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Public redistribution and voter demand – The middle class as a modern Robin Hood?

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Abstract

Over the last few decades government income redistribution cushioned the growing disparity in the distribution of market incomes in many highly industrialized countries. There is a controversy in comparative political economy on what determines the varying scope of redistribution. The paper addresses, whether redistribution reacts to growing inequality and to demands by middle class voters harmed by economic change, or whether it is determined by political parties and institutions. It focuses on the hypothesis of *distributional coalitions* constituted from lower and middle classes and facilitated by ‘affinity’ due to changing income structures. The analysis used micro-data from the Luxembourg Income Study which were supplemented with other variables to yield a “pooled cross-sectional time series” of 81 observations in 19 countries for the period 1980 to 2005. The results do not support a similarity of income positions of middle and lower income classes as basis for cross class coalitions, but underscore growing distances because of losses of income position of the poorest. Hence, political factors must be decisive. Power resources of left parties and their shift to the middle of the left-right-axis and welfare state institutions had just a small impact. Voter-turnout and electoral institutions were more influential for redistribution.

1. Introduction

During the past decades in most developed societies the income distribution shows growing gaps between top and bottom, which are driven by forces like skill-based technological change, the expansion of the service economy or changes in wage setting. Social transfers and taxes partly compensated for the growing disparity in market incomes (Korpi 2003; Bradley et al. 2003; Kenworthy 2004; Pontusson 2005; OECD 2008; Beramendi/Cusack 2008; Iversen/Soskice 2009a). Cutbacks of social programs diminished this equalizing effect of public policies, but they still deliver a more even distribution than market forces alone provide (OECD 2011: 23). Moreover, an analysis of governmental intervention in the distribution of gross incomes allows a deeper understanding of how society corrects market outcomes which are not compatible to the “will of all”. In a democracy, by definition, the total electorate decides which public policies governments must establish to correct income distribution. In literature however, it rather is the middle class voter which constitutes a political majority and actually sways redistribution. In times of rising inequality this middle of the distribution also gets interested in public income redistribution, not only the poor alone. The middle class should strive for an offset of social inequalities, quasi as a *Robin Hood* who takes from the rich to give to the poor.

This paper analyses the changes of the income distribution and redistribution with special regard to the middle classes. It draws on explanations of redistribution which all put the middle class center stage. According to the classic, if not controversial, median voter approach, governments *react* to growing market income inequality with more vigorous redistribution. In democratic countries voters are in a position to impose demand for equalizing policies by majority vote. Especially the middle class when threatened by rising income inequality will influence electoral outcomes because of the power evolving from its large number. Enlargements of this model emphasized the political power-resources and political institutions as societal mechanisms transforming voter demands into actual redistributive policies. They foster certain *cross class coalitions*, which make distributive demands of the ‘poor’ powerful (Iversen/Soskice 2006; Korpi/Palme 2008). Recently, income structures and political coalitions were combined into the argument that *social affinities* or *distances* determined through the position of income classes constitute a leaning of the middle class to form coalitions either with low or with high income earners (Lupu/Pontusson 2011). Social affinity shapes the likelihood of a common interest in redistribution ending in relevant political coalitions.

Can inter-temporal and international variation of the extent governments resort to public redistribution be explained by these social and political factors? Did the income position of the middle class actually deteriorate in previous decades in a way which makes coalitions with the poor plausible? Do empirical income developments support the assumed social affinity between mid-

dle and lower strata in terms of distributive interests? Did this trigger public income redistribution? Additionally, what is the mediating role of political parties and institutions? Did left parties move to more moderate political position and did this shift to the center of political ideology shrink public redistribution? How important are the incentives for cross-class coalitions set by universalistic social policy design and by the institutional design of electoral systems?

The paper contributes to existing research on redistribution by analyzing the structure of inequality and redistribution for single income groups. So, not only changes of the Gini become visible, but exactly which section of society was affected how by changing income distribution and redistribution. Since theoretical approaches all are built upon the interests different societal groups develop within changing income structures, such an approach to public income redistribution is more appropriate than conclusions based on the general Gini-Index, the majority of redistribution research draws on. I show that the middle class is no homogeneous group which is consequential for who forms redistribution coalitions. This paper explains redistribution to the bottom quintile of the distribution. Based on the micro-data of the Luxembourg Income Study (LIS) income inequality measures were calculated and a pooled panel data set was built covering the period between 1980 and 2005. Following a review of explanations for government income redistribution (2.1), the hypotheses are stated (2.2). Section 3 presents the data sources and methods. The fourth section first describes how the positions of the income groups evolved over the past decades and how they were affected by social welfare redistribution. This is followed by multivariate analysis of influences on the welfare state's distributive effects. The final section summarizes the findings and points to open topics for further research.

2. Welfare state redistribution explanations

2.1. Redistribution and democracy

The median voter approach by Meltzer and Richards (1981) and Roemer (1975) represents a contested, yet basic model of political economy to explain political intervention in the distribution of wages. It holds that in a democracy redistribution to correct market inequality begins to rise when growing disparities in the income distribution also hurt those with median incomes or below. A weaker position of middle income groups widens the gap between the middle and the top income earners and makes redistribution advantageous not only for the poor, but for broad income strata. Taxation in this concept is progressive and the top incomes have to carry most of the redistribution cost. So, an electoral majority expressing preferences and political demands for public income equalizing policies emerges as more top earners move away from the median.

In democracies, middle income households are decisive in election outcomes and hence can enforce their redistributive demands. Parties who want to stay in office are forced to set up programs with redistributive effects for that growing majority.

This model was criticized because of its simple model of the way politics works. It is claimed that politics is not just a neutral mechanism transforming voter demand in a political output, but a system with its own logics. The next section presents this argument in more details. Here, I first turn to the rejection of a link between rising inequality and the scope of public redistribution drawing on empirical evidence. In literature, the existence of countries with pronounced market income disparities but little redistribution and in turn of countries exhibiting little market inequality, but high redistribution clearly countervails the median voter-model of a government reaction to high inequality because of voters demand (Iversen/Soskice 2009). Critics point to the U.S. as empirical evidence that high wage inequality does not automatically trigger public policies striving for greater equality. The smaller scope of redistribution compared with most of the European countries is explained by an “American exceptionalism” (Alesina et.al 2001; Alesina/Glaeser 2004), composed of a lack of unions, unequal political participation, high immigration numbers and political institutions. Moreover, by no means do citizens of countries with higher wage disparities support government redistribution more than do citizens of egalitarian countries and these inegalitarian countries rather have small welfare states in terms of public expenditure or the scope of redistribution (Moene/Wallerstein 2001, Iversen/Soskice 2006). However, *longitudinal data* clearly show the postulated positive relationship between market inequality and redistribution. The scope of redistribution increases as wage inequality increases (Milanovic 2000; Kenworthy/Pontusson 2005; Kenworthy/McCall 2008, Kelly 2009). Hence, the critique towards the median voter model drawing on empirical evidence is partly supported.¹ The lacking conceptualization of the political system itself and how it transforms voter’s preferences is more serious point.

