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Distributive Institutions as Mediators of Partisan Politics to Household Income Inequality:

A Comparative and Longitudinal Analysis

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Abstract

The purpose of this preliminary draft is to explore the roles of differences in the nature of distributive institutions and partisan politics for income inequalities in 18 now affluent democracies during the postwar period. The paper is focused on differences among countries in household income inequality and poverty, and on factors relevant for the causal interpretation of these differences. Without disregarding the role of market processes, technologies, and demography in these contexts, we propose that it is fruitful to also consider distributive conflict, power, politics, and distributive institutions in efforts to account for changes and differences in income inequalities. The paper develops arguments for the relevance of distributive conflict in understanding income inequality, with discussions on origins of such conflict in employment relations, the role of power and distributive institutions for inequality, and the historical background for differentiation of distributive institutions among our countries. Types of distributive institutions related to elections, wage setting, gender policy, social insurance, and taxation in different countries are outlined, and countries are grouped according to sets of institutions in these areas into three categories: market-dependent, sectorized, and inclusive countries. These sets of distributive institutions differentiate countries in terms of the relative role they accord to markets and to politics in distributive processes, as well as in the ways institutions are likely to affect citizens' definitions of their interests and patterns of coalition formation. The paper uses this categorization of distributive institutions to examine to what extent it has robust associations with patterns of inequality and poverty around 1985 and 2000, looking also at the role of total government outlays and partisan politics.

How are we to explain differences and changes in levels of income inequalities among Western democracies after the end of the Second World War? Social scientists have developed partly complementary, partly competing responses to these questions. There is wide agreement across disciplines that relevant in these contexts are differences in factors such as demand for different types of labor and changes in technologies, patterns of international trade, and the demographic composition of the labor force. While the role of cooperation between actors in production has been generally recognized, we find competing views on the relevance of conflict and power in distributive processes as well as on the role of partisan politics for differences in income inequalities. During the decades after the Second World War, tendencies to a decline of income dispersion were widely seen as concomitants of the progress of industrialization and modernization.[1] Main differences among explanatory approaches have sometimes appeared to run between economics and sociology. Thus economist Phelps Brown (1977) once observed that while in analyses of income inequalities sociologists conceive of people as interacting members of a society, economists see them as rational actors engaged in impersonal transactions; mostly, one could here add, transactions in the context of systemic processes. This distinction draws attention to the central issue of the relevance of partisan politics in the generation of inequalities. During the 1970s, many political scientists posed the question: Does politics matter?[2] This question brings up the issue to what extent and how political parties can influence income distributive processes.

The purpose of this paper is to explore the roles of partisan politics and differences in the nature of distributive institutions for income household inequalities in 18 now affluent democracies around 1985 and 2000. The paper is focused on differences among countries in household income inequality and poverty, and on factors relevant for the causal interpretation of these differences. Without disregarding the relevance of market processes or changes in technologies, patterns of trade, and demography, we argue that it is fruitful to consider also role of distributive conflict, power, and partisan politics in efforts to account for changes and differences in income inequalities. While distributive conflict may generate varieties of changes in incomes dispersions of Western countries, our hypothesis is that over time conflicts of interests among actors is likely to become patterned into more or less durable settlements generating what we refer to as distributive institutions, tending to stabilize the operation of distributive processes in ways structuring differences in distributive outcomes for some period of time.[3] Such distributive institutions can be based on informal understandings or formal institutions regulating relations among parties involved in distributive conflict. Some institutions can constitute broader contexts in which distributive processes take place, while others apply to more specific aspects of these processes. Some institutions are relevant in early stages of distributive processes; others modify outcomes in earlier stages. We here focus on five different areas where institutions are likely to be of major relevance for distributive outcomes: electoral institutions, wage setting procedures, gender policy

[1] Kerr et al. 1961.

[2] Castles and McKinley and others.

[3] This does not imply that institutions are assumed to be “frozen.’ As argued by Hacker, Pierson, Thelen, and others, institutions are likely to undergo continuous change. This is especially likely to be the case with distributive institutions. Stability is an empirical issue.

[4] Atkinson and Bourguignon 2000.

institutions, social insurance, and taxation. In Western democracies, electoral institutions set the broad background conditions for distributive processes by affecting the ways in which citizens' votes can be transferred into political decision-making. Wage setting institutions influence outcomes in the distribution labor market income. Gender policy institutions are of relevance for women's labor force participation and thus for household incomes. Institutions for redistribution of market income via transfers and taxes affect relations between market income and disposable income. While electoral institutions are of general relevance for shaping political environments of distributive conflict, institutions for wage setting and gender policy influence distribution of labor market incomes, the outcomes of which can be modified by redistributive institutions in areas of social insurance and taxation.

To place the above issues in the context of theoretical debates within the social sciences, we begin by briefly reviewing the wide differences between what traditionally have been referred to as consensus and conflict perspectives in assumptions and starting points for analyses of income dispersion. The paper develops arguments for the relevance of distributive conflict in understanding of income dispersion, discussing origins of such conflict in employment relations, the role of power and distributive institutions for inequality, and the historical background for differentiation of distributive institutions among our countries. Types of distributive institutions related to elections, wage setting, social insurance programs, gender policies, and taxation in different countries are outlined, and countries are grouped according to sets of dominant institutions in these areas into three categories, with market-dependent, sectorized, or inclusive distributive institutions. We examine to what extent this categorization has robust associations with patterns of inequality and poverty around 1985 and 2000, looking also at the role of total government outlays and partisan politics in this context.

Cooperation and Conflict in Income Distribution

In many ways, the impressive work of economists have long dominated social science research on income inequality, focusing on the operation of markets, and tending to view dispersion among individuals in wages and economic outcomes as primarily reflecting individual differences in human capital productivity.[4] Among economists the single most influential piece of writing on changes in income inequality appears to have been an article by Simon Kutznets (1955), very tentatively formulating a hypothesis of an inverted U-shape in the trajectory of long-term inequality, a U-turn resulting from compositional changes in the labor force during the transition from an agrarian to an urban/industrial society.[5] Kutznets' article was remarkable in the startling discrepancy between the author's indeed modest claims on behalf of the inverted U-shape hypothesis and the enduring influence it came to exert on successive generations of scholars. Introducing his article as being "perilously near to pure guesswork," Kutznets (1955:6, 28) concluded: "Effective work in this field necessary calls for a shift from market economy to political and social economy". Economists did however long follow Kutznets' example rather than his advice, eschewing his call for the broadening of theoretical perspectives by including political and social factors to complement the focus on market processes. As observed by Lindert (2000:173) almost half a century later, the

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[5] This hypothesis of an inverted U-shaped trajectory of long-term changes in income inequality has found support in cross-sectional studies but also in some longitudinal analyses (Morrison 2000).

hypothesis that compositional changes in the labor force are the major factors shaping the long-term development of income inequality has “to some extent tyrannized the literature on inequality trends,” to the neglect of other factors of potential relevance in this context.

Perspectives from social psychology were brought into economic theories on inequality by Akerlof and Yellen (1986), arguing that social norms affecting actors’ reputations are of relevance in the setting of wages. In stressing the need for “bringing income distribution in from the cold,” Atkinson (1997:317) underlined that economists can find input from sociology of labor markets, social psychology, and political science for broadening research on inequality, pointing particularly to the relevance of social norms. Power became potentially relevant when Meltzer and Richard (1981) proposed that the median-voter hypothesis (Downs 1957) is of relevance in explaining country differences in income inequalities. With income distributions skewed to the right, given majority rule the voter with median income is decisive and is expected to demand a decrease in income inequality.

In the other social sciences partly similar changes can be seen. During the post-war years, parallel to economists’ stress on differences in human capital productivity, the sociology of stratification was long dominated by the structural-functional approach, viewing inequality as serving the function to motivate the most capable individuals to strive for and to accept the most demanding positions in a society. An alternative early perspective on driving forces behind long-term changes in income inequality was developed by Gerhard Lenski (1966). In Lenski’s view, changes in production technologies largely determine the size of the surplus above what is required for reproduction of the labor force in a society. His hypothesis was that the ways in which this surplus is allotted among actors involved in distributive processes is primarily affected by the distribution of power among major interest group. Agrarian societies tended to have an income distribution highly skewed towards the top. With the emergence of industrialization, however, the dependent labor force came to exert counter-power via collective action based on trade unions and political parties, a development tending to decrease income inequality.

Distributive conflict and power relations are also central in the power resources approach (Korpi 1978, 1983; Stephens 1979; Myles 1984; Esping-Andersen 1985, 1990). This approach expects the distribution of power resources among actors to be significant in the generation of class conflict and inequality. The role of differences among actors in the nature of their power resources as constituting the microfoundations for socio-economic class conflict has been explored by Korpi (1974, 1985, 2006). Power resources are defined as attributes enabling actors to reward or to punish other actors in making claims and in defending their interests. Socio-economic class can be defined in terms of individuals’ positions in the division of labor and on labor markets, that is, on the basis of their occupations. In employment relations, a very crude distinction can be made between employers, employees, and the self-employed. In Western democracies, it is fruitful to focus on two major types of basic power resources central in employment relations and labor markets: economic resources (capital) and labor power (human capital). Employment relations are characterized by positive-sum conflict. Employees and employers cooperate to increase the total product to be distributed among them; when it comes to allotting the results of production, however, no natural rules or enduring principles are available. In the settling of such distributive issues, bargaining, conflict, and power therefore become important. One key difference between economic resources and labor power is that economic resources can be highly concentrated to single individuals or small groups of actors, while it is not possible to concentrate labor power to nearly the same extent. In employment relations, employers therefore generally dominate individual employees. While collective action can increase the efficacy of both types of power resources, such action becomes of crucial relevance for employees. This logic of the nature of differences in power resources can potentially generate employee collective action and therefore forms what can be seen as the micro-foundation for socio-economic class conflict. This microfoundation of conflict is not affected by changes in living standards and life styles, often assumed to have made class an increasingly irrelevant factor in modern societies.

