980212

The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries*

by

Walter Korpi and Joakim Palme

* Authors share equal responsibility for the article. Earlier versions of the manuscript have been presented at the conferences of the International Sociological Association in Bielefeld 1994, British Social Policy Association in Liverpool 1994, the Research Committees for Social Stratification in Stockholm and for Poverty, Social Welfare and Social Policy in Canberra in 1986 as well as at the Welfare States at the Crossroads conference in Stockholm in 1997 and at different seminars. We want to thank participants in these conferences as well as Rune Åberg and Johan Fritzell for valuable comments. The work has been supported by the Bank of Sweden Tercentenary Foundation, the Social Science Researach Council and the Council for Research in the Humanities and Social Sciences.

Abstract

The debates on how to reduce poverty and inequality have focused on two controversial questions. One is whether social policies should be targeted to low-income groups or universal; another whether benefits should be equal for all or earnings-related. Traditional arguments in favor of targeting and flat-rate benefits, focusing on the distribution of the money actually transferred, have neglected three policy-relevant considerations: 1. The size of redistributive budgets is not fixed but reflects the structure of welfare state institutions. 2. There tends to be a tradeoff between the degree of low-income targeting and the size of redistributive budgets. 3. Outcomes of market-based distribution are often even more unequal than those of earnings-related social insurance programs. We argue that social insurance institutions are of central importance for redistributive outcomes. Using new data bases, our comparative analyses of the effects of different institutional types of welfare states on poverty and inequality indicate that institutional differences lead to unexpected outcomes and generate the paradox of redistribution: The more we target benefits at the poor and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality.

Social scientists and social reformers have long debated how the welfare state and social policies should be designed so as best to reduce poverty and inequality. In these debates two different issues can be identified. One question concerns whether social policies should be targeted or universal, that is, whether they should be organized for the poor only or whether the welfare state should include all citizens. The second issue concerns the level of benefits to be accorded via social insurance, that is, whether benefits should be equal for all or related to previous earnings and income. It is thus of central importance for the question of whether the ”middle classes” should be included in the welfare state in a way which protects their accustomed living standards. Policy makers as well as academic students of social policies have been and continue to be divided on these two issues, but their views have varied over time as well as between countries.

Targeting harks back to the traditions of the old poor laws but continues to play a more or less significant role in all Western countries. In the United States, legislation of 1935 introduced not only non-targeted old age pensions and unemployment insurance but also what was to become a large means-tested program, Aid to Families with Dependent Children (AFDC). During the period since the Second World War, the targeting issue has been prominent in the United States. Thus the large programs in the War on Poverty initiated in the 1960s were explicitly directed at the poor (Quadagno 1994). In the design of anti-poverty programs, the basic question was: "What does it do to the poor?" (Lampman 1974). As their main criterion for program success, social scientists evaluating anti-poverty programs chose the degree of "target efficiency" defined in terms of the proportion of program expenditures going exclusively to the poor below the official poverty line; thus the greater the targeting, the better the program (Barth, Cargano and Palmer 1974). Because of the visibility of targeted social assistance programs such as AFDC and Foodstamps in the United States, the targeting-universalism question has continued to be central in American social policy debates. Outside the United States, however, the issue of the earnings-relatedness of social insurance benefits has also come to the fore. On these issues, we do find significant differences between social science disciplines and also change over time.

With reference to the assumed negative effects on labor supply and savings, economists have typically been cool towards earnings-related social insurance and have regarded programs targeted at the poor as the most efficient way of reducing poverty and inequality. Thus, for example, Tullock (1983:97) writes: "There is a rough rule of thumb by which we can detect which projects are designed to help the poor and which are not designed to help them. This rule of thumb is that if there is a means test, i.e., if aid is so arranged that is cuts off at a reasonably low level, then it is designed to help the poor. ... (T)he switch from a means-tested program to a general aid program would, in all probability, hurt the poor." In an evaluation of the effects on inequality of universal social services in postwar Britain, Le Grand (1982:137) came to a clear verdict: "Public expenditure on the social services has not achieved equality in any of its interpretations. Public expenditure on health care, education, housing and transport systematically favors the better off and thereby contributes to inequality in final income." Among political scientists, in the same vein Barry (1990:505) maintains that "the Poor law by its nature brings about a net transfer between classes, whereas the welfare state has no inherent tendency to bring about such net transfers. ... By contrast, a welfare state characteristically transfers money within income strata..." Similar views have also been found among sociologists. Thus, in his famous lectures on ”Citizenship and Social Class,” T. H. Marshall compared the equalizing or classabating effects of social insurance schemes involving the total population, insurance schemes limited to lower income groups, and means-tested programs. His conclusion was that ”a total scheme is less specifically classabating in a purely economic sense than a limited one, and social insurance is less so than a means-tested service” (Marshall 1950:55).

The assumption that social policies directed at the needy constitute the most efficient strategy for reducing poverty and inequality has however been called into question. Thus the British historian R.H. Tawney has argued that what he referred to as "the strategy of equality" in a society should involve "the pooling of its surplus resources by means of taxation, and the use of the funds thus obtained to make accessible to all, irrespective of their income, occupation, or social position, the conditions of civilization which, in the absence of such measures, can be enjoyed only by the rich" (Tawney 1952:130). According to Tawney social policy should thus not be directed to the poor alone but should include all citizens.

In an early critique of the stress on targeting in American policy debate, Korpi contrasted a marginal social policy model with minimum benefits targeted at the poor with an institutional model based on universal programs intended to maintain normal or accustomed standards of living. He argued that while a targeted program "may have greater redistributive effects *per unit of money spent* than institutional types of programs," other factors are likely to make institutional programs more redistributive (Korpi 1980a:304, italics in the original). This rather unexpected outcome was predicted as a consequence of the type of political coalition formation that different models of welfare state institutions tend to generate. Since the marginal types of social policy programs are directed primarily at those below the poverty line, a rational base is not found for coalition formation between those above and those below the poverty line.

The poverty line, in effect, splits the working class and tends to generate coalitions between the better-off workers and the middle class against the lower sections of the working class, something which can result in tax revolts and welfare-state backlash. In an institutional model of social policy, however, most households will directly benefit in one way or another. Therefore this model ”tends to encourage coalition formation between the working class and the middle class in support for continued welfare state policies. The poor need not stand alone" (Korpi 1980a:305). The hypothesis here is thus that the size of the budget available for redistribution is not fixed and that the institutional structures of welfare states are likely to affect the definitions of identity and interest among citizens so that in the end an institutional welfare state model based on a universalistic strategy intended to maintain normal or accustomed standards of living is likely to result in greater redistribution than a marginal one based on targeting (cf. also Rosenberry 1982).

Since the 1980s, many social scientists in Europe as well as in America have come to view the targeting of social policies at the poor with increasing criticism. Thus Weale (1990:475) argues that "there is a series of connections both of practice and of principle that link universalistic forms of provisions to the pursuit of equality." Students of poverty among racial minorities and children have increasingly come to take a dim view of the effects of targeted policies (Lawson and Wilson 1996; Garfinkel, Hochschild and McLanahan 1996). Criticism of targeting has also been strong among scholars focusing on gender relations, pointing to ways in which means-tested social programs tend to disadvantage women (Hobson 1990; Orloff 1993; O’Connor 1993; Harrington Mayer 1996). But while the support for targeting has decreased among social scientists, among policy makers in the Western countries it has instead been increasing. Thus, for example, in outlining its approach to social policy reform, the Conservative British government declared ”that resources must be directed more effectively to the areas of greatest need. ... We must target the resources we have more effectively” (Department of Health and Human Services 1985:18). On the international scene, institutions such as the International Monetary Fund and the World Bank (1990:3) have argued that ”a comprehensive approach to poverty reduction ... calls for a program of well-targeted transfers and safety nets ... ”

The idea that high-income earners should be included in the welfare state via earnings-related benefits has tended to meet strong scholarly resistance. According to Goodin and Le Grand (1987), the failure of social policies to reduce inequality lies in the beneficial participation of the non-poor in the welfare state. If the goal of social policy is limited to the reduction of poverty, then universal programs also benefiting the non-poor are a waste of resources. However, if we want to reduce inequality between the poor and the non-poor, their verdict is even more severe. "In egalitarian terms ... the beneficial involvement of the non-poor in the welfare state is not merely wasteful - it is actually counterproductive. The more the non-poor benefit, the less redistributive (or, hence, egalitarian) the impact of the welfare state will be” (Goodin and Le Grand 1987:215). In the same vein, Castles and Mitchell (1992:4) argue that while universalism is likely to lead to greater equality than targeting, ”earnings-related (or status-related) benefits will clearly have a less equalizing effect, all other things being equal, than flat-rate benefits.”

Yet, on this issue also, social scientist’s opinions have to some extent been divided. Åberg (1989) has shown how the distributive profiles of welfare states as well as their size combine to generate redistribution. Some comparative empirical evidence indicates that universalistic welfare states tend to be associated with greater equality and redistribution than marginalistic ones (Hicks and Swank 1984; Ringen 1987: Chap.8; Fritzell 1991; Mitchell 1991; Ringen and Uusitalo 1991). In a study of pensions, Palme observed that universalistic and earnings-related pension systems tend to produce a lower degree of inequality in the distribution of final income among the elderly than flat-rate ones, and concluded that "*there is a paradox here* in the sense that comparatively unequal public pensions might produce the most equal income distributions by crowding out even more unequal income sources" (Palme 1990:154, italics added; also Kangas and Palme 1993). In Finland, the change from flat-rate to earnings-related pensions was found to have reduced inequality as well as levels of poverty among the elderly between 1966 and 1990 (Jäntti, Kangas and Ritakallio 1996).

In his innovative and influential study on ”The Three Worlds of Welfare Capitalism,” Esping-Andersen (1990) would appear to take an inconsistent position on the consequences of earnings-related benefits. On the one hand he applauds the ”social democratic welfare state regime,” which promotes equality on the highest levels and makes for ”universalism of middle-class standards” (Esping-Andersen 1990:27,69). On the other hand, however, he takes the difference between the social insurance benefits of an average production worker and the maximum legal benefit, that is an indicator of the degree of earnings-relatedness, as a main criterion for distinguishing between the ”socialist” and the ”conservative” types of welfare state regimes. ”The benefits-differential measure should in principle facilitate a sharp distinction between the ‘socialist’ and ‘conservative’ cases. In the former, an accent on equality should induce low differentials; in the latter, the principles of maintaining status and hierarchy should result in sharp inequalities” (Esping-Andersen 1990:75). We should thus expect ”the socialist-inspired regimes to accentuate benefit equality, while in the conservative regimes inequalities should be greatest” and therefore ”the socialist regime ought to exhibit the lowest level of benefit differentials” (Esping-Andersen 1990:69, 73).[1]

As the above review indicates, in the late 1990s Western policy makers are renewing the old stress on the targeting of social policies and social scientists disagree on the best strategy for reducing poverty and inequality. While universalism has gradually become accepted in many scholarly quarters outside economics, the earnings-relatedness of social insurance benefits is still strongly questioned. Within the countries of the European Union, this questioning has been strengthened by increasing pressures to reduce budget deficits and the public sector. In this context comparative analyses looking at the consequences for inequality and poverty of different types of welfare states are of central relevance.

The purpose of this paper is to carry out a comparative analysis of the capacity of what Titmuss (1974) referred to as different models of social policy to reduce inequality and poverty in the capitalist democracies. The analysis is centered on the role of the institutional structures of welfare states in the redistributive process. These institutional structures are here seen as reflecting differences in the roles for markets and politics in distributive processes within countries and as embodying, in Tawney’s terms, different "strategies of equality." The shape of societal institutions has been assumed to be affected by the actions of different interest groups, but we can also expect that institutional structures are of significance for the ways in which citizens come to define their interests and preferences (Hechter, Opp and Winkler 1990; Korpi 1980a, 1980b, 1985; March and Olsen 1989; Pierson 1995; Powell and DiMaggio 1991; Steinmo, Thelen and Longstreth 1992). Welfare state institutions can thus be viewed as "intervening variables" (cf. Lazarsfeld 1962), on the one hand reflecting causal factors such as actions by coalitions of interest groups, and, on the other hand, potentially having feedback effects on distributive processes via their effects on the formation of interests, preferences and coalitions among citizens. It would therefore appear to be a fruitful hypothesis that, while the institutions of the welfare state are to an important extent shaped by different types of interest groups, once in place they tend to influence the long-term development of definitions of interests and thereby coalition formation among citizens. This, consequently, makes it likely that institutional structures will have significant effects on redistributive processes and on the reduction of inequality and poverty.

