TRANSFORMATIONS OF THE STATE SERIES

Welfare State Transformations and Inequality in OECD Countries

Edited by

Melike Wulfgramm,
Tonia Bieber and
Stephan Leibfried

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Editors

Welfare State Transformations and Inequality in OECD Countries

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"This outstanding volume examines the impact of welfare state transformations on the development of social inequality. Recent decades have witnessed a rise in market income inequality across post-industrial democracies that has only partially been offset by redistribution through the welfare state. The authors, all well known welfare state experts, examine the causes of this the rise in market income inequality and the consequences of welfare state changes for the emerging patterns of inequality and redistribution in both the aggregate and in a number of specific policy areas. This volume is a must read for social scientists interested in the vitally important topics of the welfare state and inequality."

—John D. Stephens, *University of North Carolina, USA*

"This impressive volume brings together first-rate research on the welfare state's changing role in shaping economic, social and political inequality in OECD countries. The authors meticulously explore recent empirical trends and developments in all major social policy fields and convincingly show that the shift to supply-side social policies has increased inequality. The welfare state may not have become slimmer, but social policies have certainly become much less protective and less redistributive. This book is a must-read for anyone interested in social policies and their impact on inequality."

—Kees van Kersbergen, *Aarhus University, Denmark*

This important volume bridges literatures on welfare-state transformations and on rising inequality in OECD countries. The volume breaks new ground by looking beyond income inequality, taking into account other forms of social and economic inequality. The editors and contributors explore how welfare-state responsiveness to market-generated inequality has changed over time, but also how institutional changes across a wide range of policy domains have themselves generated inequality. The volume strikes a sensible balance between cross-national diversity and OECD-wide trends. More importantly, it brings out the importance of looking at specific policy domains in order to understand how welfare-state transformations relate to rising inequality.

—Jonas Pontusson, *University of California, Berkeley, USA*

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Introduction: Welfare State Transformation and Inequality in OECD Countries

Melike Wulfgramm, Tonia Bieber, and Stephan Leibfried

Inequality is on the rise: across Organization for Economic Cooperation and Development (OECD) countries, the distribution of economic, social, and political resources has become increasingly unequal since the 'Golden Age' of the welfare state (Esping-Andersen 1996), in the decades following World War II. At the same time, ongoing change in central social policy fields—prominently health, labour market, or pension policy—reflects deep welfare state transformation. This volume analyzes the link between

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these two phenomena: How has welfare state transformation in core policy fields shaped development of the main dimensions of social inequality?

Disadvantaged groups of society are adversely affected by the increase in inequality, but not exclusively so; the middle class also faces stagnating or even falling real wages and a fear of joining the lower social strata in their struggle to maintain their living standards in spite of precarious employment or unemployment. Gains in economic growth have been concentrated at the upper end of the distribution scale, with both top incomes and especially return on capital exceeding the overall rate of economic growth (Piketty 2014; see also Frank 2013 or Foster and Wolfson 2010 on inequality and the declining middle class). Factors such as skill-biased technological change, demographic developments, mass unemployment, decreasing trade union power, and globalization have reinforced these distributional patterns (see Huber and Stephens 2014; Hurst 2016, 205). Thus, the richest percentiles in society are getting richer in terms of both income and accumulated wealth, while the middle and especially lower classes are falling increasingly behind.

In social policy research, inequality can be analyzed both as a determinant and an outcome of welfare state transformation. Similarly, the welfare state and its policy-makers can be seen as reactive or proactive actors with respect to societal developments. Regarding inequality as a force *explaining* social policy change, rising market inequalities and the spread of so-called 'new social risks' (Taylor-Gooby 2004; Armingeon and Bonoli 2006) have posed new challenges to the welfare state. Social and economic pressures have forced policy-makers to reconsider the ever more generous social-policy path of the post-war decades. Furthermore, inequality may actually trigger political dynamics that weaken—rather than strengthen—the redistributional capacities of the welfare state, which, for instance, was the argument in the political reinforcement hypothesis of Barth et al. (2015) and contradicts the famous but empirically largely unsustainable Meltzer and Richard (1981) model. This rather reactive framing asks whether and to what extent increased societal needs have overburdened the welfare state's capacities with demands to compensate for market inequalities.

While we acknowledge this focus on inequality as a determinant of social policy change, contributions to this volume are even more à propos to the second perspective: namely, what distributional implications the recent welfare state transformation has brought about. We stress that policy-making has not only defensively reacted to existing market pressures, but it has also actively shaped the inequality patterns that can be observed today. While the market pressures mentioned above have been major forces driving inequalities since the 1980s, selective cuts in the generosity of social transfers, tax-policy reforms, and the overall paradigmatic shift from compensation to supply orientation in social policy have contributed to the stratification of society. Our comparative study thus seeks to shed light on how transformations of the welfare state affects economic, social, and political inequalities. We study this relationship in OECD countries at the threshold of the twenty-first century. Using both quantitative as well as qualitative research methods, we intend to capture the complexity of reforms across different policy fields, which, taken together, cover all crucial aspects of welfare state transformation.

Inequality on the Rise

Market Inequality, Predistribution and Redistribution

For the empirical analysis of inequality, we begin by examining measures of inequality between countries and across time. To demonstrate the extent of overall redistribution through the welfare state, we depict the Gini coefficient both before and after taxes and transfers, where the distribution before taxes and transfers is often called 'market inequality'. This term is somewhat misleading, as it suggests that product, capital, and labour markets are independent from the institutional settings they operate in and that the welfare state only affects inequalities through direct cash transfers. However, we argue that this gross distribution is also shaped by welfare state interventions and other institutional configurations, a concept that has recently been coined 'predistribution' (Hacker 2011; Chwalisz and Diamond 2015). In its intentional political variant, predistribution comprises strategies of social investment and 'market reforms that encourage a more equal distribution of economic power, assets and rewards even before government collects taxes or pays out benefits' (Chwalisz and Diamond 2015, 3). While predistribution is a new political label, institutions that equalize gross incomes have traditionally been at the heart of especially coordinated economies (see Hall and Soskice 2001). The coordinated European, but also Antipodean, democracies have built their welfare states on institutions that balance wages through collective wage-bargaining agreements. The decline of trade-union power and collective bargaining coverage in the past decades (Hall and Thelen 2009; Schnabel 2013) is yet another reason for diverging gross incomes, a divergence which needs to be counterbalanced with new predistributive policy tools or increased redistributive transfers in order to keep net inequality in check. Despite this disclaimer about the term 'market inequality', an examination of inequality before and after taxes and transfers reveals interesting patterns of distribution and redistribution across both time and countries.

Income Inequality Before and After Taxes and Transfers: Empirical Trends

Figures 1.1 and 1.2 show levels and time trends of income inequality before and after taxes and transfers between 1985 and 2013. Figure 1.1 displays the development of the Gini coefficient before taxes and transfers. The solid line reveals that the mean Gini coefficient before taxes and transfers has increased substantially in core OECD member states over the past three decades, rising by almost 7 points on a scale that potentially varies between 0 and 100. The three remaining lines show that this upward trend is pronounced across all typical examples of social democratic, liberal, and conservative welfare regimes (Esping-Andersen 1990), that is, Sweden, the United States (US), and Germany. While the Swedish Gini coefficient fluctuates much more than the coefficient of the US and Germany, it shares their pronounced trends towards higher inequality of gross incomes. Interestingly, the German distribution of incomes before taxes and transfers resembles to a strikingly large degree the pattern of the US both in terms of level and direction of change, which means that the tale of 'Social Europe vs. Liberal America' (Pontusson 2005) mainly holds after redistribution has occurred. In the US, increasing inequality and its accompanying debate are particularly driven by shifts from the middle to the richest income strata (Gornick and Jäntti 2013), while the corresponding German development shows an increase in poverty and thus the falling behind of the lowest deciles.

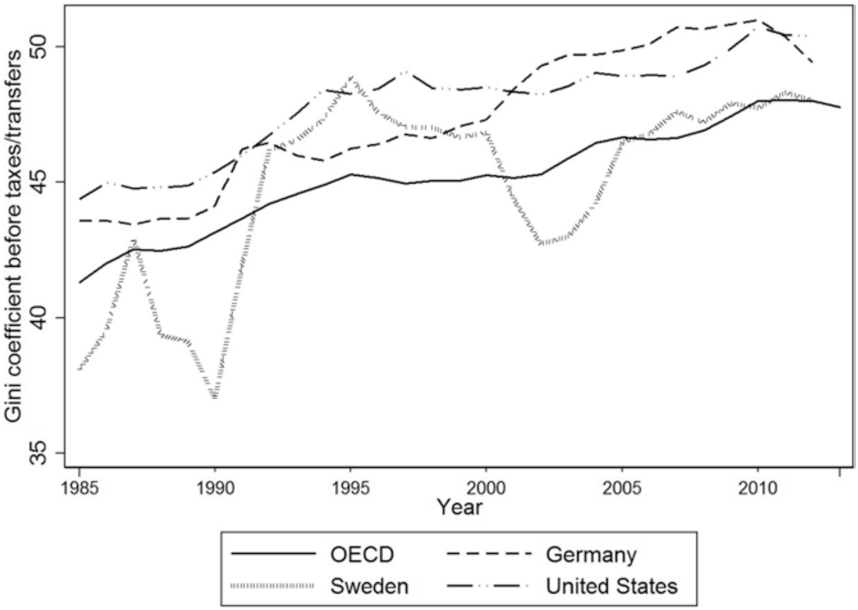

Fig. 1.1 Gini coefficient before taxes and transfers, 1985–2013. Data source: Solt (2014)

Figure 1.2 demonstrates that the rising disparities in incomes before taxes and transfers have translated into higher overall net inequality across advanced economies, although the slope is considerably less steep than in Fig. 1.1. Sweden, Germany and the US follow this overall upward trend, yet specific national patterns emerge to a far larger degree after redistribution of income through both taxation and transfers through social policies. While Sweden shows a marked increase in its Gini coefficient comparable to the US, the considerably more equal starting position is matched by a still relatively equal income distribution in 2013. Germany exhibits an upward, but comparatively moderate, change over time and keeps its rather average Gini coefficient slightly below the OECD mean. The trend depicted is followed by the vast majority of advanced economies: 20 of 22 OECD countries analyzed (OECD 2015, 24) display increased net inequality between 1985 and 2013, while only Turkey and Greece show a slight decrease in their nevertheless high Gini coefficient scores after taxes and transfers. While incomes are already quite unequally distributed, wealth accumulates in an even more concentrated fashion (Piketty 2014).

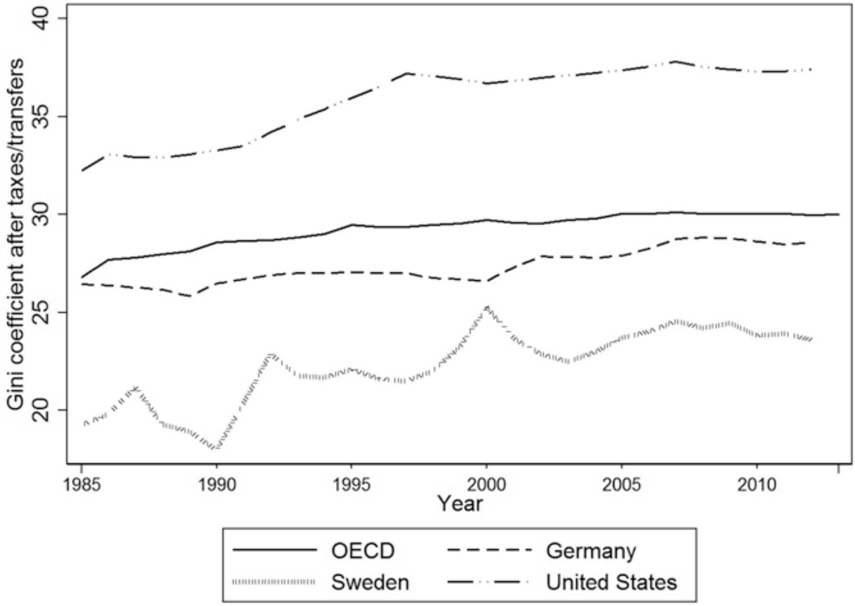

Fig. 1.2 Gini coefficient after taxes and transfers, 1985–2013. Data source: Solt (2014)

What does this overview reveal about the redistributive power of social policy? Have welfare states been able to contain the push towards income inequality through redistribution? Both optimistic and pessimistic readings of the empirical evidence are possible. In defence of the welfare state, we see that taxes and transfers have a larger equalizing capacity than before, cushioning a large share of the increased gross differences in incomes. However, the data also show that the welfare state is fighting—and losing—an uphill battle, failing to keep net inequality in check. Furthermore, the design of the welfare state itself shapes and partly exacerbates existing inequalities, which will be elaborated in the remainder of this volume. Undesirable consequences of rising disparities and intrinsic concerns about inequality are discussed in the following section.

Why We (Should) Care About Rising Inequality

As a result of growing disparities and fuelled even more by social consequences of the global financial and economic crisis that began in 2007, political, public, and scholarly debate has zoomed in on inequality trends. Among the most influential social science publications of the decade, Thomas Piketty's watershed success *Capital in the Twenty-First Century* (2014) has hit a nerve with its critical analysis of historical wealth accumulation and income data. This topicality stems from both intrinsic and instrumental concerns about rising inequality (Atkinson 2015, 11). Intrinsic concerns are based on our perceptions of fairness and equity rooted in political and moral philosophy, as discussed most famously in John Rawls' *Theory of Justice* (1971). Rawls argues that any concept of a fair society needs to be developed under a hypothetical veil of ignorance and entails a set of basic freedoms that foster equality of opportunity. Similarly stressing freedom, the capabilities approach of Martha Nussbaum (2011) and Amartya Sen (1999) links distribution of material well-being explicitly to social, political, and economic freedom. These are deemed necessary to ensure human dignity, which should be safeguarded as an expression of our common humanity. In general, social inequality means that resources such as wealth, prestige, or power accrue to certain groups, and one thus speaks of 'societally anchored forms of privileging some over others' (Mau and Verwiebe 2010, 193). In contrast to intrinsic concerns, instrumental arguments focus on the consequences for society, the economy, and democracy. Inequality is found to undermine social cohesion, increase crime rates (Wilkinson and Pickett 2010; Stiglitz 2012), inhibit economic growth (OECD 2015), and challenge political representation (Verba et al. 1995; Schlozman et al. 2004; McCarty et al. 2006). For both intrinsic and instrumental reasons, dealing with the different dimensions of inequality lies at the heart of advanced welfare states and of welfare state studies.

Welfare State Transformation: Trends Across OECD Countries

Since the 1970s, structural patterns of state transformation in OECD countries have emerged (Leibfried et al. 2015). Processes of internationalization (Zürn and Deitelhoff 2015), transnationalization (Mattli 2015), and privatization of governance have altered the core institutions and functions that define the classical nation-state and thus the political process of social policy-making. Traditionally, the nation-state was in charge of producing the normative good of welfare. In the new constellation of statehood, private and supranational actors additionally play a leading role in fulfilling these functions. The maturation and expansion of the European Union (EU) increasingly demand that we consider supranational policy-making in the redesign of nation-states. In addition, privatization tendencies (Mattli 2015, 297) have shifted the attention of policy-makers from direct implementation and supply of public services to the formulation of rules and laws for private providers. In this section, we discuss how this general state transformation has translated into social policy-making across OECD countries.

Although levels and changes in generosity and welfare state expenditure differ between both policy fields and countries, we argue that there is a common trend towards a supply side-oriented social policy (see also Obinger and Starke 2015). Due to social, political, and economic pressures, policy-makers have re-examined the generous and ever-expanding social policy of the post-war decades. Rather than focussing on compensatory transfers that take market outcomes as given exogenous influences, welfare states increasingly aim at altering primary outcomes by providing services and setting incentives. In particular, in a shift away from passive policies, activation and social investment policies intend to foster employment and change citizens' human capital endowments. Although not part of what has traditionally been regarded the core of welfare states, education is becoming increasingly focal in policy-makers' attempts to equalize outcomes by improving equality of opportunity. In addition, contemporary welfare states are shifting responsibility for welfare outcomes to the individual, for instance, by strengthening private pensions in multi-pillar structures.

Furthermore, deregulation at the margins of the labour market while core workers enjoy broad job protection shows that flexibility requirements and social protection are unequally distributed across different labour market groups, leading to dualization (Emmenegger et al. 2012; Rueda 2014) in both a predistributive as well as redistributive sense. Continental countries in particular have cultivated an insider-outsider divide in terms of labour market risks through differential job protection and benefit schemes (Häusermann and Schwander 2012).

The Volume

The volume focuses on the causal relationships between welfare state transformation and the different dimensions of social inequality. To cover this topic comprehensively, this volume's four parts take different perspectives on these relationships.

Part I discusses core concepts of the book and shows overarching trends of both inequality and welfare state transformation. In Chap. 2, Peter Starke, Melike Wulfgramm, and Herbert Obinger analyze welfare state transformation from a broad comparative perspective. Long-term developments and challenges to advanced welfare states that arose after the oil crises of the 1970s and 1980s are portrayed. The main argument is that there is convergence between social policies in OECD countries towards a supply orientation in the welfare state, dualization of labour markets and an individualization of outcome risk. The concept of supply orientation and the implications for inequality are discussed.

In Chaps. 3 and 4, the authors study the concept of inequality from two different disciplinary angles. Olaf Groh-Samberg starts from a social science and particularly sociological angle by stressing the linkage between different dimensions of social inequality, such as equality of opportunity, health or political participation. Equally important is the question of 'inequality between whom?' as, for instance, social class, gender, age, or nationality can guide the analysis of distribution. The author develops these different conceptual considerations for the study of inequality and analyzes conflictual and competitive theoretical approaches to inequality. Empirically, the author describes how inequalities of life chances have remained largely stable, although absolute levels of life chances increased for all classes.

In Chap. 4, Stefan Gosepath approaches inequality from a philosophical perspective, discussing the question of why we are or should be concerned about rising social disparities on the grounds of our common humanity. The concept of inequality is linked to the moral notion of justice and to the question of what it actually means to be equal or unequal according to theories of political and moral philosophy. Related to this debate, the contribution discusses which type of inequality is acceptable from a philosophical standpoint. The author argues that advanced welfare states adhere to the principles of formal, proportional, moral, and ultimately social equality. Those inequalities that are in themselves unjust or that produce injustices tied to other dimensions of inequality are morally objectionable and should be remedied by the welfare state.

Part II comprises chapters that offer analyses of transformation in particular policy fields of the welfare state and of how these policy changes have shaped different dimensions of social inequality. After a broad conceptualization in Part I, the authors give a more nuanced picture of welfare state transformation and its distributional implications, with each zooming in on one specific policy field. While all chapters analyze the consequences of welfare state transformation on inequality, the exact specification of inequality in terms of the cleavages studied reflects the different focus of social policy fields in their approach to shaping distributional outcomes. For instance, while the chapter on healthcare focuses on solidarity and redistribution between groups with different health risks, the chapter on labour market policy concerns the dualization tendencies between labour market insiders and outsiders. In combination, the chapters of Part II give a comprehensive overview of the linkage patterns that emerge in welfare state transformation across policy fields and different dimensions of inequality.

Given that all states rely on taxes and social contributions to finance their increasingly costly welfare states and that these financing measures themselves are redistributive, Laura Seelkopf and Hanna Lierse start Part II in Chap. 5 by studying the implications of tax competition for the redistributive capacity of welfare states. The authors see globalization as a major driving force of tax policy changes, yet they argue that governments still have space to manoeuver. The author, however, concludes that global competition has translated into a situation wherein all principles of equity that are relevant regarding taxes have been breached, that is, into negative consequences of tax policy transformation for vertical, horizontal, and international equality.

In Chap. 6, Achim Schmid, Pascal Siemsen, and Ralf Götze analyze the transformation of eleven OECD healthcare systems and develop the Index of Risk and Income Solidarity to demonstrate the distributional consequences of healthcare policy change. They define 'risk solidarity' as the extent to which resources are redistributed between the healthy and the unhealthy across different risk groups, while 'income solidarity' refers to redistribution between income groups through the financing of healthcare. Interestingly, the authors find rather stable income solidarity and even an upward convergence of risk solidarity. Thus, healthcare transformation as part of social investment in supply side-oriented welfare states has resulted in an equalization of distributional outcomes.

Chapter 7 covers pension policy transformation and its consequences for between- and within-cohort inequalities at pension age. Against the backdrop of broad OECD pension policy trends, Jan Paul Heisig conducts an in-depth analysis of the German and the US case. He shows how welfare states across different welfare regimes have shifted towards higher individual responsibility rather than solidarity in pension policy, as disability, labour market history, and fluctuations in financial markets directly translate into inequalities between different groups of retirees. Furthermore, retirement is related to far higher losses of income today than it was in the 1980s.

While Chap. 7 focuses on inequality of outcomes at retirement age, Chap. 8 is dedicated to the distribution of life chances at a much earlier age, as it studies the distributional consequences of education policy. Timm Fulge analyzes which higher education system characteristics affect class-based inequality of opportunity. His multi-level analysis shows that high public investments in tertiary education equalize opportunities, while acceptance of a larger share of students does not lead to the expected egalitarian results. The author argues that there is a trend towards higher enrolment rates at the expense of per-student subsidization levels, and that this broad social investment strategy actually intensifies rather than modifies inequality in higher-education enrolment and thus in life chances.

In Chap. 9, Hanna Schwander analyzes the selective transformation of four continental welfare states in the sphere of labour market policy and the results in terms of labour market risk distribution. She argues that flexibility requirements for outsiders have led to severe generational labour market inequalities, particularly in France, Italy, and Spain, while skill level is the major dividing line for German labour market risks. Both market forces and institutional factors lead to structural segmentation in terms of risks between labour market insiders and outsiders. Furthermore, she argues that the differential reduction in benefit generosity perpetuates rather than mitigates these predistributional inequalities.

As the final contributor to Part II, Irene Dingeldey, in Chap. 10, also investigates institutional dualization but incorporates the tie between family and labour market policy. The focus is placed here on gender inequality and compensating mechanisms at the household level. Incentives in wage structures, labour market policy, and family policy affect the within- and between-household distribution of labour market participation and incomes. The author shows how these factors modify or amplify inequalities between households and gender.

While a large share of the literature, including the majority of the book's chapters, is concerned with national welfare states and within-country inequality, a comprehensive analysis of the topic needs to broaden the horizon to take into account global inequalities (see for instance Holton 2014) and global social policy (see also Deacon et al. 1997; Yeates 2014). *Part III* of this volume therefore goes beyond the analysis of purely national policy-making to focus on supranational actors and between-country inequalities. In Chap. 11, Alexandra Kaasch analyzes how global social-policy players affect local policy-makers and global inequality. Global inequality patterns and trends are shown and discussed. Furthermore, the discussion on social justice is extended to include overall distribution and redistribution of resources at a global scale. The main question is whether and how the justice principles that moral and political philosophers developed for national contexts apply to global inequality. Finally, the author studies whether global redistribution actually decreases different dimensions of global inequalities and how the empirical trends connect to principles of justice.

While the previous chapter thus takes a broad geographical perspective on inequality, in Chap. 12 Christof Roos analyzes welfare state transformation and inequality in the European Union. The connection between spatial and social mobility is discussed. On the one hand, inequalities between EU member states and the right to freedom of movement are major drivers for spatial mobility between countries; on the other hand, mobility requires resources exist in the first place, excluding the poorest Europeans from the opportunity of social through spatial mobility. Analyzing policy trends in Germany, the United Kingdom, and Sweden, the author argues that selective mobility and social inequality is reinforced by the recent trend towards welfare state closure in the EU.

Overall, this volume explores the relationship between welfare state transformation and inequality both conceptually and empirically. The authors assess how welfare state changes have actively shaped the pattern of both gross and net inequality by selectively cutting back generosity and by redesigning social policy from compensation towards supply orientation. The implications of this trend towards supply side-oriented policies for market inequality are contradictory and depend on the particular policy. While policies of social investment aim (yet often fail) at equalizing (pre)distribution, policies that individualize risk (for example, private pension policy, deregulation of marginal employment) tend to widen the income spread. Regarding net inequality, the trend is rather uniform across traditional policy fields: replacement rates are gradually declining across OECD countries, thus limiting the redistributive efforts of OECD economies. However, welfare state expenditure is not reduced as a result of this decline in traditional replacement rates. Rather, we see that the focus shifts towards policy areas that are likely to contribute to future economic successes such as education and family policy. Once market inequalities become manifest, though, the decreasing focus on compensatory transfers means that market inequalities translate into net inequality. In Chap. 14 of *Part IV*, these conclusions are elaborated by the editors based on the contributions in the volume.

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Part I

Welfare State Transformations and Inequality: Concepts and Trends

2

Welfare State Transformation Across OECD Countries: Supply Side Orientation, Individualized Outcome Risks and Dualization

Peter Starke, Melike Wulfgramm, and Herbert Obinger

Welfare states in advanced countries are subject to permanent struggles and constant change. Following a period of unprecedented expansion, welfare state reform since the mid-1980s has been characterized by various and increasingly far-reaching attempts to adapt social protection schemes to new socioeconomic challenges and changes in the international political economy. Whereas welfare scholars largely agree on the expansionary path of post-war welfare state, the direction of social policy development was far less coherent in recent decades. On the one hand, we have seen an expansion in public social expenditure. On the other hand, generosity of classical social transfer schemes followed a different

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trajectory after the oil price shocks of the 1970s, when the ‘Golden’ post-war years were replaced by an era of consolidation or even retrenchment. Such a focus on expenditure data and generosity profiles of classical welfare branches provides an initial indication that social policy trajectories are more complex than simple up and down movements suggest. This complexity demonstrates the need to look at shifts and trends between and within policy fields, as well as at changing objectives and instruments of social policy-making.

We argue that a clear qualitative shift towards supply side orientation in welfare state development of Organization for Economic Cooperation and Development (OECD) countries has occurred. Across countries, the income-replacing, redistributive and solidaristic insurance-based aspects of the welfare state have been downplayed in recent reforms in favour of investment in skills and health and a focus on monetary incentives, individual monitoring, deregulation and service provision (for example, childcare) in an effort to raise employment rates. What is more, markets are not seen as something to be contained but rather as something to be used. This approach includes using internal or quasi-markets in the provision of social benefits, or even the outright private provision of pensions, health and care services. The emergence of a supply side welfare state was only briefly halted in the immediate aftermath of the global financial crisis, when rich countries, for macro-economic reasons, emphasized more traditional automatic stabilizers and temporary cash assistance. To be clear, the supply side welfare state, also in contrast to earlier neoliberal visions, does not reduce state intervention, but maximizes its fit with increasingly competitive labour and product markets. Social investment is certainly part of that ideal type, but only insofar as it benefits employment and economic self-reliance (as can be seen, for example, in the reform of disability benefits). Certainly, not all welfare states uniformly follow the supply side model today. Still, based on a reading of the more detailed policy literature, we argue that a process of gradual movement towards this model—understood as a qualitative delta-convergence[1]—has been taking place across the OECD. The process is not without setbacks and contradictions, yet it is broadly visible.

[1] Importantly, delta-convergence, or the diminishing distance towards a policy model, is not a sufficient condition for other forms of convergence, as pioneers may move ahead faster than policy laggards, temporarily increasing the distance between countries (Heichel et al. 2005).

The implications of the supply side model for the development of social inequality are contradictory and will be studied in depth in different policy areas in the second part of this volume. On the one hand, with its emphasis on market participation (including private insurance provision), the supply side model risks being increasingly less able to contain market-generated inequality. On the other hand, many of the investment aspects of the model could mitigate the inequality effects of underemployment, unemployment and insufficient or poorly matching skills.

The aim of this chapter is to take stock of these multi-faceted developments and their related outcomes. The chapter is structured as follows: in the following section we briefly describe the old order of post-war welfare state expansion across OECD countries. Reasons for the success story of Western welfare states are analyzed and varieties of welfare regimes are described. Next, we sketch the major challenges advanced welfare states have been facing after their massive expansion in the post-war era. Subsequently, policy reactions to these challenges are analyzed. We argue that there is a common trend towards supply side-oriented social policy. In the conclusion, the contradictory and conditional implications of this trend for the development of social inequality are described.