Collective action by employees to defend and to improve their conditions is however greatly complicated by the fact the employees differ in terms of their occupations and human capital. It is an empirical question to what extent collective action arises, and if groups involved in distributive conflict are based on relatively narrow characteristics, such as occupations, or on broader categories, such as classes.[6] In Western countries employee collective action typically began by occupation-based trade unions among skilled workers. In Europe towards the end of the 19th century, worker collective action was however broadened by emerging left parties as well as by trade union confederations covering several branches and trades. Following the dictum of Schattschneider (1960) that “organization is the mobilization of bias,” these organizations thus appear as interest organizations to promote the class-based interests of their members in distributive processes.

Institutions as Reinforcement Bars and Stabilizers of Bias

As outcomes of compromises and adjustments among actors involved in distributive conflict, distributive processes tend to become differently patterned through the development of social norms and distributive institutions. Social norms can be seen as informal institutions, where conformity to norms depends on and is left to sanctioning by the parties concerned. Distribution also involves formal institutions, where a third party is responsible for sanctioning. When institutions are formalized in national legislation, the state becomes responsible for rule enforcement. Formal institutions therefore generally tend to become more stable and more effective than social norms. Elster (1989) described social norms as “the cement of society.” Extending this metaphor, formal institutions such as legislation can be seen as the reinforcement bars of the social order.

In the social sciences we find longstanding debates on the emergence and role of institutions, debates centering on the relevance in this context of consensus and of conflict (Hall and Taylor 1996; Korpi 2001). In what has been referred to as rational-choice institutionalism, institutions are thus seen as coordination devices emerging out of efforts between relatively equal actors to capture gains from exchange and to decrease transaction costs. Here actors are assumed to have exogenously given preferences, and institutions emerge via “a quasi-contractual process marked by voluntary agreements among relatively equal and independent actors” (Hall and Taylor 1996:952).[7] While the existence of such coordinating institutions, exemplified by rules of the road, can not be questioned, they are likely to be of secondary relevance in distributive processes. What has become known as

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[6] For debates cf Grusky and Weeden 2002; Goldthorpe 2002.

[7] In rational-choice institutionalism, individuals are typically assumed have a fixed set of preferences, to focus on maximizing these preferences, with the use of Prisoner’s Dilemma games implying equal power distribution.

historical institutionalism maintains that major societal institutions can involve distributional bias, that their emergence often has been associated with conflicts between interests groups, and that actors' preferences can be affected by institutions (Steinmo, Thelen, and Longstreeth 1999). While assuming reasoning actors, from similar starting points the power resources approach has viewed distributive institutions as "residues of conflict" (Korpi 1974, 2001:xx).[8] Parallel to the power resources approach, in their analysis of one key form of institutional change, the move from dictatorship to democracy, political economists Acemoglu and Robinson (2006) accord distributive conflict and power the central place. They argue that most policy choices generate political conflict where power relations are crucial for differentiating winners from losers; "politics is inherently conflictual" (20). Acemoglu and Robinson underline that outcomes of such conflicts largely reflect the distribution of power among actors concerned and that here formal institutions are important.

While social norms are of key relevance in distributive processes, because of problems with effective sanctioning against breaches of norms, their main relevance is likely to be as intermediaries between organizations for collective action and formal institutions; social norms are important for supporting or undercutting formal institutions. As Schattschneider observed, organization is the mobilization of bias; in the same vein, formal distributive institutions with sanctioning by the state can be seen as stabilizers of bias.

Patterns of Political Power and Party Competition

A number of forces have contributed to shape patterns of institutional affinities and differences among Western democracies, patterns which scholars have attempted to capture by typologies. In this context, two factors with long historical roots have been of key importance. One is relevant for all countries and reflects early settlements on electoral models, where a key distinction runs between proportional and majoritarian elections; the other refers to the split between secular parties and confessional parties of Catholic origin. Electoral models differ in terms of the degree of coordination among voters that they require, and possibilities that they provide for new parties to establish themselves and to successfully compete for legislative seats (Cox 1997). Anglophone countries have long had majoritarian electoral models. In most Western European countries, however, proportional elections were introduced in the context of the break-through of universal male suffrage around the First World War (Colomer 2004). The distinction between majoritarian and proportional electoral models has been of relevance for the left-right balance in legislatures and cabinets, with majoritarian elections to some extent working against the formation and stabilization of left parties and left representation in cabinets and legislatures (Iversen 2005; Korpi 2006).

In Europe, an additional factor of importance for outcomes of distributive conflict is the distinction between secular and confessional parties, a distinction reflecting the heritage from the Reformation and Counterreformation and differences among countries with respect to the strength of the Catholic Church. In Continental Europe, where the Catholic Church had retained its strongholds, Christian Democratic parties emerged in the late 19th century. Scholars have attempted to locate Christian Democratic parties along the left-right continuum (Castles and Mair 1997) and have argued that these parties had lost most of their distinctiveness already in the decade before the First World War (Iversen and Soskice 200?;

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[8] Reasoning actors are defined as …

Kalyvas 1996). Although by that time major issues of confessional control over basic education had largely been settled, it is important to recognize that because of their roots in Catholic social teaching, Christian Democratic parties have been of continuing importance in modifying the left-right dimension in distributive conflict. Catholic social teaching has viewed society as an organism with separate parts having different functions.[9] This teaching accepted capitalism and viewed inequality "as a natural phenomenon that cannot and should not be altered" (van Kersbergen 1995:). In contrast to 19th century Liberalism, however, Catholic social teaching stressed class reconciliation, came to accept the collective organization of workers in unions and parties, and focused on alleviating extreme poverty. Founded to support confessional control over education and to compete with social democratic parties and trade unions on their own turf, Christian Democratic parties incorporated cross-class cooperation into their party organizations, with separate sections for workers, salaried employees, employers, farmers, etc. While the Catholic Church opposed democracy as well as social democracy, in contrast to Classical Liberals, Christian Democratic parties accorded the state a subsidiary role in social and economic processes. It is therefore fruitful to recognize that partly cross-cutting the left-right dimension, in Continental Europe Christian Democratic parties came to form a third node; their policy positions were however often affected by the intensity of competition with left parties. In the following we distinguish between three major types of political parties: secular center-right, Christian Democratic, and left parties.[10]

In Table 1, our 18 countries are differentiated by forms of electoral models and characterized in terms of their dominant type of parties and the existence of competition from other types of major parties in the period 1945 to about 1985.[11] For this time period, the average partisan strength of the above three types of parties are indicated in terms of cabinet shares, duration of their longest term in cabinets, and vote shares. Dominant party types within a country are defined in terms their cabinet shares and longevity of cabinet participation. Major competitors to dominant parties among other types of parties are distinguished in terms of the likelihood that these parties can successfully challenge incumbent parties, as based on their record of votes and cabinet shares.[12] Beginning with countries sharing majoritarian electoral models, in the USA and Canada party competition has largely taken place among secular center-right parties, without challengers from different types of major parties.[13] While having multiple parties, in Ireland, Japan, and France dominant secular center-right parties have not faced major challenges from other types of parties. Because of its late independence from the United Kingdom, strongly Catholic Ireland never developed a Christian Democratic party of the Continental European type. Its long dominant Fianna Fail is seen as a "catch-all" party with electoral competition only from two minor parties: the very small Labour party to its left and another small party to its right. [14]

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[9] Cf for example, van Kersbergen (1995).
[10] Left parties here include social democratic and socialist parties as well as parties to their left.
[11] Exact time periods for these averages reflect the availability of LIS household income data listed in Table 2 and Appendix 1.
[12] Sketch rules, definitions
[13] It goes without saying that there have been significant differences between the two major parties in the USA and in Canada, but in an international context they can be described as falling within the center-right area.
[14] All three major party types do however appear to have paid rather close attention to the views of the Catholic hierarchy.

These two opposition parties could however only form a cabinet when they could agree in opposition to the center party, a situation limiting their challenges to the dominant party. In Japan, the Liberal Democratic party has governed during almost the whole period considered here. In spite of its periodically sizable electoral strength, Japan's socialist party has not been a major cabinet contender except for a very brief early part of the postwar period. France had proportional elections during the first two decades after the war, when left and confessional parties frequently were included in several short-term coalition cabinets. After the return to majoritarian elections in 1958, the confessional party was dissolved and the left was seriously split between socialists and communists. Up to the 1980s, in spite of a large left vote, in the context of majoritarian elections major secular center-right parties France have had relatively little effective competition from the left.

(Table 1 about here)

In contrast to the Canada, USA, and Ireland, dominant secular center-right parties in the United Kingdom, Australia, and New Zealand have faced major competition from Labour parties garnering large vote shares, on and off succeeding in winning election but not being able to establish prolonged government tenure. The United Kingdom has had a quite dominant Conservative party, however with some interludes of Labour cabinets. Australia and New Zealand have had clearly dominant center-right parties in cabinet, but in spite of high proportions of left votes only short periods of Labour cabinets.

Our countries with proportional elections are all found in Europe. In Continental Europe, Austria, Germany, Belgium, and The Netherlands have had Christian Democratic parties in dominant positions as reflected in the longevity of their cabinet participation, with left parties as major challengers and considerable cabinet participation. In Italy, the Christian Democratic party dominated cabinets during the whole period considered here, but most of this time it did not have to face major challenges from the left, which was weakened by intense conflicts between Communists and Socialists. With the small Socialist party periodically on and off participated in cabinets with Christian Democrats, because of Italy's position as a strategic member of the NATO during the Cold War, its relatively large Communist party was not seen as a credible cabinet member. Switzerland has had a near-permanent coalition cabinet including all three types of parties during almost the whole the postwar period; however with a secular center-right party as the clearly largest one, confessional parties in the middle, and the left party as a minority representative. Because of its mosaic of religious and linguistic cleavages, the Swiss constitution circumscribes the role of the central government primarily to foreign affairs and defense, with important policy areas left to independent cantons (Huber and Stephens 2001; Immergut 199?). Swiss elections did generally not change party composition of the federal cabinet; it is here described as having had center-right dominance without keen competition from left parties.

