Chapter 8: Rising inequalities: will electorates go for higher redistribution[1]?

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Abstract

This literature review focuses on the relationship between income inequality, redistributive preferences and political behaviour. The main question posed is whether rising inequality will induce electorates to demand (and vote for) more redistribution as the Meltzer-Richard model predicts. Using this model we situate our analysis in the broader study of the link between inequality and redistribution. First we highlight potential mediating mechanisms both on the micro and on the macro levels. We then focus on inequality perceptions, values and opinions about inequality, and then we analyse the link between inequality and political participation, as these might mediate the effect of inequality on redistribution.

keywords: redistribution, redistributive preferences, inequality perceptions, political participation

Introduction

Many European countries have faced growing inequalities over the last few decades. With this in mind, the present chapter aims to shed light on some important questions in relation to political impacts: have these trends induced attitude change and political behavioural responses in various European countries? Did rising inequality lead to increased levels of redistributive claims? Is inequality related to levels of political participation and voting patterns? The early, path-breaking formulation of the most influential political economy theory of redistribution would predict greater redistributive claims on the one hand, and lower political participation on the other. This appears something of a puzzle, and the actual outcomes are of central importance for the societies involved. Relying on research on the political and cultural impacts of growing inequalities, the present chapter contributes to a more complete understanding of the interplay between inequalities, public opinion on redistribution and political participation.

Figure 8.1 below presents a sketch of our line of reasoning. We take the basic Meltzer-Richard model (1981) as a starting point to situate our analysis in the broader study of the link between inequality and redistribution. While this base model is rather restrictive, it still helps to understand a potential causal relation between inequality and redistribution. We highlight potential mediating mechanisms both on the micro and on the macro levels. Personal attributes and perceptions on the one hand might have an effect on individual redistributive preferences and the institutional mechanisms that translate preferences to policy actions on the other. While both the micro and macro mechanisms have an effect on the link between inequality and redistribution (i.e. they are intervening variables),

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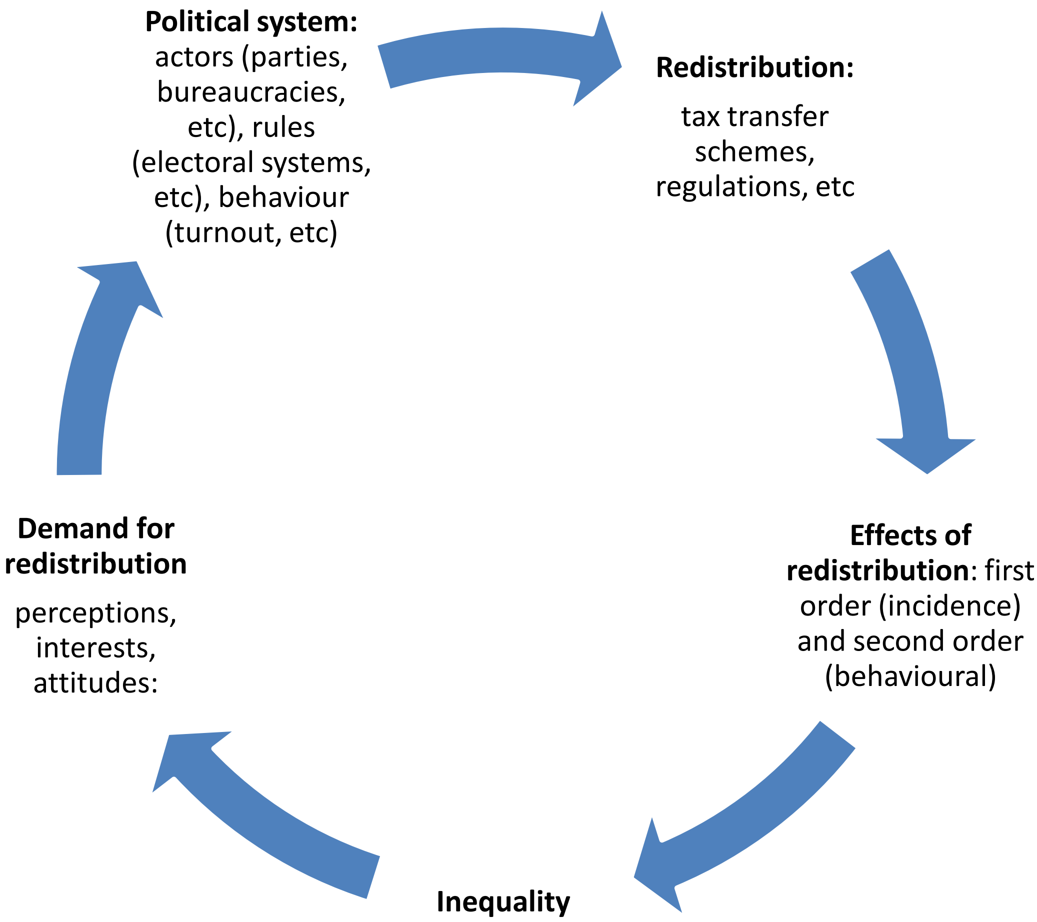
it is likely that both can also be influenced directly by inequality. Next we analyse the link between inequality and political participation. While the level of redistribution is clearly affected by the level of participation – turnout and the composition of voters and the activity of civil society matter a great deal in policy decisions – inequality in itself can also have a direct impact on the level of participation. Finally, it is clear that the ways in which (and extent to which) attitudes of voters will, via the machinery of politics, shape policies, depend a great deal on various institutions (political and executive alike).

Figure 8.1 Theoretical frame of links between inequality, turnout and redistribution



Inequality and redistribution: the basic propositions of the literature

According to perhaps the most influential of the proposed political economy models (Meltzer and Richard 1981; Romer 1975, henceforth MR-model) the median voter will have a pivotal role in deciding on governmental policy (in relation to transfers and taxes), assuming a system where majority voting is decisive. The larger the distance between the income of the median voter and the (higher) mean income of the electorate, the greater the pressure on the government to redistribute, assuming those below the mean income will prefer redistribution, while those over it will prefer low or no taxes. The prediction of the model is that more inequality will induce greater redistribution.