The paper begins with a discussion and presentation of a welfare state typology based on social insurance institutions and the strategies of equality which they can be seen as embodying. Data and the problems of measuring inequality and poverty are discussed as a preparation for empirical analyses of the relationships between, on the one hand, institutional types, and on the other, outcomes in terms of inequality and poverty in the various stages of the redistributive processes. The results are discussed in the final section. The empirical parts of the paper are based on two new data sets. One is the *Social Citizenship Indicator Program (SCIP)* containing information on the development of social insurance programs in 18 OECD countries, namely Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.[2] The other data set is the *Luxembourg Income Study (LIS)*, which contains micro-data on income distribution in a number of countries.[3] These two data sets represent major advances in the opportunity for the comparative study of social policies and their effects, and enable us to carry out analyses that would not have been possible only a few years ago.

A TYPOLOGY OF SOCIAL INSURANCE INSTITUTIONS

Welfare state institutions in the industrialized countries demonstrate differences as well as family resemblances which are likely to be of relevance for their redistributive consequences. The several attempts that have been made to capture these similarities by creating typologies of welfare states have run into familiar problems. By specifying ideal types, we can hope to crystallize similarities between countries and to gain a better understanding of the background to variations among them. However, ideal types will never have a perfect fit with existing realities, and typologies may thus obscure actual variations between countries. The fruitfulness of typologies therefore depends on our ability to base them on variables which are of heuristic value for the understanding of the background to and consequences of variations between ideal types and on the extent to which empirically observed variation between types are greater than variation within types.

Welfare state typologies can be used for different purposes and can focus on variables related to causes, institutions, and/or outcomes. The clearly most influential attempt to create a welfare state typology has been that of Esping-Andersen (1990).[4] He uses the concept of welfare state regimes to characterize and to describe the complex of relationships between the state, the labor market, and the family. By underlining the multi-dimensional nature of welfare state variation, Esping-Andersen's typology is innovative and very fruitful and it has stimulated much research. His trifold clusters of welfare states are labeled according to the main ideological currents assumed to underlie them, that is the Conservative, Liberal, and Social Democratic welfare state regimes.

Since Esping-Andersen´s primary interest was to describe the contours of the relationships between states, labor markets, and families, his typology is based on a broad set of indicators referring to outcomes as well as to institutions. [5]

Our interest is primarily analytical, to study on the one hand, the causal factors affecting the institutional aspects of the welfare state and, on the other, the effects of institutions on the formation of interests, preferences and identities as well as on the degree of poverty and inequality in a society. For these purposes it is fruitful to base a typology of welfare states on their institutional characteristics. As indicated above, institutional structures can here be expected to reflect the role of conflicts between interest groups, for example with regard to the relative roles of markets and politics in distributive processes. However, institutional structures are in turn likely to form important frameworks for the definitions of interest and identities among citizens. They thereby can be expected to affect coalition formation among citizens of relevance for income redistribution and poverty. While changes in the complex of relationships characterizing welfare state regimes would appear difficult to diagnose, a typology of institutions facilitates the study of change.

The major social insurance programs catering for citizens' most important needs during the life course constitute a key part of the welfare state.[6] The institutional structures of two such programs, old age pensions and sickness cash benefits, are here taken as bases for a welfare state typology. These two programs respond to basic features of the human condition - the certainty of aging and the risk of illness. Unlike, for example, unemployment and work accident insurance where the relevant risks differ greatly between socio-economic categories, old age pensions and sickness insurance are thus important for all citizens and households. The fact that they also have a major economic weight makes it likely that they are of great relevance for the formation of interest groups.

As a basis for our typology, the institutional structures of old age pension and sickness insurance programs are here classified with primary reference to three aspects *(Table 1)*. The first one is of relevance for the issue of targeting versus universalism. It refers to the definition of *bases of entitlement* and involves four qualitatively different criteria reflecting whether eligibility is based on need determined via a means-test, on contributions (by the insured or the employers) to the financing of the social insurance program, on belonging to a specified occupational category, or on citizenship (residence) in the country.[7] These four criteria for eligibility to entitlements have been used in different combinations in different countries. The second aspect concerns the issue of to what extent social insurance benefits should replace lost income. It thus refers to the principles used for determining *benefit levels* and can be seen as a continuous variable, going from means-tested minimum benefits, to flat-rate benefits giving equally to everyone, and to benefits which in different degrees are related to previous earnings. The third aspect is a qualitative one, referring to the *forms for governing a social insurance program* and receiving its significance via its combination with the previous two aspects. Here we create a dichotomy based on whether or not representatives of employers and employees participate in the governing of a program (cf. below).

On the bases of the above aspects of social insurance programs we can delineate five different ideal types of institutional structures. In a rough chronological order according to their historical appearance in the Western countries, these ideal institutional types can be characterized as the *targeted, voluntary state subsidized,* *corporatist, basic security,* and *encompassing models*. In *Diagram 1a-e,* we have attempted to characterize the ideal-typical features of these institutional structures. In this diagram the diamond-shaped figure symbolizes the socio-economic stratification system with high-income earners at the top and low-income earners as well as the poor at the bottom. Citizens with rights to flat-rate or minimum benefits are indicated by horizontal lines, and those with rights to clearly income-related benefits by vertical lines. Here it must however be noted that some social insurance programs which formally give earnings-related benefits have relatively low benefit ceilings, in practice resulting in relatively equal benefits for a major part of the insured.

(Table 1 and Diagram 1 a-e about here)

In targeted programs *(1a)* eligibility is based on a means-test, resulting in minimum or relatively similar benefits (horizontal lines) to those who fall below a poverty line or are defined as needy. Although targeted programs have traditions going back to the old poor laws, the criteria for determining need can vary considerably in terms of punitiveness and generosity. During the course of this century, many countries came to relax the criteria used for means-testing. Thus, for example, in Australia, targeting has gradually come to be focused on excluding top-income earners rather than on including only the poor. In the diagram this possibility is indicated by thinner lines above the poverty line.

Old traditions also characterize voluntary state-subsidized programs *(1b)*, where tax money is used to help mutual benefit societies and other voluntary organizations to provide insurance to protect their members against loss of earnings. Since eligibility for benefits is here based on voluntary contributions which give membership in the respective schemes, they have been more important for skilled workers and the middle classes than for the unskilled and the poor. Voluntary schemes can have flat-rate or earnings-related benefits, the latter however often approach the flat-rate ones because of relatively low ceilings for earnings replacements.

The pioneering social insurance programs initiated in Germany by Bismarck in the 1880s broke with means-testing as well as with voluntarism by introducing programs with compulsory membership giving specified occupational categories the right to claim benefits when their normal earnings were interrupted for reasons beyond their own control. In its institutional structure German social insurance came to follow the corporatist model *(1c)* central to Catholic social teaching and nineteenth century conservative thought (Leo XIII [1891] 1943; Durkheim [1902] 1964; Pius XI [1931] 1943; Messner 1935, 1964).[8] The basic idea of the corporatist model can be said to be to create ”socio-political communities” within different segments of the labor force and to induce cooperation between employers and employees within these segments. In the 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. Separate social insurance programs with differing entitlements are organized for different occupations or branches of industry, creating a segmentation between occupational categories. Starting with the industrial working class, new occupational categories have gradually been added and accorded separate insurance programs over the decades. Benefits are clearly earnings-related (vertical lines) but entitlements and rules can differ significantly between the programs of different occupational categories. In contrast to the other four institutional types, and reflecting its basic idea of creating socio-political communities and cooperation between the potential antagonists on the labor market, in the corporatist model programs are governed by elected representatives of employees and employers, often with the state also present as a minor third party. They are also financed primarily via contributions from employers and employees. By being limited to the economically active population, this model came to exclude housewives and others outside the labor force. Typically, an income ceiling for coverage was also introduced, with high-income earners thus being expected to find private solutions.

In the basic security model *(1d),* eligibility is based either on contributions or on citizenship (residence). The basic security model comes close to central ideals expressed by William Beveridge (1942). One of these was to have flat rate benefits or a low ceiling on earnings replacement in order to leave room for higher-income groups to protect their standard of living through private insurance programs. According to Beveridge (1942:121) ”the first fundamental principle of the social insurance scheme is provisions of a flat rate of insurance benefit, irrespective of the amount of earnings which have been interrupted … This principle follows from the recognition of the place of voluntary insurance in social security ...” Another basic idea was to achieve a large or universal coverage of the relevant population categories. Within the basic security model we do however find two sub-variants with somewhat differing levels of coverage. In the ”citizenship” subvariant, eligibility is based on citizenship or residence, that is on the idea of ”People’s Insurance” with universal coverage. In the ”insurance” subvariant, however, eligibility is acquired through contributions by the insured and/or employers, and here we find less than universal coverage. However, in contrast to the corporatist model, where contributors in different occupational categories belong to different programs, in the basic security model all insured are covered by the same program. As will be discussed below, in the basic security model benefit levels have also come to vary to some extent. Relative to the variation found between the basic security, encompassing, and corporatist models, the differences between these two subvariants would appear to be relatively small, but in some contexts they can certainly be of significance. For the present purposes, however, they are not likely to be of crucial importance.

The encompassing model *(1e)* can be said to combine ideas from Bismarck and Beveridge into a new pattern. In this model eligibility is based on contributions <u>and</u> citizenship. Universal programs covering all citizens and giving them basic security are thus combined with clearly earnings-related benefits for the economically active part of the population. This institutional organization is likely to reduce the demand for private insurance and has the potential to encompass all citizens within the same program.

SOCIAL INSURANCE INSTITUTIONS IN 1985

Can the institutional models sketched out above be discerned among the welfare states now existing in the Western countries? The *SCIP* database (cf. above) will here be used to classify the institutional structures of old age pensions and sickness insurance programs existing in 1985 in our 18 OECD countries. In attempting to classify these countries, we must remember that a typology based on ideal types can never be expected to fit the real world exactly. As a result of a century of efforts by different interest groups to place their stamp on the institutional structures of the welfare state, we must, in practice, expect to find cross-breeds, not purebreds; alloys, not elements. We must also recognize that the institutional structures of welfare states change over time. An additional circumstance is that the ideal-typical models refer to single social insurance programs within a particular insurance area. However, more than one program and thus also more than one institutional type may exist within each insurance area. Furthermore, institutional forms may differ between the two program areas. The clustering of countries will thus sometimes have to be based on tendencies and gradations rather than on clear-cut criteria close to ideal types.

In fitting into the typology the institutional structures of programs in the areas of pensions and sickness, we follow a step-wise decision procedure. In the first step we separate means-tested programs from the others and in the second step we do the same with voluntary state-subsidized programs. Both these steps are unproblematic, since the relevant qualitative criteria are established by legislation. This is also true of the third step, identifying the corporatist model in terms of the existence of multiple programs directed at separate occupations or branches of industry, each program governed by elected representatives of employers and the insured.[9] The fourth step, in which basic security and encompassing programs are distinguished, is based on the degree of earnings-relatedness of benefits and the coverage of a program *(cf. Appendix)*. In basic security programs, earnings-relatedness is absent or marginal; in encompassing programs it is substantial. In programs which we have classified as encompassing, relevant population groups receive universal coverage. Within the basic security model, however, as noted above, ”citizenship” programs have universal coverage, while in the ”insurance” subvariant with entitlements based on contributions, coverage can be substantially lower.

Our analysis indicates that in 1985 in 14 of our 18 countries, the same institutional structures were found in sickness insurance as in pensions insurance programs. In three of the remaining four countries, namely the Netherlands, New Zealand, and Switzerland, institutional structures have come to differ between program areas reflecting processes of change. The fourth country, the United States, lacks a national sickness insurance program for the working-age population. In these four countries, the organization of pension insurance, in many ways the most important single program, is here used to characterize the country. In 1985 the voluntary state-subsidized model is found only in sickness insurance programs and thus no longer characterizes any of our 18 countries.[10] This reflects the fact that although some countries introduced voluntary state-subsidized pension programs at an early stage, it has proved to be very difficult to organize large-scale pension programs in this institutional form.

