

Public Redistribution and Voter Demand: The Role of the Middle Class

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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-biased technological change, the expansion of the service economy or changes in wage setting. Social transfers and income taxes partly compensated for the growing disparity in market incomes (Korpi 2003; OECD 2008; Beramendi and Cusack 2008; Iversen and Soskice 2009a). Social programs deliver a more even distribution than market forces alone provide, even if cutbacks in recent decades diminished the equalizing effect of public policies (OECD 2011: 23). The analysis of public income redistribution throws a light on how market outcomes are corrected politically in the event that these are not accepted by the majority. In a democracy, by definition, the electorate decides which degree of inequality is acceptable and whether governments must establish public policies to correct the income distribution.

Beyond this ideal of a democracy, which limits the market if its outcomes are detrimental for the citizens, political economy and comparative welfare state literature for a long time is concerned with the explanation of government income redistribution. Joining in to that discussion, this contribution theoretically and empirically investigates the determinants of state income redistribution. In particular, it looks at the median voter and its cross-class coalitions, which play an important role in all the explanations of public income redistribution.

The reasons for the variations in the degree to which social and tax policies correct market results have been analyzed in numerous studies (Bradley et al. 2003; Kenworthy 2004; Pontusson 2005: 32). This contribution concentrates on

a political-economy tradition that expands the median voter approach critically. For the initial model, the development of inequality in market income drives the voter demands which, in democratic countries, are realized with corresponding policies. In a narrow sense, the middle class must be affected since due to its voting power it is able to assert its distribution interests on political decisions. Expansions of the median voter-model brought political factors into play. Voter demands, after all, are not directly effective but must first pass through the political system. That is why the influence of parties, power relationships, social-state and political institutions are analyzed with regard to the degree of income redistribution (Korpi and Palme 2004; Iversen and Soskice 2006 and 2008). In all explanations, the median voter or the middle class is in the spotlight. Early comparative social state research believed that the interests of those most in need of social transfer – those with low income – could only be asserted in *coalitions* with the election-deciding middle class. Not left political powers on their own but *redistribution coalitions* determined redistributive policies. Later institutional approaches viewed *coalitions* of the middle class or their political representatives as a result of the incentives which political institutions set and which influence the cross-class-coalitions the middle class seeks.

Today there might have emerged a situation, in which the middle class is threatened by rising income inequality, develops an interest in redistribution, seeks cross-class-coalitions and finally can influence electoral outcomes. Recently, some scholars detected exactly this situation: Income structures changed in a way that fosters the *social affinity* between the lower and the middle income classes. An erosion of the middle class income position could constitute the basis for middle class coalitions with lower income earners (Lupu and Pontusson 2011). However, can the inter-temporal and international variation of the income position of the middle class explain the extent governments resort to public redistribution because the political demand of the median voter urges them? Does the empirical income development in past decades actually support social affinity between middle and lower strata in terms of distributive interests? And: Are coalitions with the poor plausible on the background of the changing income position of the middle class? In order to answer these questions, the *structure of inequality* and position of single income groups has to be analyzed thoroughly to make visible, exactly which section of society was affected how by changing income distribution. Instead of treating the middle class as a homogeneous group, this article differentiates the middle class into subgroups with different “fates” in terms of the changing distribution and different dependency from public income redistribution. Different developments in the upper and lower half become visible and

different cross-class-coalition options of the middle class appear – not only with the poor. Moreover, comparisons of the income shares of single quintiles and their share gains and losses due to public policies allow a more nuanced picture of redistribution and the stake the different income classes have than previous research on income redistribution has produced. The results underscore that a changing income structure influences redistribution, but not as assumed by the affinity hypothesis. Not the “closeness” by a similar income position of both middle and low income groups, but a growing distance between the two, triggers governmental redistribution.

This paper explains the varying size of 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 2010. A review of explanations for government income redistribution first shows how political economy conceives the role of the middle class (2.1) and states hypotheses (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.

The analyses of changing income positions in order to detect probable coalitions in terms of common political attitudes and behaviors does not claim that voter demand is driven by the income position only. Redistribution gets support for different reasons like subjective insecurity due to volatile markets and rising unemployment, but also because of values and altruism or because of false perceptions of the real amount of inequality and the impacts of taxes and transfers (Hochschild 1979). But the aim of this paper was to subject the arguments of the affinity hypothesis a critical test. A certain degree of one-sidedness is therefore allowed.

2 Public Income Redistribution – Explanations

The Impact of Income Inequality

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. An electoral majority expressing 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). The United States are the classical 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 and 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 egalitarian countries rather have small welfare states in terms of public expenditure or the scope of redistribution (Moene and Wallerstein 2001, Iversen and 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 and Pontusson 2005; Kenworthy and McCall 2008, Kelly 2009). Hence, the critique towards the median voter model neglects the differences between a cross sectional and a longitudinal perspective. Yet, a median voter model fails to understand how the political system transforms voters’ preferences.

