

# **The future of the welfare state: paths of social policy innovation between constraints and opportunities**

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## **Increasing income inequalities and public support for redistribution**

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## **Increasing income inequalities - and public support for redistribution?**

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## ***Abstract***

Rising levels of income inequality in almost all industrialised countries due to globalisation and de-industrialisation make one assume, that voters will demand more redistribution and influence their governments to set up redistributive programs. However, this is not always the case. Citizens don't react directly to actual levels of inequality as research on the attitudes towards inequality and redistribution has shown. In this paper the complex relation is analysed using cross-national variation of inequality and public support for redistribution. The paper draws on explanations both from political economy and institutional approaches in political sociology. While the former conceives cross-national variations in support for redistribution as the aggregate effect of a demand of rational actors reacting to country context, the latter assumes culture's institutional impact, which superimposes self-interest. The empirical analysis tests the explanations of political economy and welfare regimes approach. Since the paper focuses on the impact of context variables on individual attitudes, a multilevel analysis is adopted. Data are taken from the 1999 'International Social Survey Program' and are complemented by macro-economic variables. Based on the results a model of contingent redistribution preferences is put forward: At the country level, they are contingent on the economic situation, at the individual level redistribution demands are contingent on the perceived fairness of the own wage.

## **1 Introduction**

There is widespread consensus that welfare state redistribution has helped to cushion the growing inequality of individual market incomes which have emerged in advanced industrialized countries since the 1980s. However, the degree to which market inequality has been leveled out varies between countries. Literature has explained cross-national variation in redistribution by the strength of unions, for example; more recent research has discovered the importance of citizens' support for public redistribution. Against the background of the 'politics of retrenchment' approach (Piersons 1996), which highlights the self-interest of politicians in re-election, the citizens' acceptance of redistribution became a recognized explanation for the generosity of social policies (Brooks/Manza 2006). Yet the question remains, what shapes the public support for redistribution, which calls for a sacrifice from 'the winners in the great lottery of the market, to reduce the distance between them and the losers' (Streeck 2000: 136)?

Support for a correction of market inequality can be explained at both the individual and the country level. This study focuses on *cross-national variation* in the acceptance of government redistribution. Here, approaches from political economy refer to the selfish individual, whose redistribution preferences are a rational choice for a degree of redistribution favorable to the individual. Hence, the positive link between actual inequality of income and demands for redistribution often assumed in political economy was rejected. Instead of a reaction to the inequality fostering a 'demand' for redistribution, institutionalistic approaches referred to welfare or production regimes as the forces that shape the level of public support for redistribution. To some, regimes are cultural mediators; to others, the labor market and social policy institutions channel their own self-interest. This is the theoretical field within which this contribution is located. It will show that context factors important within political economy approaches cannot be discounted if we want to understand cross-national variation of redistribution preferences. However, the relevance of regimes bringing cultural definitions of equality and justice into play also cannot be dismissed. Drawing upon our own data-analysis, we want to direct attention to an adaptation of social policy ideals to contexts. In particular, a country's economic affluence triggers a shift towards less public support for income redistribution.

At the level of the explanation of individual variation, a similar contingent support for redistribution is put forward. It will be shown that besides the 'usual suspects' such as gender, income, and education, the perceived fairness of one's own wage drives demand for public

redistribution. Subjectively unjust wages foster a shift towards claims for public redistribution.

Further, this article underlines the need for research on redistribution preferences to pay attention to a certain ambiguity of the standard measurement of redistribution preferences in representative international surveys ('It is the responsibility of the government to reduce the differences in income between people with high income and those with low income'): Respondents can refer to their own ideals about public redistribution or give a 'realistic' assessment, taking conditions such as inequality or high taxes into account. In order to make the measure more one-dimensional, the support for *further* income redistribution, and hence the realistic understanding will be explained (details chap. 3).

In the following a multilevel regression is adopted, since country characteristics and individual variables are analyzed at the same time. The data base referred to is the 1999 'International Social Survey Program' with the topic of 'Social Inequality', to which macro-economic variables from public data sources are added. The essay starts with a survey of previous research into the acceptance of state redistribution (chapter 2). First research assuming a direct link between inequality and cross-national differences in redistribution preferences is scrutinized (2.1), followed by institutional approaches like welfare regime theory and asset-theory of social policy preferences (2.2). Subsequently, the influence of the economic situation (2.3) and the role of individual factors (chapter 2.4) are discussed. Chapter 3 presents the method, data base, and indicators in the empirical analysis. The results (chapter 4) show that regime and political economy approaches cannot be opposed. Chapter 5 concludes.

## **2. Explaining cross-national and individual variation**

### **2.1 Inequality and demand for redistribution**

Political economy interprets social policy preferences as a reaction to objective conditions or problems like unemployment or poverty that make people accept these social policy programs. This model of a 'reaction' to given facts also is the basic assumption when it comes to attitudes towards redistribution. The actual national income inequality is conceived as objective fact, to which people react: The higher the income inequality in a country, the higher the demand for redistribution, and vice versa. This positive relation between income inequality and public support for redistribution gets a theoretical foundation in the *median voter hypothesis* of Meltzer and Richard (1981). As the authors argue, in democracies the position of individuals with a median income in the national income distribution is decisive

for the level of redistribution demands, since this group can impose their political demands through electoral majority. The greater the (pretax) income inequality is, the more the median voter expects to gain from income redistribution, because progressive taxation usually used to finance redistribution burdens those with higher incomes. Conversely, as income distribution becomes more equal (as a result of demands for income redistribution), redistribution becomes less desirable to median voters, because of the growing risk that they have to finance redistributive policies themselves. Self-interest in income redistribution dwindles. Thus, the first hypothesis is:

*H 1: The lower the prevailing income inequality in a country, the lower the support for redistribution. Conversely, the greater the prevailing inequality, the higher is the support for income redistribution.*

