[VERSION: 29-MAY-2002]

How would you like to Reform Your Pension System? The Opinions of German and Italian Citizens.

Tito Boeri*, Axel Börsch-Supan and Guido Tabellini***

*Bocconi University and IGIER, Milan, Italy; **Mannheim Institute for the Economics of Aging (MEA), University of Mannheim, Germany, and NBER, Cambridge, Mass., USA.

ABSTRACT

Pension reform, while urgent, proves politically very difficult. Continuing a recent line of research, this paper sheds light on the nature of these difficulties by analyzing the citizens' opinions on different aspects of pension reform. We report on the results of two surveys conducted in Germany and Italy in Spring 2000 and Fall 2001.

The surveys show that the status quo is a majoritarian outcome along many dimensions: most pension reform proposals lack a majority and reformers rarely support more than one reform option. Later retirement is the easier reform in Italy (where effective retirement age is lower), while lower pensions are more popular in Germany where the effective replacement rate is higher. Preferences over policy options seem to reflect both economic self-interest and one's normative view about the role of the state. But there is light: opposition to reform is much lower among the informed.

Addresses:	Tito Boeri and Guido Tabellini
Axel Börsch-Supan	Phone: +39-02-58363300
Phone: +49-621-1811861	Fax: +39-02-58363302
Fax: +49-621-1811863	tito.boeri@uni-bocconi.it
axel@boersch-supan.de	guido.tabellini@uni-bocconi.it

ACKNOWLEDGEMENTS: *We are grateful for generous financial support by the Fondazione Rodolfo Debenedetti ,the European Roundtable of Industrialists, the Land Baden-Württemberg, the German Insurance Association (GDV), empirica (Bonn) and research grants from the Centro Nazionale Ricerche and the German Science Foundation (DFG) through Sonderforschungsbereich 504.We appreciated the able research assistance by Giovanna Albano and Michael Peters. The second author enjoyed the hospitality of Dartmouth College while this paper was written.*

How would you like to Reform Your Pension System? The Opinions of German and Italian Citizens.

by Tito Boeri, Axel Börsch-Supan and Guido Tabellini

1. Introduction

Most economists would subscribe to the view that the public pay-as-you-go (PAYG) pension systems in many European countries are unsustainable and in need of reform. Yet, such reforms are politically very difficult. A recent line of research has tried to understand the nature of these difficulties by analyzing the citizens' opinions on different aspects of the welfare state and its redistributive programs (Boeri and Tabellini, 1999; Bowman, 1999; Devroye, 2001; Boeri, Boersch Supan and Tabellini, 2001 and 2002). Alesina, Glaeser and Sacerdote (2001) touch on related issues in their comparison of European and U.S. welfare states. In this paper, we focus specifically on the German and Italian public pension systems and report the results of a survey conducted in these countries in the Spring of 2000 and the Fall of 2001.

Germany and Italy are particularly interesting countries in this respect because their PAYG pension systems are very generous, but also very expensive and therefore especially threatened by population aging and in need of reform. In addition, Germany has carried out a pension reform in 2001, in between two waves of our survey. Thus, we also have a "natural experiment" to draw upon, and we can combine cross-national differences with changes between the two waves.

In both countries, the public pension system is the single largest item in the social budget. In the year 2000, public pension expenditures amounted to 14.2% of GDP in Italy and 11.8% of GDP in Germany. These are the two largest pension budgets in the OECD, much large than U.S. Social Security (4.4% of GDP) or Japan (7.9% of GDP).[1] Main

[1] OECD (2001).

reason for these large budgets are an early average retirement age, which is 60.3 years in Germany and even earlier in Italy with 58.8 years, and a high effective replacement rate, which is 66.8 percent in Germany and 86.3 percent in Italy.[2] About 85% of the average retiree's income is provided through the public pension systems, and only 15% from other sources such as occupational pensions or private savings.

While the generosity of the German and the Italian public pension systems is considered a great social achievement, which provides not only income security for the elderly but also societal stability, population aging is threatening the very core of these pension systems. All industrialized countries are aging, but Germany and Italy, together with Japan, will experience a particular dramatic change in the age structure of the population. The severity of the demographic transition in these two countries has two causes: a quicker increase in life expectancy as elsewhere, partly due to a relatively low level still in the 1970s, and a more incisive baby boom/baby bust transition (e.g., relative to the United States) to a very low fertility rate of between 1.2 and 1.3 children per women. Consequently, the ratio of elderly to working age persons – the old age dependency ratio – will increase steeply. According to the latest OECD projections, the share of elderly (aged 65 and above) will exceed a quarter of the population in 2030, and the old age dependency ratio will almost double from 24.0 percent in 2000 to 43.3 percent in 2030 in Germany, and from 26.9 to 49.1 percent in Italy.[3]

The increase in the dependency ratio has immediate consequences for a pay-as-you-go social insurance system because fewer workers have to finance the benefits of more recipients. The threat of insolvency lead to several pension reforms. In Germany, 1992 the indexation of pensions to gross income was abolished and substituted by indexation to net wages. Moreover, early retirement was discouraged by introducing a 3.6% penalty for each year of retirement entry before age 65. In 2001, Germany bed farewell to the pure PAYG system and introduced a multipillar pension system with a small and

[2] OECD (2001). Tables 5.1 and 2.1, respectively.

[3] OECD (2001). The OECD dependency ratio relates persons age 65 and older to persons between ages 15 and 64.

voluntary, but in the eyes of many Germans revolutionary funded pillar.[4] In Italy, in 1992 the indexation of pensions to real wages was abolished by indexing benefits to prices, and the reference period for calculating pensionable earning was lengthened. In 1995, a reform changed altogether benefit formulae and eligibility conditions for workers with less than 18 years of contributions, by introducing a "virtually" funded pension regime under which pensions are still financed under a pay-as-you-go scheme, but each worker holds a claim based on her accrued contributions to the system. Finally, in 1997 asymmetries in the treatment of civil servants vs. private employees were significantly reduced.[5]

While all these reforms did indeed improve the solvency of the still largely PAYG public pension systems in Germany and Italy, projections of the unfunded pension liability in 2030 and later still look threatening.[6]

Why are pension reforms so politically difficult in spite of the almost palatable threats? Despite the rapid proliferation of a recent literature on political economics, the answers to this question is still largely unknown. There is now a solid and detailed understanding that politics can affect policy decisions in a variety of ways, leading to inefficient outcomes and a bias towards the status quo – Persson and Tabellini (2000), Drazen (2000), Roland (2000) survey this recent literature. But most existing contributions are theoretical, and hence there is not always a good sense of which of the many theoretical models and insights best applies to the current European situation. Moreover, this existing literature is fairly abstract, and thus devoid of detailed institutional content and of sharp implications for politically viable but concrete reforms. As a result, the more applied policy debate on these controversial issues is often grounded on a detailed knowledge of the economic pros and cons of alternative reforms, but it is not guided by a sophisticated analysis of the political constraints and of the political incentives of the key

[4] See Börsch-Supan and Schnabel (2002) for a survey of the German pension system and recent reforms.