Political Power, Institutions and Middle Class Coalitions

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 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 and Swank 1992; Huber and Stephens 2001; Beramendi and Cusack 2008). Left parties in parliament and unions are seen as actors of a "*democratically tamed class struggle*" who accomplish redistributive policies (Korpi 1983, 1989).

Early comparative public policy research realized that the political power of the working class and the poor is limited and cross-class coalitions with the middle class are required (Goodin and LeGrand 1987; Esping-Andersen 1990: 30; Baldwin 1990).¹ The respective coalition partners of labor parties in different countries and their specific compromises concerning the regulation of labor and social protection shaped the various 'welfare regimes' and the degree of de-commodification for their citizens. Also the redistributive policies today are seen as a result of political compromises between the lower and middle class (Korpi and Palme 1998; Scruggs and Alan 2006; Svallfors 2004; Manow 2007). But little research has been done on *cross-class coalitions*. Most studies just register the influence of single left or center-right parties on public policies (Hicks and Swank 1992; Huber and Stephens 2001; Bradley et al. 2003; Beramendi and Cusack 2008). The impacts and work mode of coalitions is scarcely reflected (except Häusermann 2010).

Research rather was concerned with the enduring impact of left political power on wage distribution and government income redistribution even in postindustrial and ageing societies (Hicks and Swank 1992; Huber and Stevens 2001; Bradley et al. 2003; Beramendi and Cusack 2008). The ageing of society enforces rising social expenditure independent of political ideology. Also Christian Democratic governments establish encompassing social security systems since they generate voter credit. Christian Democratic parties see their basis as a cross class compromise *within* one single party (Manow and Kersbergen 2006).

This argument hints on how to capture cross-class-coalitions of Social Democracy. Like Christian Democracy, also left parties are seeking *internal*

1 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).

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 social democratic parties on a left-right spectrum already indicates a *cross-class compromise*: they balance between the poor and a middle class better established in education and labor market and consequently move to the center of the left-right spectrum in order to get a voter majority. Debates on a *dualization* and the orientation of social democracy toward (labor market) *insiders* are concerned with the same trend (Rueda 2005). In practice, 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). When social democratic parties move to the center of the left-right spectrum to be closer to the median voter position, redistribution declines (Pontusson and Rueda 2010).

Contributions to cross-class coalitions came also from *institutionalist* comparative welfare state research. One branch underlines the incentives for coalitions of lower and middle classes, set by the social policy design: A marginal type of public policy directing minimum security selectively at the poor divides between beneficiaries and financers of benefits. By contrast, 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 create inclusive risk pools. Benefit levels aiming to secure the former living standard foster middle class support² that promotes “redistributive coalitions” between lower and middle class (Korpi and Palme 1998; Brooks and Manza 2006; Palme 2006).

Another institutionalist approach departs from the incentives electoral systems set for median or middle class voters to prefer coalitions either with the poor or the affluent. In countries with *proportional* representation the rule of absolute majority requires at least 50 percent of the votes. Usually, parties don’t get that many votes and government coalitions have to be negotiated. But the middle class voter can be sure to be represented in political decisions since representatives enter parliament according to the vote share of parties and government will also include the political demands of the median voter. In such a situation, the middle class prefers a coalition with the left to push through policies at the expense of the upper class. In countries with a *majoritarian election system*, a left coalition would be risky to the middle class voter. Since the party with a simple majority gets the right to govern, these countries usually

2 Despite lapses of focus on the needy, universal social insurance achieved a more equality than countries with targeted social programs for the poor (Korpi/Palme 1998).

offer just two competing parties. These offer to the electorate a middle-left or a middle-conservative platform. 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 skew collective goods toward the bottom. In a majoritarian system, the middle class will prefer to vote for parties with a middle-right platform in order to avoid being exploited itself. Countries with Christian-democratic, class-spanning organized parties, however, do not fit into this categorization.

Income Inequality – A Basis of Social Affinities?

Recent research on redistribution relies anew on changing income structures and the thereby altered interest in income redistribution, as already the much disputed median voter model did. But now the argument is that similar “experiences” with the shifting income structures in the past decades engender similar political interests and also explain certain cross-class-coalitions. The income distances between the “haves and have-nots” are seen as the basis of political preferences and behavior (Osberg et al. 2004). Large income gaps between middle and upper class are assumed to diminish social expenditures since the rich distance themselves from financing collective goods they do not need and show an “empathy gulf” (Shapiro 2002: 119).

According to Lupu and Pontusson (2011) the relative positions of social groups in the income structure 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 social affinity/ political coalitions between these groups. A shrinking gap, according to the authors, makes the middle income tier, the decisive group for winning elections, support redistributive programs which also benefit the poor. A shrinking distance between middle and high income earners has a corresponding effect and facilitates social affinities with the upper stratum. Coalitions with center-right parties get more likely and make redistribution decline.