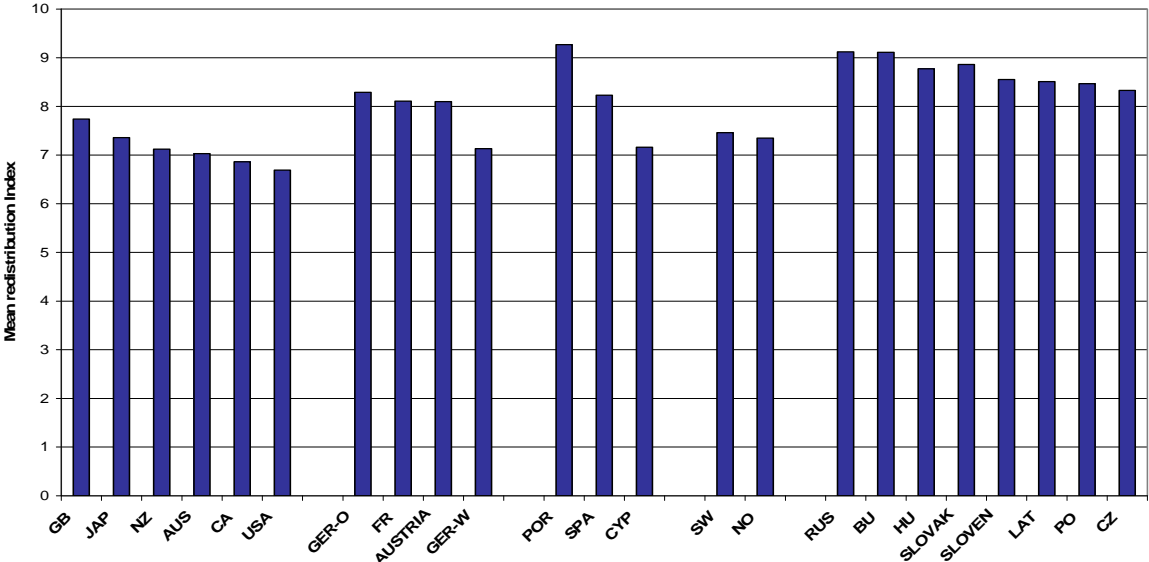
However, this model of a 'demand' for redistribution directly resulting from actual inequality is contested. With regard to empirical data, the assumed positive linear relation between the degree of income inequality and the demands for redistribution can quite easily be refuted. In the United States and other liberal countries high income inequality does notably not result in high support for redistribution (see figure 1; Kangas 2003; Kenworthy/Pontusson 2005; Soskice 2005). Other authors argue that public social policy preferences do not just respond to objective inequality but are mediated by 'redistributive ethics' (Bowles/Gintis 2000) or social justice concepts. Because of them identical levels of income inequality are differentially valued which leads to different requests for redistribution (Lübker 2004, 2007). Lübker showed that the Gini-index alone has no significant impact on how citizens evaluate inequality and income redistribution. The level of inequality only has a significant effect when groups of countries with different socio-political cultures (regimes) are taken into account. However, his study did not control further national characteristics plausibly influencing redistribution preferences. So the result that institutionalized social policy ideals actually cause cross-national differences is not secure.

Although a direct link between inequality and distribution preferences was much criticized, results confirming some influence of actual inequality on individual redistribution demands must be acknowledged. In countries with relatively little income inequality lower support for redistribution is found (Roller 1995). Here, to opt for a higher income redistribution is less desirable, because a low level of income inequality is hardly an incentive for additional redistributive programs. A study based only on European countries partly confirmed the influence of actual income inequality (Finseraas 2006). Other comparative studies into the

link between the growing inequality of households' pretax gross market incomes and the actual redistribution of welfare states also found that the median voter hypothesis is not completely false: the greater the increase in market income inequality, the greater the increase in welfare state redistribution (Kenworthy/Pontusson 2005), mediated by the degree of voter turnout as the path by which the preferences for redistribution come into play. Analyzing the relation between changes in actual inequality and perceptions of inequality over time, Kenworthy and McCall (2007) established an influence of objective inequality at least for *some* countries. All in all there seems to be some influence of the degree of inequality, but not necessarily a growing awareness of it.

Furthermore, the effect of inequality must not be linear. It seems plausible that a high level of public income redistribution and equality a satiation sets in. Therefore, the Gini-index should be modeled by a quadratic instead of a linear relation in the regression. The results discussed above also suggest that ethical values and ideological factors – like liberalism in the US or socialism in post-socialist countries – shape the degree of support for state redistribution that aims at more equality. Explanations adopting ideological factors figure in 'institutionalist' approaches.

Figure 1: Support for redistribution by countries, grouped into welfare regimes.



Source: ISSP 1999, own calculation based on the redistribution index.

## 2.2 Institutional approaches

Faced with the difficulties of explaining the variations in redistribution preferences as an effect of actual inequality, institutional approaches received much attention. Both the welfare regime and the production regime approach argue that institutions mediate the social policy and redistribution preferences of the people.

The adaption of Esping-Andersens (1990) welfare regime approach within public opinion research on the one hand assumes, that the interests of different cleavage-groups shape, whose redistribution preferences dominate, on the other hand conceive the regime impact as one of differing socio-political ideals. Regimes are bundles comprising specific social political institutions and programs, dominant societal powers and coalitions in politics as well as certain socio-political ideals. Thus, liberal regimes intervene only minimally in market processes and stress individual responsibility in securing income. In conservative regimes, the Catholic social doctrine and Christian Democracy dominate the welfare state. State responsibility for individual welfare is greater than in liberal regimes, but equity is stressed and employment related social insurances mainly aim at security. Social-democratic regimes emerged under the influence of left labor parties, in coalition with other social groups with a stake in universal social rights and a corresponding egalitarian social policy ideology. The regime typology was broadened to include Mediterranean and transition countries. The impact of the Mediterranean regime on preferences for redistribution is anticipated to be similar to that of the conservative regime type. The transformation countries since their independence from the Soviet Union, developed heterogeneous social security institutions, and hardly can be grouped as post-socialist (Aidukaite 2006; Offe/Fuchs 2008). Hence, the subjective notions about equality or state responsibility are quite similar among Central and Eastern European citizens, which justifies to treat them as one cluster (Kluegel/Myano 1995, Delhey 1998).

Regimes are supposed to have a formative effect on citizens' preferences (Gelissen 2002, Mau 2004) because they embody specific ideas, which 'promote different ways of valuing market distribution and the redistributive responsibilities of government.' (Svallfors 1997: 286). They influence solidarity (Arts/Gelissen 2001). This is how Scandinavian welfare states create their broad based internal support, as their social policy institutions manifest collective responsibility for their citizens' welfare. Welfare state institutions limit political action, institutionalize social exchange relationships between citizens and have a norm- and preference-setting function. (Rothstein 1998; Mau 2004). Following the regime approach, the hypothesis is:

*H 2: The level of support for redistribution in the countries belonging to the same regime type should be similar. Moreover, the following ranking can be anticipated: Citizens of countries with liberal regimes support redistribution the least. In transition countries the demand is the highest, due to the persisting socialist ideology. This is closely followed by countries with social-democratic governments, whereas opinions of those living in conservative and Mediterranean regimes exhibit average redistribution preferences.=*

However, evidence could hardly be found for the existence of regime-specific 'cleavages'. Instead, support for state redistribution is structured by cleavages according to gender, class and benefit dependency in equal measure in *all* countries (Svallfors 1997: 295, Taylor-Gooby 2001; Linos/West 2003, Meier Jaeger 2006b; Blekesaune 2007). Although a study limited to Germany, Norway and the US confirmed the anticipated regime-specific tolerance for redistribution (Andreß/Heien 2001), yet the low number of cases in that study does not permit any generalizations. According to other results, in social-democratic regimes the level of support for redistribution is relatively low, especially in contrast to Mediterranean states such as Spain or Portugal, where the level of support for redistribution is high (Svallfors 1997; Gelissen 2002). This appears to be plausible, given the potential for additional income redistribution in these '*immature*' welfare states in contrast to the former regimes, where a *mature* welfare state curbs further redistribution demands. Also the ISSP data show that support for income redistribution does not always follow regime types (see figure 1), because variations between countries within one specific regime emerge or countries of different regime types have a rather similar support level, as in the case for Germany, Sweden and Norway, where support for further redistribution are almost as low as in liberal countries. For sure, this similarity is superficial for the respondent's ratings have a different background in social democratic countries. Hence, the assumption of a *formative effect* of regimes on peoples' redistribution demands has to concede adaption processes to context factors like income equality in a country.

