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## The paradox of redistribution in time: Social spending in 53 countries, 1967-2018

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# LIS

## Working Paper Series

No. 815

**The Paradox of Redistribution in Time.  
Social Spending in 53 Countries, 1967-2018.**

Xabier Garcia-Fuente

October 2021



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# The Paradox of Redistribution in time.

## Social spending in 53 countries, 1967-2018.

Xabier Garcia-Fuente \*

September 17, 2021

*Comments are welcome.*

### Abstract

[Korpi and Palme \(1998\)](#) famously suggested the existence of a Paradox of Redistribution: although programs targeted to the poor may be more redistributive per unit of expenditure, universal programs reduce distributive conflicts, leading to bigger, more egalitarian welfare states. However, recent works question the existence of this trade-off. My paper adds a dynamic, long-term perspective to this literature: it analyzes the relationship between the progressivity and the redistributive impact of social transfers in 53 rich and middle-income countries, using microdata from 479 household surveys harmonized by LIS. My results show that the relationship between the redistribution obtained by social transfers and their progressivity is non-monotonic and is contingent on initial policy positions: welfare states that focused on the poor have grown bigger and more egalitarian by moving up the income ladder to include richer constituencies, while welfare states that focus on the rich are unable to reach down the income ladder and remain stuck at very low levels of redistribution.

This reflects how social policies shape distributive conflicts: expanding upwards in the income distribution narrows the gap between contributors and beneficiaries, easing distributive conflict and allowing welfare state expansion. In contrast, expanding downwards draws a clear gap between contributors and beneficiaries, making welfare state politics zero-sum. This fits with evidence on the long-term evolution of universal welfare states—as they grew from means-tested cores to earnings-related universalism—and countries with elitist social policies, exemplified by Latin American countries, that remain captured by the middle classes and the rich. In short, my results reinforce the idea that increases in redistribution are driven by status-preserving considerations—not by attempts at soaking the rich.

Keywords: redistribution, social transfers, distributive conflict, policy-feedback

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## Introduction

Why are social transfers more comprehensive and redistributive in some countries than others? This question has been at the center of politics since the emergence of modern welfare states. Even though markets remain the main distributors of economic resources, countries with similar market outcomes show great heterogeneity in disposable income inequality due to differences in the redistributive impact of taxes and transfers. A recent survey of OECD countries, for instance, shows that the reduction in inequality through taxes and transfers ranges from 40% in Ireland to 5% in Chile (Causa and Hermansen, 2017).

What explains these differences? The literature on welfare state expansion emphasizes structural forces—from economic growth and industrialization to population aging—as well as more political factors—such as working-class power and the extension of voting rights (Huber and Stephens, 2001; Lindert, 2004). However, social policies shape their own support constituencies and complementary institutions, so, once in place, they are very time-persistent and lock-in—or at least constrain—their trajectories of change (Pierson, 2004; Lynch, 2006; Mahoney and Thelen, 2009). Social policies are the result of socio-economic structures, individual preferences and politics, but they in turn “feed back” into said structures, preferences and politics. Thus, we need to observe the inner workings of welfare state institutions—how they shape distributive politics—to explain differences in redistribution among welfare states.

Korpi and Palme (1998) made the first empirical comparison of the distributive outcomes of different welfare designs and suggested the existence of a Paradox of Redistribution: “(t)he more we target benefits at the poor (...), the less likely we are to reduce poverty and inequality.” Even though targeted programs may be more redistributive per unit of expenditure, universalism aligns the preferences of low and middle classes, reduces administrative burdens and increases take-up rates, leading to bigger, more egalitarian welfare states. In other words, there is a trade-off between the progressivity (the extent to which transfers focus on the poor) and the size of social expenditure. However, recent contributions show that progressivity is uncorrelated with redistribution, thereby denying the Paradox of Redistribution (Kenworthy, 2011; Brady and Bostic, 2015; Marx et al., 2016). According to these works, the most redistributive welfare states practice “targeting within universalism”: after securing universal coverage, they are making greater use of programs directed at the poor.

My paper tries to fill two gaps in the literature. First, elitist countries are usually not taken into account. Social programs deviate from universalism not only if they focus exclusively on the poor, but also if they are captured by the rich, as in Latin American countries. Second, the Paradox of Redistribution has been tested cross-sectionally, but it is essentially an argument about institutional persistence and the dynamics of distributive politics. Therefore, contrasting it requires exploring the link between policy design and redistribution *within countries* over time. With this in mind, I analyze the redistributive impact of social transfers in 53 rich and middle-income countries, taking

advantage of the increasing availability of survey microdata provided by the Luxembourg Income Study (LIS). My main result can be summarized as follows: the relationship between changes in the progressivity of social transfers, on the one hand, and their size and redistributive impact, on the other, is non-monotonic and contingent on initial progressivity levels. When transfers focus on the poor, progressivity reductions correlate with increases in social expenditure that outweigh their effect, which is seemingly consistent with the Paradox of Redistribution. Conversely, when transfers favor the rich, progressivity reductions correlate with lower redistribution. As will be shown below, these patterns generate distinct distributive outcomes: pro-poor welfare states like Ireland, the United Kingdom, Canada, Poland and Norway have increased redistribution by becoming bigger and less progressive, whereas elitist social programs in Latin America remain small and achieve little redistribution.

This challenges social conflict theories of distributive politics, of which the Paradox of Redistribution is an example. If redistribution is merely a victory of the poor over the rich, why do social transfers rarely become more pro-poor? Why does the share of benefits the rich obtain not fall as welfare states become bigger and more egalitarian? My results suggest that social expenditure grows by narrowing the gap between taxpayers and beneficiaries, making distributive conflict less salient. Thus, even though it is said to create a zero-sum game between the middle classes and the poor, beginning with low-income targeted programs is not an obstacle for expanding social expenditure, as marginal beneficiaries overlap with taxpayers in higher deciles. Conversely, when generous benefits for the middle classes develop before programs for the poor, they hamper the expansion of social expenditure: increasing redistribution requires creating new low-income programs or redirecting benefits from rich to poor, and distributive politics becomes zero-sum. Thus, the origins of social programs—who gets what, but also *when*—are a crucial determinant of distributive politics and the evolution of welfare states.

The paper is structured as follows. The next section reviews the literature on the relationship between welfare state institutions and their outcomes. The third section describes the data and the rationale behind the indicators. The fourth section explores the evolution of policy design within countries and shows that the relationship between changes in the progressivity of social transfers and their redistributive impact is contingent on progressivity levels. The fifth section considers the implications for the political economy of redistribution, and the final section summarizes the results and suggests future research directions.

## Literature

Who should have access to social programs? Debates about the political and economic implications of policy design have accompanied state relief since its earliest manifestations. In pre-industrial times, access to poor relief was determined by continually evolving criteria on communal belonging and inability to work (Castel, 2003). In the nineteenth century, most liberal thinkers advocated making assistance harsher, arguing that indiscriminate relief provided detrimental incentives to

the poor, and a constant struggle to establish who was part of collective risk-sharing mechanisms characterized early examples of social insurance (Baldwin, 1990). These arguments resonate in modern policy debates: reducing inequality has become an increasingly explicit goal, and the distributive implications of social programs are a recurrent subject of discussion among scholars and policymakers.<sup>1</sup>

A long-standing debate is that of universalism vs. low-income targeting. Should all citizens have access to social programs, or is it better to target public resources at the poor? Which policy principle is more egalitarian? After World War II, universalism became the guiding principle of social policy in Britain (epitomized in the Beveridge Report) and Scandinavian countries (Anttonen and Sipilä, 2012). Both technical and political arguments have been used in its defense (Marx et al., 2015). Low-income targeting tends to involve means-testing, which is administratively complex, creates poverty traps, produces stigma, and reduces take-up rates (Van Oorschot, 2002). Additionally, universalism is said to minimize distributive conflict, fostering support for bigger welfare budgets (Rothstein, 1998). In opposition to these arguments, in the 80s, targeting transfers to the poor gained credence as a fiscally efficient way to reduce poverty, as universal programs were said to be too expensive and disproportionately beneficial to the middle classes and the rich (Goodin and Le Grand, 1987). Similarly, the IMF and the World Bank have long advocated means-tested benefits as a low-cost policy for developing regions.

Korpi and Palme (1998) made the first empirical analysis of the distributive impact of different welfare state institutions and found that universalism correlated with higher redistribution in a cross-section of 11 rich countries, suggesting the existence of a Paradox of Redistribution. Even though targeted programs may have a greater redistributive effect per unit of expenditure, “*there tends to be a tradeoff between the degree of low-income targeting and the size of budgets made available for transfers*” (p. 678). Targeting generates zero-sum conflicts between the poor and the middle classes, obstructing coalitions pushing for bigger welfare budgets, whereas universalism receives broader support, leading to more spending and redistribution. More concisely: if the social budget is politically determined, the median voter’s preferred tax rate increases when benefits reach a larger share of the population, and the poor are better off than with narrowly targeted benefits (Moene and Wallerstein, 2001; Gelbach and Pritchett, 2002). Additionally, earnings-related schemes are an integral part of this fiscal contract because they provide income security to high-income earners and crowd out more unequal private alternatives. Thus, *encompassing* welfare states—with universal benefits and social insurance with high replacement rates—are the most redistributive among the typologies considered by Korpi and Palme (1998), whereas the *basic se-*

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<sup>1</sup>Many welfare programs fulfil primarily an insurance function (sustaining the living standards of their beneficiaries at certain stages of their life) and do not have explicitly redistributive goals. However, collective insurance mechanisms can be very redistributive or nothing at all. Thus, addressing why some welfare states reduce inequality more than others is a relevant question.

curity model—with a universal minimum that is set too low—cannot keep better-off workers from using private insurance and leads to lower spending and redistribution.

Recent works have updated the original study and question the existence of the Paradox. They suggest that welfare states become bigger and more redistributive when they reach *down* the income distribution to include the poor, which means that low-income targeting is not detrimental to redistribution—there is no trade-off between the size and the progressivity of social transfers. Including more recent data, [Kenworthy \(2011\)](#) and [Marx et al. \(2016\)](#) show that targeting and redistribution are no longer correlated and suggest that “targeting within universalism” has become the institutional design more conducive to inequality reduction.<sup>2</sup> How did this happen? According to [Kenworthy \(2011\)](#), the main goal of universal programs is to convey a broad sense of security regarding the main social risks. Once this was achieved, advanced welfare states were able to use more targeted schemes that were perceived as subsidiary by the middle classes.<sup>3</sup> [Brady and Bostic \(2015\)](#) expand the analysis to include developing countries and find that, far from there being a trade-off, low-income targeting and transfer-size are *positively* correlated. Their view dovetails with arguments about “targeting within universalism”: “*as countries incorporate the poor into social policy, transfers become less high-income targeted, and the transfer share tends to grow*” (p. 287).

Some gaps in the literature remain unaddressed, however. Firstly, with the exception of [Brady and Bostic \(2015\)](#), the works above do not consider pro-rich welfare states. Universalism and low-income targeting are not jointly exhaustive (some countries follow neither distributive principle), so using them as opposite categories sidesteps the analysis of countries with elitist social policies. Southern European and Latin American countries, for instance, are often poorly operationalized in social policy debates. Southern European countries share many features with Bismarckian welfare states, like the predominance of cash transfers and the workerist orientation of social protection. Still, they are less effective at reducing inequality: unemployment protection retains a strictly contributive logic, family benefits are limited, and guaranteed-income programs are generally weak or non-existent. Overall, Southern European countries show signs of dualization, with peaks of generosity for labor market insiders and insufficient safety nets for those with weaker ties to the labor market ([Ferrera, 2005b](#); [Rueda, 2005](#)). Latin American welfare states present an extreme version of these features: occupational social insurance with generous benefits for urban elites has been standing longer than in other developing regions, but the majority of the population remains

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<sup>2</sup>[Kenworthy \(2011\)](#) adds Denmark to [Korpi and Palme’s \(1998\)](#) sample. [Marx et al. \(2016\)](#) add more rich and upper-middle-income European countries.

