Chapter 1

Income Inequality and Democratic Representation

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Similar concerns haunt academics and policy makers throughout the old world as recent scholarship suggests that excessive inequalities attack the foundations of democratic political regimes (Acemoglu and Robinson 2006; Boix 2003) and the distributive consequences of markets become increasingly unequal. But these long-standing and unresolved debates have received renewed attention in recent years. Thus, in an essay entitled "The Rich, the Poor, and the Growing Gap Between Them," *The Economist* recently commented on the growing gap in the United States between rich and poor by recalling John F. Kennedy's saying that "a rising tide lifts all boats." The essay goes on to note that the tide of America's economic growth is no longer lifting all boats to similar heights. The political consequences of this trend "will depend on the pace of change and the economy's general health. With luck, the offshoring of services will happen gradually, allowing time for workers to adapt their skills while strong growth will keep employment high. But if the economy slows, America's skepticism of globalization is surely to rise. And even their famous tolerance of inequality may reach a limit" (2006, 25).

Similar concerns haunt academics and policymakers throughout the old world as the distributive consequences of markets have become increasingly and more noticeably unequal. We share these concerns in Europe because excessive inequalities attack the very foundations of democratic political regimes (Acemoglu and Robinson 2006; Boix 2003). But inequality's consequences are sometimes ambiguous, its trajectory is not always obvious, and its causes are complex. Thus, even though inequality is indeed on the rise in many countries, the magnitude and pace of the increase vary across forms of income, countries, and periods. For example, while the inequality of disposable incomes increased in the United States and the United Kingdom in the 1980s, and in Sweden and Finland in the 1990s, it changed little in Canada, France, and Germany, and over the past twenty years it showed no clear trend at all in Italy. Moreover, the nature of trends in inequality depends to a significant degree on the definition of income and, in particular, on whether taxes and benefits are included in calculating individual incomes.

Establishing whether inequality is high or low and rising or declining is as critical as explaining differences and trends and as difficult as understanding the consequences of inequality. Forces such as the integration of capital and financial markets, skill-biased technological change, and deindustrialization are frequently called upon to explain rising inequalities. At the same time, they provide a similar environment for all advanced industrial societies and thus cannot be solely responsible for differences in trends and levels in economic inequality. To be sure, these structural economic transformations are engines behind the observable rise of market income inequalities throughout the Northern Hemisphere, and they have a great deal to do with how the tide rises, determining both who is lifted and who is likely to sink (Esping-Andersen 2007; Esping-Andersen et al. 2002; Rowthorn and Ramaswamy 1997, 1998; Wood 1994). Yet the extent to which these similar underlying forces shape the distribution of income within advanced societies varies significantly (Atkinson 1999, 2000; Schwabish, Smeeding, and Orsberg 2003). Indeed, while some tides bring about ever more inegalitarian outcomes, others are contained through a complex system of political and institutional channels. In fact, at a time when markets appear to be generating ever more unequal outcomes, there is striking variation in the willingness and ability of advanced societies to mute the impact that market forces have on the distribution of disposable income. Thus, in the United States, those at the very top of the income distribution continue to enjoy the fruits of economic growth (Piketty and Saez 2006), while the European political economies produce more egalitarian distributions of income (Kenworthy 2004; Pontusson 2005; Kenworthy and Pontusson 2005). We argue in the chapters that follow that the forces behind these cross-national differences are political and institutional—that is, that they are the product of the democratic political process and of how political institutions work to produce economic outcomes.

In turn, levels of equality or inequality feed back into the processes of democratic representation. Insofar as politics is about “who gets what,” the distribution of income becomes an important factor shaping the preferences of voters, parties, and politicians as well as their dispositions toward the political process and their actions in it. Take, for example, the relationship between people's relative income positions and their redistribution preferences for understanding how different distributions of income can engender different patterns of political behavior. In more unequal societies, the fact that a greater number of citizens are relatively far removed from the middle of the income distribution produces incentives to act in particular ways, whether by engaging in politics or exiting from the political process altogether. But inequality affects democratic political processes much more broadly and fundamentally, including the choice of political regime, the selection of fiscal structures, parties' mobilization strategies, and the decision to turn out to vote. Thus, inequality is political and institutional not only in its origins but also in its consequences. This idea is at the core of this volume.