It has to be criticized that most research referring to the regime approach equates country and regime. To avoid this, Meier Jaeger (2006a) applied indicators for social policies, that characterize regimes instead of the regime-type itself. It was assumed that high values in indicators like for example, the wage replacement rate or the weight given to social services are positively correlated with generous support for state redistribution. However, high social expenditures for cash transfers, a high wage-replacement level and generous benefit payments to families were negatively related to support for redistribution.<sup>1</sup> This underlines that in developed welfare states, there is less scope for *further* redistribution, since measures have

already been implemented. The international differences in preferences regarding income redistribution can hardly be ascribed to regimes alone without incorporating the degree of equality or the size of welfare state expenses and, more generally, the impact of other country characteristics. Hence, one cannot dispense with an influence of collective social policy ideals. After all liberal regimes convincingly demonstrate that the ‘rational reaction’ to high inequality is missing and that instead a liberal ideology influences popular equality perceptions (Blekesaune 2007).

The asset theory which was developed within the ‘varieties of capitalism’ framework provides another institutional explanation to redistribution preference, that do not just reflect actual income inequalities (Iversen/Soskice 2001). The international variation in public preferences for social expenditures is assumed to stem from different between product market regimes. In liberal market economies (LMEs), where production of basic products and services dominates and labor market-regulation is weak, many employees do not invest much in education but instead acquire general qualifications easily transferable to other jobs. Because unemployment poses only a small risk, the demand for generous welfare state security is low. In coordinated market economies (CMEs), the production of technologically advanced goods is predominant with employees being highly qualified according to the specific needs of firms and industries (Hall/Soskice 2001: 51). If this workforce becomes unemployed, the employees risk losing the investment they made into specific skills and, therefore, demand higher wage replacement, more generous social security and higher social expenditure. The *asset theory* is promising because also labor market structures are included into the explanation of welfare state preferences, however it focuses exclusively at those in workforce and distinguishes only two country types. The classification of countries according to the asset theory mainly replicates the distinction between liberal and European countries, thus providing less differentiation. So regressions with a production regime dummy just repeats that redistribution demands in LMEs are lower, but less variance is explained then by adopting the welfare regime approach. Also the figure in the appendix (A1) for the redistribution preferences by production regimes does not provide coherent clusters.

### 2.3 The impact of the economic situation

Obviously, cross-national variation in the citizen’s demands for redistribution also can be explained by the economic situation. Looked at more closely this impact may work in two directions. On the one hand, the general public's support for redistribution programs can be reduced, when people experience a worsening of a country’s economic fortunes and a decline

in real wages. The share of income that individuals have to provide to the welfare state increases in times of a weak economic development and may foster a 'tax fatigue barrier'. Workers with a certain job security oppose higher taxes and contributions in times of slow or zero growth, because they want a compensation for forgone income gains (Shivo/Uusitalo 1995; Andreß et al. 2001: 50f.; Pontusson 2005: 197). Conversely, in times of economic prosperity tolerance for redistribution can grow, as wage increments compensate for the burden of funding social welfare payments.

On the other hand also an inverse relationship between economic prosperity and demand for redistribution is plausible. In the case of economic prosperity, the support for income redistribution should fall, because now people need less government protection (Blekesaune 2007; Haller/Höllinger/Raubal 1990: 35-37). Economic prosperity usually reduces unemployment and, in general, makes the income level rise.<sup>2</sup> Public redistribution by the welfare state now seems less desirable, because labor market participation promises to solve problems. Equally in times of an overall economic downturn, the support for redistribution grows as then the need for intervention by the welfare state is acknowledged due to rising unemployment and poverty. This negative link between the economic situation and demands for redistribution is described as the 'governmental protection hypothesis' (Blekesaune 2007).

*H 3: The better the economic situation of a country is, the lower the level of assent to redistribution.*

The link between claims for state redistribution and economic development may rather reflect the effect of unemployment<sup>3</sup> occurring within short term business cycles. This can easily be checked by including the unemployment rate in the regression. Then unemployment stands for business cycles, whereas GDP/p.c. measures the general economic situation, which also means a certain *level* of affluence. As will be put forward, the government protection needs are a consequence of the general economic situation and of unemployment as well.

#### 2.4 Variation among individuals: Self-interests and norms of justice

Most studies consider both self-interest and social values, when trying to explain the demand for equality and redistribution at the individual level (Taylor-Gooby 1985, Meier-Jaeger 2006). Political economy conceives the extent of support for welfare state redistribution as driven by individual self-interest. People interested in redistribution are those directly dependent on state welfare benefits and those expecting to gain from redistribution because of low income or high risk of unemployment. Empirical evidence confirms the view that those

who advocate redistribution are usually workers with poor qualifications, with high labor market risks and those with a low income or benefit recipients (Svallfors 1997, Corneo/Gruner 2002). Furthermore, being female was discussed as a reason for a self-interest in a generous safety net provided by the welfare state, as women face higher social risks in the labor market and within marriage.

*H 4: The higher the individual dependency on welfare transfers — due to low education, income and being female — the higher the support for redistribution.*

Research on social policy attitudes has also assessed the role of *cultural* ideas (Roller 1995, Andreß/Heien 2001, van Oorschot 2000). It is argued that redistribution attitudes not just express self interests, but rather are expressions of ideas, or belief systems (Blekesaune/Quadagno 2003; Linos/West 2003). Also a neo-institutionalist perspective emphasizes values, because, in its view, welfare state institutions are related to informal institutions like cultural ideas. Judgments about the welfare state are thus made against the backdrop of norms of fairness and solidarity (Offe 1987, Rothstein 1998, Mau 2002 and 2004). Empirical results confirm that beliefs about egalitarianism (Blekesaune/Quadagno 2003), social advancement (Linus/West 2003), the causes of poverty (Fong 2001) or political ideologies (Meier Jaeger 2006a) are influential. This text however avoids such attitudes as independent predictors, and instead incorporates whether people perceive their own income as unjust. As research has shown, the feeling to receive unjust payment depends not only on cultural standards, but also has the consequence that the workers' performance gets worse (Fong/Bowles/Gintis 2006; Liebig/Schupp 2007). Pursuing this thought further, we assume a compensation relation regarding demands for redistribution. If individuals perceive their wages as unjust, they will support public income redistribution as a compensation for unjust market income. Therefore:

*H 5: The more intense an individual's feeling about receiving an unjust wage, the more he/she will prefer state redistribution.*

### **3 Operationalization and data**

As a measure for the approval of income redistribution, the dependent variable is a sum index of two items from the 1999 International Social Survey Program, in which interviewees rated their approval or rejection of the following statement on a five-step scale: 'Differences in income in [this country] are too large.' 'It is the responsibility of the government to reduce the differences in income between people with high income and those with low income.' By combining the ratings about inequality and towards a state reduction of income inequality, the

sum index measures not so much the respondents' *ideals* about redistribution but their judgments on the backdrop of actual inequality. This avoids the ambivalence of the single item on public redistribution. Respondents can give their general view on state responsibilities to create a certain equality or judge on the backdrop of the actual inequalities.<sup>4</sup> By a sum index now preferences for state redistribution are clearly related to the perceived inequality. Thus the sum index avoids the ambivalence, whether the ideal or the realistic attitude towards state redistribution is measured.<sup>5</sup> The sum index also statistically is appropriate, because both items aim at one dimension proven by the high correlation between both items (Pearsons  $r=0.52$ ) and a reliable value of Cronbach's alpha (0.701). Factor analysis showed one factor for each country.<sup>6</sup> Only in the liberal countries the link between perceived inequality and preferences for state-action is weaker (see table A1).

