The literature on the politics of inequality and redistribution in advanced democracies has become very large in recent years. This article focuses on several areas where important new arguments are being put forward. It reviews recent work on the interaction of unions and employers, the role of political parties and electoral institutions, and the effects of racial and religious diversity. It also discusses the implications of recent work in behavioural economics and political science that helps us to understand cross-national variation in political responses to inequality. It highlights the distinctive contributions of several ‘schools’ of research, and identifies linkages across different analytical approaches.


DOI : 10.1093/oxfordhb/9780199606061.013.0026

Available at:
http://archive-ouverte.unige.ch/unige:83334

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CHAPTER 26

THE POLITICAL ECONOMY OF INEQUALITY AND REDISTRIBUTION

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JONAS PONTUSSON

1. INTRODUCTION

With economic inequality rising in many advanced industrial countries, the question of how economic and social inequalities affect politics and the extent to which the disadvantaged can influence government and policy has become a central concern of many political scientists. There is also renewed interest in the question of how political processes and institutions determine the distribution of resources in society. Because purely economic explanations are unlikely to account fully for cross-sectional variation in levels and trajectories of inequality, many economists have recognized the importance of politics and joined this conversation.

From Aristotle to Madison to modern political economists, many have long believed that democratic political processes and institutions have an equalizing effect. Ideally, popular participation would generate government reactions that ensured that both prosperity and hardship were widely shared. But a simple
relationship between democracy and equality is elusive and incomplete. There are
great disparities in indicators of economic inequality across the world’s affluent
countries despite the democratic nature of their political systems. In some advanced
democracies, moreover, governments have retreated from efforts to ameliorate in-
equalities at the very time that economic forces have pushed toward a less equitable
distribution of rewards.

The literature on the politics of inequality and redistribution in advanced
democracies has become very large in recent years. In this chapter, we focus on sev-
eral areas where we feel that important new arguments are being put forward. We
review recent work on the interaction of unions and employers, the role of political
parties and electoral institutions, and the effects of racial and religious diversity. We
also discuss the implications of recent work in behavioral economics and political
science that helps us to understand cross-national variation in political responses
to inequality. We highlight the distinctive contributions of several ‘schools’ of re-
search, but, most importantly, we try to identify linkages across different analytical
approaches.

2. Outcomes of Interest

This section identifies and illustrates some of the cross-national variation that has
animated comparative studies of the determinants of welfare-state development
and redistributive policy. To begin with, there is a large literature that aspires to ex-
plain over-time as well as cross-national variation in the size of the welfare state. The
dependent variable in this literature is typically some measure of social spending
expressed as a percentage of GDP. Such measures have become increasingly refined,
but ‘gross’ measures of social spending remain standard.

Table 26.1 presents recent figures for two alternative measures of social spending.
Both measures encompass old-age and disability pensions, unemployment insur-
ance, sick pay and parental leave insurance, family allowances, social assistance,
housing subsidies, health care, child care, care for the elderly and disabled, as well
as active labor market programs. Although the figures in the first column of Table
26.1 refer to gross government spending by governments on such programs, the
figures in the second column refer to ‘net government and government-mandated
social spending’. The latter measure includes private social expenditures mandated
by government as well as the value of tax credits that serve social policy purposes
(treating foregone tax revenues as equivalent to government expenditures) and also
takes account of direct and indirect taxation of cash benefits received from the
government.
Table 26.1. Public and publicly mandated social spending as a percentage of GDP, 2003

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross</th>
<th>Adjusted net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>31.3 (1)</td>
<td>24.6 (3)</td>
</tr>
<tr>
<td>France</td>
<td>28.7 (2)</td>
<td>25.8 (2)</td>
</tr>
<tr>
<td>Denmark</td>
<td>27.6 (3)</td>
<td>20.4 (8)</td>
</tr>
<tr>
<td>Germany</td>
<td>27.3 (4)</td>
<td>26.4 (1)</td>
</tr>
<tr>
<td>Belgium</td>
<td>26.5 (5)</td>
<td>22.9 (4)</td>
</tr>
<tr>
<td>Austria</td>
<td>26.1 (6)</td>
<td>18.2 (12)</td>
</tr>
<tr>
<td>Norway</td>
<td>25.1 (7)</td>
<td>21.2 (5)</td>
</tr>
<tr>
<td>Italy</td>
<td>24.2 (8)</td>
<td>21.2 (5)</td>
</tr>
<tr>
<td>Portugal</td>
<td>23.5 (9)</td>
<td>21.2 (5)</td>
</tr>
<tr>
<td>Finland</td>
<td>22.5 (10)</td>
<td>19.9 (9)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>20.7 (11)</td>
<td>18.3 (11)</td>
</tr>
<tr>
<td>UK</td>
<td>20.6 (12)</td>
<td>19.9 (9)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>20.5 (13)</td>
<td>n.a.</td>
</tr>
<tr>
<td>Spain</td>
<td>20.3 (14)</td>
<td>17.6 (15)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>18.0 (15)</td>
<td>15.1 (18)</td>
</tr>
<tr>
<td>Australia</td>
<td>17.9 (16)</td>
<td>18.2 (12)</td>
</tr>
<tr>
<td>Japan</td>
<td>17.7 (17)</td>
<td>18.2 (12)</td>
</tr>
<tr>
<td>Canada</td>
<td>17.3 (18)</td>
<td>17.2 (17)</td>
</tr>
<tr>
<td>USA</td>
<td>16.2 (19)</td>
<td>17.6 (15)</td>
</tr>
<tr>
<td>Ireland</td>
<td>15.9 (20)</td>
<td>14.0 (19)</td>
</tr>
</tbody>
</table>

Notes: Gross = direct social spending by government; Adjusted net = direct spending plus tax credits and government-mandated private spending minus direct and indirect taxes on benefits.

Measuring public welfare provision in terms of net government and government-mandated spending, the range of variation among advanced democracies is more compressed than the conventional picture, based on gross spending data, would have it. The rank ordering of the countries is also quite different. In particular, the Scandinavian countries fall in the rank ordering while Germany and France rise to the top as we move from a gross to a net measure of social spending. At the same time, it should be noted that there is a strong correlation between the two measures of social spending presented in Table 26.1 (r = 0.848).