[5] See Brugiavini and Fornero (2000) for a survey of the Italian pension system and recent reforms.

[6] OECD (2000).

decision makers. Policy advice is still often offered as if governments were benevolent social planners who only need to know what is in the best interest of society.

To make progress in answering these questions, we directly investigate the opinions of European citizens on the welfare state. We drafted our own questionnaire because we could not rely on publicly available opinion polls. The first wave took place in Spring 2000 and drew a representative sample of the entire population in the four biggest countries of Continental Europe: France, Germany, Italy and Spain. The results are described in Boeri, Börsch-Supan and Tabellini (2001). We repeated the exercise in Germany and Italy in the Fall of 2001. Our questionnaire was designed to shed light on the following issues: Are citizens aware of the unsustainability of the pension system and informed of its costs? Are reforms opposed by a majority or by a powerful minority? Which reform options seem politically more feasible and why? Which groups of citizens are more likely to favor reforms? Do citizens' opinions reflect their economic self-interest, as presumed by the literature on political economics?

Our main results can be summarized as follows: Citizens are aware of unsustainability but lack information about the cost of the PAYG system. The status quo is a majoritarian outcome along many dimensions: most reform proposals lack a majority and reformers rarely support more than one reform option. Later retirement is the easier reform in Italy (where effective retirement age is lower), while lower pensions are more popular in Germany where the effective replacement rate is higher. Preferences over policy options seem to reflect both economic self-interest and one's normative view about the role of the state. Opposition to any reform is high even among those aware of unsustainability. This could be procrastination or selfishness (shifting the burden onto future generations); some answers suggest that the latter could play an important role.

The paper is structured as follows. Section 2 introduces our survey. Section 3 describes how informed the citizens in Germany and Italy are. Section 4 presents the opinions of these citizens on various reform options. Section 5 analyzes the opposition to reform. Section 6 adds a case study of the German pension reform in 2001. Section 7 concludes.

2. The survey

We designed identical questionnaires for all countries, both in wave one, which we conducted in France, Germany, Italy and Spain in February/March 2000, and in wave two, which we conducted in Germany and Italy in September/October 2001. In this paper, we focus on wave two and the differences between the two waves. In addition to the standard set of socio-economic background variables such as age, education, and income, the questionnaire included questions that elicited the information and the preferences about the current pension systems and potential reform options.

We are not the first in gathering public sentiments towards the welfare state in Europe and in the U.S.[7] There were several reasons to conduct an own survey rather than to rely on existing surveys. First, compared to existing surveys, we do not ask open questions ("Do you want more benefits?"), but we posed specific trade-offs among specific policy options ("Are you willing to pay x% higher contributions in order to obtain y% higher benefits"). These type of questions are in the tradition of "contingent valuation", and we use the "stated preference" questionnaire techniques described in Louviere, Hensher and Swait (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 as similar as possible for the countries involved 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. Finally, we want to relate policy preferences to individual characteristics of the respondents, and this is generally not possible with other publicly available surveys.

The questionnaire is divided in four parts. Part 1 collects information on the individual respondent, such as age, family situation, employment status, sector of occupation and so on. These questions were part of an omnibus survey. We augmented this general background information by information on general political opinions and whether or not

[7] A survey of existing studies can be found in Boeri, Börsch-Supan and Tabellini (2001).

the workers are affiliated to a trade union. These latter and more sensitive questions were asked at the end of the interview.

In part 2 we assess how informed the respondents 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 personal demand for public and private old-age provision. In part 3 we solicited the respondents' opinions on possible directions of pension reforms. Finally, in part 4, we tried 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 by the means of Computer Assisted Telephone Interviews (CATI). Co-ordination among the agencies carrying out the survey (Demoskopea in Italy and Infas in Germany) was provided by the Fondazione Rodolfo Debenedetti. The survey universe is the population aged 16 to 80 living in households with telephone connections. In each country we sampled 2500 households. In Germany, 1500 households lived in the West and 1000 households in the East. We applied a random sample design and took great care to minimize non-response.

Economists are used to revealed preference data and many mistrust data based on stated preferences. We think that this mistrust is unfounded, for several reasons. First, our results largely confirm similar findings of earlier surveys, at least in those questions where there is overlap (see in particular the Eurobarometer,[8] the International Social Survey Programme (ISSP) Project,[9] and Boeri and Tabellini (1999). Second, we checked the answers for internal consistency, e.g., 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 were very satisfactory. Third, we regressed stated choices on socio-economic

---

[8] See Ferrara (1993).

[9] See Toš, Mohler and Malnar (2000) for a selection of studies based on the ISSP, together with a set of methodological papers. Closely related papers based on the ISSP include Edlund (2000), Corneo and Grüner (2000), and Alesina and La Ferrara (2000).

