Can Welfare States Manage Re-distributive Conflicts?

The Determinants of the Gap in the Demand for Re-distribution Between the Rich and the Poor across Advanced Industrial Democracies

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This is a comparative analysis of the determinants of the gap in demand for re-distribution between the rich and the poor across 21 years (1985-2006) and 15 advanced industrial democracies. The paper applies a two-step regression technique to a large set of ISSP survey data and macro-level data from various resources. The findings can be condensed into the following statements: (1) what governments do and are composed of, has little impact on conflict potential; (2) Who the others are in a society, measured by income inequality and ethnic heterogeneity has a strong influence such that more equal societies are associated with lower conflict potential; (3) the basic values toward work as a meritocratic exercise unite the rich and the poor in their demand for re-distribution at different levels; (4) abundance increases conflict potential in that more availability of resources for re-distribution increases the gap in contrast to fears of increasing conflicts over scarce resources. The paper contributes to the modern welfare state literature due to its novel empirical approach and by presenting the first, rigorous empirical assessment of various propositions.

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1. Introduction

A core function of the welfare state is to maintain social peace of the population within. Given the large capacity to raise funds and the increasing scope of activities and services by modern welfare states, governments seem never to have been equipped better to fill that function. However, can government actually do so in the light of fundamental changes and challenges?

The modern welfare state literature often implies that the end of the “golden age” potentially has major consequences for social cohesion and intensifies conflicts between citizens. The major works on this topic (Bonoli 2006; Esping-Andersen 1999; Pierson 2001d) deal extensively with the consequences of developments like fiscal austerity or demographic aging for the provision of welfare policies that citizens are used to. It is conjectured that this has detrimental effects on social cohesion: “A series of major social, economic and political shifts leave little doubt that conflict over social policy will continue. Indeed, there is a high probability that it will intensify in many countries” (Pierson 2001b: 1). Or: “There are (...) signs of an impending head-on collision when we disaggregate both voters and the welfare state” (Esping-Andersen 1999: 147).

However, these claims are rarely tested empirically, and a piece of research that tests the common assertions in conjunction is missing completely. This paper seeks to fill this void with a special emphasis on political variables that could demonstrate government capacity to manage re-distributive conflict. For the first time, the analysis presents a measure of re-distributive conflict potential that can be compared across countries as well as across time, namely as the gap in the demand for re-distribution between the rich and the poor. This gap in demand is central to any full-blown political conflict because differences in attitudes towards policies are a necessary condition for the development or change of a cleavage; and this is why we term it “re-distributive conflict potential”.

This analysis is relevant as it touches upon the core question of modern social policy, namely to what extent the state can actually steer conflicts about re-distribution. Moreover, political actors
like parties and trade unions do not start their mobilization efforts on a clean slate. They find differing demands for re-distribution across the populace, sometimes these demands differ a lot, sometimes just a little; but the size of this gap is a fundamental starting ground for the work of collective political actors.

The central findings are that the size of the conflict potential is not a simple function of what has been done by the government in terms of re-distribution, nor only by material conditions of income groups. Instead, who “the others” are and what values prevail in a society are paramount to understanding it. Who is at the helmet and what they do, is remarkably unimportant.

Section 2 gives an overview and synthesis of existing theories and empirical studies. Section 3 presents the two-step regression technique where the estimation of conflict potential is the first step. Section 4 entails the empirical results. Section 5 concludes the paper.

2. Theoretical framework

2.1 Changes in welfare politics and re-distributive conflicts
The basic foundations of today’s welfare states were built with the assumption of the “old” income or class cleavage (Korpi 1983; Esping-Andersen 1990; Huber and Stephens 2001). Additionally, they were formed during a time of unprecedented economic prosperity and for a young population. However, especially economic and demographic circumstances changed dramatically over the past decades. A variety of factors caused lower economic growth rates and higher unemployment levels starting in the 1970s. The pronounced shift of employment from the secondary industrial to the tertiary service sector and the associated decline in productivity growth are seen as the most important factors (Iversen and Cusack 2000; Pierson 2001b). States reacted in different ways to the challenges presented by this development. While some deregulated their economies and therefore increased inequality, others had to jettison fiscal discipline and/or employment growth, resulting in mass unemployment (Iversen and Wren 1998).
What remains under-researched, so far, is how the income cleavage was affected by government actions and other factors associated with these developments of the welfare state. In order to assess these aspects, we need to conceptually dig a bit deeper into the phenomenon of an income cleavage (see Fabbrini 2001). A political cleavage is a societal line of conflict along which voters consciously align themselves and political actors mobilize their constituencies. The societal base of the income cleavage is thus, obviously, income differences between households that structurally locate individuals in a society. Furthermore, individuals need to be conscious of their shared material situation within their income group and make these differences salient in the ways in which they position themselves in the political arena. An important part in this process is their demand for income re-distribution by the state, meaning that individuals deduce a higher or a lower demand for re-distribution based on their income position. Attitudes towards re-distribution are similar within and are different across income groups. In his analysis of Norwegian cleavage politics, Eckstein termed these patterns “specific disagreements” between social groups (Eckstein 1966: chap. 3), preference patterns that emerge out of social group membership that then translate into political preferences shared by members of the same group. Finally, there are political actors involved in shaping political cleavages, parties and trade unions most importantly. Karl Marx - with regard to French small-scale peasants in 1848 - already observed the important difference between having a common objective situation that translates into common political interests (Klasse an sich) and being mobilized and made conscious of shared interests by political elites (Klasse für sich) (Marx 1869 [1852]; also see Dahrendorf 1959). These collective actors can create consciousness of shared political interests from a social group and they can mobilize their constituencies to voting or other political actions. Thus, they can also shape income-specific demands for re-distribution as part of this process. They do so by cuing their constituencies with selected information and by highlighting certain issues on the political agenda.