Although some scholars consider spending levels to be an outcome of intrinsic interest, many (e.g. Alesina and Glaeser, 2004) conceive the level of social spending as a proxy for the degree of redistribution. As better comparative data on income distribution have become available (in the first instance, from the Luxembourg Income Study (LIS)), comparativists interested in redistributive politics have begun to use measures of redistribution as their dependent variable (e.g. Bradley et al.,
2003; Iversen and Soskice, 2006). The standard measure of redistribution in this
new literature is the percentage change in Gini coefficients that we observe as we
move from market income (before taxes and transfers) to disposable income (after
taxes and transfers), but some studies look at changes in relative poverty rates (e.g.
Moller et al., 2003). The range of variation among advanced democracies on such
measures is even wider than the range of variation on measures of social spending.
At the low end of the spectrum, taxes and transfers reduced the Gini coefficient for
household income by 22% in Switzerland in 2000. At the other end of the spectrum,
the corresponding figure for Denmark was 47% (see Chapter 4, Figure 4.7).

As Esping-Andersen and Myles stress in Chapter 25, measuring the redistribu-
tive effects of the welfare state as the difference between market-income and
disposable-income inequality ignores the many ways that taxes and benefits affect
the distribution of market income or, in other words, the ‘second-order effects’ of
the welfare state (cf. Beramendi, 2001). Most obviously, generous public pension
schemes reduce the incentives of individuals to save for their retirement. In Sweden,
many retired people have no income at all before they receive their public pension,
but this does not make them ‘poor’ in any conventional sense. To get around this
problem, recent LIS-based studies restrict the analysis of the redistributive effects of
taxes and transfers to working-age households (e.g. Milanovic, 2000; Bradley et al.,
2003; Kenworthy and Pontusson, 2005). Yet taxes and transfers are also likely to
affect relative (gross) earnings within the working-age population. Suffice it to note
here that second-order effects represent a difficult theoretical as well as empirical
problem that the existing literature on the politics of redistribution has yet to tackle
in a comprehensive way.

An important strand of comparative welfare-state research, building on Esping-
Andersen’s (1990) seminal work, downplays the significance of aggregate social
spending and instead focuses attention on eligibility principles and the institutional
configuration of welfare states (see also Chapter 25). As this literature demonstrates,
welfare states can be distinguished in terms of the importance of cash benefits
relative to services (‘in-kind benefits’). The extent to which means-testing is used
to determine benefits eligibility represents another important dimension of cross-
national variation. Thirdly, social insurance schemes may be organized on a uni-
versalistic basis or on an occupational basis.1

For our purposes, the critical claim of this literature is that the way welfare
states are organized mediates the relationship between levels of spending and re-
distributive effects (cf. Korpi and Palme, 1998). Generally speaking, overall levels
of social spending provide a reasonably good predictor of the difference between
market-income and disposable-income inequality measured by Gini coefficients or
relative poverty rates (Smeeding, 2005). However, the more universalistic Nordic

1 A fourth dimension of cross-national variation concerns the implications of family support and
other social policies for women’s participation in the labor market.
welfare states clearly stand out as particularly redistributive by standard LIS-based measures (Chapter 4, Figure 4.7) even though they do not stand out relative to continental European welfare states in terms of net social spending. It is also noteworthy that reliance on means testing is not associated with poverty reduction among OECD countries (see Pontusson, 2005: 156–60). The standard explanation of this puzzle is that means testing generates middle-class resistance to taxation. Simply put, targeting benefits to the poor produces more redistribution per dollar spent, but also reduces the total amount of social spending (cf. Korpi and Palme, 1998).

Finally, we must keep in mind that government policies that are not typically associated with the welfare state also affect the distribution of income. Most obviously, macroeconomic policy, trade policy, regulatory and industrial policies, and educational policy have important distributive consequences. On the other hand, modern welfare states serve many purposes and redistribution of (current) income represents but one outcome metric by which they might be compared. Put differently, the politics of redistribution and the politics of the welfare state should not be conflated. The literature that we review in this chapter pertains to the overlap between the two, but the models of redistributive politics generated by this literature ought to be relevant to other policy spheres as well and, by the same token, should not be read as providing a complete account of the development of modern welfare states.

3. Income and Preferences for Redistribution

One way to approach the problem of explaining the cross-national patterns described above is to consider how voters form preferences for redistribution or social insurance and how political processes aggregate these preferences. We begin by considering two simple and influential models along these lines.

In the Meltzer and Richard (MR) (1981) model, the median voter seeks to maximize current income. If there are no deadweight costs to redistribution, all voters with incomes below the mean maximize their utility by imposing a 100% tax rate and receiving a lump-sum payment equal to the average income. Conversely, all voters with incomes above the mean prefer a tax rate of zero. When taxation is costly, that is, reduces average income, voters with incomes above the mean still prefer a tax rate of zero, but voters with below mean incomes no longer prefer a

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2 Taking into account the redistribution of consumption though publicly provided services makes the Nordic welfare states stand out even more: see Garfinkel et al. (2006).
100% tax. Instead, their preferred tax rate is a decreasing function of their personal income and an increasing function of average income. The core implication of the MR model is that inequality increases the demand for distribution of the median voter so long as the income distribution is right-skewed and the mean income remains constant.

Moene and Wallerstein (MW) (2001, 2003) present models where social spending not only redistributes income but also provides insurance. In the MW model, voters choose both the income transfer that citizens receive when unemployed and the taxes needed to pay for these benefits. Given standard assumptions about preferences for risk, an increase in the gap between the pre-benefit income of the unemployed and the income of an employed worker leads the employed worker to demand more insurance in the form of unemployment benefits. In the MW model, a mean-preserving spread of wages reduces the gap between the incomes of the unemployed and those with wages below the mean. This in turn leads to a decline in the demand for social insurance and consequently a lower preferred tax rate.

In the MR model, higher inequality implies that the median voter demands more redistribution while just the opposite holds for the MW model. It has become more or less conventional wisdom in the comparative political economy literature that the empirical association between inequality and redistribution in the OECD countries conforms to the predictions of the MW model rather than the MR model. If one plots social spending as a percentage of GDP or some measure of redistribution against wage inequality, one finds that more egalitarian countries consistently have larger, more redistributive welfare states than less egalitarian countries (see e.g. Iversen and Soskice, 2007). According to Lindert (2004: 15), 'history reveals a “Robin Hood paradox,” in which redistribution from rich to poor is least present when and where it seems to be most needed.'

When one instead plots redistribution (or social spending in % of GDP) against Gini coefficients for market income (or gross earnings) among working-age households, however, there is no cross-national association at all between these variables (Kenworthy and Pontusson, 2005: 458). Milanovic (2000) estimates a series of fixed-effects models with redistribution as the dependent variable and different measures of household income inequality (before taxes and transfers) as the main regressor. With this specification, market income inequality turns out to be positively (and significantly) associated with redistribution. In other words, the pattern of within-country variation countries appears to be broadly consistent with the core prediction of the MR model and contrary to the MW model (see also Kenworthy and Pontusson, 2005). At the same time, Milanovic shows that taxes and transfers consistently tend to reduce the share of total income of households in the fifth and sixth deciles of the ‘pre-fisc’ distribution.3 Assuming that the median voter falls

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3 The fifth decile is a net taxpayer in 49 and the sixth decile is a net taxpayer in 54 of the 68 country-years included in Milanovic’s analysis.
in this range, the causal mechanism posited by Meltzer and Richard (the median voter seeking to maximize current income) cannot explain the association between market inequality and redistribution. If the median voter determines government policy, she must be motivated by some form of altruism or affinity with people below the median income or, alternatively, by concerns about insuring herself against downward mobility.

