

# *Equalizing Incomes Over Time: Why the Institutional Arrangement of the Welfare State Matters for Redistribution Preferences*

Verena Rebecca Fetscher

Why does support for income redistribution vary among the rich when comparing across Western welfare states? In this paper, I posit that people take into account expectations about the future distribution of incomes when forming redistribution preferences. The welfare state influences the stability of individual incomes in the future. Social benefits replace previous income in the case of income loss, as caused, for example, by unemployment or accidents. Welfare states follow different logics in their response to social risks. The main analytical distinction I draw is between earnings-related and flat-rate systems. Flat-rate systems provide social benefits in equal amounts to everyone irrespective of previous earnings. Great Britain, for example, follows the flat-rate principle. Earnings-related systems like France or Germany, in contrast, hand out social benefits in relation to previous earnings. With a hypothetical scenario of equally distributed unemployment risk, flat-rate systems equalize a given income distribution over time, while earnings-related systems stabilize individual income positions and therefore maintain the present income distribution in the future. Structural differences in the organization of life-cycle redistribution, as captured by the social benefit principle, have implications for future rich-to-poor redistribution. If it is true that individuals are concerned about a fair distribution of incomes, as other authors have provided evidence for already (e.g. Alesina and Angeletos 2005; Cappelen et al. 2007), and if these individuals take into account future changes in the income distribution when forming preferences for redistribution (Varian 1980; Benabou and Ok 2001; Alesina and La Ferrara 2005 on the importance of individual future income), then structural differences in the arrangement of life-cycle redistribution explain, at least in parts, why the rich in some countries support more income redistribution than in others. The hypothesis that I test in this article is that support for redistribution among high-income earners is, on average, higher in income-maintaining welfare states relative to income-equalizing welfare states. Previous political economy literatures on preferences for redistribution have largely ignored institutionally determined future income equalization.

I combine observational and experimental approaches in order to empirically test the stated hypothesis. First, I analyze data from the European Social Survey (ESS) and find that average support for redistribution is lower in flat-rate systems than in earnings-related systems. I use OECD data on benefit entitlement and tax obligations to compute the percentage of in-work income that is replaced in out-of-work periods caused by unemployment (replacement rates). I construct a benefit concentration indicator based on the distribution of replacement rates over a range of incomes (50 to 200 percent of the average wage). The indicator captures variation in the institutional arrangement of life-cycle redistribution. Second, I run modified dictator games and show that participants are less concerned about inequalities in endowments in situations where benefits are handed out on a flat-rate basis. Per design, transfer decisions never influence individual outcomes. The experiment is a strict test in order to isolate demand for redistribution from demand for social insurance.

## References

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