Going from the group to the individual level, we can also draw upon a growing literature on individual preferences for welfare state policies (see Rehm 2009 for a good overview). Broadly
speaking, two types of microfoundations for welfare state preferences can be found. On the one hand, the simple assumption is that the individual’s current material position and her perception of risk concerning the future determine what she wants from the welfare state (Iversen and Soskice 2001; Cusack et al. 2006; Kitschelt and Rehm 2006; Rehm 2009). On the other hand, preferences for the welfare state are assumed to be rooted in processes that stem from learning behavior or socialization. This includes explanations such as welfare state regimes (Svallfors 1997, 2003; Andreß and Heien 2001; Lipsmeyer and Nordstrom 2003; Jaeger 2006; Sabbagh and Vanhuysse 2006; Larsen 2008; Jaeger 2009), perceptions of justice and reciprocity (Gelissen 2000; Mau 2004), or perceptions of deservingness (van Oorschot 2006). Both mechanisms, material self-interest and learning, are of relevance for our question.

In order to analyze conflict about re-distribution between the rich and the poor, we can thus merge insights from these two literatures on cleavages and welfare state attitudes. Individuals are located in objective structural positions that they share with other individuals and that are defined by income. This location is the first driving factor for demand for re-distribution. Trivially, individuals in poorer groups demand less re-distribution than individuals in richer groups. Political actors can influence this demand for re-distribution by manipulating the meaning of the social world for the material situation of those in a certain income group. Moreover, individuals have learnt to demand a certain level of re-distribution; however, to explain differences between the rich and the poor, this learning process must take different effects on different income groups. Institutions, government actions, actions by political actors and more deep-lying dynamics like societal values take effect here. Finally, the demand for re-distribution from within a certain income group is shaped by perceptions, by psychology. How much the state can provide and how much there is to be provided as well as other things, shapes the level of demand.
2.2 Determinants of the redistributive conflict potential between the rich and the poor

The gap in the demand for re-distribution between the rich and the poor, redistributive conflict potential, forms the basis for our dependent variable. What does the literature tell us about factors influencing this gap? In general, we can differentiate between predictions either to explain inter-country variation or intra-country variation across time. Some causal mechanisms should explain both, some only one aspect of it.

Government actions and structure

The main focus of this paper is the type and the extent to which governments can shape the gap in the demand for income re-distribution between the rich and the poor. Offe (Offe 1982) argued that the welfare state is a necessary part of modern capitalism. This functional arrangement allows the market to create inequalities that the welfare state can even out or at least contain. Similarly, the literature on the decline of the modern welfare state suggests that the welfare state can no longer provide the goodies that it used to provide, thus exacerbating the conflict about re-distribution (Pierson 2001a, 2001c). So, the first major effect that we can derive from the literature is governmental effort at re-distributing, for instance as measured by social expenditure. More effort should be associated with lesser re-distributive conflict. As an intended or unintended consequence of social policy activity, policy-makers thus pacify the populace with regard to their re-distributive demands.¹

Party composition is another important causal dynamic. It matters strongly to predict the amount and type of social spending with leftist parties being associated with more spending (Schmidt 1996). Party composition matters also because it is likely to influence the discourse lead vis-à-vis the welfare state (Schmidt 2002). Leftist parties are more likely to care and address the different income

¹ Social policy as a means to pacify social groups was shown to be effective in transition countries of Central Europe (Vanhuysse 2006).
situations across the populace. This higher visibility and the higher level of action should make leftist party government be related to a lower level of re-distributive conflict. Rightist parties, in contrast, can be expected to care less about these issues or even be willing to intensify the conflict in protection of their core constituencies, the middle and upper classes.

The predictions from this perspective should both cross-sectionally as intertemporally. For example, a larger partake of rightist parties in government should be correlated with higher conflict potential across countries, but also a positive change in the share of rightist parties within a country should lead to a positive change in conflict potential in that country.

**Societal composition**

Currently, there is an active discussion in political science about the politics of inequality (Anderson and Beramendi 2008; Anderson and Singer 2008; Kenworthy and Pontusson 2005; Pontusson and Rueda 2010; Pontusson and Lupu 2011; Rueda 2012), most importantly about its consequences for political behavior and the role of political actors in creating of mediating effects. At the core of many discussions lies the Meltzer-Richard-model (Meltzer and Richard 1981). It predicts that in more unequal societies, the median voter lies below and further away from the mean of the income distribution than in more equal societies. She will thus demand more re-distribution in the case of the former than of the latter. Two patterns can be suspected. If the distance between the have and the have-nots gets larger, the former have more to lose and the latter more to win from the same degree of authoritative redistribution (see Finseraas 2009; Iversen and Soskice 2001; Pontusson and Rueda 2008). The median-income person in societies with more inequality demands more redistribution by the state than a median-income person in low-inequality contexts whereas the rich are similar in what they want from the state across varying levels of societal inequality (Kenworthy and McCall 2008). As a consequence, higher levels of inequality should be associated with higher levels of difference between the rich and the poor. This hypothesis demands both overtime and cross-sectional patterns to correspond with the expectations.
However, the simple Meltzer-Richard-type framework has often been criticized. Alternatively, there is the notion of a non-linear, inverse u-shaped association. In these accounts, social mobility plays an important role (Bénabou and Ok 2001; Alesina and Angeletos 2005; Bénabou and Tirole 2006). Very unequal societies could represent one world of social contract in which citizens accept inequality under the assumption that they themselves or their children could benefit from upward mobility. Thus, lower-income individuals would not necessarily support higher re-distribution more in very unequal societies. In very equal societies, there could be a different world of social contract making both groups agree on the necessity for high levels of re-distribution. Thus, low levels and high levels of inequality are associated with lower levels of difference between the rich and the poor than medium-levels of inequality. This hypothesis does not imply anything about changing inequality patterns within one country in the short run (compare McCall and Kenworthy 2009) as the underlying notion is that of a cultural equilibrium, but primarily explains cross-national patterns.²