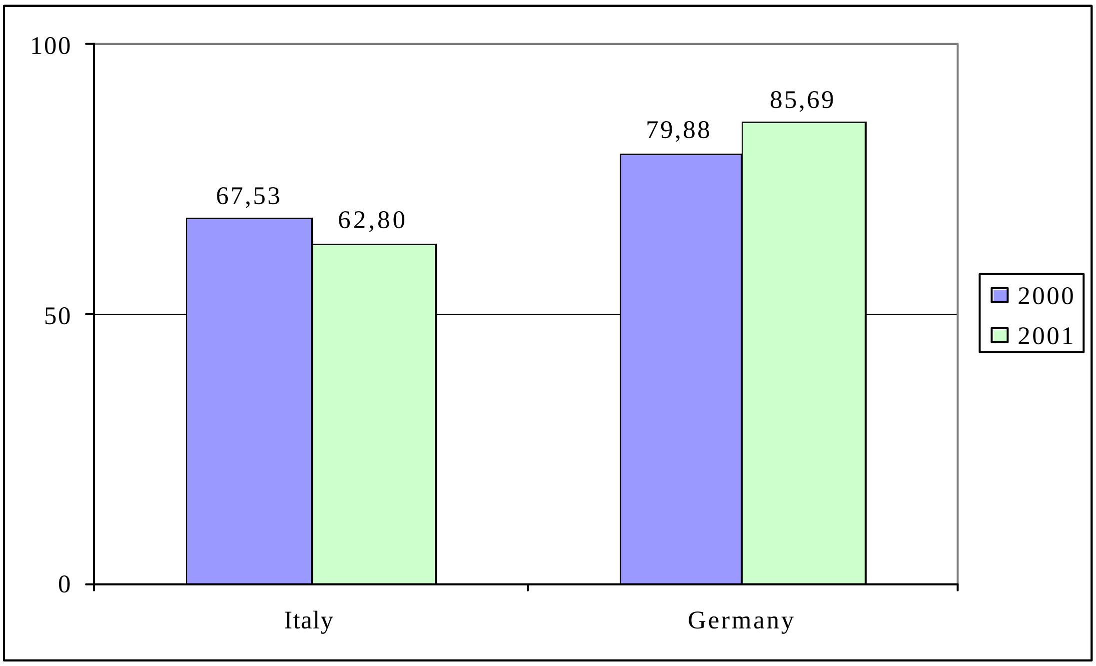
characteristics, looking for the correlation patterns that we expected from theoretical priors or from revealed preference data. Inconsistencies were rare and the agreement with the expected correlation patterns was strong.

A common difficulty faced when asking about opinions is that answers to such questions are particularly prone to framing biases. For this reason, we tried to avoid suggestive formulations. Where we wanted to ascertain the individual's answer on what is good for her or him, not some answer on what she or he thinks is good for society at large, we took great care in describing the applicable situation for the respondent and the corresponding offers in detail. Finally, we tried to avoid hypothetical situation bias by anchoring the answers around realistic country-specific numbers, e.g., pension benefit levels, and by varying potential answers by socio-economic situation, e.g., between employed and unemployed.

3. Are citizens informed?

The first thing we wanted to find out is how informed individuals are about the cost of public pensions, about their sustainability and the likelihood of future reforms. As discussed in the introduction, the costs of public pensions in Germany and Italy have become extremely high, and, at current legislation, are projected to rise even further. How aware are individuals of these costs and future trends?

Figure 1: Awareness of a Pension Crisis

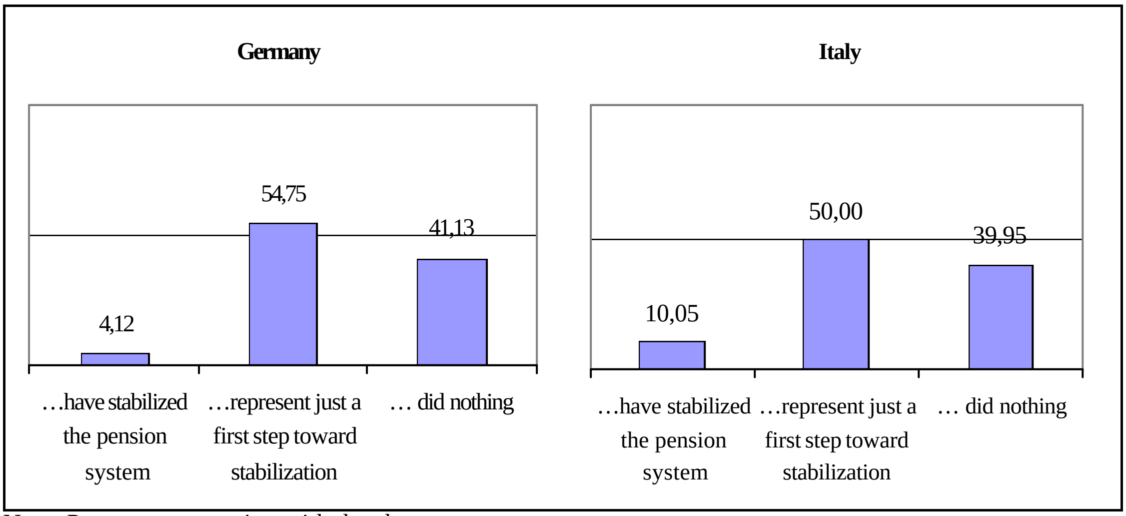


Note: Percentage answering yes to the question: "Do you agree with the statement that there will be a pension crisis within the next 10-15 years?"

Figure 1 shows that there is widespread awareness of the unsustainability of the pension system. A large fraction of the two populations (85% in Germany and 63% in Italy) agree with the statement that “the pension system will face a crisis in the next 10-15 years”.

This crisis perception is strong in spite of the many pension reforms which have taken place in recent years. Italy has experienced three reforms in the last decade (the so-called Dini, Amato and Prodi reforms) and the German parliament has just approved a transition to a multi-pillar pension system (the so-called Riester reform). In fact, only a very small fraction of the citizens agree with the statement that “the recent reforms have stabilized the pension system”, while 43% of the respondents think that the reforms were ineffective, see Figure 2.

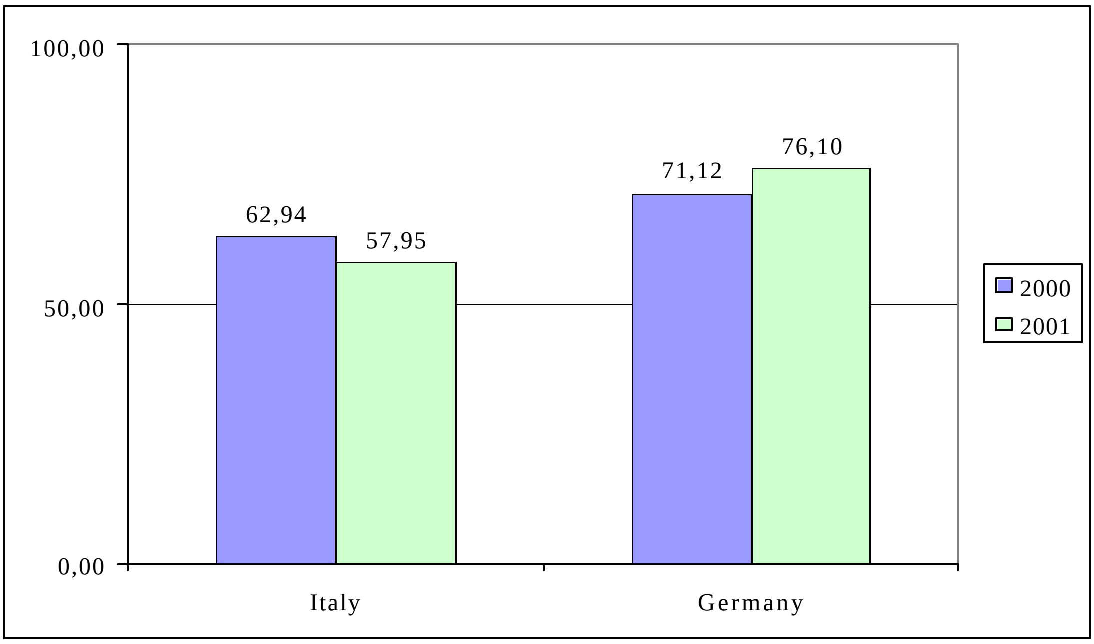
Figure 2: Effectiveness of recent reforms



