

Trade-offs between social investment and passive transfers in the new welfare state: New political coalitions in European welfare states?

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Abstract:

In the wake of the global economic and fiscal crisis, welfare states are now entering a new phase of austerity. At the same time, new social risks related to single parenthood or care for the elderly lead to new demands and expectations vis-à-vis the welfare state. This paper engages in an analysis of how these competing demands come into conflict with each other by using a new and original dataset on individual-level attitudes and preferences towards social investments and passive social transfers in eight European countries. I find strong evidence for citizens' dislike of trade-offs. When confronted with the reality of trade-offs between different parts of the welfare state, citizens are less likely to support additional social investment in education, in particular when they would have to be financed by cutbacks in social transfers such as pensions. I also find evidence for the implication of the "new politics" school that in the era of retrenchment, distributive conflicts *within* existing welfare states exhibit a different political dynamic compared to the large-scale conflict about the scale and size of the welfare state. In particular, membership in particular welfare state constituency groups is a more significant determinant of individual preferences, whereas for redistributive preferences more broadly defined large-scale cleavage structures indicated by socio-economic position and partisan ideology are more important.

Introduction

Back in the 1990s, welfare state scholars noted the end of the era of welfare state expansion and the dawn of an era of permanent austerity (Pierson 2001; Stephens et al. 1999). According to Pierson's (2001) influential "new politics" school of thought, this shift in circumstances was accompanied by a transformation of the political dynamic of welfare state policy-making. Responding to austerity pressures, policy-makers are forced to engage in retrenchment, trying to minimize the associated political costs by engaging in strategies of blame avoidance (Weaver 1986). Rather than being able to distribute resources generously across the different welfare state constituencies in a manner that minimizes political conflict, policy-makers are faced with intensifying distributive conflicts between these groups. In the wake of the global economic and fiscal crisis, it seems that welfare states are now entering a new phase of austerity (Pierson 2011), which is characterized by even stronger fiscal pressures to consolidate public finances with implications for the sustainability of welfare states. At the same time, new social risks related to single parenthood or care for the elderly lead to new demands and expectations vis-à-vis the welfare state.

This paper engages in an analysis of how these competing demands come into conflict with each other by using a new and original dataset on individual-level attitudes and preferences towards social investments and passive social transfers in eight European countries. I am particularly interested in how citizens perceive existing trade-offs between different kinds of social policies and which political coalitions form in support of these policies. Previous research on welfare state attitudes has rarely explored the existing trade-offs between different parts of the welfare state, mostly focusing on support and opposition to welfare state generosity more broadly defined.

To briefly foreshadow the main findings, I find strong evidence for citizens' dislike of trade-offs. When confronted with the reality of trade-offs between different parts of the welfare state, citizens are less likely to support additional social investment in education, in particular when these would have to be financed by cutbacks in social transfers such as pensions. I also find evidence for the implication of the "new politics" school that in the era

of retrenchment, distributive conflicts *within* existing welfare states have a different political dynamic compared to the large-scale distributive conflict about the scale and size of the welfare state. In particular, membership in particular welfare state constituency groups is a more significant determinant of individual preferences, whereas for redistributive preferences more broadly defined large-scale cleavage structures indicated by socio-economic position and partisan ideology are more important.

In the next section, I develop a theoretical argument as well as a set of testable hypotheses. Subsequently, I introduce the dataset used in this paper and engage in an analysis of two different sets of questions contained in the survey, aiming at measuring trade-offs between social investment and social transfers.

Theory and hypotheses

Welfare state scholars have known for a long time that reforming social policies carries high political risks, in particular in an era of retrenchment and austerity, when policy-makers are no longer in a position to hand out generous benefits, but in fact often have to cut back popular social policy programs (Pierson 1994, 2001). Pierson's work was highly influential in framing the debate about the link between welfare state reforms, organized interests and mass publics, but to a certain extent, it implied a very simplistic understanding of the link between policy-makers and welfare state constituencies.

Pierson's original account focused more on organized interest groups and welfare state constituencies mobilizing against cutbacks of "their" benefits, but his argument can also be applied to the study of welfare state attitudes. Here, an influential strand in the literature has found that support for different social policies largely depends on self-interest (e.g. Busemeyer et al. 2009; Hasenfeld/Rafferty 1989; Iversen/Soskice 2001; Kangas 2003; Lynch/Myrskylä 2009; Rehm 2009), i.e. pensioners are more likely to support generous public pensions and the unemployed would be expected to demand more spending on unemployment insurance. In this literature, the process by which attitudes and preferences are eventually aggregated into party positions or reflected in the policy positions of organized interest groups is usually neglected. In fact, there is a growing number of

scholars who – drawing inspiration from a huge literature on policy responsiveness and feedback (Erikson et al. 2002; Wlezien 1995; Soroka/Wlezien 2010; Stimson et al. 1995) – posit that there is a *direct* link between public opinion on the welfare state and policy output (Brooks/Manza 2006, 2007; Rehm 2012). That is policy-makers care for public opinion also in between elections because of fear of electoral punishment in the future (Stimson et al. 1995). Because welfare state retrenchment is generally unpopular (Boeri et al. 2001), the general expectation in this literature is that welfare states “persist” (Brooks/Manza 2006), i.e. large-scale cutbacks are unlikely because they are politically risky. Reforms may only be possible when policy-makers engage in “blame-avoidance” and obfuscation strategies (Pierson 1994; Weaver 1986) and essentially hide their true intentions and actions from voters.

Taken together, the work by Pierson, Brooks and Manza imply a rather simplistic understanding of the link between welfare state policies and public opinion. Once established, welfare state policies and institutions create strong “positive feedback effects” (Pierson 1993, 2000) in the sense that popular attitudes and preferences will increasingly reflect the prevailing status quo as actors adapt their preferences and strategies so that particular institutional development paths get “locked in”. For sure, there are persistent cross-national differences with regard to welfare state institutions as well as preferences, and the Pierson-Brook-Manza framework is helpful in explaining them. However, scholars have noted particular anomalies in recent years, which are hard to explain with this framework.

Most importantly, welfare state change is more common than would be expected. Directly contesting Pierson’s findings, scholars have noted a significant degree of retrenchment and numerous cutbacks in welfare state generosity in OECD countries (Allan/Scruggs 2004; Korpi/Palme 2003). However, it is not the case that retrenchment is the “only game in town” (van Kersbergen et al. 2014). In fact, some welfare states have significantly expanded their commitment to “social investment” policies such as early childhood education, active labor market policies and care for the elderly (Bonoli 2013; Hemerijck 2013; Morel et al. 2011; Vandenbroucke/Vleminckx 2011), often at the same time as they were cutting back

the more traditional transfer-intensive parts of the welfare state (see Fleckenstein et al. 2011 for the cases of Britain and Germany). Some claim that this shift signals a qualitative “recalibration” of welfare states catering to new social risks (Hemerijck 2013: 104), but of course, it might be the case that the expansion of the social investment components of welfare states amounts merely to “sugarcoating” less popular retrenchment reforms, since the former are relatively cheap compared to traditional social insurance policies (Bonoli 2013; Häusermann 2010).