The second important societal characteristic is ethnic homogeneity (Habyarimana et al. 2007; Alesina et al. 1999; Rueda 2012). It is an inherent human quality that we are more likely to be altruistic towards individuals who are like us. The more ethnically diverse a society is, the lower is the overall likelihood that re-distribution benefits people like oneself (see van Oorschot 2006). If, on top of that, ethnic fractionalization is distributed unevenly across income groups as is the case in many countries with mass immigration, this contextual characteristic is likely to impact on the gap in the demand for re-distribution between the rich and the poor. The rich are less likely to support re-distribution in ethnically diverse societies because the likelihood that the poor are not like them is high (see Rueda 2012). The poor should be largely unaffected by the extent of ethnic fractionalization as they want re-distribution for themselves. Thus, redistributive conflict potential should be larger in countries with higher ethnic heterogeneity. This proposition holds both for inter-country and inter-temporal variation, even though ethnic heterogeneity only changes very slowly across time.

² In very long data series of half a century or so, one could expect changes here, too.
Societal values with regard to individual work merit

The welfare state and its re-distributive dynamics result from the basic values held in a society and institutions installed at critical junctures in history. Enshrined in a welfare state with a market economy is a contradiction between support for the individual for greater economic success and support for those who cannot make it by taking from the former. Wilensky (1974: 7) wrote about this: “...the ideological underpinnings of the welfare state everywhere reflect the tension between meritocratic and egalitarian values.” The question is to what extent the spread of certain values in a society impact on the re-distributive conflict between the poor and the rich.3

In this vein, the economic writings, already mentioned come to mind that societies differ in the extent to which its citizens believe in their individual ability to make it for themselves (Alesina and Angeletos 2005; Bénabou and Ok 2001; Bénabou and Tirole 2006). If many people, regardless of income, believe that individuals can make it for themselves and that the personal course of life is not fate, but the outcome of individual achievement, the poor and the rich should converge on low demand for re-distribution and a small gap between them. If, in contrast, many people across income groups believe that the state must help those struggling because they cannot make it on their own, the rich and poor should converge at a high level of demand and thus creating a small gap between them. If this equilibria view of the world was correct, we would expect a u-shaped relationship between the extent of belief in individual merit (which was termed a ‘market principle’ by Taylor-Gooby (Taylor-Gooby 2004); see also Taylor-Gooby (Taylor-Gooby 2011)) and the gap between the rich and the poor in their demand for re-distribution.

However, one could also postulate a linear relationship, namely that a more common belief in individual merit goes with a larger gap in demand between the rich and the poor. In high-work merit-

3 There is a related discussion in psychology and sociology about the relationship between general human values and “work centrality”, i.e. “the importance and significance of work in a person’s total life” (Schwartz 1999: 40).
believing countries, the rich are not very supportive of re-distribution because they lack the self-interest and the beliefs to support re-distribution. The poor in such countries do have the self-interest and are not very affected by the beliefs. In low-merit-believing countries, the poor would have a high demand because of their self-interest (and the widespread beliefs), and the rich would have a high demand just because of the beliefs, thus making the conflict potential small. Decisive for these two competing notions is the degree of attitudinal mobility of the poor.

Again, the changes with regard to values can be assumed to be so slow, that this prediction should mainly concern inter-country variations rather than intra-country variation. However, in the very long run, value changes should also lead to the predicted consequences in one of these notions.

Objective and subjective perception of resource availability

One of the fundamental propositions of this paper is that individuals are not only influenced by their objective situation, but also by their perceptions of their situation. This aspect of perception extends to the amount of resources that are potentially available for re-distribution. As part of the welfare-state-in-crisis literature, it is held that sluggish growth rates and lower productivity growth have made it increasingly harder to raise revenue for re-distribution (and in general for welfare state services). Without deficit spending, government need to scale down their activities in redistribution and providing welfare state services, which could increase the conflict between the rich and the poor (Iversen and Wren 1998; Pierson 2001a, 2001b; Esping-Andersen 1999).

Implicit in this line of reasoning is that the scarcity of resources available for re-distribution or the perception of such creates more conflict, an expectation that could be termed the “scarcity logic.” In other words, the perception of a smaller or a shrinking cake available for re-distribution creates a greater demand for re-distribution by the poor who are basically afraid to lose out to the large-scale development and a lesser willingness to tolerate by the rich who are afraid to have to pay more taxes to maintain existing levels of re-distribution. The measures to use here can be GDP per Capita as a proxy for economic fortune of a country, the level of spending by the state (other than social
spending) as a proxy for the signaled strength of government on general and the state deficit as a proxy for budgetary scarcity. Higher GDP per capita, higher non-social spending and lower deficits should be associated with lesser conflict potential.

However, this prediction does not square very well with the general level of support for redistribution that is shown to decrease at higher levels of GDP/capita (Brooks and Manza 2006; Jaeger forthcoming). The support by the rich would need to go down very much in order to be consistent with that aggregate finding. Instead, one could formulate a competing proposition, namely that a larger or a growth of the available resource cake would be associated with lesser support for redistribution, especially by the poor. Whereas the rich continue to be motivated by other-regarding motivation or values, the poor could decrease their demand while facing lesser cake to share. Again, the predictions should hold both across countries as across time.

**Summary**

In sum, redistributive conflict potential can be delineated as the gap in demand between the rich and the poor. At the individual and the group level, the level of demand stems from the objective material situation, but also from the subjective perception of this situation and more importantly of the context vis-à-vis other groups. Causal impacts can be expected from four theoretical perspectives: (a) government actions and composition: what governments do and how they are structured can be directly looked at to assess government capacity to manage re-distributive conflicts; (b) societal composition: the overall structure of a society with regard to income and ethnicity defines perceptions and structural positions of the rich and the poor vis-à-vis others; (c) societal values with reference to work merit lay the founding stone for a welfare state in term of the legitimacy of government action to re-distribute and (d) the objective amount of and the subjective perception of resources that may or may not be available for redistribution shapes the demand for re-distribution.