Note: Percentage agreeing with the above statements.

Unsurprisingly, a majority of citizens in both Germany (81 %) and Italy (58 %), believe that "in the course of the next ten years there will be another pension reform soon which reduces significantly the benefits of public pensions", see Figure 3.

Figure 3: Expectation of a renewed pension reform



Note: Percentage answering yes to the question: "Do you agree with the statement that there will be another pension reform soon which reduces significantly the benefits of public pensions?"

While these results show quite clearly that the respondents are aware of the crisis of their pension systems and of the need to reform them, respondents seem to ignore or underestimate the cost of the public pension system. Only a minority understands how a pay-as-you-go system operates. 40.5% of the citizens know that their contributions are used "to pay the pensions of current pensioners only", the other 59.5% think that at least some of their contributions go into a fund, see the upper left corner of Table 1.

Even worse is the knowledge about the actual costs of the system. We asked two questions, to employees only, in all four countries: one on the contribution rate and another on the balance of the PAYG system. We first asked whether respondents know how much employers' and employees' contribute into the public pension system. We listed several brackets of possible answers, which were completely read to the respondents before they made their choice, and we specifically stressed to count both employers and employees contributions. The brackets were large and located to fit each country's correct value: 15-30% of gross earnings in Germany, and 25-40% in Italy. Nonetheless, less than 20% of employees who pay contributions know the overall contribution rate, see the upper right corner of Table 1. Almost all, who did not know, underestimated the contribution rate.

Information about the pension system and crisis awareness is correlated. As the lower row of Table 1 shows, the perception of a pension crisis is stronger among those who are informed about how the pension system works (84.1% and 85.3% have crisis perception) than those who are ill-informed (80.7% and 79.2% have crisis perception).

Table 1. Information and Perception of Pension Crisis (Percentages)

	Understood PAYG system		Knew PAYG contribution rate	
	Yes	No	Yes	No
All respondents	40.5	59.5	18.3	81.7
Percent with perception of pension crisis	84.1	80.7	85.3	79.2

Regression analysis shows that the more informed individuals are middle aged, males, richer and more educated. Workers with a permanent contract are more informed, union members less informed. Individuals to the right of the political spectrum answered more often incorrectly.

4. Which reform options are more popular?

The core of our survey concerned the popularity of pension reform. We confronted currently working individuals with six pension reform options. The first three reform options would change the main parameters of the public pension system, namely:

- increase contributions to the PAYG system,
- decrease benefits from the PAYG system,
- increase the retirement age of the PAYG system.

The pension reform options were juxtaposed emphasizing the intertemporal tradeoff between accepting reform now versus having to raise the contributions later. A typical question of this type was: “Would you accept an increase in the retirement age if this would mean that the future contributions to public pensions could remain constant?"

The other three reform options included opting out of the current public pension system, hence an explicit transition to a multi-pillar system. We formulated these options as to mean that they and their employer would only pay half the contributions in the future, but they would also receive only half of the pension rights once they opt out. Past contributions would be valued at their old benefit levels. We asked about three variants:

- an *unconditional opting-out* proposal, in which employees could choose to pay 50% less contributions in exchange for 50% less benefits in the future,
- the same *opting-out* proposal *conditional* on putting the saved contributions in a retirement savings account,
- an asymmetric *opting-out* proposal *with a transition burden*, in which employees would receive only 50% of benefits in the future, but have to pay 50% contributions plus a transition burden.

Table 2 shows the exact formulation of these opting out proposals, and shows, that item non response is fairly low, indicating that most households understood the questions.

Table 2: 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 per cent, you pay 15 per cent <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 per cent 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%
% of those who answered:				
Yes (Spring 2000)	24.4%	47.2%	46.9%	18.9%
Yes (Fall 2001)		45.5%	42.7%	

***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"*

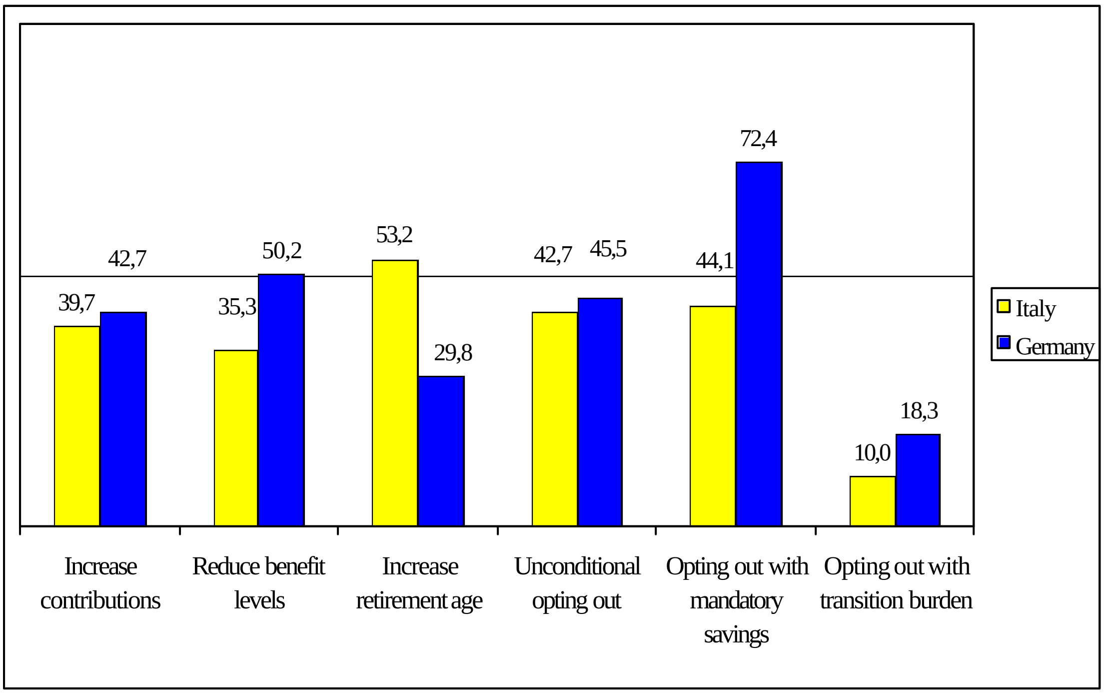
(Spring 2000)	France	Germany	Italy	Spain
Save all	64.3%	66.8%	64.9%	30.1%
Spend all	6.1%	1.4%	1.8%	18.6%
Save most	22.8%	28.0%	25.7%	30.7%
Spend most	6.9%	3.8%	7.5%	20.5%

