	42.3
Non-members (% answering yes)	37.7	44.9	20.8	35.3

Source: Authors' survey.

to more specific questions – for example in Table 14 – the effect of union membership *per se* vanishes, being swamped by other individual attributes. This finding may reflect how torn union members are in the current political and economic situation. On the one hand, there may still be the 'great vision' of a large helping welfare state, generating a per *se* union effect on issues of broad scope. Once it boils down to specific issues, however, union members share the general viewpoint of non-members. If their attitudes are more 'conservative', this is because of the individual attributes of union members. Unions tend to represent economic and political interests that would be hurt by reforms to the welfare state. This suggests that different rules for union memberships could change the attitudes of unions towards these issues.

6.4. Reforming the welfare state – yes or no?

The responses discussed above do not offer an encouraging picture for those arguing in favour of a retrenchment of the European welfare state. A retrenchment of the welfare state would not carry a majority among the voters in any of these countries. Such a conservative picture comes a bit as a surprise: our findings on pensions indicate that large groups of respondents would welcome bold proposals such as privatizing as much as half of the public pension system (third panel of Table 9), and a majority of the labour force in all countries but Italy did not want more generous UB (Table 4). So why the great reluctance to shrink the welfare state? Does this imply that reforming the welfare state is a politically impossible task? This subsection addresses these issues by comparing the answers to various parts of the questionnaire.

We concentrate our attention on the big-budget item – pensions. Specifically, we consider the puzzle of why a majority appears unwilling to shrink the welfare state, despite the fact that a majority also wishes to opt out of the PAYG pension system once savings are mandatory. Table 16 shows the pattern of responses to the opting out question with mandatory savings and the question on the size of the welfare state. The puzzle lies with the one third of respondents who answered yes to the opting out

Table 16. Opting out and maintaining the size of the welfare state (% of respondents)

		Opting out with mandatory savings		
		Yes	No/No answer	Total
	Reduce	17.1	7.7	24.8
Size of Welfare state	Maintain	27.9	18.1	45.9
	Increase	7.3	6.0	13.3
	No answer	7.2	8.7	16.0
	Total	59.5	40.5	100.0

Source: **Authors' survey.**

question, and who also want to maintain or increase the size of the welfare state (cells emphasized in Table 16). Why are they so reluctant to shrink the welfare state, given that they would be happy to opt out of the public pension system?[4]

We offer four (not mutually exclusive) explanations for this puzzle. First, generalizing the insights about union membership in the previous subsection, ideology and political positions may play a different role in general compared to specific questions. Ideology appears to play a role when individuals are asked normative policy questions, but not when instead economic interests have been elicited. This explanation is suggested by the finding that political opinions (in particular left wing ideology) and union membership are significant variables in the regression of Table 13 but not in the regressions concerning UB and pension reforms. By their own assessment, many voters find it advantageous to demand a smaller welfare state; nevertheless, this conflicts with their view about the appropriate role for government policy.

A second explanation centres on 'general equilibrium' calculations. When a question is about general policy issues, the respondents may consider the society-wide implications, but when it is about individual choices, they suppose that they alone would be subject to the change. For example, maybe voters are unaware of the transition burden implied by privatizing pension, and thus tend to underestimate the costs associated with the existing generous welfare states. This explanation is suggested by the much lower acceptance rate of the opting out proposal when the transition burden is made explicit, and by the finding that most respondents vastly underestimate the cost of the PAYG system (both the current contribution rate and the need to finance public pensions out of general revenue).

According to a third interpretation, individuals want to retain the social insurance aspect of the welfare state, though they might be willing to scale down its redistributive role. This explanation is suggested by the two very different patterns of responses to the opting-out questions with and without mandatory savings: a majority of respondents wanted to opt out of public pensions only if it is accompanied by mandatory savings. According to this explanation, the question on the size of government is interpreted loosely (and imprecisely) as referring to the scale of government intervention, and not to the particular form it takes. Results from the previous Eurobarometer survey also accord with this interpretation. Finally, we offer a much more mundane explanation. Respondents have simply misunderstood the relatively complex opting-out questions, or they have not thought carefully about it.

To discriminate between these alternatives and to gain more information about these puzzling individuals, we created a dummy variable that takes the value of one if the respondent answered 'yes' to opting out with mandatory savings and 'maintain' or 'increase' to the size of the welfare state question. We then pursue our usual strategy of

[4] This puzzle is not an artefact due to the different samples of respondents (all respondents were asked about the size of welfare state, while employees only were asked about opting out). In fact, the distribution of responses to the welfare state question is quite similar in both samples, and even among those who answered the opting-out question there is **a** majority in all countries against shrinking the welfare state.

estimating a logit regression relating this dummy variable to individual attributes. The results, displayed in Table 17, suggest some interesting insights.. Political ideology and union membership seem to play no role. However, education, information and crisis perception are statistically significant. Individuals who want to opt out but oppose a smaller welfare state are less educated and more uninformed about the true cost of social security, though they expect an imminent pension crisis. They are also concentrated among Germans, as revealed by the negative country fixed effects that are measured *vis-à-vis* Germany.