<sup>3</sup>Other arguments point in a similar direction: the shift from strongly targeted benefits to workfare-oriented programs obtained wider social support ([Marx et al., 2016](#)); in a context of austerity, means-tested benefits were pushed as a low-cost political strategy for poverty reduction ([Bonoli, 2010](#)); poverty affected more heterogeneous social groups, including middle-class constituencies, which fostered new cross-class coalitions ([Madama and Natili, 2016](#)).

excluded from any type of welfare mechanism (Pribble, 2013; Garay, 2017; Barrientos, 2019).<sup>4</sup>

The second gap in the literature refers to its identification strategy. The Paradox of Redistribution has been tested mainly between countries at a point in time, but, at its core, it is an argument about political dynamics at country level: as social programs become less progressive (less pro-poor), they receive more support, the welfare budget expands, and redistribution increases. Welfare institutions are mediating variables in this hypothesis: on the one hand, they are the outcome of heterogeneous interests and political struggles; on the other hand, they shape said interests and struggles going forward. At the micro level, welfare institutions affect preferences for redistribution by activating or deactivating self-interest and reciprocity motives. At the macro level, they affect how collective actors aggregate preferences and build political coalitions. In short, social policies have effects beyond their immediate distributive outcomes, and it is only through longitudinal analyses that we can discern how they shape distributive conflicts over time.<sup>5</sup>

Few works observe the relationship between welfare state institutions and their outcomes over time. McKnight (2015) finds a negative relationship between the targeting of cash transfers and redistribution in Sweden, the United Kingdom, France and Italy, but she does not explain why the relationship varies at different levels of progressivity.<sup>6</sup> Jacques and Noël (2018) build an index of universalism for 20 OECD countries and trace its evolution since 2000, but it offers too little variance to be significant. Studies of policy feedbacks are more prolific. An important line of inquiry centers on micro-level mechanisms, studying how policy design shapes attitudes towards the welfare state (Svallfors, 1997; Larsen, 2008; Jaeger, 2009; Gingrich and Ansell, 2012; Jordan, 2013; Roosma et al., 2013; Garritzmann, 2015; Laenen, 2018).<sup>7</sup> Among these works, several studies use the progressivity of tax-transfer systems as an independent variable and show that it mediates the effect of income on preferences for redistribution (Barnes, 2014; Beramendi and Rehm, 2016; Sumino, 2017; Holland, 2018). Progressivity levels determine who benefits and who pays, therefore playing a crucial role in shaping political conflicts over social programs.

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<sup>4</sup>See also Lustig (2018) for a complete review of the redistributive impact of taxes and transfers in Latin America and other low- and middle-income countries.

<sup>5</sup>For cross-country comparisons to be informative of path-dependent distributive conflict we would have to assume that welfare states have reached an equilibrium. Even though policy configurations are very time persistent, this is too strong an assumption.

<sup>6</sup>The trade-off is substantial in progressive countries (the United Kingdom and Sweden), but is much milder in Italy. Besides, she considers the redistributive impact of transfers and direct taxes, jointly, but information on taxes is not uniform across datasets.

<sup>7</sup>Although they do not consider policy feedbacks explicitly, many works analyze the links in this causal chain: from individual attributes (income, skills, unemployment risk, national identification, etc.) to preferences (Iversen and Soskice, 2001; Rehm, 2011; Rehm et al., 2012; Finseraas, 2009; Shayo, 2009; Armingeon and Weisstanner, 2021); from preferences to policies (Brooks and Manza, 2006; Kenworthy, 2009; Wlezien and Soroka, 2012); or between macro political-economic conditions (inequality, mainly) and redistribution (Milanovic, 2000; Boix, 2003; Bradley et al., 2003; Kenworthy and Pontusson, 2005; Iversen and Soskice, 2006; Ansell and Samuels, 2014; Espuelas, 2015).



## Data and indicators

Data on income and social transfers come from LIS microdata. LIS collects and harmonizes household surveys from rich and middle-income countries spanning five decades, so it constitutes a unique resource for a comparative, long-term analysis of redistribution. I have extracted data for all datasets available in March of 2021, totaling 479 surveys from 53 countries, going as far back as 1967. Concerning the use of household surveys, the usual caveats apply: bottom and top-income households may be underrepresented, and incomes at the very top of the distribution tend to be underreported. Although LIS harmonizes datasets, differences in the availability and aggregation of some variables remain. Some surveys provide gross incomes (before taxes and contributions), while others report only net factor incomes (after direct taxes and contributions). Social transfers are often subject to income taxes and social security contributions (in Sweden and Denmark, for instance, governments claw back close to 30% of cash transfers (Adema et al., 2011)). Thus, to make surveys comparable, we need to deduct direct taxes levied on social transfers in gross datasets. As only the total amount of direct taxes paid is known, I “net-down” transfers following the method proposed by Nieuwenhuis et al. (2017) (see Equation 1). This formula estimates the average effective tax rate on total household income and applies it to all household members, across all sources of taxable income. Tax rates tend to vary by level and type of income, so these assumptions do not usually hold.<sup>8</sup> However, Nieuwenhuis et al. (2017) compare their estimations with real data and report a considerable improvement over using gross incomes. Besides, most LIS datasets make it possible to distinguish taxable from non-taxable benefits, so netting-down seems a reasonable procedure to increase comparability across surveys.<sup>9</sup>

$$\text{Net benefit} = \text{Gross benefit} * [(\text{Gross HH income} - \text{HH taxes}) / \text{Gross HH income}] \quad (1)$$

I focus on the distribution of income among individuals, with the household as the unit of consumption: income is pooled among household members and equivalized to account for economies of scale.<sup>10</sup> Information on social transfers is taken at the lowest level of aggregation available, which is useful when only some sub-variables are subject to taxation, but I use the more aggregated variable if it is higher than the sum of its parts. I measure redistribution as the change in inequality from the distribution of net factor income (after direct taxes and social contributions,

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<sup>8</sup>Netting-down at person-level would remove part of the bias because it assigns taxes to the household member effectively paying them, but I prioritize the household-level method because many surveys do not supply individual taxes.

<sup>9</sup>Information on whether social benefits are taxable or not is taken from LIS’s own metadata, which describes the social programs included in each variable, and the OECD’s tax-benefit models (<https://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm>) and country profiles from Pensions at Glance.

<sup>10</sup>Household income is divided by the square root of household members, as is customary on LIS and OECD publications (see e.g. OECD (2013)).

before transfers; X) to the distribution of disposable income (X+B) (see Equation 2).<sup>11</sup> This isolates the redistributive impact of transfers (it excludes the effect of taxes and in-kind benefits, such as health care), treating them as if they were last in the fiscal sequence. The distribution of income before transfers is a questionable counterfactual because fiscal policies alter countless microeconomic decisions, and we cannot know what the market distribution would be in their absence (Bergh, 2005). This is especially noticeable in the case of pensions: if there is a public pension scheme, people save less and, upon retiring, they fall to the bottom of the market distribution, “inflating” redistribution. This has led some authors to remove pensions from their analysis (Milanovic, 2000; Immervoll and Richardson, 2011; Guillaud et al., 2020). However, behavioral effects are present in all transfers (if there were no unemployment benefits workers would save more and accept lower-paying jobs), and, although they are thought of in functionalist terms, public pensions reflect political choices that legitimate old-age protection and detract resources from other needs, so removing them precludes a comprehensive study of distributive politics.<sup>12</sup> For these reasons, I include pensions in my analysis (except for private individual plans).

$$\text{Redistribution through transfers} = Gini_{\text{Net factor income}} - Gini_{\text{Disposable income}} \quad (2)$$

The redistribution achieved through social transfers depends on how much the government spends on them and how they are distributed. Thus, Equation 2 can be decomposed as a function of the size of benefits (relative to total net factor income,  $b=B/X$ ) and progressivity ( $K$ ).

$$\begin{aligned} \text{Redistribution} &= (G_X - G_{X+B}) = (G_X - C_{X+B}^X) - (G_{X+B} - C_{X+B}^X) \\ &= \frac{b}{(1+b)} * (G_X - C_B^X) - (G_{X+B} - C_{X+B}^X) \\ &= \frac{b}{(1+b)} * K_B^X - (G_{X+B} - C_{X+B}^X) \\ &\approx (\text{Size} * \text{Progressivity}) - \text{Re-ranking} \end{aligned} \quad (3)$$

The first term in Equation 3 reflects *vertical* redistribution, i.e., the change in the Gini coefficient if transfers did not alter the position of households in the income distribution. The second

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<sup>11</sup>See e.g. Lambert (2010). The results are similar with indicators that are more sensitive to what happens in the bottom of the distribution (see the Appendix). Besides, redistribution can be measured in absolute or relative terms (divided by the initial Gini in this case). Kenworthy and Pontusson (2005) defend absolute measures because they are easily interpretable and are not affected by changes in pre-fiscal inequality. However, if market inequality increases, social transfers must lift a heavier weight, so relative indicators could be more reflective of redistributive needs and changes in the factor distribution.

<sup>12</sup>If pensions were merely postponed savings, ageing societies would face no additional distributive pressures. However, to the extent that pensions are costly to current workers and taxpayers, they are central to welfare state politics.

term captures re-ranking and is always negative: transfers change the position of households in the income distribution and are a source of inequality themselves.<sup>13</sup> What does the progressivity of social transfers represent? Progressivity measures how much they deviate from proportionality (how much they deviate from a given distribution of income). A benefit is progressive if its weight over household income decreases as we move up the income ladder. Thus, increasing progressivity means making transfers more pro-poor, while reducing progressivity means making them more pro-rich. The distribution of social transfers is measured by the concentration index (C). The concentration index is similar to the Gini coefficient: it measures the inequality in the distribution of benefits, but with households ordered by their income (not by the amount of transfers they receive).<sup>14</sup> Thus, the concentration index ranges between -1, if the poorest person gets all the benefits, and +1, if the wealthiest person receives all the benefits. The Kakwani index (K) measures the progressivity of benefits: it is the difference between the Gini of an income distribution and the concentration index of benefits over said income distribution (Kakwani, 1977).

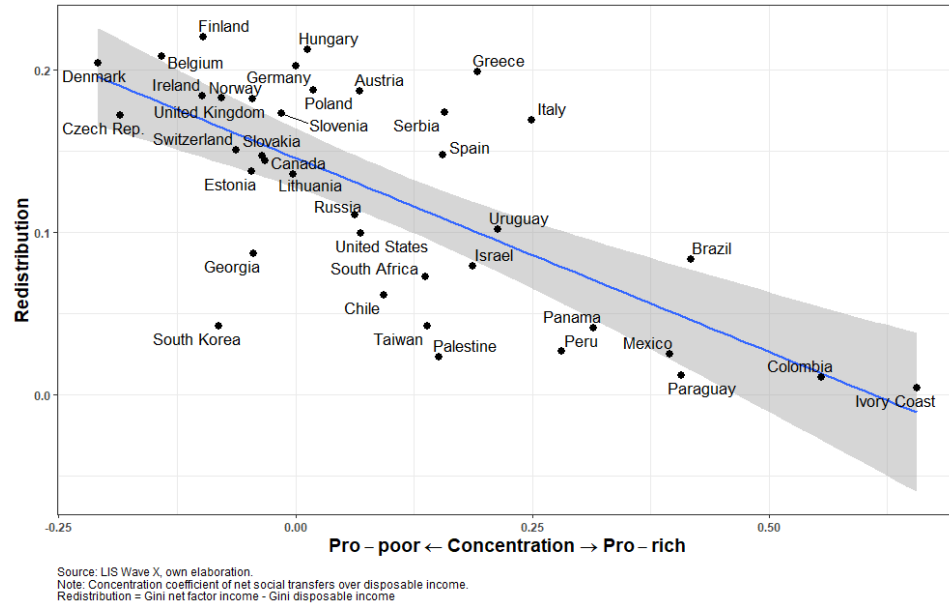
To establish how pro-poor or pro-rich social transfers are, I use their *concentration index over disposable income*. This requires justification on two fronts. First, I prefer concentration over the Kakwani index because, even though it does not measure progressivity in a strict sense, it reflects how benefits are allocated—*who gets what*—irrespective of changes in the underlying income distribution. For instance, if a program is entirely destined to the poorest quintile and, from one year to the next, the income of the top 1% doubles, the program will be more progressive, but, as far as we are concerned, it is not more pro-poor. Second, I use the concentration of transfers over *disposable income*, instead of over pre-transfer income, because—in the presence of re-ranking—it offers a more accurate estimation of their true distributive impact. For example, an intervention that exactly reverses the position of the richest and the poorest households will look very pro-poor looking at the income distribution before the intervention, but it achieves no redistribution (it does not reduce inequality). Relatedly, political power and social preferences are linked to available resources, so, unless uncertainty over benefit reciprocity is high, disposable income is more relevant for distributive politics. It is only in relation to disposable income that we can establish how pro-poor or pro-rich benefits are. For example, privileged pensions for politicians and civil servants in many Latin American countries place their recipients at the very top of the income distribution (Skoufias et al., 2010). Unlike indicators based on pre-transfer income, concentration over disposable income (after the operation of the pension system is accounted for) will accurately reflect the pro-rich bias of these pensions.<sup>15</sup>

<sup>13</sup>See Enami (2018) for a complete summary of the implications of re-ranking for measuring redistribution.