***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%
% of those who answered:				
Yes (Spring 2000)	49.7%	70.9%	67.0%	63.1%
Yes (Fall 2001)		72.4%	44.1%	

Realistic pension reform is not a popular business. This is shown in Figure 4. Italians and Germans have rather different preferences over the parametric reform options. An increase in retirement age finds a majority in Italy, where the effective retirement age is lower, but it is the least attractive change for German workers. In turn, a reduction in the benefit level of the public pensions finds a slim majority in Germany, where the effective replacement level is higher, but it is the most disliked option among Italian workers. The differences between Germany and Italy are therefore in line with where a reform may hurt least.

Figure 4: Popularity of six pension reform proposals



Note: Percentage agreeing with reform option.

No opting-out variant finds a majority in Italy. Opting out is very popular in Germany, but only if it requires mandatory savings and does not involve a transition burden. The finding, that individuals are much more willing to opt out if constrained to save the contributions rebated, is surprising, in particular, since most Germans and Italians would anyway invest most of the rebated contributions into instruments for old-age provision (see Table 2). It could reflect time inconsistent (social or individual) preferences. We will come back to this issue in the following section.

Table 2 also shows that opting out did loose some of its popularity between the surveys in Spring 2000 and Fall 2001, possibly due to the poor performance of the stock market.

The decrease, however, is rather small in the unconditional opting out proposal, and the change is of opposite direction in the conditional variant.

5. The structure of opposition to pension reform

The mixed reaction to the various pension reform proposals could reflect a general disagreement in the population of the most preferred option. We therefore analyzed how many reform options are approved or opposed by the same individual. Do the same individuals approve/oppose all reforms, or is there also disagreement over how to reform?

We considered four pension reform options that realistically address the unsustainability of current pension policy: [10]

- opting-out with transition burden,
- higher retirement age,
- lower benefit level,
- higher contributions.

and counted the number of approvals and disapprovals by each respondent. Results are depicted in the first two columns of Table 3. The responses are pooled over the two countries.[11]

[10] Among the opting out proposals, only the one with transition burden really addresses the unsustainability of current policy.

[11] The pattern of how many (as opposed to which) reforms were approved or opposed is very similar in the two countries.

Table 3. Multiple Reform Options: Approval and Opposition (Percentages)

Reforms that:	Increase Sustainability[1]		Shrink Size[2]	
Number of reform options:	Approved	Opposed	Approved	Opposed
0	23,7	2,4	37.1	5.1
1	36,8	15,5	41.8	26.6
2	27,6	30,6	18.7	38.8
3	11,0	32,3	2.5	29.7
4	1,0	19,2	-	-
Total	100	100	100	100

[1] Lower benefits, later retirement, opting out with transition burden.
[2] Lower benefits, later retirement, opting out with transition burden plus higher contributions.

Many respondents approve few and oppose many reforms: 24% of the respondents do not approve any reforms at all, and more than 50% says no to three reforms or more. Only 12% agree to three or more of the four realistic options, and less than 18 percent oppose only one or no reform option. This makes it more difficult to reform: not only there is strong opposition on whether to reform, but also a division among those in favor on how to reform.

The four reform options have very different implications for the extent of intergenerational redistribution. But opposition to reform is even higher if we neglect the option of higher contributions, restricting attention to the three reforms that reduce the size of the PAYG system: lower benefits, later retirement and opting out with transition burden. This is shown in the last two columns of Table 3. Less than one in five approve more than one reform option, and more than one in three approve none of them.

The evaluation of these reform options reflects one's opinion on the role of the state in caring for the elderly. We asked (i) whether it was fair to induce workers to put more emphasis on own provisions for retirement, and (ii) whether private pension systems were deemed as more advantageous than the PAYG system.

Table 4: Transition to private old-age provision

***(i) Fairness of reform**: "The recent pension reforms put more emphasis on own provision for retirement, and less on the state. Do you think this is fair?"*
***(ii) Advantage of reform**: "Do you think that private pension plans are giving a better deal than the public pension system, i.e., provide a higher pension benefit per Euro contribution paid?"*

	(i) More own provision fair		(ii) Private pensions better deal	
	Yes	**No**	**Yes**	**No**
Germany	35,9	64,1	69,5	30,5
Italy	44,9	55,1	55,4	44,6

Percentages.

Table 4 shows some that one the one hand, the respondents did not think that shifting the burden of financing old age from the state to oneself is fair, more so in Germany than in Italy. One the other hand, the respondents in both countries thought that private provision for old age is a better deal than public pensions. This apparent discrepancy is not necessarily a kind of cognitive dissonance; it may also reflect awareness of the transition burden which is imposed when one generation has to invest for their own savings and at the same time maintain the pay-as-you-go transfers to the old.

Those who answered positively to the two questions in Table 4 were also much more likely to favor reforms shrinking the PAYG. For instance, 85% of those who approve more than one of the three reforms shrinking the size of the PAYG system also respond positively to either question (i) or (ii).