The 'Golden Age' of Welfare State Expansion and Varieties of Welfare State Capitalism

Following episodes of mass destruction, economic depression and the widespread breakdown of democracy in the first half of the twentieth century, a new political, social and economic order was established. Traumatic experiences, increased social needs and flourishing economies in the decades of reconstruction provided the basis for the political will and the financial feasibility of post-war welfare state expansion. Against this backdrop, welfare states across the OECD world experienced a disproportionately large expansion in the form of social security coverage towards new beneficiaries, more lenient eligibility requirements and higher benefit levels of transfer payments, as well as new programmes and policy instruments.

However, the heyday of welfare state expansion between about 1950 and 1980 was by no means uniform across countries, nor did expansion dissolve previous national differences. Functionalist explanations reach their limits when diversity persists despite economic convergence (Therborn 1995; Castles 1998). In addition, we find no lack of variation in the institutional set-up and generosity of social policy. Despite the disruptive character of World War II, path dependency links the post-war development of welfare states to the institutional heritage of the formative period, with earlier design choices as well as the mere age of welfare programmes bringing about characteristic features (Alber 1982). In addition, power resource theory attributes cross-national social policy differences to political factors, notably the power resources and coalition-building strategies of the left-wing labour movement (Castles 1978; Stephens 1979; Korpi 1983; Garrett 1998; Hicks and Kenworthy 1998; Huber and Stephens 2001; Schmidt 2010; Ebbinghaus 2011; Esping-Andersen 2014; van Kersbergen and Vis 2014, 50).

Political institutions have further been critical for explaining the development and cross-national variation of welfare states. Specifically, the presence and strength of institutional veto points, such as constitutional courts, direct democracy, federalism or presidential veto powers, have been identified as inhibiting policy change, which in the post-war period implied limitations to public welfare expansion (Huber et al. 1993; Bonoli 2001; Obinger et al. 2005). Neo-corporatist institutions, in contrast, generally fostered an expansionary path (Cameron 1978; Katzenstein 1985). Moreover, a country's electoral system has important implications for redistribution (Iversen and Soskice 2006). In interaction with a society's denominational landscape, the choice for majoritarian or proportional representation shaped political coalition building and, consequently, led to the emergence of distinct types of welfare states (Manow 2015).

Finally, ethnic homogeneity is arguably a building block of the solidarity needed for the development of an encompassing welfare regime (Alesina and Glaeser 2004; Lindert 2004, 71). Countries with a high level of ethnic or linguistic fragmentation, such as Switzerland or the United States (US), thus may lack the high solidarity necessary for redistribution that characterizes the rather homogenous Scandinavian societies.

Whereas early inquiries in comparative welfare state research relied on expenditure data, Esping-Andersen's regime typology (1990) emphasized the differences in the structural make-up of welfare states. The social democratic, liberal and conservative-corporatist welfare regimes are distinguished depending on the degree of decommodification, stratification and the role of the family, state or markets in welfare provision. Esping-Andersen's 'three worlds of welfare state capitalism' has been criticized on various accounts (for an overview, see Arts and Gelissen 2010; Emmenegger et al. 2015), yet his classification remains the most influential and fruitful typology in the field of social policy (Ferragina and Seeleib-Kaiser 2011; Emmenegger et al. 2015). While every country deviates from the ideal regime types in several aspects, the typology shows both descriptive as well as analytical value when it comes to post-war welfare state development. In addition, the typology's focus on welfare state patterns is helpful for understanding their vulnerabilities and reform trajectories in the post-Golden Age period.

Challenges to Modern Welfare States

The oil crises of the 1970s put an end to the favourable economic conditions that were conducive to pro-welfare expansionary paths, and both external as well as domestic challenges became increasingly evident. External pressures of economic globalization and European integration were central themes in both the academic as well as political debate. However, contrasting views exist on the theoretical link between social policy and the opening of product, labour and especially capital markets. While the efficiency hypothesis predicts a 'race to the bottom' in social security provision (see Swank 2010; Glatzer and Rueschemeyer 2005), the so-called compensation hypothesis expects stagnation or even expansion of welfare state efforts. Increased labour market risks are compensated for by provision of social benefits for the potential or actual losers of economic globalization (Burgoon 2001; Hays 2009).

Beyond the general phenomena of trade openness and economic globalization, the European Union (EU) offers a special case of both economic and political integration. Both the direct and indirect influences of the EU on domestic social policy have been analyzed, thus differentiating between deliberate social policy-making at the EU level (positive integration) and spillover effects from economic policy and market building to the social sphere (negative integration), often driven by the European Court of Justice. In particular, the second channel of negative integration through 'judges and the markets' (Leibfried and Pierson 1995; Leibfried 2015; see also Roos in this volume) has put considerable reform pressure on European welfare states. Furthermore, the unintended consequences of the monetary union in the form of credit bubbles and the fiscal constraints imposed by the Treaty of Maastricht in 1993 affected social policy in heavily indebted countries. While positive integration is limited due to institutional obstacles, more recent research has stressed the growing importance of soft governance instruments (see, for instance, Bieber 2016 on education policy), such as the Open Method of Coordination, instruments that are 'no longer geared towards a transfer of sovereignty from the national to the EU level, but rather facilitate collaboration among sovereign Member States' (Kvist and Saari 2014, 193).

Beyond the limited regional scope of the EU, social policy initiatives are also launched by global actors, such as the World Bank, the International Monetary Fund and the World Economic Forum (see Kaasch in this volume). Finally, the collapse of the Soviet bloc not only discredited large-scale state intervention and undercut the political legitimacy of the welfare state; it also increased the heterogeneity of welfare systems and social standards in Europe. The eastern enlargement of the EU thus reinforced competitive pressure between member states and, at the same time, limited the opportunities for a re-regulation of social policy at the European level.

Domestic challenges are arguably pressing even harder on the financial and political sustainability of advanced welfare states. De-industrialization, the rise of the service economy and skill-biased technological change have reduced wage growth, especially at the lower end of wage and skill distribution (Wren 2013). This reduction has been accompanied by a parallel unequal distribution of labour market risks. Higher flexibility requirements in the service industry, unemployment and the massive rise of female labour market participation have facilitated the rise of atypical, and often precarious, employment relationships. Politically, this trend has been supported by the dualization of employment protection legislation, that is, deregulating employment at the margins while keeping core industrial workers well protected. Most welfare states, especially in Continental Europe, rely on contributions based on full-time standard employment, which, in turn, influence the level of protection. Labour market segmentation is spreading across countries, challenging welfare states to moderate the detrimental effects on inequality in the labour market, social protection and political integration (Häusermann and Schwander 2012).

Modifications in household composition due to increasing divorce rates and changed norms for family life imply further tasks for the welfare state. Ever more single-parent households are faced with high poverty risks (Misra et al. 2012), creating the need for both reliable childcare facilities and financial support. Demographic change caused by longer life expectancy as well as low fertility rates and longer education has reduced the share of the economically active population, leading to a shrinking contribution base of social security (Meier and Werding 2014). Finally, economic structural change has transformed the party systems of advanced democracies and reduced the power resources of unions, while migration and the influx of refugees have enhanced the ethnic heterogeneity of Western societies and accelerated the rise of right-wing populist parties across Europe.

In a nutshell, domestic as well as international trends have created new social needs on the one hand and financial as well as political restrictions on the other. The next sections illustrate the reactions of policy-makers and the implications of resulting welfare state change for different dimensions of inequality.

After the 'Golden Age': Convergence Towards the Supply Side Model, Dualization and Individualization of Outcome Risks

Size and Instruments of Welfare States

In stark contrast to the predictions of a 'race to the bottom' between countries towards a residual model aiming at low taxes and contributions, welfare states today play a more dominant role in the composition of public spending and total economic activity than ever before. Figure 2.1

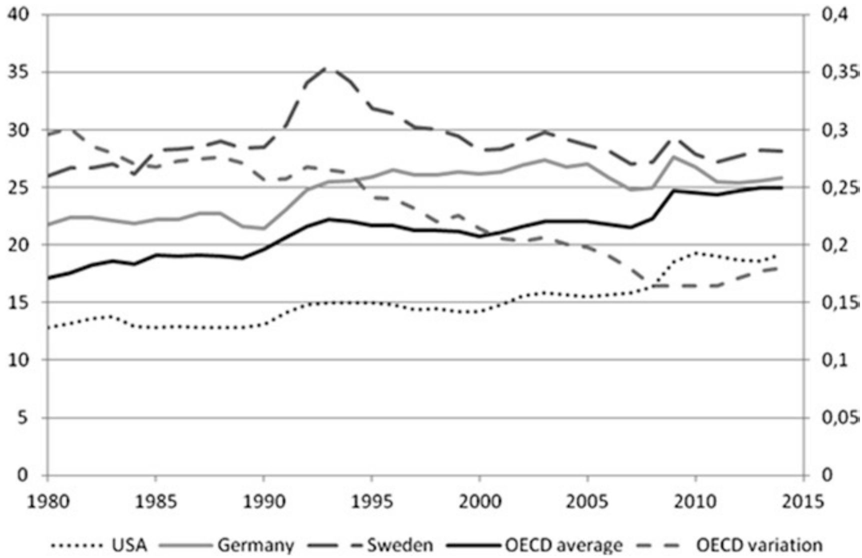

Fig. 2.1 Total public social expenditure, 1980–2014. *Notes*: As a percentage of GDP (left axis) and coefficient of variation (right axis). *Source*: OECD Social Expenditure Database, OECD.stats

shows total public social expenditure and its coefficient of variation for 21 OECD countries as well as the selected cases of Germany, Sweden and the US: the average social expenditure share has risen by eight percentage points in the last three decades, from 17 per cent of gross domestic product (GDP) in 1980 to 25 per cent in 2012.

At least four functional drivers of such an upward convergence potentially play a role: first, changes in legislation and implementation increase the generosity of existing programmes and expand into new areas—with the most genuine and deliberate expansion of welfare effort being driven by political decision-making. Second, demographic ageing and rising prices caused by 'Baumol's cost disease'[2] increase spending on social services, even in the absence of benefit expansion. Third, changes in socioeconomic conditions, and especially drastic recessions

[2] This term refers to the phenomenon that wages in labour-intense services are increasing in line with overall wage development, even though productivity in these jobs does not rise accordingly.

as experienced in the recent financial crisis, drive up the demand for transfers and services, increasing the number of beneficiaries without necessarily changing generosity in the form of eligibility, benefit levels or duration. Finally, recessions that drive up demand for transfers and services at the same time suppress GDP, which is the denominator of the commonly used social expenditure measure. The economic downturns in the early 1990s and after 2007 reveal the last two mechanisms of rising social expenditure shares most markedly, each period accounting for about 3 percentage points of social expenditure increase.

Even more striking than this increase is the strong convergence between OECD countries in terms of social expenditure within the same time period (see Schmitt and Starke 2011; Starke et al. 2008 for more detailed analyses), with the coefficient of variation being almost halved from 0.30 to 0.16. This convergence is in line with the conclusion of many scholars that socioeconomic conditions have been the dominant driver of recent welfare effort trends, muting the differential influence of political factors such as party composition of a government, which played a more prominent role in previous decades (Huber and Stephens 2001; Kittel and Obinger 2003; Kwon and Pontusson 2010).

Given the strong effect of socioeconomic conditions on expenditure data, drawing conclusions on the content of welfare state change requires analyzing social policy instruments and specific policy fields. Such analyses suggest a more nuanced picture compared to the expenditure trajectory: objectives, instruments and core policy fields of welfare state activity have been shifted or extended. A particularly dominant trend in social policy instruments is the shift from passive cash transfers towards in-kind benefits, which predominantly consist of social services such as healthcare, active labour market policy or public childcare. While transfers are by no means disappearing, Figs. 2.2(a)–(d) show that replacement rates of core cash transfers have consolidated or somewhat retrenched as well as converged in advanced democracies during recent decades.

As opposed to cash transfers, expanding social services form one building block of what has been coined the 'social investment state' (Esping-Andersen et al. 2002; Hemerijck 2012) or 'active social policy' (Bonoli 2013) and what we more broadly describe as the 'supply side model'. Compared to unconditional cash transfers, modern social services tend

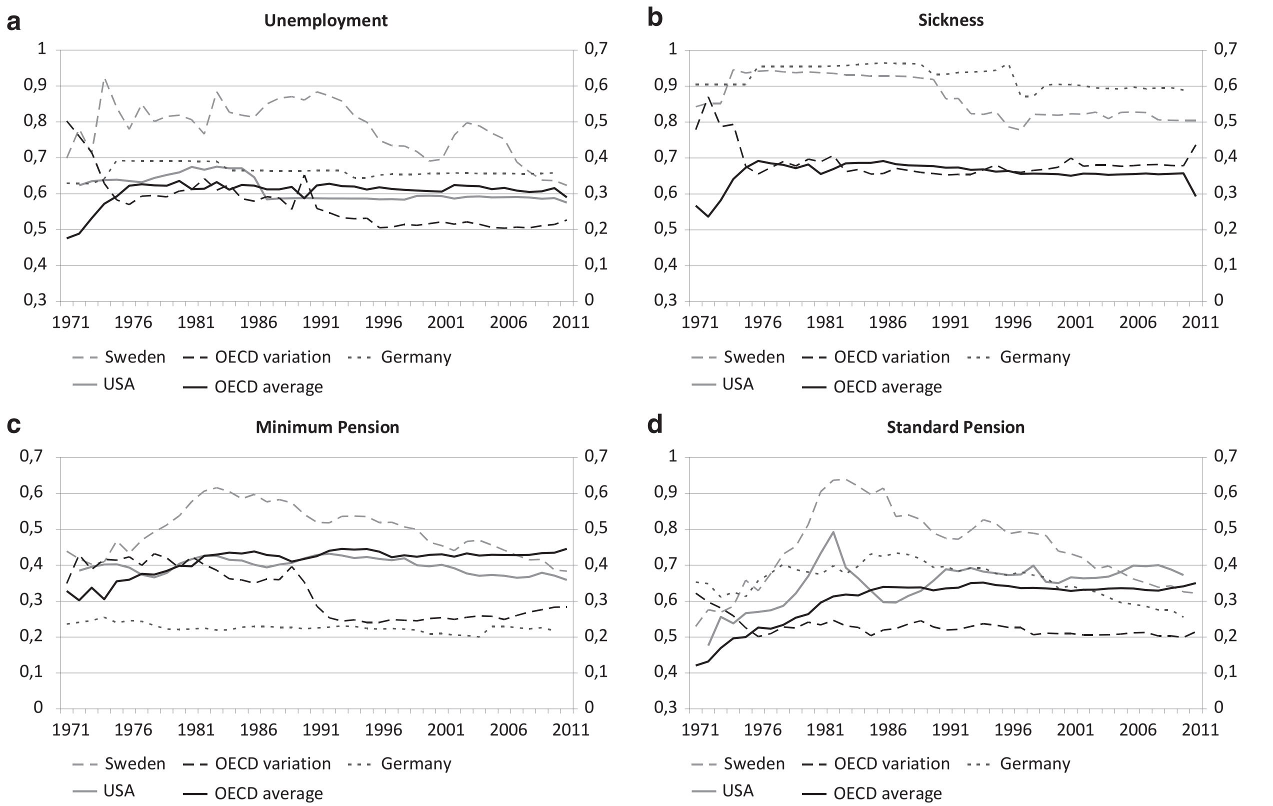

Fig. 2.2 Average net replacement rates (left axis) and coefficient of variation (right axis) of selected programs, 1971–2011: (a) unemployment, (b) sickness, (c) minimum pension, (d) standard pension. *Notes:* Net income replacement rate data is based on hypothetical model households. For unemployment and sickness replacement rates, the mean of the replacement rates for a single household and that of a household with one full-time average earner, a dependent spouse and two children was calculated. For pensions, the average is based on the mean of a single pensioner and a married couple. *Source:* Comparative Welfare Entitlements Dataset 2 (Scruggs et al. 2014)

to be driven more by the aim to improve the capacities of citizens to supply their labour to the market than to insure against income loss. Figure 2.3 shows that the share of in-kind benefits as a percentage of total public social expenditure has risen by about 10 percentage points across OECD countries since the early 1980s. Looking at Sweden, Germany and the US as representatives of different welfare regime types, we see that the latter two have experienced a catch-up process while Sweden is back at the same level it was at in 1980—a phenomenon that fits in well with the overall lower level of variation between OECD countries and is part of the convergence towards a supply side-oriented welfare state.

Supply Side Model in Selected Social Policy Fields

The description above provides a picture of expansion and convergence of expenditure and the shift towards services in overall welfare effort. To give a more nuanced picture on substantial changes, one needs to look

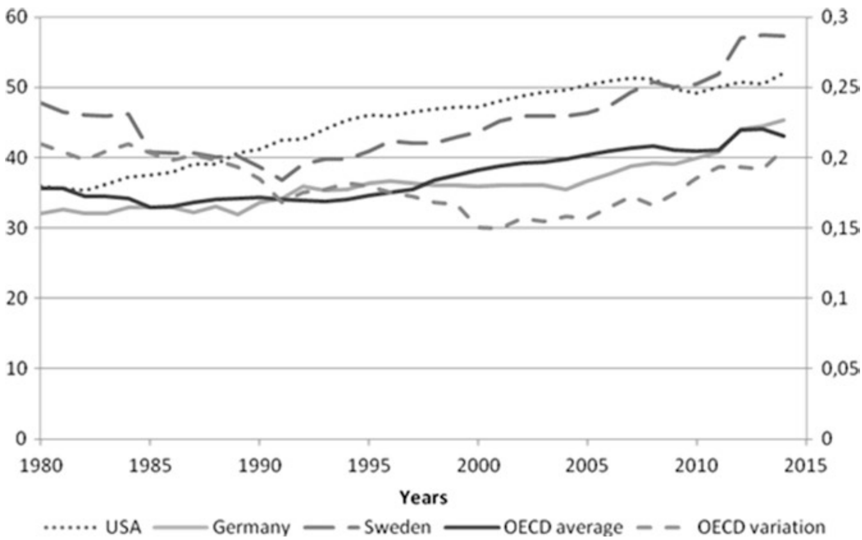

Fig. 2.3 Total public social expenditure in kind, 1980–2014. *Note*: As a percentage of total public social expenditure (left axis) and coefficient of variation (right axis). *Source*: OECD Social Expenditure Database, OECD.stats

at qualitative information regarding specific policy fields. In the development towards the supply side model, we find some major trends across OECD countries: activating and dualized labour market policy, multi-pillar pension policy as well as a stronger state involvement in childcare services and parental leave regulation within family policy. Furthermore, we argue that education policy and health policy need to be addressed as important pillars in supply side social policy, as they are at the core of social investment strategies.

The trend towards supply side orientation is most apparent in labour market policy. Against the backdrop of rising long-term unemployment, activation has evolved to become the major player in European labour market policy in particular, even though it comes with different combinations of enabling and workfare elements (Dingeldey 2007; see also Eichhorst et al. 2008 for the varieties of activation policy). The Swedish Rehn–Meidner model of the 1950s is generally cited to show that active labour market policy has been around for more than half a century, yet most scholars agree that its widespread implementation across several OECD countries developed from the mid-1990s onwards. Although often used synonymously with active labour market policy, the term 'activation' refers both to a stronger reliance on active labour market policy and to less generous and more conditional passive labour market policy. Furthermore, benefit receipt can be explicitly tied to participation in active labour market programmes, so that activation involves a comprehensive linkage between the different instruments of labour market policy in order to increase employment. Regarding passive labour market policy, 'eligibility criteria have been tightened, benefit levels have been reduced, benefits have been made conditional on employment, and the duration of receipt has been shortened' (Kenworthy 2010, 438). Bearing in mind the financial sustainability of unemployment insurance, this passive element of activation is mainly driven by neoliberal concerns about the disincentive effect of generous transfers (see Tatsiramos and van Ours 2014). The common aim of passive elements of activation strategies is the quick reintegration of the unemployed into the labour market, with quality and sustainability of reintegration being at best a secondary concern (for the negative effect of ungenerous unemployment benefits on sustainability of reintegration see Wulfgramm and Fervers 2015).

Apart from providing cash transfers and in-kind benefits, the welfare state structures market-based activities through a regulatory framework. In the absence of general data on overall welfare regulation, it is informative to analyze employment protection legislation as the driving force of the institutional dualism that is heavily discussed in the debate about the dualization between labour market insiders and outsiders (see Schwander as well as Dingeldey in this volume; Emmenegger et al. 2012). As shown by Fig. 9.1 in Hanna Schwander's contribution to this volume, regulation of regular employment has been held rather constant in most OECD countries (with the exception of Spain), while employment protection for temporary workers has been heavily dismantled virtually everywhere. In line with overall public social expenditure and the share of in-kind benefits, there is a clear pattern of convergence in the overall strictness of employment protection legislation across OECD countries.

In the field of retirement policy, supply side orientation can most clearly be seen in the attempts of many countries to increase the average retirement age by limiting early retirement options and raising the statutory retirement age, and in the shift from defined-benefit pensions towards defined-contribution plans (see Heisig in this volume). This shift towards defined-contribution plans is to a large extent driven by the transformation of both Beveridgean and Bismarckian systems (see Hinrichs and Lynch 2010) towards multi-pillar pension systems (Clark et al. 2006; Immergut et al. 2007; Ebbinghaus 2011; OECD 2011). Although Beveridgean countries in particular already had earnings-related schemes in place as early as the 1960s, the most prominent example of the spread of global social policy ideas (see Kaasch in this volume) by a supranational actor occurred when the World Bank (1994) heavily advocated for the extension of single pay-as-you-go public pension systems into three pillars. Such multi-pillar systems ideal-typically consist of (1) a tax-based basic pension scheme, (2) compulsory occupational pensions and (3) voluntary private pension savings plans. Today, even Bismarckian countries with a strong reliance on public pay-as-you-go pensions, such as Germany, extensively subsidize and regulate private pension savings plans. Given the choice between transfers, in-kind benefits and regulation as welfare state instruments, we see a gradual shift towards increasingly regulating private provision rather than being limited to public provision. While regulating the general rules for private pension savings providers, defined-contribution plans shift the responsibility for welfare outcomes from the public onto the individual.

Supply side orientation also becomes apparent in family policy, but it manifests itself with an extension of and partial shift in direct state responsibility for welfare provision rather than a retreat thereof. Although still an example of a mixed-objectives policy field, the framing and instruments of family policy in many countries have undergone a clear paradigm shift. Family policy has gone from being a pure social policy in the sense of income compensation and poverty alleviation to now being understood as part of a broader activation, education and partly gender equality framework (Lewis 2009; see Ahrens 2012, 87, on examples of family policy framing)—albeit on very different levels. Stronger reliance on public childcare has at least two mechanisms by which it contributes towards the supply side model. First, it frees parents from their care responsibilities and particularly fosters female labour market supply, thus being activating in nature. Second, in the long run, high quality public childcare can fulfil an important social investment function, fostering equality of chances particularly benefitting children from lower socio-economic backgrounds (Esping-Andersen et al. 2002; OECD 2007). The extent to which public childcare is truly comprehensive, however, still differs between the pioneering Scandinavian countries and conservative and liberal countries. Furthermore, tax splitting systems and passive transfers send contradictory incentives that limit the emergence of dual earner/dual carer families, with single (male) breadwinner or extended breadwinner models still dominant in Southern and continental countries (Dingeldey in this volume; Gornick and Meyers 2006; Ciccia and Verloo 2012). Overall, we see an expansion of family policy in the direction of social investment, with OECD countries now spending an average of 2.5 per cent of GDP, but there is not as clear a trend of convergence as in other policy fields.

Although not part of what many European scholars have traditionally regarded as social policy, education policy represents a focal area of the paradigm shift towards the social investment state and the supply oriented welfare state. This view is by no means new, as education policy has been understood as lying at the core of providing welfare and equalizing chances, particularly in Anglo-Saxon countries (Allmendinger and Leibfried 2003). Large expansions of enrolment rates in higher education (see Fulge in this volume) aim at increasing the high-skilled labour supply. At the same time, the Bologna process not only intends to improve mobility between European higher education institutions but also aims at a more structured study progress as well as greater employability with a bachelor degree (Schomburg and Teichler 2011). Therefore, the Bologna process can be both accredited with and criticized for contributing to the supply side model, by aligning university studies with labour market requirements rather than with Humboldtian education principles.

Healthcare is among those policy fields in which functional pressure in the form of technological and medical progress, demographic change and consequences of 'Baumol's cost disease' (Freeman and Rothgang 2010) have led to a clear upward convergence of expenditure (Starke et al. 2008). Regulatory and structural reforms aiming at efficiency and cost-containment have been implemented across countries (see, for example, Freeman and Moran 2000; Rothgang et al. 2010). Privatization and individualization of healthcare financing peaked in the late 1990s, with co-payments representing the lowest level of risk and income solidarity (see Schmid et al. in this volume). The acknowledgement of healthcare as part of social investment strategies has contributed to a reversal of this trend. The supply orientation of healthcare reform is apparent, for instance, in the EU health strategy: 'investing in people's health as human capital helps improve the health of the population in general and reinforces employability, thus making active employment policies more effective, helping to secure adequate livelihoods and contributing to growth' (European Commission 2013, 2).

Conclusion: Implications of the Supply Side Model for Distribution and Redistribution

Welfare states are constantly adapting to socioeconomic conditions as well as changing power distributions in the political sphere. While every country combines a distinctive mix of cash transfers, in-kind benefits and social regulation into its unique welfare state, we identify at least two common social policy trends across OECD countries in recent decades. First, quantitatively, we find convergence in overall welfare effort, showing that total public social expenditure has become increasingly similar and has converged to a higher level compared to previous periods. Second, we find that OECD welfare states also show qualitative convergence towards a supply oriented model. Rather than focussing exclusively on compensatory transfers that take market outcomes as given exogenous influences, supply oriented policies aim at altering primary outcomes by providing services, investing in skills formation and setting incentives for employment. Alternatively, we see a shift towards individualized risk in multi-pillar pension schemes as well as institutional dualism with respect to employment protection legislation. But what can we expect from these welfare state changes in terms of their effects on inequality? Since subsequent chapters will analyze specific policy fields in more detail, we will focus on hypothesizing general distributional trends.

Activation and social investment policies aim at fostering employment and changing the human capital endowments of citizens, shifting from passive towards active and activating policies. Given that many activation policies focus on quick reintegration into the labour market rather than high-quality employment (Wulfgramm and Fervers 2015), the effect on primary distribution is contradictory: the primary distribution should be equalized by raising employment levels of previously unemployed or inactive citizens, but wages and employment conditions may actually diverge further. Although not traditionally regarded as part of the core of welfare state policy, education is becoming increasingly central to policy-makers' attempts to equalize outcomes by improving equality of chances. While policies in the field of social investment (such as education and active labour market policy) aim at affecting (pre)distribution, policies that individualize risk tend to foster the spread of incomes. Contemporary welfare states are shifting the responsibility for welfare *outcomes* to the individual, for instance, by strengthening private and especially defined-contribution pension plans in multi-pillar structures. Furthermore, deregulation at the margins of the labour market while core workers are enjoying broad job protection shows that flexibility requirements are unequally distributed across different labour market groups. Regarding net inequality, the trend is rather uniform across traditional social policy fields: replacement rates and benefit durations are stagnating or gradually declining across

OECD countries, thus limiting the redistributive efforts of national economies as seen from a social rights perspective. Yet, increased gross inequality—whether due to skill-biased technological change, globalization, demographics or even deregulation of employment protection—brings about higher demands for transfers. Thus, even in the case of lower replacement rates, welfare state expenditure is not reduced. The focus is shifted towards policy areas that are likely to contribute to future economic successes, such as education policy and family policy. Once market inequalities are manifest, though, the decreasing focus on compensatory transfers means that market inequalities translate into net inequality.

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3

Persistent Social and Rising Economic Inequalities: Evidence and Challenges

Olaf Groh-Samberg

In recent years, inequality has made an eminent comeback on the social sciences research agenda. This is mainly because economic inequality has been rising in almost all OECD countries after a long period of decline—the 'great U-turn' in economic inequalities in the OECD world (Alderson and Nielsen 2002). Interestingly, the debates on economic inequality have been led mainly by economists who have rediscovered inequality as a field of empirical research, policy relevance and public attention. Sociological research on inequality, however, has a much longer tradition that has mainly focused on inequalities of life chances (Ultee 2007). 'Life chances' refer not only to income but also to a broader range of outcomes (for example, occupation, education, prestige, health, cultural and political participation), thus embracing a multi-dimensional understanding of inequality.