This comes down to a median voter model with a fresh vocabulary. In fact, it makes sense to take the shape of the income structure into account and not just overall inequality as measured by the Gini index, which is a too broad measure for analyzing distributive coalitions. Only more detailed measures can show³ whose income positions worsened or improved and what distributive self-interests emerge from these shifts. This is not to say that distributive interests are only driven by the income position, but just to carve out assumptions of

3 This article adopts quintile shares of total income, which are explained later.

the literature described above. Here affinity in terms of redistribution demand results from more similar income positions of the poor and the middle. That demand for public policies or certain egalitarian preferences is directed by experiences of material problems is plausible. Many studies confirmed the importance of the own occupational status and income position not only for what people expect from the social state but also for judgements of justice. Income positions are linked to certain social experiences, which engender certain preferences for public policies and distributive criteria (f.e. need as being more important as effort). Observing shifting income-positions is not done to claim that pocketbook-calculation takes place when social policy preferences shape. However, this rational (value-)interests are not the whole story: Also subjective factors like (wrongly) expected upward mobility, commitment to achievement values or an underestimated size of income inequality drive the political claims of people (Weakliem and Biggert 2013).

Research on redistributive demand anchored in this new “structure of inequality logic” (Tóth et al. 2014: 202) consequently takes into account that inequality rose because of huge gains at the top (Hacker/Pierson 2010). Changes in the upper-half inequality here is decisive for explaining redistribution demand. Using the World Top Income database, Guillaud and Zemmour (2014) find that a wide gap between middle and top incomes increases demand for redistribution, a result which is not in line with Lupu and Pontusson.

The closer inspection of the structures of inequality is a clear step forward, but findings are still mixed. In addition, the consequences of a shrinking gap between the middle and the lowest incomes can be interpreted quite differently: Small distances between middle and lower classes also may trigger social competition and fear of social decline. The middle refuses redistribution because the rising burden of higher taxes and social insurance contributions take away their resources for social distinction (Corneo and Grüner 2000; Shapiro 2002). Another view underscores the rather open position of the middle class (Kristov et al. 1992). It 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.

Hypotheses

A look at recent political economy literature dealing with redistribution reveals that, just as the classic median voter approach, it views changing income structures as the determinant of government redistribution. It is purported that due to its worsened income position, the politically influential middle class

develops distribution interests close to those of the lower social classes, which usually are politically weak, but now get “tailwind”.

However, first the question must be answered of whether in past decades the (income) distance between “middle” and “lower” strata actually developed in such a way that the distribution coalitions between both groups were encouraged. Secondly, it must be examined whether the social affinities assumed on the basis of income distances influence the scope of state redistribution. Current debates on a shrinking middle class suggest such a median voter situation: A worsening income position of the middle class might translate into an affinity to the poor and similar distributive interests.

Changes in the upper half of the distribution – the remarkable pulling away of top incomes (Hacker/Pierson 2010) – might affect the median voter and its distributive interests, too. The groups in the middle of society have ambivalent distribution interests and can also – depending on political institutions – tend toward coalitions with the affluent. Because of the open questions around the impact of shifting income structures, two hypothesis are tested:

H1a) When the distance between the first and the third quintile gets smaller redistribution will rise (affinity-hypothesis). H1b) When the distance between households with middle and high incomes gets larger, public redistribution of market incomes shrinks (empathy gulf-hypothesis).

The other stream in the political economy of redistribution looks at power resources of the left and the conditions under which social democratic parties get middle class support. It is important to analyze the transference of voter demand into party politics and political power, but this stream neglected changes within the political landscape, that is a social democracy which moved away from a worker basis while an industrial society gave rise to a post-industrial one. This can be linked to the “cross class coalitions”, a basic concept in power resource explanations of redistribution: Parties try to offer cross-class platforms to gain the votes of a broad part of the electorate. In this sense, not only Christian democratic parties seek compromises among broad electorate, but also left parties adopt this strategy.

H2a) The higher the influence of left parties in government, the more redistribution improves the income share of the poor. Since left parties may move their ideological position towards a moderate position to gain votes in the middle hypothesis 2b tests: 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 following hypothesis.

3a: Universal welfare states show more redistribution. 3b: Proportional electoral systems foster coalitions between low and middle class which expand tax and benefit programs improving the 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 VIII allow observing the period from 1980 to 2010. 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 105 observations for 18 countries, at 2 to 8 observations per country (see Table 1, appendix). The unavailable waves in an unbalanced panel are treated as missing data. These gaps are acceptable so long as missing data points are random. Countries enter with a different number of data points because of restricted availability and results of course are not independent of the country selection. But explanatory and control variables take into account various country-level features.

The degree of inequality within the income distribution is stated as the disproportionality between the share of a country’s total income a group receives and the size of a population group; this analysis uses 20 per cent of the population and the income share it gets is called a quintile share.⁵ A deviation of the income share from the group’s size expresses unequal distribution. Proceeding this way the position of single income groups within the income-distribution can be depicted by its quintile share, which is an appropriate measure to capture income structure and distances between groups.

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

The effect of government redistribution for each individual income group 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 enlarged or diminished the quintile's income shares. Redistribution can be positive (share gain) or negative (share loss). The dependent variable in multivariate analysis is redistribution 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 and 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 pension policies. A small private share would result in a great jump from little market private pensions and disposable income from public pensions.