The study the micro-level politics of social investments might help to solve this puzzle, because it would then be possible to discern whether the trend towards social investment reflects a genuine change in popular preferences and new social policy demands or whether it is simply a reaction of policy-makers to the increasingly binding constraints of austerity. In the present paper, I can only address one particular issue in this very broad topic, which is the existence of trade-offs between social investments and passive welfare state transfers in individual preferences and attitudes.

In general, the trade-off between social investments and passive social transfers is often depicted as one between policies that create diffuse benefits at some point in the future vs. social policies that have concrete benefits in the present (cf. e.g. Streeck/Mertens 2011). For example, today’s investments in education and early childcare will pay off when those little ones who enjoy these benefits today enter the labor market at some distant point in the future. In contrast, pension and unemployment schemes entail immediate benefits for those who receive them. Cutting back social transfers – so the argument might go – is therefore difficult, because the diffuse benefits of social investments in the future are usually not sufficiently strong to outweigh the materialist interests of pensioners and the unemployed. The electoral constituencies and organized interests associated with social investment are also believed to be politically less influential compared to the defenders of the traditional welfare state. It is even more difficult in times of austerity, when budget pressures necessitate reductions in spending. Discretionary types of spending such as public and social investments are easier to cut back than entitlement-based spending (Breunig/Busemeyer 2012; Streeck/Mertens 2011).

This perspective, however, neglects the fact that social investments often produce immediate benefits as well – and often beyond the group those who are immediately affected. The case of early childhood education is one simple example of this process: The expansion of childcare provision does not only benefit the children themselves, but it also increases the opportunities for young parents to combine family life with employment. The welfare state constituency group that supports the expansion of childcare opportunities – (young) parents – might easily be as large as some defenders of traditional social transfers (e.g. the unemployed or the disabled). Therefore, the trade-off could be less about future-oriented investments vs. consumption-oriented social transfers, but simply reflect the emergence of new redistributive conflicts between old and new welfare state constituencies.

Besides conflicts about the (re-)distribution of resources between different parts of the welfare state, a second contentious issue is the overall *size* (in terms of spending and/or generosity) of the welfare state. The bulk of the pertinent literature on welfare state attitudes and redistributive preferences has been concerned with studying the variation of individual preferences along this dimension of “more or less” redistribution (e.g. Alesina/Angeletos 2005; Corneo/Grüner 2002; Cusack et al. 2006; Fong 2001; Kenworthy/McCall 2008; Rehm 2009).¹ The literature has identified a number of “usual suspects” that have been found to account for variation in support for redistribution, such as income, educational background, age, gender or individual partisan ideology. More recently, scholars have added factors such as skill specificity (Iversen/Soskice 2001), occupational unemployment risk (Rehm 2009), the “offshorability” of one’s job (Walter 2010), or perceptions of fairness and deservingness (Alesina/Angeletos 2005; Van Oorschot 2006) – to name a few examples.

¹ Of course, some studies also explore the variation of attitudes across policy fields (e.g. Busemeyer et al. 2009), but even in that case, the goal is less to identify trade-offs *between* policies, but to explore how the support for redistribution varies across and within policy fields. In other words, the underlying dimension remains the same.

The *core argument* I want to develop in the following is to say that conflicts about the overall size and generosity of the welfare state play out on a different political dimension than conflicts about the (re-)distribution of resources across different parts of the welfare state. Whereas conflicts about the overall size of the welfare state and the general level of redistribution in a given society are related to macro-level cleavages defined by income, age, class, ideology or similar factors, material self-interest in the sense of belonging to a particular welfare state constituency group matters more when it comes to distributive conflicts *within* welfare states. Thus, *given a certain degree of welfare state generosity*, trade-offs within the welfare state reflect the clash of interests of different constituencies. The reason why material self-interest matters more when it comes to (re-)distribution within the welfare state is that services and transfers are very visible and concrete for those who immediately benefit from them, whereas the issue of redistribution and welfare state generosity is located on a more abstract level so that general value and ideological orientations as well as the individual's general socio-economic position with regard to income, education and age matter more.

A further topic is the operationalization of the notion of a "trade-off". Of course, this issue is relevant from a methodological perspective (see below), but also from a more theoretical perspective, the notion of a "trade-off" needs to be reflected in somewhat greater detail. Very simply speaking, a trade-off occurs when increasing the budget share allocated to a particular policy automatically results in decreasing the share of another policy (cf. Breunig/Busemeyer 2012). In real-world politics, budgetary trade-offs may be more or less severe, depending on the strictness of the budget constraint. In the age of welfare state expansion in the 1960s and 1970s, budget constraints were, on average, looser than in the contemporary period. This means that distributive conflicts could be solved or avoided by simply increasing the overall size of the budget, e.g. by increasing levels of public debt or general tax revenues. This might still be associated with changes in the relative proportions of individual budget shares, but if programs are allowed to expand (even though their relative share in the budget might not improve), the conflict about (re-)distribution *within* the welfare state is overshadowed by the conflict about the overall size of the welfare state. Both increasing taxes or levels of public debt have become politically more difficult to

defend in the contemporary period, which implies that budget constraints are increasingly binding. Changes in the relative proportions of budget shares might now go along with real cut-backs in social policy programs. This – I posit – most likely changes the nature of the dominant political conflict in the way outlined above.

Methodologically speaking, the measurement of trade-offs in individual preferences for welfare state policies is challenging. Existing surveys such as the European Social Survey (ESS) or the International Social Survey Programme (ISSP) often contain questions about individual preferences for public spending or government involvement more generally defined. Unfortunately, these questions usually neither take into account the fact that individual support for public spending should match individual willingness to pay taxes² nor do they explicitly take into account trade-offs across policy fields. These issues are crucial, however, in order to properly measure the real individual-level support for social spending across a range of policies, since neglecting these trade-offs will probably result in an overestimation of support for spending. This is because respondents in public opinion surveys have been found to support both lower taxes as well as a generous welfare state (Citrin 1979; for a recent update: Giger/Nelson 2013). Also, if not forced to choose, they are likely to support higher spending in all policy fields (see Goerres/Prinzen 2012 for a more general discussion of the problems of measurement in welfare state preferences).