In all of our countries we find at least some social policy programs which, in one way or another, are targeted at those defined as poor.[11] In Australia, however, eligibility for old age pensions as well as sickness insurance benefits is based on means-tests, and it is therefore the only country among our 18 to follow the targeted model.[12]

In 1985, one easily recognizable cluster is the corporatist one, found in five countries of continental Europe, namely Austria, Belgium, France, Germany, and Italy. In addition, Japan has created a corporatist model with segmentation between different groups of wage- and salary earners through separate programs for different parts of the labor force as well as for enterprises of different size. [13] All these six countries have corporatist institutions in sickness insurance as well as in pensions.

As noted above, the distinction between basic security and encompassing programs is based on the degree of earnings-relatedness and coverage. The basic security model in its two subvariants is found in a relatively heterogeneous group of eight countries. ”Citizenship” pensions with universal coverage exist in Canada, Denmark, the Netherlands, New Zealand and Switzerland. In Denmark, the Netherlands and New Zealand, pensions are paid on a flat-rate basis whereas in Canada and Switzerland, a limited earnings-related component is added to flat-rate pensions. The

”insurance” sub-variant, with eligibility based on contributions and therefore less than universal coverage, is found in Ireland, the United Kingdom and the United States. In contrast to the corporatist countries, however, the latter three countries include all insured within the same program. In the United Kingdom and the United States, pensions are to some extent related to the level of contributions and therefore to previous earnings, but because of relatively low ceilings for maximum benefits, their degree of earnings-relatedness is clearly lower than in the encompassing countries *(cf. Appendix)*. As noted above, as a reflection of changes in institutional structures during the past decades, the basic security countries are also more heterogeneous in the sense that in three of them the institutional structures of sickness insurance differ from those of pension insurance. Thus in sickness insurance Netherlands retains the corporatist, Switzerland the voluntary subsidized and New Zealand the targeted model.

The latest addition to our institutional typology, the encompassing model, is found in Finland, Norway and Sweden, where it has developed from the basic security and the voluntary subsidized forms. In these countries, encompassing pension programs are based on universal, flat-rate ”People’s Pensions” which are supplemented with clearly earnings-related programs for the economically active population. Sweden initiated the development of the encompassing model by replacing its voluntary state-subsidized sickness insurance scheme with a universal earnings-related program in 1955 and by supplementing its universal basic security pensions with an earnings-related pension program for all economically active persons in 1959. Norway and Finland also introduced similar reforms in the 1960s and 1970s.

Whereas characterizing countries on the basis of global policy regimes easily gives an impression of relative stability and permanence, our focus on the structures of social insurance institutions facilitates the study of change. The picture of institutional structures we find in 1985 is thus a snapshot in a process of long-term, intermittent change. We will document and analyze these institutional changes elsewhere and can here only point at a few examples. Thus, for example, Sweden had Social Democratic governments for almost three decades before it moved from the basic security to the encompassing institutional model in 1960. It can be noted here that the relative heterogeneity of countries in the basic security category reflects processes of change. Unlike the other corporatist countries, the Netherlands has moved from a corporatist to a basic security model. Switzerland has arrived at the basic security model from a stress on targeting and voluntarism. New Zealand has been more successful than Australia in moving from targeting to basic security. In Denmark as well as in the United Kingdom, attempts have been made since the 1950s to create encompassing social insurance institutions, but these efforts have largely failed. Our institution-based typology thus captures the temporary stability in welfare state development but can also fruitfully be used for analyzing institutional change.

INSTITUTIONS, STRATEGIES OF EQUALITY AND REDISTRIBUTION

The types of social insurance institutions outlined above can be expected to affect redistributive processes through differences in the role which they accord to markets and to politics as well as through the direct and indirect ways in which they tend to encourage or discourage the formation of risk pools with varying degrees of homogeneity in terms of socio-economically structured distribution of risks and resources. Thus our institutional models reflect different views of the relative role of markets and politics in distributive processes. The targeted model apparently involves the lowest degree of political interference with market distribution, followed by, in turn, the voluntary subsidized model and the basic security model, the latter establishing a basis upon which market-based stratification can be erected. The corporatist model in turn involves a greater degree of encroachment upon market distribution than does the basic security model, but because of its occupational segmentation and the exclusion of the economically non-active and top-income earners it encroaches less than the encompassing model.

In traditional insurance terminology, social insurance involves the creation of risk pools within which risks and resources are shared. In the Western countries, economic risks and resources are unequally distributed along lines that tend to follow socio-economic cleavages. In social insurance the socio-economic structure therefore offers opportunities to delineate risk pools which are internally more or less homogeneous in terms of risks and resources. Our hypothesis is that the structures of social insurance institutions can emphasize differences in risks and resources by increasing homogeneity within risk pools in terms of their socio-economic composition, or they can play down these differences via the pooling of resources and the sharing of risks across socio-economically heterogeneous categories. Social insurance institutions can thereby come to frame and shape the processes of defining interests and identities among citizens, the rational choices they are likely to make, and the ways in which they are likely to combine for collective action.[14] Of special interest in this context is the extent to which institutional structures will discourage or encourage coalition formation between the poor and better-off citizens and between the working and the middle classes, thus making their definitions of interest diverge or converge. Such a divergence can be brought about directly through institutional structures which segment risk pools along socio-economic lines, or indirectly via redistributive strategies likely to create differences of interest between the poor and the non-poor, between workers and salaried employees.

The corporatist model is based on a direct segmentation of risk pools along socio-economic lines. By creating programs delineated in terms of branches of industry and occupational status, corporatist programs separate citizens into relatively homogeneous risk categories, which are accorded more or less differing conditions, contributions and benefits. This model thus brings to the fore the potential lines of socio-economic cleavage between citizens, creates differences in short-term economic interests between occupational categories, and tends to institutionalize these differences in interest. Furthermore, the corporatist model limits the pooling of risks and resources by excluding the economically non-active as well as top-income earners.

In the voluntary subsidized model, social insurance institutions are structured in ways which tend to reflect socio-economic differences. By organizing relatively homogeneous categories of citizens defined in terms of occupation or domicile and by relying largely on individual contributions by members, voluntary state-subsidized insurance has often become dominated by middle-class groups while low-income earners have been less well covered. The voluntary state-subsidized model can thus be expected to discourage coalition formation between the disadvantaged and the more fortunate citizens and to generate segmentation along socio-economic lines.

Institutional structures can also be expected to affect coalition formation and the definition of interests among citizens in indirect ways through the various ”strategies of equality” they can be seen as embodying. These strategies can be defined by their *degree of low-income targeting*, describing the extent to which budgets actually used for redistribution go to those defined as poor or as having low incomes. The degree of low-income targeting varies between institutional types. The targeted model can be said to follow the *Robin Hood Strategy* of taking from the rich and giving to the poor. The flat-rate benefits in the basic security model as well as in many voluntary subsidized programs reflect a *Simple Egalitarian Strategy* with equal benefits for all, in relative terms, however, giving more to low-income earners than to the better off. The clearly earnings-related benefits found in the corporatist and encompassing models follow instead the biblical *Matthew Principle* of giving more, in absolute terms, to the rich than to the poor, and also, in relative terms, having only limited low-income targeting.

By practicing positive discrimination of the poor, the targeted model creates what amounts to a zero-sum conflict of interests between the poor on the one hand and, on the other, the better-off workers and middle classes, who have to pay for the benefits of the poor without themselves receiving any benefits. The targeted model thus tends to drive a wedge between the short-term material interests of the poor and of the rest of the population, which has to rely on private insurance. It gives the better-off categories no rational basis for including the poor among themselves, leaving the poor to place their trust in the altruism of the more fortunate.

As made explicit by Beveridge (cf. above) in the basic security model flat-rate benefits are only intended to provide a safety net for the working class while the middle classes are expected to safeguard their standards of living via various forms of private insurance. Social insurance systems of the basic security type therefore tend to become a concern primarily for manual workers, while as in the targeted model, private insurance is likely to loom large for salaried employees and other better-off groups. The basic security model is therefore also likely to separate the interests of high-income strata from those of workers and the poor.

In contrast to voluntary or corporatist programs, the encompassing model includes all citizens within the framework of the same programs. By giving basic security to everybody and by offering clearly earnings-related benefits to all economically active individuals, in contrast to the targeted and basic security models, the encompassing model brings low income groups as well as the better-off citizens within the same institutional structures. Because of its earnings-related benefits, it is likely to reduce the demand for private insurance. The encompassing institutional model can thus be expected to have the most favorable outcomes in terms of the formation of cross-class coalitions which include manual workers as well as the middle classes. By providing sufficiently high benefits for high-income groups so as not to push them to exit, in the context of encompassing institutions the voice of the better-off citizens helps not only themselves but low-income groups also.[15]

The debate about the redistributive outcomes of welfare state programs has been almost exclusively focused on how to distribute the money available for transfer and has not recognized the importance of variations in redistributive budget size, that is of the total sums made available for redistribution. In this context it is important to note that the degree of redistribution finally achieved depends on the size of the redistributive budget as well as on the degree of low-income targeting. Without specifying the functional form or all the other factors of relevance here, the redistributive formula indicating the degree of redistribution achieved can be seen as a multiplicative function of these two aspects, that is *Final Redistribution* is a function of *Degree of Low-Income Targeting x Redistributive Budget Size*.

The neglect of budget size is all the more unfortunate, since, as the discussion above indicates we can expect a trade-off between the degree of low-income targeting and the size of the redistributive budget, so that *the greater the degree of low-income targeting, the smaller the budget tends to be*. This trade-off indicates that it is not possible to maximize the degree of low-income targeting and budget size at the same time. In so far as welfare state institutions contribute to the pooling of risks and resources and to coalition formation which includes the middle as well as the working classes and the poor, they are likely to affect the size of the budgets made available for redistribution.[16] Encompassing institutions can therefore be expected to generate the broadest base of support for welfare state expansion and financing. However, while corporatist institutions exclude the economically inactive and tend to segment different occupational categories, because of their earnings-related benefits, they can be expected to generate relatively large social expenditures. In spite of a high level of coverage, the basic security countries with relatively low benefits are expected to have lower expenditures than both the corporatist and the encompassing types of welfare states. The lowest expenditure level is expected in the targeted welfare state.

To test the above hypotheses empirically, we will start by looking at the overall relationship between institutional structures and outcomes in terms of the degree of inequality and poverty in the countries for which relevant data are available. Such an overall correlation between institutions and outcomes points to the need to open the blackbox of causal processes assumed to mediate the effects from institutions to redistributive outcomes. However, it is not possible for us, within the scope of this paper and with the data now available, to take more than a partial look into this blackbox by following the subsequent stages in the causal processes and attempting to verify these different steps. Thus we will continue the analyses by investigating the relationships between institutions, the size of redistributive budgets and the degree of redistribution achieved when we move from factor income to disposable income. This is followed by an analysis of the relationships between the degree of low-income targeting, the size of redistributive budgets and the degree of redistribution. Finally, the redistributive processes will also be examined in the context of income inequality among the elderly, a category of citizens among whom public programs can be assumed to play an especially large role. Here we can test our hypothesis about the role of institutional structures for the relative size of private insurance and its role for affecting the degree of inequality.

In so far as we can verify the working of the hypothesized processes in the subsequent stages of the redistributive process, this tends to support our hypotheses. We will here accordingly rely on the combined pattern of evidence from different parts of the redistributive process in evaluating the support for our hypotheses.[17] It goes without saying that institutional structures are only one of many factors that affect the final distribution of income in a country.[18] Circumstances such as political traditions, demographic composition, labor force participation rates, levels of unemployment, wage setting practices, and industrial structures are also of importance here.[19] At best we can therefore only hope for a partial agreement between our hypotheses and comparative empirical data. 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.

INSTITUTIONS, INEQUALITY AND POVERTY

The causal processes outlined above lead us to expect considerable differences between our institutional types of welfare states and distributive outcomes in terms of the extent of poverty and inequality. We thus expect the degree of poverty and inequality to be highest in countries with the targeted and basic security models, lowest in countries with the encompassing model, and with the corporatist countries falling somewhere in between.

For eleven of our 18 countries, we have been able to use micro-surveys on household income included in the Luxembourg Income Study *(LIS)*.[20] Data limitations have thus restricted this part of the analysis to the following countries (years for income data in parentheses): Australia (1985), Canada (1987), Finland (1987), France (1984), Germany (Federal Republic) (1984), Netherlands (1987), Norway (1987), Sweden (1987), Switzerland (1982), United Kingdom (1986), and the United States (1986). Analyses have been carried out for the total population, the working-age population (defined as those 25-59 years of age) and the elderly defined as those above 65 years of age *(cf. Appendix)*.