In the present article a multilevel procedure is used, because this method is equipped to comparative research and its focus on the impact of societal characteristics on individuals. Multilevel procedures can handle country and individual level predictor variables at the same time. Cross-level effects and random slopes further allow to model the interconnection between the individual and the country level. Multilevel regressions are suited to the hierarchical data structure, meaning that the data of individuals are 'nested' in single countries. In an OLS regression this would create a standard error that is much too small, because the sample for context variables is smaller than the number of individual cases. Furthermore, a multilevel regression facilitates an assessment of the contribution of the different levels explaining the demand for equality (Rabe-Hesketh/Skrondal 2005; Hans 2006). The estimates reported later are based both on Random Intercept (RI) and Random Slope (RS) Models. In the RI model, it is assumed that the regression constants of different countries vary around a mean. In the RS model, it is assumed that the slope of one (or more) predictor varies randomly between countries, because the influence of a dependent variable can be different in different countries. In this analysis a varying slope of household income was introduced, which is explained by a cross-level effect between household income and the regime, a respondent lives in. The underlying idea is that the eastern countries in transformation constitute a context that makes household income - one of the most important individual predictor variable - less important.

Those countries from the ISSP survey were included to which the welfare regime approach can be usefully applied. The clustering of welfare regimes corresponds to the conventions of research previously done in comparative welfare regime analysis. Accordingly, Sweden and Norway belong to the social-democratic regime type, France, Austria and Germany to the

conservative one. Great Britain, the United States, Canada, Australia and New Zealand are grouped as liberal regimes, whereas Spain, Cyprus and Portugal count as Mediterranean types. The transition countries are Bulgaria, the Czech Republic, Hungary, Latvia, Poland, Russia, Slovakia and Slovenia. Japan is ambiguous, hence it is usually categorized as liberal regime (Kenworthy 2005; Scruggs 2007; Barth/Moene 2008) which we accept as adequate. Regimes enter as dummies into the estimation. In all, the sample consists of 23 countries as the number of cases for level 2 in multi-level analysis. Because of the low number of cases within the Mediterranean regime and their heterogeneity with regard to the dependent variable, the results for this regime are not as resilient as one might wish. Also the social-democratic regime is represented by just two countries. This however causes less problems because both are homogeneous.

To test the impact of the economic affluence the Gross Domestic Product (GDP) per capita (in dollars, Purchasing Power Parity, HDR 2004) is used. The unemployment rate was included in order to differentiate between a short term business cycle effect and a more general level of affluence effect of the GDP. Since both variables are highly correlated (table A1) they cannot simultaneously be included in the regressions (multicollinearity). However separate regressions offer closer insight into the impact of both, too. The Gini-index based on weighted net household income after taxes and transfers was adopted as a measure of national income inequality to analyze further redistribution. Such a measure is related to the degree of redistribution already achieved in a country, fitting to the purpose of the text. Inequality measures referring to pretax, pretransfer market income of individual wages or households would be adequate for the research question how wage inequality effects redistribution demand.<sup>7</sup> Comparable, high quality data on the Gini-coefficient for net household income are available from the Luxembourg Income Study and can be complemented by EUROSTAT data.<sup>8</sup>

Welfare state generosity can already be high in a country and diminish support for further redistribution. To control for this effect, the share of social expenditures in GDP was included in the model. However, research also suggests a positive effect between social expenditures and support for redistribution, because universal welfare states themselves create their basis by benefiting broad social strata.<sup>9</sup>

At the individual level, as indicators of self-interest in redistribution household income (in deciles from 1 to 10), years of education (group mean centered) and a gender dummy (with females as the reference group) were introduced.<sup>10</sup> Second, the perception that the own wage

is unjust is inserted in the regression, represented by a dummy variable. This variable specifies a similar conditional demand for redistribution like the 'government protection hypothesis' (there a shift from market to welfare state was assumed, if the economy fails as place to gain the means of subsistence). If peoples' expectations of a fair wage are disappointed, they turn to public redistribution as the means to achieve fairness. Household income and sex are introduced into the random part of the multilevel model, because it is expected that the impact of these predictors (slopes) differ between the countries due to contextual influences. A cross-level interaction term between household income and welfare regimes is included to test the formative effects of regimes assuming that the context strengthens or weakens the impact of higher income.

#### **4 Results**

As the previous discussion of the data 1999 (chap. 2.3) has set forth, regimes are only partly homogeneous 'worlds of social policy preferences' because within one regime type, similarity is limited. The West Germans' public support for redistribution is much lower than the French and Austrian one and rather similar to liberal countries. Only post-socialist countries form a cluster. Furthermore, the public support for redistribution does not strictly follow the rank order assumed in the regime hypothesis, mainly because the immature welfare states of transformation and Mediterranean countries rank before/ outstrip the social-democratic regimes. Hence, the low rank of liberal countries is in line with the welfare regime approach. So it is obvious to ask which other country features might explain this 'deviations'. Before doing this based on multivariate regressions figures showing bivariate correlations between country level predictors and the assent to public redistribution, but with countries still considered separately are presented in order to make the complex effects visible.

Figure 2 charts the level of public support for redistribution against GDP and illustrates the regime type by different symbols. On the whole, it can be seen that with rising prosperity in a given country, citizens demand less income redistribution. Indeed, a certain satiation seems to set in. A clear polarization between transformation countries and the other 'richer' countries in Northern and Continental Europe becomes evident. Thus, the high level of approval for redistribution in Eastern Europe seems to be linked to the economic development and not merely to regime influences. However, in the 'wealthy' countries redistribution support differs and therefore the economic situation hardly determines the support-level.

