

Redistribution in the Age of Globalization: The 'Paradox of Redistribution' Revisited

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Redistribution in the Age of Globalization: The 'Paradox of Redistribution' Revisited

Jürgen Sirsch

Abstract

In an influential article, Korpi and Palme (1998) challenge the view that targeting benefits at the poor is more redistributive. They explain their findings by pointing to the political feedback effects of welfare state programs on the broadness of political support for them. However, often it is argued that increasing globalization and post-industrialization has fundamentally altered the restrictions that welfare states face and that this has also changed the politics of welfare state expansion and retrenchment (Pierson 2001). Thus, the question arises whether Korpi and Palme's findings still hold in the age of globalization and austerity. I discuss recent attempts to test Korpi and Palme's theory and argue that they fall short of testing the central causal mechanisms proposed by them. I also provide some criteria for an adequate test of the theory. I find that the scant evidence we have points towards the continuing validity of the paradox of redistribution under conditions of global economic integration.

Keywords: redistribution, poverty, welfare states, globalization, encompassing institutions, universalism, targeting

1. Introduction

The effect of different kinds of welfare programs on inequality and poverty is an enduring issue of comparative welfare state research. In an influential contribution, Korpi and Palme (1998) (henceforth KP) argue that 'encompassing institutions', which provide status-preserving benefits alongside universal ones, are more redistributive compared to those targeting the poor directly – a finding KP call 'paradox of redistribution'. They explain this 'paradox' by arguing that the generosity of encompassing programs secures crucial political support of the middle class, resulting in more generous programs and higher welfare budgets. Thus, a successful egalitarian strategy uses encompassing institutions instead of targeted ones (KP 1998).

However, KP's findings relied on data that was compiled before global economic competition and de-industrialization in Western Europe and the US intensified. Since then, welfare state research has debated whether we must diagnose a 'new politics' of the welfare state (Pierson 2001; Starke 2006). Especially Pierson (1994, 1996, 2001) argues that the new restrictions welfare states face require austerity; and that the theories that provided good explanations for welfare state expansion do not necessarily offer good explanations for welfare state retrenchment.

One of the most important findings with respect to the 'old politics' of the welfare state was KP's paradox of redistribution. Hence, it is an open question whether their findings still hold under new conditions. Recent contributions to the debate aim to provide a test of the paradox of redistribution: Van Lancker and Van Mechelen (2015) (henceforth VV) argue that with respect to child benefits, targeted schemes are more redistributive than universal ones. Brady and Bostic (2015) (henceforth BB) provide the broadest challenge to KP's theory. BB find universalism of welfare transfers to be unassociated with redistribution preferences (BB 2015: 290-291). In contrast, Jacques and Noël (2016) (henceforth JN) argue that their evidence supports the theory. They test the relationship between universalism, inequality, poverty and social expenditure and find that universalism seems to reduce inequality and poverty.

However, I argue that these studies fail to test the causal mechanisms presupposed by KP: BB's reliance on redistribution preferences and universalism does not capture the causal mechanisms explaining the paradox of redistribution. Equally, the reliance on universalism as independent variable in JN (2016) and VV (2015) oversimplifies KP's argument. I reconstruct KP's theory and demonstrate in a second step that recent empirical tests of KP's egalitarian strategy fail. Also, I offer criteria for an adequate test of the theory.

2. The Theory

Regarding welfare programs, KP show that budget size and low-income targeting – two variables that are, *prima facie*, expected to decrease inequality and poverty – are themselves negatively related (KP 1998: 672). Thus, concentrating resources on the poor reduces the amount of resources for distribution. KP also find that the gains for the poor from low-income targeting are more than compensated for by the effects of the reduced budget. In order to explain this "paradox", KP argue that welfare programs shape the political interests of the population:

"[I]nstitutional structures discourage or encourage coalition formation between the poor citizens and better-off citizens and between the working class and the middle class, thus making their definitions of interest diverge or converge." (KP 1998: 671)

Those parts of the population whose needs are covered adequately by welfare programs are expected to support these programs. Therefore, the design of welfare programs (eligibility rules and generosity) affects the degree of political support for them by shaping the composition of

political coalitions. Finally, the degree of political support and the composition of political coalitions influence the design of welfare programs.