For the purpose of this paper, I can rely on an individual dataset that measures trade-offs in preferences at the individual level in a novel way, taking into account trade-offs between support for spending and financing on the one hand as well as trade-offs across policy fields on the other (for details on the survey and questions, see below). Summing up the theoretical discussion so far, I would like to put the following hypotheses to a test:

² The ISSP Role of Government module is one of the surveys most often used to measure individual spending preferences, and it pays a bit more attention to this issue than other surveys. The wording of questions about public spending contains a “warning” to respondents that large spending increases might require a tax increase to pay for this. This is, however, a rather weak form of modeling trade-offs.

Hypothesis 1: In general, individual-level support for spending increases drops once trade-offs between spending and taxation as well as trade-offs across different parts of the welfare state are taken into account. I expect the drop in support to be stronger in the case of trade-offs across policy fields since these refer to cutbacks in highly visible social policies.

Hypothesis 2: Conflicts about the overall size/generosity of the welfare state play out on a different political dimension than conflicts about the (re-)distribution of resources across social policy sub-fields. In the former case, ideology, normative orientations and the individuals' socio-economic position in the class hierarchy are expected to matter more, whereas in the latter case, I expect material self-interest more narrowly defined as membership in a particular welfare state constituency to have a stronger impact.

The dataset

In order to measure the existence of trade-offs in the welfare state, I rely on original survey data that was collected in the project “Investing in Education in Europe” (INVEDUC).³ In this project, we conducted a survey of public opinion on education and the welfare state in eight European countries. The countries are selected as representatives of different welfare state regimes in Northern and Western Europe: Germany and France for the conservative welfare state regime, the UK and Ireland for the liberal regime, Denmark and Sweden for the social democratic variety as well as Italy and Spain as Southern European welfare states. The questionnaire was designed by the project team at the University of Konstanz in collaboration with experts from TNS Infratest Sozialforschung – the survey company in charge of the actual fieldwork of the survey. The original questionnaire was written in English and then translated into the different languages in a four-step process, which consisted of a translatability check, the actual translation, a linguistic quality control and a final quality control by the project team (for details see Gensicke et al. 2014).

The target population of the survey is the population in a given country aged 18 and above. The survey used computer-assisted telephone interviewing (CATI). Random digit dialing

³ This project is financed with a “Starting Grant” from the European Research Council, Grant No. 311769.

(RDD) was used in all countries except Sweden (where a comprehensive address register covering more than 90 percent of the population exists) in order to deal with the problem that a sizable and increasing share of the population does not have a landline anymore, but uses mobile phones only. The dataset contains two sets of weights that are applied in the descriptive statistics below: first, a design weight applied in the case of landlines only to take into account different selection probabilities of individuals depending on the number of landlines per household and the number of potential interviewees in a given household; second, a selectivity weight that corrects for differences between the sample and the target population by referring to well-known stratification characteristics of the latter (using stratification variables such as age, gender, education levels, occupational status, regions and employment status). In the multivariate regression analyses, I refrain from applying weights because the inclusion of independent variables controls for differences in the dependent variable related to these characteristics and avoids relying on the “black box” of weighting.

A pretest of the questionnaire was conducted in all eight countries in February/March 2014. The actual fieldwork for the survey took place between mid-April and end of May 2014. The average length of an interview was 25 minutes. The net number of interviews differed slightly between countries in order to take into account differences in the size of the target population in that particular country. Table 1 displays the number of interviews per country as well the response rate. The average response rate was roughly 30 percent with a high of 36 percent in Denmark and a low of 20 percent in Ireland. Interviewers were trained extensively before the pretest as well as the main phase of the fieldwork. Members of the project team at Konstanz were involved in the briefing of interviewers in order to make sure that interviewers also understood the core goals of the project. In order to reduce the distance between the interviewer and the respondent, the fieldwork in the individual countries was conducted by national field offices of TNS Infratest Sozialforschung, but centrally coordinated and monitored (Gensicke et al. 2014: 13-14). The interviewers were native speakers.

Table 1: Number of interviews per country and response rate.

Country	Number of interviews	Response rate
Denmark	1,000	36%
France	1,003	28%
Germany	1,500	26%
Ireland	1,000	20%
Italy	1,002	28%
Spain	1,000	24%
Sweden	1,100	33%
United Kingdom	1,300	21%
Total	8,905	27%

Measuring trade-offs in the welfare state (I)

In the following, I employ two different sets of questions that were included in the survey to measure trade-offs in welfare state attitudes. The first is a set of questions that tried to measure the individuals' willingness to invest in a popular policy such as education by manipulating the alternative options that individuals could choose from. To that extent, the total sample was split into four groups (one "control" group and three different treatment frames),⁴ and assignment to one of these groups was random, of course. The exact wording of the four questions were:

Split 1 ("Control"): "The government should increase spending on education."

Split 2 ("Treatment 1"): "The government should increase spending on education, even if that implies higher taxes."

Split 3 ("Treatment 2"): "The government should increase spending on education, even if that implies cutting back spending in other areas such as pensions."

⁴ Of course, these are not treatments in the strict experimental sense, because the "treatment" is measured together with the dependent variable (support for education spending).

Split 4 ("Treatment 3"): "The government should increase spending on education, even if that implies a higher public debt."

Following these statements, respondents were asked whether they would strongly agree, agree, neither agree nor disagree, disagree or strongly disagree with the statement. Table 2 displays means and standard errors for the most important confounding variables in the individual groups as well as the overall number of valid observations, showing that the random assignment of individuals to groups did work for the most part.

Table 2: Means and standard errors (in parentheses) for most important confounding variables across groups.

	Control	Treatment 1	Treatment 2	Treatment 3
Number of valid obs.	2,237	2,238	2,148	2,178
Educational level	3.18 (0.046)	3.11 (0.049)	3.15 (0.046)	3.15 (0.047)
Individual income	1906.51 (92.001)	1858.91 (59.56)	1897.61 (53.56)	1847.89 (47.10)
Household income (quintiles)	2.49 (0.047)	2.57 (0.048)	2.49 (0.049)	2.52 (0.049)
Age	48.62 (0.074)	48.11 (0.742)	49.33 (0.735)	49.07 (0.655)
Female	0.497 (0.019)	0.529 (0.019)	0.487 (0.019)	0.509 (0.019)
Number of kids in household	0.713 (0.047)	0.728 (0.042)	0.749 (0.04)	0.726 (0.039)

Figure 1 is a simple graphical representation of the means (and 95% confidence intervals) of the control group and the three different treatments without taking into account

differences between countries. Table 3 contains the results of a series of unpaired t-tests of differences in means between the control and treatment groups in order to confirm that differences between groups are all statistically significant.