<sup>14</sup>In the Gini coefficient, the focal variable and the ranking variable coincide:  $C_X^X = G_X$ . Thus, if the household ranking by X+B differs from the ranking by X, by definition  $G_{X+B} > C_{X+B}^X$ .

<sup>15</sup>The Appendix includes results under alternative measures of progressivity and redistribution.

Figure 1: Concentration of social transfers and redistribution, LIS Wave X (2015-2017)



## Empirical analysis

This section describes the relationship between policy design and redistributive outcomes in my sample. Figure 1 sets redistribution against the concentration of social transfers in the tenth LIS Wave (2015-17). As can be seen, more pro-poor countries achieve higher redistribution, which clearly sides with critics of the Paradox of Redistribution.<sup>16</sup> However, a cross-country snapshot gives us no information about the institutional trajectories behind these outcomes. If social policies shape distributive conflict by “feeding back” into preferences and politics, only intertemporal analyses can discern the relationship between welfare programs and outcomes. Thus, how do changes in the size and progressivity of benefits impact redistribution? We have considered two hypotheses so far. According to the Paradox of Redistribution, there is a trade-off between the progressivity and the size of social expenditure: as benefits become less pro-poor, a countervailing rise in their size increases redistribution (in Fig. 1, country data-points would move diagonally towards the top-right corner). In contrast, “targeting within universalism” and similar arguments imply that welfare states become bigger and more redistributive as they become more pro-poor (in Fig. 1, country data-points would move diagonally towards the top-left corner, along the line of the cross-country regression).

Figure 2 shows the relationship between concentration and redistribution in 28 rich countries, adding Southern and Eastern European countries to those included in Esping-Andersen’s (1990) classic welfare regimes. Redistribution in these countries ranges from 10 to 20 Gini points. As

<sup>16</sup>The relationship holds in all LIS Waves (see the Appendix).

for the distribution of benefits, concentration ranges from  $-.30$  (Australia from 1981 to 2010) to  $.25$  (Southern European countries at present). Contrary to arguments about “targeting within universalism”, there is little evidence of countries increasing redistribution as they become more pro-poor.<sup>17</sup> In most of them, concentration is either uncorrelated or positively correlated with redistribution. Among the latter, the relationship is especially strong in Ireland, Canada, the United Kingdom, Norway and Poland. Starting from markedly pro-poor positions, these countries have improved redistribution increasing expenditure and reducing their focus on the poor, which matches the predictions of the Paradox of Redistribution. For instance, in the United Kingdom, the share of total social transfers received by the poorest quintile decreased from 37% in 1974 to 16% in 2018. Still, redistribution through social transfers increased from 7 to 18 Gini points in this period.<sup>18</sup> And this trade-off has not been limited to the initially most progressive welfare states: Southern European countries—that were not very pro-poor to begin with—have also increased redistribution by becoming bigger and more focused on those higher up in the income distribution. For example, in Spain, the share of total social transfers received by the poorest quintile decreased from 20% to 11% between 1980 and 2016, while redistribution increased from 10 to 15 Gini points.

On the opposite side of the policy spectrum, Latin American countries are a clear exception to this pattern (see Fig. 3). They are very pro-rich—their concentration indexes are substantially above those of rich welfare states—and they are consistently the least redistributive countries in the sample. Only Uruguay reduces inequality by more than 10 Gini points, and the majority of them barely achieve any redistribution. In fact, in some cases—such as Colombia and Paraguay in the early 00s—social transfers are regressive (they increase inequality). The trajectories of Latin American welfare states suggest that they are becoming less elitist (Mexico, Paraguay, Peru and Panama have lowered their concentration indexes from  $.60$  to around  $.40$  in the last two decades), but this has translated into very small improvements in redistribution. In Mexico, for example, the percentage of total social transfers obtained by the poorest quintile went from less than 2% in 1984 to 10% in 2018, while the share of transfers received by the richest quintile decreased from 66% to 52%. Yet, despite these improvements, redistribution through social transfers remains very low (2.2 Gini points in 2018, from 0.1 Gini points in 1984).

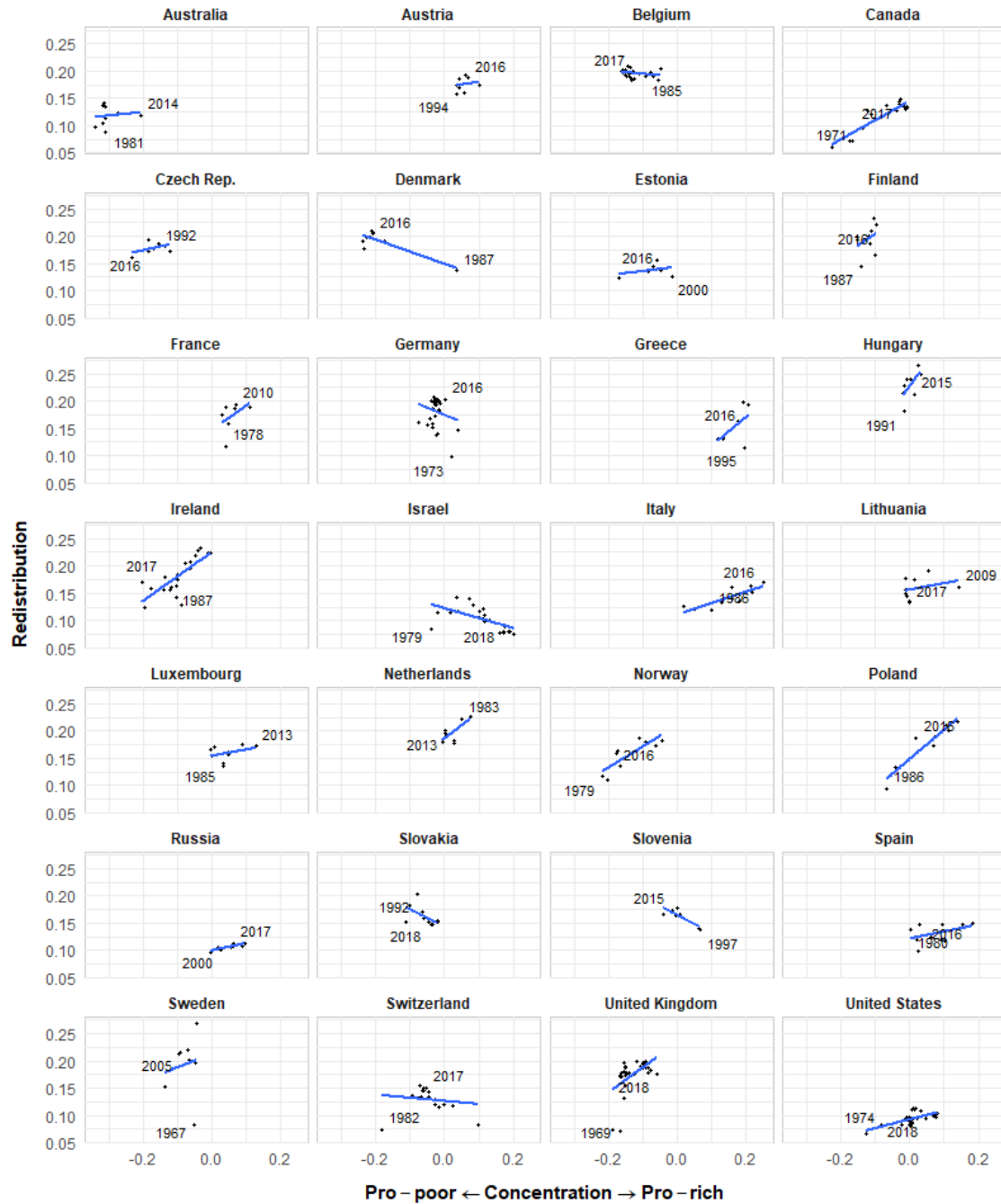
These results show that the validity of the Paradox of Redistribution hinges on the policy position a country starts from. Most advanced welfare states have grown from relatively pro-poor policy configurations and have become more redistributive by making their transfers bigger and less

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<sup>17</sup>There are few cases in which a significant decrease in concentration (of at least 0.05 points) has been accompanied by even a small increase in redistribution. Taking into account cumulative changes (the relationship must not necessarily hold for all consecutive datasets), this has happened in Denmark from 1987 to 1995, Ireland from 1987 to 1994, Germany from 1983 to 1987, Belgium from 2006 to 2007, Switzerland from 1992 to 2004, Greece from 1995 to 2000, Spain from 1990 to 1995, Lithuania from 2009 to 2010, Estonia from 2000 to 2004, Slovenia from 1999 to 2004 and Poland from 2013 to 2016. Additionally, Israel has become more pro-rich and less redistributive from 2001 to 2016.

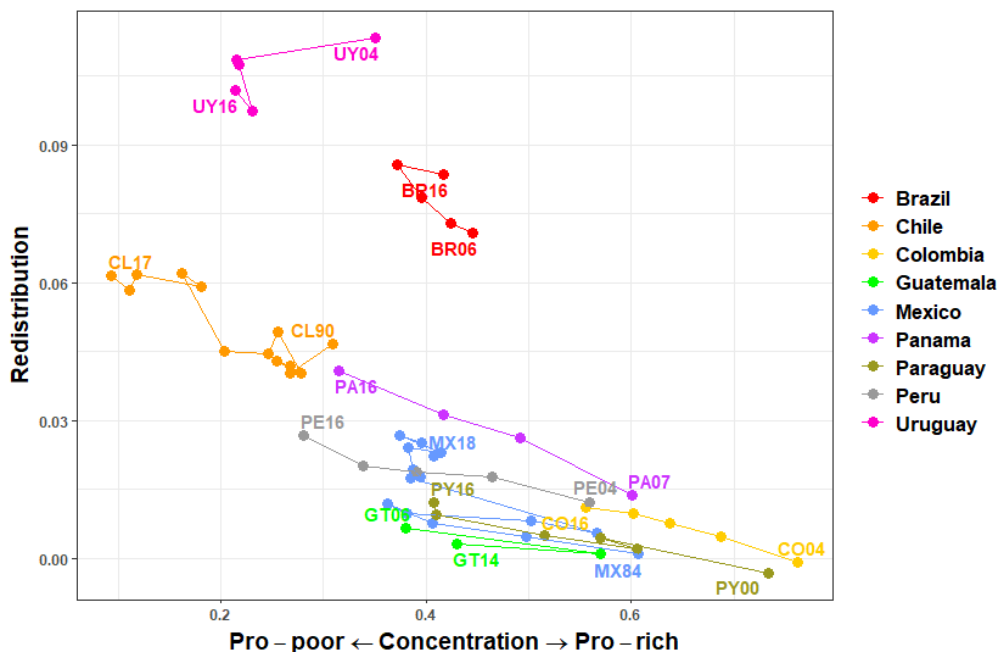
<sup>18</sup>See the Appendix for additional data on the distribution of social transfers by income quintiles.

Figure 2: Concentration of social transfers and redistribution in 28 rich countries



Source: LIS, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.

Figure 3: Concentration of social transfers and redistribution in Latin American countries



Source: LIS, own elaboration.

pro-poor. In this respect, [Korpi and Palme \(1998\)](#) were correct. With the exception of Denmark—the poster child of “targeting within universalism”—and Switzerland, to a lesser extent, there are no examples of countries becoming more redistributive while making their transfer systems more pro-poor.<sup>19</sup> In contrast, in countries starting from pro-rich policy configurations, spending more is not sufficient—they must necessarily direct a growing share of their social transfers to the poor to increase redistribution. According to my results, this is what they have tried to do in the last decades: they have improved redistribution slightly while making their transfer systems more pro-poor. Thus, the Paradox of Redistribution does not capture the relationship between progressivity and redistribution in countries with elitist social policies. However, their trajectories do not support the hypothesis of “targeting within universalism” either. These countries have not increased their focus on the poor after universalism consolidates middle-class support; they have elitist transfer systems in which extending coverage to the poor is a necessary step *towards* universalism.