The results of empirical tests of this hypothesis vary, to say the least. It is a commonplace to conclude that the observed negative correlation between inequality and redistribution provides enough proof to refute the theory itself. However, empirical tests of the MR model have often been misspecified. First and foremost, proper tests would take the distance between the income of the median voter on the one hand and the mean income of the (active) electorate on the other hand, rather than simply taking the relationship of the median income to the mean income of the population. The two may differ significantly, depending upon differential participation of the various income groups at the polls. Second, constructing a measure of pre-tax and pre-transfer inequality (a clear case of the problem of the appropriate counterfactual) is very difficult given the available data in various cross-national datasets. Many studies simply take Gini coefficient values for net (or gross) disposable household incomes. However, both net and gross disposable incomes are at best secondbest proxies, as they incorporate either elements of taxes or elements of social benefits. Finally, many specifications simply take the value of the Gini coefficient as a proxy for income inequality. Given that the Gini (defined as an average of pairwise distances of all possible income pairs in the population) is a dispersion-based measure, it is often improperly used as a proxy of social distances between the mean and the median of any given distribution.

Tests with more appropriate specifications show more support for the usefulness of the MR model. Milanovic (2000), for example, finds that there is a consistent association between gross household income inequality and more tax/transfer redistribution in a set of 24 democracies in the period from the mid-1970s to the mid-1990s. Also, Mahler (2008, 2010) finds support for the MR propositions, after refining definitions of original inequality and redistribution. Kenworthy and Pontusson (2005) find the pattern of cross-country variation broadly consistent with the MR predictions. For reviews of various aspects of the MR model and its propositions, see Borck (2007); Kenworthy and McCall (2008); Keely and Tan (2008); Alesina and Giuliano (2010); Lupu and Pontusson (2009); McCarty and Pontusson (2009); Senik (2009).

In this chapter we focus on a restricted part of a potential causal chain between inequality and redistribution. First we are interested in the relationship between income inequality and redistributive preferences of the population. This will be followed by an analysis of inequality and political behaviour. Therefore, we do not attempt to reflect the full circle of relationships in Figure 8.1. We proceed on the assumption that the formation of redistributive preferences on the one hand and political participation on the other hand mediate between pre-redistribution inequality and redistribution itself. The main question addressed is whether rising inequality will induce electorates to demand (and vote for) more redistribution as the MR model predicts. We present results of empirical studies that directly address the relationship between income inequality on the one hand and redistributive preferences and political behaviour on the other hand.

Demand for redistribution

Predictions of the MR model rest on a series of assumptions about individual behaviour and the nature of the program which is the object of voting. To start with: the model assumes that voters base their choice of the level of redistribution purely on its effect on their own current well-being. Also, it assumes that the issue at stake is pure redistribution of incomes from rich to poor, and that there is no public good element or other dimension (such as insurance against job loss) that enters the decision. Another assumption is that voters are fully informed about the relevant aspects of the prevailing income distribution. It does not take compositional differences and their potential effect on redistribution into account (the macro aspects). All these are strong assumptions. In this section we will go through these assumptions, as well as others, to help unpack the tangled relationship between income inequality and redistribution.

Micro aspects – individual attributes

Most studies agree that the basic idea of the MR model — that higher income individuals prefer less redistribution —holds empirically (Tóth and Keller 2011; Corneo and Grüner 2002; McCarty and Pontusson 2009, Guillaud 2011). This argument might be called the "pure material self-interest" (Tóth and Keller 2011) or the "homo economicus effect" (Corneo and Grüner 2002). These arguments not only state that income matters, but also that wealth, the material position of the individual, has an effect on her/his preferences toward redistribution. To some extent, this is the logic of the class-based interpretation of attitudes to social policies as well (see Svallfors 1997; Kumlin and Svallfors 2008). Although this effect is always shown to be significant, there are other important factors that have an impact on redistributive preferences.

These other factors can be split into three parts (Tóth and Keller, 2011): expectations, social context/values and the failure attribution argument. The first aspect still remains within the purely-rational, self-interested individual framework. People care not only about their current wealth, but also have expectations about their future material position. If their outlook is optimistic they prefer less redistribution, but if they expect their position to worsen they prefer more redistribution. (One obvious example of this line of reasoning is the so-called POUM hypothesis[2]: Benabou and Ok 2001; Ravallion and Lokshin 2000; Rainer and Siedler 2008). The social context/values explanation encompasses all those motives that stem from the complex nature of human motivations. People can be conditioned to egalitarian attitudes that push them towards more redistributive preferences. Also, people can be socialized differently, have different cultural values that have an effect on their preferences. Similarly, different experiences with immigrants, minorities or the poor might as well shape individual redistributive demands. Finally the failure attribution argument states that the way people think about the reasons for poverty – whether it is due to the lack of individual effort or due to pure luck in life – matters in how people think about redistribution.

Tóth and Keller (2011) show that all four aspects are associated with preferences for redistribution. Using the Eurobarometer survey (2009 – special survey on poverty) they single out the separate effects of material status, expectations, failure attribution and the social context/values arguments. They show that all of these factors have significant and strong relations with the preference for redistribution. Their findings are similar to those found in other studies (showing that individual characteristics besides the material position affect redistributive preferences e.g. Corneo and Grüner 2002; Finseraas 2009 and others reviewed by Alesina and Giuliano 2010; McCarty and Pontusson 2009). In sum it seems that the first assumption of the Meltzer-Richard argument – that income is the sole decisive factor – is oversimplified, but it is also apparent that the empirical evidence testing the link between inequality and preferences for redistribution in fact comes down in favour of the basic political economy model: personal position in the income distribution is negatively associated with preferences for redistribution. This indicates that once inequality increases – i.e. larger numbers of people will fall below the average incomes – the aggregate measure of redistributive preference will, in turn, increase.

But, still, taxes can be spent in different ways. Welfare spending might be redistributive but it might have other goals as well. As Moene and Wallerstein (2001) argue, welfare policy can be treated as

[2] Prospect of upward mobility.

the "public provision of insurance". People might support generous welfare policy – and thus higher taxes – to provide protection against risks that private insurance markets fail to cover (Moene and Wallerstein 2001, p.859). This assumption changes the predicted relationship between inequality and the optimal level of taxes. When inequality increases due to a decrease in median income, the demand for redistributive spending might increase (as in the MR model), but the demand for insurance declines, assuming that insurance is a normal good. So the relationship between the level of inequality and the level of welfare spending is less obvious, if we allow the government to spend non-redistributively. Iversen and Soskice (2001) develop this argument by assuming that the individual demand for public insurance depends on the individual skill set, which in turn depends greatly on the institutional structures, the labour market and the educational setup.