Among the four Protestant Nordic countries, Finland was a late industrializer with an agrarian center party long dominant in different types of coalition cabinets. After having been a belligerent on the German side 1941-44, the peace treaty with the Soviet Union was followed by a mutual defense pact, implicitly placing the relatively sizable Conservative party outside cabinet participation. Against this background in foreign policy, the Finnish constitution requiring qualified majorities for long-term legislation of economic relevance opened up for frequent cabinet participation of the Social Democratic party, long involved in conflict with a relatively large Communist party. These circumstances contributed to give the

Finnish Social Democratic party a greater policy-making influence than its vote share indicates. Both in Finland and in Denmark, left parties held a majority in diets only during one brief period after the war, but were frequent participants in coalition cabinets. In Norway and Sweden, social democratic parties long dominated cabinets and diets, but faced tough electoral competition from secular center-right parties. In the Nordic countries, confessional Protestant parties were late to develop but came to have some significance in center-right coalition cabinets.

Typologies of Distributive Institutions

Sociologists and political scientists have long categorized countries into clusters described in terms of geographic, cultural, and political affinities. Among the several typologies devised to capture such policy-relevant affinities and differences among countries, Esping-Andersen (1990) famously outlined three types of welfare state regimes in Western countries: the liberal, conservative, and social democratic regimes. This typology is based on combinations of indicators reflecting outcomes, institutions, as well as partisan politics, a combination giving it much descriptive power but limiting its use in causal analyses of factors affecting outcomes. The great strength of Esping-Andersen's typology is that it reflects the three-fold partisan political cleavages between left-right parties as well as between confessional and secular parties discussed above. While retaining this three-fold partisan political base, in analyses of causal processes related to income inequality, we can move forward by using a typology based on the nature of societal institutions of relevance in processes of distribution and redistribution, and take structures of such distributive institutions as intervening variables, mediating between driving forces and distributive outcomes. Thereby we can get beyond the mere attaching of political labels to country black boxes, and be able to use additional information facilitating identification of factors relevant for explaining inequalities. Distributive institutions are likely to have direct as well as indirect effects on distributive outcomes. Formal social institutions, based on legislation where sanctions are provided primarily by the state, are likely to have important roles in different phases of income distribution. Also long-term institutions not based in legislation are here of relevance. Among many institutions of relevance for income distribution we here focus on electoral models, wage setting procedures, gender policies, social insurance, and taxation.

Electoral Models

Electoral models are formed by sets of laws regulating electoral competition between parties and the ways in which citizens' votes are translated into executive cabinet power.[15] A main differentiation runs between proportional elections and majoritarian/plurality rules. As pointed out by Cox (1997), majoritarian rules tend to require more strategic coordination among parties and voters than do proportional elections. Under majoritarian rules, secular center-right parties and confessional voters have found it easier to combine into winning majorities than have left parties, where in Europe intense conflicts between communist and socialist parties long prevailed. History indicates that in majoritarian elections, secular center-right and confessional voters have found it to combine into winning coalitions than have parties on the left, among which in Europe intense conflicts between social democratic and

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[15] Specification of national differences in electoral models here.

communist parties were long intensive. Proportional rules have also made it easier for new parties to gradually gain representation in legislatures, and to establish political credibility by participation in coalition cabinets in than what has been the case in countries with majoritarian elections.[16] Of relevance in the study of income inequality is that around the previous turn of the century, left parties – main protagonists for decreasing inequality – tended to emerge earlier in countries with proportional elections than in those with majoritarian electoral models. Proportional elections have also permitted left parties to participate in cabinets to a greater extent than has been the case in majoritarian election. Of special relevance here is that proportional elections have been associated with longer left party longevity in cabinet positions than what is found in majoritarian electoral contexts.

Wage Setting Structures

The dispersion of wages in labor markets are affected by wage setting procedures, where differences among countries in the participation of unions in wage setting are important. Scholars have intensively analyzed the role of unions in the wage setting processes. Unions can be seen as providing a form of insurance against managerial rule, counteracting wage differentiation based on management preferences. By insisting on payment according to observable characteristics of jobs and workers, unions help to decrease competition among workers and to support their collective action (Agell 19??; Freeman and Medoff 1984; Korpi 1983; Streeck 2005; Visser 2003).

Analysts have pointed to several aspects of union participation in wage setting processes, where the most important ones are union density and contract coverage as well as coordination and centralization in collective bargaining. Since the degree of centralization of unions and coordination among different actors in bargaining tend to shift over time in ways more difficult to observe. Countries vary greatly with respect to union densities and proportions of employees covered by collectively bargained wage contracts. Anglophone countries tend to have relatively low union densities with contract coverage largely limited to union members. Among countries in continental Europe with low union densities partly reflecting competition between confessional and secular unions, Christian Democratic and left parties have extended contract coverage via legislation to non-unionized sectors of the labor market, thus making contract coverage considerably higher than union density. We therefore use union densities and contract coverage as bases for characterizing wage setting processes.

Visser (2009) has suggested a categorization of wage setting procedures based on combinations of union densities and contract coverage, dichotomized around the 50 percent level for each variable. One category of countries, here described as having market-based wage setting, is characterized by below 50 percent levels on union densities as well as of contract coverage. It includes USA, Canada, UK, Switzerland, New Zealand, and Japan, with Ireland as a potential marginal case. Countries with union densities below 50 percent but having political constellations enabling an extension of contracts to non-unionized sectors can be said to have extended wage setting. Here we find The Netherlands, Germany, Austria, France, Italy, but also Australia and New Zealand. Countries combining union densities as well as contract coverage above 50 above percentage points are here described as having

[16] Ireland with a single transferable vote is hers classified as a majoritarian model.

union-based wage setting. In this category we find Belgium, Denmark, Finland, Norway, and Sweden.

Gender Policy Institutions

Gender policies affect the presence of women in the labor force, something relevant for household market incomes and the position of single women.[17] In European countries considered here, during the 1970s public policies relevant especially for women's labor force participation began to change by the granting of claim rights to families in ways relevant for labor market participation of mothers with minor children (Korpi, Ferrarini, and Englund 2009; Ferrarini 2006; Korpi 2000). In the Nordic countries, legislated policies strengthened possibilities of women, particularly of mothers, to continuous and full-time participation in paid work; as a complement legislation also came to include policies encouraging fathers to increased participation in the care of their own children, thus forming a dual earner/dual carer or earner-carer policy model. Such institutional structures encourage and enable continuous and extensive labor force participation of women by transferring significant parts of social care from the home to the public sector; they have been of particular importance for women without tertiary education. In countries of Continental Europe, the direction of reform was instead to facilitate mothers' unpaid work at home in ways assuming that mothers are part-time or secondary earners within the family and retain primarily responsible for child care and household maintenance, that is, policies resulting in a traditional family model. In the Nordic countries reforms were driven primarily by left parties with support from some social liberal parties. In Continental Europe, Christian Democratic parties were important for the direction of reforms. In countries with dominant secular center-right parties, traditionally wary of extending claim rights involving taxation, reforms instead focused on abolishing discriminatory practices hindering women's labor force participation. This policy of abstaining from claim rights leaves it to families to resolve problems with child care in the context of markets and kin, and can be said to constitute a market-oriented gender policy approach.

Social Insurance Institutions.

It is often overlooked that in addition to being important in the redistribution of income, social insurance institutions have major roles in processes of shaping citizens' interests and patterns of coalition formation in distributive conflict. These institutions have emerged in attempts to find solutions for handling citizens' life-course risks associated with economic problems when for reasons beyond their control, normal earnings and incomes are interrupted. Economic resources for coping with problems generated by such risks differ among citizens, but risks related to illness and old age are widespread and serious enough to be a major concern fore all of them.[18] Key aspects of social insurance institutions in these areas have been outcomes of often intensive political strife (Korpi 2001). Historically existing institutions in these two areas differ in terms of levels of economic protection that they

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[17] Huber et al in *Social Politics* (2009).

[18] Unlike unemployment and work accidents insurance of most relevance for workers, risks during sickness and old age are relatively similar for all socio-economic categories and have their institutional structures are therefore likely to have been of greater importance for the formation of values and interests.

provide and in the ways in which they are likely to affect citizens' identities and values. In characterizing social insurance institutions created by legislation for old age and sickness programs, we use the typology developed by Korpi and Palme (1998). The basic hypothesis underlying this typology is that institutional differences affect redistributive processes both directly and indirectly. Their direct relevance is related to the relative roles that they accord to markets and to politics in distributive processes, thereby also affecting the importance of political elements in structuring redistribution via the public domain. Indirect effects of distributive institutions emerge in the ways that such institutions contribute to individuals' definitions of their interests as well as the formation of coalitions among citizens in distributive conflict. In traditional insurance terminology, insurance is based on defined risk pools within which risks and resources are shared. In Western countries, economic risks and resources are unequally distributed along lines that interact with socio-economic cleavages; individuals with low economic resources tend to have higher risks than economically better-off individuals. In distributive conflict, a key issue therefore comes to concern the extent to which distributive coalitions are homogeneous or heterogeneous in terms of risks, and accordingly, also in terms of resources. Of special interest in this context is the extent to which institutional structures will discourage or encourage coalition formation between the poor and the non-poor as well as between the working and the middle classes, thus making their definitions of interest to diverge or converge.

In the above typology, institutional structures of social insurance programs for old age pension and sickness cash benefits are classified with reference to three aspects: bases for benefit eligibility, principles of replacement for lost income, and forms for program governing. On the bases these criteria, four different types of historically important institutional structures in Western countries can be delineated: targeted, basic security, state corporatist, and encompassing models. In targeted programs, harking back to old poor-laws, eligibility is based on a means-test, resulting in low benefits to those who fall below a poverty line. By excluding better-off manual workers as well as middle classes, support for these types of programs tends to be found primarily among the poor. The basic security model has universal eligibility based on citizenship and with relatively low flat-rate benefits irrespective of income lost. Since such programs can not protect accustomed standards of middle-class living, in the long run this model tends to split interests of working and middle classes, the latter becoming increasingly reliant on protecting their higher standard of living via private insurance or savings, while public insurance becomes a concern primarily for lower income groups. The state-corporatist model, introduced in Germany by Bismarck in the 1880s, is based on compulsory membership for specified occupational categories with earnings-related benefits, each program governed by employers and employees, however with benefits and conditions differing between programs and thus occupations. A key idea in the state corporatist model has been to create "socio-political communities" within different segments of the labor force and to induce cooperation between employers and employees, thereby counteracting broad-based employee coalition formation on the basis of class.[19] The encompassing model combines earning-related benefits with universalism into a specific pattern. Universal programs covering all citizens and giving them basic security have thus

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[19] In the state corporatist model, programs are directed at the economically active part of the population. Eligibility for benefits is based on a combination of contributions *and* belonging to a specified occupational category. Starting with the industrial working class, new occupational categories have gradually been added and accorded separate insurance programs over the decades.

been supplemented with clearly earnings-related benefits for the economically active part of the population. This structure of institutions is likely to reduce the demand for private insurance and has the potential to encompass all citizens within the same program; such institutions are likely to have the most heterogeneous risk pools in terms of risks and resources.