2.2. Politics, power resources and the middle class

Voter preferences have to pass through political institutions in order to be transformed into organized politics and binding decisions. Political parties must pick up voter demand. According to power resource theory, leftist parties and unions speak for the interests of workers and low-income earners. Social democratic parties include worker’s demands for centralized wage bargaining, regulated labor and equalizing social policies in their electoral platforms and implement

¹ Moreover, analysis using longitudinal data is more reliable since it avoids the omitted variable bias, a chronic problem of cross-sectional design. A drawback of analysis based on longitudinal data with fixed effects regressions is that it uses only temporal variation in the data while excluding cross-national differences making it insensitive to the impact of time-invariant country attributes.

them to the extent their power resources (i.e. the number of seats held by left parties in parliament or in cabinet) permit. The extent of unionization forces governments to take into account workers' interests with respect to wage regulation and equalizing tax or social policy programs (Hicks/Swank 1992; Huber/Stephens 2001; Beramendi/Cusack 2008). Left parties in parliament and unions are seen as actors of a *democratically controlled class war* who accomplish redistributive policies (Korpi 1983; 1989).

But as soon as the limited political power of the working class and the poor is recognized, cross-class coalitions with other social groups are required (Goodin/LeGrand 1987; Esping-Andersen 1990: 30; Baldwin 1990).² Differing labor parties' coalition partners made specific compromises concerning labor market regulation and social protection, accounting for the differences in de-commodification various 'welfare regimes' offer to their citizens. Redistributive policies come about as a result of political compromises between lower and middle class interests (Korpi/Palme 1998; Scruggs/Alan 2006; Svallfors 2004; Manow 2007). But little research has been done on these *cross-class redistributive coalitions*. Most studies instead register the influence of single left or center-right parties without reflecting what changes in the original political program due to coalitions (Hicks/Swank 1992; Huber/Stephens 2001; Bradley et. al. 2003; Beramendi/Cusack 2008).

The results of empirical studies only partly confirm an impact of left political power on wage distribution and government income redistribution (Hicks/Swank 1992; Huber/Stephens 2001; Bradley et.al. 2003; Beramendi/Cusack 2008). Therefore the role of left parties in postindustrial societies as agents bringing about equality and social security is questioned. The ageing of society enforces a rise of social expenditure which hardly depends on political ideology further underlining the irrelevance of left and right in politics. Christian Democratic governments established encompassing social security systems too, since they generate voter credit and since also Christian democratic parties reacted to the labor market insecurity globalization imposes also on middle social strata. Christian Democratic parties propagate a cross class compromise *within* one single party (Manow/Kersbergen 2006; Manow 2009). This leads to another argument: Like Christian Democracy, left parties are also seeking internal compromises and move to the middle of the ideological left-right spectrum to gain votes from the 'median voter' (Downs 1957). So, the position of left parties on a left-right spectrum already indicates a cross-class compromise. It is decisive, how exactly social democratic parties balance between the poor and a middle class better established in education and labor market and how much social democracy moves to the center in order to achieve a cross-class compromise. The debates on dualisation and the orien-

² The influence of leftist parties is subject to debate. It has been said that parties lost their meaning in the face of pressures to act that open economies and demographic changes bring (Swank 2002).

tation of social democracy toward the insiders points to this trend (Rueda 2005). Moreover, if only coalition government with a dominant Christ democracy is feasible, social democrats are forced to abandon the interests of marginal groups (Iversen/Soskice 2009b; Warwick 2011). When social democratic parties move away from “left” positions to the center to be closer to the median voter position redistribution should decline.

Social democratic parties tend to stay at left positions when voter turnout is high. A low participation rate usually is caused by the absence of the lower social strata. Since politicians must pay less attention to the political concerns of those who are not actively part of the electorate, it is just this group whose potential influence diminishes (Pontusson/Rueda 2010).

Institutional theory in comparative welfare state research contributed a lot to cross-class or party coalitions. One branch underlines the incentives specific social policy designs create for coalitions of lower and middle classes: The marginal type directing minimum security selectively at the poor divides between beneficiaries and financers of these benefits. By contrast, the universal regimes providing benefits to broad social groups garner widespread acceptance. When everyone is both financier and potential benefit recipient, the resistance to deductions is low and tax base is broad. Social insurance schemes aggregate heterogeneous groups with different risk profiles and so create inclusive risk pools. Benefit levels aiming to secure the former living standard foster middle class support³ that promotes “redistributive coalitions” between lower and middle class (Rothstein 1998; Korpi/Palme 1998; Brooks/Manza 2006; Palme 2006).

Another version observes the incentives election systems set for coalition building (Iversen/Soskice 2006 und 2008; Beramendi/Anderson 2008). The starting point is the median or middle class voter and it’s leaning to coalitions with either the poorer or the richer half of society. Which of the two options the middle class chooses, determines if a redistribution-friendly or limiting government forms. The election system decides this question. In countries with *proportional* representation middle-left coalitions are more probable, since parties are represented in parliament according to vote share and in many cases government coalitions have to be found. Thus, the middle class voters can be sure that parties representing their demands will influence political decisions. Coalitions between parties of left and the middle class citizens become attractive since the middle class can push through policies at the expense of the upper class. In a *majoritarian election system*, by contrast, the party that gets the most votes forms the government. For the middle, this carries the risk that parties who offered a compromise middle-left platform in order to win a majority will drift left after the election is won, raise taxes and disproportionately

3 Despite lapses of focus on the needy, universal social insurance achieved a more egalitarian distribution than countries with targeted social programs for the poor (Korpi/Palme 1998; Iversen/Soskice 2006 and 2008).

skew collective goods toward the bottom. In a majoritarian system, the middle class will rather vote for parties with a middle-right platform in order to avoid being exploited themselves. Countries with Christian-democratic, class-spanning organized parties, however, do not fit into this categorization.