Contextual and macro effects

Not only the insurance, but also the strictly redistributive part of welfare spending may be influenced by institutional, macro factors. It is clear that societies characterized by different social structures might present different overall tendencies to redistribute, purely because of their compositional differences in terms of the relevant aspects

While it is theoretically straightforward that individual characteristics have an effect on redistributive preferences (and not vice-versa), it is less obvious how contextual variables affect (or are affected by) individual redistributive preferences. A research question about the impacts of contextual effects on preferences could be framed along the following lines: once absolute material position clearly affects redistributive tastes, can we identify a separate effect of a macro constellation such as the overall inequality level or the shape of the distribution? In addition, there might be an interaction between individual income position and contextual inequality as well. The question in this respect can be formulated like this: Will rich people in highly unequal societies think/behave differently than rich people in less unequal societies? Will the poor define their positions differently if they know how many other poor people are around? The social (income, educational, wealth etc) gradient of voting taste may be stronger or weaker, depending on the shape or extent of overall inequality.

Further, once more inequality induces greater support for redistribution, how shall higher initial redistribution affect the additional demand for redistribution? Although commonly assumed that way, this latter link is not always straightforward. On the one hand, the forms of redistribution offered by politicians (cash or in kind, assistance or insurance type, etc), and the potential targets of the redistribution (very poor or the middle classes, people belonging to the majority or some ethnic minorities… etc.) matter for the final effects (see Moene and Wallerstein 2001, 2003 for the first set of factors, and Alesina, Glaeser and Sacerdote, 2001, Alesina and Glaeser, 2006, for the second). On the other hand, greater initial redistribution may induce inverse processes, if people recognize the negative overall behavioural effects of welfare expansion under certain circumstances (see, for example, Olivera, 2012). Therefore, an increase in inequality might have positive or negative effects, depending on the initial size of the redistribution, on its type and also on its incidence.

Tóth and Keller (2011), find a positive association between the level of inequality (contextual value) and redistributive preferences. Holm and Jaeger (2011) also test the link between national level contextual characteristics (income and unemployment) and redistributive preferences based on a Danish panel of the European Values Survey. The panel nature of the data and the changing regional level of unemployment allow for a causality test. Their tentative results show that contextual effects are among the likely drivers of redistributive preferences. A figure taken from Tóth and Keller can help explain some cross-sectional contextual determinants of redistributive appetite. (Figure 8.2). As it is seen, the preference for redistribution is positively related to inequality. The strength of this relationship depends on the measure used, the best fit being found for measures more sensitive to the bottom (like, for example, the ratio of the median income to the bottom five percent's income). A computation on the basis of the GINI inequalities dataset (collected from the GINI project country case studies Tóth, 2013) also confirms that inequality and redistributive preference are related, though much of this relationship is mediated by perceptions of inequality (see Table 8.1).

Table 8.1 Inequality and redistributive preference: Linear trend in Gini coefficient with country and year fixed effects

	(1)	(2)	(3)	(4)
	% agreeing government should redistribute	% agreeing government should redistribute	% agreeing government should redistribute	% agreeing government should redistribute
Gini net disposable household income	1.430* (2.63)	1.480~ (1.76)	-0.027 (-0.05)	0.024 (0.02)
% agreeing inequality is too large			0.883*** (7.60)	0.905~ (1.72)
gini x % agreeing inequality is too large				-0.001 (-0.04)
Observations	117	70	70	70

Note: t statistics in parentheses.
="~ p<0.10 * p<0.05 ** p<0.01 *** p<0.001"
Source: Data from country chapters (Tóth, 2013)

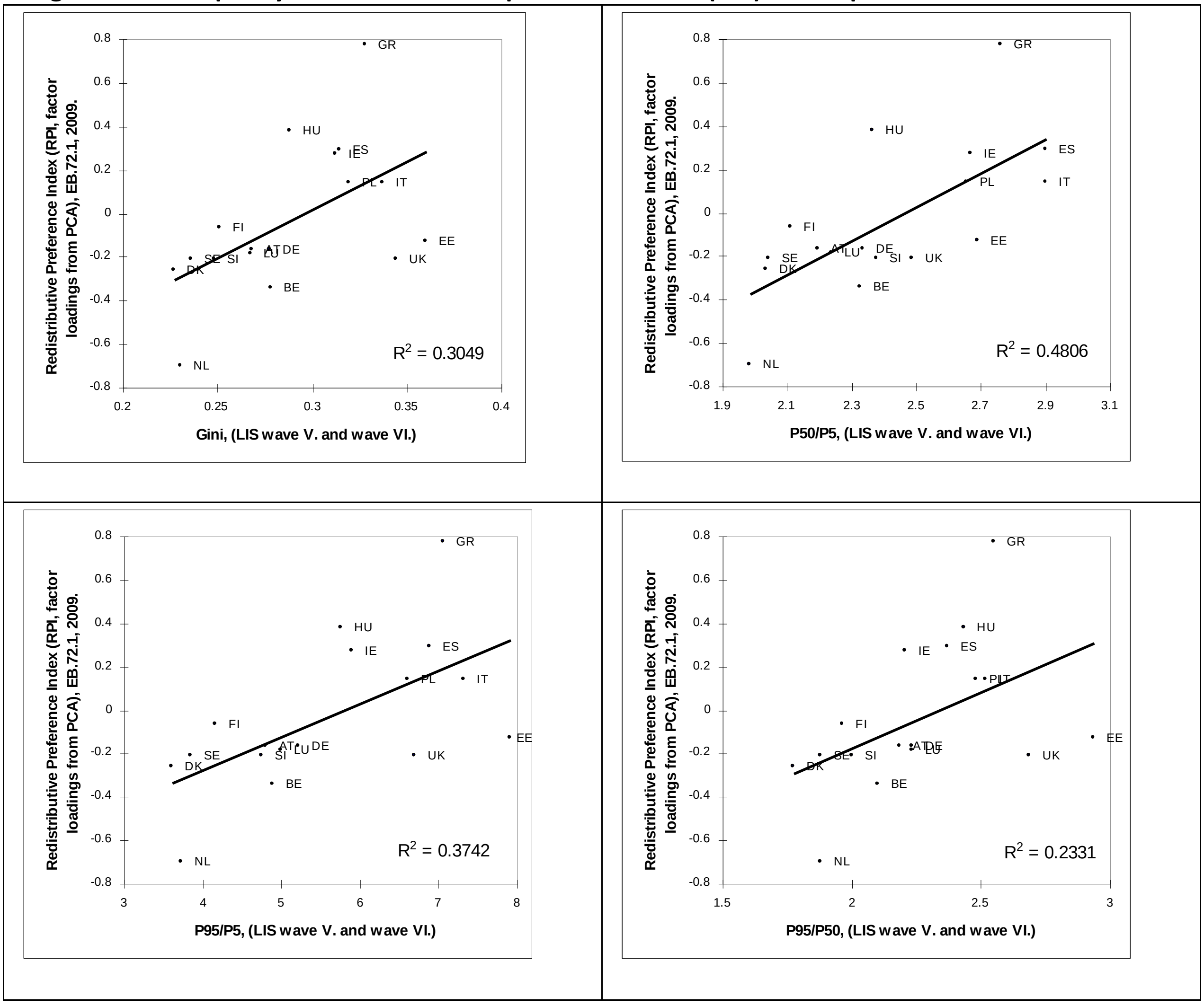
As the data show, redistributive preference (defined as agreement to the statement that government shall have to redistribute more) correlates with the Gini coefficient if no other variables are included in the model. However, that direct effect is taken away when dissatisfaction with inequality enters the model (as the latter obviously correlates with Gini). Therefore high inequality will lead to redistributive preferences to the extent that people perceive inequalities to be too high.