Individual features such as age, income and education play an important role in shaping both the general views on the role of the state and the evaluation of these reform options. Table 5 reports the results of two regressions. The ordered probit regression on the left relates the number of reform options to which the respondent was opposed to a set of socio-economic characteristics and the perception of crisis. The probit regression on the right of Table 5 relates an indicator variable on the same set of explanatory variables. This indicator variables takes the value of one if the respondent chose "no" to both questions in Table 4. These are those respondents who thought that shifting the burden of financing old age from the state to oneself is unfair, and that private provision for old age is a worse deal than public pensions. Boldface fonts indicate significance at the 10% confidence level.

Table 5. Opposition to Reform and Individual Characteristics

	Ordered Probit		Probit	
	Opposition to 1, 2, 3 Reforms		No shift responsabilities & No private more advantageous	
Variable	Coeff.	St. Error	Coeff.	St. Error
Young	**-0,14**	0,07	**-0,32**	0,07
Old	**0,23**	0,10	**0,24**	0,06
Male	0,01	0,06	**-0,24**	0,05
Comp. Education	**0,17**	0,08	0,09	0,06
Univ.degree	**-0,16**	0,08	-0,02	0,07
Union	-0,01	0,07	**0,12**	0,06
Left	0,007	0,08	**0,20**	0,07
Right	**-0,21**	0,11	0,03	0,09
Rich	-0,02	0,07	**-0,18**	0,07
Poor	0,04	0,09	**0,21**	0,06
Unskilled	**0,34**	0,12	0,11	0,08
Crisis	-0,08	0,09	**-0,38**	0,06
Private Ret.	**-0,22**	0,07		
Poor Region	**0,16**	0,07	**0,14**	0,05
Italy	**-0,21**	0,08	**0,14**	0,07
	N. obs.	1275	N. obs.	3049
	Pseudo R2	0,0213	Pseudo R2	0,0619

Note: The dependent variable of the ordered probit model is whether there is opposition to none, one, two, three or all of the following reform proposals: (1) opting-out with transition burden, (2) higher retirement age, (3) lower benefit level, and (4) higher contributions. The dependent variable of the binary probit model is whether respondents both declined to put more emphasis on own provision for retirement and thought that private pensions are less advantageous than public pensions.

The explanatory variables are dummy variables taking a value of 1 if the individual possesses that attribute, 0 otherwise. "*Young*" ("*old*") means less than 35 (more than 54 years of age). "*Private Ret.*" means that the individual believes that the private system is more advantageous than the PAYG system. "*Crisis*" means that the individual expects an imminent crisis in the PAYG system.

The younger, more educated, richer, males tend to say yes to either (i) or (ii) – columns 3 and 4 in Table 5 - and to approve more reforms shrinking the size of PAYG – columns 1 and 2 in Table 5. Union members, residents of poor regions (the Italian South and East Germany) and those with a left-wing ideology tend to say no to both (i) and (ii) and oppose more reforms.[5]

In a previous version (available upon request), we also estimated probit regressions of specific reform alternatives against the respondents' characteristics. Two sets of variables appear significant in most regressions: age and education (or skill level). Younger workers, and more educated or more skilled workers, are less likely to oppose any specific reform. Individual income seems to matter only in the choice of benefits vs retirement age, with richer individuals more willing to accept lower benefits. Having a left wing ideology or being a member of a union only plays a limited role. Opting out is more popular among those, who think a crisis in the PAYG is imminent, who expect higher returns from private pensions, and who are under a defined contribution system. Note that the new PAYG regime in Italy only applies to younger generations, older workers are still under a defined benefit PAYG system.

Altogether, the regression results in Table 5 suggest that preferences reflect the economic interests of individuals, as presumed by the theoretical literature on political economics. There is also a subtle interaction between economic self-interest and one's general views of the role of the state. Economic self-interest is correlated with the view about what is right or wrong. Those who say that it is right for the state to take care of the elderly are also more likely to benefit from it (the older, the less educated, the poorer), and vice versa.

Aspects of these general views of the role of the state are captured in Table 6. Individuals were asked whether they wish further increases in the size of the welfare state, i.e., an "increase of pensions and transfers to households" obtained by "raising taxes and compulsory contributions", reduce or maintain the size of the welfare state. Only a minority of respondents wants to increase the welfare state. In Germany, the status quo is a majoritan outcome. Between 2000 and 2001, the German respondents shifted their views somewhat towards reducing the welfare state; in Italy, we observe the opposite tendency.

We continued to ask the respondents about an intergenerational reallocation of transfers, i.e., "should the state allocate less/equal/more resources to pensions and more/equal/less to unemployed or young job seekers?" Again, the Germans like their status quo, while the Italians rather reallocate transfers to the younger generation. The answers to this question are not strictly comparable across waves, since in the first wave, we asked this question only to those respondents who wanted to maintain the size of the welfare state, while we asked the reallocation question to all respondents in the second wave.

Table 6: Views on the welfare state

***(i) Size of welfare state**: "Should the state (+) increase taxes and compulsory contributions, cutting pensions and/or transfers to households, (0) maintain taxes and compulsory contributions at current levels, or (-) reduce pensions and/or transfers to households, by raising taxes and/or compulsory contributions?"*
***(ii) Intergenerational redistribution**: "Should the state (+) allocate more resources to pensions and less to unemployed or young job seekers, (0) keep the current situation (-), or allocate less resources to pensions and more to unemployed and young job seekers?"*

	(i) Increase size of welfare state			(ii) Redistribute to pensioners		
	(+)	**(0)**	**(-)**	**(+)**	**(0)**	**(-)**
Germany (Spring 2000)	14,0	59,1	26,9	16,6	61,8	21,6
Italy (Spring 2000)	17,4	39,7	42,8	18,5	35,2	46,2
Germany (Fall 2001)	12,8	51,3	35,9	26,5	50,7	23,4
Italy (Fall 2001)	23,4	46,9	29,7	33,5	28,3	38,3

Notes: Percentages. Answers to (ii) are not strictly comparable across waves, see text.

As we have seen in Figures 1 through 3, the respondents are aware of the unsustainability of the public pension systems in Germany and Italy. Why don't they want to do something about it? The questions in Table 6 can shed additional light on this issue. Table 7 conditions the answers to these questions on being employed and having a perception of crisis, and pools the answers over the two countries. Among those workers who also expect an imminent crisis of the PAYG, there is overwhelming opposition to further increases in the welfare state (80% oppose further increases) – see the first row of the left part of Table 7. Given that these same individuals believe that pension promises cannot be met without increasing taxes and contributions, they should consistently support reforms reducing benefits, increasing retirement age and partly privatizing social security. They do not, however. As shown in the last two columns of the left part of Table 7, the approval rate of these three reforms is the same irrespective of whether or not one opposes further expansions of the welfare state.