Predictor Variables

A first set of explanatory variables are the income distances which are the basis for affinities and for political coalitions. The distance between the middle and the lowest income-group is captured by the ratio of the (market-)income shares received by Q3 and Q1 ($Q3/1$). The respective distance between middle and 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 parliament.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 median left-right position is intended to show their attempt to offer public policies that are attractive/ appealing to lower and middle classes. 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, both institutions setting incentives for "coalitions" between middle and lower classes is tested by dummy variables for countries with proportional

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

electoral systems (vs. majoritarian) and a dummy for the universal welfare state (Sweden, Norway, Finland and Denmark vs. targeted welfare states). Voter turnout (share of voters of those who had the right to vote in the last national elections) 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 The gross domestic product (per head, constant prices, constant purchasing power parities, US\$, reference year 2005) enters as a control variable.⁹

The impact of income distances 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. 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 affinities between the income groups and *redistribution coalitions*? Figures 1a and b

7 Voter turnout see www.idea.int/vt. Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960–2010 (ICTWSS), 3.0. http://www.uva-aias.net/uploaded_files/regular/ICTWSScodebook.pdf.

8 Source: data.oecd.org/unemp/unemployment-rate.htm and ILO <http://laborsta.ilo.org>. Called 26.3.15.

9 Source: stats.oecd.org/ 26.3.2015.

show the income shares of five quintiles for market and disposable income and their development between 1985 and 2010. The first *quintile* receives a share of between 3 per cent and 9 per cent of the total market income, clearly indicating a disproportionate distribution. This share of course varies between countries and over time. In the period under discussion, the market position of these low income households was still deteriorating, especially in countries where the initial share was higher such as in Germany, France or Norway.¹⁰ The institutional and political reasons for this need not be discussed here. What is more important in our context is how public redistribution improved the relative income position of the poorest households. Their share of the total disposable income rises to approx. 9–11 per cent in countries with a developed social state (e.g. DE, DK, SE), whereas in liberal countries with a marginal social state it only rises to approx. 7–8 per cent (UK, US) or to a bit higher level in Canada. 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.¹¹ Nevertheless, since the lowest income group (in terms of market income) gains and since its position eroded in the past years, this group should have an unambiguous interest in redistributive social policy.

The *middle* income group (Q₃) achieves a share of total market income that comes close to corresponding to its size (20%), and this share remains quite stable in most of the countries over time, except in the United Kingdom, the U.S. or Germany (see fig. 1a).¹² Probably educational and professional qualifications and regulated labor relations for the “insiders” in the decades under consideration ensured that the middle strata enjoyed a stable labor market and income position. Inversely, the deregulation of these mechanisms made the group’s share shrink. But the middle income households depend less on public redistribution than the poor, but rather prefer labor “*market conditioning*” (Kelly 2009). The quite stable market position of the middle income groups should give them little cause to make redistribution demands or to develop *social affinity* with the low income groups, when one argues in terms of the impact of (changing) income structures. Affinity would only be plausible

10 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).

11 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.

12 See also Iversen and Soskice (2009b) and Immervoll and Richardsen (2011: 14–15).

if the middle additionally expects negative labor market opportunities due to the economic crisis and fears social decline. Since the income positions of the middle and the poor did not come closer, also political coalitions are not likely just because of the income development (but may emerge because of other reasons). This picture is supported by the fact that the difference between market and disposable income shares in the case of the middle income groups Q3 and Q4 is small. From a “structure of inequality logic”, redistribution is not the important welfare state dimension for the middle income strata. Instead, social security is more decisive.

In terms of possible cross-class-coalitions the *heterogeneity* of the societal middle is revealing: Households from the lower middle income group (Q2) get on average (over all countries and waves) 12,4% of total market incomes, but the upper middle about 24% (Q2 not shown in figure 1a for reasons of legibility). Speaking about a homogeneous middle class and uniform coalitional interests is a simplification. Rather, the data show that the income shares of the respective adjacent groups developed along similar lines: The lower middle’s share of market income declined like the one of the poorest quintile, while the share of the upper middle was stable like the share of the third quintile (see Fig. 1b). Thus, social affinities and similar redistribution interests can be expected in both the affluent and the poor ends of society. Of course, how political mechanisms transform these interests derived from income structures require further analyses. At this point it has to be stated that the middle class cannot be treated as a homogeneous political actor.

The share of the market income, the top quintile receives, varies between 37,5% (Netherlands) and 44,2% (U.S., Ireland, Luxemburg). In most countries it increased between 1985 and 2010, except in Switzerland (fig. 1b). A comparison between the share of market and disposable income shows that the income share 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 therefore tends to opt against redistributive policies.¹³ This does not mean that other groups pay no contributions.

13 Dozens of studies confirmed that support for public redistribution declines with rising income and that a person’s own income is the most important predictor of redistribution preferences (e.g. Breznau 2010, Finseraas 2008, Svallfors 2004). But it should not be neglected that the affluent, too, are in favor of redistributive public policies since there are motives that may balance out the income disadvantage. The determinants of redistribution preferences should not be treated as one-dimensional.