As illustrated by the MR and MW models, the existing literature tends to juxtapose redistribution and insurance as alternative motivations behind the expansion of the welfare state. This strikes us as unfortunate. Not only are both motives in play, providing the basis for broad, cross-class support for welfare-state expansion (different voters/groups supporting social spending for different reasons), but public insurance against risks such as unemployment and illness is itself redistributive to the extent that risk exposure varies inversely with income. Demand for insurance may rise with income, as MW postulate, but income-differentiated risk exposure works in the opposite direction. Furthermore, higher-income individuals have many more private alternatives for insurance against income fluctuations, especially their own wealth, a factor that the MW model does not take into account. At the individual level, income is in fact inversely associated with support for social spending in most, perhaps all, advanced industrial democracies (see Iversen and Soskice, 2001).

It is commonplace to criticize the MR model for assuming that all income earners vote or, at least, that there is no income bias in voting. This line of criticism is in fact a red herring. The critical variable in the MR model is the distance between the income of the median voter and the mean income, not the distance between the median income and the mean income (cf. Nelson, 1999; McCarty et al., 2006). One of Meltzer and Richard’s main points is that, with income inequality held constant, the extension of the franchise to include low-income earners reduces the relative income of the median voter and, as a result, generates more redistributive government. In testing the predictions of either the MR model or the MW model, it is essential to control for income bias in voting. Most of the quantitative studies reviewed here (including Moene and Wallerstein, 2001, 2003) attempt to do so by controlling for aggregate voter turnout.4

A more important limitation of the MR and MW models is that they rest on a majoritarian conception of the political process. Both models posit that the median voter determines the outcome of elections and that political parties cater to the preferences of the median voter not only in their election campaigns but also in government. A second commonality of these models is that voters are motivated (entirely) by maximizing the expected utility of consumption and, as

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4 Needless to say perhaps, income bias in voting is bound to diminish as aggregate turnout approaches 100%. Mahler (2008) demonstrates that there is a strong negative correlation between aggregate turnout and income bias across advanced democracies.
a result, their preferences can be inferred straightforwardly from their position in the income distribution. Either of these assumptions may account for the failure of the MR and MW models to provide robust accounts of observed cross-national patterns of social spending and redistributive outcomes. In what follows, we first discuss theoretical traditions and empirical research that question the universal applicability of the majoritarian conception of politics and explore the significance of political institutions for the aggregation of voter preferences. In due course, we will take up the question of how voter preferences might be conceptualized differently.

4. **Government Partisanship and Organized Interests**

The baseline models of redistributive politics discussed in the previous section neglect the role of political parties. Contemporary partisan theories posit that parties are not only office-seeking, as Downs (1957) proposed, but also policy-seeking and that they represent distinctly different segments of the electorate (core constituencies). According to such theories, parties are not oblivious to the policy preferences of the median voter, but uncertainty about the preferences of the median voter leads parties to choose divergent policy positions (see Wittman, 1977 and Calvert, 1985). Furthermore, the convergence predicted by Downs does not hold in models of multiparty competition, which is the typical state of affairs in European welfare states.

In the comparative welfare-state literature, the proposition that the partisan composition of government matters to policy outcomes is closely associated with the ‘power resources theory’ (PRT) developed by Korpi (1983, 2006) and adopted, with modifications, by Stephens (1979), Esping-Andersen (1990), and Huber and Stephens (2001) among others. As formulated by Korpi, PRT treats trade unions and left parties as representatives of working-class interests in the ‘democratic class struggle’. The public provision of social welfare caters to the interests of workers, defined broadly as wage-earners with limited economic resources, by insuring their income stream against the vicissitudes of the market, reducing their dependence on particular employers if not their dependence on employment in general, and by redistributing income and consumption opportunities. PRT expects employers and other social groups that do not primarily depend on income from dependent employment to resist the expansion of public welfare systems, especially public welfare systems based on the principle of social citizenship. The extent to which governments provide for social protection and redistribution thus depends
first and foremost on the ability of unions and left parties to mobilize workers politically.5

Several modifications of PRT since its initial formulation in the 1970s deserve to be noted. To begin with, the traditional partisanship argument, based on juxtaposing left parties representing labor to any and all other parties to their right, has been modified by recognizing that Christian Democratic parties have a long tradition of support for public provision of social welfare. Secondly, PRT proponents have sought to unpack social spending and to explore the effects of partisanship on dimensions of cross-national variation other than sheer size of the welfare state. Thirdly, they have incorporated the idea of a ‘hegemony effect’. Simply put, strong left parties that are successful in enacting social reforms force center-right parties to embrace more redistributive policies in order to compete electorally (Korpi, 1983). From a Downsian perspective, we might say that hegemonic parties induce a shift in the preferences of the median voter.

To capture the long-term effects of partisanship, Huber and Stephens (2001) use cumulative cabinet shares held by left parties and Christian Democratic parties in their analysis of levels of government spending over the period 1960–85. Huber and Stephens find that government participation by left parties had a substantial positive effect and that government participation by Christian Democratic parties had an even larger effect on overall government spending in this period. While Christian Democratic participation in government is more strongly associated with spending on social security transfers, the share of cabinet seats held by left parties emerges as a much better predictor of civilian government consumption and especially the size of the public sector (cf. Iversen and Cusack, 2000).

PRT provides a ready explanation of the aforementioned ‘Robin Hood paradox’. In this theoretical framework, strong unions and left parties promote both wage compression and redistributive government (Bradley et al., 2003). Thus the inverse cross-sectional correlation between wage compression and redistribution can be considered spurious, caused by the omission of labor-movement strength. The finding that market inequality is positively associated with redistribution once we introduce country-specific fixed effects (Milanovic, 2000) poses something of a challenge to PRT, however.