The claim that inequality is as political as it is economic is hardly new, of course. More than fifty years ago, the economist Simon Kuznets concluded his famous address "Economic Growth and Income Inequality" by pointing to the centrality of politics and institutions for understanding inequality:

> It is imperative that we become more familiar with findings in those related social disciplines that can help us understand population growth patterns, the nature and forces in technological change, the factors that determine the characteristics and trends in political institutions, and generally patterns of behavior of human beings—partly as biological species, partly as social animals. Effective work in this field necessarily calls for a shift from market economics to political and social economy (1955, 28).

The Political Foundations of Inequality: The Median Voter and Beyond

This book takes up Kuznets's call and builds on research in different corners of the social sciences that have provided important insights into the political processes shaping the diversity in income distributions among advanced industrial societies. Theoretically and very generally speaking, these research streams on the political economy of inequality have revolved around three elements: the median voter model of redistribution, the partisan motivations of incumbents and their impact on fiscal policy and distributive outcomes, and the role of institutions, particularly corporatism, as constraints on the set of policies available to policymakers.

The median voter model of redistribution (Meltzer and Richard 1981;

Roberts 1977; Romer 1975) has been very influential for understanding the democratic politics of redistribution and inequality. It applies the Downsian model of political competition to analyses of the redistributive conflicts among voters with different incomes. The model assumes that redistribution operates through a linear income tax with an intercept. This reduces redistribution to a single dimension, which in turn allows for single-peaked preferences and the application of the median voter theorem. Given the fact that income distributions are skewed to the right, the preferred amount of redistribution is a function of the relative position of the median voter in the income scale: the larger the distance between the income of the median voter and the average (mean) income in the society, the larger the preferred amount of redistribution. Thus, to predict voters' preferences for more or less redistribution we need to know voters' own relative income position, as well as society's mean and median incomes.

The model's simplicity and the formal tractability of the arguments are well known and valuable. But, as subsequent research has shown, these advantages also come at a high analytical price, in large part because the model oversimplifies the nuts and bolts of the politics of redistribution. In fact, for a number of reasons, reducing distributive politics to contentions over one specific policy tool in a single dimension makes it difficult to account for the considerable variation in policies and distributive outcomes across advanced industrial societies. We discuss here three major analytical implications of the median voter approach to redistribution that get in the way of developing a comprehensive picture of the politics of inequality in democratic societies.

A first major implication of the median voter model concerns the extent to which policy reflects contending preferences in society. If the median voter in fact rules the democratic game, there is no good reason why policies should exhibit partisan traits. Yet if there is one robust empirical finding in the comparative welfare state and political economy literatures, it is that government partisanship (ideology) has persistently shaped both *how much* of societal income is redistributed and, perhaps more important, *how* this share of income is redistributed. Since the seminal contributions of Douglas Hibbs (1977, 1987) and James Alt (1985) on the relationship between political parties and macroeconomic outcomes, this logic has been applied to many policy realms that relate directly to the distribution of income, including human capital formation policies (Boix 1998), fiscal policy (Alesina and Rosenthal 1995; Cusack 1999; Franzese 2002a), labor market policies and outcomes (Rueda 2005), social welfare spending (Allan and Scruggs 2004; Cameron 1978; Garrett 1998; Huber and Stephens 2001; Korpi and Palme 2003; Kwon and Pontusson 2007; Swank 2002; Wilensky 2002), and tax policy (Beramendi and Rueda 2007; Cusack and Beramendi 2006; Ganghof 2006; Swank and Steinmo 2002).[1] In line with the power resource theory, and more directly focusing on income distribution and redistribution, a recent paper by David Bradley and his colleagues concluded that "leftist government very strongly drives the redistribution process directly by shaping the distributive contours of taxes and transfers and indirectly by increasing the proportion of GDP devoted to taxes and transfers" (2003, 225; see also Korpi 1983; Stephens 1979). Similarly, David Brady (2003) found that the strength of the left has a significant negative impact on the observable levels of poverty in advanced societies.

Aside from assuming away the role of partisan preferences in distributive conflicts, median voter approaches also are notably institution-free. In particular, they neglect the influence of institutions as long-standing and sticky political settings that shape the conflicts among different political and economic interests and that translate these conflicts into public policies. This observation opens a second front on which the comparative research on inequality and redistribution departs from the median voter model of redistribution in important ways. As in the case of government partisanship, a considerable amount of research has argued that variations in inequality, both cross-nationally and over time, have pervasive and predictable institutional roots. By way of illustration, we focus on two types of institutions: economic institutions, that is, so-called corporatist arrangements for the representation of economic interests; and electoral institutions, the systems of representation that translate citizens' preferences into political outcomes.