Institutions, understood as aggregate social relationships, are also potential macro factors that have an effect on redistributive preferences. A large stream of research literature analyses the path-dependency of institutions, and the relation of institutions with governmental policies (e.g. Esping-Andersen 1990; Hall and Soskice 2001). An example of a clear rational choice based logic connecting institutions with government policy is work by Estevez-Abe et al. (2001) and Iversen and Soskice (2001), where they connect the vocational specificity of educational systems with the level of social protection. Although Estevez-Abe et al. (2001) do not consider preferences for social protection (as a way of redistribution), Busemeyer (2012) does so, by looking at the association between inequality and demand for public spending on education. His results highlight two important points. First, higher economic inequality is associated with greater demand for education spending, but this effect is attenuated by the individual's income position: higher income people tend to oppose spending on education (as expected based on the research highlighted in the previous section, from "pure material self interest"). Second, the level of educational inequality also has a positive effect on redistributive preferences – higher inequality is associated with greater demand for spending – but this effect increases with individual income: higher-income people tend to demand more spending on education if educational inequality is larger.

Horn (2012) looks at this argument more closely, and examines how the structure of the education system (its institutions) relates to the demand for educational spending. Selective education systems tend to be more unequal than comprehensive ones. That is, education systems that select children into homogeneous classes, and do so relatively early, tend to have much higher inequality of outcomes, and also display higher inequality of opportunity, compared to non-selective systems (for a comprehensive review see Van de Werfhorst and Mijs 2010). Based on this, Horn (2012) argues that in countries where the system of education is selective, and thus helps to reproduce status differences, higher status people are more likely to demand more spending on education, because they benefit from it. Conversely, lower status people tend to support less spending on education. So in case of stratified education systems, assuming majority voting, an increase in income inequality will translate into less demand and thus less spending on education.

Another similarly framed logic is Epple and Romano's (1996) "ends against the middle" argument. Epple and Romano argue that if people can decide between public and private education, that is whether education should be financed through taxes or paid directly by households, both the rich and the poor might benefit more from a separate system of private education (the rich use it, while the poor benefit from the "unused" taxes paid by the rich for public education), and thus coalesce against the middle, which benefits the most from public education. This logic also highlights that there are instances when it is not the overall level of inequality – the difference between the rich and the poor – that matters.

Figure 8.2 – Inequality and redistributive preference index (RPI) in European countries



Source: Tóth and Keller (2011: 30)
Note: RPI is measured as a principal component of various redistribution related attitude variables.

Lupu and Pontusson (2011) also argue that it is the structure of inequality, rather than its level, that counts . The “structure of inequality” logic states that relative distances between various social groups (the internal structure of the distribution) matter, because these translate into “social affinity” between the poor and the middle and the middle and the affluent, respectively. Lupu and Pontusson (2011) argue that “in the absence of cross-cutting ethnic cleavages, middle-income voters will empathize with the poor and support redistributive policies when the income distance between the middle and the poor is small relative to the income distance between the middle and the affluent” (p. 316). In their argument, a high level of inequality might come from the large difference between the affluent and the median as well as from the distance between the median and the poor. They remain within the median-voter framework – in that it is still the median voter who decides – but allow the median to opt for more or less redistribution depending on her/his distance from both ends.

Tóth and Keller (2011) also test the “structure of inequality” logic, by looking at the association of material status and preference for redistribution. Their conclusion is in line with the “structure of inequality” argument: the level of preferences for redistribution is high in high-inequality countries, moderate in middle-inequality and low in low-inequality countries, while individual material status correlates more with redistributive preference in middle-inequality countries than in high- or low-inequality countries. Thus, according to these results, it seems that although the level of inequality matters, its structure also matters.

Inequality perceptions, values and opinions about inequality

According to the theoretical literature people might have preferences with respect to levels of inequality for various reasons. People who are aware of the social problems associated with high inequality, or who hold egalitarian values, will have a preference for low inequality (Alesina and Giuliano 2010). If people have preferences with respect to the level of income inequality the desired level of redistribution will depend also on the difference between the level of inequality perceived by the individual and his or her preferred level of inequality. Consequently, the information that people have about the level of income inequality and also the values they hold about the acceptable level of inequality become important inputs to the formation of redistributive preferences. Here we review empirical studies that analyse the effect of actual income inequalities on individuals' perception of inequality, their values about the acceptable or "just" level of inequality, and also their judgements on whether existing (perceived) inequalities are too large.

Do people perceive levels of and changes in actual inequality?

Empirical studies about people's information or perception of the income distribution have measured individuals' estimates of pay inequality[3]. Osberg and Smeeding (2006), using data from the 1999 wave of the International Social Survey Program (ISSP), find that individuals severely underestimate ratios of CEO compensation to the pay of manufacturing workers in developed countries. While respondents on average estimate quite accurately the pay of workers, they considerably underestimate CEO compensation. According to their data, underestimation of pay ratios is most severe in the case of the USA. Other studies have compared indicators of estimated pay ratios with data on actual wage inequality in a cross section of countries. Medgyesi (2012) finds a positive relationship on data from the 2009 wave of the ISSP: in countries with higher levels of wage inequality people estimate higher pay ratios on average, but the effect is relatively weak.