2.3. Inequality structures and social affinity

Recent research on redistribution not only traces coalitions back to political institutions, but relies anew on changing income structures and the thereby changing interest in redistribution, as previously demonstrated in the much disputed median voter model. The income distances between the “haves and have-nots” are seen as the basis of political preferences and behavior (Osberg et.al. 2004). Schwabish et al. (2004) found in their *cross-sectional* study that the larger the gap between middle and upper class the smaller the social expenditures. The rich in this case would distance themselves from financing collective goods they do not need and show an “empathy gulf” (Shapiro 2002: 119). But the data show, that large income gaps between lower and middle classes coincide with higher social expenditures. This is interpreted as the consequence of citizen’s demand for redistribution, but they did not test this empirically (Schwabish et.al. 2004: 5).

In a somewhat contradictory perspective, Lupu and Pontusson (2011) combine the assumed impact of changing income distances on political support for income redistribution with the propensity of coalitions the middle class prefers. The relative positions of social groups in the income structure would lead to either *social affinity* or *distance*, which in turn underpin political coalitions. The smaller the gap between middle and lower social classes in the income distribution, the greater is public redistribution, because small income differences facilitate political coalitions between these two groups. According to this study, the middle income tier which is decisive for winning elections now supports redistributive programs which also benefit the poor. Changing distances in the upper half of the distribution generate the corresponding effect: A shrinking distance between middle and high income earners facilitates social affinities with the upper stratum and makes coalitions with center-right parties more likely. Consequently redistribution declines. Other authors alternatively see small distances between middle and lower classes as a trigger for social competition and fear of social decline. The middle refuses redistribution because the rising burden of higher taxes and social insurance contributions extract their resources for social distinction (Corneo/Grüner 2000; Shapiro 2002).

Which redistribution coalition the middle class actually leans to, is undecided (Kristov et.al. 1992). This stratum neither depends comprehensively on social transfers, as the lower income households do, nor does it pay as much tax as the high income households. Additional factors as e.g. institutional incentives, an economic crisis or a roll-back of labor regulation and social security steer the initially open positions in redistribution conflicts in a specific direction.

2.4. Hypothesis

The explanations of income redistribution described above set the middle class in center stage since demands of the underprivileged for more equality can only be realized by similar political interests and orientations of the decisive median voter. The median-voter approach and the one aforementioned (let's call it affinity approach) are similarly starting from the effects of shifting structures of income inequality. If the middle class is also affected by growing inequality, it develops distributive interests and an affinity to the poor, which make them support the respective political coalitions or parties, and politics will react and curb redistributive policies. Of course, whether distances between 'middle' and 'bottom' actually got smaller, offering a basis for redistributive coalitions in favor of public compensation for the income losses of the poor, remains an open question.

Therefore a first hypothesis tests: *1a) The smaller the distance between the first and the third quintile, the more income redistribution is visible.* The analogous hypothesis for the upper half of the distribution is: *1b) The larger the distance between households with middle and high incomes, the smaller public redistribution will be.* (This differs from classical median voter assumptions. Redistribution rises if the middle income earners are left behind high income earners.)

The argument that above all the strength of left political power determines what the scope of public income redistribution is, hypothesis 2a states: *The higher the influence of left parties in government, the more redistribution is possible.* Left parties may move their ideological position towards a more moderate position to gain votes in the middle. The possible effect is captured by the following hypothesis: *2b: The more social democratic parties move their political position to the center of the left-right spectrum, the less redistribution to the lower income groups occurs.*

Institutional incentives of redistribution coalitions are tested by the next hypothesis. *3a: In universal welfare states redistribution is higher.* *3b: In countries with a proportional electoral system more often the lower and the middle classes form coalitions which again foster tax and benefit programs improving the relative income position of the poor.*

3. Data and Methods

Variables for income distribution and redistribution were calculated using the micro-data of the Luxembourg Income Study (LIS) Database.⁴ Income in this paper means *total household income* both when market and disposable income is considered, weighted by the number and age of the household members. Weighting procedure and top and bottom coding as recommended by LIS was used. The available “waves” I through VI allow observing the period from 1980 to 2005. The time intervals between measurements are not identical for all countries, and the numbers of waves per country varies. Therefore it is an unbalanced, pooled cross-sectional time series data set consisting of 81 observations for 19 countries, at 2 to 6 observations per country. The unavailable waves in an unbalanced panel are treated as missing data. These gaps are acceptable so long as missing data points are random. There is no indication of systematic bias in the listing of available waves and countries (Table 1 of the Appendix).

Income distribution is stated as the share of total income received by 20 per cent of the population.⁵ This measure of the income distribution relies on the fact that deviations of the percentile share from the population group’s size expresses inequality. Proceeding this way the position of groups within structures of the distribution of market income can be depicted, which the Gini Index does not do. Government redistribution differentiated for individual income groups is measured by comparing the quintile shares once calculated on the basis of gross income, then on the basis of disposable income after social transfers and taxes. Redistribution effects can be positive (share gain) or negative (share loss). The dependent variable in multivariate analysis is redistribution only to the first quintile (i.e. 'Q1'). Redistribution is computed for the working-age population. Excluding people younger than 20 and older than 60 years avoids distortions due to different pension systems (Iversen/Soskice 2006; Bradley et.al. 2003). Elderly are retirees whose market income from rentals, leases, capital market activities or self-employment is small or missing at all. If redistribution measures include the elderly, the jump from market to net incomes reflects only the degree of privatization of pensions policies. A small private share would result in a great jump from little market private pensions and disposable income from public pensions.

4 LIS sources the data from representative, national micro-data sets, then recodes them using consistent standards to makes them comparable internationally.

5 Households are sorted according to income size into five equally-large groups, so that each quintile represents 20% of the survey subjects. The share of total income received by each group can then be determined.

Predictor variables

The most important explanative variables for redistribution to the lowest quintile are distances in market income which according to revived median voter approaches shape affinities and political coalitions. The distance between the middle and the lowest income-group is captured by the ratio of the income shares received by Q3 and Q1 (Q3/1). The respective distance between middle and the top incomes is the ratio of the Q5 and Q3 income share (Q5/3).