Consider first the direct representation of economic interests in policymaking as an institutional feature that shapes redistributive outcomes—a feature that is common to the Scandinavian and continental European countries and that has been much written about by comparative politics scholars. It is well established that the degree of wage coordination between capital and labor constitutes a critical element of the organization of the economy. In fact, this is conventionally regarded as a crucial aspect of the difference between liberal and social market economies (Hall and Soskice 2001; Pontusson 2005). Wage coordination is a key aspect of a broader institutional setting in the form of corporatism,[2] which is generally defined as "various types of institutional arrangements whereby important political-economic decisions are reached via negotiation between or in consultation with peak-level representatives of employees and employers (and/or other interest groups and the state)" (Kenworthy 2004, 11; see also Traxler 1999).

Distributive issues are central to these agreements (Cameron 1984; Mares 2006; Regini 1984; Swenson and Pontusson 2000; Wallerstein, Golden, and Lange 1997). A highly stylized "ideal type" works as follows.

Through national labor union organizations, and in negotiation with employers and government, labor agrees to restrain wage demands. This wage restraint contributes to lower inflation and better economic conditions, but, most important from the perspective of labor, it guarantees a degree of income insurance for workers. Government uses fiscal policy to compensate labor for its sacrifice and thereby reduces the costs of the compromise. It does this through a large welfare state that provides labor with an insurance system that guarantees both a good income during periods of economic downturns and predictable longer-term earnings (in the form of pensions). In addition, labor unions obtain the capacity to ensure an egalitarian wage distribution and political control over the implementation of a large number of public policies. As a result, employers agree to accept solidaristic wage policies and a large welfare state. Employers benefit from their coordination with labor and tolerance of welfare states because they are thus able to avoid the disruptions in production associated with industrial disputes. In addition, the welfare state benefits employers by contributing to the maintenance of a high level of human capital in the form of a labor force with highly developed specific skills (Estevez-Abe, Iversen, and Soskice 2001; Iversen and Soskice 2001). In short, high levels of wage coordination imply that, in exchange for wage moderation on the part of labor, capitalists accept that the government (together with the unions) develops a large, very costly, public insurance system.

As several of the contributions to this volume analyze in detail, this kind of institutional arrangement affects the distribution of income through mechanisms that are largely overlooked by the simple median voter model. To begin with, the institutionalization of wage moderation through wage-setting institutions directly compresses the wage distribution. In turn, observable increases in wage inequality since the mid-1990s can be seen as a direct result of the demise of corporatist wage-setting structures (Rueda and Pontusson 2000; Wallerstein 1999). In addition, broad cross-class support for public insurance systems largely financed by labor facilitates high levels of income redistribution between high- and low-earnings workers through the tax and transfer system (Beramendi and Rueda 2007; Cusack and Beramendi 2006; Kenworthy 2004; Moene and Wallerstein 1999; Pontusson 2005). Needless to say, these processes are not part of the median voter model. More important, the model is oblivious to both the general structure and the details of the political architecture behind the origins and evolution of this institutional setting, a topic to which we return later.

Similarly, median voter accounts constrain our understanding of the role of other political institutions, such as electoral institutions, in the pursuit of equality through redistribution. The median voter model theorizes redistribution as a conflict between two parties under plurality electoral rules, such as those found in the United States. Yet most countries do not approximate the American scenario. What is more, given the diversity of electoral institutions around the world and the differential incentives they entail for voters, political parties, and governments, the applicability of the median voter model in international comparisons is severely limited, since it cannot explain why some countries redistribute more than others. In fact, considerable research showed that alternative systems for aggregating voters' preferences generate policies that respond to the median voter's preferences to different degrees (McDonald and Budge 2005; Hibbs 1992). And when it comes to the issue of income inequality, David Austen-Smith (2000) showed that, in proportional representation systems, it is not clear where in the income distribution the critical voter is. In a related paper, Austen-Smith and Jeffrey Banks (1988) also showed how proportional representation shapes the bargaining strategies of potential coalition parties and, in turn, the policy expectations and political choices of voters. In contrast to majoritarian systems, proportional representation is expected to result in policy outcomes that reflect policy positions further away from the median voter, thereby allowing for sharper partisan effects on public policy (but see McDonald and Budge 2005). And recent work that evaluates the relationship between electoral rules and redistribution concludes that majoritarian elections cut welfare spending by about 2 to 3 percent of GDP (Persson and Tabellini 2003, 179).

