

**TAX-AWARENESS AND
THE REFORM OF
THE WELFARE STATE**
Results of a Hungarian Survey
by
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1. Introduction

Reform of the welfare sector is on the agenda in Hungary, as it is in other post-socialist countries. Debate is taking place on the financing of the pension system, health care and higher education, on transformation of the social insurance system, and on the role of the welfare state. Those advocating a given point of view often claim that the public supports some idea or other, without being able to show on what grounds they base their statements. It is especially important under these circumstances to clarify what citizens know of these matters and what position they take on them.

We conducted a survey among the population of Hungary in early 1996,¹ in which we sought answers to two groups of questions. We wanted to know how clearly Hungarians perceive the taxes levied on them, *i.e.*, to what extent they are "tax conscious". Is their picture of the link between tax payment and welfare services accurate or distorted? In addition, we wanted information about the public's preferences over reform alternatives of the welfare system.

The investigation centered on a survey using a questionnaire. The sample of 1,000 was confined to the population of active age, of which it was sufficiently representative. The interviewer spent about an hour in conversation with each respondent. One part of the interview was a customary survey by questionnaire. Answers were received about the characteristics of respondents, and how informed and tax conscious they were. The other part of the interview had more resemblance to an experiment. We wanted to know the magnitude of the tax burden respondents are ready to accept, how much income they are ready to relinquish to the state for providing various welfare services. This approach can be

¹ The idea for the research came from János Kornai, who outlined the main conceptual framework for the survey. The research team was directed by László Csontos. It took place under the auspices of the Social Research Informatics Centre (TÁRKI) at the request of the Hungarian Ministry of Finance (MF), with financial support from the MF and the Central European University (CEU).

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construed as if respondents were entering a hypothetical market, where they had to say what “price” they would be willing to pay for each public provision.² Respondents made choices between alternatives in an experimental decision-making situation, and from these choices we tried to deduce what their preferences would be.

We realize the survey has various limitations. With hindsight, we regret that the sample did not cover the inactive population as well.³ The hypothetical decision-making situations could have been described more clearly and fully (thus the reliability of the experiment’s findings enhanced) if the time available for each interview had been substantially longer than an hour.

In effect, we experimented in the survey with combining public-opinion polling techniques with experimental techniques for revealing preferences. We know that this method is not without its problems. As the interview progresses, the interviewer conveys to the respondent essential items of information that influence his or her opinion. This, however, was precisely what interested us. What position do citizens take if, instead of guessing, rightly or wrongly, they know just what they forfeit in favor of the state’s welfare services?

The main purpose of our earlier studies was to publish the data obtained.⁴ In this paper we go on to emphasize a few lessons to be drawn. The text contains messages of two kinds. First we make statements, for which the survey gives factual support. Of course we cannot claim to have proved these statements empirically, which the limitations of the survey would also preclude. We can claim, however, that the credibility of these statements, the probability of them being true, is increased by the fact that they rest on the survey’s

² This approach is closely akin to the “contingent valuation” method used to determine the demand for public goods. An excellent account of this appears in Mitchell and Carson (1989).

³ When we decided the plan for the research, we wanted to take a sample of at least a thousand to represent the population of active age. This would cover the vast majority of the taxpaying population, the most relevant group for tax awareness. To have extended the sample to include those of inactive age would have raised the costs of the survey substantially.

⁴ The studies about the research appeared so far are Csontos and Tóth (1996) and Csontos, Kornai and Tóth (1996).

numerical results.

Secondly, we also express opinions. These relate to the statements based on the survey, as conjectural extensions of them, but they are interspersed with the authors' suppositions, prior notions and value judgements.

We have tried to phrase the study so as to make it clear where the statements based on the research end and the subjective opinions of the authors begin.

2. Weaknesses of tax awareness

The survey supported the initial hypothesis that the majority of Hungarian citizens do not discern clearly the tax burdens placed upon them. They do not understand the structure of the complex, intricate tax system. Many are not aware that apart from the burdens openly described as taxes (personal income tax, for instance), there are various other contributions that in practice are levied like taxes. These are proportionate to their pay, and partly paid by the employer and partly deducted from the employee's wages.⁵ When we asked on what other grounds, apart from personal income tax, employers made deductions from employees' pay, 10.1% of respondents said there were no other grounds, and 4.3% replied that they did not know whether there were other grounds or not.⁶ Of those who mentioned some kind of contribution, 16–24% admitted that they did not know the rate. Interestingly, the knowledge about the employer's contributions was more accurate.

The taxation levied on the general public includes indirect taxes in the price of goods consumed and services used—general value-added tax (VAT), excise tax, etc. Rather than analyzing the overall data, we just asked about certain products as examples. Table 1 shows

⁵ Not many previous empirical surveys of tax awareness can be found in international literature on economics and sociology. Mitchell (1988), analyzing "pension-awareness" among American employees, found their information was deficient and inaccurate in many cases. Older, unionized workers with higher incomes and skills were better informed than younger, non-union counterparts with lower incomes and skills.

⁶ According to 1996 regulations, in addition to an extremely high personal income tax (the marginal tax rate is 48 percent) wage earners pay a compulsory social security contribution of 10 percent of their salaries and yet another 1.5 percent to the employment fund for unemployment insurance. Employers are also required to contribute a staggering 44 percent surcharge on all salaries to social security.

Table 1
Estimated tax component of the price of products

	Percentage distribution:	
	Gasoline	Bread
Not known	13.4	15.2
Significantly underestimated	46.0	2.6
Largely correct	39.1	17.0
Significantly overestimated	1.5	65.2
Total valid responses	100.0	100.0

Note: The tax content for gasoline is 68–72%, and for bread 10.7%.

a breakdown of the replies for gasoline and bread. Here, and in later tables, we have differentiated between three grades of tax awareness. The correct reply is taken to be 100%. If the respondent is out by up to 25% in either direction, in other words if the response falls within a band of 75–125%, we have graded it “largely correct”. This is by no means strict. On the contrary, the measure is a lenient one. If the estimate is less than 75% of the real figure, we have termed it “significantly underestimated”, and if it exceeds 125% we have called it “significantly overestimated”. The fiscal illusions were strong in the case of gasoline. A very high proportion of respondents significantly underestimated the tax content in the price of the product. With bread, the opposite was the case. Almost two-thirds of respondents greatly overestimated the tax levied on bread.