For the study of income distribution, the household is generally taken as the income-receiving unit within which the economic resources of members are likely to be pooled.[21] However, in using the distribution of income as a basis for judgments about the distribution of economic well-being, individuals should be the units of observation. When comparing households of different size, it is reasonable to weight family income by the size of the family and to account for economies of scale by giving different weights to the first and "other" family members.[22] Therefore the income of each household has been divided by an equivalence scale; this adjusted disposable income as then been weighted so that each individual will get an equal count *(cf. Appendix)*. Using the so-called standard model of income distribution analysis, disposable income thus refers to net cash income after direct taxes and social security contributions and after public cash transfers (Ringen 1987).[23] There are strong arguments for viewing needs and welfare in relative terms, in the sense that an individual’s welfare is to some extent determined by her position relative to others (Goodin 1990). We will therefore study the entire income distribution using the traditional Gini-coefficient to describe the overall degree of inequality. We will also look at those with the lowest incomes. As is well-known, the measurement of poverty involves a number of problems and considerable arbitrariness (Kangas and Ritakallio 1995). Thus among the elderly, for example, we often find a clustering of persons around income levels provided by minimum pensions, something which makes the indicator of cross-national differences in poverty highly sensitive to the choice of the poverty line (Palme 1993).

The overall relevance of our institutional types of welfare states for income equality and poverty is indicated by the results from *LIS*-based analyses which describe the distribution of disposable household income in the eleven countries for which full data on the income formation process are available *(Table 2)*. We find considerable differences in the degree of income inequality and the extent of poverty between countries belonging to different institutional models. Whether we look at the total population or at the working age population and the elderly, the lowest degree of inequality is found in the three encompassing countries, Finland, Norway, and Sweden. Among the basic security countries, variation in Gini coefficients is relatively large, with the Netherlands having one of the lowest coefficients and the United States the highest one. The highest inequality figures appear in the basic security and targeted models, especially in the United States, Switzerland, Australia, and the United Kingdom. The two corporatist countries, France and Germany, occupy intermediate positions.

(Table 2 about here)

The same pattern emerges, by and large, for poverty rates. With only a few exceptions, the lowest poverty rates are found among the encompassing countries. As with the indicator of overall inequality, the variation among the basic security countries is very high. Thus the Netherlands, again, comes close to the encompassing countries, and the United States shows the clearly highest poverty rate of all countries, followed by the United Kingdom and Canada. With its targeted model, Australia also has comparatively high poverty rates. Again, the two corporatist countries, France and

Germany, fall into intermediary positions. The above results thus give considerable support for our hypothesis about the overall role of welfare state institutions in the distributive processes of the Western countries. We now turn to an analysis of the sequence of intervening processes we have hypothesized.

BUDGETS, TARGETING AND REDISTRIBUTION

As indicated above, we expect to find the largest redistributive budgets in the encompassing countries, followed in descending order by corporatist, basic security, and targeted categories of countries. As the best available proxy for the size of redistributive budgets in our 18 countries, we have here used ILO data on social expenditures, which include expenditures for cash transfers as well as non-cash benefits (ILO 1992).[24] Expenditures refer to 1985. At this time, levels of unemployment varied greatly among the OECD-countries. The proportion of GDP spent on unemployment benefits thus ranged from 0.7 percent in Norway to about 3.5 percent in Belgium, Denmark and Ireland. The direct cost of income maintenance for the unemployed will depend in part on benefit replacement levels but in practice reflects primarily the level of unemployment (Kangas and Palme 1991). We will here thus look at total benefit expenditure as well as this total less expenditure for the unemployed.

As indicated in *Table 3*, the expected general rank-order between institutional types and budget size can be observed. However some of the basic security and corporatist countries have total expenditure levels approximating those of the encompassing group. If one excludes expenditure for unemployment benefits, two of the three encompassing countries, Sweden and Norway, now have the highest expenditure levels. Finland, however, still has relatively low levels, which may partly reflect its age structure with a relatively young population. With the exception of Japan, expenditure levels are relatively high in the corporatist countries. In the basic security countries the average is lower but here we again find a relatively large range of variation. Australia, with its targeted social insurance programs, clearly has the lowest expenditure levels.

(Table 3 about here)

Do redistributive budget size and the degree of low-income targeting contribute to the reduction of income inequality in accordance with our hypotheses? To control for the effects of variations in factor income inequality between countries, we will here examine *income redistribution* in terms of the relative reduction of Gini coefficients when we move from market income to disposable income, that is after taxes and transfers (for definitions of terms *cf. Appendix*). This has been done for the prime working-age population (25-59 years) as well as for the total population. Since the results for these two categories are quite similar, in the following only those for the total population are shown. *Redistributive budget size* in a country is measured as the percentage of the size of transfers to the size of gross income (defined as post-transfer but pre-tax income).

The bivariate plot between redistributive budget size and the degree of income redistribution achieved through the tax and transfer systems is shown in *Diagram 2*. The correlation between these two variables is very strong (r = .92). The lowest level of redistribution is found in two basic security countries, that is Switzerland and the United States as well as in targeted Australia, countries which also have the smallest welfare states. Quite expectedly, given what the ILO data reveal about the size of social expenditures in the Netherlands and Sweden, these two countries have the largest redistributive budgets and they also have the highest redistributive effects. The two corporatist countries, France and Germany, have fairly large transfer budgets and also achieve relatively large reductions in Gini coefficients.

(Diagram 2 about here)

In this context we do however run into problems of lack of comparability between different data sets, problems which are all too familiar to comparative social scientists. Thus, in terms of the *LIS* database, Finland with its encompassing institutions also appears among countries with small transfer budgets. This largely reflects the fact that in the *LIS* data set the Finnish earnings-related pension schemes are inappropriately treated as private ones. While the Finnish pension programs are administered by private insurance companies, they have been created and are financed via legislation and should thus be regarded as public programs. In the *LIS* data, Norway, despite its encompassing institutions, also appears as an average spender. This partly reflects Norway's high pension age (67 years), partly the use of legislated employer wage-continuation in sickness and work accident insurance, which in the *LIS* data-set is defined as market income.[25] Canada has a medium-sized transfer rate but less redistribution than Norway. Contrary to what we could expect from the ILO data, in the *LIS* dataset the United Kingdom has a transfer size at the same level as that of Sweden and the Netherlands.

As an indication of the degree of low-income targeting, we use an *index of the degree of targeting of transfers*. This index receives negative values when transfers are targeted at individuals with low gross incomes but positive values when transfers tend to be concentrated to those with higher gross incomes, while values around zero indicate, in distributive terms, neutral outcomes. As our hypotheses predict, the lower the degree of targeting at low-income groups, that is the higher the value indicated by the index of targeting, the greater the degree of redistribution tends to be *(Diagram 3)*. The correlation between the index of targeting and the degree of redistribution in the transfer system is thus positive although relatively low (.45). The transfer systems in Sweden and the Netherlands, which have little or no targeting to low-income groups, thus bring about the largest amount of redistribution. France, with the largest positive value on the index of targeting, achieves a medium level of redistribution. In contrast, as expected, while Australia clearly targets much more of its transfers at the less well-off than does any other country, yet, with the exception of Switzerland and the United States, it achieves less redistribution than any of them. With low to middling levels of targeting we find several countries achieving very different degrees of redistribution.

(Diagram 3 about here)

The correlation between the index of targeting of transfers and the size of transfers is positive although relatively low (.49). This correlation indicates that, as we have expected, there tends to be a tradeoff between the degree of low-income targeting and the size of budgets made available for transfers. Thus the more countries target benefits to low-income categories, the smaller redistributive budgets they tend to have.

It could perhaps be argued that in countries with basic security programs, meager social insurance payments are compensated for by more generous income- or means-tested benefits. On the contrary, however, we find a positive although relatively weak correlation (.48) between our index of targeting of transfer income via social insurance programs and the relative size of income- or means-tested social assistance programs benefits in a country.[26] Thus it would appear that countries where social insurance programs tend to target benefits to low-income categories not only have relatively small redistributive social insurance budgets but also restricted general means-tested programs. On the contrary, countries such as the Nordic ones, with their large welfare states not only have high transfer rates via social insurance programs but can also win legitimacy for increased spending on income-tested benefits outside the social insurance programs.

INCOME INEQUALITY AMONG THE ELDERLY

In the analysis of the effects of the social insurance institutions on inequality and poverty, the elderly provide an interesting test case. The economic situation of the elderly is determined by their own previous economic activities as well as by public transfers. Their economic situation thus reflects the cumulative effects of forces operating in markets and in politics, yet with public transfers playing a greater role than in the working population. The goal of eradicating of poverty and achieving a relatively low income inequality probably commands more support with respect to the elderly than with regard to economically active citizens. Many have feared that ”earnings-related systems may … perpetuate existing income inequalities over the life cycle” (Mitchell, Harding, and Gruen 1994:324).

As discussed above, because of the clear relationship between benefits and previous income, public pensions are likely to have the highest degree of inequality in the encompassing and corporatist countries, while pension inequality is expected to be lower in the basic security countries. In the targeted model, however, transfers will be directed primarily at low income categories. Available data allow us to study the consequences of these differences in public pensions on inequality among the elderly in nine countries during the mid-1980s.[27] Thus in terms of our index of targeting of transfers, we find the highest positive values (*i.e.* the highest degree of inequality in favor of high-income groups) for public pensions in the three encompassing countries, Finland, Sweden, and Norway, as well as in corporatist Germany, all countries with relatively high maximum pensions *(Diagram 4)*. In the basic security countries, that is the United States, Netherlands, United Kingdom, and Canada, public pensions are relatively neutral in terms of distribution. In targeted Australia, however, as the negative value of the index of targeting indicates, public pensions clearly go primarily to low-income earners.[28]

(Diagram 4 about here)

Public pensions are however only one of the factors determining total income inequality among the elderly. When we look at the degree of inequality in total gross income (including private and occupational pensions as well as income from savings and earnings) among the elderly, the above picture is largely reversed. *The lowest inequality in total gross income* is in fact found in the four countries with *the most unequal public pensions,* that is Finland, Sweden, Germany, and Norway. In contrast, Australia, with pensions targeted at low-income groups, turns out to have a much higher level of inequality in total gross income among the elderly, being second only to the United States. Countries with relatively flat-rate pensions, that is Netherlands, United Kingdom, and Canada, also have higher inequality in total income among the elderly than have the clearly earnings-related countries.

How are we to account for these rather surprising results? As indicated above, one of the factors generating differences in income inequality between various social insurance models is the relative role played by public and private transfer systems. Social insurance institutions can be expected to affect the type of public/private insurance mix in a country. In general, economically better-off citizens are more likely to acquire private pension insurance than are low-income earners. The demand for private pension insurance will therefore partly depend on the maximum benefit levels of the public systems, which determine whether public systems can give clearly earnings-related pensions to the middle classes and high-income earners or pushes them to exit into private pension programs. The encompassing institutional type, which provides earnings-related benefits for all citizens, can thus be expected to generate the lowest level of private insurance. In contrast, the targeted or basic security countries are likely to have high levels of private insurance, since there high-income earners have to rely on private channels for income security. The demand for private insurance will be lower in the corporatist model because of its earnings-related benefits for those insured. However, as a result of income ceilings for coverage and sizable categories of non-covered citizens, we can expect private insurance to play a larger role in the corporatist than in the encompassing model.