Taxation

A condition for governments to influence redistribution is that they have economic means to do so. Taxation in its many forms provides sources for government economic resources. As an indicator of government resources for policy making affecting income distribution, we here use the size of total government revenues as a proportion of GDP, as an average for the period 1980-89.[20] This indicator of government size is ranked; the four countries with the highest averages are described as having large governments, the next six countries as having medium governments, while countries with still lower average revenues can be said to have small governments.

Sets of Distributive Institutions

Examining distributive institutions in the above five areas we find some rather clear patterns, appearing to form three rather distinct sets of countries in terms of dominant distributive institutions: market dominated, sectorized, and inclusive countries *(Table 2)*. At one pole of this table, we find countries which can be described as having market dominated distributive institutions, typically combining majoritarian electoral models, market based wage setting, market oriented gender policies, basic security or targeted social insurance institutions, and small or medium governments. Relatively clear-cut cases here are USA, Canada, UK, New Zealand, and Australia.[21] Among them the UK has medium government size. Australia and New Zealand have diverged by long having extended wage setting, reflecting the traditional role of wage arbitration courts in setting minimum wages. Australia has also retained a targeted social insurance model. Among the Anglophone countries, Ireland deviates by being strongly Catholic, with wage setting which periodically has involving three-partite bargaining, medium government size, and an electoral model often regarded as lying somewhere between majoritarian and proportional models.[22] With proportional election to the federal government, Switzerland shares market-based wage setting, market-oriented gender polices, and basic security social insurance with countries having majoritarian electoral model. Such an unusual set of institutions reflects that the Swiss constitution with extensive protection for minorities severely circumscribes decision-making at the federal level. Although in a different cultural context from the others, Japan shares electoral models, wage setting, and gender policies with other countries in this set, but has historical traditions with a specific form a state corporatist social insurance institutions.

(Table 2 about here)

[20] Source is OECD, Historical Statistics.
[21] New Zealand changed to proportional elections in 199?
[22] Its “single transferable vote” allows the voter to give a first-order vote to one party which can be transferred to second-order party if not needed for election of the first-order party.

Countries with sectorized distributive institutions, all of them in Continental Europe, share a historic legacy of Christian Democratic parties supporting the state corporatist model of social insurance and the traditional family model. Their legislative extension of wage settlements is likely to be an outcome primarily of support from Christian Democratic and left parties. This set of distributive institutions includes Germany, Austria, and Italy. With a relatively high union density, Belgium has union-based wage setting. In this category, France deviates by having a majoritarian electoral model and, in this period, absent Catholic parties, but a historical legacy of state corporatist social insurance model. With only weak left cabinet influence, Italy has a small government size. Netherlands differs somewhat by having turned its state corporatist pension programs into a basic security one and with a relatively large government size.

The inclusive category includes the four Nordic countries with relatively strong left parties as well as strong unions. In Finland, Norway and Sweden, we find union based wage setting, encompassing social insurance institutions, and earner-carer gender policies. In Denmark, however, social insurance institutions have largely remained of the basic security type. In this context Finland deviates by having only medium governments size, something partly reflecting that its large legislated superannuation program for earning-related pensions are administered by private insurance companies.

The above differentiation of institutional structures is in itself an outcome of often intensive political conflicts (Korpi 2001). Our general hypothesis is that household economic inequality and poverty will be highest in the market dominated category and lowest among countries with inclusive institution, with sectorized countries forming a middling category. These institutional structures are however related, albeit in imperfect ways, to long-term relative strength of different partisan tendencies. We can therefore expect that within each institutional category, partisan political factors can be significant. At best we can therefore only hope for a partial agreement between institutional structures and comparative empirical data on income inequalities. As is often the case in comparative research, we lack good quantitative indicators for some variables hypothesized to be of relevance and will have to use available proxies.

Distributive Institutions, Partisan Competition, and Income Inequality

Income differences are customarily measured at the levels of households, the consumption unit within which incomes can be assumed to be shared to allow members within a household to achieve the same consumption standard with less money than does a single individual. To compare households of different composition, we use an equivalence scale. Since households differ in size but also in composition with respect to adults and children, we here apply the so called OECD-scale, sensitive not only to household size but also to its age composition.[23] To decrease the influence of differences among countries in handling individuals in the upper teen ages on comparability, we here restrict analyses to households with heads 20 years or older. In this context the best single source for data on household incomes is the Luxembourg

[23] This OECD equivalence scale assigns a value of 1 to the household head, of 0.7 to each additional adult, and 0.5 to each child (OECD Social Policy Division http://www.oecd.org./els/social). Thereby it reflects the considerable variation among countries in the extent to which youth 18 or older still live with the family of origin, while the square root scale only reflects the number of household members. This choice is of relevance primarily in estimations of poverty rates rather than of Ginis.

Income Study (LIS),[24] containing data sets for 16 of our countries (cf Appendix 1). What now is becoming a major problem with the LIS data set is that information on realized capital gains has not been included in income data. Since the 1980s, several countries have seen major increases in stock exchange values, and realized capital gains are likely to have become an increasingly important form of income tending to accrue primarily to high-income categories; their omission is likely to underestimate increases in inequality.

Studies on changes in dispersion of disposable household incomes indicate that in several of our countries, inequalities tended to decrease during the first three decades after the end of the Second World War, but have tended to increase again after the early 1980s.[25] Reflecting the availability of comparable data on income distributions, we here begin by focusing on the situation around 1985, the earliest part of the 1980s for which we have income data for many of our countries. Measures on income inequality are presented within the context of our three sets of distributive institutions. In the following analyses of levels and changes in income inequality we will use the familiar Gini index as well as the 90/10 percentile ratio.[26] We expect inequality to be highest among the market dominated countries, lowest among the inclusive ones, with sectorized countries somewhere in the middle. Needless to say, since also a multitude of other factors are of relevance for income distributions, at best we can only expect partial congruence between social insurance institutions and distributive outcomes. Among these other factors, country differences in long-term partisan cabinet composition are likely to loom large.

As a background for the following analyses of disposable income, we examine inequality in terms of market incomes (before taxes and social transfers) around 1985 and in 2000 in the different sets of distributive institutions.[27] While for most of our countries, we have data on gross income at both time points, this is not the case for five of them. Thus for Italy and Austria, at both time points, income variables are net of taxes and social security contribution, thus differentiating only between pre- and post-transfer income. In France and Ireland we have gross income for the early time-point but for 2000 only after taxes and social security contributions. In Belgium gross income data is available around 2000, but around 1985 only after taxes and social security contributions.

In Figure 1, bars describe market inequality in terms of Gini coefficients (x 100).[28] Around 1985, Ginis are very high, in about the 40-45 range in most countries. Ireland has an even higher one, while in Finland and Norway market inequality at this time appears as relatively low. Among countries for which full information for both time points is available, levels of market inequality has increased up to 2000, with The Netherlands as the only exception. In terms of percentage point increases, we find the highest ones in Finland (13.3) and the UK (9.8), followed by Germany (7.5), Australia (7.0), USA 6.7, Canada (5.1), Norway (5.0), Sweden (3.9), Denmark (2.3), Switzerland (1.5). Such increases do not appear to be clearly related to the nature of distributive institutions. Unless counteracted by transfers and/or taxation, increases in market income inequality are likely to increase inequality also in

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[24] For information on the LIS data set see Atkinson and Rainwater 198? Internet www.
[25] Atkinson 2003 ; Gottschalk and Smeeding 1997
[26] In the following presentations, differences among countries in terms of the 90/10 percentile ratio tend to follow rankings based on Gini coefficients.
[27] Year for early observations ….
[28] Because of difficulties in estimating the 10th percentile, in this context the 90/10 ratio varies wildly and are not given here.

disposable incomes. Because of problems with definitions noted above, changes in Austria, Belgium, France, Ireland, and Italy are difficult to evaluate; it can however be noted that gross income inequality around 1985 was very high in Ireland and France and around 2000 in Belgium.

(Figure 1 about here)

Moving to disposable income, at bars reflecting the size of Gini coefficients we also display the 90/10 percentile ratio (Figure 2).[29] Within each category of distributive institutions, countries are ranked by declining size of Ginis for disposable household income around 1985.[30] The following short-hand is used to characterize different levels of Gini coefficients (x 100):

1. *Very High:* 33.0 and over
2. *High:* 30.0 -32.9
3. *Medium High:* 27.0- 29.9
4. *Medium Low:* 24.0-26.9
5. *Low:* 21.0 -23.9
6. *Very Low:* below 21.0

In this post-war period characterized by relatively low income inequalities, we find considerable support for the relevance of distributive institutions as well as for the intensity of left party competition with secular-center right and Christian Democratic parties for levels of household disposable income inequality. Around 1985, the eight countries with market dominated institutions tend to have relatively high Ginis, which however tend to be higher in the absence of competition from left parties. Thus high Ginis appear in Ireland and USA, medium-high ones in Canada and Japan. In Switzerland with proportional elections but absence of left party competition we find high inequality. Among countries with marked dominated distributive institutions but party competition from the left, New Zealand and the UK tend to have relatively low income inequalities. In this context, however, Australia and Japan are relatively similar.