Not surprisingly, the median voter model's neglect of the role of partisanship and political and economic institutions speaks directly to the model's ability to account for observable facts. Consider the chief comparative statics of the median voter model of redistribution, namely, that a more *un*equal (pretax) income distribution should lead to higher levels of redistribution. Contrary to this expectation, the empirical literature suggests that the countries with more *equal* income distributions actually have more generous and encompassing redistributive systems (Iversen and Soskice 2001; Lindert 2004; Moene and Wallerstein 2003). Although the literature on partisanship and institutions we have just reviewed has made substantial contributions to our understanding of this pattern, much work remains to be done to give a full account of the observed associations between political agency institutions, public policies, and distributive outcomes across advanced industrial societies. We turn now to a discussion of the most pressing theoretical and empirical issues and the ways in which the approach adopted in this book helps to illuminate them.

The Next Step: Inequality, Representation, and Redistribution

The inability of the median voter model of redistribution to explain the differences in income inequality across advanced industrial societies is a symptom of a more general and largely unresolved issue in the field, namely, the need to account, both theoretically and empirically, for the fact that the politics of redistribution is multidimensional. Consider, for instance, the explanatory scope of unidimensional partisan (left-right) scales. As reflected by a rich literature on welfare state regimes, reducing the size of government or the scope of redistribution to a simple left wing dimension limits our ability to account for the heterogeneity of fiscal policies and redistributive outcomes observable in continental Europe (Esping-Andersen 1990; Estevez-Abe, Iversen, and Soskice 2001; Iversen 2005). As Torben Iversen (2005) pointed out, this is a problem that concerns partisan and institutional approaches as well, and it is a problem that remains at the heart of current and future research efforts.

The limitations of accounts based solely on government partisanship are several. First, partisan preferences are not necessarily unidimensional, since redistribution triggers multiple cleavages other than income, including gender, race, religion, and center-periphery relations, to name just a few. Indeed, recent theoretical work has shown that our ability to understand puzzling aspects of distributive politics increases once some of these dimensions are incorporated into the model. Examples of this include the long-standing puzzle of why the rich do not expropriate the poor under democracy (Roemer 1999, 2001), the roles of income, risk aversion, and skills specificity in shaping citizens' preferences for the redistribution of workers (Iversen and Soskice 2001; Moene and Wallerstein 2001) and employers (Mares 2003; Swenson 2002), and the interplay between race and the redistributive preferences of different income groups (Alesina and Glaeser 2004; Austen-Smith and Wallerstein 2003).

Yet, even if we were able to track analytically as many dimensions of partisan politics as there actually are, important aspects of the politics of distribution would remain out of reach. This brings us to a second, more important disadvantage of focusing our attention exclusively on partisanship. To the extent that institutions constrain the options and resources of political actors, it is reasonable to expect that political parties will vary their strategies under different institutional regimes. Yet institutions alone can hardly account for the variation in policies and outcomes across advanced industrial societies, as reflected, for instance, by the literature on wage inequality. Although wage-setting institutions have direct distributive effects (Wallerstein 1999), they also shape citizens' will and ability to pursue alternative strategies and reconcile competing macroeconomic outcomes (Boix 1998; Iversen and Wren 1998; Lange and Garrett 1985; Rueda and Pontusson 2000). Overall, then, pure partisan models and strictly institutional accounts advance our understanding of the problems at hand considerably, but they both fall short of qualifying as the ultimate explanation of observable facts.