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While modern societies have experienced a tremendous increase in absolute life chances since the take-off of industrial capitalism, sociological research has established broad evidence that inequalities of life chances between social groups have remained largely stable. The critical focus on the persistence of relative social inequality despite continuous economic growth, educational expansion and sectoral shifts of the economy is probably the most significant contribution of sociological inequality research. At its core is the question of 'meritocracy' and 'equality of opportunity', that is, the idea that modernization will make welfare societies more just and equal in terms of increasing equality of educational opportunities and merit-based selection into occupations. A large body of empirical studies on inequalities of educational attainment and on social mobility has consistently shown that modern welfare societies are not moving towards a more meritocratic society, or at least are moving to a much lesser extent than one would usually expect based on liberal theory and beliefs about modernization (Hout and DiPrete 2006).

In recent decades, with the increase in economic inequalities, the overall situation seems to have changed quite drastically. The dominant trend, at least in the most advanced OECD countries, is no longer collective improvement of life chances for all, a trend that masks the persistence of relative inequalities of life chances between social groups. Rather, the overall trend is characterized by the stagnation of life chances for most, while life chance inequalities are increasing in the form of economic polarization. However, economic inequality—as one important dimension of inequality—has played a minor role in the sociological strand of research. This situation poses new challenges for inequality research.

In this chapter, we provide an overview of the concepts, debates and challenges of research on social and economic inequality. We start with a brief discussion of conceptual issues. Subsequent sections are devoted to the dominant strands of sociological research on relative inequalities of life chances as a critical perspective on the myth of meritocracy and educational inequalities over the life course. We then give a brief overview of rising economic inequalities. Against the rich body of empirical inequality research, we highlight broader theoretical approaches to inequality, mainly contrasting conflictual and competitive understandings of inequality. In the concluding section we highlight the challenges for sociological inequality research.

Concepts of Inequality

Inequality is a complex concept. In a general understanding, 'inequality' refers to the durable and systematic unequal distribution of relatively sparse resources or positions that are generally desirable or advantageous (Kreckel 1976). This last characteristic is important in distinguishing inequality from simple heterogeneity and indicates the normative implication of inequality and its link to questions of social justice. Most things in the world are unequally distributed amongst the population, but only a few of them are generally desirable or advantageous and at the same time relatively sparse. Because of their general desirability, goods and positions that are unequally distributed are subject to competition or conflict and require legitimacy. Also, inequalities need to be stable or temporally durable to a certain degree in order to make a sustainable impact on people's lives. In other words, they need to be socially structured as opposed to being some sort of lottery.

Multi-dimensionality

Inequality is multi-dimensional in many respects. First, there are many different outcomes and thus 'inequalities'. These include income, housing, educational and health inequalities, and inequalities of political and cultural participation, happiness and access to elite circles. Each of these inequalities exerts particular dependencies on individual and contextual factors, such as age and gender, regional contexts, welfare policies, and so on; thus, for each of them there exists a separate literature. However, these inequalities are also largely correlated with each other and thus cluster within social groups or classes. While for Marxist theories these various dimensions of inequality are basically rooted in class, most sociological research has followed Weber in recognizing that inequality is a multi-dimensional phenomenon. Weber (1922) distinguished between three main dimensions or orders of inequality, namely, wealth (unequally distributed across social classes), prestige (associated with 'Stände') and power. Each of these dimensions refers to specific outcomes (welfare, prestige, power/rights), but they also refer to specific institutions that regulate these inequalities (labour markets, value systems and legal or political institutions).

There has long been debate as to whether social stratification is best conceived as a one-dimensional or a multi-dimensional space (Chan and Goldthorpe 2007). Gradational approaches assume a one-dimensional space of inequality, typically referred to as prestige or socio-economic status (Treiman 1977). This is the most parsimonious way of modelling inequality, and often this simple measure serves the purpose of explaining certain outcomes or correlations just as much as more complex concepts of inequality explain. On the other hand, social class concepts, which are typically based on occupational classes, assume that sectoral and other ‘horizontal’ divides (for example, between farm and factory workers or between the self-employed and technicians) are important in their own right and strongly influence, for instance, political preferences or social mobility. Recently, a debate has occurred between proponents of micro classes (Grusky and Sørensen 1998; Weeden and Grusky 2012), who argue that disaggregated occupations should be considered as the basis for class identity and class-specific social action (like unions and occupational interest groups), and proponents of the traditional approaches of ‘big classes’ that cluster occupations into a smaller number (typically seven to eleven) of larger social classes based on more general characteristics of the employment system, the most prominent being the Erikson, Goldthorpe and Portocarero class scheme (Erikson and Goldthorpe 1992) and the Marxist approach by Erik Olin Wright (1997). Bourdieu (1984), in contrast, assumes that the social space of contemporary capitalist societies is best understood by three main axes. The first axis refers to the overall volume of economic and cultural capital, the second to the relative composition of economic and cultural capital, and the third to the social trajectory within the social space or the time of belonging to a given social class. This allows for a more differentiated analysis of cultural practices and political preferences, which have been found to differ strongly between sub-classes within the layer of the upper classes, for example, between professionals and businessmen. A similar horizontal differentiation has been proposed by Oesch (2006) along the line of different ‘work-logics’. In general the question as to whether social inequality is one-, two-, or multi-dimensional does not make any substantial sense without reference to a certain explanandum.

The 'units' of the structure of social stratification are typically households or families rather than individuals. This involves the problem of assigning dependent household members, like children and housewives, to social positions. In other words, the dependence structure between individuals of different age, gender and family roles is part of the social stratification structure because the latter could not exist without the former. At the same time, gender inequality within households is closely linked to gender inequality in the labour market and the welfare state. This leads to the fact that social status or class is, of course, not the only major structure of inequality. Gender and ethnicity/race are equally important, and class, gender and ethnicity or race, as well as other kinds of inequality, are interlinked and interfere in complex ways. This is referred to as 'intersectionality' (McCall 2005). A basic distinction can be drawn between inequalities of outcomes (for example, income, prestige, health, rights, welfare) and so-called 'ascriptive' inequalities, which occur when certain characteristics (that are usually hard to change voluntarily) are assigned unequal values, roles, rights or norms, such as gender, ethnic or racial inequalities, sexual orientation, castes or huko. These different types of multi-dimensionality of inequality generate a great deal of complexity when related to each other. For instance, health, education or income provide dimensions of inequality on their own (some people are more healthy than others) but are typically graded along other dimensions of inequality (people who are rich or have a high social status tend to be more healthy than the poor or poorly educated). These social gradients, moreover, might be different across gender or migration status. Also in a diachronic perspective, inequalities in different domains might develop in different directions. For example, decreasing gender inequality might spur growing economic inequalities between households (due to assortative mating), or decreasing educational inequalities between social classes might go along with increasing educational inequalities between ethnic groups.

Social Stratification and Social Mobility

Social stratification and social mobility are conceptual twins. Social stratification refers to a system of social positions that may be defined on the basis of occupation, socioeconomic status or other variables, as discussed above. This is sometimes referred to as 'positional inequality'. Inequalities between these positions are defined by the allocation of rights, assets, rewards or other resources across these positions (called 'allocative inequality'). Often, however, these two dimensions are confounded, which is the case when positions are defined based on assets and resources directly. The term 'structural inequality' (or, more generally, social stratification) refers to the joint distribution of positional and allocative inequality.

Given the structure of inequality, a second analytical dimension refers to the rules of access to these positions: how easy or difficult is it for individuals or families to attain a certain position, depending on their point of departure or origin? This second dimension thus refers to social mobility, or the degree of openness or closure, and to the related question of (in)equality of opportunities. It is typically addressed as intergenerational social mobility from origin to destination. However, with the advancement of longitudinal data, intra-generational mobility and the life-course have come into focus such that inter- and intra-generational mobility have become less distinct and more bridged.

It is important to note that structural inequality and social mobility are analytically independent dimensions, while concepts of 'equality of opportunity' only relate to the second. One can imagine a society with huge structural inequalities, though almost perfect equality of opportunity (like the public image of the US, which has been destroyed by empirical work), as well as a highly immobile society where the bottom and the top positions are not far away in terms of living conditions (as in many former socialist countries). Whether and how these dimensions are empirically linked remain pertinent but still open empirical questions. Economist have recently gained public attention for the finding that economic inequality and intergenerational earnings mobility are strongly negatively correlated—the so-called 'Great Gatsby Curve' (Corak 2013). Sociologists, on the other hand, have tended to assume that structural inequality of occupational prestige (Treiman 1977) and relative social mobility (see below) are almost similar across industrialized societies. Consequently, the question of how structural inequality and social mobility are related has not received much attention to date (Yaish and Andersen 2012; Beller and Hout 2006).

Culturalist Approaches to Social Class

The analytical distinction between structural inequality and social mobility or status attainment has been subject to criticism by a third perspective on inequality that focuses more explicitly on the legacies between individuals and the social positions that they inhabit. Charles Tilly (1998) has stressed that categorical inequalities such as gender or race are so durable because they are visibly marked and part of the social identity. In a similar way, Bourdieu (1984) has emphasized the role of the incorporation of symbolic cleavages and categorizations into the habitus in order to explain why social inequalities are so persistent despite rapid social change.

In general, so-called culturalist approaches to social class, often combined with qualitative and ethnographic methods, form an important but largely separate strand of research on inequality (Lareau and Conley 2008). They refer to processes of socialization (or incorporation or adaption) in order to explain the correlation between material living conditions and cultural practices, values and conducts of life, and highlight the role of symbolic categorizations and dichotomies that generate cultural class cleavages or symbolic boundaries between groups (Lamont 2000). Culturalist approaches to social class typically are interested in understanding how culture contributes to the reproduction and legitimation of class inequality. While social scientists construct the space of inequality based on large data, people typically tend to compress the inequality space enormously in their mindsets in order to reduce cognitive dissonance. Ethnographic studies have consistently shown how the poor manage to represent themselves as 'middle class' by drawing symbolic boundaries between those below them on the income and prestige scale, while many of the super-rich do the same by pointing to the mainstream values of hard work and a decent life to render themselves as 'middle class'. Beyond this hugely compressed and self-centred mental representation of the inequality space, ethnographic studies are paramount in depicting how fine lines of social differentiation are drawn by subtle categorizations of daily practices and how the larger class differences are strongly mirrored in basic differences of practical routines and concepts.

Persistent Inequalities in Times of Prosperity: The Myth of Meritocracy

There is no clear-cut criterion to decide when inequality is good or bad, just or unfair. With the important exception of inequality of educational attainment for which a distinct criterion of what is merit-based and thus fair exists (see below), there is no sound and valid criterion to decide at what point inequalities become unjust. In the theoretical model of neoclassical economy, all inequalities that arrive from free market competition are, per definition, just and good. Reducing these inequalities by some kind of redistributive social policies would harm society and result in a loss of wealth. However, these theoretical models poorly match the real world of modern market societies.

While there is no way to determine what level of inequality is unjust, the temporal development of inequality provides a reference point for judging whether societies move in the right direction, that is, towards more or less social justice. This question, whether there is a trend towards meritocracy, has been a core focus of sociological inequality research. It departs from the main argument of the liberal theory of modernization that economic growth and technological progress will lead to increasingly meritocratic processes of social stratification in democratic market societies. This is simply due to the fact that non-meritocratic inequalities are inefficient and will thus be outperformed by more meritocratic social systems in competitive settings (for example, firms that discriminate on the basis of certain individual characteristics will be outcompeted by firms that recruit employees based on performance criteria). As a consequence, inequality due to non-meritocratic characteristics (like social class background, gender or ethnicity) will vanish and the remaining inequality will increasingly become the result of just rewards for differences in individual merits.

Apart from referring to an explicit justice norm of meritocratic rewards, liberal modernization theory gains additional normative support from the Rawlsian rule of justice (Rawls 1971). In a free market society, merit-based inequality contributes to economic growth, which leads to increasing life chances for all. In fact, there is no doubt that the rapid modernization process during the post-World War II decades has led to an exceptional increase in absolute life chances. Even for the worst off, life chances have increased in terms of living standards, social security, educational degrees and working conditions. The collective experience of upward mobility—compared to the situation of one's own parents or to one's own situation in the past—provides a huge source of legitimation for inequality.

However, 'relative inequalities' refer to relative differences between social groups in the probabilities of obtaining a certain outcome. This concept of relative inequalities has become dominant because it allows one to control for structural social change due to economic growth, educational expansion and economic transformations. For instance, the chance of obtaining a tertiary educational degree depends on the overall expansion of tertiary education, which changes over time and differs between countries. Relative inequalities thus refer to the relative chance of obtaining a tertiary degree for children of a given social origin compared to those from another social origin. This allows one to assess the change in relative inequalities between social groups independent of the change or level in the 'marginal distributions', that is, the level of educational expansion.[1]

Educational attainment and social mobility have been at the core of this research agenda. Large international comparative projects have shown that relative educational inequalities and relative social mobility have remained rather constant over the course of the twentieth century. This was the finding of two path-breaking collaborative research projects that were published in the early 1990s: Erikson and Goldthorpe's 'The constant flux' (1992) and Shavit and Blossfeld's 'Persistent inequality' (1993). Both studies clearly showed that while absolute changes in occupational structures and educational attainments have been strong and large throughout the twentieth century, relative inequalities in

[1] Methodologically, the concept of relative social inequality refers to the chance of attaining a certain outcome for group A compared to group B. These comparisons are expressed in terms of odds ratios. A given odds ratio reflects different percentage-point differences at different levels of the probability scale, which are then supposed to be 'equal'. For instance, when the probability of entering the highest social class is 10 per cent for group A and 22 per cent for group B, the odds ratio is around 2.5. The same odds ratio results if the respective probabilities were for example 60 per cent for group A and 79 per cent for group B. In terms of odds ratios, these two inequalities are 'equal'.

intergenerational mobility have remained largely stable in most countries analyzed. This result was taken to indicate that modern societies were not heading towards more 'meritocratic' rules of gratification. Rather, higher-class families were able to transfer their relative advantages over other classes to their offspring. This pattern has been illustrated as an 'elevator effect', where all individuals are transported to higher floors of well-being, while the relative distances between them remain largely the same.

More recent research has slightly corrected these findings to show a moderate decrease in relative inequalities. According to Breen (2004), relative chances of intergenerational class mobility did increase in most of the analyzed European countries up to cohorts born in 1974. Also, Breen et al. (2009) showed the relative chances of educational mobility increased as well. These processes are very likely intertwined. In the case of the United States, Pfeffer and Hertel (2015) show that the increase in social class mobility was mainly due to educational expansion because of the generally weaker correlation between class of origin and class of destination for children who attained higher education. With the simple increase of this group, the overall impact of class of origin to class destination weakened over time (the so-called 'compositional effect'). These recent results indicate that the period of the 'Golden Age' indeed contributed to—at least moderately—increased equality of opportunity. Yet, despite this trend, the modernization hypothesis has still to be rejected or at least substantially revised.

Educational Inequalities: Cumulative Effects of Social Origins over the Life Course

The persistence of social inequality has been declared as the main explanandum of sociological inequality research (Goldthorpe 1996). Seen as an almost universal feature of modern societies, explanatory models have been proposed at the micro level of social action and educational attainment in particular in order to explain the aggregated outcome of persistent inequality. The distinction between primary and secondary effects of social origin on educational attainment, as introduced by Boudon (1974), has proven to be particularly useful in this perspective. Primary effects capture the impact of parental class background on the development of skills and abilities of children. Once entering school, these differences in initial abilities transform into unequal grades and, consequentially, educational certificates. Primary effects might thus be interpreted as a meritocratic channel of class background into educational success. In a world where all children are treated equally in school and final grades and certificates purely reflect the abilities and skills of the children (ignoring their class backgrounds), there would still be a reproduction of educational inequalities due to these 'primary effects'.[2]

However, the most striking and alarming finding is that the observed inequalities of educational attainment are only to a certain extent due to primary effects. Another large part is due to the 'secondary effects' of parental background. These secondary effects are thus independent of the children's abilities and school performance. Although difficult to quantify, secondary effects have been estimated to be at least as large as primary effects, if not larger, for example, in Germany (Neugebauer et al. 2013). A core sociological explanation for these secondary effects is status maintenance (Breen and Goldthorpe 1997): parents tend to avoid downward mobility for their children. Hence, parents who have already achieved academic qualifications will try to push their children towards attaining at least the same level of academic qualification even if the children perform at a lower level. Under the assumption that parents from all social classes behave in the same (rational) way of avoiding downward mobility as far as possible, parents from higher social classes will, everything else being equal, invest more effort into obtaining higher educational certificates for their offspring than parents from lower social classes.

This explanation, as laid out by Boudon (1974), explains secondary effects as the result of class-specific educational decision-making. However, the distinction between primary and secondary effects can also be generalized to mechanisms that go beyond parental decision-making and that account for class-cultural norms and/or institutional discrimination. For example, empirical studies have shown that school grades not only reflect children's cognitive abilities and test performance (that is, primary effects) but also the parental background (Maaz and Nagy 2009). Children from higher social classes or native parents receive

[2] The concept of 'compensatory education' has been introduced to counteract these primary effects. By this concept, the educational system has to make up for the different starting positions of children entering school due to their family background and socialization.

higher school grades for the same performance than children from lower social classes and/or ethnic minorities. This bias can be conceptualized as generalized secondary effects. The important extension of Boudon's work is that these generalized secondary effects are not due to parental decision-making, but due to class-biased assessments of teachers. Moreover, these effects cumulate over the life course due to educational tracking and the institutional and contextual effects on the development of abilities and skills. For example, it has been shown that the social and ethnic/racial composition of school classes has an impact on the development of pupils' abilities. This means that selection in more restricted contexts, which might be due to secondary effects (in the original sense of parental decisions), has detrimental effects on the further development of abilities and skills, which, at later transitions, might work as (generalized) 'primary' effects, that is, effects that follow the meritocratic rule.

A generalized model of secondary effects thus is capable of incorporating class biased assessments of teachers and institutional discrimination in terms of class biased tracking, while a generalized model of primary effects is capable of incorporating all class specific contextual effects that shape the skill formation of youngsters within and beyond family socialization. The family remains an important early context, but neighbourhoods, social networks and educational tracks and programmes constantly shape the skill formation and development of competencies. Due to the role of homogenous social networks or classroom composition, and partly also due to the unequal endowments of more or less prestigious neighbourhoods, school tracks and other institutional contexts, secondary effects that channel less privileged youngsters into less privileged educational contexts transform into primary effects of unequal development of competencies.

Rising Economic Inequalities

The concept of relative inequality of life chances has dominated sociological research in times of educational and welfare state expansion, rising living standards due to constantly high economic growth rates and institutionalized class conflicts. As noted in the introduction, those days are gone. A new constellation has emerged in advanced capitalist countries, marked by low growth rates and increasing economic inequality. The increase of economic inequalities has become a major topic in recent academic and public debates. The picture of rising economic inequalities in the OECD world is robust, based on large-scale and high quality datasets on income that have become available to the scientific community. The OECD has contributed greatly to this attention with its series of reports on economic inequalities. Moreover, the GINI Project has gathered comparable income data for 30 countries over 30 years in order to assess developments of economic inequalities on a larger comparative scale (Nolan et al. 2013). Overall, inequality did increase over time, but there is some heterogeneity in the extent and timing of the increase, as well as different developments at different parts of the distribution. In some countries inequality did not increase substantially, but rather fluctuated around stable levels. This was the case in the continental welfare states of France, Austria and Belgium, but also in Italy, Ireland, Slovenia and Japan. In most of the other countries inequality did increase, although to varying degrees and sometimes as a result of different developments in different periods. For instance, in the UK inequality rose after Thatcher but then flattened out. In other liberal countries, but strikingly also in the Nordic countries and the Netherlands, inequality has increased strongly and almost monotonically over the last 30 years. In most of the Mediterranean countries inequality did not increase before recent times due to the economic recession. Even more complex patterns can be observed for the post-socialist countries, with some of them experiencing particularly sharp increases of inequality, while others remaining at the rather low levels of inequality apparent in the late 1980s.

Economic Polarization

For many countries the increase in overall economic inequality is particularly sharp at the extreme tails of the distribution. Hence, economic inequalities have risen due to economic polarization between top incomes and wealth on the one hand, and increasing poverty on the other hand. This has given rise to the concept of the 'shrinking middle' (Gornick and Jäntti 2013).

Inequalities at the top of the income distribution have increased enormously. Whereas the richest 10 per cent of the population across OECD countries earned around seven times as much as the poorest 10 per cent, this ratio has monotonically increased to almost 10:1 today (OECD 2015, 15). Whereas the lion share of overall income growth during the last decades went to the top 1 per cent, a large proportion of the population saw their incomes stagnating at best. In its most recent report on inequality, the OECD (2015) has highlighted the stagnation of incomes and a falling apart of the lowest 40 per cent. In a cross-country comparison, different combinations of the development of overall income inequality, poverty (that is, the degree of inequality at the lower tail of the distribution) and top-incomes can be observed. In liberal countries the inequality increase seems to be particularly driven by rising top incomes and inequality at the top of the distribution, while poverty has remained largely stable. In the case of the UK, this is probably due to the combination of tax reliefs for the rich and anti-poverty policies. In Germany, poverty increased the most and largely contributed to the overall increase in inequality.

The topic of skyrocketing top incomes and wealth has gained further support by the work of Thomas Piketty (2014). Based on a longstanding and collaborative data collecting project, the 'World Top Income Database', Piketty analysed the historical evolution and changes of the wealth-to-income ratio and the distribution of wealth and top incomes. From his empirical assessment he induces the regularity that wealth has been accumulating at a higher rate than income during most of the history of capitalism. An exception was the period of wars, revolutions and economic crises between 1914 and 1945 when large amounts of wealth were destroyed, and the immediate period of recovery after World War II when growth rates were considerably high and wealth was heavily taxed. Since the 1970s, however, economic growth rates have declined to rather low levels and wealth and high incomes have been increasingly relaxed and freed from higher taxation. As a consequence, Piketty portrays the contemporary capitalist world as returning to the same high wealth-to-income ratio that had been reached by World War I. Due to the fact that wealth is far more unequally distributed than income, the increasing wealth-to-income ratio automatically translates into greater economic inequality, although wealth inequalities themselves have not increased much. Moreover, there is a parallel increase in wage inequality, especially at the upper tails of the income distribution. This is also reflected in an important historical change in the composition of high wealth holders. Whereas the very wealthy before World War I were mainly landlords, the very wealthy of today are at the same time top income earners. Thus, wealth inequality and earnings inequalities are more closely intertwined today. Another durable change of the wealth distribution that occurred during the long period of wealth destruction was the emergence of a wealthy middle class.

Consequences: The Price of Inequality

Inequalities, even if they are rising, are not an issue for economists as long as they are considered the outcome of market processes. However, the recent debate on rising inequalities has invoked new interests in the detrimental effects of economic inequalities for society and for the economy itself. Detrimental aggregate effects of economic inequality have been discussed before with respect to public health or political participation. Wilkinson and Pickett (2010) have reviewed broad evidence that supports the general claim of the detrimental effects of large inequalities on public health above and beyond the negative individual effects for those at the lower part of the distribution. Their main argument is that large inequalities produce higher levels of status competition that transform into stress, distrust and political apathy. Similar debates exist with respect to social trust, happiness and political participation. Recently, inequality has been found to be detrimental for economic growth (Stiglitz 2012). With empirical evidence that inequality is not only bad for those at the bottom of the distribution, but also detrimental for all, or at least the majority in the middle, a powerful argument for public debates on inequality has been made.

Theoretical Perspectives: Competitive Versus Conflictual Inequality

There is a long tradition of theoretical approaches to inequality based on the sociological classics of Marx and Weber, and others. However, inequality research today is dominated by empirical studies. Empirical research on inequality is to some extent descriptive, aiming at mapping out the structures and developments of inequality and the landscape of social classes, strata or milieus. Yet, empirical research has gone much beyond these larger descriptive pictures. An ever-growing body of sophisticated and specialized empirical research has evolved that has led to the development of mid-range theoretical concepts. More recently, a strong focus on causal mechanisms has occurred in the quantitative domain based on advanced statistical models. In parallel and only seldom mixed with the quantitative mainstream is a rich and sophisticated qualitative strand of research.

Against this large body of empirical research, theoretical synopsis seems to be lacking. We highlight here a broad theoretical distinction that has to be made between conflictual and competitive approaches to inequality. With 'conflictual approaches' we refer to approaches that understand inequality in modern market societies as rooted in relations of domination and/or exploitation that create conflicts between groups. With 'competitive approaches', in contrast, we refer to approaches that explain inequalities as the aggregated outcome of competitive games.

The archetypal case of the competitive approach to inequality is represented by the standard neoclassical model. Under the assumption of free competitive markets and full access to relevant information, the resulting inequality should be a fair representation of differences in individual efforts and talents. Although the ideal world of standard economic theory does not match what we empirically know about modern market societies, it still provides a strong reference point so that deviations might be explained with particular circumstances or structures that violate the preconditions for, or intentionally correct the outcomes of, free competitive markets. The difficulty, then, is that the observed empirical inequality is a mixture of the inequality that arrives from free markets and the inequality that arrives from the social conditions that hinder free markets from working efficiently and unlimitedly, but there is no way to disentangle the two.

Market competition, however, can take various forms. One extreme is 'winner-takes-all' markets. In this conceptualization, the extent of resulting market inequality is largely outside the scope of social actors and rather a matter of technology and the laws of supply and demand.

From a sociological perspective, referring to economic equilibrium and/or technological foundations of market inequality is suspect because it is assumed to mask power relations between social groups inscribed in institutions, including market structures.

In line with the general idea of competitive inequality, theories of rational choice aim to demonstrate how persistent relative inequalities result from the aggregation of 'rational' (in the sense of bounded rationality) individualistic preferences. The 'maximally maintained inequality' (Hout 2006) thesis, for example, assumes that parents aim to ensure that their offspring maintain at least the same level of education as they have attained, independent of what other parents want for their kids. The resulting patterns of class inequalities in educational attainment are then largely a function of saturation levels at certain educational levels. In a similar way, the theory of 'statistical discrimination' argues that discrimination based on ascriptive markers like race or ethnic background can be the result of rational decision-making under conditions of limited information and takes place even under the complete absence of any kind of prejudice, xenophobia or 'discrimination by taste'.

Modern economists and sociologists alike often depart from the standard neoclassical model and attempt to explain inequality by means of conceptual extensions of the standard model. They acknowledge that societal institutions shape the unequal outcomes of market processes, mainly through social policy and welfare state institutions. These are explicitly meant to correct market outcomes by measures of redistribution and welfare benefits and intervene directly in the economy with the aim of preventing inequalities by, for example, restricting power imbalances in the labour market or the creation of monopolies. Sociological concepts typically go one step further in arguing that inequalities arise from systematic mechanisms of social closure (Parkin 1974). In general terms, 'social closure' refers to mechanisms that allow groups of individuals to extract higher returns from some sorts of assets than they would retain under conditions of free competition. Mechanisms of closure include, for example, monopolies, access control via educational credentials, collective bargaining and exclusive information circles. As social closure implies an intentional conflict over scarce resources, it even allows for reformulating the concept of exploitation (Sørensen 2000).

Exploitation, with its link to domination, is a prime example of conflictual approaches to inequality. While for most of human history inequalities within societies have been closely linked and the direct result of the prevailing system of domination, the relation between domination and inequality has become increasingly complex and (seemingly) independent with the evolution of markets and democracies. In Marxist theories, inequalities are at the core of the historical evolution and the dynamics of societies, as conflicts between social groups over scarce resources define the logics of how societies evolve and collapse. Marxist theories are distinct because of the concept of exploitation that interlinks the concepts of inequality and domination: the exploiting class has to provide for a stable order of domination in order to ensure economic exploitation. While this connection is obvious and evident in systems of slavery or feudal societies, it becomes invisible and indirect in systems of market exchange, in particular when they entail the commodification of the labour force. The Marxist value theory of labour, which aims at making this link explicit, has never been (success)fully translated into empirical research, mainly due to the difficulties of determining the value of the labour force (which includes a 'moral' component concerning what goods are necessary to reproduce the labour force). Yet, the general idea that capitalism involves exploitation is still prominent in Marxist concepts of inequality (Wright 1997). The concept of exploitation has been reformulated as an asymmetric social relation in which capitalists expropriate resources at the expense of the employed labourers. This is mainly due to the power imbalance in the labour market and the systematic entry barriers that prevent workers from becoming capitalists.