The PRT-inspired literature seems to assume that employers (capital) are invariably opposed to any and all forms of social protection. In critical dialogue with power resource theory, a new literature has recently emerged that explores cross-national national variation in employer attitudes towards the welfare state and

5 Though the PRT literature typically relies on unionization as the principal measure of working-class mobilization, Korpi (1983) points to voter turnout as an alternative measure. As Kenworthy and Pontusson (2005) suggest, power resources and median-voter theories might be construed as complementary in the sense that the former addresses the question of who the median voter is while the latter addresses the question of how parties behave.
emphasizes the role of ‘cross-class alliances’ in the development of the welfare state. Closely associated with the idea of ‘Varieties of Capitalism’ (VoC), one strand of this literature focuses on the link between social policy and skill formation. In a pioneering essay, Estevez-Abe et al. (2001) proceed from the observation that the ‘coordinated market economies’ (CMEs) of continental Europe rely more heavily on firm- and industry-specific skills than do ‘liberal market economies’ (LMEs) such as the USA and UK and that continental Europe is also distinguished from the Anglo-Saxon countries by more extensive employment protection and more generous unemployment insurance (see also Iversen, 2005). The core argument here is that investment in specific skills entails greater risks than investment in general skills and that social policy arrangements shape individual decisions about investment in different kinds of skills. To invest in firm-specific skills, workers must feel reasonably sure that they will work for the same employer for an extended period of time. Similarly, to invest in industry-specific skills, they need assurance of good long-term employment prospects within the same industry and income support during possible unemployment spells.

Iversen and Soskice (2001) complement this argument by showing that, controlling for income, skill specificity is strongly associated with support for social spending in all OECD countries for which the requisite survey data are available. For our present purposes, however, the key point is that employers who have invested in production systems that rely on firm- or industry-specific skills benefit from the social policies characteristic of continental Europe. In CMEs, according to Estevez-Abe et al. (2001: 147), the welfare state is supported by ‘a strong alliance between skilled workers and their employers’.

Estevez-Abe et al. assert that welfare-state retrenchments have been more extensive in LMES than in CMEs as exposure to global market forces has increased over the last 20 to 30 years. It is not altogether self-evident that this is indeed the case. On average, overall social spending growth was actually somewhat stronger in LMEs than in CMEs in the 1980s and 1990s. It is also noteworthy that unemployment benefits were cut in virtually all European CMEs from 1985 and 1999, often quite severely (see Pontusson, 2005). Leaving contemporary developments aside, the reinterpretation of the welfare state proposed by Estevez-Abe et al. is circular in the sense that social policy is invoked to explain investment in co-specific assets while investment in co-specific assets is simultaneously invoked to explain social policy. Put differently, these authors explain the existence of two separate welfare-skills equilibria, but do not provide any systematic account of why different countries ended up in one or the other equilibrium. Following Korpi (2006), one might plausibly argue that working-class mobilization and partisan politics gave...
rise to different welfare-state arrangements, which in turn led workers to invest in different skills and firms to choose different production strategies.

Swenson’s (2002) detailed account of social policy developments in Sweden and the USA over the twentieth century provides a different solution to the problem of ‘historical origins’. The central puzzle motivating Swenson’s inquiry is why Sweden, despite strong unions and Social Democratic control of the government, lagged behind the USA in terms of social legislation in the 1930s and 1940s. Swenson argues that employer strategies for regulating labor markets are the key to this puzzle. In brief, many large American companies adopted ‘segmentalist strategies’ in the early decades of the twentieth century, paying wages above market-clearing rates and providing social benefits as a way to recruit and retain workers. These firms were vulnerable to competition from low-cost producers during economic downturns and supported New Deal legislation, which effectively set a floor for competition among firms in the labor market. By contrast, export-oriented Swedish employers adopted a ‘solidaristic’ strategy, seeking to hold wages below market-clearing rates. Sustained by the depressed inter-war economic conditions, this strategy became problematic as members of the employers’ confederation began to use employer-provided benefits to compete with each other when labor markets became tight in the aftermath of World War II. In the 1950s, according to Swenson, Swedish employers embraced comprehensive state-provided social insurance as a means to curtail this kind of competition.

Swenson’s critics (Hacker and Pierson, 2002, 2004; Korpi, 2006) charge that he exaggerates the role of business in the USA as well as the Swedish case and, specifically, that he fails to distinguish between ‘first-order’ and ‘strategic’ business preferences (see also Swenson’s (2004) reply). According to the critics, segments of the business community consented to social legislation in both cases, but this consent was conditioned by political conditions that were unfavorable to business and should not be interpreted to mean that business actively wanted the legislation to pass. Given that first-order preferences cannot be directly observed, distinguishing first-order preferences from strategic policy preferences is first and foremost a theoretical challenge.

Mares (2003) moves the employer-centered literature forward by articulating theoretical propositions about the kinds of social policy that different firms and sectors favor. Invoking considerations that do not depend on the consequences of social policy, such as firm size and the incidence of workplace hazards, Mares avoids the circularity of Estevéz-Abe et al’s discussion and effectively uses historical case studies from Germany and France as evidence in support of her predictions. Her approach directs our attention to variation in social policy preferences among employers in the same country.

As Mares clearly recognizes, the preferences of other actors and the politics of coalition-building must be taken into account in order to move from employer preferences to social policy outcomes. The employer-centered literature has
generated important new insights, but it does not have much to say about the redistributive effects of modern welfare states. Indeed, redistribution appears to be simply a by-product of the regulation of labor markets in this literature. Equally striking, and related to the neglect of redistribution, electoral competition and government partisanship play hardly any role at all in the VofC approach to the politics of the welfare state.

Focusing on the role of employers, the debate between proponents of PRT and the VofC approach has directed attention away from another important limitation of the PRT literature, namely its conceptualization of 'labor' as a more or less homogeneous constituency with a common set of preferences for social insurance and redistribution. In the power resources framework, unionization is a key variable, yet none of the PRT-inspired literature reports significant effects of unionization on social spending or redistribution. PRT scholars typically argue that the influence of unions operates through left parties. There is surely something to this argument, but it sidesteps the crucial question of which segments of the labor force and the income distribution are represented by unions (cf. Chapter 10). As union density rises, unions may well become more powerful in the political as well as the industrial sphere, but the interests they represent also become more heterogeneous. Put differently, the preferences of the median union member converge on those of the median voter as density approaches 100%.

Recent literature on the politics of ‘insider-outsider conflict’ (Mares, 2006; Rueda, 2007) usefully problematizes the interests of labor. These authors argue that unions and left parties primarily represent labor-market insiders, and that they are not particularly supportive of economic and social policies that target the long-term unemployed and the precariously employed. Even among labor-market insiders, however, preferences for redistribution will diverge. The role of unions in the politics of social insurance and redistribution may also depend on the influence of public-sector unions relative to private-sector unions or, alternatively, the influence of unions in sheltered sectors relative to unions in sectors exposed to international trade. More comprehensive comparative data on the composition of union membership is needed to explore these issues empirically.