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3. Methods and data

3.1 Measuring re-distributive conflict potential

Re-distributive conflict potential is not a measure that is ready available from an existing data set. Thus, the first part of the empirical analysis consists of estimating the differences in demand for re-distribution between the rich and the poor. We define conflict potential as the predicted difference in strongly supporting income re-distribution by the state between those in the country-specific eight decile and those in the second decile, a fully arbitrary choice grounded in the attempt not to concentrate on the most extreme groups and warranted by no sensitivity of the results to that choice. In order to get that measure, we estimate micro-level regressions with an item for the individual preference for re-distribution as the dependent variable. In the ISSP series, there has been a long-running question, asking respondents about their preference for redistribution, namely: do you think it should or should not be is the government’s responsibility to reduce income differences between the rich and the poor? The answer categories reach from definitely should be, probably should be, probably should not be to definitely should not be.

The most important independent variable at the micro-level is, of course, household income. Trivially, individuals with more household income are less likely to support re-distribution whereas those with less household income are more supportive. Household income in surveys is typical of item non-response; respondent do not likely revealing their income situation. This is, unfortunately related with the actual income level. Very rich and very poor people are very likely not to give away the information about their income (see several references in Riphahn and Serfling 2005). Thus, we encounter a large proportion of missingness with the pattern Not Missing at Random. We use a multiple imputation technique (Amelia II) based on 10 sets of imputed datasets from which we then take the average (Honaker et al. 2009). This is the only technique that does not assume less severe patterns of missingness, such as Missing at Random or Not Missing at Random.
Rich and poor people do not only differ in income that is of relevance to determine their demand for re-distribution, but also with regard to other factors, such as education, age and gender, variables that we include as control variables. The coefficient of the income variable is, thus, the “purified” impact of income on re-distribution preference, without distortion by these other variables that are held constant. If we did not control for these other differences, the international and intertemporal comparison of the measurements would also include compositional differences of the income groups, such as determined by demographics specific to a country.

For each country-year-survey, we estimate an ordinal logistic regression according to this specification. Then, we predict the probability of definitely supporting income re-distribution by the government for the rich (eighth decile) and the poor (second decile). We save this point estimate and the associated standard errors of the predicted estimate in a new data set, thus creating one new data point and a measure of uncertainty for the main analysis.

We use various waves of the International Social Survey data set between 1985 and 2006, all those that have the question for re-distribution and the necessary independent variables and are at the same time established advanced industrial democracies. In total, we end up with a set of 19 countries and 1 to 11 time points per country. In total, we thus gain 126 country-years, a number that reduces to 96 due to the limited availability of the independent variables. This is not a random sample from a broader universe of country-years, but censored by data availability. However, for the theoretical world of advanced industrial democracies, we have good reason to believe the sample to be representative in a broader theoretical sense. Inferential statistics are used to infer the precision of the effects given the data at hand. For each country-year we estimate the described ordinal regression and predict the difference in support for re-distribution by the welfare state and its associated uncertainty. These pieces of information are saved into a new macro-level data set that forms the beginning of our main analysis.
3.2 Macro-level variables

Data for the macro-level analysis comes from a variety of sources. Where possible, we lag the independent macro-level variables by a year to create weak exogeneity. Other lags are imaginable, but do not lead to different results, most possibly because the variables we look at change very little across time. Most important to our analysis, we have two indicators of plausible government action, social expenditure in % of GDP (from OECD SocStat) and the right and left share of government composition (the number of cabinet posts held by a right/left party, not by a centrist party, weighted by the days of that year). Data come from Armingeon et al. (2011). For social expenditure, we expect a negative effect, higher expenditure for social policy should on average lower conflict potential since the government satisfies the demand for re-distribution by engaging in social spending. For right government composition, the effect can be hypothesized to be positive. The more influence right parties have in a government, the less likely the government is to care about re-distribution, thus exacerbating the conflict potential. A higher share of left parties in government should have a positive effect since left governments ideologically support re-distribution and a government evening out socio-economic inequalities.

As a second bloc, we include indicators of societal composition. The percentage of foreign-born population (World Bank) measures the level of ethnic heterogeneity in a country and is expected to have a negative impact. The more heterogeneous a society is, the less the rich can expect those who receive re-distribution to be like them. Thus, the rich should be further away from the poor, the more heterogeneous the society is. The pre-tax Gini (World Income Inequality Database) measures the level of income inequality in a country before re-distribution by the government. The more unequal a society is, the more the poor have to gain by re-distribution and the more the rich have to lose. So, a higher Gini should be associated with a higher level of conflict potential. Or, it is a story of two equilibra in which the income groups converge, implying an inverse u-shaped relationship. We operationalize the expectation both in defining the Gini as equal thirds of the observed distribution and as a metric variable.
The third bloc, values, only consists of one variable, the support for work a meritocratic exercise. From the cumulated World Values Survey (1981-2008, E040), we estimate the mean value on a rating scale from 1 to 10 for the following statement: Hard work brings success. Originally, 1 was labeled with “In the long run, hard work usually brings a better life.” The value 10 was labeled with “Hard work doesn’t generally bring success - it’s more a matter of luck and connections.” We recode the variable that higher values mean higher support for hard work as an exercise leading to success (work meritocracy scale). For those years for which we do not have data, we impute the closest neighbor value from the same country, thus assuming a high level of inertia of the spread of that value in a given society. Two different patterns can legitimately be expected. Higher support for work as a meritocratic exercise could increase the level of conflict potential because it means that more people believe in work as a means to a good life. In such an environment, the rich would be very unwilling to support re-distribution since re-distribution would disincentivize work; the poor, in contrast, stick to welcoming re-distribution because of their personal material situation. Alternatively, we can expect an inverse u-shaped relationship that both at high and low levels of support for work as a meaningful way to success the rich and poor have similar expectations for re-distribution, either both at the high level (low level of support) or at the low level (high level of support). We operationalize it both in equal thirds of the observed distribution and as a metric variable.