Bearing these mechanisms in mind, KP construct a typology of welfare state programs. Amongst other things, KP differentiate among programs with respect to the bases of entitlement and ways of determining benefits (KP 1998: 666). They distinguish five types of income-replacement institutions. For our purposes, only the following types are relevant: *Targeted programs* provide benefits conditional upon a means-test. *Basic security programs* involve flat-rate benefits that are awarded based on some broader criterion like citizenship, past contributions, age, unemployment, and so on. Finally, *encompassing programs* share the broader eligibility criteria with basic security programs and a basic benefit level that is guaranteed to everyone meeting these criteria. Furthermore, they include earnings-related benefits that require past contributions or labor force participation (KP 1998: 666-667).

KP argue that encompassing institutions are the most redistributive because they have the highest budgets (KP 1998: 675). The causal mechanism explaining this finding relies on the general policy-feedback mechanism described above: Under encompassing programs, more people rely on them instead of private alternatives of providing income security because earnings-related benefits are sufficient for the vast majority of the middle class for securing their living standards. Thus, “the encompassing model brings low-income groups and the better-off citizens into the same institutional structures” (KP 1998:672). Therefore, broad segments of society support these programs politically, increasing their generosity, budget, and hence, redistribution.

In contrast, *targeted programs* are expected to be less redistributive:

“By discriminating in favor of the poor, the targeted model creates a zero-sum conflict of interests between the poor and the better-off workers and the middle class who must pay for the benefits of the poor without receiving any benefits.” (KP 1998:672)

Thus, targeted programs divide socio-economic groups whose interests would be aligned by encompassing institutions. Additionally, they induce a concentration of support for welfare programs among the politically least powerful. Surprisingly, the same is true for the *basic security* model: By only providing a universalist safety net, citizens with greater needs for status-preserving benefits rely on the market to manage their risks:

“Social insurance systems in the basic security model therefore tend to become a concern primarily for manual workers, while [...] private insurance is likely to loom large for salaried employees and other better-off groups.” (KP 1998: 672)

Of course, this does not hold for generous universalist programs that are adequate for middle class purposes. This is especially true for the universalist provision of in-kind benefits such as childcare which are likely to be supported by a strong coalition of providers and recipients (Esping-Andersen,1999: 55; Scharpf 2000: 214).

However, what do the causal mechanisms underlying the paradox of redistribution imply for the new politics of the welfare state? I expect the paradox of redistribution to hold under conditions of austerity: This is because the coalitions established by encompassing welfare state programs should also protect these programs from attempts of retrenchment. Accordingly, targeted programs and basic security should be more prone to retrenchment than encompassing ones – even though they are much more expensive than targeted programs. This is because encompassing and social-service heavy welfare regimes are quite well adapted to challenges of globalization (Scharpf 2000). Additionally, due to the popularity of these programs, governments can choose other options than retrenchment – like tax increases or cutting less popular programs.

3. Testing the Theory: The Paradox of Redistribution Revisited

To keep the discussion comprehensible, I will, in the first and longest sub-section, discuss the broadest challenge to KP’s theory in the form of BB’s article. In the sub-sections after that, I will use these findings in order to point out where other recent tests of the theory show similar problems.

3.1 BB: Redistributive Preferences and Universalism as Independent Variables

BB rely on theoretical concepts, indicators, and causal mechanisms that are inadequate for testing KP’s hypotheses. In this section, I reconstruct and critically discuss their claims with respect to KP’s theory.

BB argue that universalism plays an important role in KP’s egalitarian strategy: Universalist welfare states are supposed to reduce poverty through increased welfare budgets. In order to test KP’s hypotheses, BB look at the following variables: *transfer-share*, *universalism*, *low-income targeting* and *redistribution preferences*. *Transfer share*, which is supposed to capture KP’s “redistributive budget size” is defined as the “size or extent of the welfare state within the average household’s income” (BB 2015: 271). *Low-income targeting* is defined as a “disproportionate concentration of welfare transfers in low-income households” (BB 2015: 273). Finally, *universalism* is defined as “homogeneity across the population in benefits, coverage, and eligibility” (BB 2015: 274).

For testing KP’s theory, BB (2015: 275-276) derive several hypotheses from it: They expect *transfer share and universalism to be negatively related to poverty*, as well as *low-income targeting to be positively connected with poverty*. Furthermore, they provide causal mechanisms intended to explain KP’s results: BB expect that *preferences in the population regarding redistribution* play an important role in explaining KP’s findings. BB argue that universal benefits are supposed to increase support for redistribution, while low-income targeting is supposed to decrease support for redistribution. Additionally, support for redistribution is expected to induce more redistributive policies (BB 2015: 275).