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 taxes as well as contributions to social state programs, and social policy sharply reduced the disposable income of the rich, ultimately their welfare position improved. The richest households obviously had a good negotiating position in the labor market and also may have achieved gains by participating in financial markets. Both overcompensated for progressive taxation and contributions. Top incomes are not adequately represented by data, derived from survey information like the one from LIS. In surveys the really rich are typically underrepresented. Data based on tax records can give a better picture of the development of the very top incomes (e.g. Piketty 2014). Nevertheless, the 'take off' the wealthy enjoyed, is also captured with the LIS data.

In figure 2 merely public income redistribution and its change is considered by just showing the *difference* between market and disposable income and comparing the size of this difference in each income groups in 1985 and 2010. This draws a picture on the structures of redistribution and its change.



FIGURE 1A *Income shares in the lower half of the income distribution. Q2 not shown for readability.*



FIGURE 1B *Income shares in the upper half of the income distribution.*

Who gains, who is burdened and what especially is the middle class position? Redistribution most markedly improves the relative income position of the lowest quintile, while significantly reducing that of the highest quintile. This pattern is similar in each of the countries, but varies between single welfare regimes. The public policies in liberal countries redistribute the smallest amount to the poor, and reduce the income share of the affluent households in the fourth and fifth quintile least. The opposite is true in social-democratic Scandinavian countries. Over time the size of redistribution and its specific structure gets even more pronounced. Households in the lowest group receive more from income redistribution; the needs in that group rose due to unemployment and more 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 and transfers expanded over time). But in the case of the middle income groups the share of disposable income scarcely differs from the market income share (Milanovic 2000) and this picture does not change over time.

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

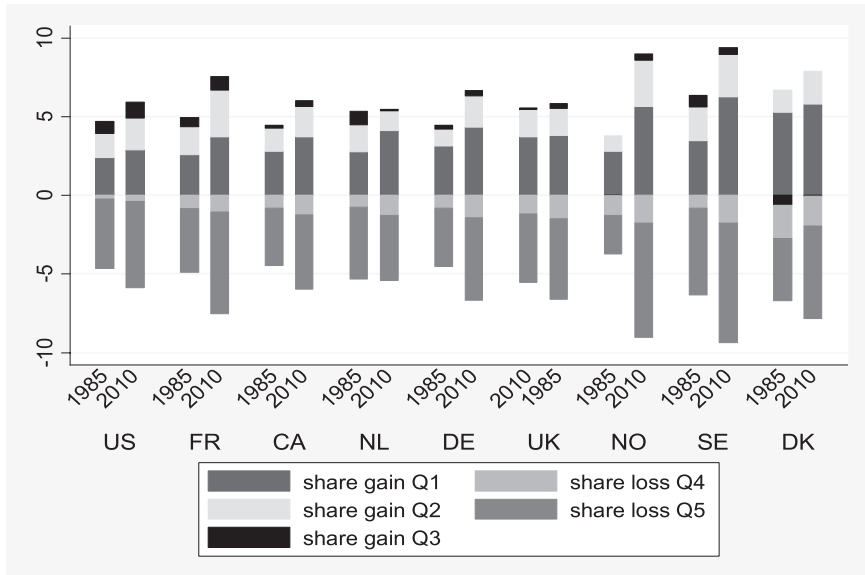


FIGURE 2 *Development of public redistribution.*

out (Ganghof and Genschel 2008). For households in the middle quintile the social state is a kind of ‘piggy bank’, for households in the lowest quintile public policies more function like a ‘Robin Hood’ (Barr 2001). The impression that middling incomes scarcely benefit by government redistribution also is encouraged by the standard method to calculate redistribution (Whiteford 2008), which is based on the difference between market and after tax and transfer income share. When a small or missing market income of the poor and the after tax and transfers income share is compared, an increase easily gets visible. But the “welfare effort” that stabilizes the middle incomes income shares is not adequately captured, even though ultimately more is spent on social security schemes for those in full and continuous employment than on reducing poverty.

Finally, the results on the position of the middle class within the redistribution structure underscores the open starting position of middle classes in contrast to other income classes with more clearly defined interests (the affluent wish less, the poor more redistribution). This flexibility points to further political processes that foster the emergence of certain cross-class coalitions (Iversen and Soskice 2006). The middle also can opt to go together with the affluent, and, as I argued, is the more plausible option for the upper middle class. Middle-left coalitions will emerge if social-democratic parties successfully balance out the interests of the groups in the middle with stable labor

market integration due to a skilled job with the redistributive interests of those in the first and second quintiles. This becomes increasingly possible the farther left the median voter and the social democracy is located (Pontusson and 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 market correction public policies. The notion of affinities between income groups interprets income structures as also subjectively relevant. A diminishing distance between middle and lower market income should foster similar political demands and finally make redistribution to those at the bottom rise. A negative coefficient is expected. The results in Table 1 (model 1) show a 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 descriptive results, this gap rose since the income shares of households at the bottom of the income ladder shrank. It is not a middle income group who's income share deteriorates and who now develops similar distributive claims as the poor and moreover transforms them into effectively more income redistribution. We don't know the social policy demand of middle income households directly, but a worsening of their position is not the trigger for higher redistribution to those at the bottom of the income scale as hypothesis 1a assumes. It is not affinity in terms of interests determined by income. Of course, affinity can result also from norms, altruistic motives or just insecurity regarding its own status security (Weakliem and Biggert 2013). But still another profane explanation for rising redistribution to the poorest households is plausible: Unemployment made expand the group of people with no market income, but exclusively transfer income. The existing social security programs work as they should. Without any change in generosity of programs redistribution rises, an effect also called *automatic compensation*.