5. Political Institutions

It is commonplace in comparative political economy to argue that more or less formalized institutional arrangements or, in other words, the ‘rules of the game’ influence policy outcomes. Though they are often combined, there are two distinct versions of the institutionalist argument. One version holds that institutions shape
the preferences of individual voters or interest groups. The second version holds that institutions influence the strategic behavior of political actors, perhaps also the balance of power among political actors. Leaving preference formation aside for the time being, this section discusses specific examples of the latter version of the institutionalist argument.

Empirically, cross-national quantitative studies of social spending have identified two apparently robust institutional effects. First, federalism is associated with lower levels of social spending and, at least by implication, less redistributive government (e.g. Huber and Stephens, 2001). Secondly, it appears to be case that countries in which parliamentary elections are contested under proportional representation (PR) typically have larger and more redistributive welfare states than countries in which such elections are contested in single-member districts (SMD) under plurality rules (Persson and Tabellini, 2003; Alesina and Glaeser, 2004; Verardi, 2004; Iversen and Soskice, 2006). The federalism effect can partly be explained in terms of competition for capital and skilled labor among sub-national governmental units (states or provinces). In addition, as political scientists are keen to point out, federalism increases the number of access point for ‘special interests’ or, in other words, the number of veto players in the political process (Immergut, 1992; Tsebelis, 1995). Through either mechanism, federalism arguably thwarts the policy preferences of the median voter and/or the majority party.

Although there is a broad consensus about implications of federalism in the existing literature, the implications of electoral rules have only recently begun to be explored by scholars interested in the politics of redistribution. As a first cut, Persson and Tabellini (2000, 2003) argue that plurality systems favor geographically targeted spending while PR (especially with large districts) favors more broad-based or ‘universalistic’ spending programs (cf. also Alesina and Glaeser, 2004). The incentive for politicians to target spending geographically derives from the fact that under plurality rules parties win elections by winning a majority of electoral districts rather than a majority of votes in the electorate as a whole. If universalistic spending is more redistributive than geographically targeted spending, as Persson and Tabellini assume, different electoral incentives might thus be invoked to explain why government tends to be more redistributive in PR systems.

An obvious limitation of Persson and Tabellini’s original model is that it takes the party system as fixed: in effect, the model assumes a two-party system and then compares party strategies and policy outcomes under different electoral rules. This setup is problematic since countries with PR almost always have multiparty systems. Recognizing this problem, Persson et al. (2007) develop a model in which the effect of PR on government spending hinges on the greater probability of a multiparty coalition government under PR rules. In this model, competition among the parties in the governing coalition leads to greater spending. Empirically, Persson et al. show that PR has no direct effect on the level of spending once we control for the size of the governing coalition. Although the initial Persson-Tabellini model pertains to
the allocation of government spending and does not explain why spending levels
tend to be higher under PR, the model developed by Persson et al. does not provide
any strong prediction about the extent to which greater government spending is
redistributive.

The model presented by Iversen and Soskice (2006) is similar to that of Persson
et al. in that the effects of PR on redistribution are indirect and have to do with
the composition of governments. For Iversen and Soskice, however, the crucial
feature that distinguishes PR systems from SMD systems is not the size of governing
coalitions per se, but rather the fact that government participation by left parties
is much more common under PR. Their model is premised on the electorate
consisting of three groups of voters of equal size: low-, middle-, and high-income
voters (L, M, and H). Under majoritarian rules, there will be two parties, a center-
left and a center-right party. The former has its core base of support in L, whose
first preference is a policy that redistributes from both H and M to L, while the
latter has its core base of support in H, whose first preference is zero redistribution.
Both parties must appeal to M voters in order to win elections. Though M
prefers a policy that redistributes from H to both M and L over a policy of zero
redistribution, it prefers zero redistribution over a policy that redistributes from
both H and M to L. So long as there is some possibility that parties will revert to
the policies preferred by their core constituency after the election, M voters will
favor center-right government. Under PR, by contrast, there will be a third party,
with M as its core base of support. With each of the three parties representing the
policy preferences of its core constituency, the problem of parties making credible
commitments to voters no longer exists. After the election, the M party chooses
whether to form a coalition with the L party or the H party. Since M prefers an LM
policy over an HM policy, center-left government is more likely than center-right
government under PR. Under certain assumptions about the dynamics of coalition
formation, the Iversen-Soskice model also predicts that center-left government will
be more redistributive under PR than under majoritarian rules.

Empirically, Iversen and Soskice demonstrate that left participation in govern-
ment is associated with more redistribution, yet there still remains a significant
direct effect of PR. Re-analyzing Iversen and Soskice’s data, Lupu and Pontusson
(2008) find that partisan differences over redistributive policy are more pronounced
in PR countries and that the direct effect of electoral rules disappears when we take
into account the interaction between government partisanship and electoral rules.
However, Lupu and Pontusson’s analysis also suggests that partisan differences
over redistributive policy can partly be attributed to labor-market institutions and
their effects on the structure of income inequality. A fundamental problem for all
empirical efforts to explore the effects of electoral rules is that PR tends to be bundled
with a number of other institutional factors, such as parliamentary government,
multipartism, corporatist interest representation, and centralized wage bargaining
(see Lijphart, 1999). For this reason alone, the question of how electoral rules
matter for the politics of redistribution is likely to remain a topic of debate among comparative political economists.

6. InCOME INEQUALITY AND PARTISAN POLITICS

Like the PRT-inspired literature discussed earlier, Iversen and Soskice’s model of the effects of electoral rules assumes that policy differences between parties of the left and the right are more or less constant across countries and over time. What varies in these models is the incidence of left government (or, more precisely, left participation in government). As suggested above, however, there are good reasons to believe that the extent to which parties diverge from the preferences of the median voter also varies across countries and over time. Space does not allow us to explore this problematic fully, but we wish to mention briefly some of our own work on the dynamic relationship between inequality and partisan politics.

In the median-voter framework, increases in inequality move all parties either to the left (Meltzer-Richard) or to the right (Moene-Wallerstein). In the partisan-politics framework, by contrast, rising inequality can be expected to be a source of polarization to the extent that some parties are more responsive to the preferences of low-income voters while other parties are more responsive to the preferences of high-income voters. The basic intuition here is that voters with incomes below the mean income stand to gain more from redistribution whereas voters with incomes above the mean lose more from redistribution as inequality rises. An important consideration in this context is whether rising income inequality is associated with rising inequality in political participation. If low-income voters drop out of the political process, the incentives for left parties to pursue more redistribution will diminish.7 Under this scenario, we might expect rising income inequality to be associated with right-skewed polarization.