The figure and the t-tests clearly show that support for more investments in education is conditional on the menu of alternative choices that respondents are confronted with. Not surprisingly, support for more education spending by the government is highest in the control group, i.e. when no qualifiers are added. In this group, overall support for more education spending is at 2.23 points on a 5-point scale from strongly agree (1) to strongly disagree (5). Support drops significantly to 2.86, when respondents are reminded that more education spending might imply higher taxes (treatment 1). When respondents are confronted with the fact that higher education spending would not be financed with higher taxes, but with higher levels of public debt, support drops further to 3.05 (treatment 3). This is a critical threshold, because it represents the watershed between individuals largely supporting increasing education spending vs. them opposing spending hikes. Most tellingly, support for more education spending drops even further to 3.36 when respondents are confronted with the possibility that increasing education spending could go along with cutbacks in other parts of welfare state, in particular pensions (treatment 2).

The fact that respondents become less likely to support spending increases when they are reminded that they have to pay for it in the form of higher taxes or higher levels of public debt is not surprising. What *is* surprising is that reducing spending in other parts of the welfare state, in particular pensions, is even more unpopular than rising taxes or increasing public debt. The magnitude of differences in means between groups is striking as is the fact that all these differences are highly statistically significant. Also somewhat unexpectedly, respondents do not prefer increasing public debt to rising taxes. If individuals would only care to maximize short-term benefits and minimize short-term costs, we would expect them to be more opposed to tax hikes, because these create immediate short-term costs. However, individuals seem to be aware of the potential negative side effects of high levels of public indebtedness even when debt is used to finance public investments such as education. One caveat that needs to be added here, however, is that individuals in European

countries could be more sensitive to high levels of public debt because of the ongoing economic and fiscal crisis in many European countries.

Figure 1: Trade-offs in the welfare state: means and CIs of control and treatment groups.

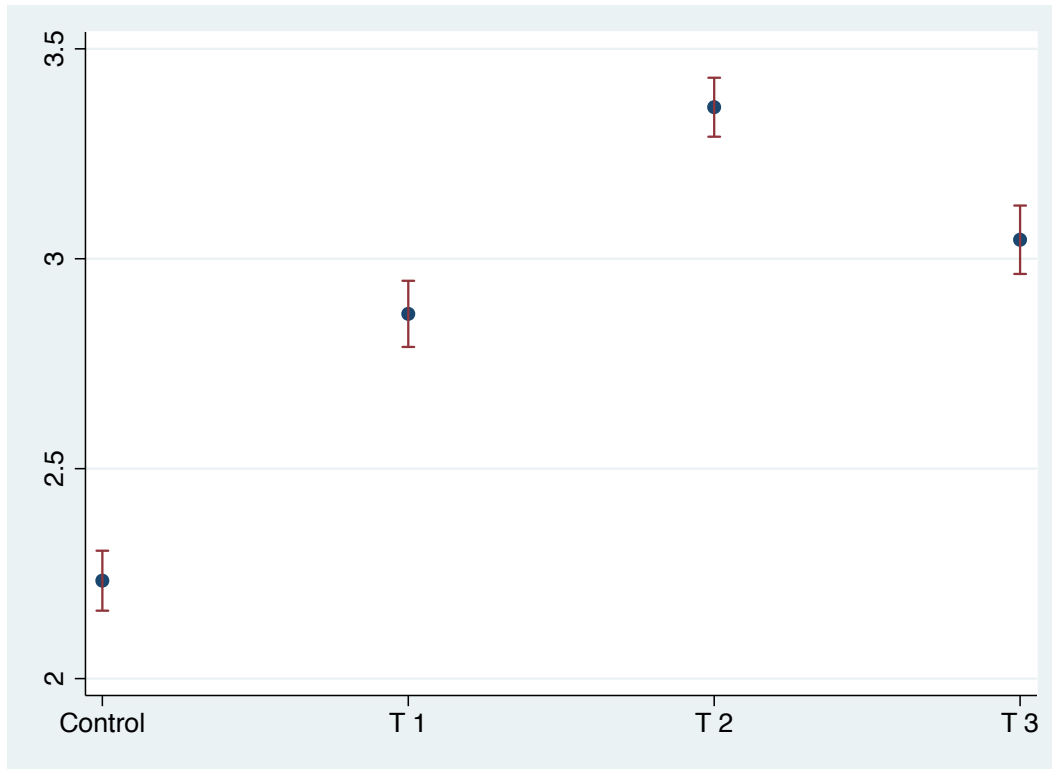


Table 3: Results of unpaired t-tests of differences in means between control and treatment groups.

t-Test	Difference	t-Value (H0 = no difference)	p-Value
C vs. T1	-.5526487	-17.2721	0.0000
C vs. T2	-1.184971	-37.5701	0.0000
C vs. T3	-.8132021	-25.6048	0.0000
T1 vs. T2	-.6323221	-18.4245	0.0000
T2 vs. T3	.3717687	10.8912	0.0000
T1 vs. T3	-.2605534	-7.5556	0.0000

In the next step, I explore differences between countries. First of all, table 4 contains information on the distribution of valid observations in the four groups across countries. Again, this is to document that the random assignment of individuals to different treatment and control groups did not introduce any particular bias, e.g. a correlation between group assignment and country of residence. To be sure, there are some differences in the number of observations (e.g. the increased number of observations for treatment 3 in the case of the UK or the increased number of cases for treatment 1 in Sweden), but by and large these variations seem to be driven by random factors.

Table 4: Distribution of number of observations across countries.

	<i>Control</i>	<i>Treatment 1</i>	<i>Treatment 2</i>	<i>Treatment 3</i>
Denmark	266	225	231	253
France	263	231	255	251
Germany	358	377	378	377
Ireland	258	262	230	242
Italy	243	274	240	228
Spain	272	245	237	240
Sweden	264	318	261	245
UK	313	306	316	342

Figure 2: Support for education spending across countries.