Citizens are not only misinformed about taxes. Most people have an uncertain knowledge of state expenditure and the true costs of certain “free” public services. Our observations have been summed up in Table 2.⁷ We would like to draw special attention to Columns 1, 3 and 5, compiled on the basis of the total costs of a free provision, or one heavily subsidized by the state. In these cases there are very high proportions of respondents (58.8%, 40.7% and 62.6%) who significantly underestimate the costs of the service, in other words, who live under strong fiscal illusions.

Columns 2, 4, 6 and 7 each show the tax “price” of a service per taxpayer—the annual average amount of tax imposed on each taxpayer by the fact that the provision is free or heavily subsidized. Underestimates are less frequent here, partly because the question came after respondents had guessed the total cost and learnt the right answer. With some tax “prices”, overestimation became more frequent and pronounced instead.

It is certainly surprising that the proportions of largely correct estimates of costs and their tax consequences are so small: only 13–25%.

To sum up, it can be stated that the public’s tax awareness is weak. The vast majority

⁷ Many of the tables in the study cite monetary data in Hungarian Forints (HUF). In February 1996 the central bank posted an average exchange rate of 144.4 HUF to 1 US Dollar (National Bank of Hungary, 1996, p. 76). During the first quarter of 1996 the average monthly gross earnings by full time employees amounted to 40,369 HUF (Central Statistical Office, 1996, p. 60.).

Table 2

Knowledge of the cost and tax price of certain state services¹

	Full cost of a university student's five-year training (HUF)	Tax price to each taxpayer of having free higher education (HUF/month)	Full cost of care for an average patient ² (HUF)	Tax price to each taxpayer of having free hospital care ³ (HUF/month)	Proportion of the price of prescription drugs paid by the state (%)	Tax price to each taxpayer of the subsidization of drugs (HUF/month)	Proportion of present pensions covered by contributions of those currently working (%)	Cost per taxpayer of the present system of social assistance (HUF/month)
Average of respondents' replies	1,527,535	3,019	63,874	2,403	49.7	988	67.0	1,488
Actual figures ⁴	2,000,000	900	46,000	2,100	85.0	1,400	94.0	1,100
<u>Distribution of knowledge about costs and the tax price, as a proportion of the valid responses</u>								
Not known	14.2	28.5	8.6	21.3	9.6	23.9	13.9	23.4
Significantly underestimated	58.8	21.0	40.7	39.4	62.6	46.1	45.3	22.9
Largely correct	13.1	20.0	25.1	21.3	27.8	14.9	40.8	23.3
Significantly overestimated	13.9	30.5	25.7	17.5	0.0	15.2	0.0	30.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

- 1 The questioning took place in the following order. First we asked, 'Please would you guess how much you think it costs for the full five-year training of a university student under the present system.' Once the respondent had given a reply, the interviewer told him or her the correct answer. Then came the next question: 'In your opinion, what monthly burden is placed on an average taxpayer by having free higher education?' The questions about the other services were put in a similar way.
- 2 We suggested the respondent should consider the cost to the social insurance system of a 10-day internal examination in hospital, and disregard gratuities paid by the patient to staff.
- 3 The questionnaire asked for the proportion paid by the public. Here the inverse proportions are given for comparison's sake. This entails the assumption, of course, that we would have obtained inverse responses to inverse questions.
- 4 In 1995. Sources: Ministry of Finance, communicated by Endre Gács.

are uncertain or incorrect in their knowledge. Many people live under fiscal illusions, underestimating the tax burden required to maintain state services.

In our opinion, there is a combination of various factors causing this phenomenon. False tax awareness arose under the socialist system; the tax burden on the population was concealed (notably the huge turnover tax built into the price of goods, and various deductions from enterprises). People thought the paternalist state provided them with services “free”.

The tax reform of the reform-socialist period, which began with the institution of personal income tax and VAT in 1988, made citizens at least partly aware of being taxpayers. However, the present tax system is highly complex and baffling to the average citizen. Politicians, government departments, the press, radio, television and schools have failed to explain adequately the connection between state provisions and taxation.

3. Distribution of preferences on state welfare services: preliminary analysis

In trying to ascertain public opinion on alternatives for reforming the welfare sector, we put questions of various kinds. To begin with, let us concentrate on one type. We described to respondents three kinds of institutional system or “mechanism” for various services currently provided by the state. The choices appear in Table 3, quoting the questionnaire verbatim.⁸ Respondents said which they would choose: a “centralized state solution”, a “mixed construction” or a “market solution”. Before considering the distribution of the responses, there are some remarks to make about the questions themselves.

(1) The alternatives given make up a tiny fraction of the set of possible alternatives. A thousand combinations of state, quasi-state/corporatist, and private elements can be

⁸ With hindsight we see it as a mistake for the questionnaire to offer only two, instead of three institutional alternatives for financing the provision of drugs. One was to keep the present state subsidy, and the other to abolish it altogether. For want of an intermediate alternative, the vast majority chose to keep the state subsidy. This section omits the institutional preferences for drug provision because in our opinion the absence of a mixed alternative leaves the responses inconclusive.

However, the chance to consider intermediate solutions to financing drug provision too came with another question in the survey. We return to this matter in the next section.