Panel analysis confirms the varying relationship between progressivity and redistribution. I estimate the conditional expectation of expenditure on social transfers and redistribution given concentration. As we are interested in identifying the effects of policy design within countries, I include fixed effects to control for country-specific factors that may affect the impact of changes in

<sup>19</sup>The fact that a welfare state is not more pro-poor overall, as measured by the concentration index here, is compatible with it making greater use of programs targeted to the poor. See e.g. [Häusermann \(2010\)](#) on the expansion of minimum protection measures in Continental welfare states.

concentration. This strategy has some issues. First, the panel is heavily unbalanced and missing data are not randomly distributed. There are nine annual observations per country on average, but elitist transfer systems in middle-income countries are much less represented than advanced welfare states. More importantly, the dataset includes examples of extremely pro-rich transfers (some Latin American countries in the early 00s), but there are no observations of very pro-poor systems, so we are missing what would arguably be the most common policy design in a historically representative sample (there were no comprehensive national household surveys in the nineteenth century, for instance, when social transfers consisted only of means-tested assistance to the poor). Second, model selection is not straightforward because, as stated earlier, previous theoretical and empirical works offer no clear hypothesis about the relationship between concentration and social spending. With these issues in mind, I perform non-parametric regressions of concentration on expenditure on social transfers and redistribution, with bootstrap standard errors, as they provide estimates of the mean function that are robust to functional form misspecification (see Equations 4 and 5, where  $f$  is a non-parametric function and  $\lambda_i$  are country fixed effects).<sup>20</sup> In any case, the aim is not to establish causality from concentration to redistribution but to more precisely describe their trajectory, which is of interest from a historical and theoretical perspective.

$$b_{it} = f(C_{Bit}) + \lambda_i + \epsilon_{it} \quad (4)$$

$$RE_{it} = f(C_{Bit}) + \lambda_i + \epsilon_{it} \quad (5)$$

Figure 4 shows the average marginal effect of concentration over redistribution (red line) and total expenditure in social transfers (blue dotted line), with 95% confidence intervals, at different concentration values (i.e., it tells us how redistribution and spending on social transfers change when transfers become marginally more pro-rich). The relationship between concentration and redistribution is non-monotonic. When concentration is below -.15, concentration and redistribution are *positively* correlated: when transfers become more pro-rich, redistribution increases; when transfers become more pro-poor, redistribution decreases. Thus, changes in the size of social transfers seem to overpower changes in progressivity: the Paradox of Redistribution holds. In the sample, this reflects the trajectory of welfare states that have increased redistribution substantially starting from pro-poor positions (the United Kingdom and Canada in the 70s, Norway in the 80s, Ireland and the Czech Republic in the 90s). More generally, this pattern captures the historical evolution of countries growing from minimalist, means-tested cores.<sup>21</sup> In contrast, when

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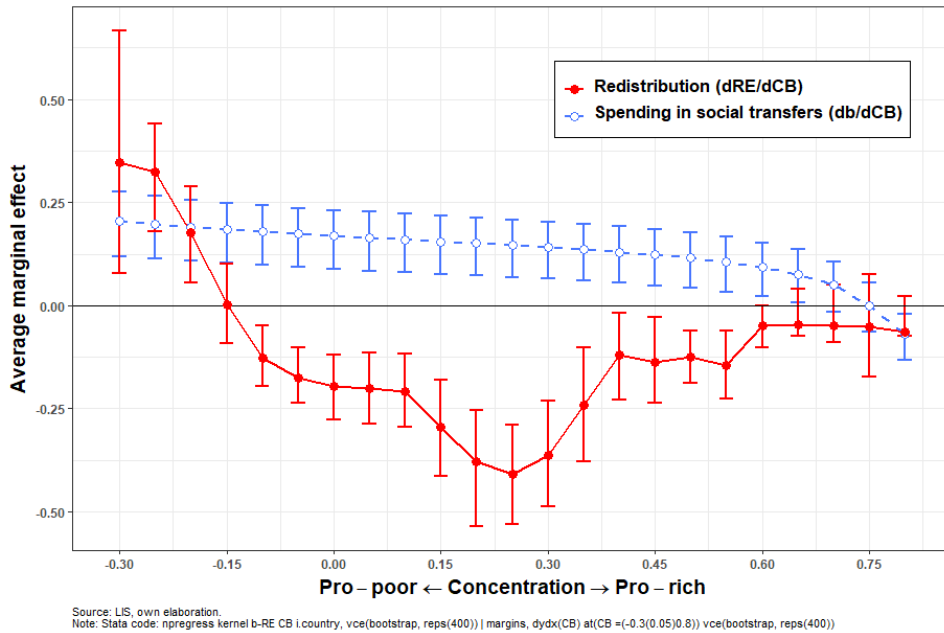
<sup>20</sup>I use Stata command `npregress kernel` with 400 bootstrap replications. Other options are set by default: the kernel function is set to Epanechnikov and the size of the bandwidth is chosen to minimize the integrated mean squared error of the prediction. I then use Stata command `margins` to obtain estimations at different levels of concentration. Additionally, I include in the results of these regressions using polynomial models in the Appendix.

<sup>21</sup>The lowest concentration index in the sample is -0.34 (Australia in 1989), but systems of assistance to the poor before the creation of modern social insurance programs (like the English Poor Laws) would show significantly lower concentration levels than even the most progressive contemporary welfare states.



concentration is above  $-0.15$ , concentration and redistribution are *negatively* correlated: as transfers become more pro-rich, redistribution falls; as transfers become more pro-poor, redistribution increases. Thus, the Paradox of Redistribution does not hold.<sup>22</sup> A somewhat surprising finding is that the progressivity-size trade-off persists at all levels—concentration and expenditure on social transfers are always positively correlated. Thus, more spending means most often increasingly pro-rich spending, but beyond a certain point, it merely rearranges the position of households in the distribution without making it more egalitarian. In fact, the most redistributive countries in the sample remain steady past the point of maximum redistribution, which suggests that bigger, less progressive social budgets constitute a stable fiscal contract in advanced welfare states.

Figure 4: Average marginal effect of concentration over redistribution and total spending on social transfers with 95% confidence intervals



To sum up, the results described in this section indicate that the relationship between changes in progressivity and redistribution varies between countries and periods. Neither the Paradox of Redistribution nor its critics can single-handedly explain the trajectories of all welfare states. Nonetheless, there are some regularities: pro-poor countries have increased redistribution making their transfers more pro-rich, whereas pro-rich countries have increased redistribution—very modestly—making their transfers more pro-poor. Thus, the relationship between changes in progressivity and redistribution is contingent on initial progressivity levels.

<sup>22</sup>The negative correlation between concentration and redistribution weakens at higher levels of concentration and tends to disappear at the right end of the scale, as the correlation between concentration and expenditure turns negative. Theoretically, this makes sense: transfers are regressive at the right end of the scale (they are distributed more unequally than net factor income) so the reduction in spending associated with an increase in concentration has a positive impact on redistribution (it reduces the inequalitarian impact of social transfers).

## The politics of redistribution

Majoritarian models of redistribution build upon what [Iversen and Soskice \(2006, p. 167\)](#) call the “non-regressivity assumption”: “*the poor always gain from democratic redistribution, the rich always lose, whereas the middle class does less well than the poor but better than the rich.*” Welfare state literature presents variations of this “bottom-up” view. Power resources theory considers the working class the catalyst and primary beneficiary of social protection ([Korpi, 1983](#); [Huber and Stephens, 2001](#)).<sup>23</sup> Other works treat the middle-class as the key pivotal actor: redistribution increases when the middle-class aligns with the poor. In the Paradox of Redistribution, the emergence of this coalition depends on the inclusivity of social programs, and middle-class interests are also central in hypotheses focused on electoral institutions ([Iversen and Soskice, 2006](#)), labor market segmentation ([Alt and Iversen, 2017](#)), social affinity ([Lupu and Pontusson, 2011](#)) or race ([Alesina and Glaeser, 2004](#)). However, “non-regressivity” does not mean that redistribution is seized from below. The results above indicate that *concentration is sticky downwards*—the share of social transfers obtained by the rich does not fall as welfare states become bigger and more egalitarian—which suggests that theories of class conflict alone cannot explain the expansion of welfare states.

Sticky progressivity is better understood in light of research on micro-preferences that shows that support for social programs—and the willingness to pay taxes to finance them—corresponds directly to materially benefiting from them. In OECD countries, the rich are more supportive of transfers when progressivity is low ([Beramendi and Rehm, 2016](#)), while non-standard workers are less supportive of welfare state expansion if benefits go to labor market insiders ([Fernández-Albertos and Manzano, 2016](#)). Similarly, in Latin America, the unprotected poor are less likely to favor social programs than the non-poor ([Holland, 2018](#)). On the financing side, support for higher taxes depends on benefiting from spending and varies non-linearly with income ([Barnes, 2014](#)), and attitudes towards tax hikes are more polarized in high-tax societies ([Sumino, 2016](#)). More generally, sticky progressivity is a logical corollary of works indicating that the preservation of social status—the rank in the distribution—is a key driver of preferences for redistribution and social behavior at large ([Frank, 1985](#); [Corneo and Gruner, 2000](#); [Hopkins and Kornienko, 2009](#); [Kuziemko et al., 2014](#); [Brown-Iannuzzi et al., 2015](#); [Gidron and Hall, 2017](#)). Welfare states that grow upwards preserve—and contribute to solidifying—the relative position of those higher up in the income ladder, even if the share of income distributed through collective risk-sharing mechanisms gets bigger and redistribution increases. In short, progressivity determines what groups emerge as net winners or net losers when social expenditure increases—who benefits and who pays—, which crucially affects the viability and direction of policy change. Progressivity anchors distributive

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<sup>23</sup>In a compelling twist to this argument, [Rasmussen et al. \(2020\)](#) argue that urban working-classes have been historically the only actor pushing for the expansion of coverage to other social groups.

conflicts and constrains the feasible policy space.

This provides a coherent framework to interpret the relationship between progressivity and redistribution. In pro-poor welfare systems, increasing social expenditure involves extending coverage *up* the income ladder, which narrows the gap between net winners and net losers. In fact, in sufficiently egalitarian societies, or adopting a life-cycle perspective, taxpayers and beneficiaries overlap and the gap disappears. Limiting the number of net losers—and the amount they lose—reduces the salience of distributive conflict and makes it easier to expand social expenditure, leading to higher redistribution. This fits with the long-term evolution of British and Scandinavian welfare states, as they moved from means-tested assistance to basic universalism and, finally, to adding earnings-related supplements to keep the rich in public insurance mechanisms (Kangas and Palme, 2005; Boyer, 2018). But expansion from the bottom to the top of the income distribution is a feature of welfare states with stronger corporatist roots too. In its early origins, social insurance in France and Germany provided modest uniform benefits to wage-earners below certain income thresholds, and subsequently expanded its coverage horizontally (adding other professional groups) and vertically (rising income thresholds to include higher-paid workers) (Stolleis, 2013; Dutton, 2002; Ferrera, 2005a). Later, in the 60s and 70s, they achieved their own version of earnings-related universalism by including declining—previously self-reliant—middle-classes in broader risk pools (Baldwin, 1990).<sup>24</sup> In sum, pro-poor minimalist social policies provide a clean slate from which welfare commitments can expand upwards, through increasingly generous earnings-related programs that lure the better-off into public redistribution mechanisms.<sup>25</sup> What my sample shows is the consolidation of this pattern in rich welfare states, as earning-related commitments acquired in the past push beneficiaries higher in the income distribution. However, as social transfers become increasingly pro-rich, the window to expand social protections through status-preserving measures narrows, which could help explain the alienation of left-wing parties from low-income voters and the apparent exhaustion of redistributive forces in advanced welfare states (Kitschelt, 1994; Rueda, 2005; Piketty, 2020).<sup>26</sup>

In contrast, in pro-rich welfare systems extending coverage involves reaching *down* the income ladder to include the poor, turning distributive politics into a zero-sum game. Launching programs for the poor requires raising taxes or cutting the benefits of privileged insiders, which creates a clearly delineated gap between winners and losers. Latin American countries are a clear example of these dynamics. Social insurance is captured by urban middle-classes and elites, and it is difficult

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<sup>24</sup>Baldwin (1990) provides a masterful account of how existing welfare institutions interacted with socio-economic changes in the lead to earnings-related universalism in Scandinavia and Great Britain and in Continental regimes.

<sup>25</sup>Extending coverage up the income ladder is politically harder if the better-off rely on private insurance that is too generous to accommodate in public risk pools, like in early twentieth century France—due to the prevalence of mutual aid societies and employer-controlled *caisses* that catered to the middle-classes (Dutton, 2002)—or in recent health-care reform attempts in the US (Hacker, 2019; Busemeyer and Iversen, 2020).