Left political power in government is measured by the variable *center of political gravity*, which sums the political position of each party in government and weights it with the number of seats of the single parties in government.⁶ A small value means a more left, a high value a more right ideological orientation. The variable is calculated based on the left-right position of parties according to data of the Comparative Manifesto Project (CMP; Klingemann et al. 2006). The shift of the left political parties towards a position closer to a middle left-right ideological position is intended to show their effort to reconcile left and middle class positions. We use the right-lefts-position for social democratic parties according to the party programs from the CMP data set (ranging from -100 to +100). The higher the index the more conservative the party is, the smaller the more left it is. In case of several social democratic parties, we use the values of the party with a higher number of seats in parliament. The influence of electoral systems and welfare regimes on coalitions between middle and lower classes is tested by dummy variables for countries with proportional electoral systems and for a single universal welfare state model (Sweden, Norway, Finland and Denmark). Political participation (share of voters of those who had the right to vote in the last national elections; Armingeon et.al. 2010) and union power (percentage of union members in the workforce) enter as control variables.⁷

All models control for unemployment which makes redistribution automatically rise with the number of beneficiaries who need government transfers (Kenworthy/Pontusson 2005).⁸ However, the description of the development of redistribution (chap. 4.1) still comprises automatic compensation.⁹ Female employment rate and the gross domestic product (constant prices, purchasing power parities, in US \$) are further standard control variables.

6 The data in Cusack and Engelhardt (2002) are structured according to election periods which not always fit to LIS-waves. In this case we calculated a mean of center of political gravity over the 3-5 years preceding the variable in LIS.

7 Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960–2010 (ICTWSS). Visser, AIAS Version 3.0. http://www.uva-aias.net/uploaded_files/regular/ICTWSScodebook.pdf.

8 See ILO <http://laborsta.ilo.org>.

9 The need for social transfers and the automatic compensation-effect also rises by the growing number of single parents with scarce or no market income (Huber/Stephens 2003 and 2013). Other studies also

The impact of income disparities and other *time-variant* variables on the scope of redistribution is tested by means of *fixed effects regressions*. These use only the temporal variation in the data and control for country specific differences. They supply consistent estimators, even when the individual effects correlate with other (unobserved) variables. The risk inherent in cross-sectional designs that unobserved political or cultural country attributes influences the coefficients is therefore avoided. Fixed effects models with longitudinal data prevent erroneously interpreting the effects stemming from cross-national variation as temporal causal effects (Kenworthy 2009; Meier-Jaeger 2011).

Time-constant institutional attributes of countries, which “fixed effects” procedures do not take into account, are tested by means of OLS regression for pooled data. Since between-country variance is greater than within-country temporal variance, OLS analysis of the effect of constant institutional features is a step as important as the analysis of determinants of change.¹⁰ Dummy variables for the waves capture unmeasured temporal effects. Robust standard errors are used since the observations in a pooled panel dataset are not independent causing problems of autocorrelation.

4. Findings

4.1. Changing income distribution and redistribution

How did income structures develop and what follows from this for *redistribution coalitions*? Figures 1a and b show the income shares of five quintiles for market and disposable income and their development between 1985 and 2005. The *lowest quintile* has to be satisfied with a disproportionately low share of about 3-5% of the total market income. In the period under discussion the market position of low income households was still deteriorating.¹¹ Since the position of the lowest income group in the market distribution was being eroded, this group could be expected to have an unambiguous interest in redistributive social policy. Public redistribution improved the relative income position of these poorest households. Thus their share of the total disposable income rises to approx. 10% in countries with a developed social state (e.g. DE, FI, DK, SE), whereas in countries with a marginal social state (UK, US, CA) it only rises to approx. 7% (Sin-

include controls of public policies like wage replacement rates of unemployment benefits. Adapted to the design of this study, this would be problematic since these measures of course capture similar as the distance-variable in this paper. F.e., generosity of social benefits yields small distances between low and the middle incomes. Multiple items for the same dimension diminish the effect of the distance variable and cause multi-collinearity. Of course, the gap between low and middle incomes has reasons like changing public policies. But the arguments in the literature, I draw on, aim at the very distances.

¹⁰ According to an ANOVA test, 67% of the variance is at the country level, 32% of variance on the temporal level.

gle countries like Australia do not fit clearly in one of these groups). Redistribution made the development of disposable income for the poorest stratum less negative than that of market income. But despite social compensation it still declines over time.¹²

The *middle* income group (Q3) achieves a share of market income that comes close to corresponding to its size, namely, approx. 20%. With the exception of the United Kingdom, its share of market income remains the same between 1985 and 2005. So the market position of the middle class was quite stable over time.¹³ Probably educational and professional qualifications and regulated labor relations for insiders in the decades under consideration ensured that the middle enjoyed a stable labor market and income position. Middle strata are therefore less dependent on social state redistribution, but rely more on policies of labor market regulation (market conditioning; Kelly 2009). Simply from the viewpoint of its income interests, the temporally stable market position of the middle income groups give them little cause to make redistribution demands or to develop social affinity with the lowest income groups. This would only be plausible by additional aspects like fear of decline or lack of expectation of advancement in times of economic crisis. There is only a small difference between market and disposable income in both of the middle income groups Q3 and Q4. However, this does not mean that social policy programs are unimportant for the welfare position of middle-income households, but rather underlines the high income security by means of social programs. This topic is discussed more closely in a moment.

With regard to coalitions, it is instructive to note the *heterogeneity* of the center ground. Households from the lower and upper middle income group (Q2 und Q4) differ sharply with regard to their respective share of market income (lower middle approx. 12%, upper middle approx. 24%). The development for each group ran along similar lines as the adjacent income group. The lower middle's share of market income declined like the one of the poorest quintile, while the upper middle grew like the richest quintile (see Fig. 1b). Similar redistribution interests and social affinities can be expected in the two lowest quintiles, but less between the stable middle class (Q3) and the wealthy, as the latter group enjoyed a 'take off' that is reminiscent of Shapiro's 'empathy gulf' (2002).

The top quintile receives a very disproportionate share of the market income, which varies between 40% and 50% according to country and even increased between 1985 and 2005 (fig. 1b). A comparison between the share of market and disposable income shows that the income share

11 Other studies confirmed that during the past decades above all people with low qualifications lost labor market opportunities and had to accept lower wages (Alderson et al. 2005; OECD 2008: 30).