Table 3
 Institutional alternatives offered in the questionnaire for higher education,
 hospital care, and pension-system mechanisms

	Higher Education	Hospital Care	Pensions
Centralized state solutions	'Higher education should be free even if this costs the average taxpayer 900 forints a month.'	'The present system of hospital care must be retained. The average taxpayer should continue to pay the social insurance system HUF 2,100 a month for hospital care, and if need be, pay the customary gratuities as well.'	'Everything should remain the same. There should be no change in the present system of pension insurance.'
Mixed constructions	'Students should pay part of their tuition costs, while taxpayers continue to pay the rest.'	'An insurance scheme guaranteeing services similar to the present one should remain compulsory, but all should be free to choose whether to contract with the social insurance system or a private insurer. Apart from the compulsory insurance, all should be free to take out voluntary insurance if they want better hospital care.'	'Pension insurance should remain compulsory, but all should be free to choose whether to contract with the social insurance system or a private insurer for the sum received as a pay increase. Apart from the compulsory insurance, all should be free to take out voluntary, auxiliary pension insurance if they want a higher pension.'
Market solutions	'The monthly HUF 40,000 should be paid by those who go to university. This would reduce taxes; net average pay could rise by about 3-4%. (Students who cannot afford it would have access to state-guaranteed loans.)'	'There should not be compulsory insurance for hospital care. All should decide whether to take out insurance or spend the money on something else. Those without insurance to cover hospital care could at most pay the costs out of their own pocket if they went to hospital.'	'There should not be compulsory pension insurance. With the sum received as a pay increase, all should be free to decide whether they want to take out pension insurance, or whether they would rather spend the money. Those without pension insurance would either look after themselves in old age or be looked after by their families.'

envisaged, and, in fact, exist in practice in various countries. We made the choice very narrow. It could be, for instance, that even more people would have accepted the "mixed" constructions if they had been given more alternatives containing various combinations of state and non-state institutions and procedures.

(2) The wording of the short explanation given for "market solutions" was somewhat deficient, and therefore too extreme. The experts who advocate such solutions usually consider it self-evident that there is not unlimited freedom on the market for such services. The operation of the decentralized, autonomous institutions providing services is constrained by law and supervised by state authorities, which regulate prices for some services, perhaps provide state guarantees, *etc.* Greater emphasis on all these kinds of intervention and restriction might have made this alternative more attractive.

(3) The fact that the interview combined in a curious fashion the features of a questionnaire-based survey and a decision-making experiment caused a further problem. In a real questionnaire-based survey, the interviewer does not convey information to the respondent. The aim is to find out how the respondent will react to the questions in the light of the information he or she already possesses. Here the interviewer conveyed information, saying what the tax consequences of particular state programs were, correcting the respondent's mistaken information, and then explaining the alternative mechanisms. However, this last group of questions was not elaborated thoroughly by the interviewer. There were only a couple of minutes at his disposal, and this proved a very short time for explaining complex alternative systems. Furthermore, these are not generally known alternatives. Some of them are merely imaginary possibilities, taking forms not yet directly known to the Hungarian public. Respondents knew little about them from personal experience. If we had wanted to set up a real experimental situation, we would have had to give far more information, thereby giving the respondent a much better understanding of the hypothetical decision-making situation.

While pointing to the survey's shortcomings, we must still emphasize our belief that the responses can be interpreted and evaluated. The numerical results obtained provide a picture of the main proportions even though their accuracy can be questioned.

Table 4 gives a summary of the results. The distributions for the three spheres of

Table 4

Institutional choices: support for 'state', 'market' and 'mixed' solutions

	Higher education	Financing of Hospital care (%)	Pensions
Centralized state solutions	42.1	35.5	21.4
Mixed constructions	43.5	44.1	56.6
Market solutions	12.1	17.9	18.5
Unable to decide	2.2	2.5	3.5
Total	100.0	100.0	100.0

provision differ. The state solution attracts the most adherents in the field of higher education. With hospital care, only a third of the respondents support a centralized state alternative; with the pension system the proportion is just over a fifth. The mixed constructions attract the most support in all three spheres, and gain an absolute majority in the case of the pension system. The level of support for the alternative described in the questionnaire as market solutions is 12–18%.

A very small proportion of respondents stuck to a “purely state” or “purely market” mechanism for financing all three spheres—higher education, health and pensions. Those who in all three fields consistently supported only the centralized state solution, the status quo, constitute 9.8% of the sample. The proportion consistently supporting a purely market solution was an insignificant 0.9%. The vast majority preferred the combined forms, mixing state and market elements, for all three, two, or just one of the systems.

For our part, we drew the following practical policy conclusions from what has been said so far concerning the summary data on institutional preferences.

There is broad support for reforms of the welfare sector that move away from existing centralized, paternalist forms, funded exclusively out of taxation, and introduce also in this sphere elements of decentralization, non-state institutions, and competition. However, the majority of the population shrink from the extreme forms of laissez faire. They reject the idea that the state should “withdraw” completely from the welfare sphere.

4. The dispersion of preferences and freedom of choice

Whatever the form in which we put the questions about preferences, we found a wide dispersion among the answers.

We asked respondents how they thought HUF 100 of state expenditure were currently divided among four areas: (1) defence, police, administration and justice, (2) education and health, (3) other welfare services, and (4) economic purposes. We then asked them how they would make the division, and within this, how the share of education and health spending would fare. It turned out that only 6.8% of respondents would leave the proportion unchanged; 50.8% would reduce it and 42.4% increase it.

Let us look at Table 4 again. No majority view emerged about spending on

universities or hospitals. Although the mixed construction for the pension system received majority support, respondents' views should certainly have been divided if they had been asked to choose between various kinds of the mixed construction.

There are some underlying lessons to draw from what has been said. The most important consideration is not what percentage of momentary public support there is for some institutional solution or other. The numerical results may not be entirely accurate, or if they happen to reflect the current views faithfully, those views may change. The most important point to recognize is the dispersion of the public's preferences: there is no alternative that attracts overwhelming support. That being the case, we do not consider the solution to be for the majority view at present to be imposed on those currently in a minority, which will then feel uncomfortable under the mechanism that emerges. Instead, there should develop mechanisms that allow as far as possible for choice (or widen the existing opportunities to choose.) Let individuals be forced into joining schemes as little as possible. On these grounds alone, the state monopoly and dictation in the welfare system should give way to competition, among organizations in various forms of ownership, and parallel operation of various forms of insurance and funding.