The above hypotheses about the relationship between institutional models, maximum public pensions, and the size of private pensions can be tested using estimates of the size of private pension expenditure relative to the GDP available for 1980 (Esping-Andersen 1990:84; Kangas and Palme 1991). For that year we have information from the SCIP database about the level of net maximum public pensions for a single person, expressed as a percentage of average net earnings (after taxes and social security contributions) among industrial workers. There is a negative although moderate correlation (-.53) between maximum pension levels and the size of private pension expenditures *(Diagram 5)*. On average, private pension expenditure as percent of GDP is low in the encompassing countries (Finland, Norway and Sweden), followed closely by the corporatist group with the basic security countries as well as the targeted one tending to have higher levels.[29] The highest private pension expenditures are thus found in targeted Australia and in the basic security countries Switzerland, Canada, USA, Denmark, the Netherlands, and the United Kingdom, where maximum public pensions replaced less than 60 percent of an average industrial worker's wage. Ireland and New Zealand, with basic security institutions, are outliers here with low private pension expenditures in spite of low maximum public pensions.[30] The highest maximum pensions (about 120-180 percent of an average industrial worker's wage) are found in the three corporatist countries Austria, Italy, and Germany, as well as in encompassing Finland. Except for Germany, these countries also have the lowest private pension expenditures. The exception of Germany is partly related to the fact that the corporatist German public pension system for salaried employees traditionally excluded the very high income earners, who had to turn to private pensions.[31] In addition, in Germany economically non-active persons, primarily women, have been excluded from compulsory insurance.

(Diagram 5 about here)

The results thus indicate that the institutional structure of public pension systems, primarily the extent to which they include and provide income security for high income earners, is of importance for the relative size of private pension programs. In the encompassing countries as well as in the corporatist ones, the relatively high maximum public pensions tend to reduce the demand for private pensions. However, in the basic security and targeted countries, better-off citizens have to rely on private pensions to attain income security in accordance with the design of these models. Among the nine countries for which data are available, the size of private pension expenditure is relatively strongly correlated with inequality in total gross income.[32] The above data are thus congruent with the hypothesis that in countries where public pensions provide high income earners with income security, they tend to crowd out private pensions and other sources of income which are likely to be even more unequal than public pensions. The final outcome is thus that clearly earnings-related universal public pensions tend to generate lower gross income inequality among the elderly than targeted or basic security pensions.

THE PARADOX OF REDISTRIBUTION

The social insurance models outlined here have developed over a century of conflicts between different interest groups concerning the distribution of man's worldly goods. They are associated with different types of strategies of equality and differing roles for markets and politics in distributive processes and can be shown to have differing consequences for income distribution and poverty among citizens. Our finding that, by providing high income earners with clearly earnings-related benefits within encompassing social insurance institutions, we can reduce inequality and poverty more efficiently than by flat-rate or targeted benefits, may surprise many scholars and policy makers. The traditional arguments in favor of low-income targeting and flat-rate benefits have focused exclusively on the distribution of the money actually transferred and have overlooked three basic circumstances. One is that the size of redistributive budgets is not necessarily fixed but tends to depend on the type of welfare state institutions in a country. A second factor is that there tends to be a tradeoff between the extent of low-income targeting and the size of redistributive budgets. The third circumstance of importance here is that since large categories of citizens will not be able or willing to acquire private earnings-related insurance and because of the socio-economic selection processes in operation here, the outcomes of market-dominated distribution tend to be even more unequal than those found in earnings-related social insurance programs. Recognition of these factors helps us understand what we can call the *Paradox of Redistribution: The more we target benefits at the poor only and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality*.

Our empirical analyses of the paradox of redistribution have been based on the *LIS* and *SCIP* data sets, which constitute major recent advances in possibilities for comparative studies of welfare states and their redistributive effects. In a way which would have been impossible only a few years ago, these data sets have enabled us to test hypotheses on causal processes between welfare state institutions, redistributive processes, and distributive outcomes. Yet, in view of the difficulties involved in carrying out comparative research in these areas, some of our results are primarily suggestive of fruitful future research. Our analyses indicate that in the generation of the paradox of redistribution, institutions of the welfare state are of key importance. These institutions affect the relative roles of markets and politics in distributive processes and the types of coalition formation among interest groups. As we expected, the effects on outcomes in terms of poverty and inequality appear to be largest in countries with encompassing institutions but low in the basic security countries. The Australian experience indicates that targeting by excluding the better-off citizens is not highly effective in reducing poverty, and that it is relatively inefficient in reducing inequality. In this respect the corporatist countries tend to occupy an intermediary position. In all categories of countries, however, additional factors which cannot be considered here, such as the relative strength of political parties and economic factors affecting the distribution of factor incomes, are also likely to be of relevance for distributive outcomes. In some countries, such as the United States where cleavages along racial lines are correlated with income, institutional demarcations are likely to be reinforced by racial ones (Quadagno 1994).

As discussed above, we view institutions as intervening variables, reflecting conflicts of interest between different interest groups on the one hand and, on the other, as being likely to have effects on the definitions of interests and coalition formation among citizens, cleavages and coalitions which in turn will have consequences for the size of budgets available for redistribution and the final degree of redistribution achieved. The empirical testing of macro-micro links between institutions and the formation of interests and coalitions provides a major challenge to social scientists. So far, we lack the comparative micro-data necessary for opening up this macro-micro blackbox. Here we can only draw attention to some relevant evidence indicating that this hypothesis, found in much institutional writing, is a fruitful one (Powell and DiMaggio 1991; Steinmo, Thelen and Longstreth 1992). Thus the historian Jürgen Kocka (1977:49-53, 171-173, 1978:66-67, 1981) has documented that the corporatist model introduced in Imperial Germany with separate social insurance programs for manual workers and salaried employees, thus privileging the latter, has significantly contributed to the cementation of the white/blue collar divide in Germany. Of indirect relevance in this context is also the fact that in the countries with encompassing institutions, surveys show that universal and encompassing programs tend to receive considerably more support among citizens than do means- or income-tested ones (Svallfors 1996; Kangas 1993; Forma 1996; Kangas and Palme 1993).

Contrary to what many scholars have expected, earnings-related benefits would thus appear to be a condition of rather than a hindrance to the reduction of inequality. Because of their low ceilings for earnings replacement, not only targeted but also basic security programs stimulate exit among the middle classes and increase their demand for private insurance. From the point of view equality, the problem with the corporatist model is not that benefits are earnings-related. The main difference between the corporatist and the encompassing models is instead related to the fact that by organizing the economically active citizens into occupationally segmented social insurance programs, the corporatist model tends to give prominence to socio-economic distinctions between different categories of citizens and to create diverging interests between these categories. In contrast, encompassing institutions pool the risks as well as the resources of all citizens and thus tend to create converging definitions of interest among them.

The fact that the encompassing model requires high taxes and generates large social security transfers has often been described as an unnecessary ”churning” and has generated major concern among social scientists as well as among policy makers, who have feared that universalistic earnings-related welfare state programs will be unsustainable because of the economic inefficiencies, budget deficits, and tax revolts they are likely to generate. Thus, as is well-known, neo-classical economic theory assumes that via ”tax wedges,” high taxes tend to create serious distortions in market mechanisms, reduce work incentives and thereby reduce economic efficiency and growth. Careful empirical analyses would however not appear to indicate major negative labor supply effects (for example, Atkinson and Mogensen 1994). In Sweden, the prototype of the encompassing welfare state, it has not been possible empirically to demonstrate slowdowns of economic growth which can be assumed to be caused by the welfare state (Dowrick 1996; Korpi, 1996).

It would thus appear that by providing earnings-related benefits and non-means-tested benefits, the encompassing model can generate incentives to work and also avoid poverty traps. Even more important, however, is the fact that if citizens find that they get significant benefits in return for their taxes, their take-home pay is no longer the only basis for work incentives. In so far as tax payments are seen as providing individual benefits and the free rider problem can be overcome, the effects of tax wedges will tend to decrease. Such factors are likely to make it difficult to find empirical support for the hypothesis of neo-classical economics that taxes have serious negative efficiency effects. What can be demonstrated rather clearly, however, is the superior capacity of the encompassing welfare state to reduce inequality and poverty. It would appear to require much churning to transfer some of the surplus cream in the capitalist democracies to the poor. Many have feared that although universalistic earnings-related programs can be popular, citizens will balk at the tax levels required to sustain them, something which is likely to generate budget deficits. There would however not appear to be clear-cut empirical evidence to support such arguments. [33]

In the Western countries the stress on targeting has been increasing in recent years. If our goal is to reduce poverty and inequality this is an unfortunate development. Lawson and Wilson (1995:706), reflecting on the experiences with the War on Poverty in the United States, argue that policies better suited to support the poor ”should begin with a new public rhetoric that does two things: focuses on the problems that afflict not only the poor, but the working and middle classes as well; and emphasizes integrative programs that promote the social and economic improvement of all groups in society, not just the truly disadvantaged segments of the population.” The analyses here support such a recommendation.

Our paper suggests two empirically based conclusions. To paraphrase an old saying, if we attempt to fight the war on poverty through target efficient benefits concentrated at the poor, we may well win some battles but are likely to lose the war. However, universalism is not enough. To have an effect universalism has to be combined with a strategy of equality which comes closer to the preaching of Matthew than to the practices in Sherwood Forest.

APPENDIX

The distinction between basic security and encompassing programs is here based on the degrees of earnings-relatedness and coverage. Because of the difference between short-term and long-term forms of income replacement in determining the degree of earnings-relatedness, different indicators have been used here for sickness and pension programs. In sickness insurance, the indicator used is the relationship between gross maximum legislated benefit and the gross wage of an average production worker. In 1985, in the basic security programs, this relationship ranges from 23% in the United Kingdom to 70% in Denmark, while in encompassing programs it is 114% or higher. In terms of coverage in the labor force, the ”insurance” subvariant of the basic security programs has a coverage of 73% in Ireland, 80% in the United Kingdom, and 89% in Canada. In the other basic security countries as well as in the three encompassing countries, coverage of sickness insurance is universal.

As a measure of *Maximum Pension,* we relate the net maximum pension to the net pension of an average production worker. In the eight basic security countries, the maximum pension falls below the pension for an average production worker except in Switzerland and the United Kingdom, where the ceiling is 105 and 125 % of an average production worker pension, respectively. In the encompassing countries the maximum pension in relation to the average worker pension is 143 % in Norway and 149 % Sweden. In Finland, where no formal maximum pension (ceiling) is found, we have here used the pension level of a person with earnings three times the level of an average production worker. In basic security countries of the ”insurance” subvariant, pension coverage (as a proportion of the population 15-64 years) in Ireland, the United Kingdom, and the United States was 52, 59, and 67 %, respectively. In the other basic security as well as the encompassing countries, pension coverage was universal.

In analyses based on the Luxembourg Income Study *(LIS)* on inequality and poverty in different population categories, our purpose has been to sample populations above or below normal pension age. Since the pension age differs between nations and is in practice associated with different degrees of flexibility, to improve comparability we have defined the elderly as those above 65 years of age (except for Norway, where the age limit was set at 67, *i.e.* equal to the normal pension age). In defining the working age population we want to exclude students and young people living with their parents (for example, in Swedish income statistics, all persons above18 years are defined as separate households). Hence, we defined the working-age group as those between 25 and 59 years of age.

The equivalence scale used here gives the weight of 1 to the first adult, 0.7 to the second and 0.5 to every additional person irrespective of age. This scale is used by OECD and is in the "middle of the road" compared to other alternatives. The choice of scale is of special importance when different kinds of household are compared, especially if families with children are compared with other families. It is less crucial when similar household categories are compared, for example the elderly. For a discussion of the effects of the choice of equivalence scales in a comparative perspective see Buhmann, Rainwater, Schmaus, and Smeeding (1988).

To control for the problem of variations in factor income inequality, we have examined *Income Redistribution* in terms of the relative reduction in inequality when we move from market income to disposable income, that is after taxes and transfers. Following Kakwani (1986) we thus define Income Redistribution = (Market Income Gini - Disposable Income Gini) / Market Income Gini. *Redistributive Budget Size* is here expressed the relative size (%) of transfers to the mean size of gross income (post-transfer but pre-tax income). To get an indication of the way in which benefits are distributed among citizens with differing income, we have here used an *Index of Targeting of Transfer Income*. To compute this index we have ranked income units according to the size of gross income and then distributed transfers along this continuum. The Index of Targeting of Transfer Income is equivalent to what Fields (1979) has labeled the ”factor Gini coefficient” and what Kakwani (1986) has called the ”index of concentration.” It takes the value of -1 if the poorest person gets all the transfer income, 0 if everybody gets an equal amount, and 1 if the richest person gets all.

REFERENCES

Åberg, Rune. 1989. ”Distributive Mechanisms of the Welfare State - A Formal Analysis and an Empirical Application.” *European Sociological Review* 5:167-82.

Atkinson, Anthony B. and Gunnar V. Mogensen. 1993. *Welfare and Work Incentives. A North European Perspective*. Oxford: Clarendon Press.