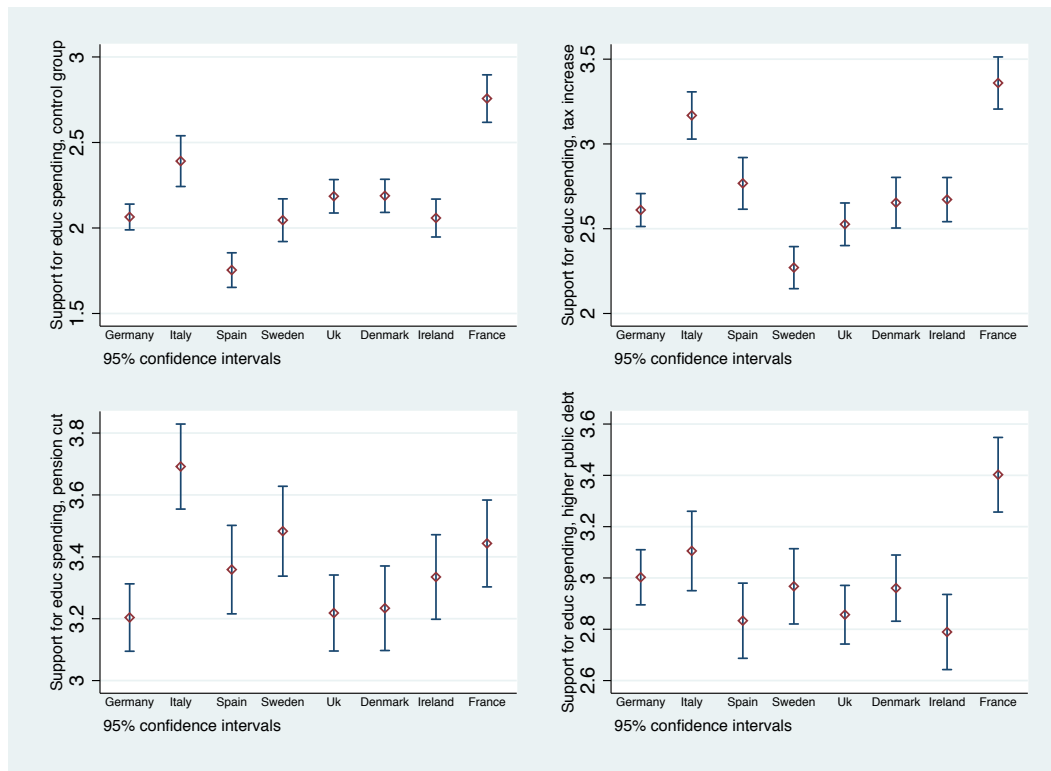


Figure 2 displays the means and 95% confidence intervals for the control and treatment groups across countries. Of course, the confidence intervals in general are somewhat larger compared to estimates for the sample as a whole (see figure 1 above), because they are based on fewer observations. For this reason, they should also be interpreted with caution. Nevertheless, some general observations can be made: First, as is well-known in the study of welfare state attitudes, there is a great deal of variation across countries, although cross-country differences are more pronounced in the case of the control group compared to the second and third treatment. In the latter cases, the confidence intervals are larger, potentially signaling more uncertainty on the part of individuals when being confronted with hard trade-off questions. Second, in some countries, notably Italy and France, increasing education spending is less popular than in the others. Notably, support for education spending in Italy drops significantly when respondents are confronted with the possibility that this could lead to cutbacks in pensions. This resonates well with the fact that the Italian welfare state is known for its strong orientation towards the needs of the elderly (Lynch 2006). In France, support for education spending decreases strongly when

respondents are reminded that they have to pay for it via taxes or public debt, which may be related to the dire straits of public finances in this country. In contrast, increasing investment for education is popular in Spain, which suffers from high levels of youth unemployment, and Germany. Investing more in education continues to be popular in a country like Sweden, which already spends a lot on education, and Swedes in particular do not seem to mind paying for more spending via tax increases (it has the highest level of support for more spending in the first treatment group).

In the following multivariate regression analyses I want to analyze whether support for education spending is determined by different factors, depending on which kind of trade-off question is asked. Building on the insights of the large literature on welfare state attitudes cited above, I start with a simple base-line model that assumes that social policy preferences will be related to self-interest. This simple model can be enriched by taking into account the impact of ideological variables as well as norms. However, ideology and norms are at least partly endogenous, i.e. individuals' social policy preferences will also contribute to shaping their partisan worldviews and normative dispositions. The problem of endogeneity could be regarded as less severe if one assumes that ideology and normative orientations are factors that are part of deep belief systems and thus not prone to short-term changes to the same extent as social policy preferences might be.

The following control variables are included in the models: Educational background measures the individual's educational experiences on a five-point scale from basic education to university-level education. Individual (net) income is given in 1,000s of purchasing-power adjusted US-Dollars. Being older than 65, being female and having small kids at home are operationalized as dummy variables. Left-right orientation captures individuals' self-placement on a 10-point-scale from 1 (left) to 10 (right). Finally, general preferences for increasing the size of state could be taken as an indicator of a prevalence of a normative orientation on the role of the state. This variable measures individual responses to this question: "A share of the national government's annual budget is spent on social benefits and social services. Please tell me, according to you: Should the government spend much more, more, the same, spend less or much less on social benefits and social

services?" Again, responses are recorded on a 5-point Likert scale. This scale is reversed so that higher values indicate stronger support for state involvement.

With regard to methods, I apply very simple techniques. First of all, I dichotomize the dependent variables in order to facilitate interpretation of the coefficient estimates. In all four cases, support for more or much more spending is coded as "1", whereas support for the same or less spending is coded as "0". Second, the structure of the dataset is hierarchical (individuals nested within countries). However, the number of level-2 units (countries) is not sufficient in order to be able to run fully-fledged multi-level models or to model the effect of macro-level characteristics on micro-level variables directly. Instead, I treat the multi-level structure of the dataset simply as a factor that needs to be taken into account in the selection of the proper model specification. In particular, I run two different specifications: The first is a simple logit model with standard errors clustered by country (cf. table 5). The second is a GLS random effects (hierarchical) model with countries being used as the grouping variable (cf. table 6). As will become clear below, results do not differ much between model specifications. The coefficients and their confidence intervals are plotted in figure 3.

Taken together, the pattern that emerges from the regression analyses is the following: First of all, there is a distinction between questions about the overall level of public spending on education and its financing via higher taxes or public debt (i.e. the control group questions without any implied trade-offs as well as T1 and T3) on the one hand and the question of redistributing resources from other parts of the welfare state (in particular pensions) to education on the other. In the first set of questions, educational background, left-right orientation and general spending preferences are strong determinants of support for education spending: Highly educated, left-leaning and state-loving individuals are more likely to support education spending. In the question about redistributing resources *within* the welfare state, however, these variables lose any explanatory power (except for educational background, which continues to be statistically significant in the GLS specification, cf. model 3 in table 6). Instead, variables related to self-interest more narrowly defined turn out to be statistically significant now: The elderly are – for obvious

reasons – opposed to taking away resources from pensions to increase spending on education. Using model 3 of table 5, the predicted change in the probability for an older⁵ person to support education spending compared to a younger person is a reduction of about 6 percentage points.⁶ Vice versa, individuals with small kids at home are more likely to support taking away resources from pensioners to fund educational investments. Simulating a similar change as above yields an increase in support for education spending for individuals with children at home of about 10 percentage points. It is noteworthy to emphasize again that neither general support towards state spending nor individual partisan ideology – two variables that are usually highly correlated with individual spending preferences – do not have any statistically significant effect on support for more education spending once trade-offs between different parts of the welfare state are seriously taken into account.