Public opinion is divided not only over the institutional forms, but over the quantitative level of funding as well. One scheme with which motorists at least are familiar is voluntary comprehensive insurance. In Hungary this normally includes a deductible part ("co-payment") on each claim, so that the loss is shared between the insured and the insurer. The lower the deductible, the higher the premium will be. We transferred this idea to the financing of hospital care and drug purchases. Let us take hospital care as an example. At present the social insurance system pays an average of HUF 1,040 a month per insured (dependents as well as those paying contributions) to cover the costs of hospital care. Let us assume that a private insurer undertook to finance the hospital care against payment of the same amount. Having explained this to respondents, we asked, "Look at this table, where we have shown, alongside various monthly per capita insurance premiums, what percentage of the costs of hospital care you would have to pay. In this case, which would you choose?" The distribution of the replies appears in Table 5. We were following a similar line of argument in phrasing the question about drugs; the distribution of the replies is

Table 5

The degree of acceptance for various co-payments by patients
for hospital care

Monthly insurance premium per family member (HUF)	What proportion of the cost of hospital care would the patient pay? (%)	Proportion of respondents choosing the option (%)
156	85	2.4
260	75	2.8
520	50	17.0
780	25	13.6
1,040	0	56.5
Unable to decide	-	7.7
Total	-	100.0

Note: The question ran as follows:

'Let us assume that private insurers would charge the same amount for similar hospital care as the social insurance system, in other words HUF 1,040 a month per family member, but would offer you more choice.

'Look at this table, where we have shown, alongside various monthly per capita insurance premiums, what percentage of the costs of hospital care you would have to pay. In this case, which would you choose?'

shown in Table 6.

With the pension system, we asked, among other things, whether the pension contribution should remain unchanged, be raised, or be reduced. The questions and the distribution of replies appear in Table 7.

The lesson to be learnt from the quantitative choices in Tables 5, 6 and 7 is the same as for the qualitative choice between institutional forms. People's ideas are not uniform, but widely dispersed. So the conclusion is not to make the procedures uniform. We should not force the public to accept a system of completely free provisions (and the accompanying high taxes), and we should not force them to cover all the costs themselves. Where feasible, both qualitative (institutional) and quantitative alternatives should be offered, and people allowed to choose between them according to their own value systems and priorities.

5. The effect of tax and cost-awareness on preferences

There are several factors that affect the preferences of individuals making choices about state welfare provisions. Among those whose effects our research allowed us to examine were (1) the respondent's degree of tax and cost-awareness, (2) the direct personal interest of the respondent, and the respondent's (3) age, (4) education, (5) income, and (6) occupation.

We examined the effects of these factors singly, in isolation from one another, and we also took some initial steps towards examining their combined effect, mainly through regression analysis.⁹ As a first step in the series of regression calculations, we wanted to explain what factors induce people to adhere to or reject the status quo. This and the next two sections refer alternately to separate examinations of the effects of single factors and the results of the regression analysis.

Let us start with tax and cost-awareness; the calculations suggest the following statement. The better a taxpaying citizen understands that there are no truly free gifts from

⁹ The definitions of the variables and the equations used in the regression calculation, along with the results obtained, and a few other mathematical-statistical analyses appear in Csontos and Tóth (1996). This study includes only a few partial results.

Table 6

The degree of acceptance for various proportions of co-payment by patients in the case of drug-price subsidies

Monthly insurance premium per family member (HUF)	What proportion of the price for drugs would you have to pay? (%)	Proportion of respondents choosing the option (%)
240	70	6.7
390	50	11.1
550	30	16.7
670	15	22.6
790	0	34.5
Unable to decide	-	8.4
Total	-	100.0

Note: The question ran as follows:

'Let us assume that private insurers would charge the same amount for similar price subsidies as the social insurance system, in other words HUF 670 a month per family member, but would offer you more choice.

'Look at this table, where we have shown, alongside various monthly per capita insurance premiums, what percentage of the price of drugs you would have to pay. In this case, which would you choose?'

Table 7

Distribution of opinions on the size of pension contributions

Position taken	Proportion (%)
The contribution should not be changed	40.1
The contribution should be raised	20.9
The contribution should be reduced	39.0
Total	100.0

Note: The full description of the alternatives ran as follows:

'1. The pension contribution should not be changed; my pension will be paid by those working at that time. 2. The pension contribution should be raised, and the money accumulated in this way should be used to cover our pensions. 3. The present pension contribution should be reduced, so that earnings can rise, and everyone can decide what to do with the extra money, for instance, put it aside for their old age.'

the state, since taxpayers cover the cost of providing them, the greater the aversion he or she will show toward the state solution.

We do not state that the relation is deterministic, as tax and cost-awareness do not form the sole explanatory factor. Some citizens well aware of the link between tax and state provisions knowingly accept the weight of taxation those provisions entail. On the other hand, some people are repelled by state paternalism because of other factors than tax awareness, while their knowledge about taxes is inaccurate. All we state is that there is a considerable positive stochastic relation between tax awareness and antipathy to the state alternative.

Table 8 shows this clearly. The tax-awareness variable also proved to have a strong explanatory value at a high level of significance when the regression calculations for adherence to the status quo were made.¹⁰

The interview itself, even though it only lasted for an hour, was a substantive cognitive process for our respondents. This can be shown from a single example. As mentioned in Note 6, we only put forward two institutional alternatives for drug provision: maintenance of the present system of state subsidy, or abolition of the state subsidy. Based on this knowledge, 75.1% of respondents chose the state subsidy. Later, however, we presented respondents with a hypothetical graded system of deductibles and premia. (See Table 6.) We gave them the chance to think: if they pay a higher premium (or by analogy, higher health-care tax or contributions), the proportion of the deductible part will be lower, and if the premium or tax is lower, the proportion of the deductible part will be higher. Once in possession of this extra information, a significant proportion of respondents turned away from the principle of full state subsidy.

There was one more form in which we could study the correlation between tax awareness and the position taken by citizens. The following question was put in an earlier

¹⁰ It needs to be noted, however, that we defined tax-awareness very narrowly in these initial calculations, confining it to whether the respondent knew about employee's and employer's contributions. Even the presence or absence of this minimal knowledge contributes significantly to explaining the preferences.