For the USA, McCarty et al. (2006) show that there is a very close association between trends in income inequality and trends in partisan polarization (measured by congressional voting) over the twentieth century. Their analysis shows that partisan polarization from the 1970s onwards has primarily been due to the Republican Party moving sharply to the right (cf. Hacker and Pierson, 2006). McCarty et al. also demonstrate that support for the Democratic and Republican parties has become more stratified by income over this period, so that someone’s income is today a much better predictor of party identification than it was in the 1960s. These results

7 Immigration of low-wage workers has a similar effect: see McCarty et al. (2006).
are consistent with the theory sketched above. As McCarty et al. point out, however, polarization also has resulted from other developments in American politics that are not directly connected to rising income inequality (e.g. the partisan realignment of the South) and that rising income inequality is at least partly the result of policies pursued by an increasing conservative Republican Party (see also Bartels, 2007) and political stalemate caused by polarization. In our view, it is neither possible nor necessary to parse definitively between these alternative interpretations.

Does the association between inequality and polarization hold in other advanced industrial states as well? Based on Comparative Manifesto data, we do not observe any secular trend towards partisan polarization across OECD countries, but we also do not observe the same sharp increase of inequality as in the USA. Although inequality of market income among working-age households has increased in most countries, wage inequality and inequality of disposable income have held steady in many countries. Controlling for the center of political gravity, Pontusson and Rueda (2008) show that wage inequality is associated with more leftist left parties when voter turnout and union density are high and that household income inequality is associated more rightist right parties when turnout and density are low. Consistent with power resources theory, comparative analysis suggests that the consequences of inequality for partisan politics are contingent on political mobilization of low-income groups.

7. Revisiting Individual Preferences

Whether they are the preferences of the median voter or core voters of left and right parties, the models and theories discussed so far conceive individual preferences as derived directly from personal income and risk exposure. Although such theories benefit from parsimony, they neglect cognitive, psychological, and social factors that might cause preferences to diverge from purely self-interested ones based on income or risk. In recent years, behavioralists in political science and economics have begun to develop richer theories of preference formation and, in some cases, to incorporate these theories into models of redistributive politics. In this section, we begin by identifying what we consider to be the most important insights of this new literature and then explore related issues.

Information and Beliefs

There is considerable evidence that support for the welfare state is correlated with popular views of the relationship between effort and income (or ‘bad luck’ and
poverty). Fong (2001) focuses on the support of high-income, upwardly mobile American voters who are unlikely to benefit from redistribution. She finds that variation in support for redistribution among such voters depends primarily on how they respond to questions about the importance of luck and effort in poverty or wealth, the extent of economic opportunity in the USA, and whether the USA is a society of ‘haves and have-nots’. Similarly, Bartels (2007, chapter 5) finds that citizens who profess support for egalitarian values have higher support for redistributive policies after controlling for income, education, and other material factors. Beliefs about upward mobility, both subjective and objective, also appear to play an important role in determining preferences over redistribution. Alesina and La Ferrara (2005) find that, holding current income constant, voters who have higher expected incomes and greater likelihoods of reaching the 70% percentile of the income distribution are more likely to oppose redistributive taxation.

Whether such beliefs can account for the observed cross-sectional variation in redistribution depends on a couple of questions. First, is there evidence that citizens of countries that redistribute more have more egalitarian values? Secondly, what can account for persistent differences in beliefs about the fairness of economic outcomes? There is considerable support for an affirmative answer to the first question. Alesina and Glaeser show that there is striking cross-national correlation between welfare spending (as a percentage of GDP) and the percentage of adults who agree with the proposition that luck determines income or that poverty is society’s fault. Osberg and Smeeding (2006), however, find that differences between Americans and Europeans are more subtle. Using data on perceptions of what various occupations ‘should’ earn versus what they ‘actually’ earn, they find that there is little average difference in the views of American and Europeans on inequality. In Osberg and Smeeding’s analysis, the US case is first and foremost distinguished by the fact that American views on the legitimacy of income differentials are more polarized, with a significant group of Americans embracing anti-egalitarian values.

Two important recent works, Piketty (1995) and Benabou and Tirole (2006), consider how variation in beliefs about the link between effort and income are sustained in the absence of any ‘objective’ circumstances that clearly vindicate one set of beliefs over another. The common feature of both of these models is that levels of taxes and transfers affect the ability of voters to learn the true relationship between effort and income. High taxes and transfers weaken the link between individual effort and income, leading voters to believe that incomes are more random and therefore to exert less effort. This in turn leads them to support high levels of taxes and transfers as social insurance. The models differ, however, with respect to the exact mechanisms whereby beliefs are formed and propagated over generations. In the Piketty model, agents update their beliefs based solely on family experiences. This pattern is consistent with his empirical finding that voters who experience either upward or downward mobility vote for left-wing parties at intermediate rates compared to the immobile rich or poor. Benabou and Tirole, alternatively, argue
that in a society characterized by low levels of redistribution, citizens may have an incentive to suppress memories of ‘unlucky’ economic outcomes. This helps sustain a belief in the fairness of economic rewards that enhances effort.\(^8\)

The Piketty and Benabou-Tirole models provide important microfoundations for cultural differences with respect to distribution and point to the need to relax strong assumptions about voter sophistication. As Bartels (2007, chapters 6–7) has colorfully argued, ‘unenlightened self-interest’ may be the best empirical description of how voters think about redistribution. In his study of the public opinion surrounding the Bush tax cuts, Bartels finds that voters who believed that they would benefit materially from the tax cuts tended to strongly support them. Voters, however, wildly overestimated their personal tax reductions. This problem was especially acute with respect to the estate tax where (according to the 2002 National Election Study) 67.6% voters supported repeal even though only 2% of estates were taxed pre-repeal.

The question of whether the lack of information about the links between policy and voters’ interests can explain cross-national and temporal variation in redistribution has yet to be explored in any systematic fashion. From the evidence presented by Osberg and Smeeding (2005), it would appear that Americans are less well-informed about actual income differentials than the citizens of other advanced democracies. One plausible explanation for this contrast might be that more centralized wage bargaining renders income differentials more transparent and perhaps more politically salient as well. In this context, it is also noteworthy that across advanced democracies union members tend to be more supportive of redistributive social spending than non-union workers even when we control for income, education, and ideological self-placement (see Kwon and Pontusson, 2006).