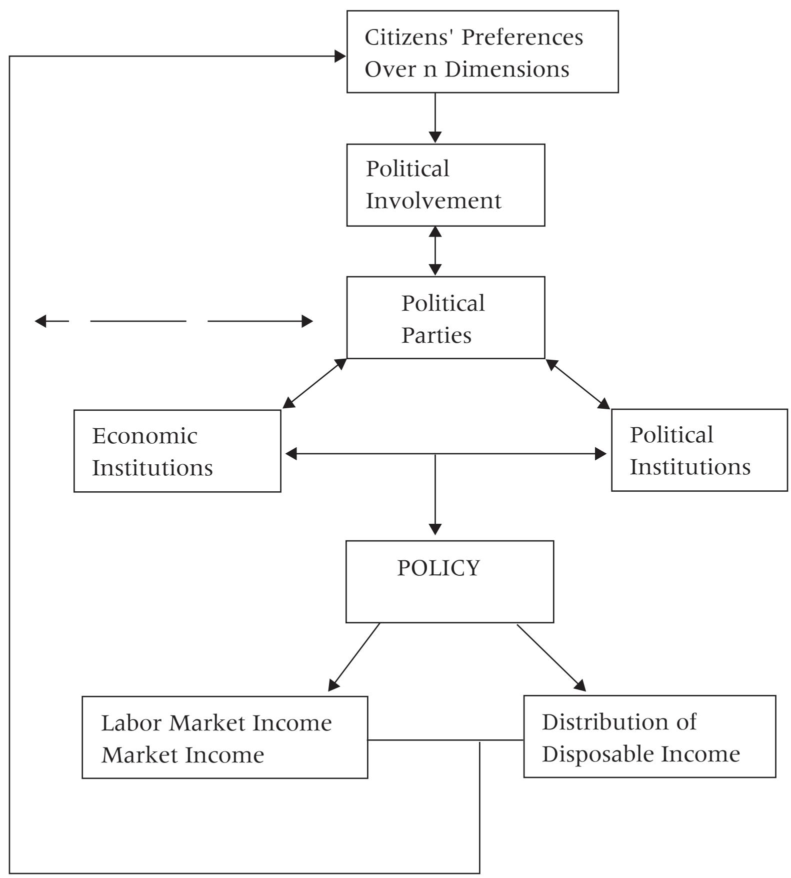
Figure 1.1 places these two examples within a more general picture of the politics of distribution and outlines the main steps involved in the democratic process that determine the distribution of income in society that we address in this volume.

For a variety of reasons ranging from income, labor market status, or gender to race, age, or skill level, citizens have very different interests at stake and thus develop very diverse preferences on this issue. Although some of them, by choice or by constraint, opt out of the democratic process, a majority (of varying size across countries) become the target of political parties' mobilization efforts. Parties gather support for contending ideological platforms. Their goals include a mixture of rent-seeking and truly ideological motives, but they all seek office, either alone or as part of a broader coalition. Whether they seek office alone or with other parties largely depends on the incentives created by the electoral system and the other political institutions involved in the aggregation of citizens' interest (for example, federalism). In turn, policy reflects not only the decisions reached within the system of political representation but also the pattern of relationships with both capital and labor, as reflected by different systems of representation of economic interests.

Assuming that political actors know the political environment they operate in and have some anticipation of other actors' expectations and strategies, this three-level interplay between political parties, political institutions, and the representation of economic interests constitutes the foundation of the democratic process of redistributive politics and is unlikely to be linear or straightforward. Indeed, the systematic analysis of this complex set of relationships involves figuring out how actors and institutions together shape the different components of the distribution of income. This puts processes of representation of varying political and economic interests at center stage of the analysis. The next hurdle, then, is to flesh out the causal sequence at work in the different linkages captured in figure 1.1.

The literatures on growth and macroeconomic policies offer good examples of how to tackle some of these linkages. For example, Peter Lange and Geoffrey Garrett's (1985) work on the politics of economic growth helps us to gain a better understanding of the political mechanisms behind the economic fortunes of advanced industrial societies by illustrating how partisanship and institutions together do the work of shaping economic outcomes. Likewise, following on Hibbs's path-breaking con-

Figure 1.1 The Democratic Politics of Distribution



Source: Authors' compilation.

tributions on the partisan origins of macroeconomic outcomes, the next generation of scholarship turned its attention to several areas of institutional conditional effects (Alt 2002; Franzese 2002b), as illustrated, for instance, by research that shows how different combinations of monetary and labor market institutions generate different outcomes in terms of inflation and unemployment rates (Hall and Franzese 1998; Iversen 1999).

In line with this institutional revival in comparative political economy, Torben Iversen and Ann Wren (1998) and David Rueda and Jonas Pontusson (2000) illustrated the benefits of unpacking the working of different political and institutional configurations as a way to shed light on the determinants of earnings inequality. Although Iversen and Wren were not primarily concerned with explaining earnings inequality, their argument speaks directly to its political and institutional foundations. In their argument, nations can maximize two of the following three goals: earnings equality, employment growth, and fiscal discipline.