Baldwin, Peter. 1990. *The Politics of Social Solidarity. Class Bases of the European Welfare State 1875-1975*. Cambridge: Cambridge University Press.

Barry, Brian. 1990. ”The Welfare State versus the Relief of Poverty.” Pp. 73-103 in *Needs and Welfare,* edited by Alan Ware and Robert E. Goodin. London: Sage.

Barth, M.C., Cargano, G.J., and Palmer, J.L. 1974. *Toward an Effective Income Support System: Problems, Prospects, and Choices*. Madison: University of Wisconsin, Institute for Research on Poverty.

Beveridge, William. 1942. *Social Insurance and Allied Services*. London: HMSO.

Buhmann, B., L. Rainwater, G. Schmaus, and T. Smeeding. 1988. "Equivalence Scales, Well-being, Inequality and Poverty: Sensitivity Estimates across Ten Countries using the Luxembourg Income Study (LIS) Database." *The Review of Income and Wealth* 34:115-42.

Castles, Francis G. 1985. *The Working Class and Welfare in Australia and New Zealand*. London: Allen & Unwin.

________, and Deborah Mitchell. 1992. ”Identifying welfare state regimes. The links between politics, instruments, and outcomes.” *Governance* 5:1-26.

Davidson, Alexander. 1994. *A Home of One's Own. Housing Policy in Sweden and New Zealand from the 1840s to the 1990s*. Uppsala: Department of Government, Uppsala University.

Durkheim, Emilé. [1902] 1964. *The Division of Labor in Society*. Glencoe, Ill.: Free Press.

Dowrick, Steve. 1996. ”Swedish Economic Performance and Swedish Economic Debate: A View From Outside.” *The Economic Journal* 106:1772-1800.

Esping-Andersen, Gösta. 1990. *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press.

Fields, Gary S.1979. ”Decomposing LDC-Inequality.” *Oxford Economic Papers* 31:437-61.

Fritzell, Johan. 1991. ”The Gap between Market Rewards and Economic Well-Being in Modern Societies.” *European Sociological Review* 7:19-33.

Forma, Pauli. 1996. ”The Politics of Interest Mediation. The Case of Universalistic Social Policy in Finland.” Research Report, Department of Social Policy, University of Turku, Finland.

Garfinkel, Irwin, Jennifer L. Hoschschild, and Sara S. McLanahan. 1996. *Social Policies for Children*. Washington, D.C.: Brookings Institution.

Goodin, Robert E. 1990. "Relative needs." Pp. 12-33 in *Needs and Welfare*, edited by Alan Ware and Robert E. Goodin. London: Sage.

________, and LeGrand, Julian. 1987. *Not Only the Poor*. London: Allen & Unwin.

Harrington Meyer, Madonna. 1996. ”Making Claims as Workers or Wives: The Distribution of Social Security Benefits.” *American Sociological Review* 61: 449-65.

Hechter, Michael, Karl-Dieter Opp and Reinhard Wippler. 1990. *Social Institutions. Their Emergence, Maintenance and Effects*. New York: Aldine de Gruyter.

Hicks, Alexander and Duane H. Swank. 1984. ”Governmental Redistribution in Rich Capitalist Democracies.” *Policy Studies Journal* 13:265-8.

________, and Joya Misra. 1993. ”Political Resources and the Growth of Welfare in Affluent Capitalist Democracies 1960 - 1982.” *American Journal of Sociology* 99:668-710.

Hirschman, Albert O. 1970. *Exit, Voice, and Loyalty. Responses to Decline in Firms, Organizations, and States*. Cambridge, Mass.: Harvard University Press.

Hobson, Barbara. 1990. ”No Exit, No Voice: Women’s Economic Dependence and the Welfare State.” *Acta Sociologica* 33:235-50.

Huber, Evelyn, Charles Ragin and John D. Stephens. 1993. ”Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State.” *American Journal of Sociology* 99:711-49.

International Labour Office. 1992. *The Cost of Social Security 1984-1986*. Geneva.

Jäntti, Markus, Olli Kangas and Veli-Matti Ritakallio. 1996. ”From Marginalism to Institutionalism: Distributional Consequences of the Transformation of the Finnish Pension Regime.” *Review of Income and Wealth* 42: 473-91.

Kakwani, Nanak. 1986. *Analyzing Redistribution Politics*. Oxford: Oxford University Press.

Kangas, Olli. 1991. *The Politics of Social Rights*. Swedish Institute for Social Research Dissertation series No. 19, Stockholm University.

________. 1995. Attitudes to means-tested social benefits in Finland. *Acta Sociologica* 38:299-310.

________, and Joakim Palme. 1991. ”Social Rights, Structural Needs and Social Expenditures.” Paper presented at ISA RC19 Workshop in Vouranta, Helsinki.

________. 1993 "Eroding Statism? Labour market benefits and the challenges to the Scandinavian welfare states." Pp. 3-24 in *Scandinavian Welfare Trends*, edited by Erik J. Hansen, Stein Ringen, Hannu Uusitalo, and Robert Erikson. New Jersey: M E Sharpe.

Kangas, Olli, and Veli-Matti Ritakallio. 1995. ‘Different Methods - Different Results? Approaches to Multidimensional Poverty.’ *Themes* 5. Helsinki: National Research and Development Center for Welfare and Health

Kocka, Jürgen. 1977. *Angestellte zwischen Faschismus und Demokratie*. Göttingen: Vandehoeck & Ruprecht.

________. 1978. *Klassengesellschaft im Krieg. Deutsche Sozialgeschihte 1914 - 1918*. Göttingen: Vandehoeck & Ruprecht.

________. 1981. ”Class formation, interest articulation, and public policy. The origins of the German white-collar class in the late nineteenth and early twentieth century. In *Organizing Interest in Western Europe*, edited by Susanne Berger. Cambridge: Cambridge University Press.

Korpi, Walter. 1980a. ”Approaches to the Study of Poverty in the United States. Critical Notes from a European Perspective.” Pp. 287- 314 in *Poverty and Public Policy*, edited by Vincent T. Covello. Boston: Cambridge, Mass.: Schenkman.

________. 1980b ."Social Policy and Distributional Conflict in the Capitalist Democracies: A Preliminary Comparative Framework." *European Politics* 3:296-316.

________. 1983. *The Democratic Class Struggle*. London: Routledge.

________. 1989. "Power, Politics and State Autonomy in the Development of Social Citizenship: Social Rights During Sickness in 18 OECD-countries since 1930." *American Sociological Review* 54: 309-28.

________. 1996. ”Eurosclerosis and the Sclerosis of Objectivity. On the Role of Values Among Economic Policy Experts.” *The Economic Journal* 106:1727-46.

Lampman, Robert J. 1971. ”What Does It Do to the Poor? A New Test for National Policy.” *The Public Interest* 34: 66-82.

Lawson, Roger and William J. Wilson. 1995. ”Poverty, Social Rights, and the Quality of Citizenship.” Pp. 693-714 in *Poverty, Inequality, and the Future of Social Policy*, edited by Katherine McFate, Roger Lawson, and William J. Wilson. New York: Russel Sage.

Lazarsfeld, Paul F. 1962. ”Interpretation of Statistical Relations as a Research Operation.” Pp. 115-25 in *The Language of Social Research*, edited by Paul F. Lazarsfeld and Morris Rosenberg. Glencoe: Free Press.

Le Grand, Julian. 1982. *The Strategy of Equality. Redistribution and the Social Services*. London: George Allen & Unwin Ltd.

Leo XII ([1891 1943]. *Rerum novarum*. Papal encyclical. Vatican City.

Lijphart, Arendt. 1975. ”The Comparable-Cases Strategy in Comparative Research.” *Comparative Political Studies* 8:158-77.

March, James and Johan P. Olsen. 1989. *Rediscovering Institutions.* New York: Free Press.

Marshall, T.H. 1950. *Citizenship and Social Class*. Cambridge: Cambridge University Press.

Messner, Johannes. 1964. *Die Soziale Frage in Blickfeld der Irrwege von Gestern, die Sozialkämpfe von Heute, die Weltentscheidungen von Morgen*. Innsbruck: Tyrolia Verlag.

________. 1936. *Die Berufständige Ordnung*. Innsbruck: Verlagsanstalt Tyrolia.

Mishra, Ramesh. 1981. *Society and Social Policy*. *Theories and Practice of Welfare*. London: MacMillan.

Mitchell, Deborah. 1991. *Income Transfers in Ten Welfare States*. Aldershot: Avebury.

________, Ann Harding, and Fred Gruen. 1994. ”Targeting Welfare.” *The Economic Record* 70:315-40.

O’Connor, Julia. 1993. ”Gender, Class, and Citizenship in the Comparative Analysis of Welfare State Regimes.” *British Journal of Sociology* 44:501-18.

Orloff, Ann. 1993. ”Gender and the Social Rights in Citizenship: The Comparative Analysis of Gender Relations and Welfare States.” *American Sociological Review* 58:303-28.

O'Higgins, Michael, Gunther Schmaus and Geoffrey Stephenson. 1990 "Income Distribution and Redistribution: A Micro data Analysis for Seven Countries." Pp. 20-56 in *Poverty, Inequality and Income Distribution in Comparative Perspective*, edited by Timothy M. Smeeding, Michael O'Higgins and Lee Rainwater. New York: Harvester Wheatsheaf.

Palme, Joakim. 1990. *Pension Rights in Welfare Capitalism*. Swedish Institute for Social Research Dissertation series No. 14, Stockholm University.

________. 1993. ”Pensions and Income Inequality among the Elderly.” Mimeo. Swedish Institute for Social research, Stockholm University.

Quadagno, Jill S. 1994. *The Color of Welfare. How Racism Undermined the War on Poverty*. New York: Oxford University Press.

Pierson, Paul. 1995. *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*. Cambridge: Cambridge University Press.

Pius XI. 1931 [1943]. *Quadragesimo Anno*. Papal encyclical. Vatican City.

Powell, Walter W. and Paul J. DiMaggio. 1991. *The New Institutionalism in Organizational Analysis*. Chicago: Chicago University Press.

Ringen, Stein. 1987. *The Possibility of Politics*. Oxford: Clarendon Press.

________, and Hannu Uusitalo. 1991. "Income Distribution in the Nordic Welfare States." In Comparing Welfare States and Labour Markets, edited by Jon Eivind Kolberg. Armonk NY: M.E. Sharpe.

Rosenberry, S.A. 1982. "Social insurance, distributive criteria and the welfare backlash: A comparative analysis." *British Journal of Political Science*12:421-27.

Smeeding, Timothy, Michael O’Higgins and Lee Rainwater (eds.). 1990. *Poverty, Inequality and Income Distribution in Comparative Perspective: The Luxembourg Income Study*. New York: Harvester Wheatsheaf.

Steinmo, Sven, Kathleen Thelen and Frank Longstreth. 1992. *Structuring Politics. Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press.

Svallfors, Stefan. 1996. *Välfärdsstatens moraliska ekonomi. Välfärdsopinionen in 90-talets Sverige*. (The moral economy of the welfare state. Social policy attitudes in Sweden of the 1990s). Umeå: Borea.

Tawney, R.H. 1952. *Equality*. London: George Allen & Unwin Ltd.

Titmuss, Richard. 1955. “Pension Systems and Population Change.” *Political Quarterly* 26:152-66.

________. 1974. *Social Policy*. London: George Allen & Unwin.

Tullock, Gordon. 1983. *Economics of Income Redistribution*. Amsterdam: Kluwer-Nijhoff.

Uusitalo, Hannu. 1984. "Redistribution and equality in the welfare state." *European Sociological Review* 1:163-76.

Weale, Albert. 1990. ‘Equality, Social Solidarity and the Welfare State.’ *Ethics* 100:473-88.

Whiteford, Peter. 1993. "The Concept of Income in International Comparative Research". Paper for the Conference on Comparative Research on Welfare States in Transition, ISA RC19, University of Oxford , 9-12 September 1993.

World Bank. 1990. *World Development Report*. New York: Oxford University Press.

ENDNOTES

[1] It would appear that Esping-Andersen here reflects the dualist views on earnings-related social insurance benefits long found within the Nordic labor movements. Thus for example, Gustav Möller, long-time Minster of Social Affairs in Social Democratic governments and generally regarded as the founding father of the modern Swedish welfare state, strongly opposed the introduction of earnings-related benefits in the Swedish sickness insurance program.