These results seem to rule out the ideology explanation but are consistent with the general-equilibrium explanation. Among those willing to opt out, opposition to a smaller welfare state is associated with a crisis perception and with less ability to process information. This is consistent with the idea that these respondents oppose shrinking the large European welfare states because they discount its burden and the associated general equilibrium distortions, while at the same time they wish to opt out because they do not trust its long-run sustainability. The significance of the variables 'informed about pensions' and 'university degree' are also consistent with the mundane explanation.

Table 17. Who wants to opt out without shrinking the welfare state? (logit estimates)

Dependent variable: Probability of 'yes' to opting out with mandatory savings and 'maintain' or 'increase' to the size of the welfare state

	Coefficient	Std.Error	Significance	ΔProb (%)
Public sector job	−0.225	0.160		−4.65
Young (<35)	0.031	0.110		0.48
Old (>54)	0.106	0.168		1.71
Poor	−0.067	0.144		−1.10
Rich	−0.037	0.115		−0.61
Compulsory educ only.	−0.059	0.114		−0.67
University degree	−0.302	0.132	**	−5.27
Union member	0.142	0.122		2.82
Left	0.074	0.152		1.50
Right	0.235	0.149		4.84
Informed about pensions	−0.227	0.115	**	−3.66
Pension crisis belief	0.306	0.126	**	2.28
Spain	−0.225	0.148		−4.03
France	−1.130	0.144	***	−17.29
Italy	−0.672	0.152	***	−11.24
Constant	−0.354	0.170	**	
	Obs. = 1968	LR = 116.5	Pseudo R2 = 0,046	BaseProb = 35.0%

Notes: Significance is denoted by asterisks (* = 10%, ** = 5%, *** = 1%). LR = likelihood ratio test that all coefficients except the constant are zero. ΔProb is the change in the base probability (denoted by BaseProb at the bottom of the table) if the corresponding dummy variable is changed from 0 to 1. LR is the Likelihood ratio test that all coefficients except the constant are zero. Pseudo-R2 is defined as $1 - (L(\beta)/L(0))$.

Source: Authors' survey.

7. SUMMARY AND POLICY CONCLUSIONS

Our survey has revealed a host of findings about the willingness to reform the systems of protection against the risk of job loss, the pension system and the welfare state in general.

7.1. Labour market reform

- A central theoretical result from the literature in political economics is that a majority of voters prefers to under-insure against unemployment risk. The reason is that such risk is concentrated in a minority of individuals. The unprotected minority of outsiders is unhappy, and would be prepared to pay for more insurance, but is politically powerless. By and large, the results of our survey confirm these theoretical insights. A large majority of French, German and Spanish workers do not want more unemployment insurance since they are 'insiders' who already enjoy adequate protection. Italian workers, by contrast, are evenly divided on this issue, largely because so many of them are not covered either by UB or by EPL.
- A large group of outsiders – workers in unsecured jobs, with temporary contracts, or unemployed – would pay for more unemployment insurance. This holds for all four nations, but especially so in Spain and Italy. Among these outsiders, the most keen are youngsters, workers facing a high risk of unemployment and living in regions where long-duration unemployment is widespread. The unemployed are especially keen on unemployment insurance; they would accept a 5–10% pay cut if the entry job provided it. This is more than what would be required to finance the insurance.

These results broadly support the notion that unemployment insurance and job protection laws are substitutes from the workers' viewpoint. There is thus a trade-off that could be exploited by politically viable reforms.

- In Italy and Spain, a government willing to reduce firing restrictions would find it easier if it accompanies this with an extension of UB coverage. Such a bundle could receive the support of unemployed individuals and of temporary workers – those more willing to pay for unemployment insurance – and some workers already covered by UB. Our findings suggest that this extended coverage could be self-financing, as the workers benefiting from it seem willing to pay more than required to maintain the insurance scheme on balance.
- For France and Germany, however, this strategy is less likely to pay off, given their already generous UB systems. Our results suggest that the winning package in these nations would combine a more extensive UB coverage to workers with relatively short contribution records, and a reduction in the maximum duration of benefits for those already covered. Such reforms are likely to improve the efficiency of the UB systems, as empirical work suggests that long-term unemployment is associated with a long maximum duration of unemployment benefits.

- Finally, the demand for UB declines with age in some groups of respondents. This suggests that old-age pensions can be regarded as a substitute for unemployment insurance. If so, there is another important complementarity of reforms. Opposition to smaller pension benefits could be dampened by a contemporaneous expansion of UB.

7.2. Pension reform

The overall level of misinformation on European pension systems is impressive, and at odds with the common assumption in political economics that voters are able to rationally compare alternative policies according to their economic self interest.

- A third of our respondents did not know how to answer a question on the size of employer and employee pension contributions, with the figure ranging from more than half in Spain to just a fifth in Germany. Of those who responded, generally less than half got it right. Of those who got it wrong, almost all underestimated the true contribution rate. In Spain in particular, underestimation is huge. Italians were the best informed.
- Only half the contributors are aware that additional government resources are required to finance current pensions. In Germany, less than half of the respondents realized that all of their contributions are used to finance current pensioners, with nothing going towards their own retirement.
- This misinformation matters: better informed voters are more likely to favour reforms. Thus, informing the public about the costs is an important aspect of any politically successful reform. Politicians, union leaders, or opinion makers who minimize the cost of the system and its future problems are making reforms less likely. Moreover, an important ingredient of successful reforms is their simplicity and transparency, since this helps the voters to recognize the cost of the PAYG system.

