

# Preferences for Redistribution in Post-Communist Countries

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*Public attitudes toward inequality and the demand for redistribution can often play an important role in terms of shaping social policy. The literature on determinants of the demand for redistribution, both theoretical and empirical, is extensive (e.g., Meltzer and Richard 1981, Alesina and Angelotos 2005). Usually due to data limitations, transition countries are usually considered to be a homogeneous group in empirical papers on the demand for redistribution. However, new data on transition countries allow us to look more deeply into the variation within this group, and to look at which factors are likely to play a significant role in shaping a society's preferences over redistribution.*

The data we use are from the second round of the EBRD and WB Life in Transition Survey (LiTS) (EBRD Transition Report 2011). This is a survey of nationally representative samples consisting of at least 1000 individuals in each of the 29 transition countries.<sup>1</sup> In addition, and for comparison purposes, this survey also covers Turkey, France, Germany, Italy, Sweden and UK. Furthermore, in six of the countries surveyed – Poland, Russia, Serbia, Ukraine, Uzbekistan and UK – the sample consists of 1500 individuals.

Redistribution is, in general, a complex issue, which can take various forms and rely on different mechanisms. In this policy brief, we will only focus on two forms of public attitudes towards redistribution. The first is direct income redistribution from the rich to the poor and public preferences for or against this form of redistribution. The second is

indirect redistribution through the provision of public goods, some of which favor certain groups of population over others. In particular, we will consider preferences over extra government spending allocations in the areas of education, healthcare, pensions, housing, environment and public infrastructure. Generally, we would like to explore in greater detail to what extent there are differences across countries in terms of public preferences over redistribution and what might explain differences both within and across societies.

Both survey rounds include questions regarding public preferences towards income redistribution, direct (from the rich to the poor) and indirect (through government spending towards certain public goods). Data for exploring public preferences for direct redistribution can be obtained from a question in the survey that asks respondents to score from 1 to 10 whether they prefer more income inequality or less. More specifically, in the LiTS 2010, the question is the following:

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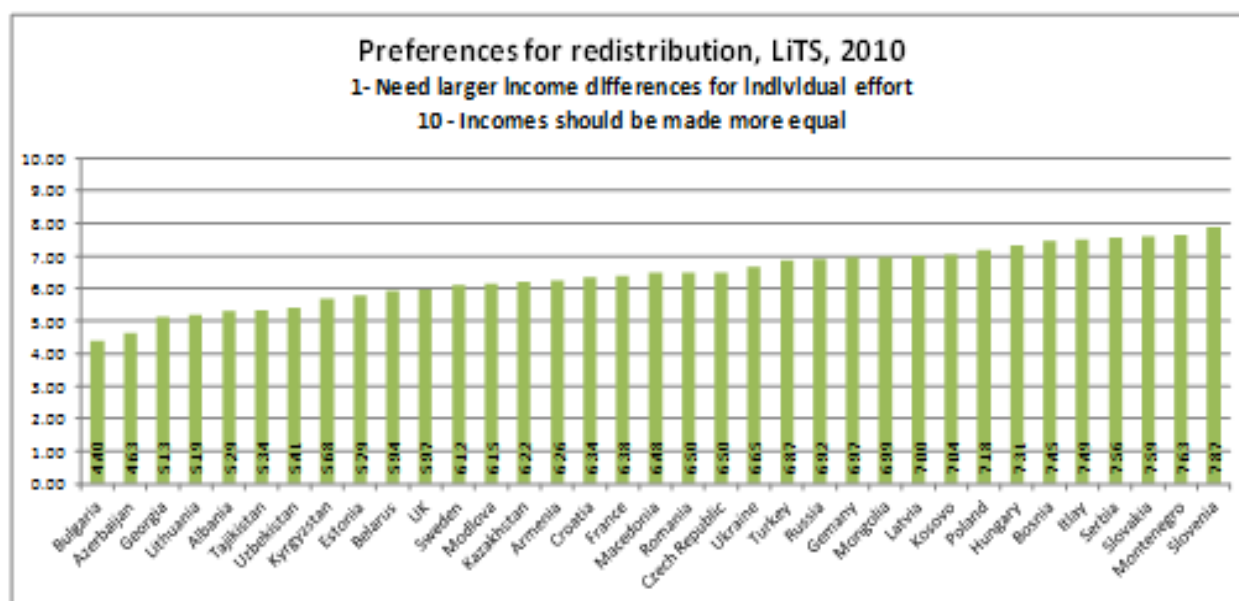
<sup>1</sup> The countries covered were: Albania, Armenia, Azerbaijan, Belarus, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, FYROM, Georgia, Hungary, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Lithuania, Moldova, Mongolia, Montenegro, Poland, Romania, Russia, Serbia, Slovak Republic, Slovenia, Tajikistan, Turkey, Ukraine and Uzbekistan.