Table 8

Tax-awareness and institutional choice

Degree of tax-awareness concerning the total cost	Proportion of those preferring the state solution (%) in the case of	
	Higher education	Hospital care
Not known	45.9	43.9
Significantly underestimated	44.9	38.9
Largely correct	42.0	36.2
Significantly overestimated	33.1	30.6

Note: The table should be interpreted as follows. Of those who e.g. significantly underestimated the total cost of maintaining higher education, 44.9% preferred state financing of higher education.

public opinion survey.¹¹ In the respondent's opinion, does the state have an unconditional responsibility to (1) provide health care for the sick, and (2) provide a decent livelihood for the old? One of the authors of this study, János Kornai, objected to this formulation of the question,¹² because an affirmative answer from the citizen was not associated with conscious acceptance of the tax price of ostensibly free state services. We think this procedure relies on a fundamentally false methodological premise. The premise rests on the unstated conviction that "free lunches" exist on a society-wide scale. When questionnaires compiled by this "free-lunch" methodology enquire about the state's unqualified obligations (e.g., "Does the state have an unconditional responsibility to care for the sick?"), they conceal the elementary economic truths linking the costs of the state programs with the tax paid by the respondents. It is like asking a respondent whether he wants a free cinema ticket. There can be no doubt for a moment about the answer: "If it really costs nothing, of course I'd like one." If they then go on to ask, "Does the state have a responsibility to care for the old, children, the unemployed and the poor?" we can naturally expect a succession of further affirmatives. It is as if the previous example continued, and the respondent were asked if he would like vouchers for a free drink, a free sandwich and a free coffee as well. It is easy to draw from all this the conclusion that most citizens are devoted to centralized state solutions. Such a conclusion is ensured by the structure of questionnaires based on the free-lunch methodology.

At the end of our hour-long interview we put the same question. Although the question as formulated does not yield the true preferences in connection with state intervention, it is worth repeating for comparison's sake, in its original form. The result, complemented by another column of data, appears in Table 9. The following can be established from this.

During the hour's conversation, the interviewer gave some pieces of information about the actual costs, in taxation, of the "free" programs. He made respondents aware through the wording of the other questions as well that there is a link between the provision

¹¹ See TÁRKI (1996).

¹² Kornai (1996).

Table 9

Opinions on the role of the state. The proportion holding the etatist view (%)

	(1) 1994 survey: affirmative response to the question about the 'duty of the state'	(2) 1996 survey: affirmative response to the question about the 'duty of the state'	(3) 1996 survey: choice of centralized state solution as the institutional alternative
(A) Health care	82.3	65.9	35.5
(B) Pension system	72.3	62.6	21.4

Notes: Columns 1 and 2: In the 1994 survey, the interviewer began the sentence with: 'Does the state have an unconditional responsibility ...' The respondent then had to state whether he or she agreed with the following alternatives for a continuation of the sentence: '... to provide health care for the sick,' and '... to provide a decent livelihood for the old.' In our 1996 research, we repeated the question in the same way. We have omitted the inactive people from the 1994 sample, so that Columns (1) and (2) are comparable.

The 1996 survey was done differently from the one taken in 1994 because the respondent answered the question after about 30 minutes of dialogue when he received information about the tax price of health care and pension.

Column 3: Here we give the proportion of those who chose the 'centralized state solution' out of the three institutional alternatives put before them. (see Table 3.)

All three columns of the table refer to data whose economic and institutional content is closely related, but for which the frame of the question differs. This is just what we wanted to demonstrate: what a strong influence the method of putting the question has on the response.

With Row (A) of Column (3) it should be noted the question referred only to hospital care, not health care as a whole.

of a benefit by the state and the tax imposed on citizens. The one hour interview sufficed to alter the distribution of the replies from the respondents compared to the distribution of the 1996 survey by 10–16 percentage points; *i.e.*, much fewer people endorsed the vaguely expressed paternalist function of the state. Still more worth noting is Column 3, which presents the responses to a question radically different from the free-lunch methodology. Here we are not expecting a general remark about the “responsibility of the state”, but a far more tangible choice between state and not purely state institutional alternatives. Lo and behold, the proportion of advocates of the state solution is dramatically smaller, forming a minority of all the respondents.

Here it is worth recalling the debate that took place between János Kornai and Zsuzsa Ferge. The former¹³ conjectured that citizens’ opinion on the welfare tasks of the state would be different if they were better acquainted with the tax consequences of these. Ferge, in her paper,¹⁴ cast doubt on this conjecture. In her view it would only alter the opinion of citizens to an insignificant extent. However, we think that the results quoted from our research support the view that the degree of tax awareness, the knowledge possessed about taxes, and also the possibility to choose between alternatives influence the opinion of citizens to a substantial degree.

Assessing the methodology of our research after the event, it is clear that there would be further ways of examining the connection between tax awareness and the preferences. We could ask respondents twice, under experimental conditions, which of the various institutional alternatives they would choose (offering if possible a wider choice.) First let them answer on the basis of the information possessed before the experiment, in other words, guided by a true or false tax awareness. Then the correct information could be given to them, and the question put again. This would provide a direct picture of what role was played by the intervening correction to tax awareness in the fact that the respondents were prepared to revise their initial, original decision. We would like to undertake this experiment in our future research.

¹³Ibid.¹⁴

Ferge (1996).

6. The effect on preferences of respondents' direct personal interest

Our hypothesis here is fairly self-evident. When asked to make a choice on a question that concerns the whole population, respondents base their determinations partly on the impact this decision will have on themselves and on their families. There is a high chance that the alternative thought personally beneficial will be preferred. For brevity's sake, we will refer to this concern as direct personal interest, and go on to discuss its types and effects.

What might induce respondents not to choose alternatives most beneficial to them or their families? It might be a failure to discern what was personally beneficial, or it might be a readiness to override selfish considerations and accept a disadvantage for altruistic reasons. These two reasons cannot be distinguished in our survey. It would require in-depth interviews to do so. However, as we asked a high number of citizens, and it can hardly be assumed that all of them mistakenly identified their interests, some kind of picture of the proportions between self-interest and altruism emerges.