Even if estimates of the level of pay ratios can be biased, individuals might be better able to perceive changes of inequality. Studies on post-socialist countries show that during the years of transition to a market economy, characterised by steeply rising earnings inequality, perceived pay ratios also increased (Gijsberts 2002, Kelley and Zagorski 2005). By comparing time series of inequalities and perceived pay ratios for eight developed countries Kenworthy and McCall (2008) finds mixed evidence: in some cases (Norway, Sweden, UK, US) the trend of the perceived pay ratio was similar to that of actual earnings inequality, while in the case of Germany and Australia, trends in actual and perceived pay ratios were different. Overall, the evidence about perceptions of income inequality is somewhat scarce, we are not aware of large scale cross-country comparative studies analysing the effect of changes in inequality on perceived levels of inequality. Existing studies serve to highlight

[3] Surveys like the International Social Survey Program (ISSP) or the International Social Justice Project (ISJP) contain a question where respondents are asked about their estimates of actual earnings of a series of occupations. On the basis of the answers it is possible to construct an indicator of perceived inequality.

that individuals' information about levels of and changes in inequality might be biased, especially in times of rapidly changing income distributions.

Actual inequality and desired level of inequality

Surveys like the ISSP not only ask people's estimation about actual pay of a series of occupations but also about the amount they ought to be earning. Based on these data researchers have calculated indicators of the preferred inequality level of respondents[4]. Andersen and Yaish (2012) focuses on people's opinions regarding the desired level of inequality, which is measured by the Gini index of "ought to earn" earnings in the 1999 wave of the ISSP study. They find a strong positive effect of the Gini index for actual income inequality on desired inequality in a multilevel model controlling for various individual level and contextual level variables. The results suggest that on average, a one per cent increase in the Gini index for actual inequality leads to a half per cent increase in the level of desired inequality.

Kerr (2011) reports results on the effect of inequality change on the level of desired inequality based on three waves (1987, 1992, 1999) of the ISSP study. In his study the desired level of inequality is measured by the ratio of the pay a doctor should earn according to the respondent versus that of an unskilled worker. Results from fixed-effect regression models show that respondents are more likely to accept larger pay ratios when inequality is higher. A one standard deviation increase in inequality is associated with a 0.25 standard deviation increase in desired wage differentials. Although not explicitly testing the effect of inequality changes, Gijsberts (2002) and also Kelley and Zagorski (2005) document increasing desired inequality in transition countries where inequality levels were increasing substantially during the 1990s. To sum up, studies exploiting cross-country and inter-temporal variation suggest, that increasing inequality is partially accepted by people, in the sense that levels of accepted inequality increase when inequality is on the rise.

Judgements about inequality: does inequality lead to discontent?

According to Kuhn (2011), individual judgements about the level of inequality might be closely related to demand for redistribution: people are expected to demand more redistribution if they perceive much more inequality than they prefer. Empirical research has followed several strategies to study judgements that people make about inequality. One line of research studies the effect of income inequality on overall satisfaction with life. Another strategy uses direct survey questions on people's opinions about inequality[5]. Studies in the first tradition include Alesina et al. (2004), who analyze the difference in the effect of inequality on life satisfaction between European countries and American states. They conclude that inequality has a negative effect on life satisfaction among both European and American citizens, but the European poor are more negatively affected by inequality than the American poor. Verme (2011) studies the link between income inequality and life satisfaction on a pooled sample of countries from the WVS/EVS. He finds that income inequality

4 Some studies use indicators of preferred pay ratios, that is ratios of pay high status and low status occupations ought to be earning. Other studies calculate a Gini index over earnings amounts different occupations ought to be earning.

5 A third research strategy consists in inferring the discontent with actual level of inequality by analysing how estimated pay ratios differ from pay ratios that the individual deems acceptable.

generally decreases life satisfaction, but points out that results are highly dependent on modelling assumptions. On the other hand, Zagorski and Piotrowska (2012) do not find a significant effect of income inequality on life satisfaction in models that also control for household income. Grosfeld and Senik (2010) show decreasing inequality aversion during the first years of transition in Poland, but they also show that increasing inequality lowers satisfaction in later years.

Other studies use surveys (eg. Eurobarometer or the World Values Survey) that directly ask how respondents value actual inequalities, whether they find actual inequalities too large or not[6]. Studies on cross-country data analyze whether in countries with higher income inequality there is more discontent with the actual level of inequality. Earlier studies such as Suhrcke (2001) or Murthi and Tiongson (2008) report a significant effect of the Gini index of income inequality, with higher inequality being associated with stronger discontent with inequalities. However, these studies do not discuss the need to account for the clustering of observations in countries (or multilevel analysis), and thus presumably underestimate the standard error of the estimated coefficient on the Gini index of income inequality. Lübker (2004) finds similar results in a country-level regression, this analysis however fails to control for compositional differences between countries.

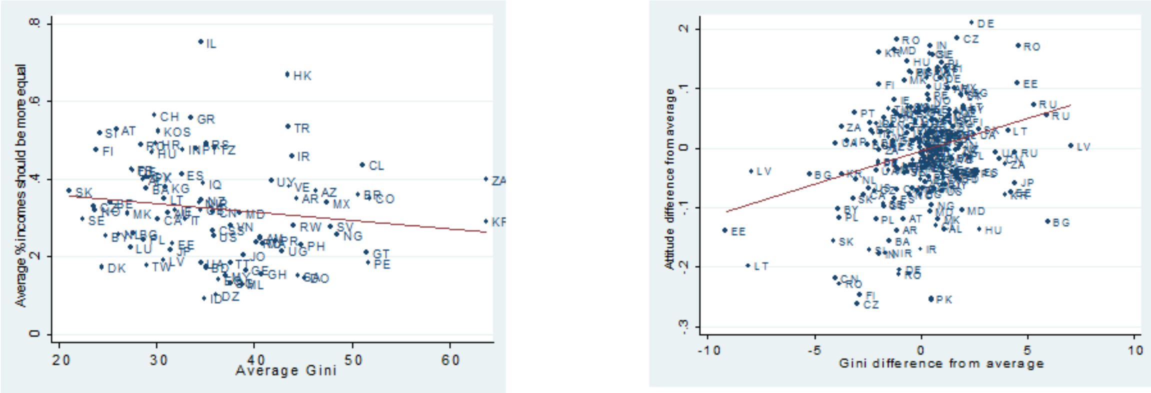
The methodological problems in these studies were (at least partially) overcome by Hadler (2005), who performs a multilevel analysis of determinants of opinions about inequality (the “inequality too large” version) on the ISSP 1999 data, and finds no significant effect of the Gini index of income inequality. Similarly to this study, Medgyesi (2013) finds non-significant effect of cross-country differences in income inequality on the agreement with the “inequalities are too large” statement in sample from 57 countries of the World Value Survey. Cross-sectional results should be interpreted with caution however, since these are susceptible to the omitted variable problem: in societies characterized by an egalitarian norm inequality will be lower and individuals will also more often prefer lower levels of inequality. Analysis based on inter-temporal variation in inequality and attitudes might get a step closer to uncovering the “true” effect of inequality, since in this case time-constant country-level unobserved variables – like an egalitarian norm – can be controlled for.