While social closure and rent seeking are theoretical concepts that aim at explaining how inequalities are generated (beyond the outcomes of fair market competition), concepts applied in empirical inequality research typically focus on the reproduction of already existing inequalities. A general but powerful concept is that of cumulative disadvantages (DiPrete and Eirich 2006). Mainly developed in the framework of life course research, the concept of cumulative disadvantages reformulates the well-known Matthaeus principle that 'those who have will be given'. While there are stark and weak formulations of this concept, it generally implies that the accumulation of advantageous positions or resources critically depends on the already acquired starting position. This general idea is also prominent in more targeted concepts, as in the concepts of multiple deprivation or social exclusion in the area of poverty research. Moreover, culturalist class theories stress the fact that inequalities in living conditions shape cultural practices in a way that tend to reproduce the social structures of inequality.

The aforementioned concepts of social inequality basically aim at describing or explaining the forces that produce and/or reproduce inequalities. There are, of course, forces at work in the opposite direction of decreasing and/or levelling inequalities. Any existing structure or trend of inequality is probably best understood as an interference or resulting vector of highly complex and counteracting social dynamics. Obviously, the welfare state is the most important leveller—or at least reducer—of inequalities in modern market societies. Modernization theory provides a range of functional arguments as to why inequalities should become smaller as modernization progresses. A large part of the story is functional and related to efficiency. However, there is also a secular trend towards increasing validity of values of autonomy and respect, at least in family relations and friendship but also in politics, as evident with anti-discrimination policies. A value change from materialist to post-materialist values is one indication of this trend, but the gradual diminishing of violence within intimate relationships is probably the most significant. There is a likely interrelation between these developments—often called 'silent revolutions'—and decreasing gender inequalities, at least in terms of educational attainment and labour market participation. However, whether and to what extent these developments also exert an impact on social inequalities is much more questionable.

Conclusion

The recent rise in economic inequality poses a major threat to contemporary welfare states for at least three major reasons. First, the strong and consistent increase in economic inequality within the vast majority of OECD countries is in sharp contrast to the idea that modern welfare states are capable of domesticating capitalism. Of course, from a neoliberalist perspective the increase in inequality is just a return to its 'natural' level as defined by the laws of the free market. However, this perspective is in conflict with the modern welfare state as a strong institution that shapes societal structures. To what extent changes in welfare policies have contributed to the increase in inequality is a question that is not easy to answer. Low rates of economic growth, a technologically induced shift towards more polarized occupational structures, increased global competition and neoliberal policies are trends at the macro level that taken all together have resulted in increasing economic inequalities within countries. In addition, prospects for the near future are not rosy, as there is no evidence that the high levels of inequality reached in the most advanced OECD countries will significantly decrease in the years to come.

Second, one traditional response to high levels of inequality is the development of policies that counterbalance inequality with mobility and equality of opportunity. The recent social policy emphasis on equality of opportunity and social investment is, however, somewhat ironic since sociological research has proven that modern welfare states fail to increase equality of opportunity and meritocratic principles of status attainment. Educational expansion and reforms in particular have had only moderate effects on increasing equality of educational opportunities. Although more research needs to be done in order to better explain how welfare states regulate mobility and how inequality and mobility are interconnected, the strong increase in economic inequality will most likely make up for—or even exceed—the moderate increase in relative mobility that occurred with the cohorts born in the period of rapid educational expansion and radical reforms.

Third, increasing economic inequalities, coupled with largely persistent relative inequalities of opportunity, spur cultural and political conflict along with increased status competition. This provides challenges for traditional concepts of social stratification, as competitive inequalities grow within and between social classes, thereby blurring traditional class cleavages. Moreover, economic, social and cultural inequalities interfere due to increased migration. Inequality thus comes with a high price.

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4

Philosophical Perspectives on Different Kinds of Inequalities

Stefan Gosepath

In the social lifeworld we face many inequalities. Most of them we regard as irrelevant or, at least, not troublesome. On the contrary, our recognition of the uniqueness, individuality and diversity of persons implies the recognition of certain distinguishing, i.e., unequal, features of individuals. At the same time, valuing uniqueness, individuality and diversity is regarded as legitimate only if it goes hand in hand with respect for the basic, underlying equal dignity of all humans. Thus, modern societies are characterized by a certain tension between the ways in which we value equality and inequality. In our pursuit of uniqueness, individuality and diversity, we value certain inequalities and accord grand liberties to persons so that they are able to develop differently, thereby expanding the social differences between them. At the same time, we object to other kinds of inequalities, argue for more equality and strive for more inclusive membership in a society of equals. Above all, the concept of

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equality reminds us of our common humanity. We morally object to those inequalities that we regard as unjust in themselves or productive of injustices. Those inequalities and their adverse social effects have to be remedied. Justice demands it. If circumstances can be rightly judged to be unjust, all persons have the responsibility and moral duty, both individually and collectively, to transform the relevant circumstances or distributive schemes into those that would satisfy the demands of justice.

Modern states have various means at their disposal to remedy social injustices. One of the most powerful tools is the modern welfare state. This article explores which forms of inequality the modern state in general—and the welfare state in particular—seek, and ought to seek, to amend or transform.

Social equality is obtained when each member of the community enjoys an equal standing with everybody else that overrides their unequal status in particular dimensions. The problem, however, lies in determining precisely those respects in which people must be 'equal' in order for them to be truly equal, that is, equal in a moral sense, as opposed to those dimensions (e.g., talents) in which people may be legitimately different or unequal. The interesting question, therefore, is which kinds of inequalities compromise our morally required equal standing and which kinds do not?

There is controversy concerning the precise notion of (in)equality, the material requirements (principles of equality) and the normative significance of (different types) of social (in)equalities, and why—if at all—and how those inequalities are to be avoided in a welfare state. Each of these issues will be discussed in this chapter.

The Notion of (In)Equality

'Equality' (or 'equal') signifies a correspondence between a group of different objects, persons, processes or circumstances that have the same qualities in at least one respect but not all respects; that is, they are equal with regard to at least one specific feature and different with regard to other features. For this reason, equality needs to be distinguished from 'similarity'—the concept of merely approximate correspondence—and from 'identity'—the concept signifying that one and the same object corresponds to itself in all its features.

'Equality' can be used in the very same sense both to describe and to prescribe. In *descriptive* uses of equality, the standard common to both objects is itself descriptive, for example, when two people are said to be equal in bodily weight. A *prescriptive* use of equality occurs when a prescriptive standard is applied in the form of a rule or norm: that people ought to be equal before the law, for example. This is based on a certain comparison between two or more objects or persons to which the norm is applied, specifying how those falling under the norm are to be treated (Westen 1990, chap. 3). Sociological and economic analyses of (in)equality mainly pose the descriptive question of how inequalities can be specified and measured, and what we can discover about their causes and effects (cf. Berger and Schmidt 2004; Hurst 2016). In contrast, social and political philosophy is generally concerned with prescriptive questions: *what kind* of equality, if any, do we owe to *whom*, and *when* do we owe it? Such is the case in this article as well.

'Equality' and 'equal' are incomplete predicates that necessarily generate one question: equal in what respect? (Rae 1981, 132 ff.) Equality essentially consists of a tripartite relation between two (or several) objects or persons and one (or several) qualities. 'Equality' denotes the relation between the objects that are compared. Every comparison presumes a *tertium comparationis*, a concrete attribute defining the respect in which the equality applies; 'equality' thus refers to a common sharing of this comparison-determining attribute. This relevant comparative standard represents a 'variable' (or 'index') of the concept of equality that needs to be specified in each particular case (Westen 1990, 10). Differing conceptions of equality here emerge from one or another descriptive or prescriptive moral standard. Various different standards might be used to measure inequality, with the particular respect in which people are compared remaining constant [Temkin (1986) 1993]. The difference between a general concept and different specific conceptions (Rawls 1971, 21 ff.) of equality may explain why, according to various authors, producing 'equality' has no unified meaning, or is even devoid of meaning (Rae 1981, 127 ff., 132 ff.).

For this reason, it helps to think of the idea of equality or inequality, understood as an issue of social justice, not as a single principle but rather as a complex cluster of principles that form the basic core of today's egalitarianism. Depending on which procedural principle one adopts, contrary conceptions may follow. Both equality and inequality are complex and multifaceted concepts (Temkin (1986) 1993, chap. 2). In any real historical context, it is clear that no single notion of equality can comprehend all others (Rae 1981, 132). Although many egalitarians concede that much of our discussion of the concept is vague and overly abstract, they also believe that implicit in that concept is a common underlying strain of important moral concerns (Williams 1973). In this sense, egalitarians tend to think of egalitarianism as a single coherent normative doctrine that nevertheless embraces a variety of principles, a point to which I will attend in the next section.

The Material Requirements of Equality

As previously stated, not all equalities are valuable and not all inequalities are objectionable. The kind of (dis)value which (in)equalities possess depends, of course, on the type of equality with which we are concerned. When objecting to inequalities, the relevant mode of assessment is that of moral values and norms.

Equality in its prescriptive usage has, of course, a close connection with morality and justice in general, and distributive justice in particular. Since antiquity, equality has been considered a constitutive feature of justice. Throughout history, people and emancipatory movements have used the language of justice to condemn certain inequalities. But what exactly is the connection between equality and justice, i.e., what kind of role does equality play in a theory of justice? Developing a correct account of equality—and its role in our understanding of social justice—is itself a difficult philosophical task. I will introduce four well-known principles of equality in this order: formal equality, proportional equality, moral equality and social equality. These principles range from a very general to a more specific, as well as more demanding, higher-ranking principle. Like matryoshka dolls, the higher-ranking ideals contain the lower-ranking ones as a matter of acceptance. Those who accept and apply the higher-ranked principles normally accept and apply the lower-ranked ones as well, although they are not by logical or other kinds of implication required to do so.

Formal Equality

The most general and most widely accepted principle of equality is the *formal* equality principle: 'treat like cases as like'. When two persons are equal in at least one normatively relevant respect, they must be treated equally with regard to this respect (Aristotle 1984). Of course, the crucial question is which respects are normatively relevant and which are not. The postulate of formal equality demands more than just consistency with one's subjective preferences. *Formal* equality is rooted in the nature of moral judgments. By definition, these moral judgments require an impartial and universalizable possible justification vis-à-vis others of the equal or unequal treatment in question—and this on the sole basis of a situation's objective features.

Proportional Equality

A way of treating persons or, as a result of such treatment, a distribution that considers all persons as *indistinguishable*, thus granting them the same per capita quantity of a good, is unjust unless the persons really are alike in the relevant respect. It is only just under special circumstances: namely, if persons are equal in distributionally relevant respects, then the corresponding proportions of the distributed goods must be equal, too. Otherwise, treating unlike cases alike is unjust. Instead, justice requires a treatment of others, or a distribution, that is *proportionally* equal (Aristotle 1984, 1130b–1132b). That is the case when all relevant persons are treated in relation to their due. Proportional equality indicates what produces an *adequate* equality: if factors require unequal treatment or distribution because the persons concerned are unequal in relevant respects, then the treatment or distribution proportional to those factors is just. Unequal claims to treatment or distribution must be considered proportionally: this is the prerequisite for persons being considered equally in a just sense.

Moral Equality

Over and above the principle of proportional equality—a standard of distributional justice that is widely accepted today—there is a further minimal overlapping consensus, prevalent in modern Western political and moral culture, that some fundamental features of people may not be used to justify their unequal treatment and must, therefore, be excluded from considerations of proportional distribution (Vlastos 1962). More specifically, in spite of descriptive differences in certain relevant respects, all persons should be regarded and treated as *moral equals*, so that they are essentially entitled to the same *basic* moral rights and duties. The principle of treatment as an equal is not the same as equal treatment; it does not imply being entitled to an equal share but being treated as a free and equal person (Rawls 2001, § 7). Following this assertion of the *fundamental moral equality* of all persons, different persons should be treated as equal in their moral status. This is the morally and politically fundamental principle of basic *moral equality*. As a moral ideal, it asserts that all people are of equal moral worth—or, in other words, that they are possessed of equal dignity—and that there are some claims that people are entitled to make on one another simply by virtue of their status as persons (Dworkin 1977, 277).

Since 'treatment as an equal' is an almost universally shared moral standard in contemporary philosophy, debates among philosophers are concerned with the kind of equal treatment normatively required when we mutually consider ourselves persons with equal dignity. The principle of moral equality is too abstract and needs to be made concrete if we are to arrive at a clear moral standard. Nevertheless, no conception of just equality can be deduced from the notion of moral equality. Rather, we find competing philosophical conceptions of equal treatment serving as interpretations of moral equality.

Even if moral equality is granted in society, it would morally permit a range of inequalities that arguably are in conformity with the requirement to treat persons as moral equals. However, it is generally agreed that moral equality requires at least a prohibition on arbitrary unequal treatment; that is, a prohibition on discrimination. Differences in the treatment of parties based on dissimilarities in gender, race, social background, ethnicity, language, culture, religion or ranking in a social hierarchy and so on are morally arbitrary. In these cases of discrimination, attributed character differences are supposed to determine the value of a person. The unequal and discriminatory treatment or distribution has to track this supposed difference in the value of a person. In this sense, this type of discrimination violates the principle of moral equality, which excludes all forms of oppression, whether people are subjected to exploitation, marginalization, powerlessness, cultural imperialism or violence (Young 1990, ch. 2).

Thus any discrimination construed as unequal treatment based on an assumption of differential value between people, such that these differences are taken to justify allegedly different (often proportional) claims, is prohibited by moral equality. The struggle against these forms of discrimination and exclusion is and remains a classic egalitarian concern. It represents the heart of egalitarianism, which, despite general philosophical acceptance, has lost none of its political relevance. Moral equality, however, allows for all kinds of differential treatment of persons who are regarded as morally equivalent (Tugendhat 1993, 375–378). It remains a matter of controversy and argument which kinds of *equalisanda* (i.e., the 'things' that should be equalized) are to be distributed equally to secure an equal moral status.

Relational Equality

Before turning our attention to the equality of distribution of goods, it is important to point out that the ideal of equality requires, in addition to an equal moral status, an equal social status as well. This is called 'social' or 'relational' equality in philosophy today (Fourie et al. 2015). Even if persons are not unjustly discriminated against in the sense explained above, they might still be mistreated in the sense that they are not recognized as social equals. Social equality is, therefore, associated with relationships that express respect for or recognition of persons. These claims to social or relational equality are also based on the acknowledgement of universal moral equality, and they share certain similarities with moral equality. They exclude all unequal, hierarchical social relationships in which some people dominate, exploit, marginalize, demean, neglect and disregard others, even if they do not discriminate against them in the sense prohibited by moral equality. So, for example, social equality is aimed against 'stigmatizing differences in status, whereby the badly off feel like, and are treated as, inferiors' (O'Neill 2007, 126). While social equality is likely to have significant implications for distribution, many social egalitarians insist that social equality cannot be captured in the first instance by a description of the distribution of goods or some other relevant currency. They object that the distributive paradigm does not capture a number of pertinent concerns (Forst 2013, 17–37). Social equality or inequality is instead conveyed through, among other things, attitudes and evaluations, and the ways in which these are expressed via behaviour and institutions: As a social ideal, it holds that a human society must be conceived of as a cooperative arrangement among equals, each of whom enjoys the same social standing. As a political ideal, it highlights the claims that citizens are entitled to make on one another by virtue of their status as citizens, without any need for a moralized accounting of the details of their particular circumstances (Scheffler 2003, 22; 2005, 5–28).

Some forms of unequal treatment or differentiation are not excluded from moral and social equality if they are compatible with the recognition of equal moral and social status of concerned parties and if they fulfil the requirement of proportional equality. Relevant examples may include those differences based on merit and need, as well as appropriate differences in race, gender and background, as in cases of affirmative action or fair punishment. 'Where there is social equality, people feel that each member of the community enjoys an equal standing with all the rest that overrides their unequal ratings along particular dimensions' (Miller 1997, 232; cf. Wolff 1998).

The final conclusion is that moral equality requires relational equality, i.e., an equal social status, but leaves open the question whether legitimate inequalities can be based on other dimensions—such as a person's natural talents, creativity, intelligence, innovative skills or entrepreneurial ability (Dworkin 2000; Arneson 1989; Cohen 1989; Scanlon 1996). This uncertainty should make it clear that even if all four requirements of equality are fulfilled, not all serious questions about justified entitlements to justice and equality in the social and political sphere are answered.

Thus, even if one sees relational justice in a society as a relationship of equals (Scheffler 2003, 22), the question remains as to the kinds of equal and unequal distributions that are required by the ideal of a society of equals. We find competing philosophical conceptions of equal and unequal distribution serving as interpretations of moral and social equality, and these conceptions need to be assessed according to their degree of fidelity to those egalitarian ideals. That is the crux of the problem to which I now turn.

The Normative Significance of (Different Types) of Social (In)Equalities

Before turning to matters of distributive justice, it is important to recognize that all members of a given community, taken together as a collective body, must decide centrally on the fair distribution of social goods as well as on that distribution's fair realization. Although philosophers may use their expertise to give advice, they do not, even as experts on justice, aspire to rule but to give convincing reasons. Any claim to a particular distribution, including any existing distributive scheme, must be impartially justified; no distribution will be recognized without justification.

In a public distribution, anyone who claims more owes all others an adequate universal and reciprocal justification. Every sort of public, political distribution is, in this view, to be justified to all relevant concerned persons, such that they could in principle agree. Since it is immoral to force someone to do something of which he or she does not approve, only reasons acceptable to the other person can give one the moral right to treat that person in accordance with these reasons. From a philosophical point of view, the impartial justification of norms rests on the reciprocity and universality of the reasons. Universal norms and rights enforced through inner or external sanctions are morally justified only if, on the one hand, they can be reciprocally justified—i.e., if one person asks no more of the other than what he or she is willing to give (reciprocity)—and if, on the other hand, they are justified with respect to the interests of all concerned parties, i.e., if everyone has good reasons for accepting them and no one has a good reason for rejecting them (universality) (Forst 2011; Scanlon 1998). In politics, this ideal is realized in a rudimentary way by constitutional democracy, which in its constitution grants citizens the right to democratic participation and decision making about questions of public concern while, at the same time, securing human rights and basic rights for all peoples living in the state's jurisdiction. A constitution ideally comprises and secures basic moral and political rights and, by the same token, a standing for all inhabitants as equals in this regard. In the following I will continue to address the relevant issues from a philosophical point of view, keeping in mind that philosophical ideas must be accepted and realized in a democracy.

If we assume that the four principles of equality—i.e., formal, proportional, moral and social equality—are widely, although not generally, agreed upon in one or the other version, which kind of distributional inequalities might possibly be regarded as unjust or morally problematic? With this question we finally switch the object of equality from treatment to the fair distribution of goods and ills or bads.

In the domain of public distribution, the goods and burdens to be distributed may be divided into various categories. Such a division is essential because reasons that speak for unequal treatment in one area do not justify unequal treatment in another. What are the spheres (of justice) into which these resources must be grouped? In order to reconstruct our understanding of contemporary liberal democratic states, four categories seem essential: (1) civil liberties; (2) opportunities for political participation; (3) social positions and opportunities; and (4) economic rewards. Despite views to the contrary, liberties and opportunities are seen in this view as objects of distribution.

After dividing social goods into categories, we must next ask what can justify unequal treatment or unequal distribution in each category. Today, the following postulates of equality are generally considered morally required.

Strict equality is called for in the legal sphere of civil freedoms, since—putting aside limitations on freedom as a form of punishment—there is no justification for any exceptions. As follows from the principle of formal equality, all citizens of a society must have equal general rights and duties. These rights and duties must be grounded in general laws applying to everyone. This is the postulate of legal equality. In addition, the postulate of equal freedom is just as valid: every person should have the same freedom to structure his or her own life in the most far-reaching manner possible in the context of a peaceful and appropriate social order.

In the political sphere, the possibilities for political participation should be equally distributed. All citizens have the same claim to participation in forming public opinion and in the distribution, control and exercise of political power. This is the postulate—requiring equal opportunity—of equal political power sharing. To ensure equal opportunity, social institutions must be designed in such a way that persons who are disadvantaged, e.g., those with a stutter or a low income, have an equal chance to make their views known and to participate fully in the democratic process.

In the social sphere, equally gifted and motivated citizens must have approximately the same chances at social offices and positions, independent of their economic or social class and native endowments. This is the postulate of fair equality of social opportunity. An unequal outcome must result only from equality of chances at a position; i.e., qualifications alone should be the determining factor, not social background or influences of milieu.

Since the nineteenth century, the political debate has increasingly centred on the question of economic and social inequality (this running alongside the question of gradually achieved equal rights to freedom and political participation) (Marshall 1950). The main controversy here is whether and, if so, to what extent the state should establish far-reaching equality of social conditions for everyone, through political measures and welfare systems such as the redistribution of income and property, tax reform, a more equal educational system, social insurance and positive discrimination.

Required Equalities and Permissible Inequalities in Welfare Systems

In the nineteenth-century Western world, societies reacted to increasing economic disparities by setting up a welfare system meant to address growing problems of hunger and pauperization, and the financial and social difficulties faced by workers during industrialization, including unemployment, illness, old age and educational deficits. The expression 'welfare state' formally describes an ensemble of institutions, rights and collective agents serving the collectivization of responsibility for social security and welfare in an institutionally and legally secure form (Castles et al. 2010). Welfare states correct the distribution of goods, services and cash benefits, which are dependent on the market, among other things. The 'social problem', as it emerged in a newly radicalized form in the eighteenth and nineteenth centuries, demonstrated that cases of social injustice often involve structural problems. Structural social problems are not related solely to individual responsibility and, therefore, cannot be overcome by individual interpersonal actions in response to injustices but only by structural measures and precautions that prevent and mediate those injustices. By regarding poverty, illness, unemployment and a lack of social security not as instances of bad luck but as injustices caused by the design and structure of a capitalist economy, members of a society were increasingly obligated to prevent structural injustices not only as a way to secure social peace or exercise (Christian) charity or altruistic philanthropy, but to do so for reasons of justice. The normative dispute on the substantiation of the welfare state concerns the basic moral question of justice: what do we, as citizens of a community, owe one another? Social justice or morality is the value on which the welfare state is based in the social sphere; the latter is understood as distinct from, but in large part dependent on, the economic sphere.

The main normative political controversy regarding this sphere is whether and, if so, to what extent the state should establish far-reaching equality of social conditions for all through such political measures as the redistribution of income and property, tax reform, a more equal educational system, social insurance and positive discrimination. What the various political units regard as justified obviously depends to some extent on historically determined, context-oriented social convictions regarding which welfare-state precautions should be seen as common functions. Historically, the various forces driving welfare politics were by no means determined by 'developmental logic'; they were composed of different political currents and alliances, which meant that they were not inspired by any coherent normative political philosophy (Pierson 1998, ch. 4). In retrospect, the development of the welfare state seems theoretically 'impure' and, politically, extremely 'colourful'. Therefore, when I refer in what follows to a justification of the welfare state that is different from other kinds of justification, it is important the reader keep in mind that it was only partly for moral reasons that the structures of the welfare state as we know it were introduced and modified; there were also many different political-economic reasons in play. Reasons for political actions are often mixed: in the pool of norms of the national welfare states, they interact with one another to form a highly complex combination, including consequential forms of justification.

I should like to deal briefly with the most important reasons for the equalizing function of the welfare state. Instead of providing a complete justification, I shall concentrate on what I consider to be the two key functions of a welfare system on which it seems supporters of the welfare state are prepared to agree. A welfare system might be regarded as fulfilling different functions, the most basic of which is certainly to provide the minimal prerequisites for preserving a decent life by eradicating deprivation and granting a proper subsistence level for all. The second function of a welfare system is to redistribute economic resources in order to equalize, to a certain degree, outcome inequalities of a free market economy. These functions can be seen as constructive layers that together build a welfare system. Such normative functions are 'reconstructive', in Jürgen Habermas' sense of the term (1996, 287), in that they try to articulate the norms and ideals that are implicit and play a structuring role in our practices. The problem, however, is that even among supporters of the welfare state, several different underlying theoretical reconstructions of the normative commitments are possible. Modern welfare states currently undertake an enormous range of activities, and any normative reconstruction will necessarily divide these and group them according to certain aspects.

Eradication of Deprivation

All welfare states, all over the world, provide at a minimum for the most basic needs of their citizens, i.e., for their physical subsistence. Guaranteeing subsistence will lead in effect to the redistribution of economic resources. However, this measure is not directed against inequality per se but against absolute standards of deprivation. As such, it constitutes only the most basic level of a security net. The basic function of a welfare system is the establishment of a certain kind and level of social security against deprivation. It focuses on preventing emergencies and income loss, and providing necessary compensation. It includes precautions against so-called standard risks—accidents, illness, the need for care, unemployment, the loss of income as a result of old age (although senescence can hardly be described as a risk) and the regulation of working hours and safety in the workplace. People with different natural endowments, especially those with natural disadvantages such as handicaps and illnesses, as well as people in need (due to poverty, hunger, diseases, war, displacement, looting and so on) suffer deprivation as a result of handicaps that exist through no fault of their own. These handicaps entail unequal chances to pursue an autonomous, responsible and successful life. They are, from a moral perspective, arbitrary and, consequently, require compensation. Morally speaking, the compensation of such handicaps is the most basic reason for a social security net.

Helping the needy is a duty of all members of society and demands a collective institutional solution. For on the one hand, an individual is not always in a position to mobilize the necessary assistance by him- or herself. On the other hand, it would be unfair to assign the task to those individuals or groups in close spatial or temporal proximity to the victims. This would leave them with a larger burden of the social costs of providing assistance than is consistent with principles of fairness. It is necessary to ensure an equal distribution of burdens as well as of goods. This is why, for reasons of justice alone, a system of social assistance for the disadvantaged must be organized in a collective manner, and the burdens must be fairly distributed in an organized system structured around a division of labour. If persons in need were refused the necessary resources to fulfil those needs, although they are disadvantaged and thus incapable of taking the necessary steps to this end, then they would effectively be denied their status as equals. Exactly which needs justify social assistance is a question best left to the procedures of democratic self-determination. Although nearly all welfare systems have mechanisms to safeguard people against these risks, they can differ greatly both in the way in which they are financed and in their objectives.

Natural and situational disadvantages, therefore, necessitate compensation by those who are not affected, but this compensation only aims at creating or restoring a certain equality of opportunity. The goal is to ensure a *moral minimum* to which everybody is entitled. It covers those goods that are necessary, while taking into account personal capabilities and specific circumstances that enable an individual to realize functions and capabilities to *a sufficient extent* (Nussbaum 2011).

Redistribution of Resources

In accordance with the prevailing opinion, a certain redistribution of resources can be regarded as the second function of a welfare system. Why is it a requirement of justice that the state redistribute resources beyond a certain minimum for the most basic needs of its citizens? Assuming deprivation is successfully prevented, which kinds of equalities are required and which inequalities are permitted in the economic sphere remain important questions. This is a complex issue; several positions that justify a turn away from equality should be taken into account. A salient problem here is determining what constitutes adequate conceptions of distributive (in)equalities and their currency.

The economic sphere of Western societies is organized as a market economy driven by supply and demand. Western-style capitalistic market economies normally appeal to three principles in order to justify whatever unequal outcomes result from free market operations; but, at the same time, welfare systems pose two central limitations to the distributively unequal effects of market economies. The factors offered in defence of justified unequal treatment are efficiency, property rights and differences in the performance of special services (e.g., desert, efforts or sacrifices). First of all, the market economy, according to this view, is extremely successful at producing wealth. Second, it is the right of property owners to sell and buy goods on the market. Third, differences in the performance of special services (e.g., desert, efforts or sacrifices) justify unequal distribution of income and wealth. By positing efficiency, property rights and desert as criterial for the justification of unequal distribution of economic goods produced through economic cooperation in markets, capitalistic economies tend to produce ever-increasing inequalities in the distribution of material goods. These kinds of inequalities are a major problem affecting capitalism today, as have been documented in many studies of rising disparities in income and wealth (Piketty 2014; Atkinson 2015; Hurst 2016).