Despite lack of detailed information, there is widespread pessimism about the future. There are also significant differences across countries, confirming the relevance of the media and the pubic policy debate in shaping public opinion.

- More than two thirds of French, German and Italian respondents expect a crisis of the pension system. The Spanish are more optimistic; only two-fifths expect a crisis.
- More than 70% of the respondents in France, Germany and Italy anticipate a reform that will decrease their pension levels significantly. Only one-third of the young respondents in Germany expect the public pension to be the main source of their income in old age. Spain stands out here since less than half the respondents expect an incisive pension reform.

Reducing reliance on the current PAYG system is widely viewed as an essential part of any serious pension reforrn. A second set of our results concerns attitudes towards one such reform, namely opting out of the public PAYG pension pillar – where opting out means paying in a much lower contribution while working, in exchange for agreeing to receive much lower benefits in retirement.

- Opting out is popular in all nations, but our results suggest that the political viability of such reform could depend upon details. An opting out plan accompanied by mandatory retirement savings attracted support from a clear majority of respondents in all nations, except France, but even there, almost 50% supported it. But opting out seems less appreciated if the freed contributions can also be used for current consumption.
- Opting out is much less popular if workers are asked to directly bear a 'transition burden'. However, the average accepted transition burden, even counting those workers who would not bear any burden at all, almost exactly matches the predicted transition burden of current reform proposals.
- Resistance to opting out correlates systematically with a few individual traits. Older, poorer, less educated and less informed workers are less in favour, as are workers with a permanent and protected contract. This suggests a political package where support of the poor and old could be 'bought' by offering them a more favourable opting out deal. Segmentation of this kind could seem unfair, but it could prove essential to overcome political opposition.

7.3. The bottom line

Our project was motivated by three general questions. First, what does a majority of the citizens want? Does the welfare state in its current size and form satisfy the preferences of a majority, or is it suited to fit the wishes of a powerful minority? The overall message is that a majority of the citizens does not want to change the status quo *size* of social expenditures, even in the light of high current taxes and contributions: retrenchment of the welfare state is unlikely to win a majority in Continental Europe. When we consider the *composition* of transfers and the details of the programs, however, the conclusions are not so clear and differ across countries. In Italy, in particular, there could be widespread support for reforms that modify various aspects of specific welfare programs. From the point of view of political theory, the finding that the status quo is a majoritarian outcome is in line with the 'median voter' result. Political parties have adapted to the voters' preferences: electoral competition has forced them to offer the policies preferred by the majority of voters. But there is an alternative interpretation: that the citizens' preferences are endogenous and adapted to the status quo. Voters suffer from a 'negativity bias': once they get something, they don't want to give it up. If so, the voters' psychology induces status quo bias and path dependence in politics. This second interpretation has been studied by political scientists such as Pierson (1996), but has been neglected by economists. Our findings on the importance of information suggest that perhaps it ought to receive more attention.

Second, what are the relevant cleavages in the political debate over the welfare state? Here the picture is quite clear and similar in all countries, and supports the recent research in political economics. Political conflicts are firmly grounded on the economic interests of the citizens. There are three dimensions of conflict: between young and old, rich and poor, and insiders and outsiders in the labour market. The intergenerational conflict is always present on all policy issues. The other two conflicts manifest themselves differently depending on the policy issue at hand. Political ideology also plays a role, particularly over the size of government, but not in the demand for specific welfare programs. Unions are staunch supporters of the status quo, as union members are mainly insiders and older workers, while unemployed are under-represented. Overall, conflict over the welfare state seems much more complex than suggested by the simplistic Marxian vision of a class struggle.

Our last motivating question concerned the political viability of reforms. Taken together our results suggest that, while shrinking the welfare state may be politically very difficult, there is room for reforms that redesign its key features. In particular, reforms that aim to stabilize the costs of pension systems and to make them sustainable in the face of population ageing appear possible. While according to this survey citizens do not seem to want a smaller welfare state, they certainly would also oppose further hikes in taxes and contributions and they seem aware of the unsustainability of the status quo. Moreover, reforrns could be designed to exploit some complementarities. Two of these potential interactions are hinted by this survey, which both originate by an extension of the coverage of unemployment benefits. Such a reform, notably in southern European countries, may increase support to reforms going in the direction of greater labour market flexibility. It may also help increase the consensus for partial privatizations of pension systems.

Whether we like it or not, public opinion in continental Europe seems to be strongly averse to the social model advocated by Mrs Thatcher in the UK or by President Reagan in the US. By and large, continental Europeans do not want to get rid of government intervention in social affairs. We leave it to the reader to decide whether this is a positive or negative conclusion. In any event, a reform-minded politician could still exploit the widespread dissatisfaction and pessimism revealed in the survey to achieve a more efficient and sustainable welfare state.

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