There are only a few studies analysing the relationship between inequality and judgments about inequality levels based on inter-temporal variation. Earlier studies compare country level trends in inequality and dissatisfaction with inequality without explicit statistical modelling of the relationship. Lübker (2004) finds that rising inequality was more often associated with an increasing agreement with the statement that inequalities are too large. McCall and Kenworthy (2009) show that contrary to the conventional wisdom that Americans are not really concerned about inequalities, dissatisfaction with inequality increased significantly during the period of rising inequalities in the USA between the late 1980s and the early-to-mid-1990s. Other studies use the World Values Survey/European Values Study, which provide large cross-country datasets. Medgyesi (2013) studies the effect of changes in income inequality on attitudes based on a pooled database comprising all six waves of the WVS/EVS. Results using multilevel models show that an increase in inequality is associated with a stronger agreement with the statement that inequalities are too large (see Figure 8.3). These results are consistent with those of Kerr (2011) who uses models with country fixed-effects to demonstrate that acceptance of inequality is influenced by the actual level of inequality.

6 A standard version of this question asks people whether they agree with the statement: „nowadays in (our country) income differences between people are far too large”.

To sum up, studies exploiting inter-temporal variation show that an increase in inequality leads to more agreement that inequalities are too large. Discontent with the level of inequality however increases only moderately with the rise of inequality, which might be the result of some increases in individuals' desired levels of inequality when actual inequality is on the rise (as shown in the previous section).

Figure 8.3 Cross-country and inter-temporal relationship between income inequality and agreement with the statement that "inequalities are too large" (pooled WVS/EVS data)



Source: Medgyesi (2013)

Inequality and political participation

Political participation is one of the most important factors that could have a major effect on the level of redistribution. Voter turnout has been low and steadily declining in European countries throughout recent decades. The average West-European voter turnout was around 85% up until the mid-80s, but since then has dropped by 10-15 percentage points. The Eastern European turnout level and decline is even worse: it was around 75% at the time of transition and dropped to levels between 50% and 60% after 2000 (Horn 2011). Income inequalities have grown during the last couple of decades. A similar trend is observable in more than two-thirds of the OECD countries, independent of the measure employed (OECD 2008). So is there a link between inequality and political participation?

Taking a closer look at this link is important for two other reasons. Firstly, both of these factors are important outcomes for any democratic society. The level of inequality has always been in the focus of governmental policies, but also the level of political participation can be considered vital for democracy and for the economy.[7] On the other hand, it is not at all obvious whether participation affects inequality or conversely inequality impacts participation. We argue that both links are possible theoretically.

Most of the literature about social capital treats participation as a single factor (e.g. Uslaner and Brown 2005). However we argue that political participation is only one of four possible forms, albeit a very important one. One could differentiate between political, social, civic and cultural

7 See Chapter 9 and Andersen (2012) on the link between inequality and support for democracy.

participation both theoretically and empirically. But as far as redistribution is concerned, political participation is the key. We treat political participation as a form of engagement in political activities. Party membership, volunteering, giving money to parties or writing letters to politicians are all different forms of political participation (Uslaner and Brown 2005). Yet the most straightforward and most widely available proxy is voter turnout. Acknowledging that there are more ways of understanding political participation, we see voting as the most clear-cut - and most easily observable – mode of political participation.

Various propositions to explain the inequality-participation link

There are two theoretical hypotheses that could guide us in establishing the link between inequality and political participation: the ‘psychosocial’ (or sociological) hypothesis and the neo-material (or resource-based) one (see also Uslaner and Brown 2005; Lancee and Van de Werfhorst 2011; Van de Werfhorst and Salverda 2012). There are many labels for these two hypotheses in the literature, but all point in the same direction. The psychosocial argument states that inequality goes strongly together with factors – such as trust, which can also be seen as a contextual variable, like general trust – that relate to participation, whereas the neo-material argument relies on the micro level and emphasizes that differences in individual resources affect individual participation. Note that the two arguments are complementary rather than contradictory.8

The most often used variable to proxy the ‘psychosocial level’ of the society is general trust (Alesina and La Ferrera 2000; Uslaner and Brown 2005; Steijn and Lancee 2011). The psychosocial argument is that higher inequality leads to lower trust in others and lower trust leads to lower participation. At high levels of inequality people are more pessimistic about the future, which means the level of trust is lower. In a similar vein, if inequality is high, people tend not to share each others’ fate, which also means the general level of trust is low. On the other hand, if general trust in the society is high, markets can operate at a lower cost, which means higher growth, and more participation (especially civic and cultural but also political). Similarly, if trust is higher, people tend to interact more and that leads to higher social participation. And finally higher trust could mean closer or more homogeneous preferences that foster engagement in civic and political groups (Alesina and La Ferrara 2000). Nevertheless the link between trust and participation is not a one-way street. Higher participation might easily lead to higher trust as well. “[P]articipation in social groups may lead to the transmission of knowledge and may increase aggregate human capital and the development of ‘trust’” (Alesina and La Ferrara 2000, p849). Uslaner and Brown (2005: 872) list many studies that argue one way or another with respect to the link between trust and participation.

One might also consider institutional differences between countries when looking at the relationship between inequality and participation. Institutions affect social norms, and norms affect social behaviour. For instance, universal welfare states encourage solidarity but they also encourage (democratic) participation (Lister 2007). Hence we observe high voter turnout and low inequality in universal welfare states (Horn 2011). This argument also highlights a key question on the causal link between inequality and participation: is it not something else (institutions) that drive both?

8 See also chapter XXX (Nolan-Whelan Social Impacts)

The neo-material argument is rather simple: individual resources affect individual participation - those who have more participate more – or, to put it differently, the poor participate less. We cannot directly stipulate a negative link between inequality and participation using the neo-material argument. If, for instance, inequality rises by an increase in income of the rich, overall participation should also increase according to this argument. Thus it is necessary to have inequality increase with a relative decline in the income of the poor to produce a fall in overall participation.