However, mainstream liberal egalitarian views require at least two central limitations to the distributively unequal effects of market economies. First, disparities in income and wealth can only (if at all) be argumentatively defended if it can be shown that there is, or can be, a division of social spheres such that inequalities permitted in one sphere do not cross over to the other (Walzer 1983). For instance, purchasing power in the political sphere through means derived from the economic sphere (i.e., money) must be prevented. In other words, inequalities in income and wealth should not be able to bring about (large) inequalities in other spheres, such as inequalities of status, social exclusion, inequity of chances, fewer chances to participate in political processes and infringements of civic freedom.

Second, the inequalities produced by market economies must be limited by redistributions through the welfare system. The goal of making the outcomes of market exchange less unequal through the redistribution of resources is the second function of a welfare system, and a very central one. Here, the aim is to achieve greater equality by reducing the differences in welfare and controlling those relations of power and domination generated by inequalities that occur as outcomes of market transactions. The problem is that market outcomes tend to be very unequally distributed, and this resulting unequal distribution seems to violate widely shared intuitions about social justice. Thus, the defect of the market economy is that it produces an unacceptable level of distributional inequality, even when all segments of the population are able to meet their basic needs through welfare provisions. According to liberal egalitarian conceptions of justice, the state should intervene by redistributing a certain amount of the wealth in order to justify the overall results of the economy and stabilize the system (Rawls (1971) 1999; Dworkin 2000, 65–119). According to Rawls, when prime importance is accorded an assurance of equal basic freedoms and rights, inequalities are to be considered just when they fulfil two conditions: on the one hand, they should be linked to offices and positions open to everyone under conditions of fair equality of opportunity; on the other hand, they should reflect the famous 'difference principle' in offering the greatest possible advantage to the least advantaged members of society (Rawls 1993, 5 ff.; 1971, § 13). The 'difference principle' offers a general assurance that citizens will not totally succumb to the hazards of a free market situation and that everyone whose level of well-being is below that of those worst off under the difference principle will do better than they would with inevitably inefficient total equality of distribution. Dworkin's equality of resources (2000, 65–119) stakes a claim to being even more 'ambition-sensitive' and 'endowment-insensitive' than Rawls' theory. Unequal distribution of resources is considered fair only when it results from the decisions and intentional actions of those concerned.

An 'equality of resources' view considers the welfare system to be the institutional embodiment of a particular conception of justice along these lines (Dworkin 2000, 102–104). This view holds individuals responsible for their decisions and actions, but not for circumstances beyond their control—race, gender and skin colour, but also intelligence and social position—which thus are excluded as distributive criteria. This principle of responsibility provides a central normative vantage point from which to decide on what grounds one might justify any specific inequality. Many egalitarians regard the moral significance of choice and responsibility as one of the most important values besides equality. They hold that it is bad—unjust or unfair—for some to be worse off than others through no fault or choice of their own (Temkin 1993, 13), and, therefore, they strive to eliminate involuntary disadvantages for which the sufferer cannot be held responsible (Cohen 1989, 916). According to this view, unequal shares of social goods are, thus, fair if they result from the decisions and intentional actions of those concerned. Persons are themselves responsible for certain inequalities that result from their voluntary decisions; and they deserve no compensation for such inequalities, aside from minimal provisions in case of dire need (see above). Inversely, in its negative formulation, the responsibility principle signifies the following: inequalities that are not the result of self-chosen options are to be rejected as unjust; if a person has this kind of disadvantage, then there must be compensation. (However, relational egalitarians object to this so-called 'brute-luck egalitarianism' as relying on an overly strong criterion of responsibility [Anderson 1999; Scheffler 2003; Wolff 1998]). Given this criterion of responsibility, equal opportunity is insufficient because it does not compensate for unequal social circumstances widely regarded as unjust or for natural endowments. If social circumstances are rightly regarded as unjust because persons are not responsible for them, the same reasoning should also apply to such natural endowments. Since both factors are purely arbitrary from a moral point of view, they therefore require adjustment.

If one applies the responsibility principle to a free market economy, one establishes a criterion for both justified and unjustified economic inequalities. In a free market, the resulting distribution depends on an individual's ambitions. The inequalities that thus emerge are justified, since one has to take responsibility for one's 'option luck' in the realm of personal responsibility. In contrast, unjustified inequalities based on different innate provisions and gifts, as well as on brute luck, are unjust. According to the argument of the moral arbitrariness of talents, the commonly accepted criteria for merit (e.g., productivity, working hours and effort) are clearly relativized. Thus, justice requires a redistributive revision of the distributively unequal outcomes of free markets.

These liberal egalitarian conceptions of justice argue, in effect, for redistributive transfers as the most important function of a welfare system and justify the progressivity of the income tax system through appeal to some notion of fairness. Unjustified unequal market outcomes could, for example, be compensated for through a fictive differentiated insurance system; its premiums would be established behind a 'veil of ignorance' in order to then be distributed in real life to everyone and collected in taxes. For Dworkin (2000, 65–119), this is the key to fairly balancing the natural lottery and thereby preventing what he calls the 'slavery of the talented' that would occur as a result of excessive redistribution.

The benefits provided by revenues from either a progressive income tax system or a hypothetical insurance scheme may be redistributed to citizens in the following ways: first, by providing at a minimum a safety net for their most basic needs, i.e., for their physical subsistence; second, by making public goods available to all citizens equally (roads, postal service, national broadcasting, policing and fire services, public education, national defence and so on). Even if this is normally not considered to be part of the welfare system, the public free provision of (basic) public goods to all citizens has equalizing effects justified by reasons of social justice; third, by providing security against basic social risks (adequate healthcare, old-age pensions, accident insurance, unemployment insurance and so on); fourth, by providing fair equality of opportunity to access *adequate* income, employment, advanced education above the basic level, housing and so on. Ability to pay is almost never a criterion for the receipt of government services. The net result would be a massive enhancement in the achieved level of distributive justice and distributive equality.

Liberal egalitarian conceptions of justice aim at equalizing *resources* but not at equalizing the level of *welfare*. Taking welfare as the proper object of equalization leads to major difficulties. Serious problems arise with any welfare-centred concept of equality, since such concepts cannot fully take into account desert (Feinberg 1970), personal responsibility for one's own well-being (see above) and expensive tastes (Dworkin 2000), nor can they provide a viable standard for welfare comparisons. Thus, the idea of a welfare system seems most effectively justifiable from a justice point of view with the help of the principle of responsibility.

Conclusion

Strict equality is called for in the legal sphere of civil freedoms. In the political sphere, the possibilities for political participation should be equally distributed. In the social sphere, equally gifted and motivated citizens must have approximately the same chances to achieve social offices and positions, independent of their economic or social class and native endowments. In the economic sphere, the relevant issues are more controversial. According to mainstream liberal egalitarian conceptions, the welfare system should, first of all, set a 'social minimum' below which no individual is allowed to fall because of poverty, illness and so on, and, second, the system should promote greater equality of resources among citizens to avoid economic inequalities resulting from the operations of the market economy. The required equalities and permissible inequalities in these four spheres together should conform to four principles of equality: formal, proportional, moral and social equality. Only then will these measures be able to secure the equal standing of each individual in society.

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Part II

Policy Fields

5

Taxation and Inequality: How Tax Competition Has Changed the Redistributive Capacity of Nation-States in the OECD

Laura Seelkopf and Hanna Lierse

Tax policy is of central importance to every state. Without tax revenue, all other government policies, including welfare policies such as transfers in case of illness (Chap. 6), old age (Chap. 7) or unemployment (see Chaps. 9 and 10), are bound to fail. In addition to providing the financial basis for the welfare state, the tax system is potentially the most powerful governmental instrument for income redistribution (Musgrave 1959). With the move in the nineteenth century towards the modern tax state, many governments introduced tax reforms that had the objective

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of equalizing income differences. Income tax in particular was a means of better tapping into the income and thus the wealth of the rich (Seelkopf et al. 2016). Yet, recent inequality trends show that income inequality has been on the rise in most OECD countries since the mid-1980s (Fig. 5.1). Although real disposable household incomes have increased at large, incomes of the richest decile have grown faster than those of the poorest. According to the OECD (2011), this trend is partially due to the fact that income taxes have become less effective in reducing market income inequality. The Tax Justice Network (2014) attributes this ineffectiveness to the competitive pressure governments face:

> Tax 'competition' (…) is the process by which countries, states or even cities use tax breaks and subsidies to attract investment or hot money. In response to 'competitive' pressures they cut taxes on wealthy individuals, or on corporations—then make up the difference by hiking taxes on poorer sections of society. Inequality rises.

This citation captures the fear of social scientists and politicians alike that tax competition marks the end of governments' capacity to raise sufficient revenue to maintain their welfare states and to redistribute income via progressive taxation (Zodrow and Mieszkowski 1986; Rixen 2011). Internationalization is clearly seen as the single most important factor in recent decades influencing the tax systems of advanced economies. Yet, how exactly has globalization affected tax policy, and what impact have these changes had on economic inequality? Are these effects the same across the advanced democracies of the OECD?

Figure 5.1 provides a glance at OECD trends in inequality and tax revenues and reveals three interesting facts. First, both market inequality (gross Gini)[1] and net income inequality (net Gini) have gone up since the mid-1980s. Second, market income inequality has increased at a much faster rate than inequality after redistribution through taxes and transfers. Third, tax revenues have risen from an OECD average of about 25 per cent of GDP in the early 1980s to about 37 per cent in 2009. Thus, despite international tax competition, governments are still capable of raising a significant and even increasing

[1] The Gini coefficient is a measure of inequality in a given society. It ranges from 0 (full equality) to 100 (full inequality). The gross Gini measures the inequality in the market income of citizens, whereas the net Gini measures the inequality of disposable income, that is, after (direct) taxes and transfers.

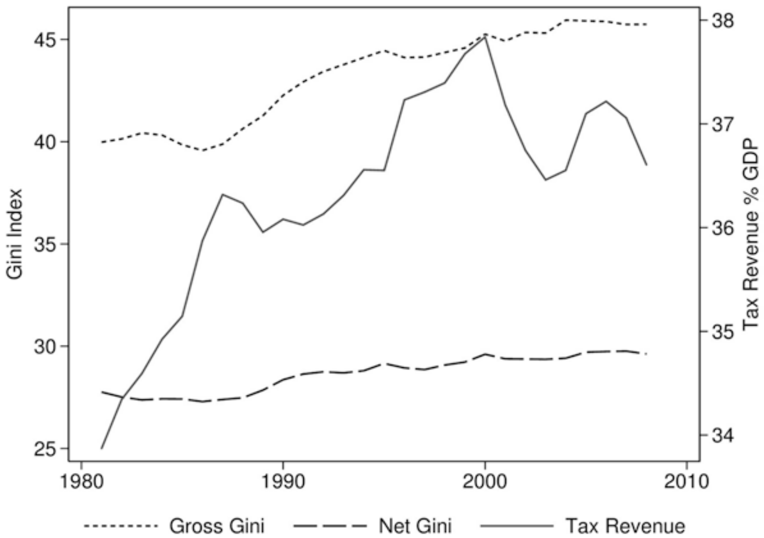

Fig. 5.1 Economic inequality and tax revenue in the OECD since 1980. *Source*: OECD 2011

amount of public revenue. In addition, the graph suggests that OECD governments are still able to conduct redistributive policies as the difference between gross and net Gini; hence, redistribution is higher now than in the 1980s. Yet, redistributive policies fail to compensate fully for the massive increase in market inequality, at least in the majority of OECD countries. These trends suggest that there is a strong relationship between taxation and inequality, but also that this relationship is much more complex than is often assumed.

This contribution sheds light on the effects of tax competition on economic inequality by mapping the co-development of changing tax systems and income (re)distribution since the 1980s. It is our main argument that governments' tax strategies and their effect on inequalities are much more complex and heterogeneous than is often acknowledged. Despite the common constraint emanating from global capital markets, governments still have room to manoeuver. The extent to which OECD governments have used this room, however, varies considerably. In this chapter we first outline our analytical foundation by describing three principles of tax equity: vertical, horizontal and international. We follow this outline by a literature overview of the link between tax competition and inequality.

Last, we provide some empirical evidence and draw a conclusion on the link between the transformation of the tax state and economic inequality.

Taxation and Inequality: Analytical Discussion

Politicians and scholars fear that globalization leads to increased tax competition, less redistributive forms of taxation and, in turn, higher income inequality (Rodrik 1997; Cerny 1994; Andrews 1994b; Frieden 1991; Garrett 1998a; Rixen 2011). Yet, to what kind of inequality, exactly speaking, do they refer? Is it between classes, countries or different income sources? In the following we discuss three different forms of equity concerns that have been highlighted in the literature on tax competition, and we provide an overview of the empirical findings.

Taxation and Inequality: Three Dimensions of Tax Equity

Given that one of the main goals of tax policy is income redistribution, it is by no means surprising that equity considerations have long formed part of the scholarly debate. Generally, the literature on public finance distinguishes between two forms of fair taxation. On the one hand, the goal of vertical equity calls for progressive (or at least proportional) taxation; on the other hand, the goal of horizontal equity states that people with the same level of income must be taxed the same, independent of the source of the income. Neither vertical nor horizontal equity necessarily supports redistribution, but adherence to these two principles should at least guarantee that taxation does not exacerbate existing inequality levels. Vertical and horizontal equity have long been defined as core principles of taxation (Musgrave 1959). Considerations as to what constitutes a fair tax system have been limited to the nation-state (for an exception see: Rixen 2011, 2008). Yet, tax competition by definition affects tax systems across countries and income distribution between countries. Thus, as a third dimension we add international equity, which we define as the ability of countries to enact independently their own tax policies.

Table 5.1 provides an overview of the three equity dimensions, of which any breach affects economic inequality and forms part of the dis-

Table 5.1 Tax competition and three dimensions of tax equity

Dimension	Concerns	Description of the effect
Vertical equity	...low and high income earners within a country;	Taxpayers with high incomes contribute less to the tax burden than those with lower incomes. Due to tax competition, the tax burden is shifted to the poor.
Horizontal equity	...different sources of income within a country;	Taxpayers with income from capital are taxed less than those with the same amount of labour income. Due to tax competition, the tax burden is shifted from capital to labour.
International equity	...incomes between countries.	Governments have to react to other countries' tax policy choices. Small countries can better benefit from tax competition by luring sufficient tax bases away from their large neighbours to offset the loss in tax rate cuts.

cussion on tax policy-making. Vertical equity requires that people with higher incomes pay a higher proportion of their incomes in taxes than those with lower incomes. This goal calls for progressive (or at least proportional) forms of taxation. The personal income tax is the most progressive tax, although there are large differences between OECD member states. For instance, Denmark has a progressive income tax system with a top rate of over 55 per cent, whereas Estonia introduced a flat tax system in 2008 with a rate of 21 per cent for everyone (EU 2013). Unlike income taxes, in most countries social security contributions (SSCs), consumption taxes and real estate taxes tend to be regressive (Joumard et al. 2012). Hence, if vertical equity fails, taxation might even increase existing inequalities.

To adhere to horizontal equity, the same income should be taxed at the same rate independent of its source. The principle implies that a wage earner and someone receiving the same amount of income from capital gains should pay the same amount of tax. This principle has long been in place in most advanced democracies, yet it has been eroding with increased tax competition. While Estonia with its flat tax adheres to the principle of horizontal equity, Denmark introduced a so-called dual income tax, which treats capital and labour income separately. Capital income is taxed at a proportional tax rate of about 30 per cent, while labour income is still taxed progressively and at much higher marginal tax rates (Ganghof 2005, 2000). Given that poorer people draw a higher share of their income from labour, the breach of horizontal equity also potentially leads to higher inequality.

The two traditional principles of tax equity—vertical and horizontal—are only concerned with redistribution within a state. Yet, as scholars have pointed out, tax competition between states also leads to tax policy-induced capital flows from one jurisdiction to another (see the next section's literature review for more detail). The type and timing of tax reform in one country affects another country's tax system. National governments can no longer set their tax policy independently of each other. This interdependence changes the distribution of capital and hence income between different countries rather than between people in the same country. For instance, Ireland offers a relatively low capital tax of 12.5 per cent in comparison to France, where dividends, bank and bond interests as well as capital gains are taxed according to a progressive scale of up to 45 per cent. This difference is likely to induce a capital flow from France to Ireland, thus changing not only the income distribution in both countries but also the distribution of overall income between those two countries. Whether this is a concern for inequality—that is, whether tax competition lowers or raises income inequality between nation-states—depends on income levels before free capital movements.

In this contribution we are interested in how globalization has affected these three equity dimensions and, with them, inequality. In the next section we review the literature on tax competition, which deals with this question in more detail (Genschel and Schwarz 2011) and sheds light on the implication of tax competition for inequality.

Tax Competition and Inequality: A Literature Review

Globalization has been the single most influential factor affecting tax policy in recent decades. Hence, to understand the transformation of the tax state, we need to understand tax competition. To examine the influence of globalization on taxation, scholars (Garrett 1995; Ruggie 1982) have shown how the end of the Bretton Woods era has changed policy decisions. Under the Bretton Woods system, when international capital mobility was restricted, management of national economies was characterized by a 'Keynesian welfare state' (Garrett 1995). During this time, developed democracies pursued redistributive policies while engaging in a global and liberalized system of international trade (Ruggie 1982). However, the post-Bretton Woods era led to a more globalized world economy, characterized by decreasing trade barriers and capital controls. How this transition has changed tax policy-making and the ability of governments to address economic inequalities is strongly debated. While scholars from the efficiency school assert that an increasingly integrated global economy undermines governments' ability to maintain comprehensive redistributive policies (Rodrik 1997; Cerny 1994; Andrews 1994a, b; Frieden 1991), supporters of the compensation school argue that globalization does not pose an imminent threat to the redistributive capacity of the state (Garrett 1995, 1998b; Garrett and Mitchell 2001; Hays 2009).

The literature on tax competition deals in more detail with the effect of globalization on taxation. The baseline model of tax competition shows that capital openness brings about a downward pressure on taxes, particularly on capital taxes (Zodrow and Mieszkowski 1986; for an overview, see Genschel and Schwarz 2011; Wilson 1999). When investors can freely choose where to invest in the world, they choose the country with the lowest tax rate in order to capitalize on higher returns. Consequently, governments have the incentive to lure capital from abroad by undercutting each other's tax rates. This ultimately leads to a race to the bottom, with mobile incomes being taxed less (if at all).

The baseline model of tax competition has implications for all three equity principles and thus also indirectly for equality. First, as capital incomes are taxed less (if at all) the tax system becomes less progressive, which implies that the rich pay ever less in taxes. Moreover, under budget rigidities, governments will need to search for alternative revenue sources. They will turn to other forms of taxation such as higher consumption or labour taxes, with the effect that the lower part of the income distribution pays an ever larger share of the tax revenue. The tax system is no longer progressive, and even potentially regressive; hence, in models of tax competition the principle of vertical equity remains unfulfilled. Second, tax competition affects horizontal equity. Income earners with the same level of income but coming from different sources, one from capital and one from labour, are no longer taxed equally. Third, countries can no longer set their tax policies independently; thus, international equity is breached. In sum, tax competition potentially leads to the breach of all three principles and—at least in the case of horizontal and vertical equity—lowers the redistributive capacity of the tax system. While all governments are constrained in their tax policy choices (and hence what we term 'international equity' is breached), the effects on income distribution are not equally distributed between countries as a prominent extension of the baseline model illustrates. Models of asymmetric tax competition suggest that the incentive to compete varies with country size[2] (Wilson 1999; Keen and Konrad 2013). The main finding is that there is a structural 'advantage of "smallness"' (Wilson 1999, 288).[3] In contrast to their larger counterparts, small countries gain from engaging in tax competition. If a country is small enough, the benefits associated with capital inflows from other countries (tax base effect) outweigh the revenue lost from the lower taxation of domestic capital (tax rate effect). These capital flows affect the distribution of income between countries. Whether this raises or lowers overall inequality depends on the distribution of income under autarky.

In short, the literature on tax competition suggests that globalization has constrained the ability of national governments to adhere to the three equity dimensions of taxation. This, in turn, lowers the ability of governments to implement redistributive taxation policies and hence potentially increases inequality. Although there is general agreement that globalization has influenced tax policy-making in the OECD, there is disagreement about the extent and scope of its impact. Scholars have highlighted several conditions that mitigate the pressure from international tax competition, such as the role of veto players, decision-making institutions, the ideology of the political party in power, fairness norms and debt (Basinger and Hallerberg 2004; Hays 2009; Plümper et al. 2009; Swank and Steinmo

[2] When talking about size, scholars refer to the size of the tax base. Empirically, this is mostly measured by population, gross domestic product or gross national product. All three are highly correlated. In this chapter we use population size. A country with less than 10 million inhabitants is considered small.

[3] The reader will note that country size is not the only factor hindering or fostering tax competition. Other country characteristics include, for instance, English language use, the legal system and good governance.

2002; Garrett and Mitchell 2001; Lierse and Seelkopf 2016). As such, the debate about the effect of globalization on the redistributive capacity of the state is ongoing. In the next section we provide empirical evidence linking data on tax competition to economic inequality.

Taxation and Inequality: Empirical Developments 1980–2013

In the following we present some empirical evidence to gauge how the liberalization of capital markets has affected economic inequality. We first look at overall OECD developments and show how tax rates, tax revenues and the tax mix changed with the start of tax competition at the end of the 1980s. We then turn to four case studies—Britain, France, Denmark and Ireland—to point out what the literature to date has often ignored: the diversity in tax policy reactions and associated inequality developments across advanced democracies.

Common OECD Developments 1980–2013

Figure 5.2 illustrates that taxation in advanced democracies has undergone some considerable changes since the 1980s. The average OECD top corporate income tax rate dropped by about half from 43 to 25 per cent, and the top personal income tax rate was reduced from 58 to 40 per cent. This finding is in line with the efficiency school, which argues that governments engage in competitive tax cuts for capital owners and high-income earners while they increase taxes for less mobile tax bases through such mechanisms as the value added tax (VAT). In fact, the VAT rate almost doubled from 10 to 18 per cent in the period under investigation. Thus, Fig. 5.2 provides the evidence protagonists of the efficiency school often cite: tax competition has circumscribed the capacity of the nation-state to adhere to the principles of vertical equity. Accordingly, the tax burden has shifted: low- and middle-income classes are paying more while capital owners and high-income earners are taxed less. Inequality is

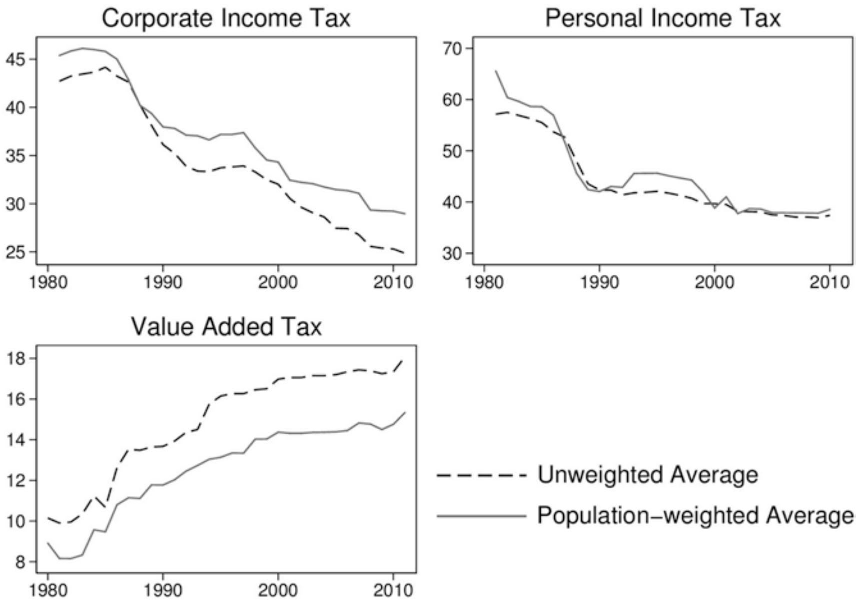

Fig. 5.2 Development of average OECD top tax rates since 1980. *Source*: OECD Tax Database (2014)

growing. However, looking at the tax mix rather than the tax rates makes the picture more complex.

Figure 5.2 suggests that globalization has affected vertical equity as it shows that, on the one hand, the top tax rates for corporate and personal income taxes, which are the most progressive forms of taxation, have continuously been cut since the 1980s. On the other hand, VAT, which is a more regressive form of taxation, has been on the rise. While the development of top tax rates suggests that globalization has increased inequality, Fig. 5.3 provides mixed support for this finding.[4] With regards to consumption taxes, we find that the amount of revenue generated from VAT has steadily increased since the 1980s. Yet, this rise has been accompanied by a revenue drop from other goods and services taxes such as the general consumption tax and excises. Therefore, we cannot observe a general increase in the significance of regressive consumption

[4] The reader will note that minor changes can always be due to changes in the business cycle rather than active policy changes.

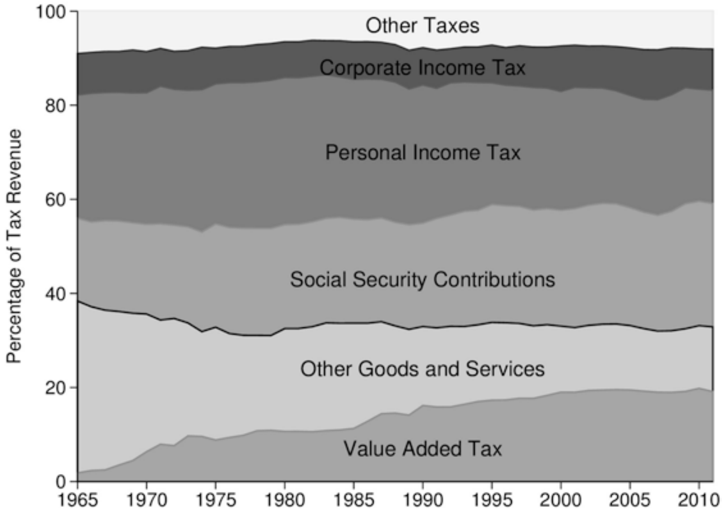

Fig. 5.3 Average OECD revenue mix since the 1980s. *Source*: OECD Tax Revenue Database (2014)

taxes in the OECD. Yet, there has been a shift in the revenue contribution from income taxes and social security. While the revenue from personal income taxes has decreased by about 6 percentage points, corporate income tax and SSCs have gained slightly in importance by about 1 and 5 percentage points, respectively. The steady revenue from corporate income taxes despite the reduction in the top tax rate is due to a number of factors. First, corporate tax rate reductions were generally compensated with base broadening (Ganghof 2000, 2006). Second, higher corporate incomes as well as an increase in investments can offset the lost revenue from tax rate cuts (Ganghof and Genschel 2008). Third, governments have tried to combat international tax avoidance and evasion with legal and administrative measures, potentially shutting out tax competition (Ganghof 2000).

The most significant change in the period under observation is the shift from personal income taxes to social security contributions. While revenue from personal incomes has decreased from about 30 to 25 per cent, average revenue from SSCs has increased by about 5 percentage points. Generally, the personal income tax is the most progressive tax in the OECD despite significant cross-country variations, while in most countries SSCs tend to be regressive (Joumard et al. 2012). The progressivity of SSCs has increased in the majority of OECD countries as they have been cut for low-income earners or for groups at high unemployment risk (Joumard et al. 2012). Yet, the main characteristic of SSCs has remained, that is, they redistribute over the lifetime of one individual rather than across individuals. In short, Fig. 5.3 cannot confirm that a shift has taken place from direct to indirect sources of tax revenue but illustrates instead a shift from tax- to contribution-financed revenue systems.

Our evidence from the development of tax revenues and tax rates since the 1980s provides a mixed picture of the effect of tax competition on vertical equity and inequality. While tax rates for capital and high-income earners have dropped and VAT rates have increased, the revenue mix across direct and indirect taxes has not changed. Moreover, merely looking at the overall revenue from personal income tax obscures whether the tax burden has changed for low-, middle- or high-income earners. Considering statistics for the tax wedge of average production workers in the OECD (2014), we find that the tax burden has even been reduced by a few percentage points.[5] As such, the often-discussed effect of tax competition on inequality between the poor and the rich is less obvious than the literature often implies.