12 There is no correlation between income shares according to market income on the one hand and net income on the other. Thus redistribution breaks with the market position. In the case of the other quintiles both income forms correlate, i.e., social policy programs do not affect the relative income situation.

13 See also Iversen/Soskice (2009b) and Immervoll/Richardsen (2011: pp. 14-15).

accruing in the top quintile reduces significantly after deduction of tax and social security contributions. The highest income quintile is the *net finance provider* of state transfers and tax. The top quintile therefore votes against redistribution policies.¹⁴ This does not mean that other groups pay no contributions. In particular, transfers in the middle groups are kind of self-financed (Tullock 1971: 385). Public redistribution caused the disposable income of the top income quintile to rise less steeply. It did not, however, eliminate the strong gains in market income made by this group. Although households in the top quintile paid more tax as well as contributions to social state programs, and social policy sharply reduced the disposable income of the rich, ultimately their welfare position improved. Evidently, the richest households had a good negotiating position in the labor market and were able to achieve high rates of pay, thereby compensating for progressive taxation and contributions.

Figure 1a) ,Income shares in the lower half of the income distribution'

1 b) ,Income shares in the upper half of the income distribution'

About here

Redistribution most markedly improves the relative income position of the lowest quintile, while significantly reducing that of the highest quintile. The structure of redistribution is even more pronounced in 2005 than it was twenty years earlier as *Figure 2*, which presents only the difference between market income and disposable income, shows. Households in the lowest group receive more from income redistribution also because of rising needs in that group due to unemployment and single parent households with lower labor market participation. Households at the top paid a rising proportion of their market income in taxes and contributions, still their income share after taxes rises. The share in disposable income received by the poorest group falls. This relation does not seem to apply to the middle groups to any significant degree. Their share of disposable income scarcely differs from their market income share (Milanovic 2000).

Figure 2: Development of public redistribution

About here

Still, social transfers and taxes are relevant for middle income groups since they maintain the stability of their income situation achieved through the proportional distribution effect of social insurance. Income-dependent payments made and income-related disbursements received balance each other out (Ganghof/Genschel 2008). For households in the middle quintile the social

¹⁴ This is confirmed by the fact that support for public redistribution declines with rising income (Breznau 2010), and that one's own income has been proved by relevant research to be the most important predictor of redistribution preferences (e.g. Svallfors 2004, Finseraas 2008).

state is a kind of 'piggy bank', while for households in the lowest quintile they are more like 'Robin Hood' (Barr 2001). Also the standard method by which redistribution is usually calculated (Whiteford 2008) conveys the impression that middling incomes scarcely benefit by government redistribution: The difference between a small or missing market income share of the poorest quintile and their after tax and transfers share is obvious. The stability of the relative income position of middle income groups is not as adequately captured, even though ultimately more is spent on social security than on reducing poverty.

The small effect of public redistribution for the middle class highlights its open position between other income classes with clearly defined redistribution interests. In order to bring about middle-lower coalitions, leftist parties would have to balance, on the one hand, the interests of the middle-class voter who is integrated into the labor market and prefers stable wages backed by social insurance to cover sickness and old age with, on the other hand, the redistributive interests of the first and second quintile. Such efforts could expect to have a better chance of success the further to the left the median voter stands (Pontusson/Rueda 2010).

4.2. Multivariate Analysis: the comparative influence of affinity and political factors

According to the median voter-model public redistribution reacts to growing inequalities of market incomes, since those whose (relative) income position deteriorates will demand government policies. The notion of affinities between income groups interprets income structures also as subjectively relevant. A diminishing distance between middle and lower market income should foster affinity and similar political demands and finally make redistribution to those at the bottom rise.

The results in Table 1 (model 1) show a highly significant effect for the distance between middle and lower market incomes, but not in the expected negative direction. The coefficient of the Q3/1ratio is positive indicating that government redistribution does expand when the distance between middle and low income households grows. As we know from the previous chapter, in fact this gap rose since the income shares of households at the bottom of the income ladder shrank. The changing gap between middle and the highest quintile (model 2) has a negative, highly significant effect on redistribution. The pulling away by higher market incomes hence results in less redistribution downward. Hypothesis 1b thus is confirmed, but not hypothesis 1a. The narrowing gap between poor and middle households does not trigger redistribution, but the

decline of the lower income tier instead. It is not social affinity but growing social distances that are associated with public interventions into the distribution generated by the (labor)market.¹⁵

The next model (3) includes the power resources of the political parties that form the government. The influence of the particular political and ideological outlook of the government is rather weak. According to the negative sign of the *center of political gravity* there is less compensation for increasing inequality under more right-leaning governments. The *positioning of parties of the left* variable (model 4), which is designed to capture the movement of these parties toward the center in search of votes of the middle-class, receives just a significant negative effect. A more centrist position of social democracy on the left-right spectrum reduces redistribution just a bit. These results partly confirm hypothesis 2a and b.

The small extent to which leftist parties determine the scope of public redistribution calls into question the importance of party ideology on the left-right scale for social policy outcomes (Bradley et.al. 2003; Castels/Obinger 2007; Kelly 2009). Also Christian democratic parties move to the center and establish social policies blurring the differences between right and left political powers (Pontusson/Rueda 2008). Other critics point to changed social contexts by globalization which increase the electorate's need for security, which all political parties must take account of. In post-industrial societies the political power of workers vanished. Additionally, socio-cultural conflicts overlay conflicts over distribution of economic resources, with the result that questions of distribution no longer dominate voter behavior to the same extent (Kitschelt 2001; Kitschelt/Rehm 2006). Lupu and Pontusson (2011) interpret the irrelevance of leftist parties as evidence for their distance thesis, according to which all governments redistribute, irrespective of any left-wing participation, if the income structures favor coalitions between the middle and the poor. Other authors show that the party position on the left-right-scale only gets significance when voter turnout is high (Pontusson/Rueda 2008, 2010). Since voter turnout can be interpreted as an item indicating the number of members of lower income groups casting their vote, the influence of left power depends on the size of working class mobilization. In model 5, however, neither the single item voter turnout, nor its interaction (not reported in table 1) is significant. The extent of unionization, also indicating the degree of organization of workers' interests, is equally irrelevant and so cannot explain temporal development of redistribution.