<sup>26</sup>Herbert Kitschelt describes it succinctly: “Social democracy is a ladder on which people climb up and then they throw it away.” (Abou-Chadi, 2020).

to find non-zero-sum coalitions in favor of extending provisions beyond assistance to the poor. There is no status-preserving mechanism that could lure privileged insiders into sharing the same risk pool with rural and informal workers.<sup>27</sup> Other institutions, most notably taxation, reflect the zero-sum nature of distributive politics: the rich are reluctant to expand fiscal and administrative capacities to avoid them being used for redistributive purposes (Kurtz, 2013; Ondetti, 2021), whereas the poor grow disaffected with government intervention and direct their demands towards low taxation and the non-enforcement of sanctions (Holland, 2016). Latin American welfare states are “captured”, as labor market insiders monopolize limited public resources and leave no room for investment-oriented social policies, like education (Beramendi, 2015).<sup>28</sup> Therefore, in this case too, initial welfare state institutions have played a decisive role in shaping distributive conflicts down the road. Low coverage and redistribution in Latin American welfare states cannot be attributed merely to late economic development, premature de-industrialization, or long periods of authoritarian rule. A necessary factor for their elitist capture is that, for the most part, generous social insurance for the urban middle-classes developed *before* the extension of even the most rudimentary universal safety net, precluding the status-preserving expansion that characterized richer welfare states.<sup>29</sup>

The path towards increasing redistribution from both sides of the policy spectrum is represented in Figure 5, which shows all the observations in my sample. Latin American and other developing welfare states (in orange, in the bottom-right corner) start from a position that is significantly more biased towards the better-off than their rich counterparts at any point in the past, which seriously questions their capacity to reach the redistributive peaks of advanced welfare states. When it comes to redistributive fiscal outcomes, ‘you can’t get there from here’ (Lindert, 2017, p. 155): there is no clear political path to universal coverage and high redistribution starting from elitist social insurance. This points to the importance of issues of timing and sequence to account for the path-dependency of social protection (Pierson, 2004). What separates elitist from universal welfare states is not only that social insurance reinforces political and economic asymmetries in the former—it is not just a matter of inequality feeding on itself. To a large extent, differences derive from the fact that initial social programs generated different types of distributive

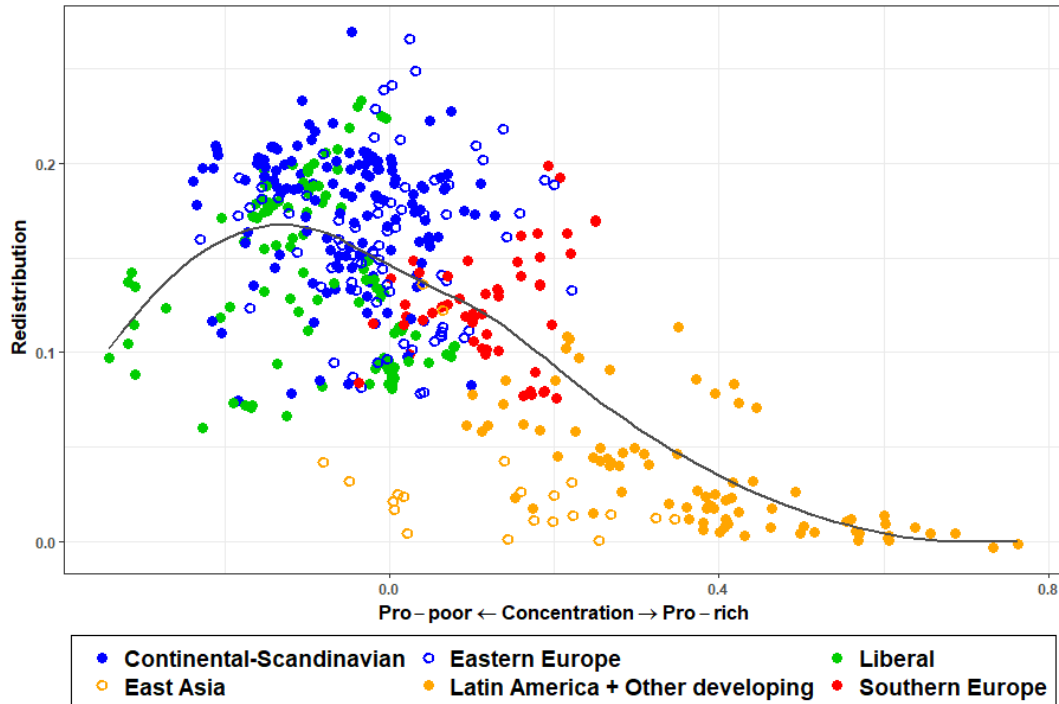
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<sup>27</sup>Costa Rica is a telling counterpoint. As Franzoni and Sánchez-Ancochea (2016) point out, Costa Rica has managed to provide quasi-universal health-care and old-age protection starting with a fund that covered all blue-collar workers below an income ceiling—an evolution that resembles the bottom-up expansion of richer welfare states.

<sup>28</sup>It is not that distributive conflict is zero-sum because of insufficient fiscal capacity; tax revenues are insufficient mostly *because* distributive conflict is zero-sum. However, conflict over welfare programs being zero-sum does not imply that antagonisms over the issue are exacerbated. On the contrary, positions on the issue become often less polarized and conflict is displaced to other areas. In Latin America, lacking the tools for gradual tax-based redistribution, distributive struggles revolve around property rights, in cycles of expropriation vs. privatization (Kemmerling, 2017).

<sup>29</sup>According to Wibbels and Ahlquist (2011) dualized welfare systems in Latin America resulted from the insurance demands of labour market insiders under internally oriented industrialization. This contrasts with East Asia, where export-oriented industrialization led to narrow provisions for private sector workers that leave room for policymakers to advance towards universalism (Haggard and Kaufman, 2008). See Mares and Carnes (2009) for a review of theories about social protection in developing countries.

Figure 5: Concentration of social transfers and redistribution by region (1967-2018)



Source: LIS, own elaboration.

conflict, with groups in apparently similar economic positions building very different expectations about the costs and benefits of expanding social entitlements.

## Concluding remarks

Korpi and Palme (1998) put forward a paradoxical proposition for the politics of redistribution: there is a trade-off between the progressivity and the size of social transfers, and the most redistributive countries are those that provide universal coverage while allowing the better-off to differentiate through earning-related provisions. My paper tests this hypothesis by looking at the relationship between the distribution of social transfers and the redistribution they achieve within 53 rich and middle-income countries. The results offer partial support for the Paradox of Redistribution. Advanced welfare states expanded from relatively pro-poor policy positions and have increased redistribution via higher social expenditure, of which the middle classes and the rich have appropriated an increasing share. This concurs with historical evidence on the expansion of rich welfare states and reinforces the hypothesis that increases in redistribution are driven mainly by status-preserving considerations—not by class warfare aimed at soaking the rich. Likewise, the results question alternative theories on the link between policy design and redistribution, such as “targeting within universalism”: there are few examples of countries becoming more redistributive while making their transfer systems as a whole more pro-poor. However, the Paradox of Redistribution does not apply to countries with elitist, pro-rich social programs. In these countries, increasing redistribution necessarily involves making their transfer systems more pro-poor. Thus,

when social insurance for rich insiders monopolizes public budgets, conflicts over expanding social programs have little in common with those raised during the expansion of advanced welfare states.

Additionally, my paper raises several issues for the comparative analysis of welfare state institutions. First, the literature on welfare state institutions tends to focus on the legal aspects of policy design—whether funding is contributory or tax-based, provision is public or private, access is universal or means-tested—and treats outcomes as a by-product, but we need to observe the effective outcomes of social policies to understand how institutional design shapes distributive conflict. Taking policy feedback seriously requires looking at the ‘feed’ (how politics shapes policy) but also at the ‘back’ (how policy shapes politics) (Campbell, 2012). Second, majoritarian approaches view redistribution as a victory of the poor over the rich, but sticky progressivity extends to the richest deciles—there are no marked discontinuities in the distribution of benefits as welfare states expand—which suggests that non-discrete models that account for marginal winners and losers may be a better representation of policy change. Lastly, redistribution reflects what needs are socially recognized and which are not, so the same level of inequality reduction can have very different social and normative implications. However, this does not mean that redistribution is a poor yardstick for comparative analysis, or that we need to narrow it by excluding the effect of pensions or social security programs, as some works do. Instead, we need to supplement redistribution data with measures of coverage and concentration so that we can determine more precisely how social benefits are distributed.

To conclude, my results confirm how difficult it is to reduce the share of benefits obtained by the rich, which suggests that welfare states starting from elitist social insurance—like Latin American and other developing countries—will find it challenging to reach the levels of redistribution of their more affluent counterparts. Additionally, many advanced welfare states have probably exhausted their capacity to grow up the income ladder. Thus, it would be valuable to identify the circumstances under which countries have historically been able to reach down the income ladder (when distributive stakes are zero-sum). War appears to be one of these turning points in the twentieth century (Scheidel, 2017, Ch. 5), although it is not clear if new welfare commitments were aimed at the poor or if they tried to prevent the middle-classes from falling closer to the poor. Additionally, future research should try to determine how and when countries settled in a given progressivity range—what were the economic and political conditions that placed initial beneficiaries higher or lower in the income distribution. We must study the origins and consolidation of social policies to understand current conflicts over redistribution.

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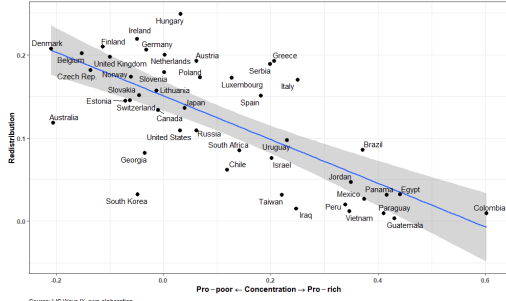
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# Appendix

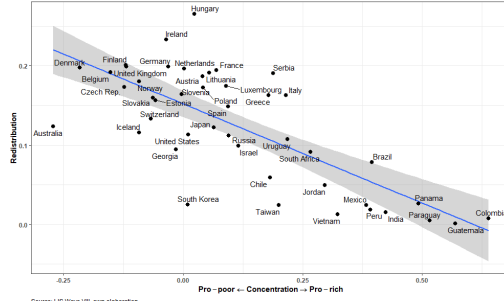
## A1. Concentration and redistribution across LIS Waves.

**LIS Wave IX (2012-14)**



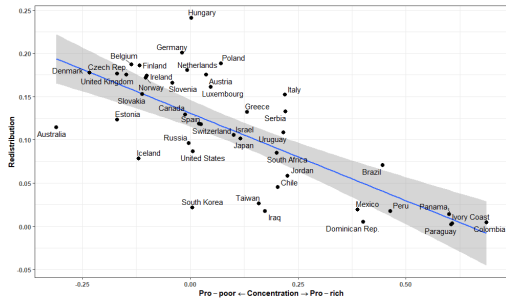
Source: LIS Wave IX, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

**LIS Wave VIII (2009-11)**



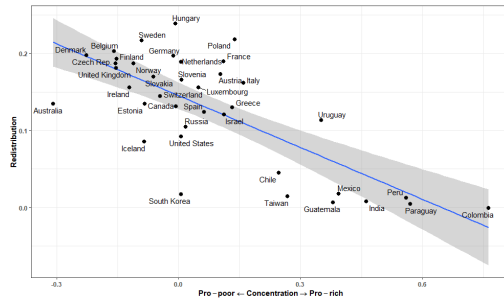
Source: LIS Wave VIII, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

**LIS Wave VII (2006-08)**



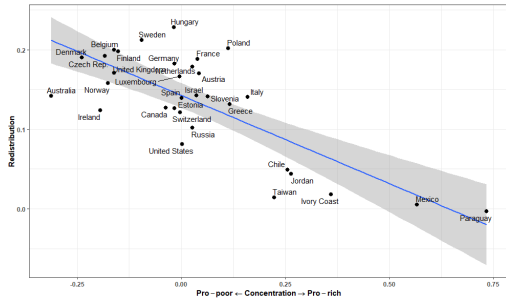
Source: LIS Wave VII, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

**LIS Wave VI (2003-05)**



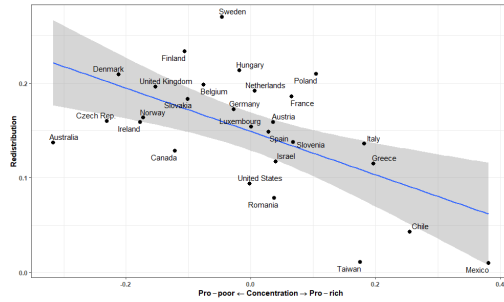
Source: LIS Wave VI, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

**LIS Wave V (1998-2002)**



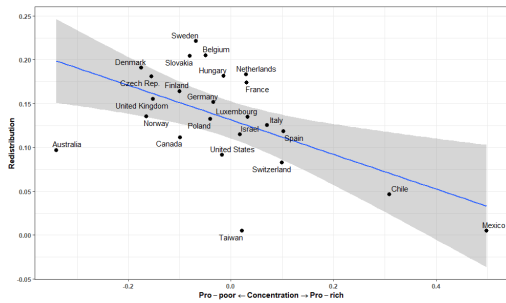
Source: LIS Wave V, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