The fourth and final bloc captures effects concerning the size the perception of the potential size of pool of public resources that is available for re-distribution by the state. Higher GDP/capita (OECD data) should be associated with more conflict intensity because its captures the economic power of an economy and thus the potential base for taxation and government revenue. Then, there is government expenditure as percentage of GDP including everything but social expenditure (OECD data). In other words, it captures the amount of spending that does not directly go into redistribution. Here, we would hypothesize that higher non-social expenditure goes with higher conflict because it signals stronger government and thus a stronger willingness of government to spend and
take action. It cues the poor that government is willing be active and spend, a signal that increases the demand for re-distribution by the poor. Finally, there is the state deficit, for which we can expect both effect directions. Higher deficits could be associated with higher conflict intensity as it signals scarcity of resources to the people. The rich could thus be less prone to support re-distribution because they are afraid of higher taxes whereas the poor could be even more demanding as they are afraid of cuts. Higher deficit could be associated with less conflict intensity because it signals a type of spending to citizens. In high-deficit countries, citizens are used to the government taking up new money to finance. Thus, the rich are more willing to support re-distribution as they share the tax burden more with future tax-payers. So, the gap between the rich and poor should be smaller.

We z-transform all metric variables to have standard deviations of 1 and means of 0. So, their coefficients can be directly compared with regard to the effect size associated with one standard deviation. Dummy-coded variables are alternatively specified as metric variables in otherwise analogous.

[description of cross-group and cross-time descriptive statistics of all variables to be inserted]

3.3 Macro-level estimation techniques

We regress the estimates of conflict intensity on the various macro-level variables (Achen 2005; Jusko and Shively 2005). This approach is similar in kind to a multi-level analysis with multiple two-way interactions between income and the macro-level indicators. However, our two-stage process is preferable over random-effects multi-level models because: (a) we are mainly interested in the differences between groups, which is the dependent variable of the second stage and (b) the second stage allows the simultaneous inclusion of several predictors of these differences, which would be very hard to estimate through means of several statistical interaction effects in a random-effects model.

The regression technique is Feasible Generalized Least Squares (Lewis and Linzer 2005) to account for the heteroskedasticity induced by differences in the sampling variance of the dependent
variables (since they are estimated with varying precision in the first step regressions). There are two different set-ups in the regressions: FGLS regression with standard errors clustered by country - this technique assumes that we can explain both intertemporal intra-country and inter-country variation with the independent variables. The clustering of standard errors adjusts them for the autocorrelation caused by having several observations from the same country - and FGLS regression with country-fixed effects - this technique pushes all variation that is typical of one country across all its observations into the country dummies. The remaining variation only stems from intertemporal within-country changes. The independent variables thus explain changes across time and not the general differences between countries. Since the data set is an immensely unbalanced panel, many other panel regression techniques are not easily applicable.\(^4\)

\(^4\) We also looked at group means of countries and their associations with the independent variable in between-effects models. However, the small number of countries (15) renders this somewhat meaningless when taken further than bivariate regressions.
4. Empirical results

4.1 Variation of the dependent variable

The dependent variable is shown in figure 1. Recall that it is the predicted difference in probabilities in strongly supporting re-distribution by the state to reduce income differences between those individuals at the 2nd income decile and those at the 8th income decile. The numbers are percentage points that theoretically can vary between -100 % and +100 %. Empirically, the maximum is 16.4 % and the minimum is -0.5 % with a mean of 6.9 % and a standard deviation of 4.2 %.

In three instances, the rich actually have a slightly higher predicted probability of strongly supporting re-distribution, namely Spain in 1993, the Netherlands in 2000, Portugal 2000 and 2006.

As Figure 1 shows, the observations in each country correlate with one another, i.e. a country with a higher value in one year is also likely to show a higher value in another year. The intra-class
correlation coefficient from an empty multi-level model is 56.3 %, meaning more than half of the variance can be explained with characteristics typical of each country. This also means that some countries show higher conflict potential throughout the period than others. On the top of the distribution, we find some of the liberal welfare states, such as Switzerland, New Zealand, Australia, USA, Canada; only the Netherlands as a conservative regime does not fit here. Among the lower conflict countries, we find Portugal, Spain, Italy. In the middle, the Scandinavian countries cluster with Sweden, Denmark, Finland and Norway. To approach the causal explanation of this variance, we now turn to multivariate analysis.

4.2 Regression analysis

Table 1 shows four regressions. Each one includes the predictors of one theoretical perspective on conflict potential, government action and composition, societal composition, societal values and availability of resources for re-distribution. Glancing across the for adjusted $R^2$ values, we can already see that the empirical blocs differ greatly in the extent to which they can explain the variance of conflict potential. Recall that adjusted $R^2$ values punish more complex models, so that differences in the number of predictors between these single-bloc models are already accounted for. The political variables of the government perspective fare worst with an adjusted $R^2$ value of just 5.4 %. Second comes the values perspective with just 12.3 %. The second-best value is tied to the resource availability perspective with 19.0 % and the best with the societal composition perspective with 27.7 %. So, taken individually, societal composition is much more relevant to explain differences in conflict potential than government action and composition as we measure it here.
Table 1: Blocwise FGLS regression with country-clustered standard errors on conflict potential between 1985 and 2006 in 15 OECD democracies