*Q 3.16a “How would you place your views on this scale: 1 means that you agree completely with the statement on the left “Incomes should be made more equal”; 10 means that you agree with the statement on the right “We need larger income differences as incentives for individual effort”; and if your views fall somewhere in between, you can choose any number in between?”*

Note, however, that we use the reverse of this so that 10 represents greater equality and 1 represents wider differences. Bearing this in mind, figure 1 shows the average scores for redistribution preferences for a selection of the countries for 2010 and shows a sizeable variation ranging from 4.4 (more inequality) in Bulgaria to 7.87 (greater equality) in Slovenia. The mean for Russia is 6.92.

The data also allows for a comparison to be made between these preferences in transition countries and in the developed economies covered in the survey. For instance, Russians are on average close to Germans in their preferences for redistribution, while Estonians and Belarusians prefer less redistribution and are closer to the British, on average.

**Figure 1. Preferences for Direct Redistribution**



Indirect measures of attitudes towards redistribution can add further depth to these societies' preferences. In particular, the indirect measures in the 2010 survey are derived from a question that asks respondents to rate from 1 to 7 their first priorities for extra government spending.

*Q 3.05a “In your opinion, which of these fields should be the first priority for extra government spending: Education; Healthcare; Housing; Pensions; Assisting the poor; Environment (including water quality); Public infrastructures (public transport, roads, etc.); Other (specify)”?*

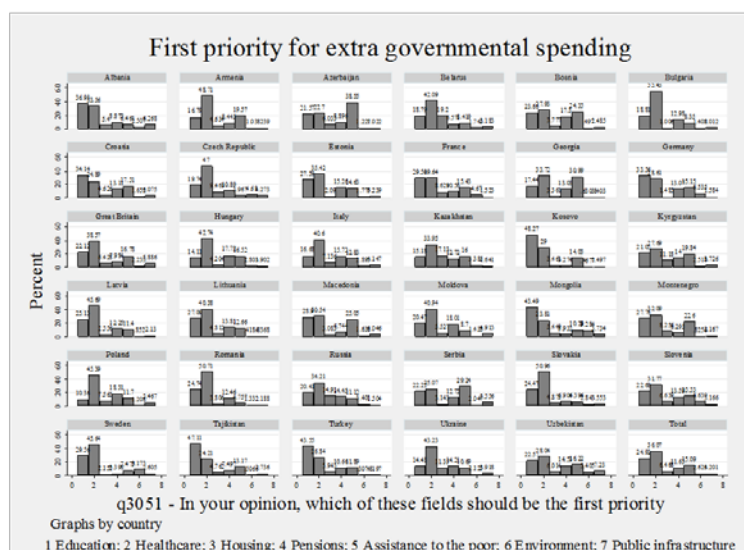
The country averages for these indirect measures for 2010 are presented in Figure 2. The graph reveals a sizeable cross-country variation. For instance, 43.5% of respondents in Mongolia preferred channeling extra government money to education, while 48.7% of respondents in Armenia selected higher healthcare spending. Almost 39% of respondents in Azerbaijan chose assistance to the poor as the first priority for government spending, while the corresponding figure was only 8.3% in Bulgaria and 4% in the Czech Republic. More than 34% of the Russians choose healthcare as their first priority, another 20% choose education, 15% would like the money to be channeled to housing, 14.5% to pensions, 11% to support the poor,

3% to support environment, and only 2% to public infrastructure (2010).

These numbers highlight that there are sizeable differences across the transition countries regarding preferences for redistribution. Also, regarding the form of indirect redistribution in terms of preferences over how government budgets should be prioritized and allocated. Several groups of factors or determinants are typically listed in academic literature to help explain what drives public preferences over the degree and form of redistribution. In the first group of factors, there are various determinants at the individual level. Within the group of individual determinants, self-interest or rational choice of a degree of redistribution favorable to the individual with usual (individual) preferences are stressed. Alternatively, motives behind a preference for redistribution can be related to social preferences (preferences for justice or equity) and reciprocity. Within this general group of self-interest, attitudes towards risks can be stressed as a crucial factor behind demands for social insurance and hence for indirect forms of redistribution. Individuals' prospects of upward mobility, expectations about their future welfare or 'tunnel effect' in shaping their views and preferences over redistribution are also underlined. Also, the commonly held beliefs about the causes of prosperity and poverty are considered to be important in shaping the public's attitudes under the umbrella of social preferences.