Figure 2: Assent to redistribution and economic prosperity

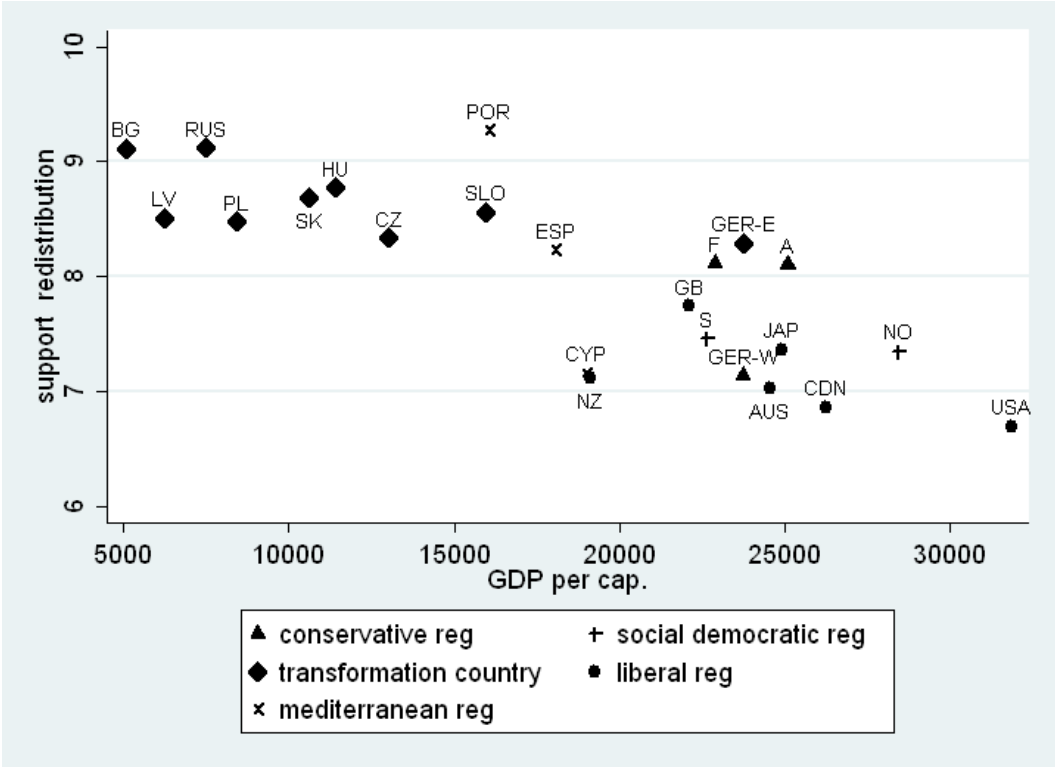


Figure 3: Assent to redistribution and income inequality

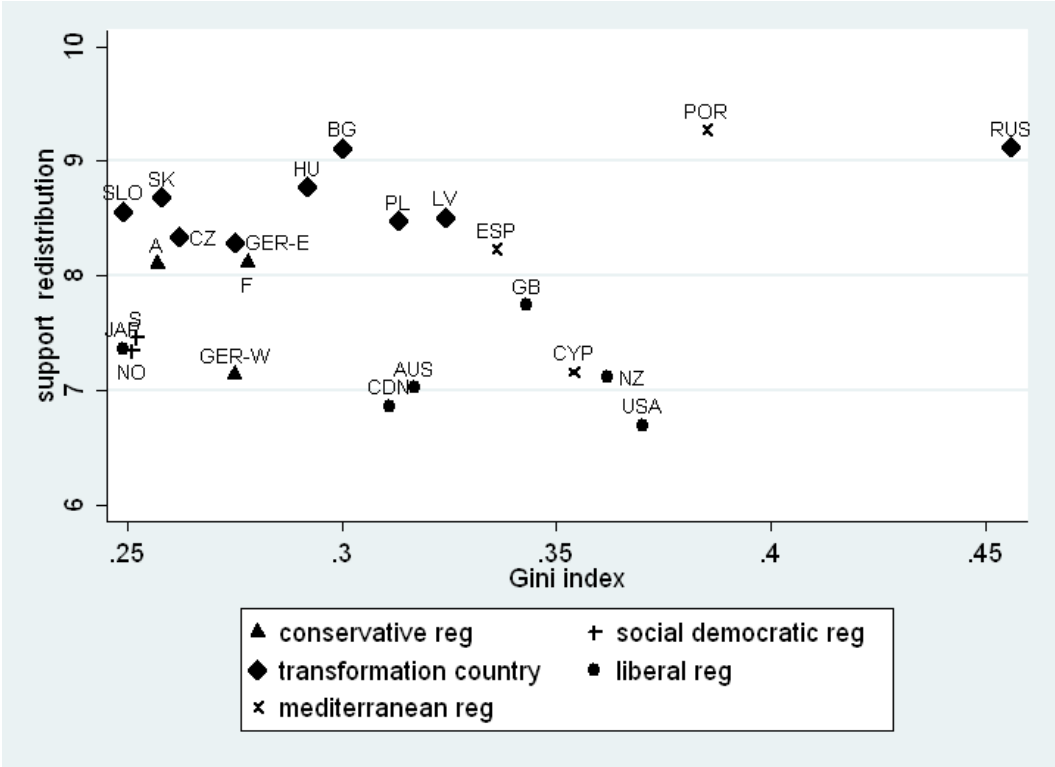


Figure 3 illustrates that the link between the degree of income inequality and the acceptance of redistribution is not consistent. The assumed positive correlation between the support for redistribution and inequality is found for the countries in the lower left quadrant (West

Germany, Norway, Sweden, Japan and Canada) and for Russia and Portugal, Both effects confirm the median voter hypothesis (low/high inequality and weak/strong redistribution preferences). The position of the other countries however question, that inequality produces a certain request for redistribution. Citizens of liberal regimes in the lower right quadrant of figure 2 do not exhibit the expected preferences, despite living in countries with a high level of income inequality. Conversely, the countries in the upper left quadrant in figure 2, the transformation countries and the conservative regimes France and Austria show a low level of inequality, yet a high level of redistribution support. Neither US citizens nor 'post-socialist citizens' react like median voters. However, the countries in the lower left quadrant provisionally confirm the political economy perspective: Namely, with a low Gini the level of redistribution preferences – plausibly – diminishes.

The influence of the macro-economic and individual variables is now estimated using multilevel regressions (table 1). The RIO model (Random Intercept Only) shows significant differences between country-specific constants. The 'intra-class coefficient' indicates, that 15% of the total variance can be explained by country-level variables. Therefore, most of the variance in the data is constituted by individual level variables.