Exploring changes in the magnitude of predicted effects across the different model specifications in greater detail, figure 4 contains simulated changes in the predicted probability of supporting more education spending that result from a change in the respective independent variable from a value one half of a standard deviation below the mean to one half of a standard deviation above the mean.⁷ An interesting observation is that changes in the predicted probability resulting from a manipulation of the independent variables are strongest in the case of the control group. This is particularly the case with regard to general support for state spending, but also with individual educational background. Only individual partisan ideology seems to have a stronger effect in the T3 group, perhaps indicating the left-leaning individuals are more willing to accept higher levels of public debt in order to finance social investments.

⁵ Aged 65 and above.

⁶ Gender is set to male and the small kids dummy variable is set to “0”. All other variables are at their mean.

⁷ Other control variables are set at the mean value, the dummy variables (old age, female and small kids at home) are set at zero.

Figure 3: Determinants of support for education spending across different models.

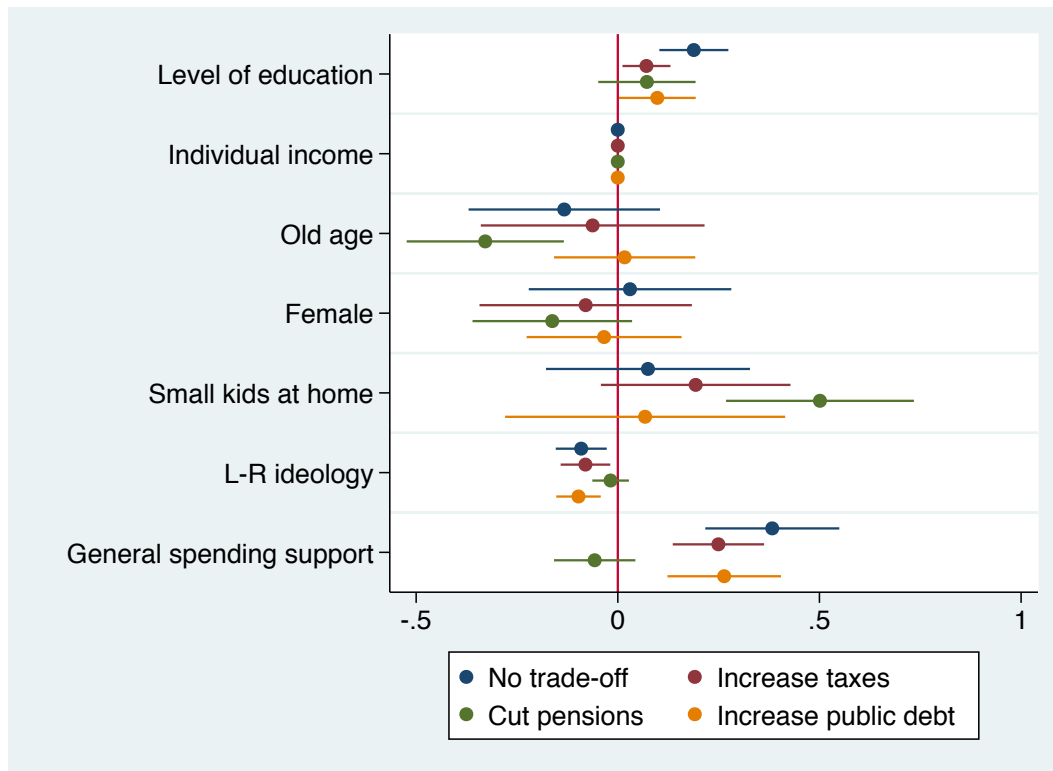


Table 5: Determinants of support for education spending, logit models with clustered standard errors and country dummies.

Dependent variable	(1)	(2)	(3)	(4)
	Support for education spending			
	No trade-off (control)	Increase taxes	Cut pensions	Increase public debt
Educational background	0.189*** (0.0436)	0.0711** (0.0303)	0.0722 (0.0616)	0.0980** (0.0486)
Income in 1,000 PPP-adjusted \$	-0.0333* (0.0201)	0.0209 (0.0346)	-0.0140 (0.0166)	-0.0485* (0.0271)
Age > 65	-0.133 (0.121)	-0.0623 (0.142)	-0.329*** (0.0994)	0.0170 (0.0893)
Female	0.0304 (0.128)	-0.0796 (0.134)	-0.162 (0.101)	-0.0339 (0.0980)
Small kids at home (dummy)	0.0749 (0.129)	0.193 (0.120)	0.501*** (0.119)	0.0678 (0.177)
Left-right ideological orientation	-0.0906*** (0.0323)	-0.0802** (0.0314)	-0.0178 (0.0231)	-0.0974*** (0.0281)
General spending preferences	0.383*** (0.0848)	0.250*** (0.0578)	-0.0573 (0.0515)	0.264*** (0.0718)
Constant	0.110 (0.391)	-0.379 (0.315)	-0.626 (0.383)	-0.983** (0.476)
Observations	1,784	1,759	1,698	1,719

Robust standard errors in parentheses

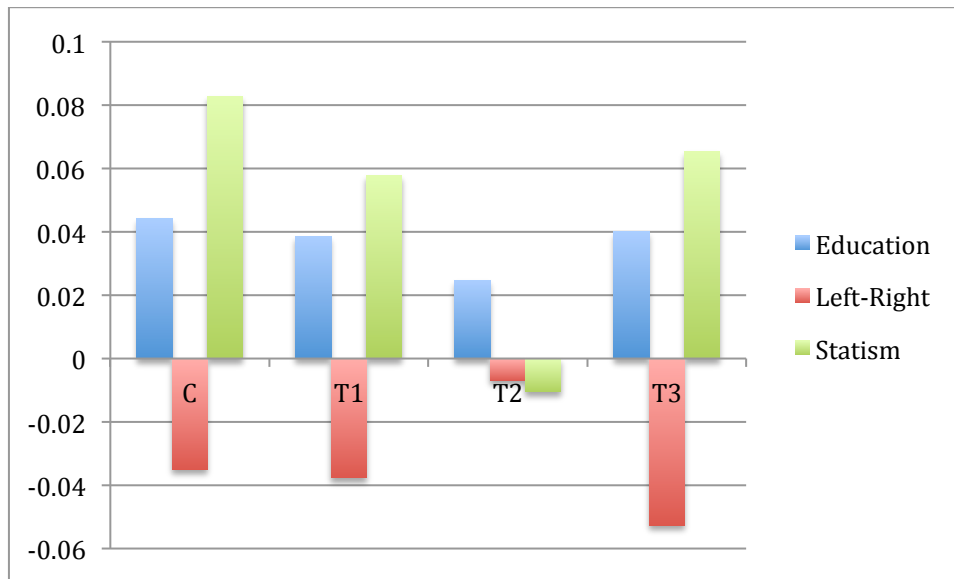
*** p<0.01, ** p<0.05, * p<0.1

Table 6: Determinants of support for education spending, hierarchical logit random effects (RE) models.