The literature covers possible institutional determinants for preferences towards redistribution and emphasizes the role of the level of inequality in a society and typically relates to the median voter hypothesis in democracies. It is also stressed that welfare regimes (liberal, conservative) can play a role in shaping the level of public support for redistribution.

*Figure 2. Preferences for Indirect Redistribution*



A closer examination of the data and estimates of the factors shaping individuals preferences over redistribution in the 2010 survey, are consistent with motives involving strong self-interests of the respondents.<sup>2</sup> Those from richer households have less support for redistribution, with the result being robust to the measure of household income used. The past trend in household income positions is insignificant, while the higher the expected income position of household in the coming four years, the less supportive the respondents are of income redistribution (elasticity -0.1). Those who experienced severe hardships with the recent crisis tend to support redistribution more than those who had little problems or not at all (elasticity 0.13).

Furthermore, the role of preferences towards uncertainty is confirmed: the higher the (self-reported) willingness to take risks, the less likely the individual is to support or favor

<sup>2</sup> The basic empirical equation to study individual determinants of public preferences towards income redistribution is the OLS with country fixed effects (for direct redistribution) and multinomial regression with country fixed effects (for indirect measures). When studying the influence of institutions, the equations are transformed to replace country fixed effects with an institutional measure (one at a time). To control for the basic economic differences, average GDP per capita was included.

redistribution. Respondents with tertiary education are less inclined to support redistribution of income from the rich to the poor, compared to those with secondary education (elasticity is -0.4). Having a successful experience with business start-ups also decreases demand for income redistribution from the rich to the poor (elasticity -0.3). Those living in rural areas are more in favor of redistribution compared to metropolitan areas, while living in urban areas shows the same level of support for redistribution as those living in metropolitan areas. In each of these cases, it appears that those who would benefit the most from redistribution favor it more than those who view it as coming at their expense, or possible expense in the future.

Beliefs regarding the origins of success and poverty are also shown to be statistically significant and negative, as predicted: those who believe effort and hard work or intelligence and skills are the major factors for success are less supportive of income redistribution (elasticity -0.16). Those who consider laziness and lack of will power the major factors for people's lack of success are also, consistently, less supportive of redistribution (elasticity -0.2).

It also turns out that better democratic institutions are correlated with a higher demand for redistribution. The result is robust across the measures used, i.e. it does not seem to depend on the particular measure used. The size of the effect is quite pronounced: a one standard deviation increase in the democracy measure increases demand for redistribution from 16 percentage points, when the voice and accountability measure is used, to 33 and 36 percentage points when controls of the executives and democracy index are used.

Furthermore, the better the governance institutions, as measured by the rule of law and control of corruption indexes, the higher is the demand for redistribution. However, the result is not robust to the various measures used. Government effectiveness appears to be insignificant (though with a positive direction),

and the regulatory quality measure is insignificant but with a negative direction. The size of the effects is again quite pronounced. A one standard deviation increase in the rule of law measure increases demand for redistribution by 17 percentage points, and a one standard deviation increase in the control of corruption measure increases demand for redistribution by 27 percentage points.

The higher the level of inequality, the larger is the demand for redistribution as might be expected. This result is robust across all measures used. The size of the effect varies from 16 to 18 percentage points in response to a one standard deviation increase.

A regression analysis of preferences towards indirect redistribution also shows that self-interest motives are very pronounced, but there are traces of social preferences as well. In particular, younger people (age 18-24) would like to have more subsidized education and housing at the expense of healthcare and pensions in comparison with the age 35-44 reference group. Those in the age 25-34 group would like to redistribute public spending to housing and environment at the expense of education, pensions and public infrastructure. Respondents in the age 45-54 group would also like to redistribute additional spending from education but to pensions. The two groups of older people (age 55-64 and 65+) would like to shift extra spending from education and housing to healthcare and pensions. The group of age 65+ would also like to shift money from assistance to the poor.