Model 1 introduces the variables important to political economy approaches. In the table they appear as one block but their single effects were also tested. The Gini-index alone was not significant, even when using a quadratic term in order to model a 'saturation' effect, according to which the low inequality mature welfare states have achieved hardly motivates approval for further redistribution. Part of previous research due to the missing significance of income inequality, concluded that cultural norms actually shape equality preferences (Bowles/Gintis 2000; Lübker 2007). However, alternative conclusions are possible. When we control for GDP p.c., the Gini reaches the 5% significance level; when we also control for social expenditures, the Gini gets highly significant. In the complete model 1, an increase of the Gini of disposable household income by 1 point above the average results in an increase of redistribution demands by 38.6 points. Thus, when the impact of GDP p.c. and social expenditures is controlled, public opinion on redistribution in fact reacts to actual inequality. The impact of the economic situation is negative. An increase of GDP p.c. (log) by 1% leads to a decrease in public support for redistribution by 0.6 points. The coefficient for GDP p.c. has the strongest effect in model 1 and contributes most (52%) to the explanation of variance by model 1, whereas Gini and social expenditures alone contribute just 7% respectively 8%. Support for redistribution decreases as economic development advances, even after controlling for inequality. This confirms the third hypothesis that postulates the demand for

redistribution to be 'satiated' with the favorable economic situation. Demand for redistribution tends to level out in times of economic prosperity, as citizens are then likely to associate the labor market with the solution for welfare problems. Conversely in times of economic downturn with growing unemployment, citizens attribute responsibility to the welfare state and ask for 'governmental protection' (Blekesaune 2007). Pontusson's term 'compensatory employment' also pointed the connection between the country's economic development, employment growth and a negative effect on redistribution (2005: 53ff.). In order to be able to differentiate the GDP effect between a general affluence and short term labour-market effect, a regression that used the unemployment rate instead of GDP p.c. was estimated (model 1a). Also unemployment has a highly significant coefficient hence the explained variance is lower. So, the effect of the GDP not only measures unemployment trends but further the negative impact of a high level of economic affluence on government protection expectations.

Also social expenditures (in % GDP) had no significant effect as single variable. Only after controlling for GDP, a positive effect on the support for redistribution becomes visible. If social expenditures increase by 1% above the average level, redistribution demands increase by 1.5 points. The positive effect supports the assumption that the universalistic welfare state achieve broad support through benefiting broad social strata. High social expenditures obviously coexist with support for the welfare state, as long as benefits are universal benefiting broad social strata (Rothstein 1998, Korpi/Palme 1999). Hence, the positive effect of social expenditures does not stem from equality ideals but from individual interests in comprehensive social security (Moene/Wallerstein 2001).

Model 2 tests the welfare regime approach by grouping countries into different regimes and introducing dummy variables for each, except the conservative regimes which serves as reference. According to the insignificant effect, liberal regimes are similar to the conservative ones with regard to assent to state income redistribution. Also social-democratic regimes do not display a higher assent to redistribution than the conservatives. However, this similarity must be interpreted before the backdrop of a much higher welfare effort and level of equality in social-democratic regimes. In both the post-socialist and the Mediterranean regimes support for redistribution is significantly higher than in conservative regimes. In these immature welfare states, redistributive policies are still highly supported.<sup>11</sup> Finally, regime differences with reference to social policy attitudes boil down to differences between mature and immature welfare states. The ranking of redistribution preferences assumed by the second hypothesis holds true only in part for the redistribution preferences in fact adapt to the

context. Furthermore it must be considered, that respondents do obviously not (alone) answer according to their redistribution ideals.

Model 3 combines welfare regimes and macro-economic indicators. In this instance, controlling economic factors for different ‘worlds of welfare capitalism’ partly changes their effects. The negative effect of the economic situation decreases, while the effect of the Gini increases.<sup>12</sup> The distinction of regimes obviously helps the impact of inequality to show up. This is plausible, because the liberal regimes and their link between high inequality and low redistribution preferences are held constant. The effect of social expenditures (% in GDP) remains positive and significant after controlling for regimes. More important however is the insignificant effect for the transformation regimes when economic variables are controlled for. Thus, the high public expectations for state action towards more equality in transformation countries are rather the result of a weak economy than of a post-socialist ideology.

Model 4 adds the individual level variables. Furthermore, this is a random slope model (RS), which assumes that the effect of income and gender have different slopes and vary between countries. The coefficients of household income, education or sex, indicating an individual interest in redistribution, have a negative sign and are highly significant. The higher the household income, the more years of education respondents have, and being a man, the lower the acceptance of redistribution. Those who perceive their wage as unjust, support the reduction of income inequalities by the state more than those who do not. Thus a ‘substitution relation’ on the individual level is confirmed: Individuals disappointed with unfair market-outcome wish to be compensated by the government.

According to the random part of the model especially the effect of sex (variance .023), and also that of household income (variance .005) vary in different countries around a common mean. The cross-level term, which tests whether the impact of household income depends on the regime, shows a significant effect in the Mediterranean and social-democratic countries.<sup>13</sup> The negative sign in the Scandinavian regime underlines that in this context people with higher income judge redistribution even more negative than in other regimes, whereas the positive sign of the cross-level term in Mediterranean regimes shows that also higher income strata support state redistribution.

Table 1: Multilevel regression support for redistribution (unstandardized coefficient

	<b>RIO</b>	<b>Model 1</b>	<b>Model 1a</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
<b>Constant</b>	7.980*** (.164)	14.149*** (4.43)	-2.672 (.54)	7.600*** (36.55)	8.989** (2.90)	2.844 (.93)
<b>Fixed Parameters</b>						
Gini (grand mean centered)		-65.046** (3.25)	-56.62* (1.94)		- 72.141 *** (3.51)	- 60.164** (2.93)
Gini ^2		103.62** (3.34)	90.83* (2.02)		- 112.04*** (3.71)	91.620** (3.04)
Log GDP (pc, PPP)		-1.184*** (7.09)			-.934*** (3.77)	-.891*** (3.66)
Log social expenditure		.523** (3.11)	1.154 (2.54)		.368** (2.58)	1.463*** (4.11)
Unemployment			.114*** (3.47)			
<b>Welfare Regime, ref. cons.</b>						
- Liberal (dummy)				-.452 (1.72)	-.003 (0.01)	.119 (0.50)
- Social democrat (dummy)				.194 (.377)	-.580 (2.10)	-.264 (0.91)
- Mediterranean (dummy)				.773*** (2.56)	.719** (2.93)	.517 * (2.29)
- Transition countries (dummy)				1.049*** (4.10)	.390 (.293)	.264 (1.09)
- Household income (1-10)						-.102*** (6.35)
- Education in years (group mean centered)						-.063*** (18.35)
- sex (Ref. female)						-.245*** (6.40)
- wage unjust (dummy)						.506*** (21.46)
- income x social-democ. regime						-.096* (2.20)
<b>Variance components</b>						
Level 1 Residual variance	2.869 (.025)	2.869 (.025)	2.869 (.025)	2.869 (.025)	2.869 (.025)	2.625 (.024)
Level 2 var Constant	.588 (.174)	.136 (.041)	.353 (.105)	.196 (.059)	.074 (.023)	.0742 (.028)
var sex						.0229 (.010)
var hincome						.0049 (.001)
cov sex-Const.						.002 (.010)
cov hincome-Const						.006 (.001)
LL Log-Likelihood	-50691.82	-50675.14	-50685.99	-50679.28	-50668.39	-44044.89
Wald Test		75.28***	15.17**	45.52***	153.84***	1044.23***
<b>Explained Variance<sup>1</sup></b>						
R <sup>2</sup> (BR) – Level 2 const	IKK 17 %	76,9 %	40 %	66,7 %	87,4 %	81,8 %
R <sup>2</sup> (BR) – sex						1 %
R <sup>2</sup> (BR) – hincome						29,0 %
R <sup>2</sup> (BR) - Level 1						8,5 %
N	26017	26017	26017	26017	26017	23124