The gap between the middle and the highest quintile (model 2) and its change over time is insignificant. The pulling away of the affluent by higher market incomes therefore does not affect how much redistribution shifts income to the poorest group. Hypothesis 1b thus is not confirmed. But in the case of hypothesis 1a the coefficient even indicates the opposite direction as what was predicted. It is not social affinity but growing social distances that

are associated with public interventions into the distribution generated by the (labor) market.¹⁴

The next model (3) includes indicators for political power resources. The left right position of governments, however, is insignificant; so redistribution to those in the poorest income group is not improved by more left governments, as assumed in hypothesis 2a. The “leftness” of social democratic parties, too, does not drive the scope of compensation for those with a poor market income position, a result also not confirming hypothesis 2b. Rather the importance of the left-right party ideology is drawn into question, which is completely congruent with the literature on party politics and social policy outcomes (Bradley et al. 2003; Castels and Obinger 2007; Kelly 2009). The lack of significant results in model 3 is plausible given debates on the shift of Social democratic parties to the center of the ideological spectrum, which finally blurs differences between right and left public policies, in this analysis of redistribution (Pontusson and Rueda 2008). Other authors explain the lacking effect of party ideology by referring to 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 and Rehm 2006).

Lupu and Pontusson (2011) interpret the irrelevance of leftist parties as evidence for their distance thesis, according to which all governments irrespective of any left-wing participation redistribute, if the income structures “hurt” the middle class voter. Other authors show that the party position on the left-right-scale only gets significance when voter turnout is high (Pontusson and Rueda 2008, 2010). In this literature, voter turnout is interpreted as an indicator of working class mobilization since lower participation is always associated with a smaller electoral participation of lower income groups. An interaction

14 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.

indicates whether the influence of left political parties depends on this mobilization of the less privileged voters. However, neither the single item “voter turnout”, nor its interaction (not reported in table 1) is significant. Union density, a measure for left political power and assertiveness of workers’ interests, is equally irrelevant and cannot explain the development of redistribution.

Now, OLS regressions add time invariant variables for institutional features of both the welfare state and the political system and include dummies for the waves (table 2, estimates for waves not shown). The analysis is restricted on institutional theories and does not repeat the four models (1–4) with both income structure variables (distance between middle and low and between

TABLE 1 *Fixed effects regressions on redistribution to the poor (Q1)*

	1	2	3	4
Distance Q3/1 market income	.594* (2.74)	–	.594* (2.52)	–
Distance Q5/3 market income	–	–.194 (.31)	–	–.180 (0.32)
Government position (> conservative)	–	–	.003 (0.84)	.002 (0.42)
Position left party (> more center)	–	–	.007+ (1.93)	.003 (0.44)
Voter turnout in %	–	–	–.013 (1.15)	–.033** (2.97)
Union density in %	–	–	.017 (1.25)	.015 (0.91)
Unemployment rate	.067 (1.65)	.122* (2.86)	.063 (1.61)	.115* (2.91)
GDP p.c. (in thousand)	.000 (0.86)	.066* (2.18)	.000 (0.83)	.067+ (1.97)
Constant	–.598 (.697)	–1.31 (1.12)	.896 (1.01)	3.22 (1.72)
R Square (within) in %	49.5	26.4	52.1	31.2
N	104	104	104	104

Notes: T-statistics in brackets; only for the constants the standard error is given in brackets;
Significance: *** < .001, ** < .01, * < .05, + < .10. Analysis with robust standard errors.

middle and high incomes). Moreover, it has to be mentioned that I refrain from testing full models with all the variables since many country features are interconnected (f.e. union density and voter turnout) and the problem of multicollinearity would appear. Therefore the strategy rather is to check if the estimates of institutional variables are stable in the presence of control variables which enter well known, interconnected country features.

TABLE 2 *OLS Regressions on redistribution to the poor*

	1	2	3	4
Distance Q3/1	.635***	.580***	1.05***	.942***
market income	(3.79)	(4.44)	(5.75)	(5.72)
Universal welfare	1.44***	.180	–	–
state (dummy)	(7.03)	(0.55)		
Union density in %	–	.030***	–	–
		(3.95)		
Proportional election	–	–	.976***	.697***
system (dummy)			(5.98)	(4.40)
Government position	–	–	–	–.005
(> conservative)				(1.03)
Voter turnout in %	–	–	–	.026***
				(6.09)
Unemployment rate	.066 ⁺	.057 ⁺	.012	.020
	(1.74)	(1.69)	(0.31)	(0.52)
GDP p.c.	.008	.061	.004	–.005
(in thousand)	(0.67)	(0.60)	(0.41)	(0.42)
Constant	.087	–.681	–.838	–2.24***
	(.560)	(.528)	(.634)	(.587)
R Square (between)	64,7%	70,4%	57,3%	77,1%
N	104	104	104	104

Notes: T-statistics in brackets; except constant (here standard error).