[2] These countries are selected according to the principle of most comparable cases (Lijphart 1975) and include only those with a history of non-interrupted political democracy during the postwar period and more than one million inhabitants.

[3] *The Social Citizenship Indicator Program (SCIP)* is based at the Swedish Institute for Social Research, Stockholm University and is directed by the present authors. Cf Korpi (1989) and Palme (1990) for presentations of the data files. For a presentation of the Luxembourg Income Study see Smeeding, O'Higgins and Rainwater (1990) and Buhmann, Rainwater, Schmaus and Smeeding (1988). Analyses are here restricted to the eleven countries for which *LIS*-data were available in 1994 and which included information detailed enough to enable us to follow the various steps in the income formation process.

[4] Other attempts include Titmuss (1974), Korpi (1980b), and Mishra (1981).

[5] Esping-Andersen (1990:69-77) uses seven indicators for his typology, the number of occupationally distinct pension schemes, insurance coverage in the population, the difference between average and maximum benefit levels, and the size of expenditures in

terms of the relative size of government employee pensions, means tested benefits, private sector pensions, and private sector health care.

[6] The social services constitute another significant part of the welfare state.

[7] As a result of immigration, in most countries an increasing proportion of residents are not citizens. For convenience, in this context we will however use the term citizens to refer to residents as well.

[8] The term corporatism is here used in its original meaning of state-induced cooperation between employers and employees within specific sectors of industry. In the address of the German emperor to the *Reichstag* on February 15, 1881, announcing the coming social insurance legislation, the term ”korporative Verbände” (corporatist associations) was used to describe this type of organizations (Verhandlungen des Reichstags, IV. Legislaturperiode, Vierte Session, 1881).

[9] The existence of separate legislated programs for different occupational groups is always combined with earnings-related benefits.

[10] In 1985 in three countries unemployment insurance programs were also organized according to the voluntary subsidized model.

[11] Thus, for example, in the United States the old age pension program (social security) is a basic security program of the ”insurance” subvariant with somewhat less than universal coverage and only moderately earning-related benefits, but it co-exists with targeted programs such as the AFDC and Foodstamps.

[12] In Australia, the issue of targeting versus universalism has been a significant one. As noted above, in old age pensions the targeted category of citizens has gradually been expanded. In the 1970s Australia abolished targeting and introduced basic security pensions but gradually moved back to means-testing. Since the targeted model has

played such a great role in social policy debates and since Australia has retained targeting in all major social insurance programs, it is of interest to analyze the consequences of this model. For a discussion of the development of the Australian welfare state cf Castles (1985).

[13] During the Meij Restoration, the Japanese government was influenced by the then new German social insurance legislation and attempted to modify it for domestic use.

[14] The role of risk groups in the development of social policies stressed by Baldwin (1990) would thus not appear to be primarily as independent driving forces. Instead risk groups can be seen as in part created by social insurance institutions and, once formed, as acting to safeguard their specific interests.

[15] The distinction between exit and voice here refers to the well-known distinction by Hirschman (1970).

[16] 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.

[17] In view of the relatedness of the hypotheses concerning different parts of the redistributive process and the small number of countries for which information is available, quantitative statistical analyses have here been kept to a minimum.

[18] For recent reviews of the literature see, for example, Hicks and Misra (1993) and Huber, Ragin and Stephens (1993).

[19] Some of these factors can partly be controlled for by an examination of the change in inequality when we move from factor income to gross and disposable income (cf below).

[20] The LIS-data have unique qualities making possible primary analysis with great flexibility in terms of definitions and selection of income units and variables. The accuracy of the data is also much better than in previous studies. Yet, as discussed in the following, problems of comparability remain.

[21] However it should be noted that within families we may find gender differences in the availability of economic resources.

[22] See Buhmann *et al.* 1988 for a further discussion of equivalence scales.

[23] For a discussion and critique of the standard model, cf. Whiteford (1993).

[24] The ILO costs of social security includes nine branches of social security, related to medical care and benefits with respect to sickness, unemployment, old-age, employment injury, family, maternity, invalidity, and survivors. In contrast to the definition of social expenditures by the OECD, the ILO definition thus does not include education, which is of less relevance in this context.

[25] Also Germany has wage-continuation periods in sickness and work accident insurance.

[26] Information on total expenditure on means- and income-tested social assistance programs as percent of GDP is from ILO (1992).

[27] Figures are from the *LIS* database except for Finland and Sweden, where we have had to reanalyze the original national data sets.

[28] In the 1970s, the degree of targeting in Australian social benefits tended to decrease, reaching a low in 1977/78. Since then targeting has gradually increased. In 1980 the income test for the age pension for those aged 70 had been reintroduced (Mitchell, Harding and Gruen 1994).

[29] In Norway the earnings related system had not fully matured for those retiring in 1980 but future retirees could expect higher maximum pensions, something contributing to small private pensions. In Sweden relatively large private occupational pension systems existed prior to the establishment of earnings related pensions, and since the ceiling in this system is only moderately high, these systems have been retained.

[30] The Irish case would appear in part to reflect the importance which agriculture has traditionally had in this country. In New Zealand private savings for old age in the form of home ownership has been encouraged (Davidson 1994).

[31] In Germany the ceiling for coverage of pensions was abolished in 1967, making it formally possible for all salaried employees to join the public program.

[32] The rank correlation between the size of private pension expenditure and total gross income inequality among the elderly is .83.

[33] Thus for the period 1980-1990 the average deficit in general government financial balances was 4.8% in our corporatist countries, 4.2% in the basic security countries, and 1.1% in targeted Australia. Among our three encompassing countries, however, only Sweden had a deficit (1.1%) while Finland and Norway ran surpluses, giving an average surplus of 2.3% in the encompassing countries. For the countries and the years during which we have income data in the LIS data set, there is a zero-correlation between budget position and the size of redistributive budgets.

***Table 1*. Ideal-Typical Models of Social Insurance Institutions.**

Model	Bases of Entitlement	Benefit principle
Targeted	Proved need	Minimum
Voluntary State Subisdized	Membership, contributions	Flat rate or earnings-related
Corporatist	Occupational category *and* labor force participation	Earnings-related
Basic Security	Citizenship *or* contributions	Flat rate
Encompassing	Citizenship *and* labor force participation	Flat rate and earnings-related

Table 2. **Inequality (Gini) and Poverty Rates in Disposable Income in Eleven OECD-Countries c:a 1985 in Different Population Categories by Type of Social Insurance Institutions.**

	Inequality (Gini)			**Poverty Rate (%)**[a]		
Type of Social Insurance Institutions	**Population Category**			**Population Category**		
	Total	**25-59 years**	**65+ years**	**Total**	**25-59 years**	**65+ years**
Encompassing						
Finland	.231	.205	.219	4.1	1.6	3.9
Norway	.232	.218	.241	3.5	2.9	2.6
Sweden	.215	.194	.182	4.9	2.6	1.4
Corporatist						
France	.292	.292	.287	8.5	8.0	1.9
Germany	.243	.235	.278	5.8	5.3	5.3
Basic security						
Canada	.279	.277	.257	10.9	10.9	4.9
Netherlands	.252	.254	.220	5.8	3.5	0.2
Switzerland	.320	.305	.355	7.4	5.8	11.9
United Kingdom	.293	.293	.242	13.2	11.0	9.2
United States	.333	.327	.355	17.9	17.8	17.5
Targeted						
Australia	.310	.301	.279	9.1	9.3	5.2

[a] Percentage below 50% of median income

***Table 3*. Social Benefit Expenditure as Percent of GDP by Type of Social Insurance Institutions in 18 OECD Countries 1985.**

Type of Social Insurance Institutions	**Total Benefit Expenditure**	**Total Benefit Expenditure less Unemployment Insurance Benefits**
<u>Encompassing</u>		
Finland	21.3	20.8
Norway	28.0	27.3
Sweden	29.5	28.8
Average	*26.3*	*25.6*
<u>Corporatist</u>		
Austria	24.3	23.5
Belgium	26.4	22.5
France	27.3	24.5
Germany	23.3	21.8
Italy	20.5	19.7
Japan	11.1	10.7
Average	*22.5*	*20.5*
<u>Basic Security</u>		
Canada	15.6	12.3
Denmark	27.5	24.3
Ireland	21.8	18.2
Netherlands	28.2	24.9
New Zealand	14.6	14.0
Switzerland	13.5	13.2
United Kingdom	19.4	17.6
United States	12.0	11.6
Average	*19.1*	*17.0*
<u>Targeted</u>		
Australia	9.9	8.6