Dependent variable	(1)	(2)	(3)	(4)
	Support for education spending			
	No trade-off (control)	Increase taxes	Cut pensions	Increase public debt
Educational background	0.184*** (0.0407)	0.0749** (0.0351)	0.0767** (0.0375)	0.103*** (0.0350)
Income in 1,000 PPP-adjusted \$	-0.0346 (0.0318)	0.0216 (0.0302)	-0.0103 (0.0229)	-0.0546 (0.0365)
Age > 65	-0.130 (0.133)	-0.0538 (0.115)	-0.318** (0.132)	0.0140 (0.117)
Female	0.0185 (0.118)	-0.0788 (0.102)	-0.161 (0.111)	-0.0316 (0.104)
Small kids at home (dummy)	0.0738 (0.172)	0.189 (0.153)	0.469*** (0.151)	0.0656 (0.143)
Left-right ideological orientation	-0.0898*** (0.0260)	-0.0784*** (0.0226)	-0.0146 (0.0248)	-0.0944*** (0.0227)
General spending preferences	0.404*** (0.0658)	0.249*** (0.0597)	-0.0536 (0.0592)	0.277*** (0.0586)
Constant	-0.284 (0.345)	-0.499 (0.339)	-0.843*** (0.306)	-1.018*** (0.300)
Observations	1,784	1,759	1,698	1,719

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 4: Comparing the magnitude of effects across models.



Note: The figure contains changes in predicted probability in the support for education spending for the different groups, simulating a change in the respective independent variable from $\frac{1}{2}$ of a standard deviation below the mean to $\frac{1}{2}$ of a standard deviation above the mean, holding other continuous variables at their means and setting the dummy variables (old age, female and small kids at home) to zero.

Measuring trade-offs in the welfare state (II)

The second set of questions alluded to above are two questions that force respondents to choose between social investments on the one hand and passive social transfers on the other. Again, the total sample was split into two groups (not four as above), and individuals selected at random were given either the one or the other question. The first question is aimed at measuring support for social investment and reads thus:

“What do you think about the following statement? To be able to finance more spending on education and families, the government should cut back on old age pensions and unemployment benefits.”

In contrast, the second question is supposed to capture support for the passive welfare state:

“What do you think about the following statement? To be able to finance more spending on old age pensions and unemployment benefits, the government should cut back spending on education and families.”

Again, respondents’ answers were coded on 5-point Likert scale (strongly agree, agree, neither agree nor disagree, disagree, strongly disagree). For the multivariate regression analyses, this variable is again transformed into a binary variable, which takes the value of “1” for individuals who strongly agree or agree and “0” for the remaining cases. This is a rather conservative measure of support for social investment and passive transfers, because there are fewer cases in these categories compared to the general spending question used above.⁸

When looking at the descriptive statistics, one conspicuous, but unsurprising finding is that in general, support for spending increases decline precipitously once respondents are confronted with trade-offs across policy fields. In the unconstrained education spending

⁸ In practical terms, the results do not differ much no matter where the exact cut-off point is drawn.

mentioned above, the mean across the whole sample was 2.23 points on the 5-point scale, and looking at the cumulative distribution of responses, about 73 percent expressed support for more or much more education spending. In contrast, only 11.26 percent demand more or much more spending on “education and families” if this additional spending would be financed with cutbacks in passive social transfers. Even fewer (7.82 percent) would like to see more or much more spending on old age pensions and unemployment benefits if this is to be financed by cutbacks in education spending (see table 7 for details). The largest share of respondents disagrees with both statements, a very sizable minority even strongly. The overall mean in the sample is 3.96 for the first question and 4.02 for the second. This could indicate that cutting back spending on pensions and unemployment benefits for the benefit of children and families is slightly less unpopular⁹ relative to the opposite, but the overall message is clear and confirms the similar finding of the previous section: Individual-level support for spending increases drops precipitously, once respondents are confronted with a clear trade-off problem between different social policies. In other words, individuals don’t like being forced to choose, independent of whether they are asked for their support for spending on social investments or passive social transfers.

In figure 5 and the associated table 8, I present findings from multivariate regression analyses on the determinants of support for social investment and passive social transfers, respectively. I also include a third dependent variable that captures general preferences for redistribution. The latter are measured by respondents’ degree of agreement with the statement: “The government should reduce income differences between the rich and the poor.” General redistributive preferences are included here in order to see whether the coalitions that support social investments and social transfers are similar to classical redistributive coalitions. In models 2, 4 and 6, I include measures of (individual) partisan ideology as well as individuals’ general preference for social spending. As above in table 6, I

⁹ An unpaired t test confirms that the difference in means between these two groups is statistically significant.

employ a hierarchical RE model specification that takes into account the fact that individuals are nested within countries in calculating the standard errors.¹⁰

The most important finding in table 8 confirms some of the findings in the previous section: First, supporting coalitions for social investments differ from those of passive social transfers in important ways: Increasing spending on social investments, even if it entails cutting back pensions and unemployment benefits, is strongly supported by individuals with small children at home. The predicted change in probability of supporting social investment is an increase of about 5 percentage points. In contrast, older people are more likely to oppose social investments if they need to be financed with cutbacks in pension spending. Here, the predicted change in probability is a decrease of similar magnitude (4 percentage points). When it comes to passive social transfers, however, individuals with small kids at home are more likely to oppose spending (the predicted change in probability is 3 percentage points). I also find that highly educated individuals are more opposed to spending on passive social transfers. The magnitude of the effect is comparable to that of the “small kids” dummy.

Second, there are also some indications that support for social investment vs. passive transfers is determined by belonging to particular constituency groups rather than cleavages broadly defined, which is revealed when comparing the findings from the first four models with the latter two focusing on general redistributive preferences. In the case of general redistributive preferences, variables such as education, income, age and gender have more explanatory power than in the case of preferences for social investments and passive transfers. What is also interesting is that general support for social spending is positively associated with support for redistribution (as one would expect), but *negatively* associated with support for social investments.

¹⁰ Running logit models with clustered standard errors and country dummies instead does not lead to substantially different findings; results available upon request.

Table 7: Trade-offs in spending preferences: social investment vs. passive social transfers.