Respondents with tertiary education (in comparison with holders of a secondary degree) favor extra spending for education, environment and public infrastructure at the expense of healthcare, pensions and assisting to the poor, thus revealing additional elements of social motivations. Respondents with primary education, when compared to holders of secondary degree, would like to redistribute public money from education to pensions and assistance to the poor. Respondents with poor health favor additional spending on healthcare and pensions at the expense of education.



High skilled (in terms of occupational groups) respondents would like to redistribute public money from pensions to education. Those with market relevant experience of being successful in setting up a business tend to support education and public infrastructure at the expense of housing and pensions, though the result lack statistical power.

Respondents from households with higher income support extra spending for education, environment and public infrastructure at the expense of healthcare, pensions and assistance to the poor; again pointing to the other elements of possible social motivations. Those with a self-reported positive past trend in income position tend to support spending extra money on the environment at the expense of assistance to the poor (the latter lacks statistical power). If the respondent lives in its own house or apartment, s/he tends to support redistribution from housing and assistance to the poor, to healthcare and pensions.

Respondents whose households were strongly affected by the crisis would like expenditure on environment and public infrastructure to be reduced. Those with higher self-reported willingness to take risks would redistribute extra public money to education at the expense of healthcare and housing.

Respondents who believe that success in life is mainly due to effort and hard work, intelligence and skills favor education at the expense of assistance to the poor and public infrastructure, suggesting they might view education as the key to escape poverty. Those who think that laziness and lack of willpower are the main factors behind poverty would, unsurprisingly, redistribute extra public money from assistance to the poor to healthcare.

Males (as compared to females) favor extra spending on education, housing, environment and public infrastructure at the expense of healthcare. The self-employed favor extra spending of public money to pensions at the expense of housing. There is no difference across respondents living in metropolitan, rural or urban locations.

A regression analysis shows that better democratic institutions are correlated with higher support for allocation of additional public spending to education and healthcare, environment and public infrastructure. The effects are larger for education and healthcare: one standard deviation in the democracy index increases the support for spending money on education by 3 percentage points, for healthcare by 3.1 percentage points, and only by 0.4 and 0.6 percentage points for environment and public infrastructure, respectively. This reallocation is at the expense of assistance to the poor (3.5 percentage points), housing (2.6 percentage points) and pensions (1.1 percentage points). The pattern is robust to the measure of democratic institutions used, though the marginal effects vary slightly depending on the measure.

The influence of governance institutions is similar. Respondents in countries with better governance institutions favor allocation of extra public money to education (3.2 percentage points in response to one standard deviation in government effectiveness), health care (2.9 percentage points), environment (0.9 percentage points) and public infrastructure (0.6 percentage points). The reallocation is at the expense of assistance to the poor (4.2 percentage points), housing (3.3 percentage points) and pensions (0.2 percentage points). The pattern is also robust to the measure of governance institutions with the marginal effects varying slightly depending on the measure.

The higher the level of inequality in a country, the higher the demand for spending extra public money for education at the expense of assistance to the poor, pensions and public infrastructure. A one standard deviation increase in the index, increases demand for spending extra public money on education by 3.8 percentage points, and decreases spending on assistance to the poor by 2 percentage points, pensions by 1.9 percentage points, and public infrastructure by 0.06 percentage

points. The results are robust to the inequality measure used.

Overall, the analysis provides empirical evidence that transitional countries are not homogeneous with respect to preferences for redistribution, with sizeable variations in country averages and in public preferences. The study of individual determinants of preferences for redistribution confirms a dominant role of self-interest, with some indications of social sentiments as well. In addition to the usual measures used in individual level analysis, these data allow better control for both positive and negative personal and household experience. The study of institutional determinants also confirms the role of income inequality in shaping public attitudes. In particular, higher inequality is confirmed to increase the demand for direct income redistribution. A novel motive of the paper is the influence of democracy and governance institutions on demand for redistribution. Better democracy and governance institutions are likely to stimulate demand for income redistribution, revealing both higher societal demand for redistribution and appreciation of the potential capability of the government to implement redistribution effectively.

The study of individual determinants of indirect demand for redistribution adds to the overall picture and confirms not only the self-interest motives but also social preferences especially pronounced among people with tertiary education and in high income groups. Better democratic and governance institutions stimulate redistribution of public money towards education, healthcare, environment and public infrastructure, while weaker democratic and governance institutions increases demand for allocation of public money to assistance to the poor, housing and pensions.

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## References

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