Diagram 1. **Ideal-Typical Models of Social Insurance Institutions**

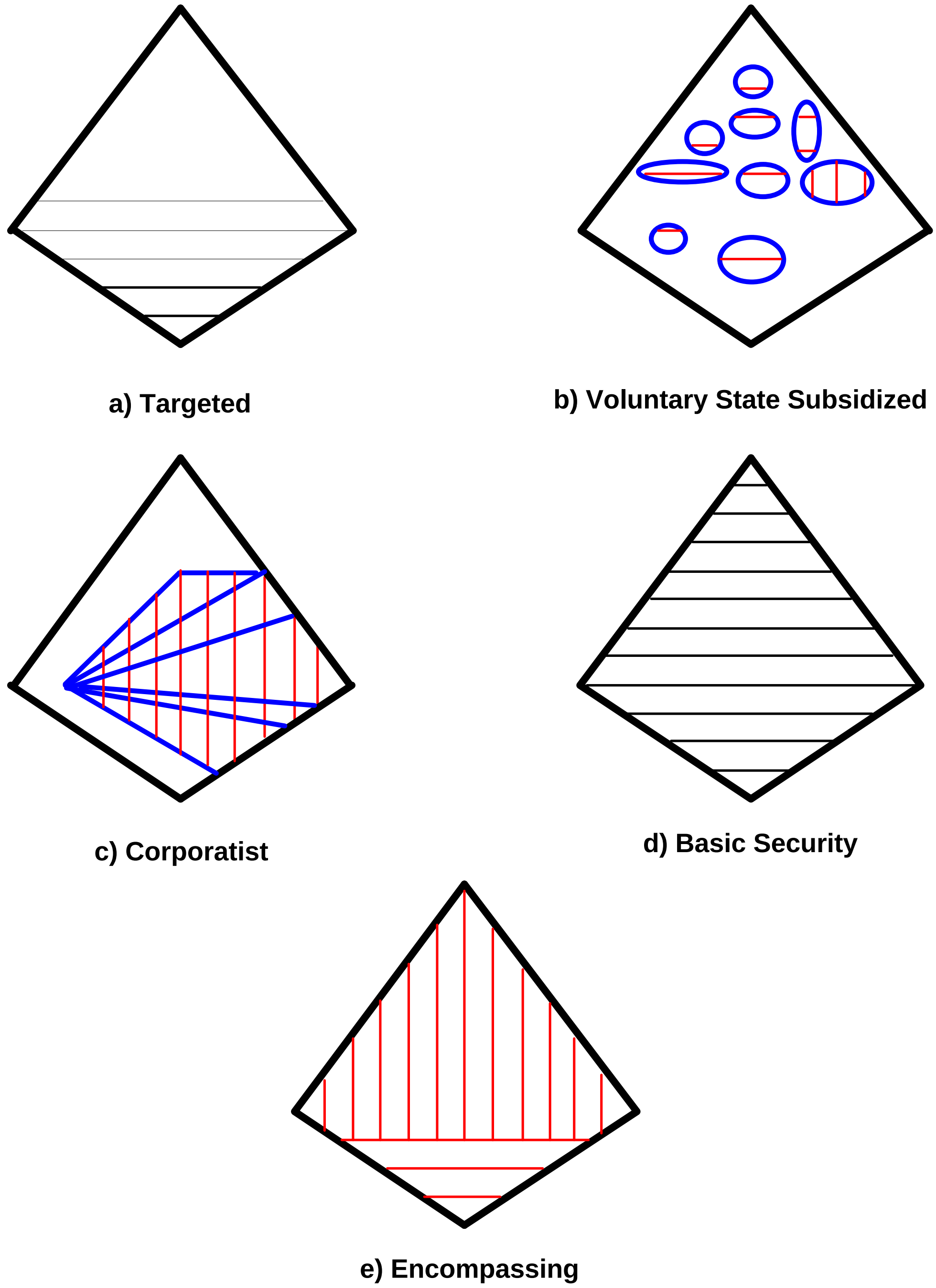
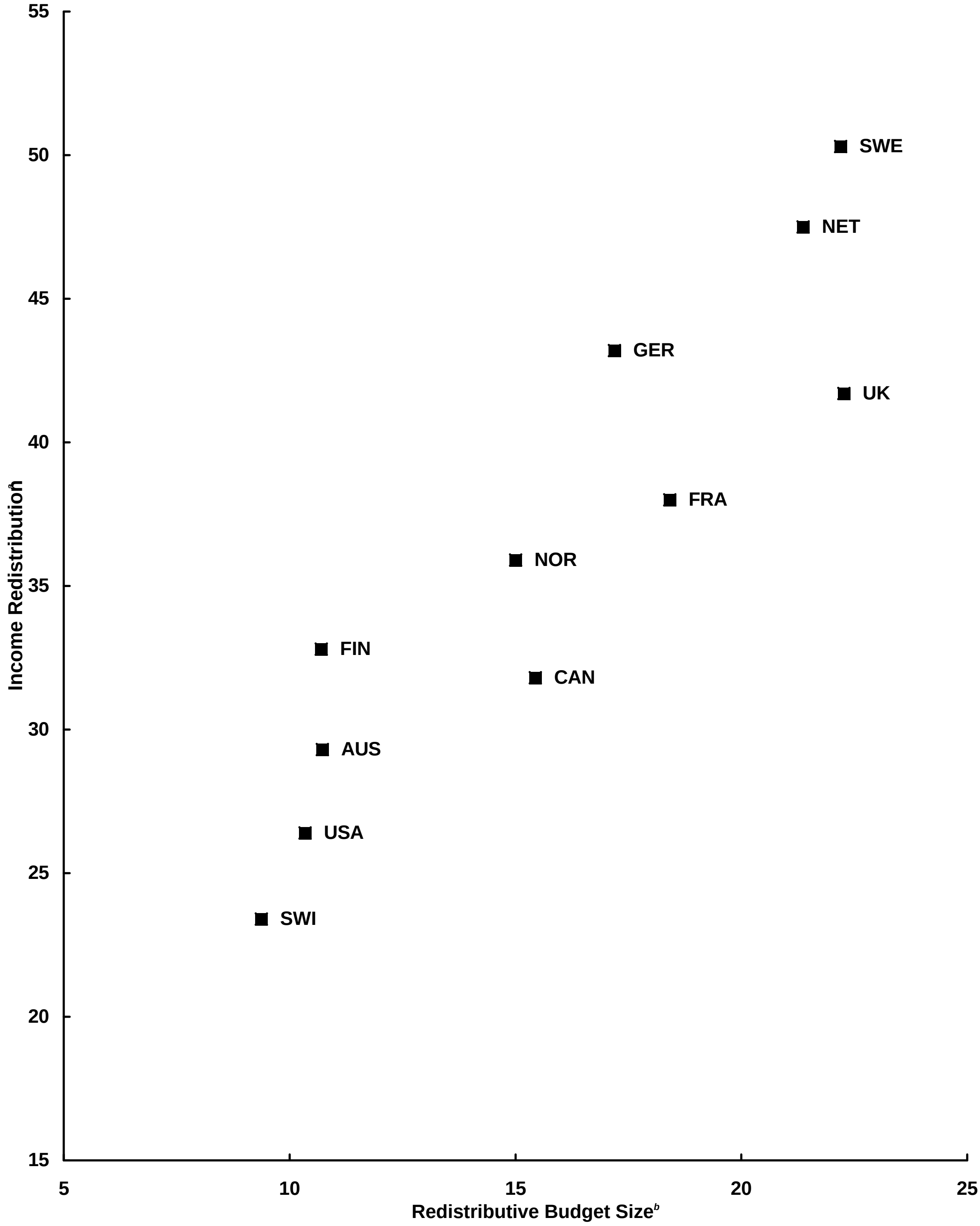


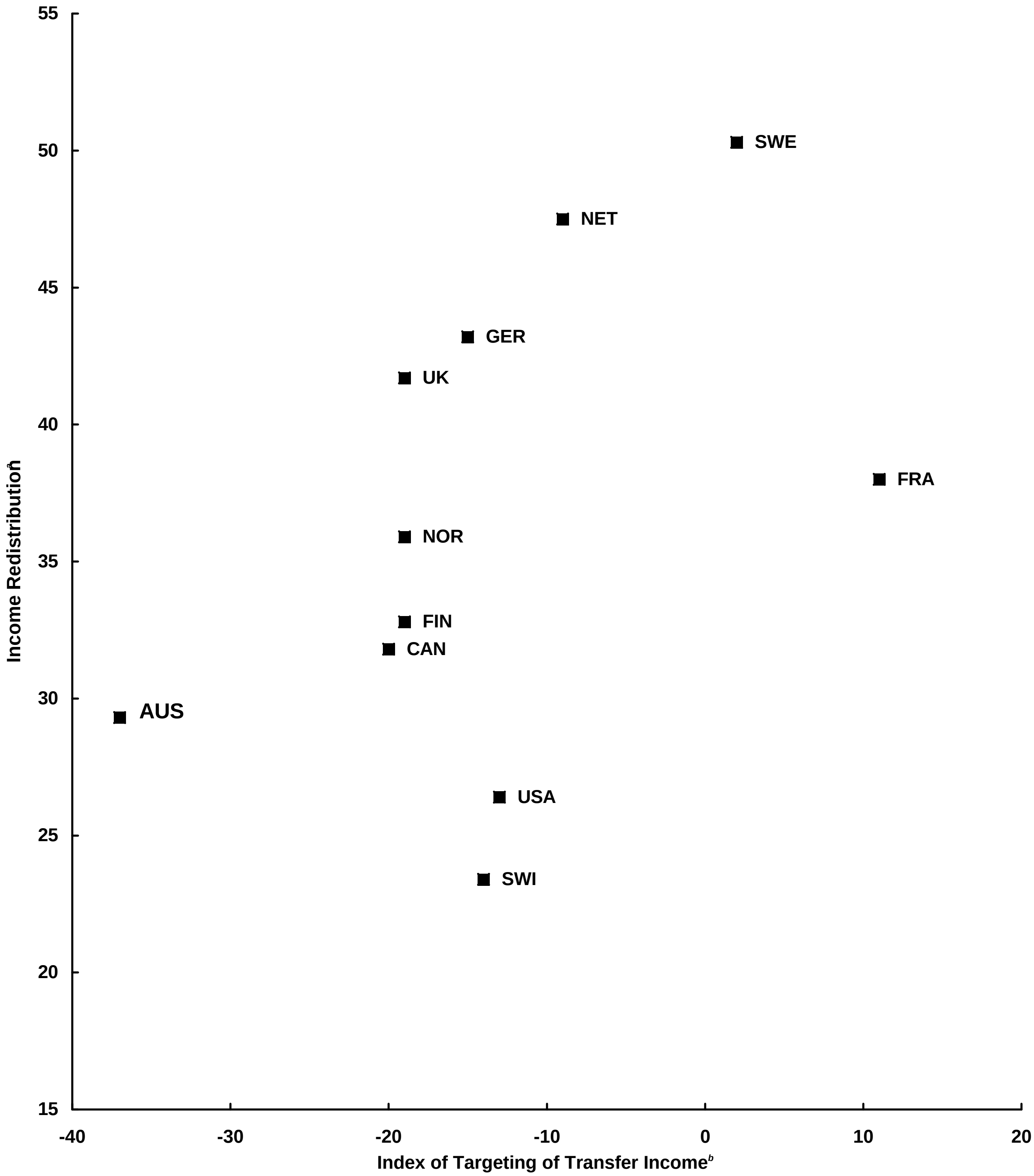
Diagram 2. **Redistributive Budget Size and Income Redistribution in Eleven OECD-Countries**



[a] Income Redistribution = Relative Reduction of Gini from Market to Disposable Income

[b] Redistributive Budget Size = Transfer Income as percentage of Gross Income

***Diagram 3*. Index of Targeting of Transfer Income and Income Redistribution in Eleven OECD Countries**



[a] Income Redistribution = Relative Reduction of Gini from Market to Disposable Income

[b] Negative values indicate low-income targeting; positive values concentration of benefits to better-off categories (for a definition see Appendix)

***Diagram 4*. Index of Targeting of Public Pensions and Inequality in Gross Income (Gini) Among the Elderly in Nine Countries**

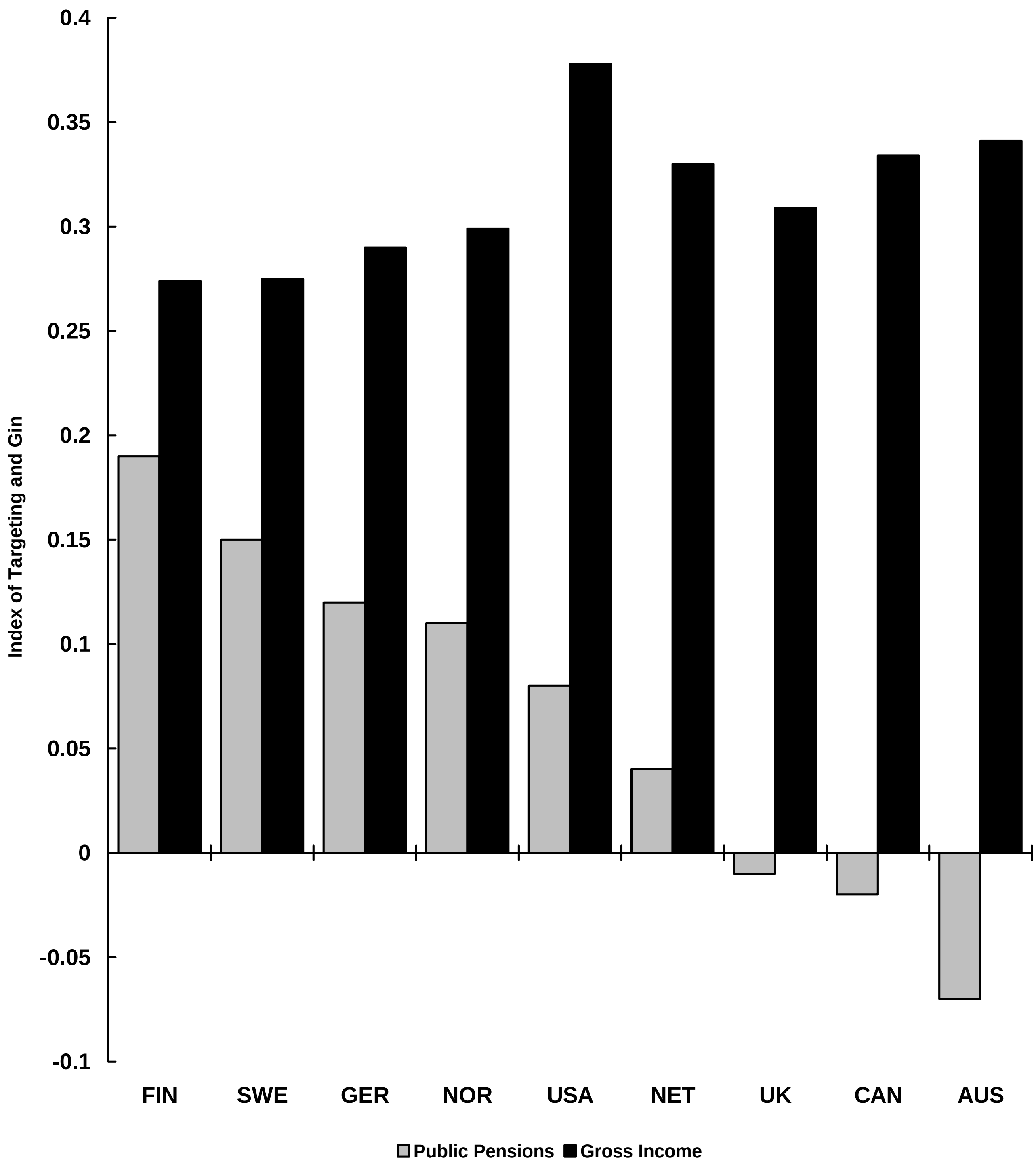


Diagram 5. **Maximum Public Pensions and Private Pension Expenditures (around 1980) in 18 Countries**