How Does Fiscal Stress Affect Social Policy Preferences? Evidence from a Survey Experiment in France

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In many post-industrial democracies, social spending outstrips tax revenue, putting the welfare state under considerable fiscal stress. I argue that fiscal stress pits the tax-paying employed on the one hand, against the unemployed transfer recipients on the other. The former (latter) will decrease (increase) their support for general transfers to the unemployed and the poor. They will also decrease (increase) their support for universal access to social benefits. I test these predictions using a survey experiment.

Introduction
The combination of population aging and structural unemployment has sharply increased the share of the population relying on publicly funded transfers. In the meantime, international tax-compliance has shifted the relative tax burden from capital to labor. These demographic and economic changes generate important fiscal stress. For a long time, low interest rates have enabled political elites to postpone fiscal adjustment by generating public debt. There are good reasons to think that this status quo is changing. With the creation of the euro, members of the eurozone have seen public debt. There are good reasons to think that this status quo is changing. The combination of population aging and structural unemployment has led to social benefits. I test these predictions using a survey experiment.

Theory and Predictions
An important institutional feature of mature welfare states is the coexistence of two types of social policies. One type targets benefits to those who are not currently employed. A second type makes benefits available to everyone, irrespective of one’s capacity to independently earn a living.

Figure 1 offers a sketch of this institutional set-up. In the employed, we can distinguish between those permanently out-of-work (such as retirees, the disabled or the long-term unemployed) and those who are only temporarily out-of-work. This latter group has a probability of finding a new job equal to 1. In the employed, on the other hand, face a probability of becoming unemployed equal to $\alpha$. Social policy is funded through a flat tax rate $\tau$ levaged on the earnings of the employed.

In practice, fiscal stress can be modelled as a decrease in $r_f$. I assume that the decrease in $r_f$ does not follow from a change in the ratio of $\sigma$ to $\beta$ but from an exogenous change in the share of the population that is permanently unemployed. The result is a sharp fiscal imbalance. How might voters react to this new state of the world?

In the case of benefits targeted to the unemployed, there is less to share among more recipients: benefit generosity decreases. Employed voters increase their preferred tax rate to partially offset this decrease. Assuming constant absolute risk aversion, their preferred tax rate will increase but not enough to compensate for the full decline in generosity (see [1] for more details). When benefits are not targeted to the unemployed, the decrease in benefit generosity is not as sharp: the loss is shared among the same number of recipients. It is relatively less costly to maintain benefit generosity.

Prediction 1: Fiscal stress will generate a preference change between the employed tax-paying contributors on the one hand, and the unemployed recipients, on the other. The former, unlike the latter, will be unwilling to pay more taxes to maintain benefit generosity. This will be especially true if benefits are targeted to those without earnings.

In this research project, I also consider the possibility that voters vote on a combination of their preferred tax rate $t$ as well as a second policy parameter $\gamma$ (not shown), which represents the share of spending received by the employed without earnings. To mitigate the decrease in benefit generosity, employed voters can chose to increase the share of social spending targeted to themselves. In practice, this will mean tying benefit access to prior contributions.

Prediction 2: Fiscal stress will increase the employed voters’ support for tying benefits to prior contributions. In contrast, unemployed recipients will maintain support for unconditional access.

Empirical Strategy
I test predictions 1 and 2 using a survey experiment run in France. I posted the survey on a French crowd sourcing platform called Finde Factory. A total of 908 respondents completed the survey over a period of 30 days (March 4th - March 14th 2016). Respondents were randomly assigned to two treatment conditions.

Control Condition
Respondents where exposed to neutral information on the French welfare state. Information was presented through both a visual and an audio. The audio emphasized the insurance properties of the welfare state, explaining first that social transfers are designed to help people who can no longer provide for themselves and second that transfers vary according to the reasons why recipients cannot earn a living. The audio concluded with a reminder that social transfers are paid by social contributions and taxes.

Fiscal Stress Condition
The same information was presented, with an additional slide and 30 seconds audio segment describing the mismatch between spending and revenue. The audio went on to explain that this mismatch has generated debt, which was equal to 27 billion in 1996 and has increased to 227 billion in 2014. The visual was a simple bar chart plotting this increasing.

Outcome of Interest
To test prediction 1, I ask respondents whether they willing they are, if need be, to personally pay more taxes and social contributions to maintain the current level of benefits and services with regards to poverty, unemployment, health and old age. Each time, I mention key policies associated to each of these risks, namely the Revenu de Solidarité Active – RSA – for poverty; assurance chômage for unemployment, assurance maladie for health and retraites for old age. Asked how willing their are to pay more taxes and social contributions, respondent can chose between four response categories: 1) Totally willing (Oui, tout à fait), 2) Most likely willing (Oui, plutôt), 3) Most likely not willing (Non, plutôt pas), 4) Fully unwilling (Non, pas du tout).

To test prediction 2, I ask respondents whether they think public health care and public pensions are affordable only to those who need it the most, to everyone what ever their job status, or only to those who “pay into the system” through social contributions.

Table 1: Sample sizes by treatment and financial security

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<th>Treatment</th>
<th>Secure</th>
<th>Insecure</th>
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<tbody>
<tr>
<td>Control</td>
<td>369</td>
<td>326</td>
</tr>
<tr>
<td>Fiscal Stress</td>
<td>327</td>
<td>356</td>
</tr>
<tr>
<td>Total</td>
<td>778</td>
<td>682</td>
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Results
For ease of interpretation, I have re-coded the survey items into binary variables, where individuals are totally or mostly willing to contribute more are coded as 1 and the others as 0. Individuals who support making benefits accessible to all, are coded as 1, others are coded as 0.

Willingness to Pay More Taxes (P1)
I regress the willingness to contribute items over the financial situation dummy and interact it with the treatment dummy. Figure 2 plots these coefficients to measure the average preference gap between secure and insecure by treatment condition.

The preference gap for health care is not affected by the treatment. The preference gap for pensions goes from being negative - the financially insecure are less willing to contribute than the financially secure - to being indistinguishable from zero. The differences are the largest for transfers that benefit the poor and the unemployed: the gap fully reverses, being negative in the control group and positive in the fiscal stress condition.

Support for Universal Access (P2)
Figure 3 presents the same analysis for the survey questions asking about support for universal access to benefits, irrespective of prior contributions.

Conclusion
Experimental evidence in France shows that people react to information about the fiscal situation of the welfare state in a self-interested fashion. Financially secure respondents maximize their disposable incomes by decreasing their willingness to contribute to policies they do not benefit from. For policies that benefit all, including themselves, the financially secure maximize their own net transfers by excluding net beneficiaries who contribute less than they receive. Financially insecure individuals react in the opposite fashion. As a result, respondents’ financial situation becomes a much better predictor of social policy preferences in the fiscal stress condition than in the control condition.

Recent attitudinal trends in France provide additional evidence that scarcity might be undermining social solidarity. Support for universal access to major social programs has decline since 2002. In the case of unemployment insurance, it went from 62 percent in 2002 to 38 percent in 2014. More importantly, the sharpest drop occurred between 2010 and 2014 (Baranette Drèze).

References

Acknowledgments
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Figure 1: The Welfare State

Figure 2: Differences Between Financially Secure and Insecure

Figure 3: Differences Between Financially Secure and Insecure

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