Religion

One of the oldest arguments for why there is apparently so little redistribution in democracies focuses on the way that religion distracts poor people from voting their economic interests or inhibits the creation of class-wide coalitions. Scheve and Stasavage (2006) show that religiosity is associated with lower levels of social spending on a cross-national basis and that the religious are consistently less like to support social spending than the non-religious across advanced democracies. Their novel explanation for these findings holds that religiosity directly affects

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\(^{8}\) An obvious limitation of these models is that they do not explain how the two equilibria exemplified by the USA and ‘Europe’ arose in the first place. Roemer (1994) incorporates different beliefs about how the economy works into a model of redistribution. Unlike the Piketty and Benabou-Tirole models, voters’ beliefs are manipulated in a political campaign rather than updated based on personal economic outcomes.
preferences for social insurance. Drawing on literature in psychology, Scheve and Stasavage argue that religiosity reduces the ‘psychic costs’ that the experience of economic shocks such as unemployment or illness entails. Because religious belief serves as a substitute for social insurance, it reduces the demand for social spending. Similarly, Benabou and Tirole argue that religious beliefs tying rewards in the afterlife to industriousness ‘on Earth’ induce lower support for redistribution. In their model, religious voters oppose redistribution because non-believers also benefit and because it dulls their own incentives to work hard. Both models suggest that causality may run from inequality to religious beliefs. In societies lacking social protections, citizens are more likely to ‘invest’ in religion for the psychic benefits that it provides or to motivate themselves to work hard.

Religious adherence may not only have a psychological or normative affect on redistributive preferences. Huber and Stanig (2007) argue that religious organizations provide direct material substitutes for state-provided redistribution and social insurance. This argument dovetails with Esping-Andersen’s (1990) idea of ‘welfare regimes’, with public provision being one of several different forms of ‘social protection’. Access to family support or employer-provided benefits constitute other variables that might mediate between income/risk and preferences of social policy. Regarding Huber and Stanig’s specific argument, the obvious question is whether the level of transfers provided within congregations is significant enough to dampen demand for government support.

The literature on the influence of religiosity on individual attitudes stands in marked contrast to the literature on the historical role of Christian Democracy as a force promoting the development of European welfare states. In part, this puzzle might be resolved by recognizing differences between Catholic and Protestant social doctrine.

**Race and Ethnicity**

Alesina and Glaser’s (2004) calculations suggest that racial and ethnic fractionalization accounts for about 50% of the cross-sectional variance in social spending for a sample of some 52 developed and developing countries. The causal mechanisms involved here remain a subject for debate. The standard argument is that racism and xenophobia lead to lower levels of social solidarity and consequently lower the willingness of a majority group to tax itself for the benefits of a minority. Roemer *et al.* (2007, chapter 4) calibrate an equilibrium electoral model in which racial preferences may lower levels of redistribution through an ‘issue bundling effect’ (see below) but also through incomplete altruism or, in other words, an ‘anti-solidarity’ effect. Formally, voters have a preference for income equalization that declines in their degree of racism. Roemer *et al.* find that across the four pairs of US elections racial preferences reduce the expected marginal tax rate on income from 11% to
18%, roughly the difference between the US and European welfare states. They attribute roughly 60% of this difference to the anti-solidarity effect. They obtain similar effects of anti-solidarity, attributable to immigration, in Britain, Denmark, and France.

Micro studies of individual behavior and attitudes help to clarify possible mechanisms that generate this anti-solidarity effect. Gilens (1999) shows that white voters in the USA have developed negative stereotypes of African-Americans that lead them to conclude that African-Americans are undeserving of public assistance. Furthermore, white Americans incorrectly believe that most of the poor are black (as distinct from the correct observation that many blacks are poor). Because they see poverty in racial terms, white Americans are disinclined to support welfare and other forms of assistance. While Gilens focuses on the role of perceptions of the racial composition of welfare recipients, Luttmer (2001) finds evidence of a strong effect of the local racial composition of caseloads on public attitudes and voting on initiatives related to welfare policy. When the percentage of welfare recipients who are black rises in a census tract, metropolitan statistical area, or county, welfare support of whites falls relative to that of blacks.  

Another prominent strand of thought on this topic is that racial and ethnic divisions generate 'identity politics' that displaces the class-based politics of the welfare state. Fernandez and Levy (forthcoming) argue that in diverse societies ethnically based groups often seek targeted public goods rather than universalistic redistribution. Consequently, high-income groups can form coalitions with certain ethnic groups to pursue a policy of minimal redistribution and group-based transfers. Based on a similar logic, Austen-Smith and Wallerstein (2006) propose a model of redistribution and affirmative action. In their model, workers can be either high-skilled or low-skilled and belong to one of two racial groups, white or black. On average, blacks are less skilled than whites. A legislature must determine a combination of two distinct policy instruments: social insurance that pays a benefit to workers in low-wage jobs and affirmative action which guarantees blacks a certain proportion of high-wage jobs. The main result is that legislative bargaining across representatives of each group may produce a coalition between high-income whites and blacks. This coalition promotes lower levels of social insurance and higher levels of affirmative action than a low-skilled white and black coalition prefers. Austen-Smith and Wallerstein argue that this finding comports well with the history of affirmative action in the USA, especially the Nixon Administration’s support for affirmative action with the goal of splitting the New Deal coalition.

From a comparative perspective, there are clearly limits to the explanatory power of racial politics. There is a lot of unexplained variation in social spending

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9 In addition to this 'group loyalty' effect, Luttmer identifies a negative 'exposure' effect (more opposition to welfare as local caseloads increase).
among relatively homogeneous affluent countries (Pontusson, 2005). As Alesina and Glaeser (2004) suggest, hostility or indifference to minorities only seems to come into play to the extent that minorities are poor and therefore the primary beneficiaries of redistribution (or perceived to be so). Even in the canonical case of the USA, levels of redistribution have stagnated or fallen during a period in which levels of explicit racism among whites have fallen. White behavior undoubtedly continues to be affected implicitly by racial stereotypes, but it remains a puzzle how this modern racism would have significantly greater policy effects that its precursor.

**Issue Bundling**

As the preceding discussion of religion and race suggests, voters and political parties are often concerned with issues other than economic distribution. An influential strand of comparative political science has stressed the ‘post-material’ nature of political life in advanced democracies (e.g. Inglehart, 1990). To the extent that such concerns overshadow distributive issues, we should expect to see less redistributive effort from governments. However, it is precisely when distributional conflicts are low that post-material concerns come to the forefront. Thus the salience of non-economic issues cannot be a complete explanation of levels of inequality or government policies to reduce inequality.

The one-dimensional nature of many models of redistributive politics, notably the Meltzer-Richard and Moene-Wallerstein models, emerges as a serious limitation in this context. Austen-Smith and Wallerstein’s (2006) model of redistribution and affirmative action represents a recent attempt to tackle this problem. In a similar vein, Roemer (1998) develops a general model of two-party electoral competition where voters care about both redistribution and a party’s position on some other dimension. Under certain technical conditions, the salience of the non-economic issue is such that parties converge on the median of that dimension. If the income of the median voter on the non-economic dimension is higher than the overall average income, even the party representing low-income voters will then propose a zero tax rate. If, however, the median voter on the non-economic dimension is poorer than the overall median, redistribution is enhanced. Thus Roemer argues that the implications of the second dimension for redistributive policy depend on the correlation between income and preferences on that dimension.