Their analysis reveals that, because of the interaction between these three dimensions, there is no combination of policies and institutional choices able to maximize all three. Neoliberal regimes maximize employment and growth at the expense of equality. Scandinavian nations sacrifice fiscal discipline to overcome the trade-off between growth and equality. Finally, continental European countries combine budgetary restraints and wage equality, at the expense of employment growth. After identifying these combinations, Iversen and Wren proceeded to unpack their links to different political economic configurations. The winners in neoliberal regimes are the middle and upper-middle classes in secure, paid jobs, whereas the losers are in the low-pay, low-skill service class (see also Esping-Andersen 1993). In turn, continental types are built around a growing divide between labor market insiders and outsiders.[3] Finally, Scandinavian regimes are built around the interests of public sector workers and private sector employees at the lower half of the wage distribution, an orientation that generates increasing tensions over tax policy choices with those at the upper end of the wage distribution.[4] In sum, different levels of earnings inequality reflect complex institutional configurations involving the organization of labor market institutions, labor market regulations, the size of the public sector, and taxation policy.

In turn, Rueda and Pontusson's (2000) investigation of the extent to which partisan effects are contingent on the institutional differences between liberal and social market economies points to two critical issues in the study of earnings inequality: first, the need to theorize the mechanism driving the interplay between political parties and economic institutions in shaping inequality; and second, the need to disentangle the marginal effects of parties' actions from the cumulative effects of institutions.

Several contributions to this volume take on these challenges and advance existing knowledge on these issues. These contributions focus not only on the interplay between partisanship and economic institutions (see the chapter by Beramendi and Cusack and the chapter by Rueda) but also on the interplay between partisanship and electoral institutions (Iversen and Soskice). As with economic institutions, the idea is to disentangle the mechanisms through which different political and institutional combinations shape the diversity of outcomes in advanced industrial societies. This includes improving our grasp of the causal sequence of the relationship between political actors and institutions with a focus not only on the distribution of earnings but also on the distributions of market and disposable income inequalities. By mapping out when and how different combinations of political parties and institutions matter for channeling political and economic interests, and for what type of inequality, this volume aims to advance the research frontier in the study of inequality.

In their efforts to tackle the political and institutional complexity underlying the production of income inequality in the advanced economies, contributors to this volume focus primarily on the partisan mobilization of citizens' interests and their interaction with different representative institutions, both political and economic. When it comes to the study of distributive conflicts, this opens a new and critical flank of research in that neither citizens' involvement nor partisan positions nor the very choice of representative institutions themselves can be assumed to be ex ante independent of the existing distribution of income in society. Thus, income inequality may well be a factor shaping the political processes and the formation of specific institutional constellations that we see as shaping inequality. (Figure 1.1 includes this possibility through the arrow linking the distribution of income to the beginning of the process driving the democratic politics of distribution.)

The issue of *endogeneity* is critical in the study of the political economy of inequality, and one that informs ongoing efforts in institutional theory (Przeworski 2004, 2007) because it suggests the need to disentangle the exogenous effects attributable to political factors such as voter turnout, government partisanship, and institutions (proportional representation, federalism, corporatism) on inequality from the conditions that influence these very factors and institutions. This new agenda is already bearing fruit in creating a better understanding of the origins of political regimes (Acemoglu and Robinson 2006; Boix 2003) and the relationship between federalism, decentralization, and inequality (Beramendi 2008). However, its full implications for advancing our understanding of the politics of inequality are yet to be developed. By treating the relationship between representation and inequality as a two-way street, this volume specifies the mechanisms at work in the feedback sequence of these relationships (see figure 1.1). We focus on how inequality shapes four crucial elements of the democratic process: preferences for redistribution, incentives to participate in politics, partisan polarization, and the formation and design of political institutions themselves. By focusing on these four elements, this book offers a systematic attempt to better identify the nuts and bolts through which inequality shapes the democratic process, thereby contributing to a better understanding of the relationship between democratic politics and distributive outcomes in advanced industrial societies.

We turn now to a detailed outline of how the book copes with these issues of multidimensionality and endogeneity.