Significance: *** < .001, ** < .01, * < .05. Analysis with robust standard errors. All models contain dummies for waves, reference is wave 1. Redistribution is the share gain of the bottom quintile Q1 when comparing market and disposable income share of that income group.

In the cross-sectional context the positive effect of the income distance between middle and lowest quintile in terms of market incomes ($Q_3/1$) is repeated, but even stronger than in the previous table: The larger the gap between the poor and the middle class the more strongly governments resort to redistribution.¹⁵ When the dummy grouping *universalistic welfare states is entered* (model 1) it achieves a highly-significant and comparatively strong positive estimate, which in the first instance underlines the assumed effect of a certain design of welfare institutions, as in the Scandinavian countries, which triggers cross-class coalitions between the poor and middle class households. But it disappears in the presence of union density (model 2).¹⁶ It is therefore apparently not the incentive for distribution coalitions between the lower and middle class in this type of social state that promotes the redistribution of income downwards as purported by hypothesis 3a but in actuality the political power of unions. The feed-back-effects of a certain institutional design (Rothstein 1998), much debated in literature, rather are a matter of political economy.

The proportional election system (model 3, reference majoritarian system) also yields a highly significant positive effect which shrinks only slightly after controlling for further moderating political variables (model 4). The government left-right position is insignificant, but voter turnout is a powerful explanation: The higher it is, the more the income share of the poorest quintile is improved by public policies. A higher voter turnout is known to indicate more electoral participation of the lower income groups, which actually seems to translate into influence on public policies. Thus, hypothesis 3b is confirmed: lower class members more easily obtain some redress for market inequalities in the presence of a proportional electoral system. Besides this institutional effect, the high participation in elections gives the lower income strata more political influence and makes politicians respond.

5 Discussion and Outlook

In the presence of rising market income inequalities in many OECD countries and given that these countries are democracies where the citizens resp. voters

15 Just a note on the income distances between middle and top income households, not mentioned in the table for those who ask, how this income structure feature looks like in a cross-sectional context. Here, it gets a highly significant and negative coefficient (-2.45). In conclusion, countries with a wide dispersion in the upper half of the distribution offer less redistributive policies. The greater the advantages enjoyed by the topmost income stratum the less trickles down to the bottom.

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

could induce governments to correct those market inequalities which go beyond an accepted level, an adjacent question is, whether governments actually are pushed by voters to mitigate rising disparities by means of income redistribution. As the article has shown, different explanations of government redistribution all state that government redistribution does not react to political demand of the poor only, but political coalitions with the election winning median voter in the middle of society are necessary. A main question in past and present literature on redistribution therefore is how these *redistributive coalitions* emerge. To the classical median voter approach, middle class interest in redistributive policy increases when rising inequality reach the middle classes. Recent studies again conceive the changing income structure as the driver of political demand especially of the influential middle class. An *affinity* between poor and middle income layers emerged due to a worsening of the middle income positions, which public debates labeled as an “erosion of the middle class”. The article reconstructed the new attention for changing income structures and the consequences that social scientists draw in terms of similar political demands of these income groups. Also the “pulling away of the rich” is connected to public policy attitudes of the rich, namely an emerging “empathy gulf”.

The present analysis has confronted these assumptions on the impact of changing income structures with evidence of the empirical development of market income and public redistribution between 1980 and 2010 in 18 countries. Of course, voter preferences can't be deduced from the income position. Neither are the people's perceptions of income inequality or of the advantages of government programs to the own pocket book well informed or without subjective biases due to cultural categories of deservingness or justice. Nor does voter demand directly translate into public policies. However, as a test of the recent trend in political economy analysis of redistribution and voter demand exactly this link between income structural shifts and cross-class coalitions in terms of similar political preferences is drawn. Therefore, a closer analysis of income structures already can clarify if actual distribution patterns can be a basis for an affinity between the poor and the middle income groups, which makes them act as a political coalition.

Did the middle income groups actually lose ground? As the results show in fact the income position of the lowest income group deteriorated, and its share of total market income shrank over time. By contrast, the market income share of the middle was stable and the share of the topmost group even grew in most of the countries. Government downward redistribution expanded, and mitigated the growing gap between low and higher incomes. This 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 because of an affinity resulting from similar negative experiences with a worsening income position seem unlikely, in the first instance. But if the middle class is differentiated, potential redistributive coalitions become visible, even if just drawing on income-structures for the moment. Households in the lower middle and lowest income quintile should 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. But the “middle middle” because of its stable income position indeed is kind of undecided in terms of which coalition is best, up or down. It is well known, that the political leanings of the middle class are heterogeneous (Brooks/Manza 1997). The differentiated measure of the income distribution by quintile shares my analysis applied, also underscores the necessity not to treat the middle class as one entity.