Table 7: Procrastination or intergenerational selfishness?

	Employees aware of crisis and wishing to…			
	... increase the welfare state		… redistribute to young	
	Yes	**No**	**Yes**	**No**
Percent of respondents	20,3	79,7	20,2	79,8
Yes to no reform*	38,0	37,1	17,8	23,2
Yes to all 3 reforms*	3,0	2,8	2,5	0,8

*Reform options include: Opting Out with Transition Burden, Less Pension, Increase in Retirement Age

There are two possible interpretations of this finding: Procrastination (time inconsistent preferences), or intergenerational selfishness (current workers really want to gain at the expenses of future generations). The question on the reallocation of transfers, see the right part of Table 7, helps us to discriminate between these two potential explanations. The answers indicate that selfishness plays an important role. As shown in the upper right quarter of Table 7, only one out of five respondents who are aware of the crisis are also altruistic with respect to intergenerational redistribution. And indeed, there are more reformers among those who are aware of the crisis and care about young generations (columns 3 and 4 of the right part of Table 7). While we cannot rule out that procrastination is also present to some extent, intergenerational selfishness certainly plays a major role in the opposition against pension reform.

6. A case study of the German pension reform in 2001

The recent pension reform in Germany sheds more light on the nature of the opposition described above. To appreciate the nature of this reform, which is called „Riester reform" and was approved by parliament in January 2001, just in between the two waves of our survey, it is helpful to note that the last "major" pension reform in Germany is ten years ago and was purely parametric. The main changes in the 1992 reform were to anchor benefits to net rather than to gross wages. This implicitly has reduced benefits since taxes and social security contributions have increased, reducing net relative to gross wages. While this mechanism is quite helpful when population aging will speed up, other countries have shifted to inflation indexing in the meantime. The other important change in the 1992 reform was the introduction of adjustments to benefits in some (not all) cases of early retirement and a change in the “normal” retirement age for women. They will be fully effective in 2004 and will reduce the incentives to retiree early; however, they are still not actuarially fair even at a zero discount rate.

The 2001 reform is intended to change the monolithic German system of old-age provision to a genuine multi-pillar system. Benefits will gradually be reduced by about 10%, lowering the replacement rate with respect to the average net earnings from 72% in 1997 to 64% in 2030. The effective benefit cuts are even larger since the credit of earnings points for education and training will be greatly restricted. On the other hand, a redefinition of the “official” replacement rate minimizes the perception of these cuts because the so-defined new replacement rate will be 67% with respect to a smaller net earnings base. The resulting “pension gap” of slightly less than 20% of the current retirement income is supposed to be filled with occupational and individual pensions. This new pillar is not mandatory, but the required private savings will be subsidized or tax privileged. The 2001 reform does not change the “normal” retirement age or the adjustments factors with respect to early retirement age that were established in 1992 and still provide large incentives to retire early.

Since no further reform took place in Italy during this time, our two surveys permit a „difference-in-difference“ approach for the questions posed in this paper. Of course, other events took place in both countries, diluting the pure experimental character. Moreover, many of the impacts will be medium or even long term and are not visible in our data yet.

As we have seen in Figure 1, the Riester-reform obviously fostered the awareness that there will be a pension crisis in the near future. The percentage of German respondents answering yes to the question: "Do you agree with the statement that there will be a pension crisis within the next 10-15 years?" rose from 79.9% to 85.7%, while it declined in Italy from 67.5% to 62.8%. Moreover, the Riester reform increased the awareness that dramatic benefit reductions could be unavoidable (from 71.1% to 76.1%) while in Italy this perception decreased from 62.9% to 58.0%, see Figure 3. This is an interesting result: The Riester reform obviously succeeded in conveying the message that there is an end to pension generosity.

The Riester reform did reduce the status quo bias. In Germany, only 51.3% rather than 59.1% before the reform want to leave taxes and benefits unchanged, while 35.9% rather than 26.9% want less taxes and less benefits, see Table 6. This did not happen in Italy – actually, the share of respondents favoring the status quo remained unchanged, while there are now more people in favor of a larger welfare state than last year. At the same time and unlike in Italy, 50.7% of German respondents (still a majority, but less than the 61.8% in the Spring of 2000) want the generational balance between pension recipients vs young and unemployed unchanged – but almost all of that change went into an increase in favor of pensions and against unemployment (up from 16.6% to 26.5%, see Table 6). In this sense, the Riester reform seems to have backfired.

Further contributing to this almost ironic situation are the findings of Figure 2. While the Germans apparently want to increase pensions at the expenses of the younger generation, they do not think that the Riester reform went far enough. 41.1% of the respondents think the reform did nothing at all, and 54.8% judge it as just a first step towards stabilization. One explanation is again selfishness. While the respondents know that an incisive reform is necessary, they do not want to pay for it.

Indeed, the responses exhibit clearly logical and economic rationality. Table 8 correlates the "fairness" of the Riester reform with the general views on the welfare state. Those, who want to increase the welfare state are particularly convinced about the unfairness of the Riester reform (72.9%), while among those, who want to shrink the welfare state, almost 40% characterize the Riester reform as a fair deal. A similar pattern is visible with regards to intergenerational reallocation of transfers. Those who want to reallocate transfers to the young are more on favor of the Riester reform, while the respondent who want to strengthen transfers to the elderly find it unfair.

Table 8: Riester reform and views on the welfare state

***(i) Fairness of reform**: "The recent pension reforms put more emphasis on own provision for retirement, and less on the state. Do you think this is fair?"*

***(ii) Size of welfare state**: "Should the state (+) increase taxes and compulsory contributions, cutting pensions and/or transfers to households, (0) maintain taxes and compulsory contributions at current levels, or (-) reduce pensions and/or transfers to households, by raising taxes and/or compulsory contributions?"*

***(iii) Intergenerational redistribution**: "Should the state (+) allocate more resources to pensions and less to unemployed or young job seekers, (0) keep the current situation (-), or allocate less resources to pensions and more to unemployed and young job seekers?"*

	(ii) Increase size of welfare state			(iii) Redistribute to pensioners		
(i)	**(+)**	**(0)**	**(-)**	**(+)**	**(0)**	**(-)**
Reform is fair	27,1	36,2	39,0	30,9	36,5	39,6
Reform is unfair	72,9	63,8	61,0	69,1	63,5	60,4

Notes: Percentages.