The most often used proxy for resources is income. Studies usually control for income, or some proxies of wealth in order to control for the obvious resource effect (Horn 2011; Lancee and Van de Werfhorst 2011). A trivial but good example for the resource argument is the Downsian rational voter theory (Downs 1957), people will consider the cost of voting as they decide about the voting, and the cheaper it is the more likely one is to vote. Hence the more resources (the less costs) a person has, the more likely she or she will participate. Another good example for the direct link between inequality and participation is the difference in networks (Letki and Mierina 2011). If people have smaller networks – informal or formal – their ability to rely on them in case of hardship will also be smaller. It is generally assumed that income associates positively with the availability of networks (Pichler and Wallace 2008), thus using such networks (cf. social, civic or cultural participation) is much harder for lower income people. Note that Letki and Mierina (2011) challenge this argument by stating that there are relative differences between countries in how well these networks are utilized by the lower and the upper strata.

Another way of understanding the resource argument is through the status competition or resource competition between different groups in the society. Inequality means differences in power between status groups in affecting policy, which in turn has an impact on future inequality (Uslaner and Brown 2005; Solt 2010; Horn 2011; Van de Werfhorst and Lancee 2011). Higher inequality means larger differences in status between individuals, which results in larger status gaps. These gaps trigger status competition and this detriments a range of desirable outcomes, including participation (Wilkinson and Pickett 2009, Lancee and Van de Werfhorst 2011). On a resource based logic one might argue that “[a]s the rich grow richer relative to their fellow citizens […] they consequently grow better able to define the alternatives that are considered within the political system and exclude matters of importance to poor citizens” (Solt 2010: 285). This will, as a result, negatively affect the participation of the lower classes, who find their expected benefit decreased. Mueller and Stratmann (2003) argue in a different direction: if fewer people vote then relatively more rich people will vote, thus the median voter’s income will be higher. Increased median voter income decreases taxes – since richer people want less redistribution – which in turn increases income inequality in the society (see Horn 2011).

Empirics: how inequality affects political participation?

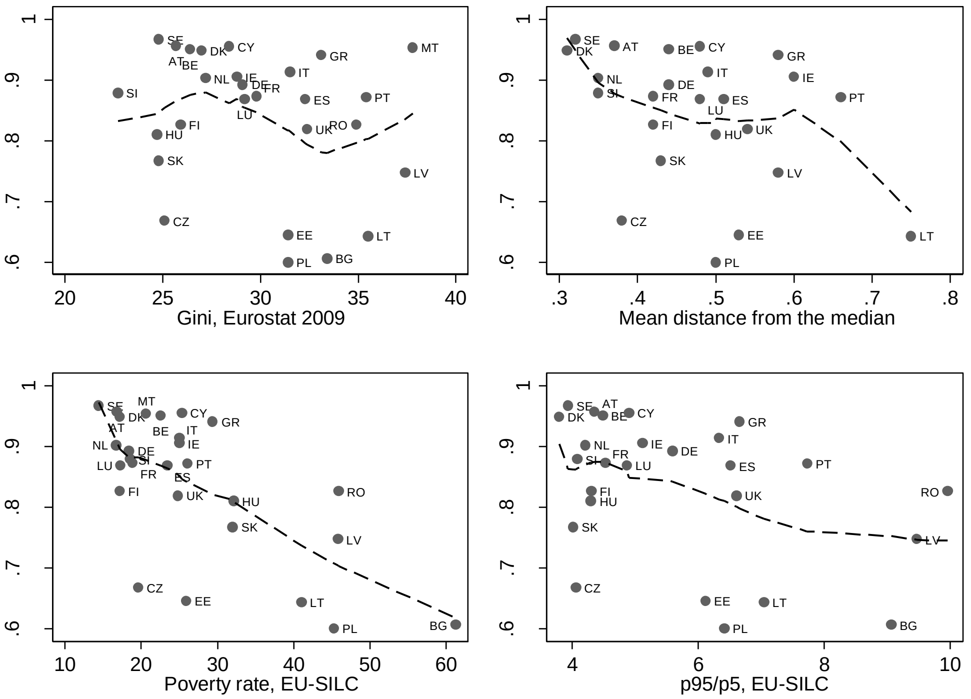
There are only a small number of empirical papers that directly assess the relationship between inequality and political participation. The most comprehensive study is Solt’s (2010) testing of the Schattschneider hypothesis (Schattschneider 1960). In his book, Schattschneider wrote that large economic inequalities lead to low participation rates as well as a high income bias in participation. Using the resource based logic he argued that the poor are less likely to cast a vote, as inequality goes up, since their expected benefit from voting declines. This is a clear neo-material argument. Solt (2010) uses American gubernatorial elections data to test the association between turnout and inequality. He uses state level Gini coefficients calculated for three years (1980, 1990, 2000) to proxy income inequality, while voter turnout is also for these years. The study shows that income inequality is negatively associated with electoral participation, while at the same time higher income people tend to vote relatively more as inequality rises.

A similar conclusion is presented by Mueller and Stratmann (2003), but with a different theoretical approach. They argue that if the upper classes have higher participation rates than lower classes, if upper classes favour right of centre parties and lower classes left of centre parties, and if right of centre parties adopt policies that benefit the upper classes while left of centre parties adopt policies that favour the lower classes, then lower participation rates will lead to higher income inequalities. Hence their conclusion: voter turnout is negatively associated with income inequality, but it is the decreasing participation rate that drives inequalities and not vice-versa. That is, their result is the same, but the line of argument is different from that of Schattschneider (1960).

Similar to the Solt (2010) study, Scervini and Segatti (2012) also look at within-country data. They analyse the possible reasons of the dramatic 8% decline in turnout on the Italian elections between 1992 and 2008. Looking at data between 1946 and 2008 they find that besides the obvious institutional suspect – the abolition of compulsory voting in 1993 - the increase in social inequalities had a large negative impact on turnout. More precisely they argue that increasing social inequality had a major impact on less educated voters, while leaving the turnout of the higher educated unaffected. Note the importance of this statement for the link between inequality and redistribution: if inequality affects the skewness of turnout (in that higher income people are relatively more likely to vote), then the increasing inequality will increase the median voter income, which in turn decreases redistributive demand. If one controls for the skewness and the level of electoral turnout the relation between inequality and redistribution regains its expected positive sign (see Mahler 2008).

In a cross-country comparative framework Horn (2011) also looks directly at the link between income inequality and voter turnout using the 2009 European Parliament election. While the negative association between income inequality and voter turnout is supported by the data (although the effect is not very strong), none of the theoretical explanations are substantiated. The status competition argument (within the resource argument) would posit that lower income people will vote less in more unequal countries, while the institutionalist approach of the sociological argument would state that universal welfare states would have lower inequality and higher turnout. When taking into account all commonly used micro and macro level factors that explain voting - like age, education, standard of living or size of population, type of election system, compulsory voting, GDP and so on (see Geys 2006) – none of the above theories are supported by the data. Hence the author concludes that there might be other, untested reasons that explain the negative association between inequality and political participation (see Figure 8.4).