A limitation of Roemer’s two-party framework is that it is impossible for voters to unbundle the two issues. In multiparty systems, there may be parties representing many more combinations of economic and non-economic policy positions. In such cases, the issue bundling occurs in the process of forming coalition governments. Whether predictions similar to Roemer’s continue to hold is an open question.
Social Affinities

Kristov *et al.* (1992) develop a model of redistributive social spending that can be related to some of the preceding discussion of norms of solidarity and group identities. These authors postulate that the policy preferences of the median voter depend on the distance between her income and those of the poor and the rich. If the distance to the poor is small, the median voter sympathizes with the poor or, alternatively, includes the possibility of becoming poor in her cost-benefit calculus. (Kristov *et al.* deliberately equivocate on the extent to which 'social affinity' boils down to 'self-insurance'). If the distance to the rich is small, she leans against redistribution for similar reasons. What matters, then, is not the overall level of inequality, as in the Meltzer-Richard and Moene-Wallerstein models, but rather the structure of inequality. Compression of the lower half of the income distribution combined with dispersion of the upper half provides the conditions most favorable to redistributive politics. Empirically, Kristov *et al.* operationalize 'social distance' in terms of income differentials, but race or ethnicity could easily be incorporated into their theoretical framework. From this perspective, racial and ethnic fractionalization is not necessarily relevant to redistributive politics: racial and ethnic fractionalization matters to the extent that it maps onto the income distribution.

Preferences Embedded in welfare-State Institutions

One of the standard questions in international surveys asks respondents whether they agree with the proposition that 'government should act to redistribute income'. This question taps into norms about how much inequality is appropriate, but also norms about the proper role of government. In a study of trust and policy preferences in the USA, Hetherington (2004) finds evidence that low levels of trust in the federal government are associated with more conservative positions on a number of redistributive policy questions. This finding is consistent with Osberg and Smeeding's (2006) finding that Americans are less likely to believe that it is the government's responsibility to reduce income inequality than are citizens of European countries even though they do not necessarily find existing income differentials more legitimate.

Related to the question of the legitimacy of political relative to market allocation of resources (cf. Lane, 1986), there is quite a large empirical literature that suggests that the way public welfare provision is organized affects preferences for public welfare provision and redistribution. For Sweden as well as the USA, individual-level studies show that personal experience with means-tested social assistance tends to be associated with low levels of trust in political institutions and less support for redistributive policies (Kumlin, 2004). More broadly, the institutionalist theory proposed by Korpi and Palme (1998) and the macro-level evidence that they present
suggest that universalistic social-insurance schemes generate more broad-based support for redistributive measures than occupational social-insurance schemes. Articulated in the language of median-voter models, Korpi and Palme’s core argument holds that the tax rate preferred by the median voter is endogenous to the institutional design of public welfare provision. In a somewhat different vein, Kumlin and Svalfors (2007) show that class differences in preferences for redistribution increase with the size of the welfare state and argue that by engaging in redistribution governments politicize distributive issues and, in effect, create demand for redistribution among low-income voters.

8. Conclusion

As John Roemer argues in Chapter 27, there are very real limits to the extent to which inequality can be eliminated or even ameliorated by democratic market societies. The proposition that inequality is self-correcting in democracies clearly turns out to be inadequate to explain persistent inequalities or governmental responses to rising inequality. This should not be taken to mean that inequality does not matter to the politics of redistribution. As the preceding discussion suggests, partisan politics mediate the consequences of inequality for government policy. In addition, it may be necessary to consider more disaggregated measures of inequality in order to appreciate its political consequences. For example, as suggested by Kristov et al. (1992), dispersion in the lower half of the distribution may have different political consequences than dispersion in the upper half.

The preceding discussion also points to other factors that shape demands for redistribution and help explain differences in distributive policy over time and across countries. The first is the perceptions and realities of social risk. The salience of aggregate risks that cannot be privately insured clearly has been and remains an important factor in the politics of the welfare state. As Dryzek and Goodin (1986) argue, pervasive uncertainty about risks associated with World War II led citizens of many countries to accept the notion that state provision of social insurance was necessary and that private insurance schemes would not suffice. As memories of such collectivized risks have faded, citizens have arguably become more tolerant of the privatization of risk and the reliance on private insurance mechanisms. As Hacker (2006) points out, governments (especially the US government) have begun to adopt policies that subsidize the privatization of risk further. Although there may be economic arguments for private pensions and private health care over social insurance, the political effects on support for the welfare state are unmistakable.
The second factor that emerges in our review is the role of information and beliefs in sustaining high levels of inequality. Both theoretical and empirical work has stressed how different beliefs about the link between individual effort and economic outcomes and mobility temper individual preferences about the desirable scope of the welfare state. Bartels (2008) also makes a persuasive case that citizens’ lack of information about how government policies affect inequality may also be to blame. Clearly, many citizens of the USA either fail to see a link between policy and inequality or do not trust government to improve upon market outcomes. The extent to which this is true of other countries and how it varies remains an open question. The relative strength of institutions such as labor unions that inform and mobilize low-income workers and the ways in which the media cover social policy and inequality may be important factors in explaining divergent political responses to rising inequality.

The third factor in explaining variations in levels of inequality is the emergence and the continuing importance of ‘non-economic’ cleavages in electoral politics. The evidence is quite strong that diverse societies tend to be more unequal and redistribute less. But there is little agreement as to the mechanisms that produce this correlation. The processes by which cultural issues and identities form, change, and become salient will continue to be an important area of research for those interested in the welfare state and redistributive politics more generally.

Finally, the importance of political institutions for social policy outcomes is clear. The design of electoral systems not only influences the ways that political coalitions form and whether politicians have incentives to distribute across classes or across regions. Electoral design also influences the extent to which low-income voters can be mobilized and whether leftist parties can succeed. The separation of powers, bicameralism, and federalism create veto points that may impede the expansion of the welfare state but also protect it from retrenchment. And the welfare state itself is an important institution that affects redistributive politics. Experiences with welfare-state institutions shape preferences both through beliefs about ‘luck and effort’ as well as trust in government’s ability to solve social problems. These beliefs in turn generate new demands either for retrenchment or expansion of welfare states. Consequently, to explain the rich variation in policy outcomes, scholars will need to continue to develop and refine arguments about path dependencies and policy feedbacks (cf. Pierson, 2004).

References