Although the scholarly literature gives utmost attention to vertical equity in the context of tax competition, it also seems crucial to consider the effects of tax competition on horizontal and international equity. With regard to horizontal equity, we find that most governments taxed corporate and personal incomes under the same law until the mid-twentieth century. Yet, with the beginnings of tax competition, competitive capital tax rate cuts brought about a gap between the two. Most governments today apply a lower tax rate for capital than for labour income.

For instance, in 1985 the Danish government introduced a dual income tax, with capital income being subjected to a uniform proportional tax rate of 50 per cent, while wage income was taxed progressively at a higher top rate of 68 per cent (Ganghof 2005). Recently, some governments, particularly in Eastern Europe, have reversed this trend by introducing a flat income tax, which provides a uniform rate for capital

[5] The tax burden has decreased not only for the average production worker but also for those earning 67 per cent and those earning 167 per cent of the average worker—with and without children.

and labour income. However, this reversal was done at the cost of abolishing the progressivity of the personal income tax and thus with potential negative redistributive effects (Appel 2014, 2011). Moreover, some countries, such as the Netherlands, introduced certain tax incentives to attract high-skilled workers from abroad by providing considerable tax reductions. Hence, the opening of capital markets has not only led to potential redistributive implications between different levels of income, it has also done so between different sources of income. Horizontal equity has increasingly been breached.

Finally, tax competition almost by definition breaches international equity and affects the international distribution of income, particularly between small and large countries. Models of asymmetric tax competition suggest that small countries have an advantage over large ones (see the literature review). By having lower capital taxes than their large neighbours, small states such as Switzerland or Ireland can lure international investments. Figure 5.2 illustrates this phenomenon by drawing the tax rates weighted and unweighted by population. It shows that once we weigh the average OECD tax rates by population size, thus giving more weight to the big countries, the downward trend is slower. In other words, small countries tend to have lower capital tax rates. International capital flows lead to a more flourishing economy from which people without capital income also gain via increased employment opportunities and higher wages. This finding suggests that tax competition has an effect on world income distribution—even pre-taxes. Whether it lowers or increases income inequality depends on the distribution of income before tax competition.

In sum, our discussion of average OECD trends reveals a complex and mixed picture: we find that, while they have increased indirect tax rates, governments have lowered their top income tax rates and introduced a different and often lower tax rate for capital than for labour. In line with this trend, we find that the revenue share from income taxes has declined since the 1980s, while the importance of SSCs has increased. These changes have had a regressive effect. Yet, despite an increased VAT rate, the income from consumption taxes has remained stable, which suggests that, instead of a general shift towards this form of revenue, a shift within the category has taken place. Moreover, we could not find evidence that the tax burden for the average production worker has increased since the

1980s. In fact, the data show a slight downward trend. Although low-income earners today have a lower tax burden than they did in the 1980s, it is possible that the tax burden on high-income earners has dropped by even more. In summary, the data show that the effect of tax competition on inequality is much more nuanced than is often assumed. Some tax reforms might lead to more vertical equality while simultaneously hurting horizontal or international equality. At the same time, the international dimension already points to an important distinction: even within advanced democracies, countries are very heterogeneous when it comes to tax policy and inequality. We will discuss this national diversity in the remaining part of the chapter.

Taxes and Inequality: Divergent Paths in Four Countries

Besides the effect of tax competition on inequality in the OECD at large, a diversity of national tax strategies with different redistributive consequences can be observed. In the following we illustrate this diversity by looking at four countries in more detail: Britain, France, Ireland and Denmark. Whereas Ireland and the United Kingdom, as liberal market economies, are less prone to state intervention, Denmark and France are welfare states with a strong tradition of government interventions in markets. In each group we choose a large and a small country to represent the potential winners and losers of asymmetric tax competition.

Table 5.2 provides an overview of the four countries' tax policies and a number of different inequality measures. It shows that although both market and net income inequality have increased in the OECD as a whole over the last three decades, market Gini coefficients are now twice as high as net Gini coefficients, suggesting that market forces are the primary driver of rising inequality (Solt 2009; OECD 2011). Nonetheless, we can observe quite different inequality developments in the four countries. In Britain, both Gini coefficients have increased but with a larger increase in the net Gini. This suggests that the British government has lost redistributive capacities. Similarly, in Denmark, both Gini indices have risen; however, in this case the market Gini has increased by more, suggesting that the Danish government has been able to offset some

Table 5.2 A tale of four countries: co-development of tax policy and inequality

	Britain		France		Ireland		Denmark		OECD average	
Year[a]	1980s	2010s	1980s	2010s	1980s	2010s	1980s	2010s	1980s	2010s
Top marginal tax rates										
Personal income	60	45	60	54	60	48	65	56[c]	57	37
Corporate income	52	21	50	34	45	13	40	25	43	24
Value added	15	20	17	20	25	23		25	10	17
Tax revenue as % of total taxes										
Personal income	40	28	11	17	25	32	56	51	30	24
Corporate income	6.2	8.6	5.2	5.7	4.8	8.9	4.8	5.8	7.6	8.5
On goods and services	18	18	30	25	43	35	38	32	32	32
Economic inequality										
Market Gini	44	50	38	52	47	40	47	53	40	46
Net Gini	29	36	29	28	33	29	25	26	26	28
Market Gini: % change[b]	13		36		–15		12		18	
Net Gini: % change[b]	24		–2		–11		6		7	

Source: OECD (2014) and Solt (2009)
[a]Year: Data for 1980s ranges from 1975 to 1981 and data for 2010s ranges from 2010–2014
[b]Average annual change in percentage from mid 1980s to late 2000s
[c]Denmark's top rates are extracted from EU (2013) and Ganghof (2005) as the OECD does not include a number of subnational taxes, which form part of the personal income tax

market inequalities. We can observe a similar trend in France with the difference that the French government has increased redistribution in order to decrease inequalities in disposable incomes. Ireland is the only OECD country where both Gini measures have decreased since 1980. This diversity in inequality developments suggests that domestic political and structural factors condition how economic globalization affects tax policy-making and, with it, economic inequality.

Let us first turn to the British case to better understand the link between tax policy-making and economic inequality. In this case the shift from direct to indirect taxes is particularly pronounced. The drastic fall in direct tax rates has been accompanied by an increase in the general consumption tax rate. Similarly, the amount of revenue extracted from these sources has changed. While we observe a considerable decline in revenue from direct taxes, the income from taxes on goods and services has remained stable. In Britain, indirect taxes amount to over 25 per cent as a share of household disposable income for the lowest quintile and less than 10 per cent for the top quintile (Joumard et al. 2012, 20). Along with the shift away from the taxation of top incomes since the 1980s, we observe a drastic increase in all our measures for economic inequality. Britain thus represents a scenario illustrated by scholars of the efficiency school: its engagement in international tax competition has not attracted sufficient foreign incomes and investments, and hence the tax burden has shifted to less mobile tax bases with significant redistributive implications.

The French case highlights that the British development towards less redistributive forms of taxation and higher levels of inequality is by no means structurally determined. France, as one of the largest European countries, still has relatively high direct tax rates. Moreover, we observe a trend towards higher revenues from direct taxes rather than consumption taxes. Although France has experienced a drastic rise in market income inequality since the 1980s, its strong reliance on progressive forms of taxation has been accompanied by a decline in net income inequality. This co-development suggests that governments have not lost the ability to maintain redistributive tax policies, but that the ability and willingness of political actors strongly depends on domestic political processes and institutions, as highlighted by scholars of the compensation school.

Like England and France, our two small cases—Denmark and Ireland—have followed very different tax strategies since the 1980s, with diverse outcomes for economic inequality. Whereas Ireland has managed to combat market inequality, Denmark has allowed market inequality to rise but has increased redistribution. The Danish government still applies high top tax rates on personal incomes and has kept its revenue mix relatively stable, even with a small decrease in income from indirect taxes. Despite its move to a dual income tax system, Denmark still has strong redistributive capacities. The introduction of a dual income tax system, along with taxing capital and corporations at a low and flat rate while keeping a progressive tax system for wage incomes, has allowed the level of inequality to remain relatively stable.

Ireland is an example of a successful tax haven. Its governments from the left and the right have supported drastic corporate tax cuts down to 12.5 per cent—far below the OECD average of 25 per cent—to attract foreign capital. This low-tax strategy has been successful in leading not only to more investments but also to more employment and higher wages. As revenue statistics show, the Irish government doubled its income from corporations and personal income tax revenue has increased since the 1980s. Furthermore, the VAT rate was lowered in contrast to the majority of OECD countries. By inducing vast inflows of foreign capital via low direct taxes, Ireland has managed to reduce market inequalities. Moreover, the Irish tax system has maintained its redistributive capacity by, for example, compensating for a drop in the top personal income tax by reducing the VAT rate as well.

In sum, the four cases show not only that governments have at their disposal a number of tax choices, which seem to have co-developed with different inequality patterns, but also that similar tax responses can have different outcomes. For instance, Britain and Ireland have adopted a similar low-tax strategy, but the effect on inequality has differed. By contrast, the two small countries, Ireland and Denmark, have opted for different tax responses. The Irish government has engaged in international tax competition, while Denmark has opted for a moderate response. Accordingly, Ireland has mainly addressed income inequality via the market, while Denmark has done so via redistribution. Moreover, Denmark and France have both opted for a middle way, cutting direct taxes to some extent but nonetheless maintaining the redistributive capacity of the state. There is no structural determinism at work since these governments still have room to manoeuver with highly integrated market economies.

Conclusion

Has tax competition led to higher levels of inequality in the OECD? Figure 5.1 shows that both market and net income inequality have gone up in the OECD since the 1980s when tax competition was on the rise. In line with scholars from the efficiency school (Rodrik 1997; Cerny 1994; Andrews 1994a, b; Frieden 1991), this development would suggest that governments have lost the capacity to redistribute from high to low. However, and somewhat against the perceived wisdom, our empirical evidence shows that the dire predictions of the efficiency school are not yet reality, at least not for all OECD countries.

Nonetheless, in a number of ways tax competition has had an impact on equity and equality. Our conceptual and empirical discussion shows that tax competition has led to breaches of all three equity principles: vertical, horizontal and international. As regards vertical equity, our empirical evidence demonstrates that top income tax rates have been drastically cut throughout the OECD. Moreover, governments generally raise less revenue from personal incomes, but they have mitigated this loss by a shift towards more social security contributions. Both actions have a potentially regressive effect and suggest that some welfare states have adopted less progressive forms of taxation since the 1980s. With respect to horizontal equity, we find that OECD governments tend to apply a lower tax rate on capital income than on wage incomes. This practice not only breaches the principle of uniformity but also reinforces inequality, as capital accumulation is more concentrated with the rich. Finally, as regards international equity, tax competition clearly undermines governments' capacity to set their tax rates independently. Furthermore, we show that small states tend to benefit more from tax competition: by luring mobile capital from their large neighbours, they gain more investments. This policy can lead to greater employment and higher wages.

Whether it increases or decreases inequality depends on the international level of redistribution under autarky.

Yet, while it is possible to discern a general trend in how tax competition has affected inequality in advanced welfare states, our four case studies show that countries still have room to manoeuver, which is broadly in line with the claims of the compensation school (Garrett 1995, 1998b; Garrett and Mitchell 2001; Hays 2009). While smaller states certainly have more to gain from tax competition, larger states can also keep up redistributive taxation. Even if progressive taxation is diminished, the revenue-raising capacity of OECD members remains high, allowing governments to pursue redistributive policies on the spending side.

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6

Keeping an Eye on IRIS: Risk and Income Solidarity in OECD Healthcare Systems

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The core arena for the redistribution of wealth and income is the tax system. At the same time, the welfare state corrects market inequalities through earnings replacements for the main risks in life such as unemployment, illness, accidents and old age. Healthcare differs since it mainly provides for goods and services. However, distinct coverage levels and financing schemes involve redistributive effects. In most wealthy democracies such as those represented by long-term OECD members, healthcare systems have been established that guarantee access to a broad package of health services. The sole major exception is the United States

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(US), where still a considerable part of the population remains uninsured and for whom access is only guaranteed for emergency care. While cross-national differences in basic coverage declined early on, countries still use distinct financing mixes for healthcare (Barros 2007). The main financing schemes include taxes, social insurance contributions, private insurance premiums and out-of-pocket spending. Consequently, the financing schemes and, correspondingly, the resulting financing mix vary with respect to concepts of solidarity and the implied distributive effects. While acknowledging lasting inequalities of healthcare utilization, this contribution focuses on the development of inequality and corresponding inequity in health financing from a cross-national perspective.

During the post-World War II era and well into the 1970s, OECD countries expanded their public healthcare schemes. An indicator of this expansion was the increase in the share of public financing in health until roughly 1980 (Oxley 1995). However, the economic turmoil triggered by the oil crises of the 1970s left its mark on welfare states' health systems. Cost containment strategies began to dominate health policy as a response to tax cuts and general efforts to downsize government spending (Marmor et al. 2005). Insurance contributions were increasingly perceived as a burden to the economy in times of growing international competition. In many countries, co-payments rose in order to control expenditure growth due to consumer moral hazard, thereby hoping to increase the efficiency of healthcare provision (Abel-Smith and Mossialos 1994; Mossialos and Le Grand 1999). Until the late 1990s, the privatization of healthcare financing could be observed in many OECD countries. Since about 2000, however, this trend has reversed, and on average the share of public financing has increased again (Rothgang et al. 2008; OECD 2014a). At the same time, over the whole observation period, convergence in terms of a declining variance in the share of public financing can be measured (Rothgang et al. 2010). These trends affect equity in health financing and redistributive efforts through health financing.

Health economists have examined equity issues in healthcare financing, measuring the progressivity of funding sources with survey data. Most notably, the ECuity project published progressivity indices for some European countries and the US for the late 1980s and early 1990s (Wagstaff et al. 1992, 1999). Not least due to the rather complex procedure involved in the evaluation of income and expenditure surveys, since that time such indices have rarely been calculated (De Graeve and Van Ourti 2003). To date, only snapshots of the redistributive effects of health financing are available. Thus, there is a dearth of comparative time series which would provide insights into the ways in which the restructuring of welfare states have translated into the financing dimension of the healthcare system.

In this chapter we argue that the different modes of healthcare financing can be distinguished according to the way the health risk is born collectively or individually. Further, health financing differs with respect to the way income groups are burdened, that is, the income redistribution implied by health financing schemes. Thus, conceptually, we look at *risk solidarity*, that is, the way the healthy stand in for the sick *across* different risk groups, and *income solidarity*, that is, the way the wealthy stand in for the poor. We use aggregate spending data from the OECD as well as national sources in order to determine the share of the financing sources that are related to distinct effects in terms of risk redistribution and income redistribution. This is the basis for constructing an Index of Risk and Income Solidarity (IRIS). While risk redistribution supports equal access to health services, income redistribution additionally brings the health-related financial burden for households in line with their income.

The structure of healthcare financing in terms of risk and income solidarity may be interpreted as a result of political struggle and the institutional conditions shaping the power of relevant actors in the healthcare field. Shifts in risk and income solidarity are issues of constant debate. However, long-term socioeconomic developments in the OECD world have changed the conditions under which risk and income solidarity are defined.

First of all, the end of welfare state expansion has intensified conflicts about who should pay for healthcare and who will be affected by benefit cuts. The turn towards austerity policy coincides with a growing demand for health services along with cost increases in the health sector. Medical-technological progress in particular, but also demographic ageing and cost inflation in the service industries, implicate a sustained urge for higher health expenditures (Smith et al. 2009). Cost increases also create a necessity to share health risks. However, under conditions of permanent austerity, individual responsibility for one's own health and well-being has been emphasized, while secular trends of individualization may further compromise solidarity in favour of private healthcare for those who can afford it (Houtepen and Ter Meulen 2000).

Moreover, globalization may affect the way public healthcare financing is organized as well as its redistributive capacities. Besides shifts from public to private spending as a response to globalization, theoretical considerations suggest that due to tax competition, governments tend to strengthen less mobile financing sources such as indirect taxes (see Seelkopf and Lierse in this volume). The raising of tobacco and/or alcohol taxes can be easily legitimized if the taxes are earmarked for healthcare financing. Social security contributions are also vulnerable to global competition. In order to reduce labour costs, OECD countries substitute social security contributions with flat-rate premiums or other taxes.

The imbalance between cost increases in the health sector and austerity policies implies a decline of risk solidarity if increasingly more health services have to be borne privately. At the same time, there is sustained public support for government responsibility in healthcare (Kikuzawa et al. 2008; Wendt et al. 2010). The political hazards of blunt privatization policies contribute to the resilience of large welfare programmes (Pierson 1996, 2001). Furthermore, hopes to increase efficiency of healthcare provision through forms of private co-payments have been disappointed more recently (Marmor and Wendt 2011). In addition, while globalization may imply cuts in public spending, it sets incentives to promote less redistributive financing sources. On balance these developments may continue to support risk solidarity but not necessarily income solidarity.

The chapter is structured as follows: in the next section we apply the concept of solidarity to health financing. For this purpose we distinguish risk solidarity from income solidarity and explain the general idea of our Index of Risk and Income Solidarity. The subsequent section sets out the methods and data used to construct IRIS in greater detail. Next, we present the results for eleven OECD countries: Australia, Belgium, Canada, Denmark, Germany, Japan, France, the Netherlands, Switzerland, the United Kingdom (UK) and the United States (US). The observation period starts at the eve of the first oil crisis in the 1970s and ends at the onset of the financial crisis in 2009. This sample is a result of data availability; however, the countries reflect a broad spectrum of healthcare system types in the OECD world. The final section concludes with a discussion of the results.

Developing an Index of Risk and Income Solidarity

The concept of solidarity is not clearly defined and hence is used in different ways. In a basic manner, we can understand solidarity 'as a mutual attachment between individuals, encompassing two levels: a factual level of actual common ground between the individuals and a normative level of mutual obligations to aid each other, as and when should be necessary' (Bayertz 1999: 3). Thus, an important aspect is a mutual responsibility between the individual and the community, both standing in for each other (Jaeggi 2001: 288). In modern society, 'voluntary solidarity in reciprocal arrangements of support and care within well-defined groups and communities has given way to comprehensive systems of organised and enforced solidarity' (Houtepen and Ter Meulen 2000: 329). In healthcare financing, solidarity is institutionalized in distinct financing schemes. Here, we argue, solidarity can be divided into two dimensions, namely risk solidarity and income solidarity.

With regard to risk solidarity one can distinguish ex-post from ex-ante risk solidarity. Any health insurance includes ex-post solidarity as the current healthy stand in for the current sick. By contrast, ex-ante risk solidarity describes 'redistribution from those who are expected to be healthy to those who are expected to be sick' (Greß and Wasem 2009: 227). It means that regardless of the individual risk of becoming sick, everybody pays the same contribution for the health insurance. As the risk of becoming sick increases with age, the principle is often referred to as solidarity with the elderly. Even within the same age group, risk profiles of individuals differ tremendously due to pre-existing conditions, occupational hazards or differences in lifestyle. Ex-ante risk solidarity addresses inequalities that are often perceived as fixed through age, class affiliation or genetic predisposition. In the following we only refer to the concept of ex-ante solidarity when we use the term 'risk solidarity'. In particular, risk solidarity supports equal access to healthcare. While utilization of health services may nevertheless be biased by income or educational background, financial and administrative obstacles as a source of inequity are largely reduced through schemes redistributing health risks (Van Doorslaer et al. 2004). This corresponds to the reduction of horizontal inequality, which occurs when healthcare is not provided according to need (Devaux and De Looper 2012).

Income solidarity means that health spending of higher income groups supports those less well off. The wealthy stand in for the poor. This is the case if health financing is at least proportional to one's income. Accordingly, those with high incomes contribute more in absolute terms. Progressive financing involves additional redistribution from the top to the bottom of the income structure. It requires that higher income groups contribute a larger share to healthcare relative to their income. By contrast, a lack of income solidarity will have to be asserted where the poor pay more than the wealthy relative to their income to finance healthcare, resulting in a regressive financing structure. Income solidarity refers to the reduction of vertical inequalities in the financing system (see Seelkopf and Lierse in this volume).

The four possible modes for healthcare financing derive from combining the two dimensions of solidarity (income and risk) with a dichotomous classification of either adherence to the solidarity principle or no such adherence. The major financing schemes in healthcare are government financing, social health insurance, private health insurance and out-of-pocket payments. These broadly correspond to distinct revenues, namely, direct and indirect taxes, income-related or flat-rate contributions, risk-related premiums and direct payments. However, at times the financing schemes also rely on multiple sources of income). Revenues from the respective financing schemes have to be assigned as instances of risk solidarity and/or income solidarity in order to evaluate the share of risk and income solidarity in healthcare financing.

In order to qualify as risk solidarity, health payments must not depend on the individual's risk of becoming sick; nor may they increase due to individual sickness. Hence, we have to judge whether financing sources are related to individual health risk. This is the case for any out-of-pocket payments, including over-the-counter drugs, prescription fees or cost sharing. These are payments made only by those who are actually sick. There is no risk redistribution involved. With respect to third party payers, 'risk redistribution' refers to premiums that are not calculated on the basis of health risk assessment. Conversely, 'non-risk-redistributive' premiums increase with the insured party's potential risk of getting sick.

Schemes that can decline patients due to their health risk or preclude treatments are also considered as non-risk-redistributive.

In order to classify income solidarity, we need to know the redistributive effects of the respective financing schemes. Such effects have been estimated by the ECuity project (Wagstaff et al. 1992). This project analyzed several countries, presenting Kakwani indices for different forms of healthcare financing (Wagstaff et al. 1999; De Graeve and Van Ourti 2003). The Kakwani index is a measure of progressivity of financing, where zero is defined as proportional financing. Negative values indicate regressive financing and therefore point to a disproportionate burden for lower income groups. A positive Kakwani indicates progressive financing. Since both progressive financing and, to a smaller degree, proportional financing involve redistribution from the rich to the poor, a non-negative Kakwani indicates income solidarity.

Consistently, across the observed countries, direct taxes can be classified as progressive while indirect taxes are clearly regressive. This research also finds regressive values for private out-of-pocket spending. The results for health insurance premiums are more complex. Social health insurance contributions include elements with proportional as well as regressive and progressive effects. Generally, these contributions are income-related, as a fixed percentage of wages is devoted to health insurance, and therefore income-proportional. By contrast, the effect of flat-rate contributions and risk-related premiums turns out to be regressive. This leads to the following classification scheme (Table 6.1).

The redistributive effect of charitable spending on health has not been measured. We assume that revenues come from higher incomes while beneficiaries are selected from lower income groups. Therefore, charity involves income solidarity. However, risk solidarity in this case does not apply, since spending decisions are taken ex-post (after the risk is exposed due to illness). Another financing source that combines income solidarity with adherence to risk solidarity is that of income-related fees paid by individuals for the same medical services. These examples (charity and income-related fees) no longer play a crucial role in most long-term OECD countries. Therefore, in the empirical section which follows, we focus on the main financing schemes and do not report this cell.

Data and Methods Used for IRIS

The Index of Risk and Income Solidarity builds on OECD Health Statistics (2014a), OECD Revenue Statistics (2014b) and health data from national statistics (see Schmid et al. 2015). The analysis includes eleven OECD countries for the period from 1970 to 2009. Most important for our purposes is the identification of financing sources as defined in the previous section (Table 6.1). OECD health financing statistics focus on the financing agent, which is defined as the institution that collects money and is in charge of allocating resources to providers. In addition to the financing agent, the OECD, Eurostat and the World Health Organization (WHO) (2011) define financing sources, as published in the System of Health Accounts. The latter includes governments, corporations and households. However, it is only possible to merge this information for some countries and over a few years in order to ascertain the financing components of the respective agent. The main database indicates the financing agent as only that unit which pays for healthcare. Here the OECD lists general government, social security funds, private insurance, private out-of-pocket payments and non-profit institutions serving households. Since financing agents at times rely on separate sources of income with varying redistributive impact, we complemented OECD statistics with national health statistics.

Looking at government revenues, money from indirect and direct taxes involves distinct distributive effects for households. Proportional earmarked taxes have been considered as well as the mix of revenues of the specific administrative unit (state, regional or local governments) responsible for health financing. Social security funds derive their income from

Table 6.1 Classification of financing sources

	Risk solidarity	No risk solidarity
Income solidarity	Direct tax	Charity
	Income-related contributions	Income-related fees
No income solidarity	Indirect tax	Risk-related premiums
	Flat-rate contributions	Out-of-pocket spending

contributions, which may be income-related or defined as a flat-rate contribution, while revenues are often complemented by state subsidies, that is, taxes. Private insurance and out-of-pocket payments are borne directly by individuals and do not impose problems of cross-financing with respect to classifying them as risk and/or income solidarity at the aggregate level. Hence, the main task for operationalizing IRIS is to quantify the different revenue shares of the government and insurance funds and to classify it according to the redistributive effect of the financing source.

How can we exemplify the procedures and data involved to construct IRIS? In general, we started with the financing shares of the respective financing agent as provided by OECD Health Statistics (2014a). Then we scrutinized whether spending by the financing agent is in line with the income sources defined in Table 6.1. For those financing agents that use different income sources, we have consulted national revenue statistics. Therefore, we examined the two most important financing agents in this respect: general government and social insurance funds. General government spending on health is divided into direct taxes and indirect taxes using OECD Revenue Statistics (2014b). With respect to social insurance funds, we distinguished flat rate contributions, income-related contributions and government subsidies depending on the regulation of the specific insurance system (for country-specific information, see Schmid et al. 2015).

In order to enhance the validity of IRIS we added weights to the concept of income solidarity. Next to the unweighted data, we applied a factor of 2 to direct taxes. This is a simple adjustment accounting for the fact that the degree of progressivity varies among income-redistributive financing sources. Generally, direct taxes behave considerably progressively, while income-related contributions to social insurance are often close to proportional financing. The latter is also true for proportional earmarked taxes. Income-redistributive sources are weighted with 2 if they are levied on different income sources, there are no ceilings above which incomes are no longer liable to taxes or contributions, and there is a progressive tariff. As a consequence, the maximum value of the weighted concept of income solidarity is 200 per cent, indicating that the healthcare system is exclusively funded by progressive financing sources.

The comparison of both concepts of income solidarity with the Kakwani index for the English and the German healthcare systems supports the use of the weighted concept (Schmid et al. 2015). The Kakwani index shows progressive financing in England and regressive financing in Germany, which is in line with the weighted IRIS. The comparison points to the major deficit of IRIS: it assumes constant redistributive effects of the separate financing sources. Therefore, it captures changes with respect to financing share while changes of the degree of progressivity over time remain unobserved.

Solidarity in Healthcare Financing: National Paths Prevail

How has IRIS developed in eleven OECD countries over the past four decades? Risk and income solidarity refer to the aggregated financing shares, classified as either risk redistributive or income redistributive, respectively. Table 6.2 presents the values for risk solidarity. In Table 6.3, we focus on income solidarity including weights for revenue from highly progressive sources. For some countries like France, the Netherlands, Switzerland and the UK, data availability has constrained the time series.

Taking a look at Table 6.2, most countries show an increase in risk solidarity during the 1970s, except for Belgium and the UK. This is related to ongoing welfare state expansion causing an increase in public financing, which largely corresponds to the definition of risk solidarity. The implementation of cost containment strategies following the economic crises of the 1970s and early 1980s as well as the widespread ideological turn to conservative policies led to a decline in risk solidarity in several countries during the 1980s and 1990s. However, the average has been rising slowly since 1985. This is caused by developments in Japan, Switzerland and the US, where risk solidarity has been growing constantly. In the case of Japan, public coverage increased through several reform steps until the mid-1980s. While there has been retrenchment since, further increases in risk solidarity can be related to demographic ageing and the exemption of the old aged from co-payments (Tatara and Okamoto 2009).