(Figure 2 about here)

Among the five sectorized countries, we find considerable variation; again figures point to the relevance of left party competition. Here Italy has a high Gini and France an almost as high one; as discussed above, both countries have lacked effective competition from left parties. In contrast, Ginis are medium-low in The Netherlands and Germany, and low in Belgium and Austria, that is, countries where left parties have offered significant electoral competition to Christian Democratic parties.

Among countries with inclusive distributive institutions, Ginis are medium-low in Denmark, low in Norway, and very low in Finland and Sweden. As noted above, here Finland

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[29] Disposable incomes can be seen as generated in the following steps. 1. Income from work and property = factor income. 2. Factor income + public sector transfers = Gross income. Gross income – income taxes paid= Disposable income.

[30] Both around 1985 as well as in 2000, country ranks according to the size of Ginis and the size of 90/10 ratios are closely related.

has had secular center-right dominance but left party competition, while in the other three countries left parties have been dominant with competition from the center-right.

In all but five of our 18 countries, Ginis increase up to 2000 in ways tending to decrease differences among the three types of distributive institutions. Among countries with market dominated institutions, seven of eight countries have high or very high ginis; only Switzerland shows a minor decline from its early high Gini. With only one exception, all market-dominated countries now have higher Ginis than have sectorized countries, which in turn have higher Ginis than all inclusive countries. The exception here is Italy, where a high Gini increases to a very high level. Among other sectorized countries, Ginis increase to medium high levels in Austria, Belgium and Germany, while decreasing to a low level in The Netherlands. In the inclusive countries, comparatively high relative increases in Ginis bring them up to medium-low levels in Sweden and Finland, while Norway retains a low Gini. In Denmark, we see some decline, something which may partly reflect a change of databases.

To some extent we can discern partisan political effects in the above data. Thus very high percentage point increases appear in the UK (7.4) and USA (6.4) in this period governed by Conservatives (Thatcher) and Republicans (Reagan), as well as in New Zealand (6.7) governed by conservatives. A high increase is however also found in Sweden (6.4), during most of this period governed by Social Democrats.

Poverty

While equality always has been a controversial issue, the idea that severe poverty should be avoided has found a much wider hearing. The common definition of income poverty is based on the proportion of citizens below a poverty line of less than 50 percent of median income. In the following, as a short-hand, we refer to poverty rates up to 4.0 percent as low, 4.0 to 5.9 as medium low, 6.0- 7.9 as medium high, 8.0 -9.9 as high, and 10.0+ as very high. Focusing on the total population, the highest poverty rates tend to appear in the market-dominated countries, with lower ones in the sectorized category, and still somewhat lower in some of the inclusive countries (Figure 4). Among market dominated and sectorized countries, those without major partisan competition from the left appear to stand out. Poverty rates are thus very high in USA with about 16 percent below the poverty line, very high also in Canada and in Ireland. Among the sectorized countries, Italy and France again deviate from the others; Italy has a very high poverty rate followed by France at a high level. However, poverty rates are also at a high level in Australia, medium high in Switzerland and in the UK. Medium low rates appear in The Netherlands, Germany, Belgium, and Austria. Among the four inclusive countries, Denmark and Sweden have medium low rates, with very low rates in Finland and Norway.

(Figure 4 about here)

Up to 2000, poverty rates in the total population increase dramatically in the UK to a very high level. Among sectorized countries we find major increases also in Germany, Belgium and Austria up to medium high levels. Countries in the inclusive category show limited changes, however with a marked decline in Denmark, the latter possibly partly related to a change in data source for incomes.

Poverty levels among the elderly are sensitive to definitions of the poverty line, something reflecting that individuals with only basic old age pensions often tend to be found close to this line. With a poverty line at 50 percent of median income, we find a rather varied picture at these two time points (Figure 5). Among market dominated countries, around 1985 very high poverty rates appear in USA, including close to one fifth of the elderly population. Very high rates are also found in Switzerland, and high ones in Canada. In UK, Australia, and Ireland, poverty rates are however at medium low level, but high in Germany, medium high in Austria and Italy, but medium low in Belgium. At this time point, very low levels of poverty are found in France and The Netherlands, as well as in inclusive Finland, Norway, and Sweden. The very high poverty rate in Denmark partly reflects that a sizable proportion of the elderly were found close below the poverty line.

(Figure 5 about here)

Up to 2000, USA retains its very high poverty, while figures decline to high in Switzerland. Canada shows a marked decline in old-age poverty to a low level, a change likely to reflect increasing old age transfers and also a new form of targeted pensions introduced in 199? (Myles and Pierson 1997). In line with increasing overall income inequality in UK, also poverty rates among the elderly show an increase to high levels. The major increase in Irish poverty rates to a high level may partly reflect a decrease of old age transfers in public expenditures during this period.[31] Switzerland's very high poverty rates around 1985 declines up to a high level in 2000, something possibly reflecting the maturation of its second pension pillar with occupational pensions. The Netherlands has very low rates at both time points, a position probably reflecting a good basic pension with some additions from occupational ones. The very high Danish poverty rate among the elderly declines to a low one, a decline possibly reflecting the increasing role of collectively bargained super-annuation programs and also a change in data sets. The minor increase in old-age poverty in Finland and Sweden could be related to some lowering of pension benefits in these countries.

Inequality of Opportunity among Children

Poverty among children has often been regarded as especially problematic (for a comprehensive analysis, cf Jäntti 2001). Childhood conditions influence individuals' life chances and opportunities. Children can not be seen as responsible or guilty for their economic circumstances. The gentlemanly credo that competition should be fair, with equal opportunities for all, is tarnished if at the start of their lives, children have very different resources for competition. Children growing up under very unequal economic conditions may furthermore generate future problems for the cohesion of a society. We will here therefore map differences among countries not only in the extent of poverty but also its opposite, the extent to which some children are favored by growing up in particularly affluent families. Children in households with less than 50 percent of median income can be said to live in poverty, while those more than 150 percent above median income can be described as living in affluence.

A mapping of percentages of children in our countries living in poverty around median income, or in affluence around 2000 shows by now familiar patterns of differences (Figure 6). Judging by the percentage of children in the middle category of families – between the poor and the affluent – economic segregation of children is clearly greater in the market dominated countries than in the inclusive ones, with sectorized countries in middling positions. Here Switzerland and Italy do however change ranks, with Italy having a segregation level about as

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[31] Based on the OECD Social Expenditure data base (not adjusted for changes in numbers of retirees).

high as USA and UK. In the USA, Italy, and UK, thus only about two thirds of children grow up in relatively similar economic circumstances around median incomes. The largest proportions of children around the median are found in the inclusive countries as well as in The Netherlands. The range of variation in proportions of children living in poor families tends to be greater than proportions living in affluence. Child poverty rates are particularly high in the United States, followed by Italy and thereafter UK, Ireland, and Australia. These rates are markedly lower in the four inclusive countries.

(Fig 6 about here)

Government Outlays and Redistribution

We have seen that structures of distributive institutions show relatively robust patterns of differences among countries with respect to inequalities in disposable household incomes and poverty rates in different age groups. On the whole, inclusive distributive institutions are associated with less inequality and poverty than are market-based institutions but to a considerable extent also less than countries with sectorized institutions. What processes make for these differences? Our hypothesis is that distributive institutions work by affecting dispersion in earnings and women's labor force participation; distributive institutions are also likely to affect patterns of coalition formation among citizens, varying in the extent to which they permit political interventions into market process affecting, for example, levels of taxation (Korpi and Palme 1998).

Debates on redistributive outcomes of welfare states have almost exclusively focused on how to distribute monies available for transfers while largely neglecting the relative size of the proportion of national economic resources which, in one way or the other, are allocated via governments and public authorities. To the extent that distributive institutions contribute to the pooling of risks and resources and to coalition formation including the middle as well as the working classes and the poor, they are likely to affect the size of the budgets made available to governments.[32] Mainstream economic theory predicts that taxation to finance such programs will generate large tax wedges, distorting market processes in ways endangering economic efficiency and growth. In mainstream economics, tax wedges are defined as the difference between what employers pay as gross wages and after-tax earnings of employees; this difference defining the tax wedge is assumed to decrease employee work motivation. However, as has been argued also by some economists (Agell …; Barr 199?), such taxation can come to be seen by citizens as a way of buying insurance in relation to risks associated with earnings interruptions during the life course. To the extent that this occurs, risks for market distortions are decreased; citizens buy social insurance via taxes instead of private insurance via markets. Here differences in distributive institutions are likely to be of relevance. Inclusive and sectorized countries can be expected to have a relatively high proportions of GDP allocated via governments and public authorities in ways benefiting most citizens. This way of allocating national resources may come to be experienced as acceptable by citizens if they find themselves receiving valuable returns from taxes paid, something likely to strengthen the legitimacy of public involvement in distributive processes. In contrast,

[32] Redistributive budgets are financed via taxation with different degrees of progressivity. This redistributive formula can thus be seen as applying also to the financing side of the redistributive process. We are here thus studying the combined redistribution achieved via the tax and transfer systems.

in market-dominated countries, payment of taxes tends more often to be seen as giving away one's own hard-earned monies with little prospects to getting valuable returns, a situation likely to limit the size of public receipts and outlays. Total government outlays and public sector size are therefore likely to reflect the multiple ways in which public action can benefit citizens in a more differentiated manner than do social expenditures alone. In the following we will therefore rely on total government outlays as reflecting the size of the public sector, defining the upper limit for the redistributive budget available for governments. It can be argued that the size of the redistributive budget is of key importance for redistributive effects of government actions (Korpi and Palme 1998).