**LIS Wave IV (1993-97)**



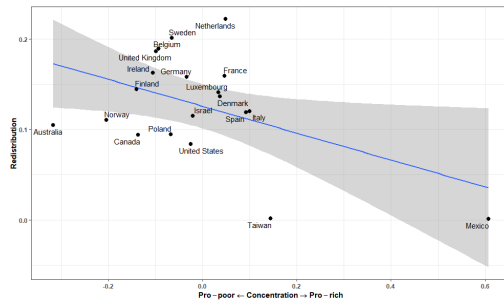
Source: LIS Wave IV, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

**LIS Wave III (~ 1990)**



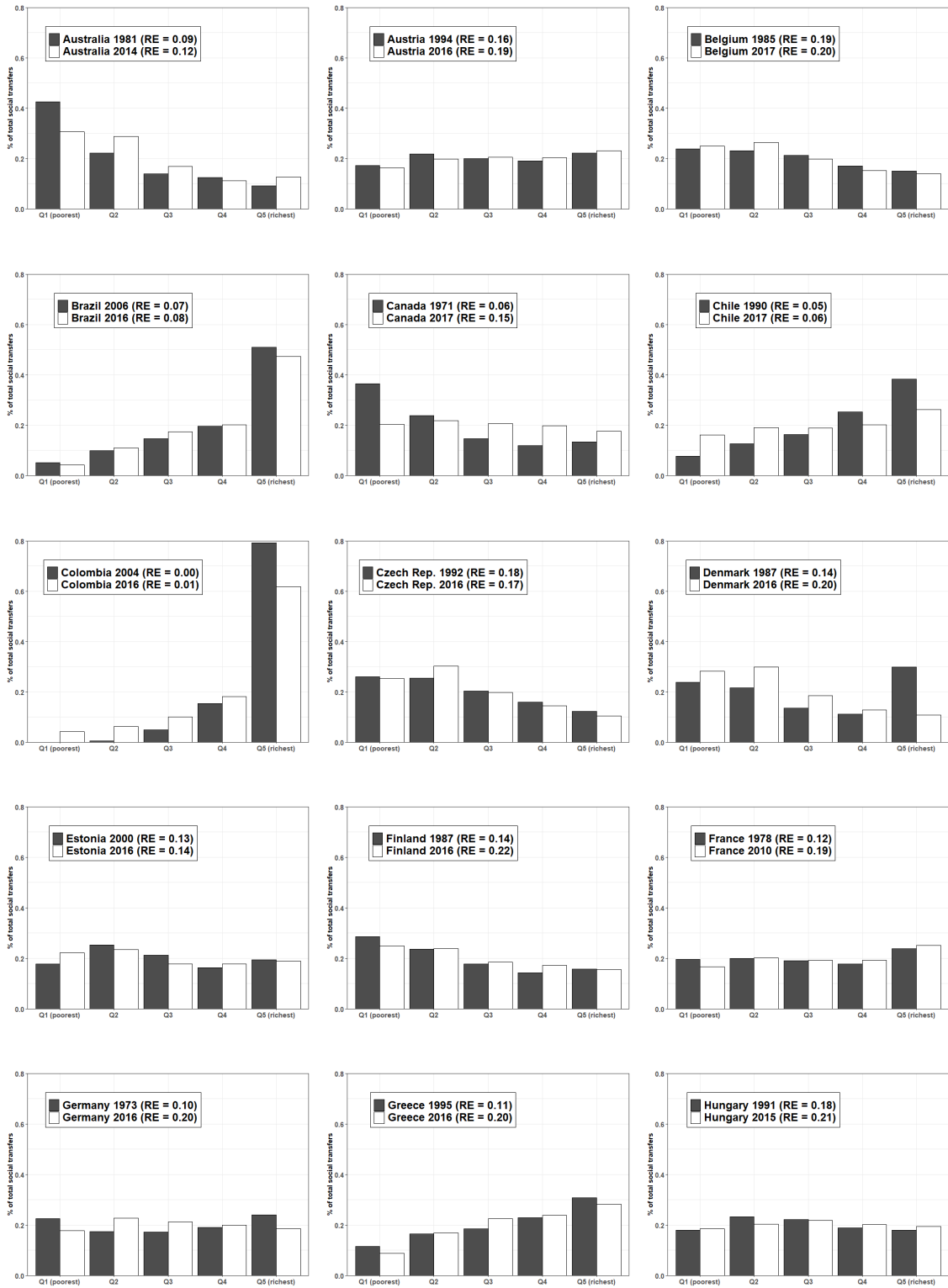
Source: LIS Wave III, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

**LIS Wave II (~ 1985)**

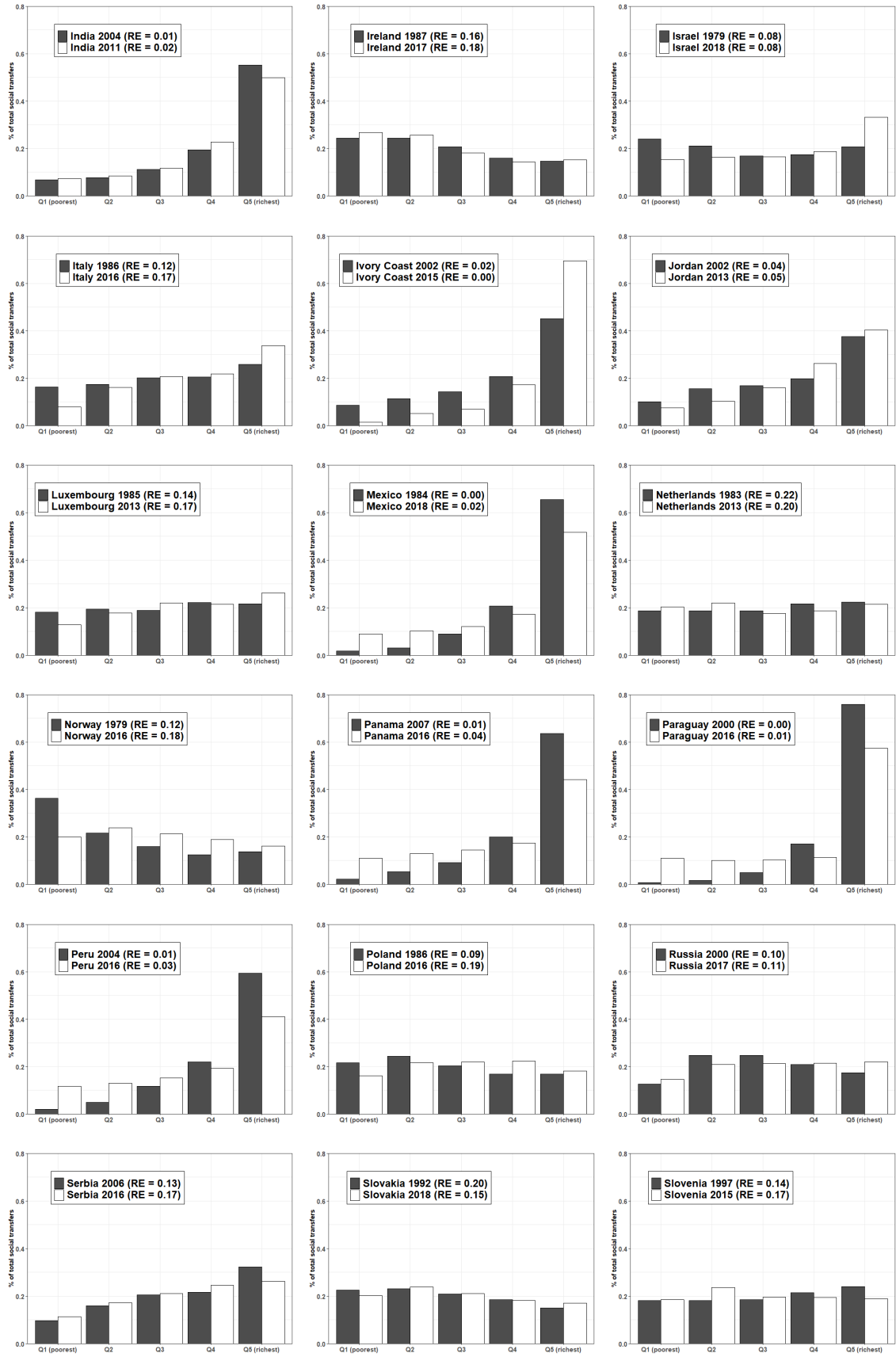


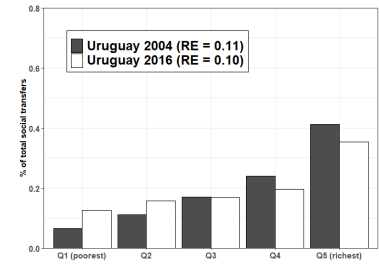
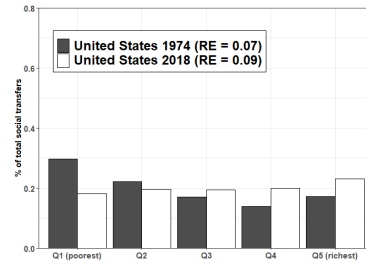
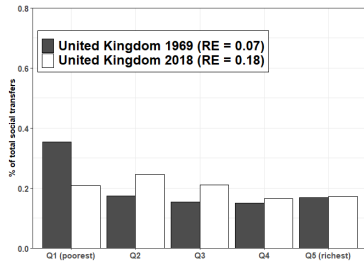
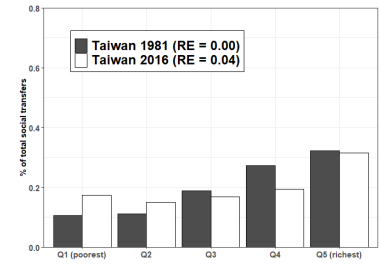
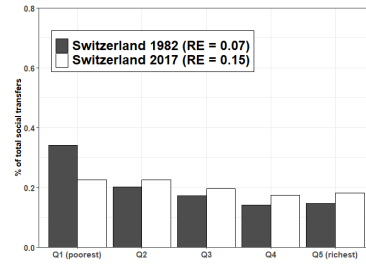
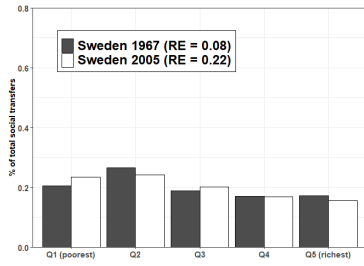
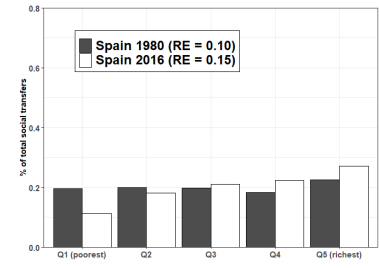
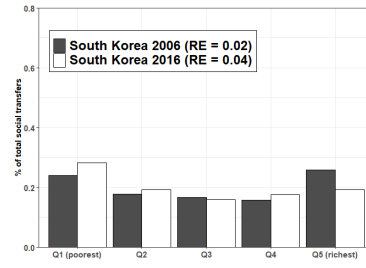
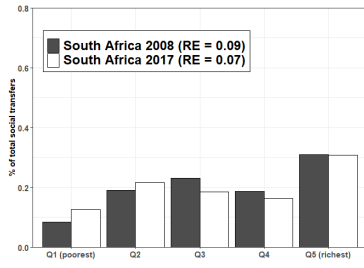
Source: LIS Wave II, own elaboration.  
 Note: Concentration coefficient of net social transfers over disposable income.  
 Redistribution =  $G_{net\ labor\ income} - G_{disposable\ income}$ .