The multivariate analyses (fixed effects regression) of the impact of changing income structures showed a weak, but significant impact of the changing income structures. A widening distance between lower and middle incomes (the descriptive analysis made clear that this gap is caused by the shrinking market income share the lower incomes accrue) is connected to increasing redistribution. Also cross-sectional OLS-regressions found a positive and even strong effect. However, the *social affinity* hypothesis claimed a negative relationship: Smaller income distances would result in more redistribution because of a middle class with now more and more similar political preferences. My results don't confirm this view. Redistribution rose despite a stable middle class position. Various reasons may be responsible: the *automatic compensation* effect, fear of the middle layer of social decline, and other driving forces as altruism of the politically powerful middle or independent decisions of political actors. The growing gap between the affluent and the middle income groups resulting in an *empathy gulf* is highly significant and has a strong negative effect just a cross-sectional context, not in the longitudinal analysis. The remarkable pulling away of the rich, which my data but also other social scientists testify, is connected to less redistribution in certain institutional contexts. It is close to that this effect is caused by liberal welfare regimes.

The results on the political and institutional predictors of redistribution, political economy approaches bring into play as the factors mediating between voter preferences and final redistributive programs, are mixed. “Left power resources” are important, but different from the assumptions, neither left leaning governments nor an ideological left stance of social democratic parties had any impact. *Voter turnout* proved to be an important predictor with a remarkable positive effect on redistribution to households with small market incomes (but only in cross-sectional analyses, overtime changes don’t matter). A low voter turnout always means a social selection of the political interests of those in lower social strata. Similarly, *proportional electoral* systems are connected to more redistribution, since they give lower income groups and their political representatives an easier access to political legislative, whereas the majority voting system marginalizes the interests of the lower stratum of society (f.e. APSA Task Force 2004; Iversen and Soskice 2009).

Another widely discussed institutional feature of a political system, the universal welfare regime, according to my results must to be treated with caution. The positive and strong estimate disappears in the presence of union density. Obviously, the impact of the institutional design is not independent, but highly overlapping with union-strength, which points to collinearity between this predictors.

That redistribution to the poor rose without a middle class whose market income position declined seems to require a “Robin Hood”-like middle-class voter. The middle must be in favor of the distributive interests of the poor. This is probable when changing places with the poor is more probable than changing places with high income earners. The heterogeneity of the middle classes, the article elaborated, is one step in the direction of an adequate understanding of “redistribution coalitions”. Further analyses are necessary to prove that social affinity is a sustainable model and that the latent similarities transform into political behavior into formal cross-class coalitions in politics.

Further research on the link between changing income structure and redistributive public policies should not only scrutinize preferences, but also their political transformations: a) Governments not necessarily respond to voter demand (Bartels 2006). For this, selective effects of the political process need to be investigated. b) The median voter model promotes the power of majorities. But political power works different. Certain groups possess *veto power* and can override a majority. Also small groups can have political influence due to the competition of parties for votes. Or small, but well-organized and economically powerful groups may drive the scope of governmental redistribution (Hacker and Pierson 2010). In both fields research is still scarce.

Appendix

TABLE A1 *Descriptive statistic – social distances and redistribution*

Countries (# waves)	Ratio Q3/1 market income		Ratio Q5/3 market income		Redistribution (market-disp. Inc.)	
	Min.	Max.	Min.	Max.	Min.	Max.
AU (8)*	2.94	4.11	2.10	2.49	3.0	4.39
BE (2)	2.42	5.14	1.93	2.19	3.88	6.42
CA (8)	2.87	3.86	2.09	2.50	2.41	3.67
CH (5)	2.0	2.46	1.95	2.43	1.10	2.08
DE (8)	2.01	3.97	1.96	2.53	2.01	4.73
DK (7)	4.12	5.54	1.87	2.05	5.52	7.20
ES (2)	3.33	4.03	2.35	2.48	2.65	2.87
FI (7)	3.33	3.85	2.17	2.45	4.41	6.44
FR (6)	2.61	7.03	2.32	2.69	2.58	4.7
IE (3)	3.45	4.63	2.51	2.72	3.87	5.80
IT (3)	3.56	4.10	2.31	2.58	2.90	3.57
LU (3)	3.15	3.92	2.59	2.87	3.49	5.31
NL (8)	2.04	3.60	2.00	2.17	2.76	4.35
NO (8)*	2.27	5.92	1.86	2.28	2.79	5.62
PL (5)	2.82	3.76	2.54	2.91	2.95	3.92
SE (6)*	2.93	4.20	1.94	2.25	2.60	6.23
UK (8)	2.60	5.10	2.02	2.63	2.97	4.22
US (8)	3.30	3.95	2.31	2.86	2.17	2.87

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

* The datasets for Norway 2007 and 2010, Sweden 1981, Austria 1987 and 1995 don't contain the variable with information on private transfers. Market income was calculated only based on factor income, without private transfers. This will result in lower market income shares of Q1, since especially poor households receive this type of transfers.

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