15 Critical voices may point to a possibly reversed causality. Unequal market incomes do not only increase public redistribution, but conversely: Redistribution influences the distribution of market incomes, even makes them more unequal. In this perspective generous unemployment benefits are an inverse incentive making people less prone to seek work. Nevertheless, they look like comprehensive redistribution because more people are without market income and the disposable income by social benefits looks like redistribution. Yet, benefits yielding high wage replacement rates are also considered as a reason of higher wages and smaller wage differentials. Empirically, redistribution as an independent variable of market inequality (measured by the Gini) yields no significant effect.

Table 1: Fixed effects regressions on redistribution

About here

With OLS regression analyzing the cross-sectional variation between countries I also get a positive, highly significant effect for the income distance between the middle and lowest quintile (Table 2, model 1). The larger the gap between the lowest and middle classes in terms of market incomes the more strongly governments resort to redistribution. Income distances between middle and top income households (model 2) again get a highly significant and negative coefficient. This reflects that countries in which a highly differentiated income structure is accepted, even the great advantages enjoyed by the topmost income stratum do not trigger redistributive public policies.

Now, also time-invariant variables capturing the incentives of institutions can enter the regression. The universalist welfare state model alone receives a highly-significant effect (model 3) which shrinks when union density is controlled for (model 4).¹⁶ High union membership is more important for the stronger leaning for redistribution to the lower social classes. The postulated incentive of the universal welfare state type for redistributive coalitions actually is rather moderate. Hypothesis 3a on the incentive for distributive coalitions between lower and middle classes is just partly confirmed.

The dummy variable for the proportional election system (model 5, reference majoritarian systems) vindicates a positive highly significant effect which also shrinks after controlling for further features of a political system. Voter turnout as index of the degree of working class mobilization makes redistribution increase more than the electoral system (model 6). Nevertheless, the proportional election system has a significant positive effect. This can mean that lower class members more easily obtain some redress for market inequalities in the presence of proportionality, but also that more intensive political competition can increase redistribution. Hypothesis 3b is confirmed, but the effect of the electoral system variable is not overwhelming. The center of political gravity of the government has a significant, but weak negative effect: Countries with more left governments are a bit more generous in terms of redistribution to the poorest. The drift of left political parties to the center for reasons of vote seeking in the middle classes again is not significant (result not shown in the table).

Table 2: OLS Regressions on redistribution (share gain bottom quintile)

About here

¹⁶ The tolerance value becomes very small, as both variables apparently correlate.

5. Discussion and outlook

In the presence of rising market income inequalities the question is, whether governments mitigate rising disparities by means of income redistribution. Long before recent concerns about the inequality topic, approaches of political economy stated quite pessimistically that government redistribution does not react to losses of the poor, but only when the middle class is affected as well. Only until political coalitions with the election winning median voter in the middle of society was redistribution made possible. The main question in the different explanations of government redistribution was how these *redistributive coalitions* between the poor and middle class voters emerge. To the median voter approach the income structure was a sufficient condition to shape middle class interest in redistributive policy. Other approaches focused on political power and political institutions mediating voter demand. The present analysis has confronted these assumptions on the impact of changing income structures and political factors with evidence of the empirical development of market income and public redistribution between 1980 and 2005.

The data show a worsening position in the distribution of market income of the lower income groups. Obviously they lost labor market opportunities and reward. By contrast, the share of the middle was stable and the share of the topmost incomes even grew in most of the countries. Government downward redistribution expanded, and mitigated the growing gap between low and higher incomes (except Great Britain). This, however, just partly compensated the market-income losses of the poorest households. Market income dynamics afforded the top income group gains, which even higher burdens due to redistribution did not neutralize. Obviously, the liberalized markets gave the upper incomes gains that allowed compensation payments to the losers.

The largely stable market income position of the middle class has given it little cause to start demanding redistribution, while the poor lowest fifth of the population should have developed a definite interest in redistribution. Redistributive coalitions between lower- and middle-income groups being formed seem unlikely, in the first instance. But if the middle class is differentiated, influential redistributive coalitions become visible, even if just drawing on income-structures for the moment. The analysis showed that households in the lower middle and lowest income quintile do have much the same distribution interests, as their income opportunities in the labor market diminished in a similar way. The upper middle class participated - if to a limited extent - in the market advantages of the highest incomes. In both cases redistribution coalitions with either leftist or conservative political forces immediately suggest themselves. The "middle middle" because of its stable income position indeed is kind of undecided in terms of which coalition is

best, up or down. The political leanings of the middle class are heterogeneous (Brooks/Manza 1997).

The *affinity hypothesis* and its adaption of median voter arguments to the bottom half of the distribution failed: Instead of a link between closer income distances between poor and middle income households I found growing distances being connected to more efforts for those at the bottom. Unemployment is one of the drivers of the observed empirical trends: It makes market income shares of the poor decline and, on the whole, pushes up redistribution without improving individual income positions. (Redistribution in one instance means more societal effort for those without market opportunities, in the other instance it means improved incomes of individual households.) But multivariate analysis which controls for unemployment still displays the same result on income distances, so a positive effect is not likely spurious. Hence, redistribution does not depend on closeness between bottom and middle income groups. It is not closeness but distance which is a driver. Effects of a changing income distribution cannot be skipped, even if the exact causes are still opaque.

The description of changing income positions in order to shed light on probable coalitions in terms of common political attitudes and behaviors does not claim that voter demands are driven by income position only. The middle might support redistributive coalitions for reasons of subjective insecurity generated by volatile markets and unemployment. But the debate on dualization processes (Emmenegger et al. 2012) suggests that the middle class up to now was able to shift labor market risks and social policy cut backs to the lower classes. My data suggests that this might be one reason for the stable income position of the middle class.

The multivariate analyses of the comparative impact of both structural and political factors confirmed the role of left power resources and political institutions, although not as clearly as the literature maintains. The left-right-position of government showed only a weak effect, nevertheless conservative governments are a bit less redistributive. All parties, who want to stay in office, seem to react to rising inequality. The movement of left parties to more moderate political positions on the left-right-spectrum had also just a weak significant effect. An adaption to median voter preferences plausibly weakens redistribution. *Voter turnout* proved to be an important predictor with a remarkable positive effect on redistribution to the bottom of the income ladder. Lower class mobilization as an aspect of power resource mobilization deserves more attention in research. If voter turnout is going to shrink further in European countries a self-selection of the distributive interests from the political sphere will occur.