The above expectations are largely born out when we look at the size of government total outlays in our countries 1996-2000.[33] To control for the effects of variations in factor income inequality between countries, we here examine income redistribution in terms of the reduction of Gini coefficients when we move from market income to disposable income, that is, after taxes and transfers. This has been done for the total population as well as for the prime working-age population (25-59 years) and around 1985 as well as 2000. Since the results are relatively similar we here show only those for the total population around 2000. The bi-variate plot of public sector size and the absolute decline in Gini from market income to disposable income achieved through the tax and transfer systems is shown in Figure 6. The correlation between these two variables is relatively high (r = .75).[34]

(Figure 6 about here)

Left Cabinet Longevity and Inequality

As discussed above legislated distributive institutions can be seen as residues of past conflicts, where organized interests, among them political parties, have had key roles. Western political parties can be roughly positioned on a left-right continuum, a continuum which also differentiates parties in terms of priorities for equality and inequality. European Christian Democratic parties do however deviate in the sense that they have been more averse to poverty than have secular center-right parties; yet these confessional parties have largely accepted inequality. Among major organized political interests, it is thus primarily left parties that have given a high priority to decreasing inequality. The extent to which left parties have been able carry through policies that decrease inequality depends on their share of votes but also on their longevity in cabinet positions.[35]

Policies to decrease inequality in an unequal society is likely to require long-term and persistent political efforts in molding citizens' expectations as well as in changing institutions. The distinction between proportional and majoritarian elections has been crucial for the extent to which left votes have been transformed into long-term cabinet presence for left parties. Thus in UK, Australia and New Zealand, Labour parties have had relatively high shares of votes but only intermittent control over cabinets. In these terms, with roughly similar shares of votes, social democratic parties in the Nordic countries have been considerably more successful.

[33] Source: OECD

[34] The correlation with relative decrease in Ginis is higher (r = .84). As noted above four countries lack information on gross market income; Italy, France, Ireland, and Austria are therefore here excluded.

[35] The relevance of left cabinet longevity has been discussed by Huber and Stephen 2001; Broady ….. 2009; Korpi 1989, 2006).

We explore the relationship between left cabinet longevity and household income inequality in about 1985 in Figure 8. Longevity of left cabinet presence is indicated by the longest continuous period that left parties have been present in cabinets 1945-1985.[36] We find a relatively high negative correlation between this measure and country Ginis (-0.76).

(Figure 8 about here)

Discussion

It goes without repeating that markets, international trade, technologies, and demography are of relevance in income distribution, perhaps primarily, as suggested by Atkinson (200?), in setting frames and contexts within which distributive processes and conflicts take place. As underlined also by some economists, research on income distribution should consider the role of political and social factors. This paper takes a major step in this direction by focusing on the relevance of distributive institutions as factors intervening between, on the one hand, driving forces among them political actors, and, on the other hand, distributive outcomes manifested in income inequality. Such institutions are typically outcomes of positive-sum distributive conflicts, that is, strife between cooperating actors disagreeing on the ways in which to allot results of their cooperation. In the emergence of distributive institutions, partisan conflicts along the left-right continuum have been central. In Continental Europe we also find major effects of historical legacies from the Reformation and Counterreformation, in most of these countries leaving relatively strong confessional Christian Democratic parties in key positions. Relevant here have also been early settlements on electoral systems, especially the distinction between majoritarian and proportional elections, with proportional elections tending to be more favorable for the establishment and strength of left parties. The sets of distributive institutions used here –electoral models, wage setting, gender policies, social insurance, and taxation – differentiate countries in terms of the relative role they accord to markets and to politics in distributive processes, as well as in the ways institutions are likely to affect citizens' definitions of their interests and patterns of coalition formation. While distributive institutions can be more or less enduring, their conflictual background makes them contested, and leaves opportunities for continued influences of partisan actors on distributive outcomes.

In relating differences in levels and changes in inequality from around 1985 to 2000, we find an important role for distributive institutions. Around 1985, as expected the main pattern is that countries with market-dominated distributive institutions tend to have the highest degrees of inequality, while the lowest levels of inequality tend to be found in countries with inclusive distributive institutions, favoring relatively broad-based distributive coalitions and restraining the role of markets. With respect to income dispersion, countries having sectorized distributive institutions tend to be found in middling positions. Up to 2000 inequalities increase in most countries; yet, our sets of distributive institutions retain their discriminatory capacity.

Analyses here indicate that within the context of different institutional types, the relative strength of political actors remains of considerable relevance. Especially the capacity of left

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[36] Left party longevity in cabinets is calculated as the longest period of continuous left cabinet presence as percentage of years in cabinets formed 1945-1985. Left absence from cabinets during 1-2 calendar years have been discounted, and the strength of left representation is not considered.

parties to effectively challenge cabinet power of secular center-right and Christian Democratic parties has been important for income inequality. Thus among countries sharing majoritarian electoral models and market dependent distributive institutions, the capacity of Labour parties in UK, Australia, and New Zealand to challenge secular center-right appears to explain the lower degree of household disposable income inequality in these countries than what is found in USA, Canada, and Ireland, countries with largely similar distributive institutions but without or with very weak left parties. Also in the context of proportional elections in Continental Europe, left party capacity to challenge dominant Christian Democratic party appears to have been of relevance for levels of income inequality. This is apparent in comparisons between the high inequalities and poverty rates in Italy, where the dominant Christian Democratic party has governed in the context of a deeply split and marginalized left, and the considerably lower levels in Belgium, Germany, and The Netherlands with a unified left of medium strength. The acceptance of inequality in Catholicism is here reflected in the very high levels of income inequality and poverty in Italy and Ireland, the two European countries where the Catholic Church has been clearly strongest during the postwar period, contradicting the hypothesis that Catholicism has been a functional equivalent to social democracy with respect to welfare state development.

Distributive institutions are found to be associated with different volumes of government outlays, differences which are relatively clearly related to redistributive effects of public policies. The longevity of left cabinets appears as an important factor for levels of inequality. The introduction of political and social factors into the analysis of income inequality thus proves to be fruitful in helping to interpret major differences among countries.

Appendix 1. Sources of Income Data

For the 18 countries, we use data covering two different time periods: one about 1985 and the other about 2000. For each country we have chosen the year up to 1985 with the lowest Gini in disposable income. If no dataset is present before 1985 we have chosen the earliest available dataset thereafter. Data from the LIS Database are as follows: Australia (1981, 2001), Austria (1987, 2000), Belgium (1985, 2000), Canada (1981, 2000), Denmark (1987, 2000), Finland (1987, 2000), France (1984, 2000), Germany (1981, 2000), Ireland (1987, 2000), Italy (1986, 2000), Netherlands (1987, 1999), Norway (1986, 2000) Sweden (1981, 2000), Switzerland (1982, 2000), United Kingdom (1979, 1999) and the United States (1979, 2000). In some countries, surveys for separate years may differ in terms of sampling principles and measurements, differences which limit comparability over time as well as among countries.

A few of the countries in LIS have net variables only and some of the countries have gross and net variables for the years around 1985. For Italy all income variables are net of taxes and contributions in all datasets. Austria, Belgium and Ireland have gross and net variables for 1987, 1985 and 1984 respectively. In 2000 they only have variables that are net of taxes and contributions. France report gross and net variables in the 1984 dataset but in the 2000 dataset the variables are net of contributions but gross of income tax.

Japan and New Zealand are not included in the LIS Database. Their Gini-coefficients and 90/10-ratios are derived from an OECD report (Förster and d’Ercole, 2005).

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Table 1. Electoral Models, Types of Dominant Parties, Major Competition from Other Types of Parties, Cabinet Shares, Cabinet Longevity, and Vote Shares in 18 Countries from 1945 to about 1985.

Country	Electoral Model	Type of Dominant Party	Major Competition from other Types of Parties	Cabinet Share			Cabinet Longevity			Vote Share		
				Left	CD	SCR	Left	CD	SCR	Left	CD	SCR
USA	MAJ	SCR	-	-	-	100	-	-	100	-	-	100
Canada	MAJ	SCR	-	-	-	100	-	-	100	14	-	86
Ireland	MAJ	SCR	-	12	24	64	14	14	67	14	29	57
Japan	MAJ	SCR	-	2	-	98	6	-	100	34	-	66
France	MAJ	SCR	-	16	10	74	15	38	94	42	10	47
UK	MAJ	SCR	Left	52	-	48	21	-	41	45	-	55
Australia	MAJ	SCR	Left	22	-	78	14	-	89	47	-	53
New Zealand	MAJ	SCR	Left	31	-	69	11	-	80	45	-	55
Germany	PR	CD	Left	28	47	25	47	66	-	37	44	18
Austria	PR	CD	Left	60	38	2	47	51	-	47	43	10
Belgium	PR	CD	Left	29	53	18	55	68	-	37	38	25
Netherlands	PR	CD	Left	21	62	17	33	100	-	35	42	23
Italy	PR	CD	-	19	72	9	29	100	-	43	40	17
Switzerland	PR	SCR	-	21	31	48	62	100	100	29	24	48
Finland	PR	SCR	Left	41	-	59	52	-	100	46	1	53
Denmark	PR	Left	SCR	54	1	46	74	-	36	46	1	53
Norway	PR	Left	SCR	74	4	21	46	-	22	49	9	42
Sweden	PR	Left	SCR	82	-	18	89	-	19	52	1	48

MAJ = Majoritarian CD = Christian Democratic
PR = Proportional SCR = Secular Center-Right

Table 2. Sets of Distributive Institutions Electoral Models, Wage Setting, Gender Policy, Social Insurance, and Taxation in 18 Countries around 1985.

Sets of Distributive Institutions	Country	Electoral Model	Wage Setting	Gender Policy	Social Insurance	Govern-ment Size
		Types of Distributive Institutions				
Market Dominated	USA	MAJ	Market	Market	Basic security	Small
	Canada	MAJ	Market	Market	Basic security	Small
	UK	MAJ	Market	Market	Basic security	Medium
	New Zealand	MAJ	Extended	Market	Basic security	--
	Australia	MAJ	Extended	Market	Targeted	Small
	Ireland	MAJ	(Market)	Market	Basic security	Medium
	Japan	MAJ	Market	Market	State corporatist	Small
	Switzerland	PR	Market	Market	Basic security	Small
Sectorized	Germany	PR	Extended	Traditional	State corporatist	Medium
	Austria	PR	Extended	Traditional	State corporatist	Medium
	Belgium	PR	Union	Traditional	State corporatist	Medium
	Italy	PR	(Extended)	Traditional	State corporatist	Small
	Netherlands	PR	Extended	Traditional	Basic security	Large
	France	MAJ	Extended	Traditional	State corporatist	Medium
Inclusive	Finland	PR	Union	Dual earner	Encompassing	Medium
	Norway	PR	Union	Dual earner	Encompassing	Large
	Sweden	PR	Union	Dual earner	Encompassing	Large
	Denmark	PR	Union	Dual earner	Basic security	Large

Figure 1 Household Market Income Inequality About 1985 and 2000 by Types of Distributive Institutions (Gini).