The Plan of the Book

Aside from our theoretical understandings about the connections between inequality and democracy, our ability to compare levels of inequality and redistribution empirically across countries and over time hinges critically on issues of data quality (Atkinson and Brandolini 2001). Grand claims about the role of politics in inequality, or vice versa, in the absence of reliable data to substantiate such claims are simply insufficient. Yet far more often than is desirable, researchers base their conclusions on cross-national comparisons of a mix of different income concepts, measured across different units of analysis or definitions of the population of reference and at different moments of the politico-economic process (before or after taxes). If overlooked, such practices render inferences about the politics of distribution a futile exercise in which sophisticated theoretical arguments are evaluated against questionable evidence. Indeed, our collective goal in this book of addressing the issues of multidimensionality requires us to pay particular attention to how we define and measure inequality, not least because it is the central empirical regularity for all the contributions to this volume (as either the dependent or independent variable of interest).

To perform the crucial task of capturing how different types of inequality vary across space and time, Andrea Brandolini and Timothy M. Smeeding (chapter 2) discuss differences in income concepts and measurement and compare trends in economic inequality across the industrialized nations. They show that the United States had the highest overall level of inequality of any rich OECD nation in the mid-1990s, while Northern and Central European countries had the lowest levels. Using a variety of series from published and unpublished data, Brandolini and Smeeding show that there was no common trend in the distribution of incomes during the last quarter-century, thereby undermining arguments for cross-national convergence in the dynamics of inequality. While the inequality of disposable incomes increased in the United States and the United Kingdom in the 1980s and in Sweden and Finland in the 1990s, it changed little in Canada, France, and West Germany and showed no clear trend in Italy. The trends that are observed appear to depend on the definition of income and, in particular, on whether taxes and benefits are included. Brandolini and Smeeding also offer estimates of the effects of government policies and social spending efforts on inequality.

In line with these efforts to characterize more precisely the core concepts of interest in the comparative study of inequality and welfare states, Lyle Scruggs (chapter 3) traces the evolution of welfare generosity over the last three decades in eighteen OECD countries and offers a more accurate image of the dynamics of public policy interventions. This new measure of generosity suggests that, even though welfare states at the beginning of the twenty-first century were more generous than they were in the early 1970s, many have become much less generous since the mid-1980s. Indeed, the countries that have shown the most program retrenchment have been those traditionally considered the most generous. The second half of the chapter links this evolution of generosity to differences and changes in income inequality. Scruggs compares the effects of program generosity against conventional spending measures that have been used in several recent studies and shows that the benefit generosity index is not only conceptually a more valid approach to defining the welfare state than are spending measures, but also a better empirical predictor of income redistribution.

The analyses by Brandolini and Smeeding and by Scruggs situate the redistributive impact of the public budget at center stage, paving the way toward more analytical questions on the political and institutional origins of budgetary choices across advanced industrial societies. This brings us back to the issues of multidimensionality and endogeneity.

The first set of contributions (chapters 4 to 6) focuses on the political origins of inequality. Specifically, these chapters examine how different aspects of the representation of political and economic interests shape inequality. The authors of these chapters make an effort to clarify why and how these factors matter in shaping income inequality across nations and over time.

Torben Iversen and David Soskice (chapter 4) focus on the role of electoral institutions in distributive politics. Noting that standard political economy models of redistribution—notably that of Allan Meltzer and Scott Richard (1981)—fail to account for the remarkable variance in government redistribution across democracies, Iversen and Soskice show that the electoral system shapes the nature of political parties and the composition of governing coalitions and thereby the levels and nature of redistribution. In particular, Iversen and Soskice contend that center-left governments dominate under proportional systems, while center-right governments dominate under majoritarian systems. As a result, proportional representation systems, they argue, redistribute more than do majoritarian systems.

In chapter 5, Pablo Beramendi and Thomas R. Cusack examine the role of economic institutions and how they, together with competing partisan platforms, shape income distributions across countries. Starting from the observation that OECD countries continue to be more diverse in their distributions of labor earnings and disposable income than they are in their distributions of market income, Beramendi and Cusack show that the way in which political parties are able to pursue their goals varies across forms of income. Although political parties directly affect the distribution of disposable income through their choices about fiscal redistribution, their capacity to shape the distribution of earnings is contingent on the degree of wage-bargaining coordination. By establishing the direct and indirect effects of economic institutions on the different components of the distribution of income, this chapter advances our understanding of important institutional foundations of inequality.