Among the time-invariant institutional factors the *proportional electoral* system showed a positive impact. This confirms the results of other studies that it gives the lower income groups and their

political representatives access to political decisions and the legislative, whereas the majority voting system marginalizes the interests of the lower stratum of society (f.e. APSA Task Force 2004; Iversen/Soskice 2009). The institutional effect of the universal welfare regime facilitating distribution coalitions has to be treated with caution. A remarkable positive influence of universalistic (Scandinavian) regimes on the size of redistribution to the bottom shrinks when controlling for trade union membership. The impact of institutional and other country variables overlap and further research should improve methods how to separate political power from institutional incentives.

That redistribution to the poor rose without a middle class whose market income position declined, is puzzling. It points toward 'altruistic' middle class voters. Like Robin Hood the middle acts in favor of the distributive interest of the poor because changing places with them is more probable than changing places with high income earners. In spite of a rather calm development of their income position, they nevertheless may fear job loss more than previously, thus being eager to support the political claims of the poor. Analysis of a long term convergence of middle and low income groups in terms of their political attitudes and behavior are difficult at a comparative level with a reasonable number of countries since survey data exist since just 1990. Research designs different from the one used here are required. Moreover, we must keep in mind that attitudes are not identical with redistributive public policies of governments which do not necessarily respond to voters (Bartels 2006).

A solution to the puzzle by features of the political systems is promising. The approaches on the impacts of parties, coalitions and institutions tested in this article still gave no final answers. Knowledge is lacking on the effects of political coalitions and the public opinions of middle class voters. Also, political processes beyond the median voter might play an important role if groups with *veto power* override a majority. A neglected topic is the political influence of small groups. Perhaps the competition for votes makes parties offer programs even for small sections of society. The need of competing parties to observe many electoral interests may explain why redistribution is growing even when the interest of the median voter is weak. Redistributive programs are tolerated by middle-class voters as long as they do not involve (visible) costs for them.

Appendix

Figure 1a: Income share of the lowest and two middle quintiles, in %.

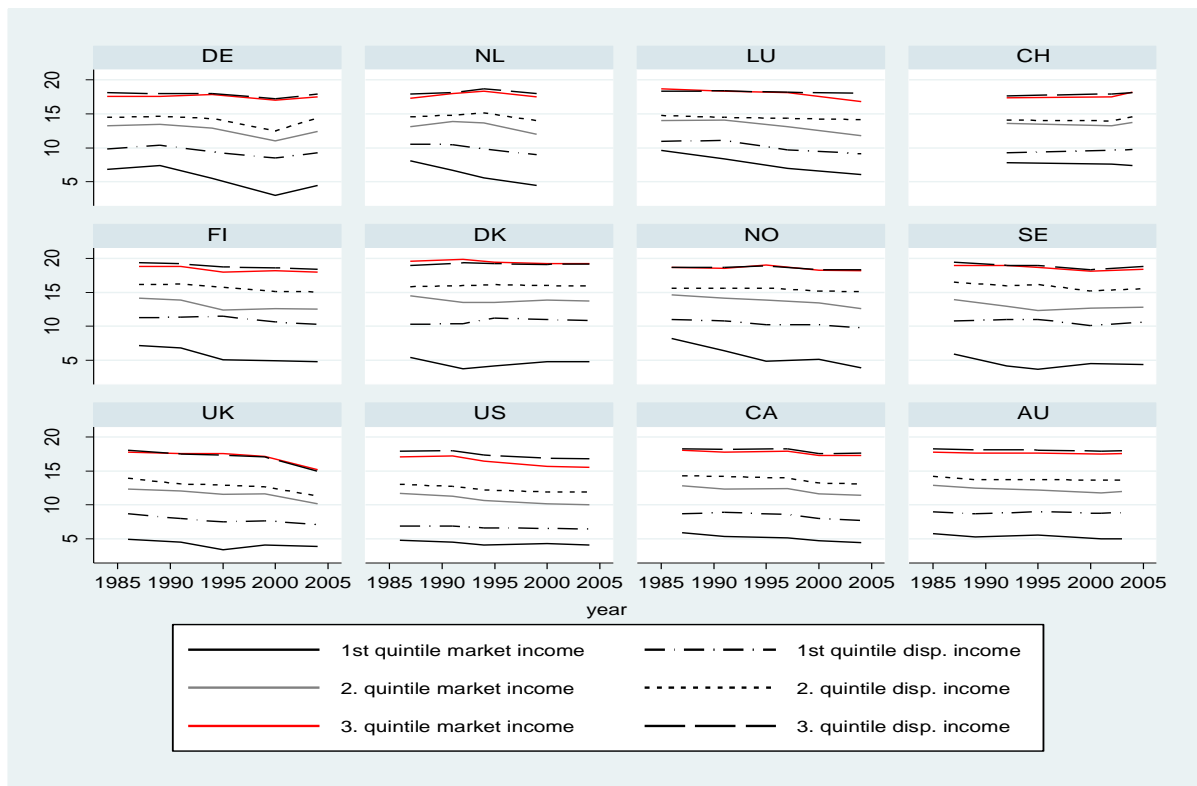
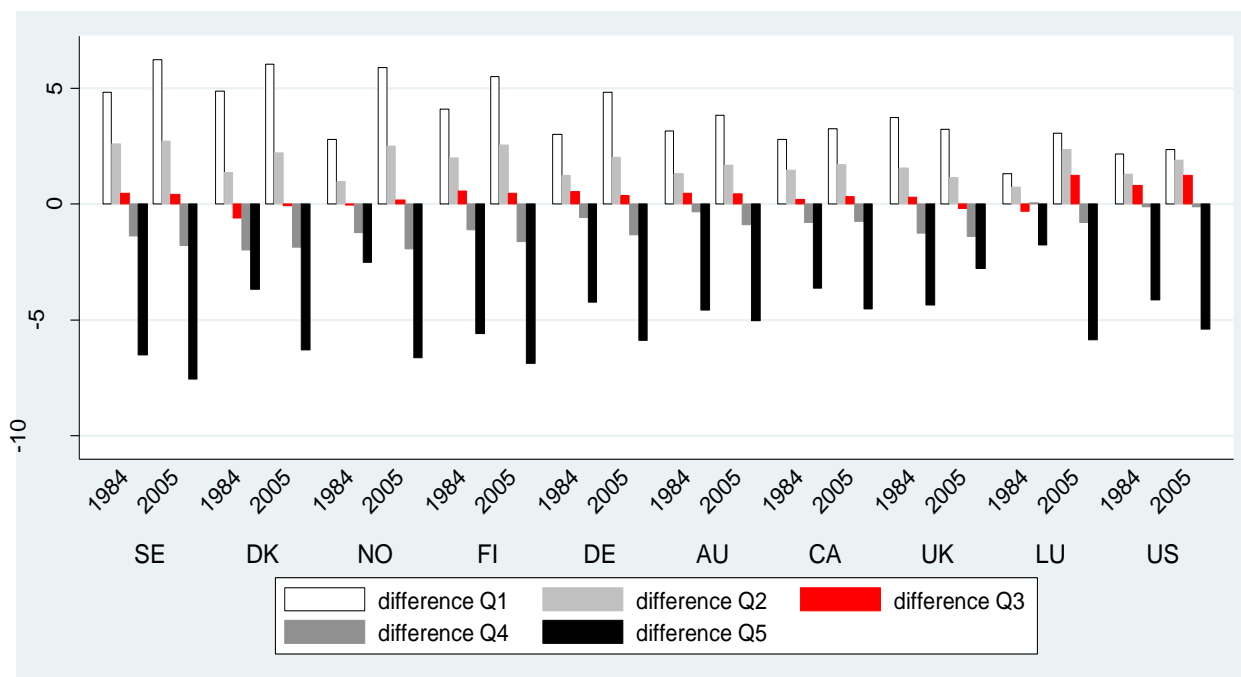