## A2. Distribution of social transfers across disposable income quintiles.









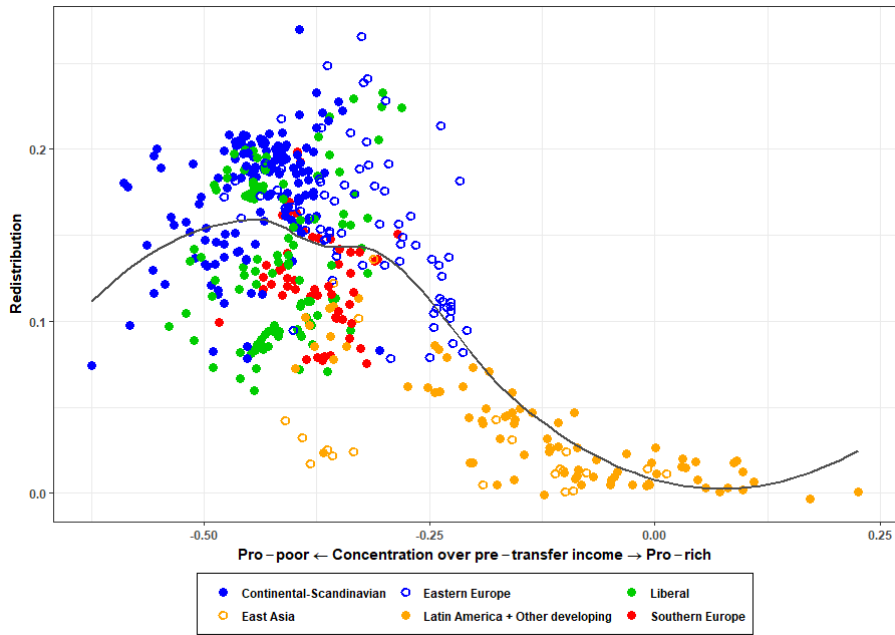
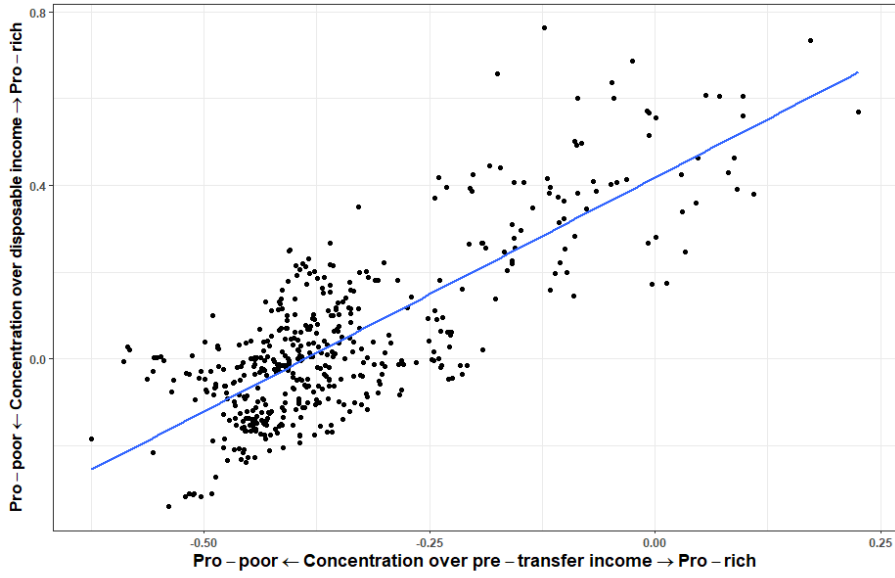
### A3. Alternative measures of the distribution of social transfers.

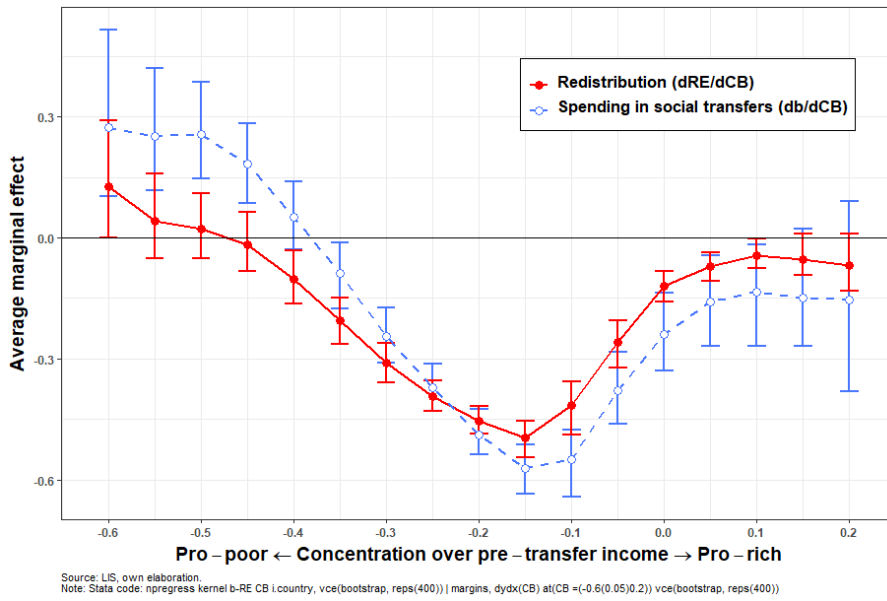
As discussed above, indicators of the distribution of social transfers over pre-transfer income provide a biased estimation of how pro-poor or pro-rich they effectively are. In any case, the following graphs show the correlation between the concentration of social transfers over disposable income and both their concentration over pre-transfer income and their Kakwani index.<sup>30</sup> Additionally, I show redistributive outcomes by regime and replicate the regressions using pre-transfer indicators. My main result is robust to using the distribution before social transfers as the focal point (when transfers are pro-poor, making them more pro-rich correlates with higher redistribution), with one main difference: with concentration over disposable income, making transfers more pro-rich correlates with higher spending on social transfers at all levels; with indicators over pre-transfer income, beyond a certain point, making transfers more pro-rich correlates with lower spending. This is easily reconciled: in many cases, transfers become more pro-rich with respect to disposable income and more pro-poor with respect to pre-transfer income at the same time. Think of a generous earning-related social insurance program: as its size increases, recipients may fall towards the bottom of the pre-transfer distribution while consolidating their rank in the disposable income distribution. This divergence can be specially acute with respect to the Kakwani index: social transfers can appear to be increasingly pro-poor in the pre-transfer distribution because recipients fall down the income ladder, but also because inequality at the top of the distribution increases.

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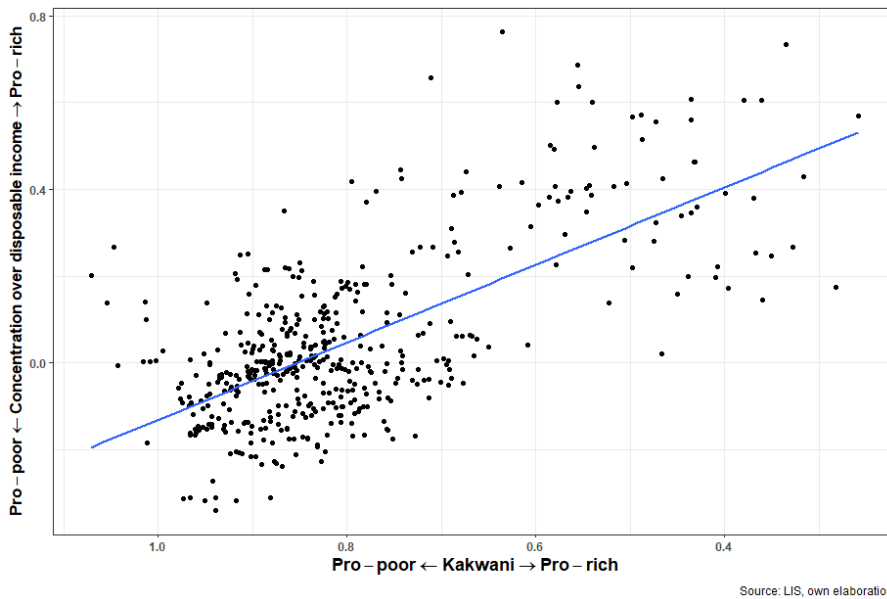
<sup>30</sup>This is the Kakwani index over pre-transfer income. The Kakwani index over disposable income can also be calculated, but it is not very informative. The Kakwani index of social transfers over an income distribution  $q$  is the difference between the concentration index of pre-transfer income over  $q$  and the concentration index of transfers over  $q$  ( $K_B^q = C_X^q - C_B^q$ ) (Enami, 2018). Thus, the Kakwani index of transfers over the distribution of disposable income is:  $K_B^{X+B} = C_X^{X+B} - C_B^{X+B}$ . However, in the presence of re-ranking, the concentration index of pre-transfer income over disposable income is affected by the distribution of transfers: by ordering households according to disposable income, we are assigning them as much pre-transfer income as the household with the same rank in the pre-transfer income distribution.

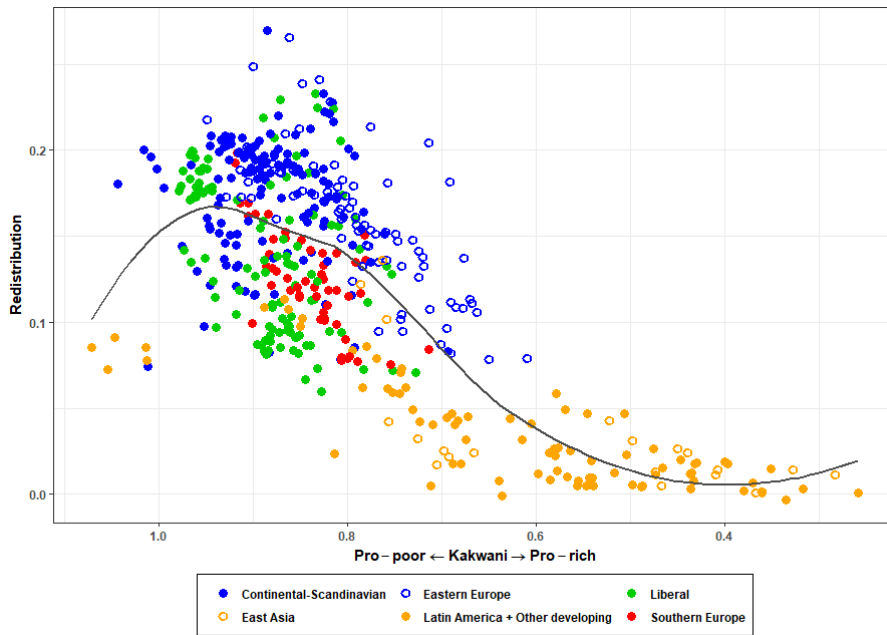
## Concentration index over pre-transfer income



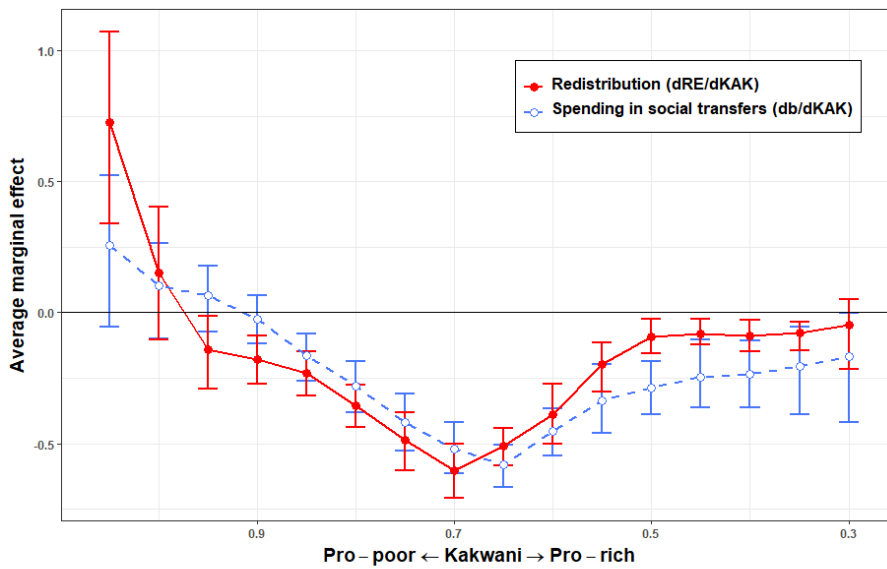


### Kakwani index (over pre-transfer income)





Source: LIS, own elaboration.



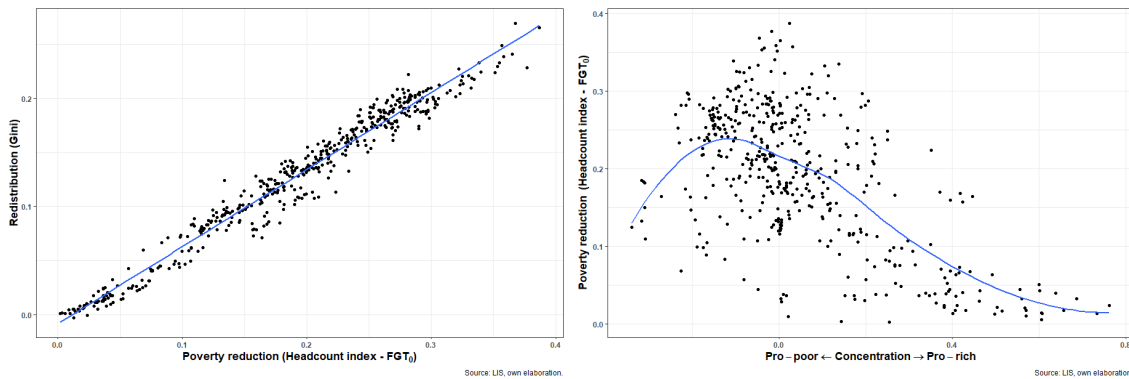
Source: LIS, own elaboration.