*Source: ISSP 1999 and other sources; own calculation; \*p < 0,05; \*\*p < 0.01; \*\*\*p < 0.001;*

*T-Statistics in brackets provide an indicator of the size of the estimated effect.*

*1) R<sup>2</sup> of RI-Models and the RS-Model is calculated according to Bryk/Raudenbush (see Hans 2006). The improvement of explained variance in the RI-models is calculated with reference to the RIO-Model, in the Random slope model it is calculated with reference to a RS model without context variables and cross-level terms.*

The share of variance in redistribution preferences that is explained by different models allows to judge the importance of the context variables and the resp. approaches. With the predictors relevant to political economy, model 1 explains 77% of the level 2 variance with the biggest share coming from the effect of the GDP p.c. Model 2 that only includes welfare regime dummies explains about two thirds of the variation at the country level. Combining political economy indicators and institutional factors (model 3) improves the model fit to 87.4% of the level 2 variance now explained. In the RS model (4) including individual variables, random slopes for sex and income and cross-level effects, the random part differentiates within the level 2 variance. Still most of the variance between the countries is explained by the context variables (82%). So, the random slopes do not contribute too much the explanation of variance on the country level. The cross-level effects between income and regimes explain 29% of the varying slopes of income. The individual variables just explain 9% of the variation at level 1. This is not much, if we consider that most of the variance in support for redistribution is at the individual level.

## **6 Conclusions**

Income redistribution is an activity at the core of most welfare states intended to avoid the undesirable effects of inequality and to foster social inclusion. Finally, the question remains as to how the competing explanations of cross-national and individual differences in public support for income redistribution fared in the empirical test.

The economic situation turns out to be empirically confirmed. The demand for redistribution decreases with economic prosperity - even after controlling for social expenditures. This point has to be stressed, as one could argue that the high volume of social expenditure in mature welfare states is the real reason for a decline in support of redistribution. The effect of the GDP can be traced back to a buoyant economy, where people assign less responsibility to the welfare state and define the market as the place where individuals can gain their income. However, the exact effect of the GDP per capita has to be specified in further research. After all, this result emphasizes that definitions of what is responsible for individual maintenance – the market or the welfare state – depend on the context. This result implies no competition to the regime approach, but rather confirms that social policy ideals are part of adaptation

processes.

The median voter approach, with its assumption that actual inequality directly affects the degree to which redistribution gets public support, proved better than expected against the background of its many critics. After controlling for the GDP and modeling the effect of the Gini index as a quadratic relation, it was affirmed that inequality strengthens demands for redistribution. However, the effect is small. According to the bi-variate data, it does not hold true for the liberal world of welfare capitalism, where the demand for redistribution is low despite high inequality.

Moreover, the welfare regime approach is only partly confirmed by the results, which show that demands for redistribution follow the distinction between mature and immature social security systems rather than ideological traditions. The mature conservative and social democratic welfare states generate decreasing redistribution demands, in contrast to the immature welfare states in post-socialist and Mediterranean countries. Regime differences almost disappeared when controlling for macro-economic context factors. It is therefore too hasty to assert cross-national variation as the result of regimes and their dominating social policy ideologies.

Research on redistribution preferences has often rejected political economy approaches because the data on unequal liberal regimes cast doubts on the importance of actual inequality. The American exceptionalism, with high inequality but a population not inclined to demand a broader welfare state, made it easy to reject the economic approach and its rational-actor model. If we look at other 'worlds of welfare capitalism', citizens actually adapt to a context that was changed by the welfare state itself, which leveled inequality down, decreased poverty, and raised taxes. In fact, a direct impact of inequality is too simple, and instead a wider understanding of social forces determining the degree of redistribution people want and are willing to pay by taxes and contributions is more adequate.

Compared to the country context, the relevance of individual factors is evident because most of the variation emerging in the data can be attributed to the individual level. Individual self-interest, because of income, education and sex, predicts the redistribution demands; however, the dissatisfaction of respondents with their wages proved to be much more influential than self-interest. Thus, when justice or fairness expectations are disappointed in the market sphere, redistribution demands directed to the state rise.

The results support a *conditional egalitarianism* because expectations towards state redistribution depend on the context. If wage fairness fails, equality is expected to be realized

by the state. If the economy fails, citizens prefer a welfare state that steps in and cushions the negative effects of market processes. Vice versa, in countries with a developed economy the belief gains credence that everyone has the opportunity to gain the means of subsistence.

Further research should pay more attention to the two dimensions inherent in the usual measurement of redistribution preferences. Up to now scholars understood the data either as expression of people's ideals on redistribution or as a 'realistic' evaluation against the background of the actual inequalities, already influenced by governmental redistribution. Much of the debate between political sociology and political economy results from this ambiguity. This paper tried to avoid the diffuseness by constructing a sum index which includes the assessment of given inequality and so explained *further* redistribution. Suggestions for other solutions are welcome.

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## Appendix

Figure A-1: Support redistribution by production regimes

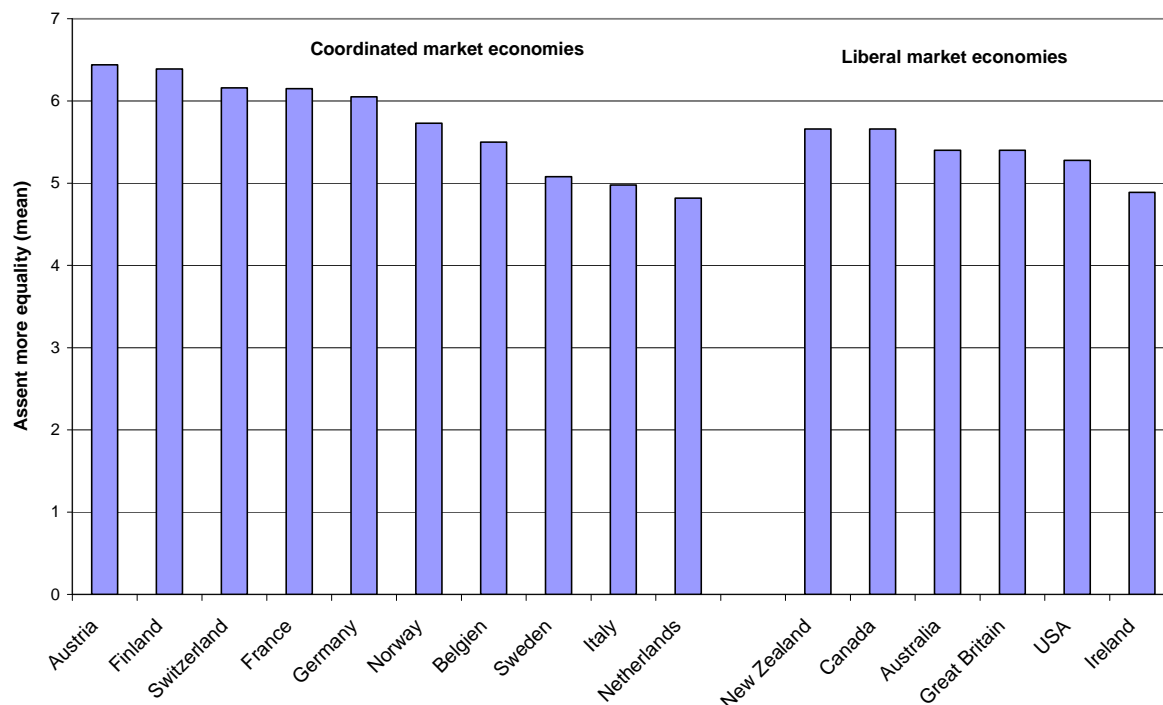


Table A-1: Correlation matrix of country characteristics (Pearson's  $r$ )