<table>
<thead>
<tr>
<th>Dependent variable conflict potential</th>
<th>Models</th>
<th>mA_1</th>
<th>mA_2</th>
<th>mA_3</th>
<th>mA_4</th>
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<tbody>
<tr>
<td><strong>Independent variables (in brackets: standard deviation)</strong></td>
<td>Expectation</td>
<td>Coef</td>
<td>se</td>
<td>p value</td>
<td>Coef</td>
</tr>
<tr>
<td>Social spending (4.8 %)</td>
<td>-</td>
<td>-0.831</td>
<td>0.503</td>
<td>0.060</td>
<td></td>
</tr>
<tr>
<td>Partisan govt. comp.: left (40.2 %)</td>
<td>-</td>
<td>0.665</td>
<td>0.468</td>
<td>0.911</td>
<td></td>
</tr>
<tr>
<td>Partisan govt. comp.: right (41.6 %)</td>
<td>+</td>
<td>0.859</td>
<td>0.716</td>
<td>0.125</td>
<td></td>
</tr>
<tr>
<td>Pre-tax Gini med 27-34 %, baseline low level (&lt;27 %)</td>
<td>+</td>
<td>-1.074</td>
<td>0.959</td>
<td>0.859</td>
<td></td>
</tr>
<tr>
<td>Pre-tax Gini high 35-45 %</td>
<td>++/0</td>
<td>1.518</td>
<td>1.414</td>
<td>0.301</td>
<td></td>
</tr>
<tr>
<td>Other operat.: Pre-tax Gini (4.3 %)</td>
<td>+</td>
<td>1.848</td>
<td>0.433</td>
<td>0.001</td>
<td></td>
</tr>
<tr>
<td>Migrant population (5.4 %)</td>
<td>+</td>
<td>2.735</td>
<td>0.965</td>
<td>0.007</td>
<td></td>
</tr>
<tr>
<td>Work meritocracy scale med (6-6.7), baseline low level (&lt;6.0)</td>
<td>+</td>
<td>4.101</td>
<td>1.120</td>
<td>0.003</td>
<td></td>
</tr>
<tr>
<td>Work meritocracy scale high (&gt;6.7)</td>
<td>++/0</td>
<td>0.252</td>
<td>0.799</td>
<td>0.757</td>
<td></td>
</tr>
<tr>
<td>Other operat.: metric Work meritocracy scale (0.7)</td>
<td>+</td>
<td>0.729</td>
<td>0.504</td>
<td>0.170</td>
<td></td>
</tr>
<tr>
<td>GDP per Capita (7468 $)</td>
<td>+/-</td>
<td>0.104</td>
<td>0.702</td>
<td>0.884</td>
<td></td>
</tr>
<tr>
<td>Economic growth (2.1 %)</td>
<td>+/-</td>
<td>-1.669</td>
<td>0.399</td>
<td>0.001</td>
<td></td>
</tr>
<tr>
<td>Non-social spending (4.1 %)</td>
<td>+/-</td>
<td>7.459</td>
<td>0.723</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>State deficit (25.4 %)</td>
<td>+/-</td>
<td>7.778</td>
<td>0.648</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>4.736</td>
<td>0.734</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7.579</td>
<td>0.650</td>
<td>0.000</td>
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</tr>
<tr>
<td>N</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.054</td>
<td>0.272</td>
<td>0.123</td>
<td>0.19</td>
<td></td>
</tr>
</tbody>
</table>
## Table 2: Composite FGLS regression with country-clustered standard errors or country-fixed effects on conflict potential between 1985 and 2006 in 15 OECD democracies

<table>
<thead>
<tr>
<th>Dependent variable conflict potential</th>
<th>mA_5a</th>
<th>mA_5b</th>
<th>mB_1b</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent variables (in brackets: standard deviation)</td>
<td>Expectation</td>
<td>Coef</td>
<td>se</td>
<td>p value</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Social spending (4.8 %)</td>
<td>-</td>
<td>0.219</td>
<td>0.464</td>
<td>0.678</td>
</tr>
<tr>
<td>Partisan govt. comp.: left (40.2 %)</td>
<td>-</td>
<td>0.019</td>
<td>0.489</td>
<td>0.515</td>
</tr>
<tr>
<td>Partisan govt. comp.: right (41.6 %)</td>
<td>+</td>
<td>0.576</td>
<td>0.532</td>
<td>0.149</td>
</tr>
<tr>
<td>Pre-tax Gini med 27-34 %</td>
<td>+</td>
<td>0.376</td>
<td>0.958</td>
<td>0.351</td>
</tr>
<tr>
<td>Pre-tax Gini high 35-45 %</td>
<td>++/0</td>
<td>2.235</td>
<td>1.400</td>
<td>0.133</td>
</tr>
<tr>
<td>Other operat.: Pre-tax Gini (4.3 %)</td>
<td>+</td>
<td>0.292</td>
<td>0.482</td>
<td>0.277</td>
</tr>
<tr>
<td>Migrant population (5.4 %)</td>
<td>+</td>
<td>1.483</td>
<td>0.444</td>
<td>0.003</td>
</tr>
<tr>
<td>Work meritocracy scale med (6-6.7)</td>
<td>+</td>
<td>1.816</td>
<td>1.190</td>
<td>0.075</td>
</tr>
<tr>
<td>Work meritocracy scale high (&gt;6.7)</td>
<td>++/0</td>
<td>1.655</td>
<td>1.129</td>
<td>0.165</td>
</tr>
<tr>
<td>Other operat.: Work meritocracy scale (0.7)</td>
<td>+</td>
<td>0.846</td>
<td>0.462</td>
<td>0.045</td>
</tr>
<tr>
<td>GDP per Capita (7468 $)</td>
<td>+/-</td>
<td>0.351</td>
<td>0.468</td>
<td>0.466</td>
</tr>
<tr>
<td>Economic growth (2.1 %)</td>
<td>+/-</td>
<td>0.417</td>
<td>0.692</td>
<td>0.556</td>
</tr>
<tr>
<td>Non-social spending (4.1 %)</td>
<td>+/-</td>
<td>0.747</td>
<td>0.525</td>
<td>0.177</td>
</tr>
<tr>
<td>State deficit (25.4 %)</td>
<td>+/-</td>
<td>-1.146</td>
<td>0.189</td>
<td>0.000</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>5.445</td>
<td>1.288</td>
<td>0.001</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>N</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.362</td>
<td>0.353</td>
<td>0.483</td>
<td></td>
</tr>
</tbody>
</table>
Social spending as the most intuitive instrument for government to steer conflicts about re-distribution does have the expected negative impact in the single-perspective model. This effect will go away in the composite model later on. When social spending is increased by its standard deviation of 4.8 percentage points, conflict potential decreases by about 0.8 percentage points (recall that it goes from slightly below zero to about 16 percentage points). The p-value reveals a rather precise effect in this setup. Government composition has the expected effect only with regard to the rightist proportion. An increase of 41.6 % implies an increase in conflict potential of 0.9. The leftist share of government portfolios does not have the expected impact.