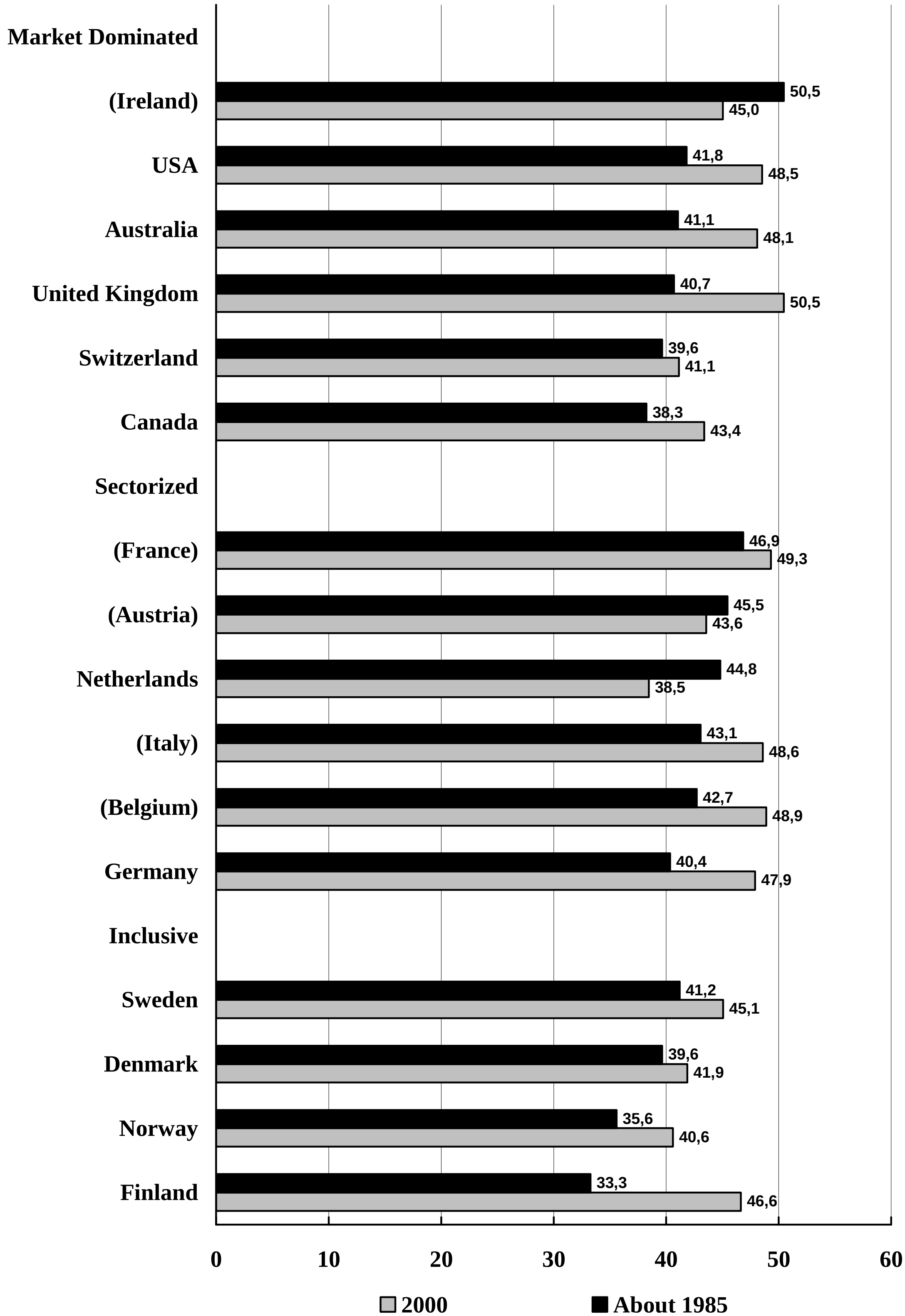

Figure 2 Household Disposable Income Inequality About 1985 and 2000 in 18 Countries by Types of Distributive Institutions (Gini and 90/10 ratio).

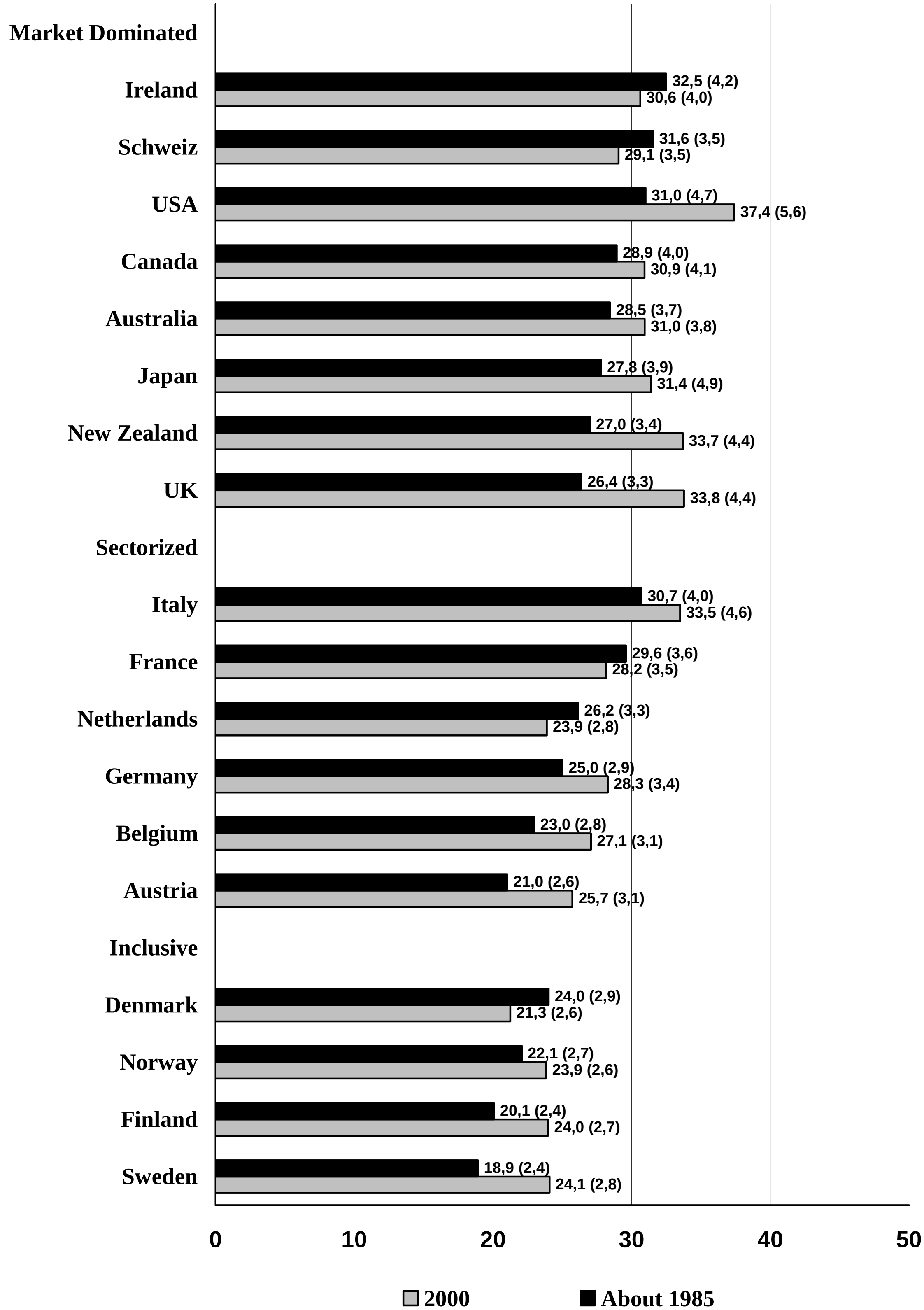

Figure 3 Poverty Rates in Total Population about 1985 and 2000 in 18 Countries by Types of Distributive Institutions (50% of median income).