However, it is doubtful whether BB’s theoretical specifications allow for an adequate test of KP’s theory. We can see in Figure 1 that BB’s causal model of the egalitarian strategy vastly differs from KP’s version, which BB claim to test.

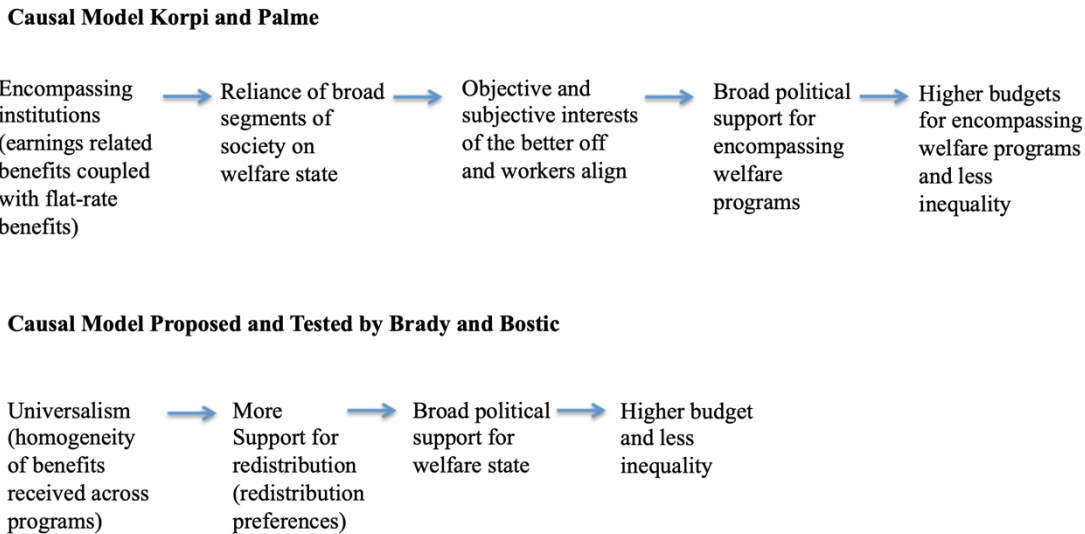


Figure 1: Causal Models of the Egalitarian Strategy

BB do not test the central causal mechanism proposed by KP. First, they use a different independent variable – *universalism* – instead of *encompassing institutions* (see Figure 1). Second, they do not test KP’s causal mechanism because they rely on redistributive preferences for explaining political support of higher welfare budgets instead of relying on KP’s interest-based explanation (see Figure 1):

1. BB’s *universalism* replaces KP’s conception of *encompassing institutions*. However, this does not fit with KP’s theory. Remember that earnings-related benefits are supposed to induce a reliance of members of the middle class on welfare programs for securing their living standard. Therefore, the middle class supports these programs politically. Since, under encompassing institutions, they rely on the same program as the poorer segments of society, the support of the middle class translates into more generous benefits. However, BB’s reliance on universalism does not adequately capture this mechanism: The more universalist a benefit scheme is in terms of BB, the more equal are its benefits. This is markedly different from encompassing institutions that combine basic universalist benefits with earnings-related benefits. However, in most cases, purely universalist benefits tend to be rather minimal and, hence, do not satisfy the preferences of the middle-class regarding income security (KP 1998: 431; Korpi 2001: 266).
2. Additionally, the role of *redistribution preferences* in BB’s reconstruction of KP is problematic. BB expect redistribution preferences to explain higher redistribution in universalist countries. However, redistribution preferences are fairly abstract and not directly related to policy. Thus, BB’s reliance on redistribution preferences is markedly different from the causal mechanism proposed by KP: The latter argue that the *material interests* of the middle class are decisive for securing political support for generous social policies: Encompassing institutions induce the middle class to rely on welfare programs for securing their socio-economic status. This mechanism cannot plausibly be captured by relying on redistribution preferences since the middle class is unlikely to support welfare programs on the grounds of preferences for redistribution since they are relatively well-off. The recognition that they profit from certain welfare programs provides a more plausible explanation for their support of welfare programs than fairly abstract redistribution preferences.

Furthermore, BB’s theoretical conceptualization of the targeted strategy is inadequate, since it relies on different independent and dependent variables compared to KP (see Figure 2): BB test the effect of low income targeting on redistribution preferences while KP specify targeted institutions as explaining differences in objective (and subjective) interests of different social classes. However, redistribution preferences are not suitable to adequately capture KP’s causal mechanisms, since KP rely on an interest-based explanation.