Ethnic heterogeneity as measured by foreign-born population has a very powerful and expected impact of 1.8, i.e. an increase of 5.4 % of the percentage of foreign-born individuals in a populace is associated with an increase in re-distributive conflict potential by 1.8. The Gini as a measure of income equality does not capture the expected effect at all in this set-up with two dummies, but will become a powerful predictor as expected in later specification.

For the values perspective, we use the indicator of mean support for work as a meritocratic exercise. It reveals one of the expected relationships, namely a linear positive one. The more individuals in a society support work as a meaningful way to success, the bigger is the re-distributive conflict potential. Societies in the highest third of the distribution have a predicted conflict potential that is 4 points higher than those in the lowest third. Thus, the linear prediction is supported rather than an inverse u-shape.

The final single-perspective model includes the two economic indicators, GDP per capita and growth, and two political-economic ones, non-social spending of the government and the state deficit. The expectations followed two different logics, either that scarcity breeds conflict over meager resources or that abundance creates more expectations among the poor. The coefficients point clearly towards the abundance logic. Higher economic fortune, higher economic growth, more spending by the state outside of social policy and a leaner state deficit are associated with a larger
conflict potential. Of these effects, only state deficit has a very clear effect, though, followed by a somewhat clear effect of economic growth. This precision is accompanied by larger effect size of these two variables, too.

A first assessment of our hypotheses thus yields that no perspective has failed when looked at individually. Not all indicators carried the effect that we had expected, but at least one indicator per perspective brought precise effects to light.

What happens when we include all variables at the same time? We need to look for changes between the single-perspective models and the composite model. Any change from a precise effect to a vague effect means that that effect is causally captured by one or several of the other predictors. A change from a vague to a precise effect means that further heterogeneity in the causal dynamics has been cleared up in the more complex model. In the more complex composite model, a comparison of the effect sizes gets also more important since we are not only interested in precision, but also in the size of effects.

Let us thus look at table 2. The first model includes all the variables from the four single-perspective models, the second exchanges the dummy-coded variables against metric ones to check alternative predictions with a more precise operationalization. In terms of perspectives, the government perspective turns out to be the great loser in explanatory power. Social spending loses the predicted effect and its precision. Since we had the negative effect in the single-perspective model, it means that social spending does not play a causal role in mellowing re-distributive conflict potential, but that this effect is either of an intermediate nature and causally posterior to other effects, for instance to income equality, with which it is highly correlated, or the correlation is spurious and now explained away by one or several of the predictors. Only government composition with regard to right parties maintains an effect of about 0.6 that is somewhat precise.

Societal composition gains much credibility as an important causal perspective in this set-up. Income inequality does matter; it is not the inverse u-shaped relationship, but one that predicts
higher conflict potential in the highest third of the Gini coefficient compared to the two lower thirds. When operationalized as a linear relation in the second model of this table, the effect is positive but not very precise due to the actual non-linear nature. So, it is the difference between very high values of inequality and the rest that describes the predicted relationship. In addition, the percentage of the foreign-born population has a very clear and large effect of 1.5. So basically, the more heterogeneous a society is with regard to income and ethnicity, the larger is the conflict potential whereby the relationship is non-linear with regard to income inequality following a convex positive relationship.

The findings for the value variable are somewhat ambiguous. In the dummy-set-up, societies in the medium third of the value range are clearly more prone to conflict potential than those in the lowest third (1.82), societies in the highest third are associated with less conflict potential with regard to the point estimate (1.66) than the medium third, but the difference is smallish. So, we do get an inverse u-shape albeit with a less steep decline in the second half. This could be to us only using data for certain countries. It could be that with more data, this inverse u-shape would be much clearer. Operationalizing this relationship with a simple metric variable also yields a precise positive effect, even though the overall fit is better with the dummy coding.

The resources perspective again gets support for the abundance logic as in the single-perspective models. The more resources seem to be available for re-distribution, the higher is the conflict potential. However, it is again only the state deficit that has a strong and very precise effect (-1.1 in model A_5a and -1.3 in A_5b) and economic growth with a moderately strong and somewhat precise effect (0.7 and 0.8 respectively). The higher economic growth and the smaller the state deficit, the higher is the conflict potential.

Let us turn to the last regression of the fixed-effect variant (B_1b). This regression only attributes effects to the independent variables above the general country-specific effect, thus basically temporal variation. This regression technique allows us to test whether our intertemporal predictions are met. In sum, there is only strong evidence for changes in income inequality driving
changes in conflict potential, all other effects are smallish and/or very imprecise. There are some important null findings – coefficients where we expected an effect across time, but found none. Social spending, leftist government composition, migrant population, the work meritocracy scale, GDP per Capita, economic growth (so the change in the growth rates) and non-social spending have no effect across time in our data set. Of these, we found a strong effect for the migrant population in the other regression, meaning that that effect purely stems from inter-country differences and not so much from changes in the composition within each country. Then, right government partake has a positive effect, corresponding to the one found earlier, albeit only somewhat precise. The only absolutely clear intertemporal effect is associated with the Gini coefficient. For each change of the Gini by 4.3 percentage points across time, the conflict potential increases by 1.7 points. In sum, thus, there is almost no evidence for effects across time with the important exception of income inequality. However, the data set only covers 21 years for the longest time series. Many effects do go in the same direction as in the other regression set-up. It could be that for longer time periods, the changes are strong enough to have discernible impacts on re-distributive conflict potential.

