

Income Inequality and Welfare Spending: A Disaggregated Analysis

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Abstract

The welfare state is generally viewed as either providing redistribution from rich to poor or as providing publicly-financed insurance. Both views are correct but incomplete. Welfare policies provide both insurance and redistribution in varying amounts, depending on the design of the policy. We explore the political consequences of the mix of redistribution and insurance in the context of studying the impact of income inequality on expenditures in different categories of welfare spending in advanced industrial societies from 1980-1995. We find that spending on pensions, health care, family benefits, poverty alleviation and housing subsidies is largely uncorrelated with income inequality, but the spending on income replacement programs such as unemployment insurance, sickness pay, occupational illness and disability are significantly higher in countries with the most egalitarian income distribution. We show that this pattern is exactly what a theory of political support for welfare policies that embody redistribution and insurance in varying amounts would predict.