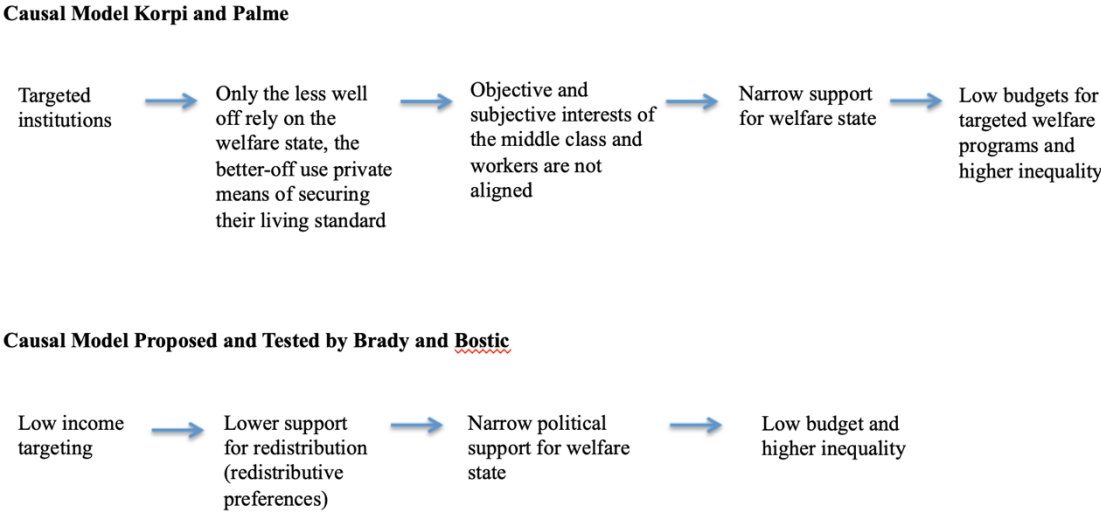


Figure 2: Causal Models Targeted Strategy

These differences do not end on the theoretical level but also translate into differences of operationalization: BB (2015: 278) measure low income targeting by determining the extent to which low-income households receive benefits. In contrast, KP focus on *rules* determining eligibility for welfare programs. This is more appropriate, since individuals not only benefit from welfare institutions when receiving benefits. They also benefit from rights to receive benefits in case a certain contingency (e.g. unemployment) occurs. BB's measure does not adequately reflect this, since it only captures benefits actually received.

BB's focus on *benefits received overall* has further disadvantages: Welfare programs are politically more salient than aggregate welfare systems (KP 1998: 666). Therefore, properties of single programs are more likely to influence political support than the overall structure of the welfare state. Additionally, assuming that the overall structure of benefits reflects the structure of single programs amounts to an ecological fallacy, since the overall distribution resulting from a set of targeted programs could possibly end up looking like a universalist scheme when measured with BB's instruments.

Therefore, the relevance of BB's findings for KP's paradox needs to be qualified:

1. BB find that *universalism* is not associated with *redistribution preferences*. They argue that this undermines KP's egalitarian strategy (BB 2015: 275-276). However, both universalism and redistribution preferences do not capture the causal mechanisms proposed by KP: First, redistribution preferences are irrelevant for KP's egalitarian strategy, which relies on an interest-based coalition of workers and the middle class. Second, universalism is the wrong independent variable to test KP's theory: Contrary to BB, KP argue that universalist institutions do not induce an egalitarian virtuous cycle, since they do not provide (subjectively) adequate benefits for the better off and, hence, induce a political coalition in support of welfare programs that is not encompassing enough in order to dominate social policy. Thus, a lack of a correlation between universalism and redistribution preferences is meaningless with respect to KP's theory.
2. BB find that *transfer share* is not associated with *redistribution preferences* and argue that this poses a problem for KP's egalitarian strategy. However, as I have argued before, redistribution preferences are not central to KP's causal mechanisms.
3. In their broader sample, BB find that low income targeting is positively associated with transfer share. However, this is consistent with KP, since BB do not measure program generosity directly but rely on transfers actually received. Thus, "low-income targeting" in BB's version does not imply that transfers are targeted to poor people at the program level. Even in countries with encompassing institutions, benefits are mostly received by people with diminished income-generation capabilities due to unemployment, sickness, old-age, and the like. Therefore, BB's measure is unlikely to differentiate correctly among different kinds of programs.