	More spending on education and families and cut back on old age pensions and unemployment benefits		More spending on old age pensions and unemployment benefits and cut back spending on education and families	
	Percent	Cumulative	Percent	Cumulative
Strongly agree	1.60	1.60	1.14	1.14
Agree	9.66	11.26	6.68	7.82
Neither agree nor disagree	15.29	26.55	15.12	22.94
Disagree	43.37	69.92	49.62	72.56
Strongly disagree	28.44	98.36	25.20	97.76
Don't know/no answer	1.64	100.00	2.24	100.00
Overall mean (and standard deviation)	3.9626 (1.1350)		4.0293 (1.0915)	

Figure 5: Support for social investments, passive transfers and redistribution.

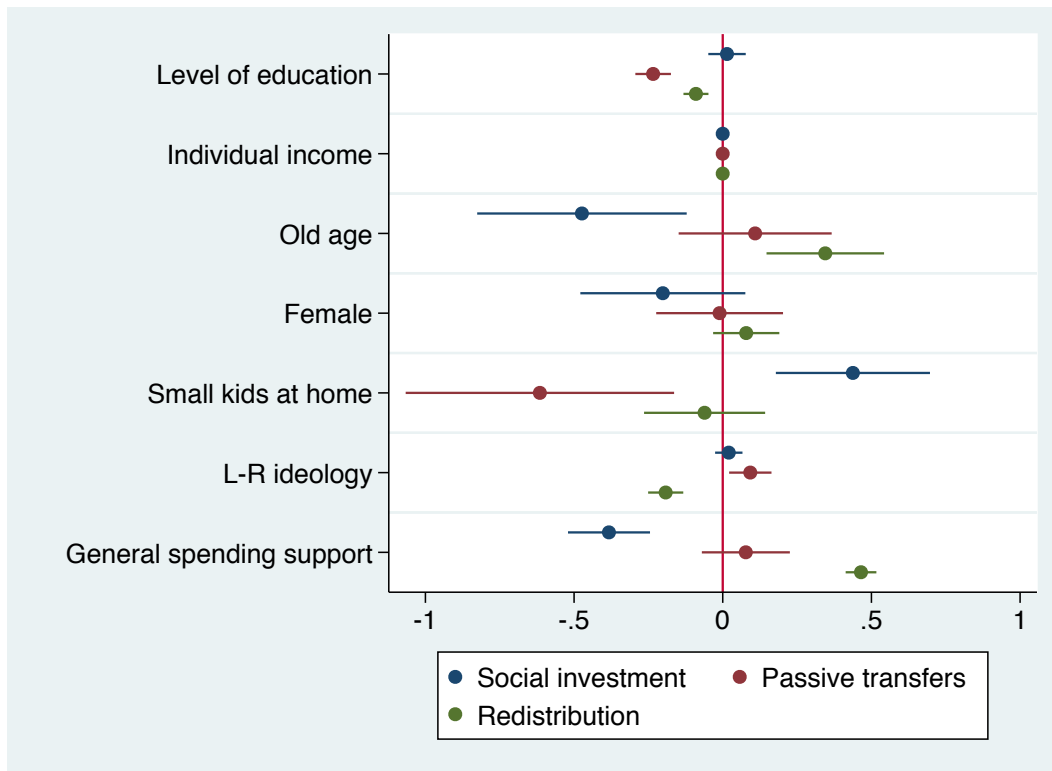


Table 8: Determinants of support for spending on social investments and passive social transfers as well as redistribution more generally defined.

Dependent variable	(1) Support for spending on social investments	(2)	(3) Support for spending on passive social transfers	(4)	(5) Support for redistribution	(6)
Educational background	0.0181 (0.0348)	0.0144 (0.0321)	-0.241*** (0.0354)	-0.234*** (0.0305)	-0.0706*** (0.0206)	-0.0901*** (0.0214)
Income in 1,000 PPP-adjusted \$	0.00121 (0.0127)	-0.0130 (0.0257)	-0.0986 (0.0741)	-0.0868 (0.0751)	-0.0608 (0.0390)	-0.0226 (0.0149)
Age > 65	-0.445*** (0.152)	-0.474*** (0.180)	0.124 (0.115)	0.109 (0.131)	0.236** (0.0929)	0.345*** (0.101)
Female	-0.229* (0.125)	-0.201 (0.142)	-0.0730 (0.116)	-0.0105 (0.109)	0.127 (0.0783)	0.0790 (0.0568)
Small kids at home (dummy)	0.487*** (0.146)	0.438*** (0.132)	-0.463** (0.189)	-0.615*** (0.230)	-0.0771 (0.117)	-0.0610 (0.104)
Union member (dummy)	-0.168 (0.119)	-0.135 (0.126)	-0.176*** (0.0571)	-0.106 (0.106)	0.314*** (0.0792)	0.230** (0.110)
Left-right ideological orientation		0.0203 (0.0235)		0.0927** (0.0363)		-0.192*** (0.0301)
General spending preferences		-0.383*** (0.0704)		0.0777 (0.0755)		0.465*** (0.0264)
Constant	-2.207*** (0.0916)	-0.993*** (0.254)	-1.907*** (0.206)	-2.708*** (0.356)	1.274*** (0.125)	0.585*** (0.198)
Observations	3,842	3,460	3,813	3,445	7,685	6,927

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Conclusions

This paper has added a new perspective to the ongoing debate about welfare state retrenchment by focusing on trade-offs between different parts of the welfare state, in particular social investments and passive social transfers. I found that citizens indeed dislike being forced to choose between different kinds of social policies. Although investments in education are very popular in principle, support for spending increases drops precipitously when citizens are reminded that increasing spending implies raising taxes, increasing levels of public debt or cutting back pensions. The analysis also reveals the existence of an age-related cleavage between different welfare state constituency groups: Whereas young families are keen on expanding spending on education and other social investments, the elderly are wary of cutbacks in pensions that might result from this shift in resources.

The paper has implications for the world of policy-making. The viability of the “social investment state” as the new dominating paradigm in social policy-making could be hampered by the political opposition of powerful constituency groups, if expanding social investments would go along with cutbacks in other parts of the welfare state. Given the limited fiscal room of maneuver of most European governments, this seems unavoidable for the most part, however, since increasing taxes or levels of public debt is no longer feasible. In a way, therefore, welfare states are – again – caught between a rock and a hard place, because the adoption of existing welfare states to meet new demands related to new social risks will most likely go along with political conflicts about the cutting back of existing schemes. The “recalibration” of welfare states along the new social investment paradigm is not impossible as Hemerijck (2013) shows in his comprehensive book. But as I have argued in this paper, policy-makers may expect to face uphill battles against fickle public opinion.

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