David Rueda, in chapter 6, takes one step forward to argue that two fundamental tasks remain before we can understand the relationship between partisan government and equality: separating the effects of partisanship on policy and of policy on the economy, and assessing the influence of political agency once we account for the mediating role of institutions. Rueda illustrates the benefits of this approach by concentrating on the lower half of the wage distribution. In so doing, the chapter sheds new light on how and why corporatism mitigates (or magnifies) the influence of government partisanship on income distributions among the (relatively) poor.

The following chapters change the book's perspective to focus on the possibility that democratic representation is shaped itself by inequality as much as it shapes inequality—that is, that representation is endogenous to inequality. In particular, these chapters analyze how crucial aspects of democratic politics are conditioned by the distribution of income (or the specific dimensions thereof). The first such aspect concerns the origins of preferences for redistribution. Focusing on the critical case of external shocks, Thomas R. Cusack, Torben Iversen, and Philipp Rehm take on the task, in chapter 7, of analyzing not only how different institutional configurations condition government responses but, more importantly, how the exposure to labor market risks as well as income shape preferences for redistribution. In disentangling the latter link, this chapter brings to the fore an important and often overlooked aspect of the democratic process.

In chapter 8, Robert J. Franzese Jr. and Jude C. Hays tackle the endogeneity of inequality and participation, another crucial aspect of inequality's impact on democratic politics, by examining the reciprocal relationships between redistribution, social insurance, and citizen participation. They argue that the generosity or miserliness of the social safety net may itself affect simultaneously the efficiency of the labor market and the political participation of society's less fortunate, whose political participation affects the identity and thereby the income and job security status of the median voter. This implies several endogenous relationships between economic performance (employment and distribution), the social safety net, and political participation. The chapter elaborates on the theoretically expected nature of these relationships and offers empirical estimates of the resulting system of equations.

Next, we focus in chapter 9 more narrowly on the relationship between income inequality and political participation. Peter Lindert (2004) placed political voice at the center of his historical analysis explaining the expansion of public expenditures. Because of this prominent role for political voice, it is crucial to establish whether and how the distribution of income shapes the conditions under which citizens engage in political action; such an analysis contributes to a much needed distinction between the effects of political voice on inequality and the role of inequality in the set of conditions under which political voice itself emerges. Working on individual and macrolevel data collected in eighteen OECD democracies, we find that income inequality at the macro level depresses electoral participation, even when we account for the potential endogeneity of redistribution to turnout. Moreover, at the level of individual citizens, we find that the effects of income differentials are linear: individuals who are below the median income in society are less likely to participate in elections, and those above the median income are more likely to do so. This chapter also reveals that overall income inequality has similar effects on people at different ends of the income distribution.

In addition to shaping preferences and participation, there is a third way in which inequality affects the democratic process: by conditioning the degree of polarization among contending political platforms. As inequality increases, the distance between different views on the role of government also increases, thereby fostering party polarization. Chapter 10, by Jonas Pontusson and David Rueda, analyzes this process and elaborates on its implications for a better understanding of the relationship between democratic politics and income inequality. Pontusson and Rueda argue that left parties are particularly responsive to the interests of low-income earners, while right parties are particularly responsive to high-income earners. As these two constituencies move further away from the median voter, party polarization increases. This chapter explores a number of alternative ways of defining inequality and polarization and offers comparative empirical evidence based on a sample of industrialized democracies.

Finally, a crucial step in establishing the distributive effects of representative institutions is to explore whether and how structural factors and preexisting distributive tensions in society shape the selection and the way in which democratic institutions are linked to the politics of distribution. In chapter 11, Ronald Rogowski and Duncan C. McRae take a first step toward elucidating the relationship between structural transformations, representative institutions, and distributive outcomes. Their chapter suggests that exogenous changes in technology, trade, or demography alter the value of factor endowments and thus change both inequality and institutions. To develop their argument, Rogowski and McRae develop a welfare-maximizing model with endogenous institutional choice that they illustrate with a historical examination of franchise extension in Europe.

The conclusion recapitulates the main contributions of the volume and outlines a number of directions for future research.

Notes

1. For a critical view on the effect of partisanship on public policy, see William Clark (2003).
2. This is also sometimes referred to as neocorporatism (Lembruch and Schmitter 1982).
3. For an analysis of the implications for social democracy of the insider-outsider divide, see Rueda (2005).
4. For evidence on the extent to which labor bears the lion's share of the tax burden in Scandinavian regimes, see Thomas Cusack and Pablo Beramendi (2006).

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