In addition to the internal logic visible in Table 8, economic rationality of the responses is exhibited in Table 9. More of those respondents, who think that private retirement accounts are a better deal than public pensions, have opened new retirement savings accounts or increased the investment into existing accounts.

Table 9: Reaction to reform

***(i) Reaction to reform**: "As a reaction to the pension reform, did you put money in a retirement account?"*

***(ii) Advantage of reform**: "Do you think that private pension plans are giving a better deal than the public pension system, i.e., provide a higher pension benefit per Euro contribution paid?"*

	(ii) Private pensions better deal		
(i)	**Yes**	**No**	**All**
Started new retirement savings account now	9,8	6,4	9,1
Increased amount into existing retirement savings account	15,6	13,5	15,1
Unchanged amount into existing retirement savings account	47,4	31,8	43,9
Did nothing	27,2	48,3	32,0

Percentages.

All these results strengthen the impression that selfishness is an important explanation for the opposition to pension reform. While these results may be depressing for those who think that pension reform is necessary to stabilize the pay-as-you-go systems and to maintain economic growth, there is some hope for them. Table 10 shows that information about the pension systems' state help to foster a transition to more own provision for old age. Table 10 distinguishes the somewhat vague awareness of crisis from the more precise information about the systems' cost. Less of those who are informed do nothing, and in particular those respondents, who are well informed about the contribution rate, save more for their own old-age provision.

Table 10: Information and reaction to reform

(i) Reaction to reform*: "As a reaction to the pension reform, did you put money in a retirement account?"*
(ii) Awareness of crisis*: "Do you think that there will be a pension crisis within the next 10-15 years?"*
(iii) Informed about contribution rate*: " Which percentage of your salary are you and your employer paying together into the public pension scheme?"*

	(ii) Aware of crisis		(iii) Informed about contributions	
(i)	**No**	**Yes**	**No**	**Yes**
Started new account	3,3	9,6	7,9	12,2
Increased amount	27,0	13,6	13,7	19,7
Unchanged amount	27,9	45,6	44,4	40,8
Did nothing	41,6	31,3	34,0	27,4

Percentages.

7. Conclusions

Governments wishing to carry out reforms will have to work hard to highlight the unfairness of the status quo for future generations, and to explain the efficiency benefits of partial privatisation of social security. The Riester reform seems rather unsuccessful on both accounts: it made people aware of what they might loose, but not of the potential gains. As perceptions of what is right and wrong appear to be strongly correlated with self-interest, there can be synergies in highlighting individual advantages involved by various reform options and the redistributions they operate. Clearly, better information about, and more transparency of, our nations' pension systems is a precondition for successful pension reform.

References

Alesina, A., E. Glaeser and B. Sacerdote (2001) Why doesn't the US have a European Style Welfare state?, Harvard University, mimeo.

Alesina, A., and M. Ferrara (2000), "Participation in Heterogeneous Communities", *The Quarterly Journal of Economics*, 847-904

Boeri, T., and G. Tabellini (1999), "Un Problema di rappresentanze più che di maggioranze" in Boeri, T., and Brugiavini, A. (a cura di) *Il muro delle pensioni*, Il Sole 24Ore, Milano.

Boeri, T., A. Börsch-Supan and G. Tabellini (2001), Would you Like to Shrink the Welfare State? The Opinions of European Citizens, *Economic Policy*, Spring 2001.

Boeri, T., A. Börsch-Supan and G. Tabellini (2001), Would you Like to Reform your Pension System? The Opinions of European Citizens, *American Economic Review*, May 2002.

Börsch-Supan, A., und R. Schnabel (1999). 'Social Security and Declining Labor Force Participation in Germany.' *American Economic Review 88.2*, 173-178.

Börsch-Supan, A, und R. Schnabel (2002). 'Incentive Effects of Social Security in Germany.' In: Gruber, J., and D.A. Wise (eds). *International Social Security Comparisons*. Chicago: The University of Chicago Press

Bowman, K. (1999), Social Security: A Report on Current Polls, American Enterprise Institute Occasional Papers

Brugiavini, A., and E. Fornero (2000), "Pension Provision in Italy", in Disney R., and Johnson, P. (eds), *Pension Systems and Retirement Incomes across OECD Countries*, forthcoming for Edward Elgar Press,

Conesa, J.C., and D. Krueger (1999)"Social Security Reform with Heterogeneous Agents", in *Economic Dynamics*, Vol. 2, Nr. 4.

Corneo, G., and H. P. Grüner (2000), "Social Limit to Redistribution", forthcoming for *American Economic Review*.

Devroye, D. (2001), Who wants to privatize Social Security? Understanding the income gap in public opinion, Harvard University, mimeo

Drazen, A. (2000), *Political Economy in Macroeconomics*, Princeton University Press.

Edlund, J. (2000), Attitudes to Income Redistribution and Taxation in Social Democratic and Liberal Welfare States: A Comparison Between Sweden, Great Britain, and the United States, in: Toš, N., P.Ph.Mohler and B. Malnar (eds.) (2000), *Modern Society and Values*, FSS University of Ljubljana and ZUMA: Ljubljana, Mannheim.

Ferrera, M. (1993), EC Citizens and Social Protection: Main Results from a Eurobarometer Survey, European Commission.

Heijden, E. van der, (1996), *Altruism, Fairness and Public pensions: An Investigation of Survey and Experimental Data*, CentER Dissertation 15, Tilburg Universtity.

Louviere, J., D. Hensher and J. Swait (2000), *Stated Choice Methods: Analysis and Application*, Cambridge University Press: Cambridge, Sydney.

OECD (2000), *Reforms for an Ageing Society*, Paris: OECD.

OECD (2001), *Ageing and Income: Financial Resources and Retirement in 9 OECD Countries*, Paris: OECD.

Persson, T and G. Tabellini (2000), *Political Economics – Explaining Economic Policy*, Cambridge, Mass.: MIT Press.

Roland, G., (2000), *Transition and Economics: Politics, Markets and Firms*, MIT Press.

Toš, N., P. Ph. Mohler and B. Malnar (eds.) (2000), *Modern Society and Values*, FSS University of Ljubljana and ZUMA: Ljubljana, Mannheim.