Table 6.2 Risk solidarity

	1970	1975	1980	1985	1990	1995	2000	2005	2009	Change[c]
Australia[a]	62.1	73.6	62.6	70.6	66.2	65.8	66.8	66.9	68.5	–2.1
Belgium	79.3	78.2	76.2	74.8	81.3	76.8	74.6	76.1	76.0	1.2
Canada	69.9	76.2	75.6	75.5	74.5	71.2	70.4	70.2	70.9	–4.6
Denmark[a]	83.7	85.4	87.8	85.6	82.7	82.5	83.9	84.5	85.0	–0.6
France			85.6	84.2	81.1	80.3	80.0	79.5	78.7	–5.5
Germany	77.5	83.4	83.1	81.6	80.9	81.7	79.8	76.6	76.9	–4.7
Japan	69.8	72.0	71.3	70.7	77.6	82.3	80.8	81.6	81.5	10.8
Netherlands			75.7	76.4	77.2	80.6	76.6	76.4	86.4	10.0
Switzerland[b]				32.8	34.9	32.9	58.8	63.2	63.5	30.7
UK		90.1	89.2	86.5	84.3	84.5	83.0	85.1	86.5	0.0
US	37.9	42.4	43.6	42.2	42.1	48.3	46.2	47.1	50.1	7.9
Average				71.0	71.2	71.5	72.8	73.4	74.9	3.9
Coeff. Var.				24.8	23.8	23.2	16.0	15.2	14.8	–10.0

Unit: percent
[a]First year 1971
[b]First year 1987
[c]1985/87–2009

Table 6.3 Income solidarity (weighted)

	1970	1975	1980	1985	1990	1995	2000	2005	2009	Change[c]
Australia[a]	85.6	104.1	86.3	94.8	95.5	93.4	95.3	96.6	97.1	2.3
Belgium	89.2	86.0	85.9	84.7	90.2	82.6	82.1	86.0	84.1	–0.6
Canada	90.8	98.2	96.1	95.6	105.2	100.4	101.3	98.6	101.9	6.3
Denmark[a]	84.9	86.9	83.6	85.4	83.0	82.5	83.7	84.5	86.7	1.3
France			85.0	83.7	81.0	80.6	81.9	81.9	81.1	–2.6
Germany	79.2	86.5	86.0	84.6	83.2	82.9	80.6	77.0	77.3	–7.3
Japan	80.0	86.3	86.7	86.8	95.0	97.8	93.4	95.0	94.1	7.3
Netherlands			73.2	71.4	72.8	76.1	70.2	71.4	67.9	–3.5
Switzerland[b]				44.5	48.1	43.6	42.6	44.6	47.2	2.7
UK		122.3	113.4	104.2	102.2	95.0	99.8	102.3	106.2	2.0
US	51.4	56.7	59.0	54.9	56.2	63.1	63.9	63.6	69.0	14.1
Average				81.0	82.9	81.6	81.3	82.0	83.0	2.0
Coeff. Var.				21.9	21.8	20.3	21.3	21.0	20.8	–1.1

Unit: percent
[a]First year 1971
[b]First year 1987
[c]1985/87–2009

In Switzerland, the healthcare reform of 1996 introduced an obligatory basic social health insurance raising risk solidarity. However, the index also shows a general positive trend indicating secular trends towards more risk redistribution. The same is true for the private health system of the US, where risk solidarity forms of financing have slowly gained ground through increased coverage for children, but also as the share of elderly qualifying for Medicare has increased.

While in Australia, Belgium, Denmark and the UK the negative trend of risk solidarity has been reversed since about 2000, this has not been the case in France and Germany. We again attribute this to major retrenchment reforms. In France, benefit cuts translated into the growth of voluntary private health insurance as well as mounting private co-payments (Chevreul et al. 2010). Similarly, in Germany, several co-payments were raised and a fee for physician visits was introduced in 2004 (Rothgang et al. 2010). In the Netherlands, the initial increase of risk solidarity between 1980 and 1985 was ironically related to an accumulation of bad risks under public insurance due to adverse selection processes. The strong growth between 1990 and 1995 can be traced back to an expansion of benefits covered by the universal long-term care insurance. This measure was reversed in the late 1990s. In addition, cuts in the benefit package and deductibles shifted costs towards the patient. However, major changes took place with the reform of 2006 merging private and public schemes to a social health insurance under private law, which tremendously enhanced risk solidarity of the Dutch financing system (Götze 2010).

Focusing on the complete country sample since 1985, the declining variance in risk solidarity stands out. The development can be described as upward convergence. While the coefficient of variation for the full sample dropped by 10 percentage points to 14.8 per cent from 1985 to 2009, the average ascended to almost 75 per cent. In particular, the US and Switzerland, where risk-rated premiums and out-of-pocket spending made or still make up a large part of health financing, have caught up in terms of risk solidarity.

The results for income solidarity are presented in Table 6.3. Since we use a weighted measure, the maximum value is 200 per cent. In contrast to the upward convergence observed for the concept of risk solidarity, the development of income solidarity is rather modest. Between 1985 and 2009 the average gained only two percentage points and the coefficient of variance dropped by only 1.1 percentage points. Hence, country-specific differences seem to be far more constant for income solidarity.

A closer look at single countries reveals that in most countries, such as Australia, Denmark, France, Japan, the UK or the US, income solidarity marches more or less in line with risk solidarity, but in other countries there are striking differences. In Switzerland the index nearly stagnates over time until the introduction of the statutory health insurance in 1996. The latter boosted risk solidarity but not income solidarity. The same story applies to the Netherlands. The major health insurance reform of 2006 led to a strong increase in risk solidarity while income solidarity declined significantly. Interestingly, income solidarity in the US, which usually is classified as a private health system (Böhm et al. 2013), exceeded the levels of the Netherlands and Switzerland in 2009 despite their universal healthcare systems.

We also identify two countries with the opposite movement. While risk solidarity increased only modestly in Canada until the 1980s and regressed afterwards nearly back to its initial level, the increase in income solidarity was far more pronounced and prevailed. This is caused by shifts in the tax mix in favour of direct sources (OECD 2014b). Belgium is another striking case. While risk solidarity decreased over time, income solidarity increased. This is mainly attributed to reforms to the Belgian taxation system in the early 1970s that shifted the ratio between direct and indirect taxes. Afterwards both indicators march in line.

Conclusion: Sharing Risks, Not Income?

What have we learned about developments of equity in healthcare financing in eleven OECD countries, and what do the emerging patterns of risk and income solidarity tell us about causes of change? The turn to austerity policies, including the emphasis on individual responsibility as well as individualization trends in recent decades, suggests a decline in risk and income solidarity and thus an increase in inequality. By contrast, the strong public support for government responsibility in the health sector and the limited success of co-payment increases point to sustained risk solidarity.

Indeed, risk solidarity rose on average, and the pattern can best be described as upward convergence. Only during the 1980s and early 1990s did some countries show a downward trend, while the average continued to increase. Indeed, over the whole observation period it seems that common needs to share health risks within a strong community have become more accepted and perhaps increasingly necessary in the OECD world. We attribute the latter to medical progress enhancing the range and costs of treatments. Also, demographic ageing has a share in augmenting risk solidarity as pensioners are mostly covered by risk redistributive schemes. Moreover, the temporary increase in private co-payments in various OECD member states mostly did not fulfil the promises regarding cost containment. Similar to other fields of the welfare state, austerity policy does not mean blunt retrenchment, but rather incremental adjustment processes (Seeleib-Kaiser 2008; Obinger et al. 2010; Rothgang and Schneider 2015). A high level of risk solidarity indicates universal access to healthcare services, thus maintaining volume and quality of the domestic labour force. The supply orientation in welfare state change is thus reflected in increased risk solidarity as part of social investment (see Starke et al. in this volume). Moreover, low levels of risk solidarity do not necessarily indicate less financial burden for companies. Private health insurances in Germany, the Netherlands (until 2006) and the US reflect a significant amount of ancillary labour costs, yet they barely contribute to the concept of risk solidarity.

A general decline of redistributive efforts with respect to income solidarity is not confirmed. Focusing on the weighted indicator, average income solidarity remains fairly stable over time, while variance declines only marginally. Hence, we do not observe a race to the bottom. On the contrary, cross-national differences in terms of income redistribution persist by and large, which contradicts any straight globalization effect and rather supports country-specific factors as an explanation for redistributive capacities of the health financing system. We therefore assume that risk solidarity is mainly driven by the functional need to provide access to health services for the entire population, whereas income solidarity is mainly shaped by country-specific ideas and institutions addressing redistribution.

Developments in Switzerland and the Netherlands stand out. Increases in risk solidarity in combination with low or reduced income solidarity can actually be interpreted as a functional requirement of open economies in global competition. Developments in small open economies are of particular interest, as they tend to be more sensitive to socioeconomic challenges (Obinger et al. 2010). However, a closer look at the reform processes of these veto-ridden countries suggests that the evolving pattern of solidarity is rather the result of a political compromise. Switzerland and the Netherlands introduced a universal health insurance with a strong competitive notion, reflected by a large financing share of flat-rate contributions (Gerlinger 2009; Frisina Doetter et al. 2015). Both countries have expanded risk solidarity. Further changes towards income redistribution would have jeopardized the reform coalitions. Other social health insurance countries with initially high levels of income solidarity, such as Belgium, France and Germany, also relieved companies by shifting parts of employer contribution over to employees. Although this measure affects the purchasing power of individual households, it has no effect on IRIS. Moreover, Germany toyed with the introduction of flat-rate contributions, compromising income solidarity. In the end those reforms were reversed, and it is unlikely that Swiss and Dutch reforms will be seen as an economic imperative and therefore serve as a blueprint for other social health insurance countries. In the absence of reforms, IRIS has changed through drift (Hacker 2004). The increase in IRIS in the US and Japan can only partly be explained by new regulations. Both risk solidarity and income solidarity are powered by demographic change. This is most notable in the US, where ageing steadily increases the percentage of the population covered by Medicare.

In terms of methodology, we have used the results of survey-based research on inequality in health financing to construct an index based on aggregated financing statistics. The risk and income solidarity approach provides insight into health financing equity over long time periods and a larger sample compared to the more detailed survey approach. Risk solidarity represents an important element of equal access to health services, whereas income solidarity supports income redistribution through the healthcare system. Juxtaposing income solidarity results and Kakwani indices for two countries has suggested that rank-positions and trends of redistributive effects are mapped fairly well. However, drawbacks also become apparent. The validity of IRIS is dependent upon the stability of the redistributive effects attributed to the respective financing sources. While shifts between direct and indirect taxes are accounted for, changes in progressivity through reforms of tax tariffs as well as the base for taxes or contributions remain unobserved as long as they do not lead to a reclassification of the respective financing source.

In terms of theory, IRIS shows that risk solidarity and income solidarity do not necessarily march to the same drum. Rather, countries develop their specific mix of solidarity in health financing. In addition, risk solidarity seems to be driven by common needs across OECD countries, while income solidarity follows country-specific preferences and power relations. Risk and income redistribution include a high potential for political conflict, which makes radical reforms rare events. Once established, financing schemes tend to evolve incrementally. Layering and drift are far more prominent modes of change. For instance, we observe layering in Germany by introducing and enhancing the role of co-payments, taxes and (temporarily) flat-rate contributions, leading to a relative decrease in the typical income-related contributions. The US is a prime example for drift as demographic change steadily increases the role of Medicare and therefore income-related and flat-rate contributions. These tentative interpretations will have to be further scrutinized by extending IRIS to a larger sample of countries and relating it more systematically to additional independent variables such as partisan effects, political institutions or political culture.

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7

Retirement Income Provision and Household Income: Between- and Within-Cohort Inequalities in Germany and the United States since the 1980s

Jan Paul Heisig

Pension reform has featured high on the agenda of OECD countries in recent decades. As a result of growing life expectancy and low fertility rates, most member countries are already experiencing declines in the size of the working-age population relative to the older population, and this trend is set to continue into the future. One of the more serious implications of this development is the threat posed to the solvency of public pay-as-you-go pension schemes. Labour shortages are another scenario troubling policy-makers and employers alike.

This demographic challenge, along with more general budgetary pressures, has triggered far-reaching reforms of pension systems, other welfare state programmes and labour market policy (see Schwander in this volume).

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Up until the 1990s, many countries, particularly in Continental Europe, actively promoted early retirement to reduce labour supply in the face of persistent unemployment (Ebbinghaus 2006). Since then, however, encouraging later retirement and elevating employment rates of people in their 50s and 60s have become top policy priorities. Cutbacks in public (early) retirement benefits are a crucial element of this new agenda. Not only do such cuts directly reduce pension outlays but they also induce individuals to postpone retirement, thereby increasing labour supply, tax revenue and contributions to public insurance schemes. In a survey of pension reforms between 1990 and the mid-2000s, the OECD (2007, Table II.1.1) identified 14 member countries where reforms since 1990 'adjusted retirement incentives'. In most cases this involved introduction of or increases in financial penalties for early take-up of public old-age benefits. These reforms are prime examples of the growing supply orientation in mature welfare states (see Starke, Wulfgramm and Obinger in this volume).

Efforts to raise older workers' employment levels have not been confined to public pension schemes alone. Other welfare state programmes, such as unemployment insurance and disability benefits, also underwent major reforms in recent decades, with the 'activation' of older workers and other groups such as the long-term unemployed being a top priority. This goal was pursued through a combination of 'enabling' measures (for example, training and counselling measures) and 'demanding' measures (for example, tightening suitability or medical criteria, or cutting benefit levels) (Eichhorst et al. 2008). While often not targeted specifically at older workers, these reforms were an integral part of the broader policy package for promoting later retirement. Programmes such as unemployment or disability insurance often function as auxiliary transfers that help early retirees bridge the gap between leaving work and starting to draw regular retirement benefits.

Many OECD countries also saw far-reaching changes in the sphere of complementary pensions, that is, in occupational/employer-based and individual private pensions. While all advanced economies have some public programmes for providing income in old age, the overall size of these schemes and the replacement rates received by different types of workers differ widely (Ebbinghaus 2011; OECD 2007). In countries such as Germany or Belgium, where a strong public earnings-related tier guarantees high replacement rates even to higher-earning workers, complementary pensions have traditionally played a supplementary role. This practice is changing, as public pension replacement rates are declining and even countries with a strong reliance on public pensions are moving towards a multi-pillar model. For the time being, however, there remain clear differences to those countries where the public pension pillar has effectively focused on basic income security, either by providing a low basic pension (for example, the Netherlands) or by offering earnings-related, but highly progressive benefits, as is the case in the United States. In these 'mature multipillar pension systems' (Ebbinghaus 2011, 14), complementary pensions have long been crucial for retirement income provision.

The face of the complementary pension landscape, however, has changed quite dramatically in many of these countries over the past decades. Particularly in the Anglo-Saxon countries, employer-sponsored occupational pensions are increasingly designed as defined-contribution rather than defined-benefit plans (Broadbent et al. 2006). Under a defined-benefit design, employers guarantee a certain level of retirement benefits based on an employee's work and earnings history. Defined-contribution plans, by contrast, can be thought of as special (tax-privileged and employer-subsidized) savings accounts whose eventual balance is contingent on an employee's individual investment choices and susceptible to market fluctuations. Growing emphasis on defined-contribution pensions thus fits into the broader trend towards supply side-oriented policies, which 'shift the responsibility for welfare outcomes from the public into the individual sphere' (see Starke et al. in this volume). Indeed, many (for example, Hacker 2006) argue that defined-contribution plans render retirement incomes much more uncertain.

Against this background, this chapter reviews recent changes in the systems of retirement income provision in Germany and the US and uses household panel data to better understand implications of these changes for the economic well-being of and inequalities among older people. Throughout the chapter, the focus is on men's retirement because cohort differences in labour force participation complicate the interpretation of results for women. I find evidence for substantial inter-generational inequality (*recent retirement cohorts fared worse than those who left the labour market in the 1980s*) and for growing intra-generational inequality (*vulnerable groups such as involuntary early retirees or less-educated workers seem to have been hit hardest by recent reforms*).

Germany and the US are interesting cases for studying changes in retirement income provision because they exemplify the broader institutional trends noted above. During the 1970s and 1980s Germany actively (and successfully) promoted early retirement, but quite rapidly moved away from this paradigm starting in the 1990s. The Netherlands is another country that has followed a similar trajectory. Other early-exit countries, especially those in southern Europe, have been slower to institute reforms, but most seem to be moving in the same direction, especially after budgetary pressures were reinforced by recent financial crises (for an overview, see Ebbinghaus and Hofäcker 2013).

The United States is a useful case for studying the consequences of the shift towards defined-contribution plans and, more generally, towards strengthening individual responsibility in retirement preparation. Not only have employer pensions in the US become increasingly dominated by defined-contribution plans, in which the individual worker bears the investment risk, but employer plans are also entirely voluntary in that employers do not have to offer coverage and employees do not have to participate. In other countries such as Australia and more recently also the United Kingdom, defined-contribution plans have diffused primarily as mandatory employer pensions (that is to say, coverage and participation are not voluntary). The fact remains, however, that workers carry all or most of the investment risk (for further information on complementary pensions across the OECD, see Broadbent et al. 2006; OECD 2014).

The Changing Face of Retirement Income Provision in Germany and the United States

This section summarizes recent trends in the German and American systems of retirement income provision and discusses likely implications for inequalities between and within recent retirement cohorts. The focus is on changes that affected workers who retired between the 1980s and 2000s—the period spanned by the household panel data analyzed below.

Several important reforms primarily targeted at later and/or future retirement cohorts will therefore not be discussed. One important example is the German effort to strengthen complementary pensions (for example, through the so-called *Riester-Reform* of 2001).

Declining Public Pension Replacement Rates

Many Europeans are surprised to hear that the US has long had a sizable public pay-as-you-go pension pillar—often simply referred to as 'Social Security'. Many find it even more surprising that Social Security benefits are quite redistributive, with much higher replacement rates for workers with low (lifetime) earnings. Yet it is also true that its replacement rates were always quite low by international standards, particularly for high-earning workers—hence the important role of complementary pensions in the United States.

In both Germany and the US, public pension replacement rates fell noticeably from the 1980s to the 2000s. Munnell (2013: Table 5) estimates that net Social Security replacement rates[1] for a worker with medium earnings retiring at age 65 declined from 48 per cent in 1980, to 42 per cent in 1990, and to 37 and 38 per cent in 2000 and 2010, respectively.[2] In Germany, the standard pension level (*Standardrentenniveau*)[3] after mandatory social insurance contributions (but before taxes) declined from 57.6 per cent to 52.6 per cent between 1980 and 2005 (Deutsche Rentenversicherung 2015, 258). Under current legislation this trend is set to continue over the coming years (Munnell 2013; OECD 2007).

[1] Net replacement rates are Social Security benefits after taxes and (Parts B and D) premiums for Medicare, the public healthcare programme for Americans aged 65 and older, expressed in per cent of pre-retirement earnings. See Munnell (2013) for further details.

[2] The corresponding values for a medium-earning worker who retires at age 62/70 are 38 per cent/51 per cent (1980), 33 per cent/49 per cent (1990), 29 per cent/49 per cent (2000) and 28 per cent/53 per cent (2010).

[3] The standard pension level compares the pension of a hypothetical pensioner with 45 years of average earnings to the average earnings of current insured workers.

Retrenchment of Early Retirement Options in Germany

While overall generosity has thus declined noticeably since 1980, the most consequential development in German retirement policy has arguably been the retrenchment of early retirement options that were introduced after the economic crises of the 1970s. The nominal full retirement age in Germany was 65 for persons born before 1947, but workers could claim benefits substantially earlier *without incurring any benefit reductions* if they qualified for one of several group-specific pensions. The four major options were the old-age pension (OAP) after long-term unemployment and old-age part-time work, the OAP for women, the OAP for the long-term insured and the OAP for severely disabled persons. A concise summary of early retirement options is complicated by their group-specific nature. Generally speaking, most men qualified for reduction-free retirement at age 63 (via the so-called Old Age Pension for the Long-term Insured), while most women could retire as early as age 60 (via the Old Age Pension for Women).[4] The important (and infamous) unemployment pathway facilitated even earlier retirement: unemployed people aged 58 and older were relieved of job search and work availability requirements if they agreed to claim a deduction-free pension at the earliest possible age. Workers could thus effectively retire at 58 (or even somewhat earlier) and then draw first-tier unemployment benefits (for a maximum of 32 months) until becoming eligible for the old-age pension for the long-term unemployed at age 60 (Ebbinghaus 2006).

The 1992 pension reform (named after the year when its first regulations took effect) substantially raised the costs of early retirement: ages for reduction-free pension take-up were raised for all group-specific early retirement options. For the cohorts examined in this study, early retirement at the former age thresholds remained possible but became subject to benefit reductions of 3 per cent per month. Increases in the ages for reduction-free take-up were phased in gradually, usually in steps of one month per month of birth, and the precise timing differed across the different types of early pensions. Broadly speaking, the first cohorts affected became eligible for early benefit take-up in the late 1990s (see Heisig

[4] See Bäcker et al. (2009) and Heisig (2015) for further details.

2015, 53–113). In addition to this retrenchment of early retirement options proper, public disability and unemployment benefits were fundamentally overhauled in 2000/2001 and 2004/2005, respectively. In both cases, benefit generosity was reduced and eligibility criteria were tightened (for disability benefits, see Viebrok 2003; for unemployment benefits and activation policies more generally, see Alber and Heisig 2011).

Germany thus epitomizes the broader OECD-wide trend toward making early retirement more costly. Early retirement options were scaled back starting in the late-1990s, and complementary welfare state programmes were reformed as well. These changes occurred in a labour market where early retirement had long been the norm, where an emphasis on specific skills and occupational credentials creates marked labour market boundaries (DiPrete et al. 1997), where employment protection legislation is relatively strict (Giesecke 2006) and where continuing training participation is low, especially among older workers (Eichhorst 2011). All of these factors arguably depress the (re)employment prospects of older workers, so older workers may find it particularly difficult to conform to the new paradigm of late retirement. This situation suggests that recent reforms may have amplified inequalities between workers whose late careers run smoothly and involuntary retirees who, due to job loss, health problems or other shocks, retire earlier than planned.

Transformation of Complementary Pensions in the United States

In the US, the most dramatic developments arguably occurred in the sphere of employer-sponsored/occupational pensions where defined-contribution plans increasingly replaced defined-benefit plans (Wolff 2011). Defined-benefit plans resemble earnings-related public pay-as-you-go schemes in that they guarantee a certain level of benefits given an employee's earnings history with an employer. By contrast, defined-contribution plans are essentially (employer-subsidized and tax-preferred) individual savings accounts. Under a defined-contribution plan individual workers rather than employers carry most or all of the investment risk, making their retirement income more uncertain and susceptible to market fluctuations.

The US is perhaps unique in terms of the prevalence and the limited public regulation of defined-contribution plans, but these plans are becoming more important in other advanced economies as well (Broadbent et al. 2006). For the US, Wolff (2003, 486, Table 4) reports that the proportion of households aged 47–64 with positive defined-contribution pension wealth rose from 11.9 per cent to 59.7 per cent between 1983 and 1998. Over the same period, the share of households with defined-benefit entitlements from previous and/or current jobs declined from 87.0 per cent to 52.7 per cent.

As in other countries, access to employer-sponsored pensions—whether of the defined-benefit or defined-contribution variety—is highly stratified in the US. It is higher for male, white, full-time, higher-educated, higher-earning and public sector workers (Copeland 2011). Wolff (2011, chap. 4) shows that, among workers below age 65, coverage differentials by race, income and education grew considerably between 1980 and 2007. Differentials in complementary pension wealth by educational attainment also grew over the same period in most age groups, including 56–64-year-olds and those 65+ (Wolff 2011, chap. 6). Wolff's results indicate that the shift from defined-contribution to defined-benefit pensions was an important driver behind growing inequality, as defined-contribution wealth is much more unequally distributed than defined-benefit wealth.

Greater inequality of defined-contribution pension wealth may partly reflect the secular increase in earnings inequality since the late 1970s—a trend that has occurred in most advanced economies but that has been especially pronounced in the US (OECD 2008). However, differences in the design and implementation of defined-contribution as opposed to defined-benefit pensions have further contributed to this distributional trend. First, automatic enrolment is less common with defined-contribution than with defined-benefit plans. This is important because automatic enrolment has been found to boost participation in company plans, especially among (disadvantaged) groups 'who would otherwise tend to have the lowest participation rates (blacks and Hispanics, the young and those with lower compensation)' (Madrian and Shea 2001, 1185). Second, defined-contribution plans tend to give participants much greater discretion (in particular, with respect to contribution rates and investment choices). While this flexibility may be an advantage for some, workers are also easily overwhelmed by the complexity of the task (which may be one reason why many do not participate in the first place). Third, even conditional on participation, defined-contribution plans raise the salience of financial literacy, motivational resources and self-control (Knoll 2010). These requirements may further increase inequalities of retirement outcomes because levels of financial literacy and motivational efficacy tend to be lower among disadvantaged groups (Lusardi and Mitchell 2007; Moffitt et al. 2011).

The above discussion suggests several questions for the following empirical analysis of income trajectories around retirement. Recent research has highlighted the adverse consequences of involuntary early retirement, most frequently triggered by job loss or bad health (see, for example, Lachance and Seligman 2010; Radl 2013). It is plausible that the German reform path—scaling back early retirement policies in a labour market that provides limited (re)employment prospects for older workers—has exacerbated the impact of involuntary early retirement. In the US, the crucial trends have arguably been less about individual control over retirement and more about growing inequalities in access to, actual participation in and returns to employer-sponsored retirement plans. Preliminary evidence and theoretical considerations suggest that disadvantaged groups, such as blacks or less-educated workers, have increasingly fallen behind as defined-contribution plans replaced defined-benefit arrangements.

Data and Methods

Data for the following analysis come from the Panel Study of Income Dynamics (PSID; Hill 1992) and the German Socio-Economic Panel (SOEP; Wagner, Frick, and Schupp 2007), two of the longest-running household panel studies in the world. SOEP respondents are interviewed annually, as were PSID respondents until 1997, when the study switched to biennial interview intervals. Several key variables, including the income measures, come from the Cross-National Equivalent File (CNEF; Frick et al. 2007), which provides consistent variables for international comparisons. I use PSID data from survey years 1980–2005 and SOEP data from survey years 1984–2010.[5] All income measures are based on retrospective information for the previous calendar year.

Retirement is defined as exit from work and, more technically, as the first prolonged spell without substantial employment after age 50. I restrict the analysis to persons with substantial employment around and/or after age 50 (at least 15 hours per week on average between ages 48 and 50 or during the first three years in the panel if the respondent entered the study at a higher age). A person is treated as having retired in year t if he worked less than 10 hours per week in t and worked less than 10 hours per week two years later (that is, in $t+2$). Information on work hours in $t+1$ is ignored because it is not available after the PSID's move to biennial interviewing in 1997. Some of the analyses differentiate between voluntary and involuntary retirement. A given retirement event is classified as involuntary if the retiree experienced job displacement or a negative health shock at any time between two years before and one year after retirement. See Heisig (2015, chap. 4) for further details.

I characterize income trajectories around retirement in several ways. First, I consider average income losses relative to pre-retirement income, both before accounting for taxes and transfers (pre-government income) and after including them (post-government or disposable income). The underlying income measures are needs-adjusted according to the modified OECD scale. For a man retiring in year t, the relative change (in per cent) from a years before until b years after retirement is calculated as follows:

$$\left(\frac{y_{t+b}}{y_{t-a}} - 1\right) \cdot 100$$

In principle, this indicator can vary between −100 and +∞. I cap it at +100 to limit the influence of (a very small number of) outliers. Second, in addition to average relative changes, I also look at the proportion of individuals whose disposable income declines by more than a third ('large loss') and more than half ('very large loss'). These indicators are useful for identifying the prevalence of potentially critical declines in disposable

[5] PSID/CNEF data from the 2007 wave were available at the time of writing. Unfortunately, exploratory analyses revealed severe problems with a crucial income component—household private pension income—in these data.

income and more generally for studying the inequality of income trajectories. Finally, I also report the proportion of men who enter income poverty after retirement. These entry rates are calculated only on the basis of those who were not poor in the pre-retirement reference year $t - a$. 'Poverty' is defined using a 'European-style' threshold of 60 per cent of median needs-adjusted disposable income for the whole adult population.

Results below are based on four-year and six-year income changes, that is, on changes between a pre-retirement reference year and four/six years later. I use $t - 1$ as the reference year for workers retiring in odd-numbered years and $t - 2$ for workers retiring in even-numbered years. This approach ensures consistency across countries and over time despite the PSID's switch to biennial interviews (for details, see Heisig 2015, chap. 4). Four-year changes and six-year changes are similar, and I do not analyze them separately but cluster standard errors on the person-level to correct for serial correlation. Men are included in the analysis if at least one of the changes (four-year or six-year) is available for them (unbalanced panel).