Figure 1b: Income share of the upper middle and topmost quintile, in %.



Source: LIS data, own calculation.

Figure 2: Redistribution - difference between market and disposable income in single income quintiles, 1985 and 2005 (absolute percentage points).



Source: LIS project, own calculation.

Table 1: Fixed effects regressions on redistribution to the poor

	1	2	3	4	5
Distance Q3/1 market income	1.049*** (7.07)	-	1.10*** (7.08)	.988*** (5.37)	1.11*** (6.35)
Distance Q5/3 market income	-	-.395*** (7.07)	-	-	-
Center of pol. gravity (> conservative)	-	-	-.010* (2.49)	-	-
Position left party (> more center)	-	-	-	-.008* (1.96)	-
Voter turnout in %	-	-	-	-	n.s.
Union density in %	-	-	-	-	n.s.
Unemployment rate	n.s.	.161** (2.97)	.079+ (1.76)	n.s.	n.s.
Female employment GDP p.c.	n.s.	n.s.	n.s.	n.s. .044* (2.35)	n.s.
Constant	.451 (.884)	-.139 (1.21)	.793 (.927)	.099 (.949)	-1.23* (1.31)
R Square (within) in %	64	52	65	65	66
N	78	78	69	71	77

Notes: T-statistics in brackets; only constant in brackets standard error; Significance: *** < .001, ** < .01, * < .05. Analysis with robust standard errors.

Table 2: OLS Regressions on redistribution to the poor

	1	2	3	4	5	6
Distance Q3/1 market income	.949*** (4.36)	-	.825*** (6.24)	.743*** (7.09)	1.01*** (5.83)	1.08*** (4.96)
Distance Q5/3 market income	-	-.534*** (3.80)	-	-	-	-
Center pol. gravity > conservative	-	-	-	-	-	-.014* (2.39)
Voter turnout in %	-	-	-	-	-	.031*** (6.96)
Union density in %	-	-	-	.029*** (3.94)	-	-
Universal welfare state (dummy)	-	-	2.16*** (8.67)	.743* (2.29)	-	-
Proportional election system (dummy)	-	-	-	-	1.17*** (5.28)	.669** (2.89)
Unemployment rate	n.s.	.069* (2.04)	n.s.	n.s.	n.s.	n.s.
Female employment	.050*** (4.32)	.080*** (6.95)	n.s.	n.s.	.043** (3.25)	.055** (3.59)
GDP p.c.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
Constant	-2.96* (1.33)	-.208 (1.37)	1.49 (1.34)	-.439 (1.17)	-3.40** (1.22)	-6.43*** (1.20)
R Square in %	60	54	73	83	73	81
N	78	78	78	78	78	69

Notes: T-statistics in brackets; R-Square within variance. Significance: *** < .001, ** < .01, * < .05. Analysis with robust standard errors. All models contain dummies for waves, reference is 2005.

Table A1: Descriptive statistic - social distances and redistribution

Countries (number of waves)	Ratio Q3/1 market income		Ratio Q5/3 market income		Redistribution (difference market- disp. income)	
	Minimum	Maximum	Minimum	Maximum	Min.	Max.
AT (1)	3.30		2.42		4.10	
AU (6)	2.84	3.47	2.13	2.40	2.9	3.82
BE (2)	2.10	2.42	1.81	2.0	2.16	4.02
CA (6)	2.87	3.47	2.09	2.28	2.41	3.53
CH (3)	2.11	3.47	2.24	2.35	1.31	3.45
DE (6)	1.98	3.24	1.99	2.39	1.82	4.82
DK (5)	3.58	5.27	1.84	1.96	4.87	7.10
ES (2)	2.60	3.58	2.28	3.15	1.90	1.90
FI (5)	2.62	3.74	1.91	2.27	4.1	6.38
F (2)	3.27	3.62	2.2	2.54	2.14	4.51
IE (2)	3.60	4.43	2.55	2.72	2.75	4.62
IT (3)	2.25	3.43	2.19	2.40	0.72	1.9
LU (4)	1.94	2.77	1.88	2.50	1.31	3.06
NL (4)	2.13	3.36	2.07	2.21	1.18	4.26
NO (6)	2.27	4.65	1.86	2.28	2.79	5.88
PL (5)	2.39	3.53	2.0	2.89	1.36	3.41
SE (6)	2.86	5.01	1.87	2.25	6.80	7.30
UK (6)	2.57	5.10	2.07	3.25	3.45	4.07
US (6)	3.20	3.98	2.23	3.05	2.15	2.50

Source: Luxembourg Income Study (LIS), Calculations based on micro data.

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