	Index redistribution (mean)	Gini-Index	GDP p.c. (PPP)	Social expend./ % GDP
Gini-Index	0,064	-		
GDP p.c. (PPP)	- 0,325	- 0,252	-	
Social expend./ % GDP	- 0,026	- 0,570	0,377	-
Unemployment	0,224	0,129	- 0,703	- 0,157

Sources: Index redistribution ISSP 1999; country variables see Table A2.

*Table A-2: Mean of the sum-index 'support for redistribution' (ranking) and of the single variables of the index.*

<b>Country</b>	<b>Mean index redistribution demands</b>	<b>Standard de- viation</b>	<b>Inequality too high</b>	<b>State reduce inequality</b>	<b>N</b>
Portugal	9,27	1,253	4,8	4,5	1123
Russia	9,12	1,362	4,8	4,4	1613
Bulgaria	9,11	1,367	4,8	4,3	1048
Hungaria	8,77	1,411	4,6	4,2	1180
Slovakia	8,68	1,439	4,7	4,0	1123
Slovenia	8,55	1,422	4,4	4,2	975
Latvia	8,51	1,318	4,5	4,8	1050
Poland	8,47	1,464	4,3	4,2	1045
Czech Republic	8,33	1,865	4,4	3,9	1766
Germany–East	8,29	1,410	4,4	3,9	487
Spain	8,23	1,431	4,2	4,0	1172
France	8,11	1,861	4,4	3,7	1844
Austria	8,10	1,663	4,3	3,9	951
Great Britain	7,74	1,621	4,1	3,7	752
Sweden	7,46	1,968	3,9	3,6	1105
Japan	7,36	2,180	3,9	3,5	1174
Norway	7,35	1,905	3,8	3,6	1213
New Zealand	7,12	2,061	3,8	3,2	1038
Cyprus	7,16	1,613	3,7	3,5	966
Germany-West	7,13	1,834	3,8	3,3	813
Australia	7,03	1,758	3,8	3,3	1583
Canada	6,86	2,057	3,8	3,1	919
US	6,69	1,909	3,8	2,9	1159
<b>Total</b>	<b>8,00</b>	<b>1,862</b>	<b>4,2</b>	<b>3,8</b>	<b>26017</b>

*Source ISSP 1999, own calculations. The index has a scale between 2 and 10.*

*Table A-3: Data sources (ordered by regimes)*

Country (regime)	Gini Index <sup>1</sup> (data source)	GDP per cap. <sup>2</sup> (US Dollar, PPP, current prices).
Australia (li)	0,317 (LIS 2001)	25.448
GB (li)	0,343 (LIS 1999)	24.014
United States (li)	0,368 (LIS 2000)	33.013
Canada (li)	0,311 (LIS 1998)	26.631
New Zealand (li)	0,362 (LIS 1999)	19.378
Japan (li)	0,249 (OECD 1999)	24.801
Germany (con)	0,275 (LIS 2000)	24.029
Austria (con)	0,257 (LIS 2000)	26.504
France (con)	0,278 (LIS 2000)	24.235
Hungary (trans)	0,292 (LIS 1999)	11.146
Czech Rep. (trans)	0,254 (LIS 1999)	13.133
Slovenia (trans)	0,249 (LIS 1999)	15.977
Poland (trans)	0,313 (LIS 1999)	9.742
Bulgaria (trans)	0,300 (Eurostat)	5.071
Russia (trans)	0,456 (LIS 2000)	7.473 <sup>3</sup>
Latvia (trans)	0,324 (Eurostat)	6.264 <sup>3</sup>
Slovakia (trans)	0,258 (Eurostat)	10.010
Norway (soc)	0,251 (LIS 2000)	30.002
Sweden (soc)	0,252 (LIS 2000)	25.108
Spain (med)	0,336 (LIS 2000)	19.477
Portugal (med)	0,385 (Eurostat)	16.368
Cyprus (med)	0,354 (Eurostat)	19.006 <sup>3</sup>

Notes: 1) Source LIS key figures or Eurostat. LIS key figures accessed at <http://www.lisproject.org/keyfigures.htm> on 6.4.08. Access at Eurostat interactive tables. Income and living conditions; income distribution and monetary poverty, income-distribution, Gini-Coefficient.

Eurostat: General economic background; population and living conditions.

2) Source: OECD Factbook 2005: Macroeconomic trends, gross domestic product <http://ocde.p4.siteinternet.com/publications/doifiles/302005041p1T008>

3) Data-source Human Development Report, Worldbank.

## Footnotes

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<sup>1</sup> Only the relation between social welfare expenditures and citizens' support for redistribution was positive.

<sup>2</sup> Considerations on the effects of the economic situation are based on the assumption that all social strata profit from a favorable overall economic development. However, the extent to which this is the case depends on individual national distribution structures.

<sup>3</sup> See Blekesaune/Quadagno 2003; Kenworthy 2004; Blekesaune 2007.

<sup>4</sup> Another method for eliminating the effect of perceived inequality would be to regress support for redistribution on inequality and use the residuals for further estimates. This would achieve the opposite, and inequality perceptions exclude and measure the ideal about state responsibility.

<sup>5</sup> Also the direct sequence of both items in the questionnaire presumably directs the interviewees towards a statement with regard to existing income disparities.

<sup>6</sup> The results we gain from multivariate analysis using the sum index are only slightly different from those using the single dependent variable about the governments' responsibility to reduce differences in income.

<sup>7</sup> Regressions with wage inequality based on 90/10 decile ratios for only 17 countries (data from OECD reported in Barth/Moene 2008) resulted in an insignificant effect of market inequality, too.

<sup>8</sup> See table A3 with data on country characteristics and information on the data sources.

<sup>9</sup> A quadratic relation between social expenditure and support of redistribution was insignificant.

<sup>10</sup> As variables that measure the self-interest and dependency from public redistribution, dummy variables for those in retirement and for the unemployed (contrast: those in employment) were tested. As the results were insignificant, they are not reported here.

<sup>11</sup> The pattern that emerged from using conservative regimes as reference is stable and consistent also with other regimes as reference group.

<sup>12</sup> An increase of GDP p.c. by 1% above the average leads to a decrease of redistribution support by .46 points.

<sup>13</sup> Estimations with cross-level effects for each of the regimes were run. For reasons of space just the model for social democratic regimes is shown in table 1.