Let us begin by disclosing the general observation from our survey. Though direct personal interest affects preferences on many (but not all) questions, the effect is not very strong.

The effect shows clearly in Table 10. Both columns support the hypothesis, especially the one with the number of children supported. The more children there are in the family, the greater the desire that people receive free university or college education at the taxpayers' expense. The calculation is quite simple. The more children there are in the family, the likelier it becomes that the saving obtained from free higher education will exceed the tax price of free education paid by the respondent. Ultimately, such a family receives a net donation from the other taxpayers.

The table also shows that the relationship is not very strong. This may be because the respondents did not grasp the connection very well (although we told them the tax price of free higher education before they made the choice.) Or it may be that a respondent with several children is certain that none of them will go to university, so he or she in fact has no direct personal interest. Certainly altruistic considerations played a part in many cases. An impressively high proportion of childless respondents, on whom the question has no personal bearing at present, are still prepared to pay the tax price of having free higher

Table 10

The relationship between the number of children and institutional preferences

Number of children	Proportion of those preferring the state solution (%)	
	categorized by total number of children born	categorized by number of children currently supported
None	40.3	38.1
1	37.9	43.3
2	43.9	45.9
3	52.8	50.8
4 or more	53.1	50.0

education. Even if one subtracts the childless young, who may have children in the future, it can be stated that about a third of people are prepared to give selfless support to free higher education. (We return to the question of altruism in Section 9.)

With reform of the pension system, the direct personal interest clearly depends on the age of the respondents. Only 16% of those under 24 believed in retaining the present pension system. This proportion rose by 3–4 percentage points per ten-year age group, reaching 24.4% for those over 55. There is a correlation, but it does not seem to be particularly strong. In the regression calculation on adherence to the pensions status quo the age of respondents also proved significant as an explanatory variable (with a significance level of 1.3%). It is interesting that no relationship appears between the choice of institutional alternatives for the pension system and cohabitation with parents or the parents' age.

We conducted discriminant analysis for the characteristics of the group opposing institutional reform of hospital care (adhering to the status quo) and those supporting reform. One finding was that there are many more opponents of reform among those on whom the question has a bearing, due to their own or their dependents' illness, and who presumably fear that the reform would endanger the free nature of the service. Table 11 shows the results of another examination. The more disillusioning a hospital experience has been, the likelier a citizen becomes ready to replace the state solution with institutional alternatives incorporating market elements.

The conclusion from the examination is that although direct personal interest influences people's choices, it would be an indefensible simplification to explain the preferences solely by this, or, more generally, by plain material interest.

7. Other factors affecting preferences

The research has supported the following two propositions:

The younger and more educated a respondent, and the higher his or her income, the likelier it becomes that he or she will support a shift away from the status quo, and choose one of the mechanisms containing market elements, i.e. reform of the welfare sector. Adherents of reform appear more frequently among entrepreneurs and professionals than

Table 11

The relationship between degree of satisfaction with hospital care and institutional preferences

The standard of hospital care is ...	Proportion (%) of respondents choosing			Total
	centralized state solution	mixed construction	market solution	
Very bad	22.5	44.9	32.6	100.0
Bad	35.1	52.3	12.6	100.0
Medium	36.1	45.9	18.0	100.0
Good	53.0	34.0	13.0	100.0
Very good	66.7	33.3	0.0	100.0

among wage and salary-earners.

These propositions are confirmed by the regression analyses already mentioned several times. Almost without exception, the explanatory variables representing these factors proved strongly significant and were incorporated into the estimation of the parameters of the regression equations with the appropriate sign following from the above statements.¹⁵ The propositions are also supported by the discriminant analyses, which examined the dissimilar features of the groups adhering to and rejecting the status quo.

There are important economic-policy and political conclusions to be drawn from the propositions. They make clear which strata of society will accept ideas for reforming the welfare system more easily, and which will put up more resistance.

It is worth reflecting on what else affects those who adhere to the status quo, apart from the degree of tax awareness, direct personal interest, age, standard of education, income and occupation. We are reduced to conjecture. One obvious approach is the psychological one. The group wishing to retain the status quo will obviously show a higher incidence of those who fear experiment and innovation and do not want to risk change even if they do not like the existing conditions. Another factor may be the mentality of the many who expect the state, solely or mainly, to look after their security. Value preferences may apply: the collective interest may be preferred over individual sovereignty, with a consequent aversion toward market mechanisms, as being based on individual decisions. Past experience and allegiances may play a part. Those who found many features of the socialist system more attractive or advantageous than the present post-socialist transition to capitalism may insist for intellectual, ideological and emotional reasons on the old welfare system, as one of the main elements of the ancien regime.

Further research will be needed to test these conjectures and other possible hypotheses.

¹⁵ The exceptions are that the variable representing income did not prove sufficiently significant in the calculations for hospital care and the pensions system.

8. Acceptance of the principle of self-reliance

One process auxiliary and complementary to forcing back the paternalism of the state is to end the “infantile” state in which citizens have lived and restore them adulthood again. Citizens must assume greater independence and concurrently responsibility for themselves and their families.

Based on our research, the following proposition can be made. The principle that we should rely principally on ourselves has not yet gained sufficient ground among Hungarian taxpayers.

Asked how they would prepare for their retirement years, 50.7% of respondents said they had not thought about it. This is an astonishingly high proportion. The disregard is not uniform, of course, but related to age, as Table 12 shows. To some extent it is understandable that those further from old age should think about it less, but citizens will have to learn eventually to prepare for their old age over several decades, throughout their earning lives. This can only be left to the state in part. The fundamental role must be played by various forms of saving.

A sizeable proportion of the population (although still a minority) already realize the need for self-reliance. This is expressed, for instance, when people take out various forms of voluntary insurance policies. When asked how they prepared for their old age, 23.3% of respondents mentioned taking out an annuity or pension insurance policy, or joining one of the voluntary pension funds.