Note: Stata code: `npregress kernel b-RE KAK i.country, vce(bootstrap, reps(400)) | margins, dydx(KAK) at(KAK =(-0.6(0.05)0.2)) vce(bootstrap, reps(400))`

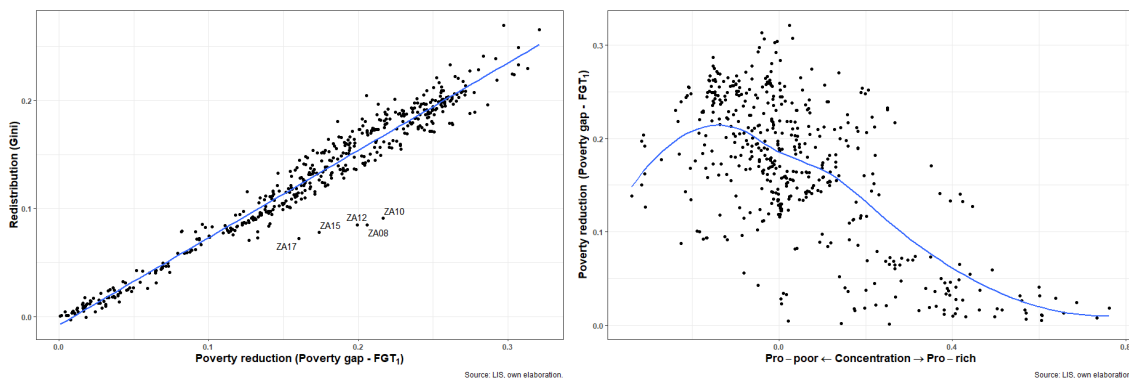
#### A4. Alternative measures of redistribution.

The graphs below show the relationship between alternative measures of redistribution and the absolute reduction in the Gini coefficient, on the left, and the concentration index, on the right. Patterns are very similar using measures of redistribution other than the absolute reduction in the Gini coefficient. The main outlier is South Africa, whose social transfers appear more redistributive looking at the reduction in the Poverty gap, the Squared poverty gap, and the Palma index. In the latter, South African data-points are removed from the graphs as they are significantly higher (in 2010, for instance, social transfers reduced the Palma index by more than 22 points). South Africa is the most unequal country in the sample before social transfers, but it does a comparatively good job reducing extreme poverty.

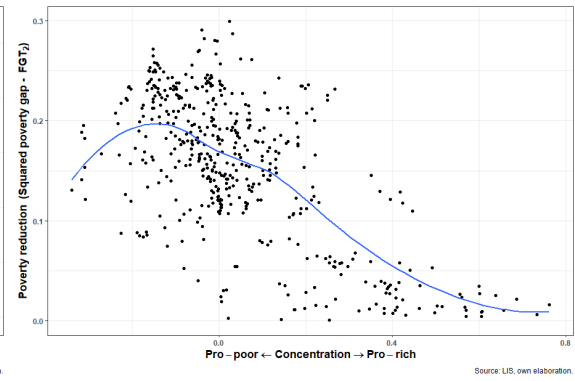
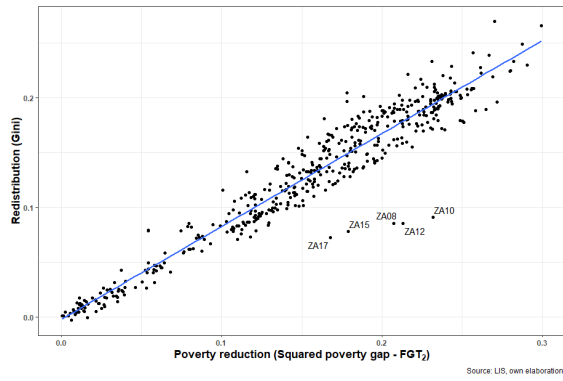
##### Poverty rate ( $FGT_0$ )



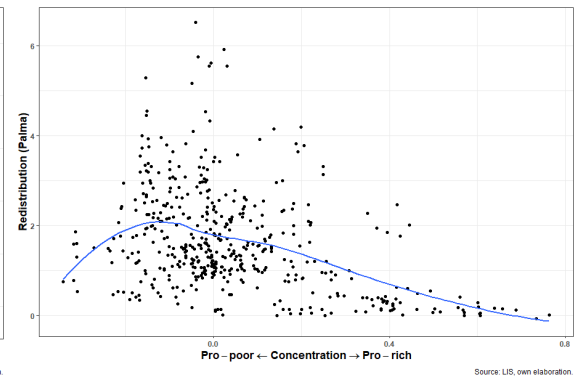
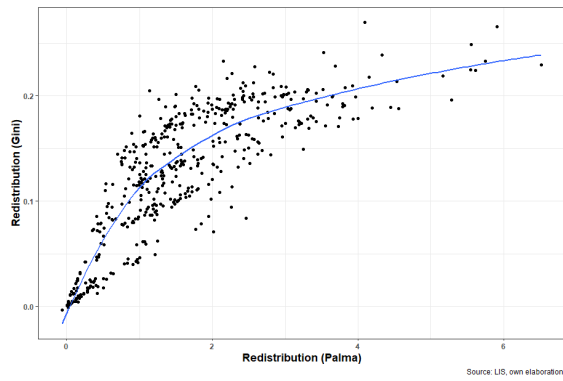
##### Poverty gap ( $FGT_1$ )



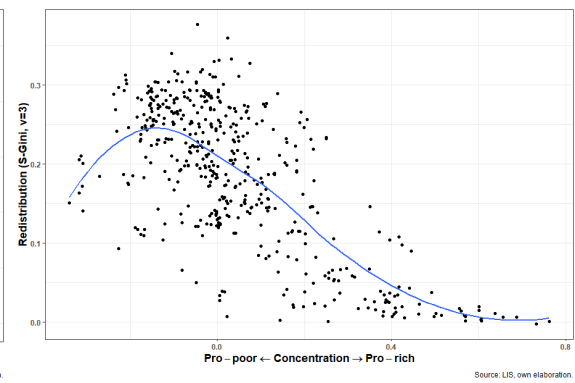
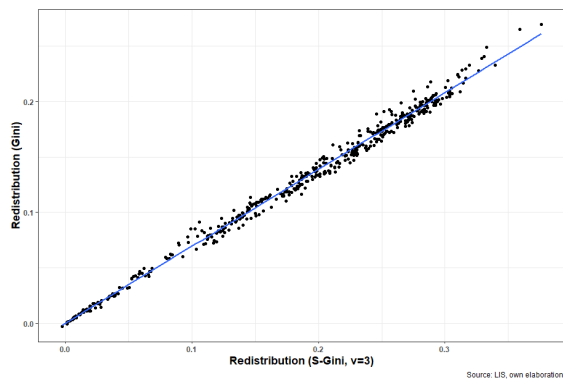
## Squared poverty gap ( $FGT_2$ )



## Palma index

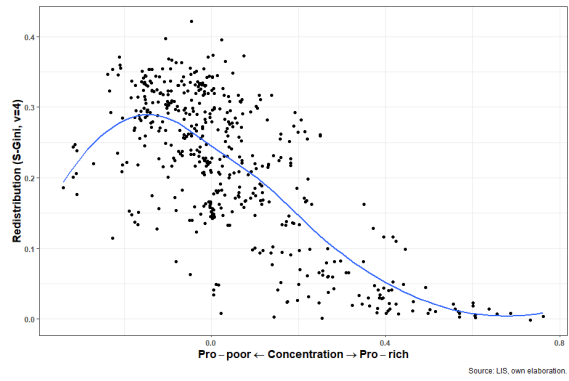
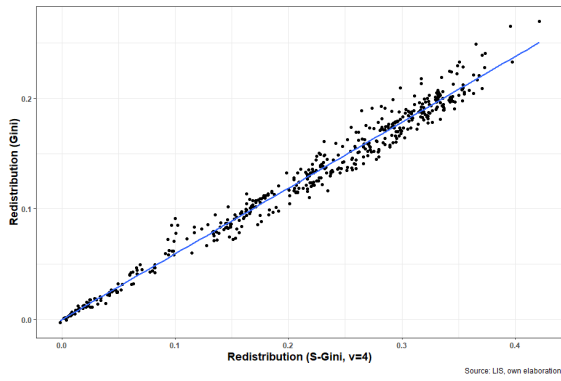


## S-Gini ( $v=3$ )

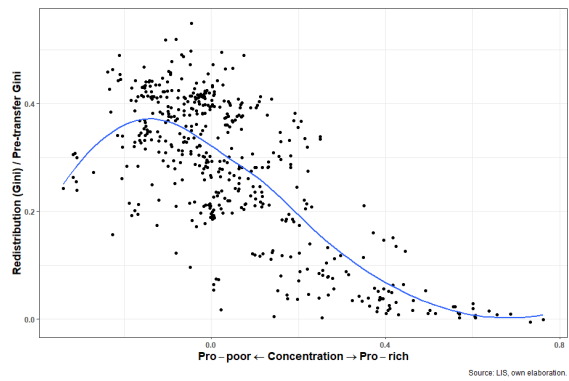
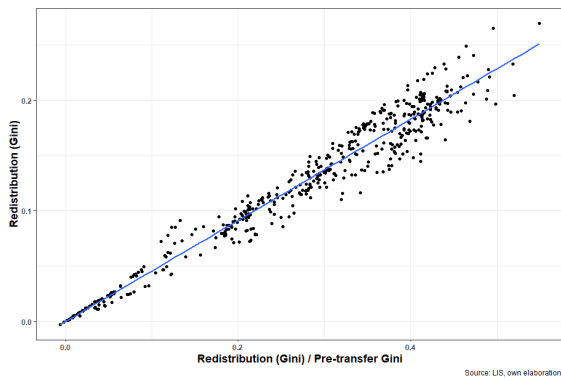




## S-Gini (v=4)



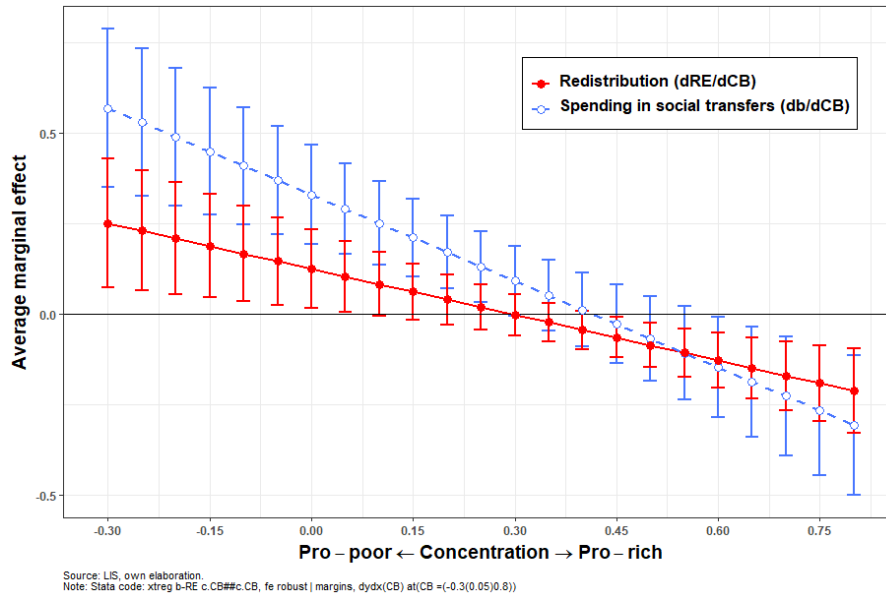
## Gini (% reduction)



## A5. Polynomial regressions.

$$RE_{it} = \beta_0 + \beta_1 CB_{it} + \beta_2 CB_{it}^2 + \alpha_i + \epsilon_{it}$$

$$b_{it} = \beta_0 + \beta_1 CB_{it} + \beta_2 CB_{it}^2 + \alpha_i + \epsilon_{it}$$



$$RE_{it} = \beta_0 + \beta_1 CB_{it} + \beta_2 CB_{it}^2 + \beta_3 CB_{it}^3 + \alpha_i + \epsilon_{it}$$

$$b_{it} = \beta_0 + \beta_1 CB_{it} + \beta_2 CB_{it}^2 + \beta_3 CB_{it}^3 + \alpha_i + \epsilon_{it}$$