Figure 8.4 – Association of inequality with turnout



Note: predicted probabilities are for a 40 year old man with average income, who finished education at age 18

- - - LOWESS smoother[9]

Source: Horn (2011: 22)

Lancee and Van de Werfhorst (2011) try to disentangle the sociological and resource effects of inequality on civic, social and cultural participation. Their analysis shows that resource differences do indeed matter. People with larger incomes tend to participate more, but this effect of income on participation is magnified in more unequal societies. It seems that the resource argument explains only part of the negative association between inequality and participation. The authors argue that the unexplained part is likely due to psychosocial (inter-individual or sociological) explanations. Nevertheless, they find strong and significant negative effects of inequality on all forms of participation. Notten, Lancee and Van de Werfhorst (2012) look at the link between educational level and cultural participation and how is it affected by educational inequalities on the national level. They find support for the sociological argument: in countries with lower levels of educational inequality, cultural participation generates less status for the higher educated, whereas the relation between a person's literacy skills (i.e. the cognitive aspect of education) and cultural participation remains stable, regardless of a country's educational inequality and thus corroborating the cognitive

9 LOWESS smoothing (Locally weighted scatterplot smoothing), provides the strength of association (OLS beta parameter) of the two variables for several subsets of the horizontal axis variable. Its main advantage is that it does not assume any function shape between the two variables.

aspect of the relation between educational level and cultural participation. However, the status-related aspect of cultural participation seems dominant.

Steijn and Lancee (2011) examine the effect of inequality on trust (cf. the psychosocial argument, presented above). Previous studies have shown that income inequality has a negative effect on general trust (e.g. Wilkinson and Pickett 2009), but Steijn and Lancee disentangle the reasons behind this link and also restrict their sample to developed European countries to test the association on a more homogeneous sample. They argue that one has to control for the amount of resources (wealth) when looking at the effect of the distribution of resources (inequality), since the two are strongly associated. Moreover, it is important to differentiate between the direct effect of inequality (stratification effect) and the indirect effect (effect of perceived inequality). Using two independent datasets (the ISSP and the ESS) the authors show that perceived inequality has no significant effect on trust in the first place, probably due to the limited set of countries. Moreover, after controlling for national wealth the association between actual inequality and trust becomes insignificant as well.

Letki and Mierina (2011) study the relationship between inequality and the use of informal networks (cf. neo-material argument, presented above). Previous research has shown income to be positively associated with the availability of networks (Pichler and Wallace 2007). Letki and Mierina (2011) argue that there are important differences between groups of countries in this respect. This assumed relationship is true especially in post-communist countries: higher income people tend to rely on their friends and family more often than lower income people. In Western European countries the difference between high and low income people in their use of networks is less pronounced.

Summary and conclusions

In this chapter our focus has been the relationship between income inequality, redistributive preferences and political behaviour. The main question posed is whether rising inequality will induce electorates to demand (and vote for) more redistribution as the Meltzer-Richard model predicts. Firstly we presented results pointing out that specific assumptions of that model are too restrictive to represent reality perfectly. We also presented results of empirical studies that directly address the relationship between income inequality on the one hand and redistributive preferences and political behaviour on the other hand. Most empirical studies confirm that personal attributes have a major effect on redistributive preferences. Most importantly, high-income individuals are more likely to prefer less redistribution than low-income people; an observation that the literature labels the "pure material self interest" or "homo economicus" effect. While this observation is key for the Meltzer-Richard argument, other individual factors also seem to matter. People's expectations, their social context or values, and the way they think about the reasons for poverty (lack of individual effort or bad luck) have a significant impact on the individual redistributive preferences.

While these individual effects are clear, the effect of macro factors on redistributive preferences is less straightforward. The structure of inequality, as well as the institutional setting, can alter the sign of the effect that income inequality has on redistributive preferences, which is an important weakness of the Meltzer-Richard argument. We have argued that the form of redistribution (cash or in kind, assistance or insurance type, for example), the potential targets (very poor or middle classes, people belonging to majority or ethnic minorities), as well as the institutional setting (education, unemployment benefits, health spending, etc.) all matter for the ultimate effects.

If people have preferences directly with respect to the level of inequality, then their desired level of redistribution will depend also on the difference between the level of inequality perceived and the level of inequality desired. Consequently, the information people have about the level of existing income inequality is an important input to the formation of redistributive preferences. Some empirical studies shed light on people's information about the income distribution by measuring individuals' estimates of the ratio of chief executive to workers' pay. Other studies try to measure whether increasing inequality causes rising discontent with the level of inequalities. Are people aware of changes in inequality? Studies analysing estimated pay ratios show mixed results. People estimate higher pay ratios in countries with higher wage inequality, and there is also evidence that peoples' estimated pay ratios rise when inequality increases. On the other hand there is also evidence of underestimation of pay ratios mostly due to underestimation of high earnings. Other studies use data on discontent with inequalities to see whether people notice changes in inequality. Cross-sectional studies do not find a relationship between inequality and individuals' discontent with the distribution of incomes, but may suffer from reverse causation problems. Results exploiting inter-temporal variation in inequality and attitudes show that attitudes towards inequality seem to respond to changes in actual inequality: discontent with inequalities increases when inequality is rising.

Theories that explain the link between inequality and political participation all point to a negative relationship between the two, however whether increasing inequality reduces turnout or diminishing turnout increases inequality is not clear. The two complementary theoretical arguments explaining this link are the 'psychosocial' (or sociological) argument and the neo-material (or resource) argument. The psychosocial argument states that inequality goes strongly together with factors – such as trust, which can also be seen as a contextual variable, like general trust – that relate to participation, while the neo-material argument stays on the micro level and emphasizes that differences in individual resources affect individual participation (poor are less likely to vote). Empirical studies that test the link, and try to argue for a causal chain, usually rely on either or both of these propositions. An example of the neo-material argument is that as rich get richer, and thus inequality increases, they grow better able to define what is on the political agenda, which eventually drives the poor away from the voting booth, as has been shown in the case of the USA by Solt (2010). Alternatively, since the rich mostly have higher participation rates than poor, and tend to favour right of centre parties adopting policies that benefit them, , then lower participation rates will lead to higher income inequality. The link between participation and inequality is negative in both cases but the causal argument is different.

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