With reform of health-care financing, many people misunderstand the principle of self-reliance. They think there are only two alternatives: to have the state act as a universal insurer, or for individuals to cover the costs out of their own pocket. This misconception has been compounded by the recent and imminent state measures in the field of health-care financing. This is because no institutional changes have been made yet or are envisaged in the near future, the only change was the introduction of co-payments by patients. It has not been accompanied, in a tangible, transparent way, by reductions in tax and social security contributions. Most developed, mature market economies have non-state insurance institutions, offering medical insurance policies. These cover most of the costs in exchange for a premium. The insured can choose between a lower deductible and a higher premium,

Table 12

Preparation for old age

Age in years	How are you preparing for your retirement years? Have you thought about this? (Percentage distribution)		
	No	Yes	Total
24 and under	78.2	21.8	100.0
25-34	60.6	39.4	100.0
35-44	46.7	53.3	100.0
45-54	38.4	61.6	100.0
55 and over	25.0	75.0	100.0
Total	50.7	49.3	100.0

or if a higher rate of deductible is accepted, the premium will be lower. When we explained this hypothetical option to respondents, many of them were inclined to take advantage of it. (See Table 6.)

It is worth noting that those who had become acquainted with the idea of private insurance were more inclined towards reforms that would give greater scope for decentralized, non-state forms of insurance. Table 13 clearly links the number of private insurance policies respondents hold to an increasing inclination to detach themselves from the state insurance monopoly.

9. Support for the principle of solidarity

We agree with the view that the principle of solidarity should apply to welfare policy. On the one hand this embodies the objective that society should care for those in need of such support. On the other it allows redistributive taxation, whereby heavier taxes are imposed on those better able to bear them, provided this does not damage the spirit of enterprise, constrict innovation, reduce investment and savings, and dampen economic performance.

There is a view, usually advanced rather timidly, that most people are not willing to make sacrifices for purposes of social solidarity. The argument goes that if Realpolitik sets out to apply this principle notwithstanding, it can only act as follows. It imposes on the public a levy that it then spends on purposes of social solidarity. In doing so it draws people's attention as little as possible to the fact that it is taking money out of their pockets to support others. This is the ostensible advantage of having a baffling system of contribution and redistribution that works without the public's conscious consent. If the public were asked for their permission, they would not give it in any case.

By the same argument, it is an advantage (not a drawback) of the so-called social insurance system in Hungary and many other countries that it inextricably mixes a true insurance system with elements of a redistributive system of tax-based financing. What happens is that different recipients of the same service (e.g., the same kind of health care) pay different prices (contributions) for it, depending on their income. This would be inconceivable for other products and services, including true insurance. Scrutiny of the

Table 13

The relationship between the number of private insurance policies held and institutional preferences

Number of types of insurance policy held by the respondent	Proportion of respondents choosing the centralized state solution (%)	
	Hospital care	Pension system
0	40.1	29.9
1	37.3	21.6
2	35.9	23.3
3 or more	29.6	9.5

Note: The question put to respondents enquired whether they had house, life, comprehensive car, and pension insurance. The table shows in relation to the answer the proportions of those favouring the centralized state solution in the two spheres of the welfare sector.

economic content of “social insurance contributions” reveals that they irretrievably combine the functions of an insurance premium and progressive taxation related to income.

The question raises some fundamental problems of political philosophy and ethics. Is it admissible to remove money from people’s pockets by subterfuge, even for noble purposes? Do the principles of the democratic political process leave room for the state, and the parliamentary majority governing it, to conceal from its voting, taxpaying citizens how it levies taxation and what it uses it for? Should it seek to apply the solidarity principle in this Machiavellian fashion if it fears that the majority of citizens would not endorse the planned use of taxation revenues? Or is it legitimate to confuse matters intentionally in the opposite case, when for conscience sake it can be said that the majority of citizens—after receiving detailed information—would approve of taxation for solidarity purposes anyway, so that it is superfluous to inform them and ask their permission? In the authors’ view, the answer to all these questions is no.

Whether their reply to these questions is negative, like the authors’, or affirmative, readers will doubtless agree that it is worth examining empirically whether such “solidarity taxes” need concealing at all. If the question were put to them openly, would the public refuse to pay?

Our research does not give a clear picture of the public’s point of view. For one thing, we could not set about unravelling the insurance and redistributive strands in the present system and comprehensively presenting the problem within the space of an hour’s interview. Nonetheless, some light was shed on this obscure area of public opinion and feeling.

As mentioned in Section 6, almost a third of the respondents were prepared to accept the tax price paid for having free higher education, even if they had no children and could not expect any. Similarly, many people were willing to pay the redistributive element in the health insurance system, even if they were not directly concerned at the time, and could feel more or less that they would be helping others by doing so.

We also tried to probe into people’s positions in a more direct way. Tables 14, 15 and 16 review the willingness of respondents to pay taxes in cases where these expressly

Table 14

Positions taken on welfare allowances: distribution by degree of tax awareness (%)

	(1)	(2)	(3)	(4)	(5)	(6)	Total
Amount spent per taxpayer on welfare allowances:	Raise taxes, including mine, to make more money available to relieve the needy.	Keep the present system of welfare allowances; there is no need to change it.	Reduce taxes, and thereby reduce the money available for assistance.	Abolish all welfare allowances, so raising average taxpayer's income by HUF 1,100 a month; let those in trouble look after themselves and their families.	I would distribute the state revenues differently.	I do not know.	
Not known	5.7	43.5	15.3	5.6	18.7	8.1	100.0
Significantly underestimated	5.2	47.1	24.3	4.8	18.2	2.4	100.0
Largely correct	7.1	42.5	20.3	5.7	20.8	3.8	100.0
Significantly overestimated	8.3	45.3	19.1	6.1	18.7	2.5	100.0
Total	6.7	44.7	19.7	6.3	18.6	4.1	100.0

Table 15

Positions taken on welfare allowances: distribution by level of education (%)