Therefore, BB's criticism of the egalitarian strategy misses its target, since they rely on different variables than KP corresponding to different causal mechanisms.

3.2 JN: Universalism, Redistribution, Poverty and Social Expenditure

JN (2016) show that their measure of universalism is correlated with the reduction of poverty and inequality, as well as social spending. However, their study contains similar problems as identified above: JN (2016) test KP's theory on the basis of universalism as an independent variable. They also test the relationship between universalism and public support for redistribution – albeit with different findings than BB. As BB (2015), JN (2016) do not use program specific measures but holistic ones – making it impossible to discern evidence for the causal mechanisms presupposed by KP.

Furthermore, the indicators that form the index of universalism are problematic (JN 2016: 75): Their measure of universalism consists of two indicators – the proportion of means-tested benefits and the degree to which social expenditure consists of private spending. Both measures do not capture the design of programs directly but only spending patterns resulting from these designs. Also, these indicators presuppose parts of the theory they are designed to test: JN (2016: 75) argue that “[e]ncompassing public services that benefit all citizens tend to crowd out private services and increase support for the welfare state.” However, their indicator is not suited to test the relationship between encompassing public services, support for encompassing public services, size of the budget and redistribution since it omits the first step, namely, the institutional variable (whether a service is provided in an encompassing or universal way or targeted). Additionally, there is also some relevant private spending that is not reflected in their indicator: Social spending only contains private spending on private insurance. However, all private spending that has the *function* of providing security needs to be taken into account. For example, saving or investing outside of dedicated private insurance schemes might fulfill the same function as contributions to private insurance schemes. Thus, KP’s argument clearly applies to these kinds of spending as well: Individuals with large savings also do not rely on the welfare state and are unlikely to support it for interest-based reasons.

3.3 VV: Targeted Child Benefits and Poverty

VV (2015) test the effect of the program design of child benefit systems on the reduction of poverty among children. Contrary to the other studies discussed here, (VV 2015: 61) directly use design aspects of institutional designs rather than distributive outcomes as independent variables. Roughly, they use a continuous independent variable that includes low income targeting, universalism and high income targeting on the same scale. They find that ‘targeting towards higher incomes is bad for poverty reduction’ (VV 2015: 72). While they find a weak positive relationship between low income targeting and poverty reduction, this relationship disappears when only universalist countries and those countries which target lower income groups are taken into account. This specification makes more sense, because it is hardly plausible to interpret low income targeting, universalism and high income targeting as continuous values on the same scale.

However, looking at child benefit systems is not an optimal choice for testing KP’s theory, since one would expect only some of the causal mechanisms introduced by KP to be relevant: Contrary to unemployment insurance, pensions, healthcare or childcare (JN 2016: 71) there are no private alternatives to child benefits. Thus, the argument that the middle class opts out of the system when benefits are too low does not apply here.

However, it is noteworthy that universalist systems reduce child poverty on average equally well as those with low income targeting (VV 2015: 72). This could be explained by higher support due to more recipients in universalist systems. But why does low-income targeting not have a more negative effect on the budget? This could be explained by several factors: First, it could be related to the fact that still many people are entitled to benefits so that political support is sufficient. Second, child benefits targeted at the poor should face much less risk of criticism due to considerations of deservingness: Children cannot be plausibly viewed as being responsible for poverty. Hence, programs targeted to the poor probably face less criticism when it comes to child benefits compared to other programs.

4. Conclusion: How should we test the Paradox of Redistribution?

Generally, the plausibility of KP’s theory can be supported by the fact that countries with mostly encompassing institutions still are the most equal ones (JN 2016). However, while the results of the studies surveyed are interesting in their own right, they do not provide an adequate test of

KP's egalitarian strategy. KP provide causal mechanisms that are relevant for assessing the prospects of different redistributive strategies. Testing their theory requires that encompassing institutions are clearly differentiated from universalist institutions. Additionally, we should distinguish between generous universalist institutions and the less generous basic security model. The former could instantiate an egalitarian virtuous circle when benefit levels are sufficiently high to be adequate for the middle class.

We need to use program designs as independent variables and focus on core areas of the welfare state such as unemployment benefits, pension and social services. In order to capture causal mechanisms directly, we also need to measure support for specific programs, and not support for redistribution or some other general aspect. If adequate data is not available, the causal mechanisms could also be captured indirectly by comparing the stability of different types of programs, as, for example, in Korpi (2001).

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