Let us now step back a bit to tell a causal narrative of the findings. The guiding question of this paper is whether governments can manage re-distributive conflicts. With the measures used here, they seem to be pretty powerless. Who is at the helmet and what they do, does not have much of an impact. Rightist parties are associated with a larger conflict potential, thus supporting the notion that possibly their discourse and what they do in addition to social and other spending does increase the potential for conflict between the rich and the poor for re-distribution. But the intertemporal effect was small, meaning that a change in composition in one country is unlikely to generate much of a difference; rather, it the inter-country differences in government composition that matter. One indicator of the resource perspective, state deficit, could also be seen as a longer-term instrument with which governments, maybe, unintentionally, affect re-distributive conflict potential. The effect and its size send a disturbing message. Conflict potential is lower where past governments have
accumulated larger debts. This signal of scarcity of resources available for re-distribution decreases re-distributive conflict potential.

In contrast to the rather unimportant political actions, deep-lying processes and developmental outcomes shape the potential for re-distributive conflict between the rich and the poor. Most importantly, societal composition is key to understanding the differences. In societies where “other individuals” are be likely to be different from oneself – be it with regard to income or ethnicity, the conflict potential for re-distribution is higher. In other words, in a scenario of a very equal society like Norway, the re-distributive conflict potential is much lower than in the scenario of a very unequal society like the USA. The rich and the poor are more likely to demand similar levels of re-distribution when “the other” is likely to be like them. The hypothesis is that the rich, untested in this paper, are more susceptible to this contextual characteristic than the poor whose demand is more strongly driven my their own material situation. Given the current interest in the politics of inequality, it is noteworthy that the evidence points towards a strong influence of intertemporal changes of income inequality on re-distributive conflict potential. The trend goes almost uniformly in one direction in these countries, towards more inequality due to a variety of factors, such as changes in the economy and economic liberalization. The relationship between the rich, the poor and the welfare state is affected by these changes, making their demands for re-distribution more unequal, too.

Also quite far away from the political sphere are the value dynamics unearthed here. They point – with some ambivalence in the estimates – towards a story of two equilibra in line with newer economic writings: a consensual world between the rich and the poor vis-à-vis the welfare state in societies where work is seen as a meritocratic a meaningful exercise like the USA and another where work is not seen as such at all (like Germany). This partly shifts the causal story back a bit to explain why societies differ in their attitudes to work, a story that has been attempted to tell by psychologists like Schwartz (1999).
Overall, the dynamics of the gap between the rich and poor are deeply rooted in economic sphere, the societal sphere and only to a small extent in the political sphere. The intensity of the conflict potential is not a simple function of what has been done by the government in terms of re-distribution, nor only by material considerations. Who “the others” are and what values prevail in a society are paramount to understanding the redistributive conflict.

5. Concluding Remarks

This paper answers the question whether government can manage or more generally influence re-distributive conflicts in the welfare state. Looking a conflict potential as a necessary element of a full-blown political income cleavage that is defined as the gap in the demand for re-distribution, our answer with regard to social spending and government composition is clear: very little. Social spending, the instrument that seems to be most powerful to pacify conflicts created by modern capitalism does not have a direct impact on conflict potential. There is only evidence that with more influence of right parties in government comes a greater conflict potential, supporting the notion that right parties are not interested in creating a more socially balanced society.

What does matter very strongly are three variables: pre-tax Gini as a measure of income inequality has a positive impact that also is very clear when looking at within-variation; the migrant stock of the population as a measure of ethnic heterogeneity has a causally similar positive effect that is limited to explaining inter-country differences; state deficit has a negative effect on conflict potential. Surprisingly, economic indicators, such as GDP per capita and economic growth do not have very strong effects. If anything, taken together with state deficit, they point towards a logic of abundance, namely that more resources visible for re-distribution creates more conflict, exactly the opposite of the predictions of the crisis-of-the-welfare –state literature that predicted more intense conflict to the increasing scarcity of resources.
Thus, in contrast to the rather unimportant political actions, deep-lying processes and developmental outcomes shape the potential for re-distributive conflict between the rich and the poor. Most importantly, societal composition is key to understanding the differences. In societies where “other individuals” are be likely to be different from oneself – be it with regard to income or ethnicity, the conflict potential for re-distribution is higher. In other words, in a scenario of a very equal society like Norway, the re-distributive conflict potential is much lower than in the scenario of a very unequal society like the USA. The rich and the poor are more likely to demand similar levels of re-distribution when “the other” is likely to be like them. So, both material self-interest as well as the perception of others matter.

Also, work values matter. The findings point – with some ambivalence - towards a story of two equilibria in line with newer economic writings: a consensual world between the rich and the poor vis-à-vis the welfare state in societies where work is seen as a meritocratic a meaningful exercise (like the USA) and another where work is not seen as such at all (like Germany).

The implications of these findings are threefold: first, re-distributive conflict potential can be measured and it can be compared across time and countries. We thus now have an instrument at our disposal allows us to dig deeper at the meso-level of inter-group dynamics between the individual citizens and governments in the study of the politics of the welfare state. Secondly, policy-makers cannot directly engage in a meaningful fight against re-distributive conflicts as measured here. As collateral to a financially questionable spending strategy, they can dampen the conflict by engaging in deficit spending that signals scarcity of resources to citizens. Thirdly, a purely rational-choice account of who gets what does not explain the dynamics unearthed here. Social dynamics, such as work values and the perception of others, shapes the conflicts between the rich and the poor in advanced industrial democracies.
References


Amelia II: A Program for Missing Data.