Respondent's level of education	(1) Raise taxes, including mine, to make more money available to relieve the needy.	(2) Keep the present system of welfare allowances; there is no need to change it.	(3) Reduce taxes, and thereby reduce the money available for assistance.	(4) Abolish all welfare allowances, so raising average taxpayer's income by HUF 1,100 a month; let those in trouble look after themselves and their families.	(5) I would distribute the state revenues differently.	(6) I do not know.	Total
Basic or less	9.7	50.9	17.0	5.5	9.7	7.3	100.0
Vocational school	5.5	47.8	24.2	5.1	14.0	3.4	100.0
Completed secondary school	6.5	40.8	19.5	8.5	21.8	3.1	100.0
Higher education	6.8	39.8	14.3	5.0	30.4	3.7	100.0
Total	6.8	44.6	19.6	6.3	18.6	4.1	100.0

Table 16

Positions taken on welfare allowances: distribution by income (%)

	(1)	(2)	(3)	(4)	(5)	(6)	Total
Quintiles according to the per capita income of respondents	Raise taxes, including mine, to make more money available to relieve the needy.	Keep the present system of welfare allowances; there is no need to change it.	Reduce taxes, and thereby reduce the money available for assistance.	Abolish all welfare allowances, so raising average taxpayer's income by HUF 1,100 a month; let those in trouble look after themselves and their families.	I would distribute the state revenues differently.	I do not know.	
1 (lowest)	6.5	46.7	17.2	4.7	18.3	6.5	100.0
2	7.9	41.5	26.2	8.5	12.8	3.0	100.0
3	7.0	45.9	21.5	8.1	14.5	2.9	100.0
4	4.6	43.1	19.5	7.5	20.1	5.2	100.0
5 (highest)	6.9	44.8	14.4	4.6	26.4	2.9	100.0
Total	6.6	44.4	19.7	8.7	16.5	4.1	100.0

serve the purposes of social solidarity.¹⁶ In the first part of the interview we checked respondents' tax awareness, and then informed them a taxpayer pays an average of HUF 1,100 a month for this purpose. His or her income could rise by this amount if this assistance through the state were to cease. We then presented the respondent with alternatives. Should the tax levied for this purpose rise, stay the same, fall, or cease altogether?¹⁷

Over half the respondents replied that the taxes paid for solidarity purposes should remain the same or increase. The groups that would reduce or abolish these taxes form a decided minority.¹⁸

It is especially revealing to compare Tables 14, 15 and 16. With Table 14, the support for the alternatives is not affected by the degree of prior tax awareness. The tax is accepted or not in the knowledge that the present burden is HUF 1,100 a month.

Table 15 shows that the proportion wishing to retain or increase the solidarity-tax level declines slightly as a function of higher level of education. This, however, swells the ranks of those who "would distribute state revenues differently," not those wishing to reduce or abolish it.

It is especially interesting that Table 16 shows no correlation between readiness to show social solidarity and level of income.

From this, we draw reassuring conclusions that reinforce the position expressed earlier. Even if those submitting welfare reforms said openly they were calling for sacrifices

¹⁶ These do not include the "solidarity taxes" paid through the redistribution element in the social insurance system.

¹⁷ We realize after the event that it was not correct to include among the alternatives the response, "I would distribute the state revenues differently," because it allowed respondents to escape from their own dilemma. The proportion of those who supported maintaining or raising the taxes of a solidarity nature increases further when the results are confined to Columns (1), (2), (3) and (4), in other words the set of those who really addressed the dilemma.

¹⁸ Following on from the previous note, it should be mentioned that we do not know what replies would have been received by those who avoided the dilemma by choosing the alternative in Column (5).

for purposes of social solidarity, it would not be hopeless to expect the majority of the public to support this principle, or at least to refrain from opposing it.

10. The need to make citizens better informed

Finally, we would like to point to one of the main lessons of our research: the need to improve the level of information among citizens. We base our conclusions on a Hungarian survey, but we are convinced they apply to the other post-socialist countries as well.

As far as the content of their body of knowledge is concerned, several kinds of information need imparting. To start with, people need to realize that the money the state dispenses is the taxpayers', not "state money". With the change of system, it became possible and necessary to change the mentality. One of the main yardsticks for measuring the change is the prevalence and depth of the understanding that what one citizen receives from the state is paid for by the others. Appreciation of this idea needs to be incorporated into people's conditioned reflexes, even enter their unconscious minds.

Another necessary addition to this body of knowledge is far more specific and reliable information about the relation between taxes and state services. The better citizens appreciate what burden some favored state program or other places on the taxpayer, the greater the sense of responsibility with which they can take part in the political process.

Citizens should be as clear as possible about the alternatives of possible changes. Let them learn from objective sources about the variety of experience abroad. One problem at present is that the status quo, whether good or bad, is known to citizens from their own experience, but there has been little, or in some fields no chance to experiment with other institutional forms of welfare provision. The greater the extent to which new forms are legalized, introduced and spread, so that their practical advantages and drawbacks emerge, the more substance the work of informing citizens about institutional reforms will gain.

Our research has demonstrated how poorly Hungary stands with this work of "public enlightenment".

One question is whose task this should be. The responsibility cannot be placed on a single institution or organization. Clearly, it is a seminal task for any government and its

constituent political parties to ensure that they adequately inform and persuade the public when preparing practical measures of reform. They must then continue patiently and effectively explaining, as they implement the measures, what they are doing and why, and what the effects are likely to be. It is the task of the opposition at any time to defend its position in a constructive fashion.

However, the information process involves much more than this. The transfer of this body of knowledge to the public is a constant, comprehensive task. It means eradicating the effects on the whole people of several decades' false teachings and often harmful indoctrination, and implanting in them a new mentality. Implementation of this enormous task cannot depend on what political constellation happens to dominate Parliament and the government in a particular year. Contributions to this society-wide educational undertaking must come from every responsible politician who stands for constitutionalism, parliamentary democracy and a market economy. It must come from every school and university, the press, radio and television, every parent, the priesthood of every religious denomination, and the officers of every body and representative organization, from everyone who can influence the ideas of other citizens.

The most effective gain in knowledge comes from experience, of course, not words. The tax awareness of citizens and the prudence of their choices will strengthen most when the budgetary and fiscal systems become more transparent and financial discipline consolidates. People will come to know by their own experience the new institutions and property forms they choose instead of the centralized state forms of old.

If all these favorable changes take place, there may be more reassuring findings to report from the next survey of this kind.

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