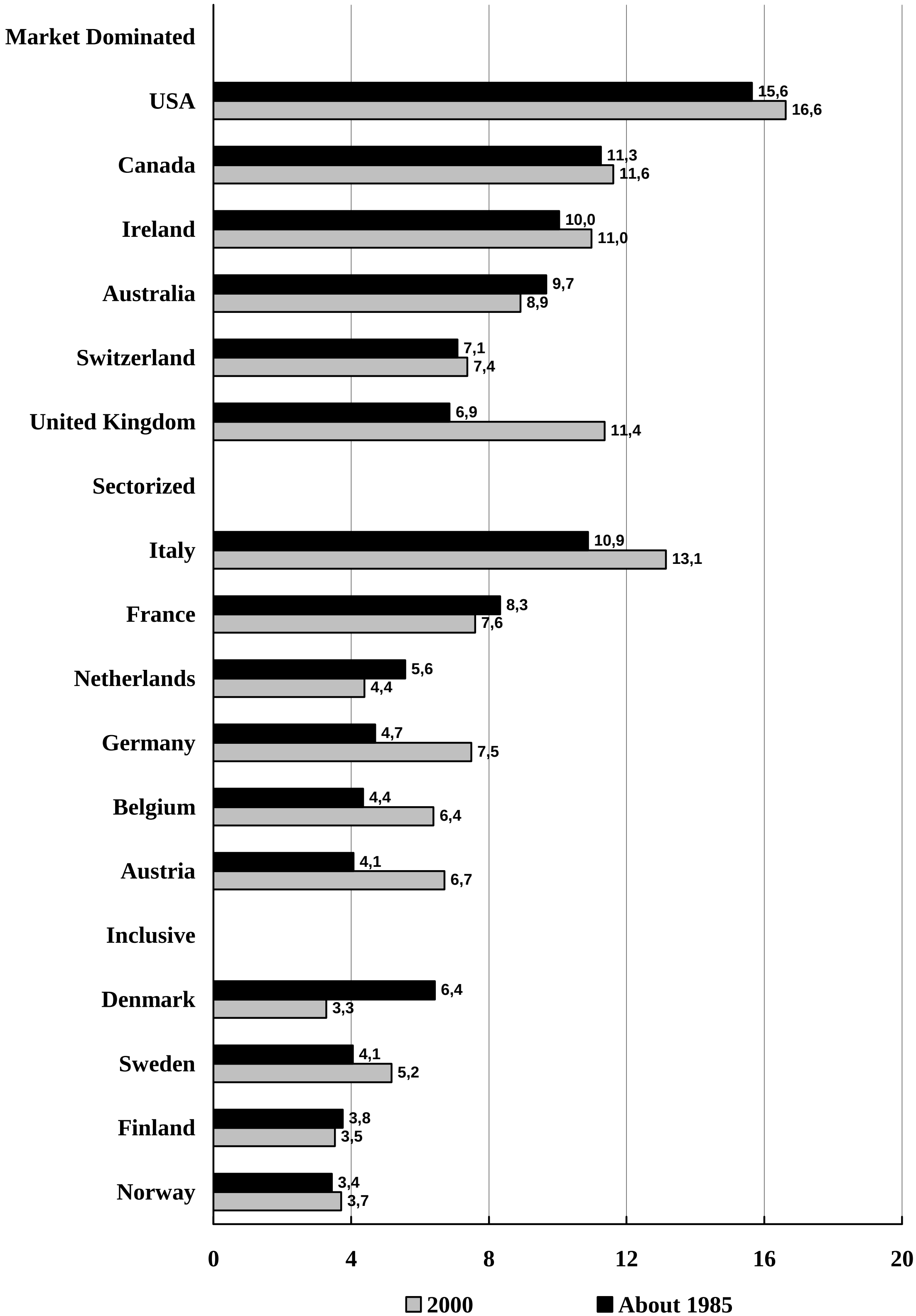

Figure 4 Poverty Rates Among the Elderly about 1985 and 2000 in 18 Countries by Types of Distributive Institutions (65+ years).

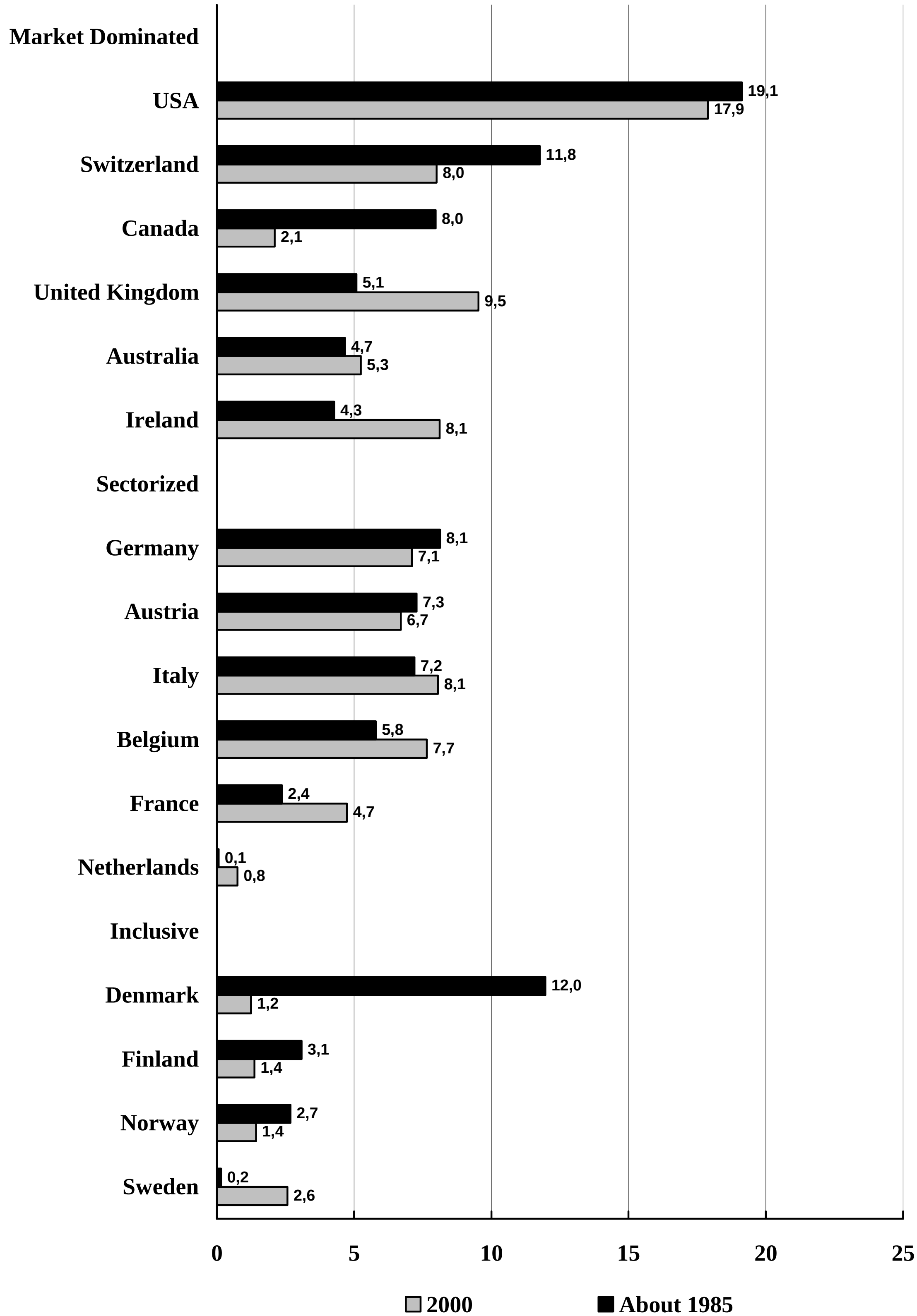

Figure 5 Percent Children Living in Poverty and in Affluence by Types of Distributive Institutions in 18 Countries around 2000 (below 50% and above 150% of median income)

Figure 6 Public Total Outlays (average 1996-2000) and Absolute Decline of Gini from Market Income to Disposable Income Around 2000.

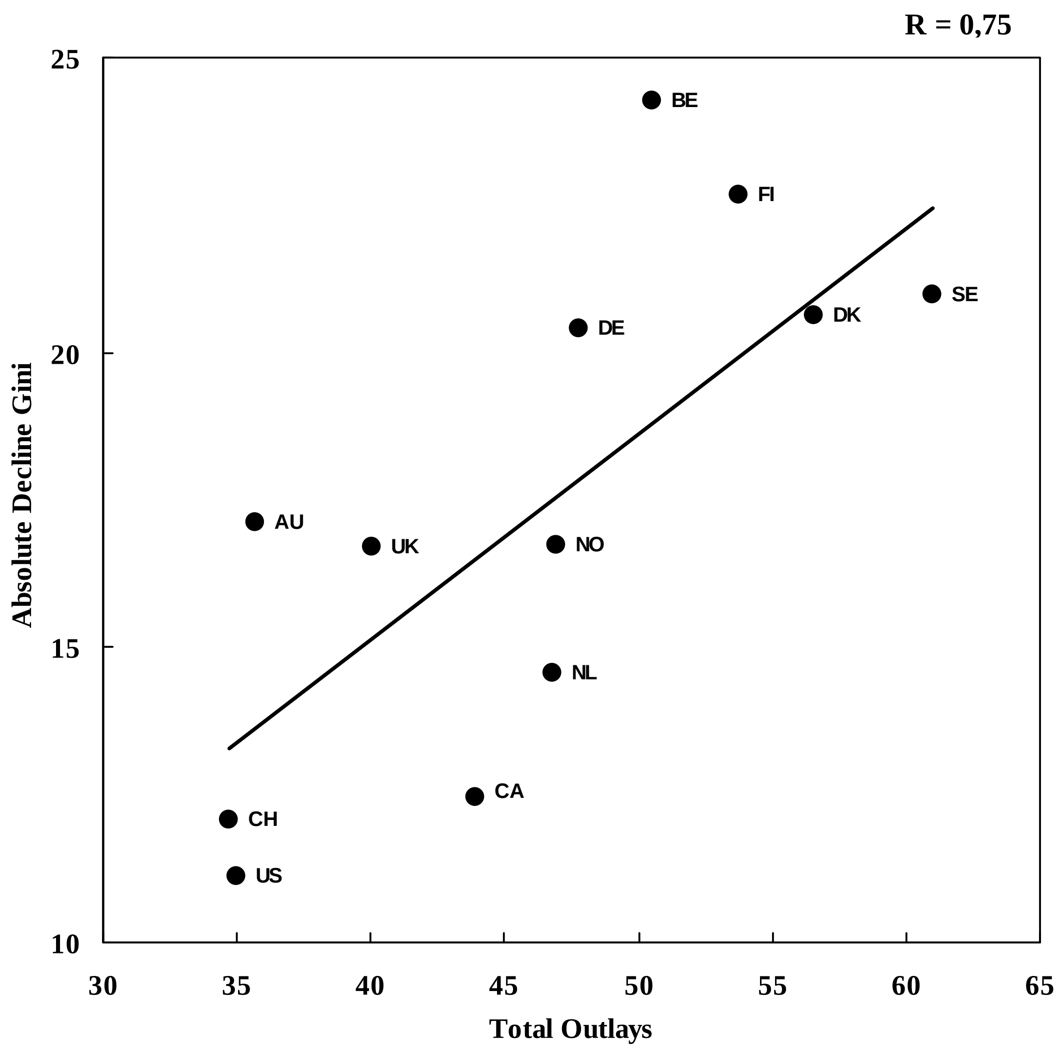

Figure 7. Left Party Longevity in Cabinet Participation After 1945 and Inequality in Disposable Household Income about 1985 (Gini).