Income Trajectories Around Men's Retirement

Table 7.1 summarizes income trajectories around men's retirement in Germany and the United States. Men are divided into three groups according to their year of retirement, with period definitions differing slightly between Germany and the US due to the somewhat different overall observation periods. Superscripted numbers indicate if the estimate for a given period differs significantly (at the 10 per cent level, two-tailed tests) from the corresponding estimates for the other periods. For example, the entry '$-66.5^{(2,\,3)}$' in the first cell means that, on average, the needs-adjusted pre-government income of German men who retired between 1985 and 1992 was 66.5 per cent lower after retirement than before, and that this value is statistically significantly different from the average changes experienced by German men who retired in the other periods (that is, periods 2 and 3).

Table 7.1 contains information on German–American differences as well as (within-country) changes over time. As for the country comparison,

Table 7.1 Income change around men's retirement by country and year of retirement

	Germany			United States		
	Period 1 1985–1992	Period 2 1993–1998	Period 3 1999–2007	Period 1 1981–1988	Period 2 1989–1994	Period 3 1995–2002
Avg. change in pre-government income (in % of pre-retirement value)	–66.5 $^{(2, 3)}$ [2.3]	–71.5 $^{(1)}$ [1.7]	–72.6 $^{(1)}$ [1.3]	–49.9 [2.4]	–51.9 [2.6]	–49.2 [3.2]
Avg. change in post-government income (in % of pre-retirement value)	–10.8 $^{(2, 3)}$ [2.0]	–15.3 $^{(1, 3)}$ [1.6]	–19.6 $^{(1, 2)}$ [1.2]	–12.8 $^{(2)}$ [2.0]	–19.8 $^{(1)}$ [2.4]	–18.5 [2.9]
% with post-government loss >1/3	23.1 $^{(2, 3)}$ [2.3]	28.9 $^{(1)}$ [2.2]	31.1 $^{(1)}$ [2.0]	24.8 $^{(2, 3)}$ [2.6]	37.1 $^{(1)}$ [3.3]	40.9 $^{(1)}$ [3.5]
% with post-government loss >1/2	9.5 [1.6]	10.5 [1.5]	13.0 [1.4]	7.6 $^{(2, 3)}$ [1.5]	14.5 $^{(1, 3)}$ [2.3]	20.7 $^{(1, 2)}$ [2.9]
% entering income poverty	15.1 [2.0]	11.6 $^{(3)}$ [1.6]	15.9 $^{(2)}$ [1.6]	12.9 $^{(3)}$ [2.2]	11.8 $^{(3)}$ [2.3]	21.7 $^{(1, 2)}$ [3.4]
Post-retirement obs. (person years) all/not poor before retirement	643/608	790/749	1134/1098	519/449	362/321	343/305
Post-retirement obs. (persons) all/not poor before retirement	347/328	416/394	702/680	280/243	196/172	212/188

Person-level cluster-robust standard errors in brackets. Superscripted numbers in parentheses indicate that the within-country period difference for a given income measure is significantly different from zero at the 10% level (two-tailed tests). For example, the superscript (1, 2) indicates that the Period 3 estimate is significantly different at the 10% level from the Period 1 and Period 2 estimates. avg. = average, obs. = observations

Sources: SOEP, PSID, CNEF, author's calculations

results confirm that private income sources play a greater role for retirement income provision in the United States. For German men average changes in pre-government income lie between 66.5 and 72.6 per cent, whereas for American men they are in the neighbourhood of 50 per cent for all three periods. Changes in post-government income are more similar. Other than perhaps for the final period, there is no evidence that American men faced greater risks of falling below the poverty line upon retirement—a finding that stands in some tension with the widespread assumption that the 'residual' American welfare state leaves larger parts of the population economically vulnerable and disadvantaged. It should be noted, however, that the proportion of men who were poor already before retirement is higher in the United States (see Heisig 2015, chap. 6).

Turning to differences between retirement cohorts, Table 7.1 shows that income trajectories around retirement have become less favourable in both countries, but the precise pattern differs. In Germany, there is a clear trend towards larger average losses in disposable income: whereas men who retired between 1985 and 1992 saw their disposable income fall by approximately 10.8 per cent on average, men who retired between 1999 and 2007 experienced declines of almost 20 per cent—an increase that is statistically significant at the 10 per cent level. There is also relatively clear evidence that large losses of more than a third occurred more frequently among recent retirement cohorts. Very large losses of more than half appear to have increased very slightly at most. The incidence of poverty entry follows no clear trend. The overall picture is thus of a more or less broadly shared increase in financial risks that has not (yet) resulted in more men (and their partners) entering poverty or experiencing very large income losses around retirement.

The American results also indicate a trend towards greater average losses, but here growing financial risks seem to have been less equally shared: there are marked increases in the incidence of both large and very large losses, and in the risk of having a low income below the poverty threshold after retirement. Period differences for these indicators also mostly attain statistical significance. These patterns fit well with the idea that the shift towards defined-contribution raised the heterogeneity of income trajectories and hurt disadvantaged groups with higher risks of falling below the poverty line. To explore this possibility more directly, I examine below trends for different educational groups.

Table 7.2 compares the experiences of involuntary retirees who retired after a job loss and/or decline in health and voluntary retirees whose exit was not accompanied by either of these events. As argued above, involuntary retirees might be more directly affected by retrenchment of early retirement policies in Germany. Results in Table 7.2 are consistent with this idea. German involuntary retirees faced substantially higher risks of falling into poverty in the final period (retirement years 1999 to 2007), when almost 1 out of 4 men entered poverty. For voluntary retirees, there is no evidence of such a trend. In the first two periods risks of poverty entry did not differ markedly by the extent of control over retirement. A clear difference only emerged in the final period, when involuntary retirees faced substantially higher risks. Importantly, this coincides with the retrenchment of early retirement options from the late-1990s onwards. Trends for the other income measures also look less favourable for German involuntary retirees than for voluntary retirees, even though the patterns are somewhat less conclusive than in the case of poverty entries.

Overall, income trajectories are less clearly structured along the voluntary-involuntary distinction in the United States. This lack of clarity may partly reflect smaller sample sizes, but it may also reflect the fact that retirement after adverse events tends to be more selective in the United States. Retirement after a job loss or health shock is involuntary in the sense that it presumably would have occurred later in the absence of the adverse 'trigger'—but it is not inevitable. In the US, where the costs of early retirement remain higher than in Germany even after the recent reforms and where re-employment opportunities for older workers are probably better, those who retire after a late-career job loss or health shock are possibly a more selective group than in Germany. Further analysis of work and income trajectories around late-career job loss supports this interpretation (Heisig 2015, chap. 8).

Table 7.3 differentiates men with respect to their level of education. Because of the limited number of observations, I now only differentiate between an early and a late period. In both countries, there is a steep educational gradient in the risk of entering income poverty upon retirement. In Germany, in both periods about 1 in 3 men with low education fell

Table 7.2 Income change around retirement by country, year of and control over retirement

	Voluntary retirement		**Involuntary retirement**			
	Germany					
	Period 1 1985–1992	Period 2 1993–1998	Period 3 1999–2007	Period 1 1985–1992	Period 2 1993–1998	Period 3 1999–2007
Avg. change in pre-government income (in % of pre-retirement value)	–69.1 [2.3]	–70.4 [2.4]	–73.2 [1.6]	–60.1 $^{(2, 3)}$ [5.3]	–73.3 $^{(1)}$ [2.4]	–71.5 $^{(1)}$ [2.2]
Avg. change in post-government income (in % of pre-retirement value)	–12.3 $^{(3)}$ [2.2]	–14.3 [2.1]	–18.2 $^{(1)}$ [1.5]	–7.3 $^{(2, 3)}$ [4.3]	–16.9 $^{(1, 3)}$ [2.3]	–22.7 $^{(1, 2)}$ [1.9]
% with post-government loss > 1/3	23.4 $^{(3)}$ [2.7]	28.5 [2.9]	29.8 $^{(1)}$ [2.4]	22.4 $^{(3)}$ [4.2]	29.6 [3.3]	33.9 $^{(1)}$ [3.4]
% with post-government loss > 1/2	9.2 [2.0]	8.7 [1.8]	11.3 [1.6]	10.3 [2.7]	13.3 [2.7]	16.5 [2.8]
% entering income poverty	15.2 [2.5]	10.3 [2.1]	12.1 [1.8]	14.8 $^{(3)}$ [3.4]	13.9 $^{(3)}$ [2.6]	23.7 $^{(1, 2)}$ [3.1]
Post-retirement obs. (person years) all/not poor before retirement	449/430	468/456	748/733	194/178	322/293	386/365
Post-retirement obs. (persons) all/ not poor before retirement	244/233	246/239	476/466	103/95	170/155	226/214
	United States					
	Period 1 1981–1988	Period 2 1989–1994	Period 3 1995–2002	Period 1 1981–1988	Period 2 1989–1994	Period 3 1995–2002
Avg. change in pre-government income (in % of pre-retirement value)	–51.6 [2.7]	–49.8 [3.4]	–48.7 [4.0]	–47.1 [4.7]	–55.8 [4.0]	–50.4 [5.7]
Avg. change in post-government income (in % of pre-retirement value)	–12.5 $^{(2, 3)}$ [2.3]	–20.3 $^{(1)}$ [2.9]	–20.4 $^{(1)}$ [3.5]	–13.1 [3.9]	–19.1 [4.2]	–14.2 [5.2]
% with post-government loss > 1/3	21.7 $^{(2, 3)}$ [3.2]	38.5 $^{(1)}$ [4.2]	42.4 $^{(1)}$ [4.3]	30.0 [4.4]	34.6 [5.6]	37.6 [6.2]
% with post-government loss > 1/2	6.1 $^{(2, 3)}$ [1.5]	15.0 $^{(1, 3)}$ [2.9]	24.1 $^{(1, 2)}$ [3.6]	10.1 [3.0]	13.8 [3.8]	13.0 [4.3]
% entering income poverty	8.3 $^{(3)}$ [2.2]	9.9 $^{(3)}$ [2.6]	19.4 $^{(1, 2)}$ [4.0]	21.1 [4.5]	15.6 [4.4]	27.7 [6.4]

(*continued*)

Table 7.2 (continued)

	Voluntary retirement		**Involuntary retirement**			
	Germany					
	Period 1 1985–1992	Period 2 1993–1998	Period 3 1999–2007	Period 1 1985–1992	Period 2 1993–1998	Period 3 1999–2007
Post-retirement obs. (person years) all/not poor before retirement	307/279	233/217	235/216	212/170	129/104	108/89
Post-retirement obs. (persons) all/ not poor before retirement	167/152	125/116	144/132	113/91	71/56	68/56

Person-level cluster-robust standard errors in brackets. Retirement is treated as involuntary if it was preceded by job displacement or a decline in health; see Section 'Data & Methods' for further details. Years refer to the year of retirement. Superscripted numbers in parentheses indicate that the within-country period difference for a given income measure is significantly different from zero at the 10% level (two-tailed tests). For example, the superscript (1, 2) indicates that the Period 3 estimate is significantly different at the 10% level from the Period 1 and Period 2 estimates. avg. = average, obs. = observations

Sources: SOEP, PSID, CNEF, author's calculations

below the poverty threshold compared to approximately 1 out of 8 men in the intermediate educational group. If averaged over the two periods, educational differences are of similar magnitude in the United States.

Do the results in Table 7.3 confirm that inequalities by level of education have risen in the United States? Due to small sample sizes, results must be interpreted with some caution, but overall it seems that income trajectories became less favourable for all educational groups (*p*-values in the right-most column illustrate to what extent period differences are statistically meaningful). That said, there is some evidence that, at least in absolute terms, inequalities by level of education grew between the 1980s and the 2000s. The incidence of very large losses and of poverty entries rose most strongly among the least educated men in the United States. Taking the estimates for the second period at face value, every fourth low-educated man saw his disposable income drop by more than 50 per cent and almost every second fell below the poverty line in the first post-retirement years. However, the uncertainty of these estimates is considerable.

Table 7.4 shows whether the shift to defined-contribution pensions has been accompanied by growing inequalities in access to complementary pension income. For each educational group (and period), it reports the proportion of men living in households with no or low private non-labour income (PNLI)[6] after retirement, with 'low' meaning that PNLI accounts for less than 10 per cent of pre-tax post-transfer household income. There is clear evidence for growing educational inequalities in access to private income sources. From the first period to the second, the share of men with no/low PNLI increased from 34 to 51 per cent among the low-educated and from 12 to 22 per cent among the intermediate group while remaining practically unchanged at 7–8 per cent for those with high levels of education. In all educational groups, men with no/low PNLI tend to experience larger declines in disposable income, and some evidence suggests that for the low educated, this link has become stronger over time. These results underline the (growing) importance of

[6] The main constituents of PNLI are occupational/private pension and asset/capital income. Results are similar when only occupational/private pension income is used instead of all private non-labour income.

Table 7.3 Income change around men's retirement by country, year of retirement and level of education

	Low education			Intermediate education			High education		
	Germany								
	Period 1 1985–1996	Period 2 1997–2007	*p*-value	Period 1 1985–1996	Period 2 1997–2007	*p*-value	Period 1 1985–1996	Period 2 1997–2007	*p*-value
Avg. retirement age	58.7 [0.4]	60.1 [0.5]	0.03	60.4 [0.2]	60.8 [0.2]	0.12	61.6 [0.4]	62.5 [0.4]	0.09
Avg. change in pre-government income (in % of pre-retirement value)	–69.5 [3.4]	–75.0 [3.0]	0.22	–68.2 [1.9]	–72.0 [1.4]	0.11	–72.6 [4.1]	–73.8 [2.7]	0.81
Avg. change in post-government income (in % of pre-retirement value)	–20.2 [2.6]	–23.6 [3.3]	0.41	–13.1 [1.7]	–20.0 [1.2]	0.00	–8.5 [3.3]	–14.1 [2.7]	0.19
% with post-government loss > 1/3	36.8 [4.5]	41.0 [5.3]	0.55	24.7 [2.2]	30.1 [2.1]	0.08	17.4 [3.7]	25.9 [4.1]	0.12
% with post-government loss > 1/2	14.3 [2.9]	19.1 [4.5]	0.38	10.1 [1.6]	12.1 [1.5]	0.35	4.8 [1.9]	10.0 [2.4]	0.09
% entering income poverty	29.2 [4.7]	33.4 [5.3]	0.56	11.9 [1.7]	13.0 [1.5]	0.64	5.2 [2.2]	7.8 [3.0]	0.48
Post-retirement obs. (person years) all/not poor before retirement	263/246	179/171		731/715	931/915		153/152	259/256	
Post-retirement obs. (persons) all/not poor before retirement	153/136	111/103		394/378	555/539		80/79	170/167	

	United States								
	Period 1 1981–1992	Period 2 1993–2002	*p*-value	Period 1 1981–1992	Period 2 1993–2002	*p*-value	Period 1 1981–1992	Period 2 1993–2002	*p*-value
Avg. retirement age	62.9 [0.5]	64.3 [0.8]	0.10	62.6 [0.4]	62.6 [0.6]	0.95	64.1 [0.5]	63.5 [0.7]	0.47
Avg. change in pre-government income (in % of pre-retirement value)	–58.3 [3.0]	–63.6 [5.8]	0.41	–53.3 [2.4]	–48.3 [3.7]	0.25	–40.2 [4.4]	–37.9 [5.9]	0.76
Avg. change in post-government income (in % of pre-retirement value)	–17.6 [2.8]	–25.9 [5.5]	0.18	–20.3 [2.1]	–17.6 [3.3]	0.49	–11.7 [3.7]	–17.3 [5.1]	0.38
% with post-government loss > 1/3	31.1 [3.9]	39.7 [7.4]	0.30	33.6 [3.6]	39.7 [4.5]	0.29	23.8 [4.3]	42.9 [6.0]	0.01
% with post-government loss > 1/2	11.0 [2.6]	25.6 [6.3]	0.03	11.6 [2.2]	19.2 [3.5]	0.07	9.4 [2.9]	17.3 [4.5]	0.14
% entering income poverty	30.4 [4.2]	46.1 [8.8]	0.11	7.2 [2.0]	17.1 [3.8]	0.02	1.1 [0.8]	7.4 [3.3]	0.07
Post-retirement obs. (person years) all/not poor before retirement	312/269	86/66		291/283	214/203		137/135	119/119	
Post-retirement obs. (persons) all/not poor before retirement	188/145	58/38		162/154	133/122		75/73	71/71	

Person-level cluster-robust standard errors in brackets. Education is defined as follows: Low: below upper secondary; intermediate: Germany: upper secondary (general or vocational), US: upper secondary (high school) or some college (13 or 14 years of education); High: tertiary degree. Period definitions differ slightly across countries. *p*-val. = two-tailed, *p*-value for rejecting the null hypothesis that average/proportion does not differ across the two periods. avg. = average, obs. = observations

Sources: SOEP, PSID, CNEF, author's calculations

Table 7.4 American men: income change around retirement by year of retirement, level of education and level of private non-labour income (PNLI)

	Low education			Intermediate education			High education		
	Period 1 1981–1992	Period 2 1993–2002	*p*-value	Period 1 1981–1992	Period 2 1993–2002	*p*-value	Period 1 1981–1992	Period 2: 1993–202	*p*-value
% of retirees with no/low private non-labour income (PNLI)	34	51	0.02	12	22	0.03	8	7	0.85
Avg. % change in post-gov. income									
Substantial PNLI	–14	–18	0.61	–20	–13	0.15	–12	–16	0.53
No/low PNLI	–18	–31	0.14	–17	–22	0.65	(–3)	(–37)	0.22
% entering poverty									
Substantial PNLI	18	23	0.58	4	10	0.09	1	7	0.04
No/low PNLI	60	(77)	0.23	31	51	0.19	(2)	(15)	0.42
% with post-gov. loss > 50%									
Substantial PNLI	8	15	0.23	11	17	0.12	8	16	0.12
No/low PNLI	15	28	0.18	17	23	0.59	(20)	(28)	0.72
Post-retirement obs. (person years) all/not poor before retirement	350/265	100/64		297/279	220/199		138/131	119/119	
Post-retirement obs. (persons) all/not poor before retirement	188/142	58/37		162/152	134/120		75/70	71/71	

Substantial private non-labour income is defined as PNLI accounting for at least 10% of household pre-tax post-transfer income. Estimates in parentheses are based on fewer than 30 observations. Education is defined as follows: Low: below upper secondary; intermediate: Germany: upper secondary (general or vocational), US: upper secondary (high school) or some college (13 or 14 years of education); High: tertiary degree. *p*-val. = two-tailed *p*-value for rejecting the null hypothesis that average/proportion does not differ across the two periods. avg. = average. obs. = observations
Sources: SOEP, PSID, CNEF, own calculations

complementary pension income for economic well-being in retirement in the US and confirm that inequalities in access to this crucial resource have risen over recent decades.

Conclusions

Against the background of broader OECD-wide trends in systems of retirement income provision, this chapter has reviewed key developments in Germany and the United States and examined between- and within-cohort inequalities in actual income trajectories around retirement. The analysis shows how pension reform and changes in the retirement income system more broadly have strengthened individual responsibility and transferred the financial risks associated with disability, job loss or market fluctuations from 'the state' or 'employers' to individuals. In both countries, men who retired in the late 1990s and early 2000s experienced larger declines in disposable income than their counterparts did in the 1980s. At the same time, inequalities between different groups of retirees have risen. It seems that vulnerable groups such as involuntary early retirees or the less educated have been hit hardest by the transformation of retirement income systems in Germany and the US.

Germany exemplifies the case of a country with a strong public pension pillar that long sustained generous early retirement options. Since the mid-1990s, the public pension system and other welfare state programmes have been substantially reformed in order to alleviate budgetary pressures and promote later retirement. Many other OECD countries, particularly in continental and southern Europe, have followed a broadly similar path. The United States epitomizes a mature multi-pillar system where the generosity of public benefits has declined and where increasing emphasis on defined-contribution plans in the sphere of company pensions has shifted risks from employers to individual workers.

Empirical analysis of income trajectories around men's retirement sheds light on how these still ongoing processes have affected recent retirement cohorts. In both Germany and the US, the typical income trajectory around men's retirement looked less favourable in the 2000s than in the 1980s. In both countries, disposable income declined more strongly relative to pre-retirement levels, and large losses of more than a third occurred more frequently toward the end of the observation period. In the US, the incidence of very large losses of more than half of pre-retirement income and entries into income poverty (60 per cent of median threshold) also became more common. The analysis also highlighted the emergence or amplification of inequalities between different groups of retirees. In Germany, retrenchment of early retirement options has resulted in a growing gap between involuntary and voluntary retirees, that is, between workers who retire early due to job loss or health problems and workers whose retirement decision is not constrained by such events. In the American case, even though results are quite uncertain due to the small sample, findings suggest that low-educated workers are increasingly falling behind. This observation is consistent with other studies on the impact of the shift towards defined-contribution pensions (Wolff 2011).

These results suggest that a widely held fear is not unfounded: recent and future changes in pension systems may well lead to a resurgence of old-age poverty and exacerbate economic inequality among the old. To prevent or at least contain such a trend, the new paradigm of late retirement needs to be complemented by policies and meso-level initiatives (on the part of employers and unions) that improve the (re)employment prospects and maintain the physical and psychological health of older workers (Ebbinghaus and Hofäcker 2013). However, even the most successful programmes are unlikely to completely eradicate involuntary early retirement. A key challenge will therefore be to (re)design disability and unemployment insurance to successfully protect those who cannot work from economic hardship while ensuring that such insurance is not abused by becoming a de facto early retirement programme.

The American example illustrates the dangers of relying on employer-sponsored or individual pensions for protecting workers from inadequate retirement income or even poverty. Unregulated, highly individualized and voluntary forms of employer-sponsored pensions are not a good choice for protecting vulnerable groups from economic precariousness in old age. Automatic enrolment may be able to boost participation rates among eligible workers, but many employers simply do not offer retirement plans to the less-qualified segments of their workforce. Redistributive elements also tend to be weakly developed in the individualized, defined-contribution type of pension plan that is increasingly common in the US and other advanced economies. Even though it is not impossible to regulate complementary pensions in ways that promote more equitable outcomes, these issues are perhaps more effectively addressed by means of public programmes.

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8

The Trilemma of Higher Education and Equality of Opportunity: Social Background, Access to Higher Education and the Moderating Impact of Enrolment and Public Subsidization

Timm Fulge

Compared to the attention given to classic social policies such as unemployment insurance or pension schemes (see Dingeldey, Heisig and Schwander in this volume), education policy occupies a peculiar spot in welfare state research. While in Anglo-Saxon countries education has traditionally been understood as a central component of social policy provision, European scholars have long been reluctant to place it within the realm of the welfare state (Wilensky 1974; Flora and Heidenheimer 1981; Castles 1989; Allmendinger and Leibfried 2003); thus, they have largely neglected it in their studies (Busemeyer and Trampusch 2011). Re-conceptualized as central to the formation of skills and human capital, however, scholars have begun to analyze *complementarities* (defined as

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interdependence and mutual reinforcement of existing institutional set-ups) between education policy, varieties of capitalism and social protection schemes (Estevez-Abe et al. 2001; Iversen and Soskice 2001; Iversen and Stephens 2008; Busemeyer 2012).

One of the most interesting debates in this context revolves around the redistributive implications of education policy. Debating the trade-off between public spending on education and other (plainly redistributive) social policies, two different schools of thought have emerged. One view is that heavy investment in public education offers protection from life risks and can thus be understood as an 'intended alternative to other social insurance guarantees by the state' (Hega and Hokenmaier 2002, 3; see also Janowitz 1976). The underlying notion of welfare in this view is that state policies should be directed towards achieving an equality of opportunity through education spending rather than a transfer-induced equality of condition (Castles 1989, 43). Investment in education thereby forms one of the building blocks of supply-oriented welfare states (see Starke, Wulfgramm and Obinger in this volume). In contrast, it has also been argued that investment in education—and particularly in *academic* education—amounts to a regressive transfer from the lower to the upper classes because privileged groups are much more likely to reap the benefits of receiving education in the form of higher lifetime earnings (Ansell 2008; Iversen and Stephens 2008, 618; Busemeyer 2009). According to this view, parents from lower social strata lack the social capital to stimulate the educational success of their children, resulting in little inter-generational social mobility and thus the need for more passive and overtly redistributive social protection schemes (Room 2002).

Within this debate, higher education—defined as post-secondary academic education—is a particularly interesting case, spurring sizable academic discussions on the determinants of public spending in higher education (Boix 1997; Busemeyer 2007; Rauh et al. 2011) and the institutional make-up of different higher education systems (Clark 1983; Ansell 2008; Dobbins et al. 2011). However, though access to and participation in higher education certainly have an enormous influence on the future economic and social position of an individual within contemporary knowledge-based societies, inequality research has rarely studied the transition from secondary to higher education in a quantitative and comparative way. In particular, scholars have seldom considered combining individual-level characteristics with institutional factors of the specific higher education system in which the transition takes place.

Therefore, the goal of this chapter is to comparatively analyze inequalities of opportunity in the access to higher education institutions. While most of the contributions in this volume focus on inequality of outcomes (for example, income inequality), inequality of opportunity refers to the antecedents of these outcomes. More specifically, it can be defined as the degree to which access to education is driven by factors outside individual control (Roemer 2000; Bratti et al. 2008; see also Gosepath in this volume). The theoretical points of departure of this chapter are the works of Boudon (1974) and Ansell (2008, 2010); see also Ansell and Gingrich (2013). From a sociological perspective, Boudon regards equality of educational opportunities as a function of social background, measured as the education level of parents. With regard to the institutional level, Ansell proposes a parsimonious framework in which three interacting factors determine the structure of different higher education systems: the level of enrolment, the degree of public subsidization and the overall public cost of higher education. Building on these sociological insights to educational inequalities and Ansell's framework, I hypothesize that characteristics of higher education systems moderate the relationship between social background and access to higher education. More specifically, I assess to what extent the individual likelihood to enrol in higher education is structured by the level of enrolment and the degree of public subsidization. The overarching research question of this chapter can hence be summarized as follows: How does the institutional set-up of higher education systems affect inequalities of access to higher education?

Methodologically, cross-national survey data is integrated with country-level data on enrolment and the degree of public subsidization to test these prepositions. In the spirit of this volume, I focus on current OECD countries, but for reasons of data availability, the analysis is restricted to those whose participate in the European Social Survey (ESS).[1] I estimate a set of multilevel logistic regression analyses including both random intercepts and random slopes. The hypothesized conditional effects of accessing university are tested for by including interactions between the central independent variable (parental education) and the macro-level indicators, which are taken from the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics. Coinciding with the publication of the first five rounds of the ESS, the time frame of the analysis is from 2002 to 2010.

The chapter is structured as follows: after formulating the theoretical framework, I derive a set of research hypotheses, and introduce data and method. Subsequently, I present the results of the analysis and conclude with a brief discussion thereof.

Theoretical Framework

In order to investigate the micro-macro linkages between social background and institutional characteristics of higher education and their joint impact on the propensity to pursue an academic degree, two strands of literature are combined. For the micro-level perspective explicating the causal mechanisms underlying the persistence of inequalities in education, I draw on educational sociology. The moderating impact of macro-level institutions is subsequently theorized by adopting recent insights from comparative political economy.

Inequality of Educational Opportunities

Educational sociology has a long tradition of researching the origin and the reproduction of inequalities in education (for an overview, see Becker 2011). The findings of this literature, however, are remarkably similar: social background—generally measured as either parental education or

[1] Countries included in the sample are thus: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, the Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and the United Kingdom.

parental income—consistently structures both access to and success in higher levels of education across both time and countries (classics include Coleman 1968; Sewell 1971; Mare 1980; Goldthorpe 1996; Breen and Jonsson 2005). Thus, individuals from a low social background (or class) are fundamentally disadvantaged in accessing higher levels of education. Today, these inequalities are especially pronounced in higher education, as the massive expansion of secondary education in recent decades has led to a catch-up effect for lower classes (Becker 2011, 100). Higher education, however, remains highly socially exclusive (Shavit et al. 2007).

How can these persistent inequalities be explained? According to Raymond Boudon (1974), the impact of social background on educational access can be differentiated along the lines of primary and secondary social origin effects. In this view, primary social origin effects relate directly to the social capital of parents. In upper-class households, for example, children will on average have access to more books, and parents are more likely to actively stimulate their children's cognitive abilities from an early age onwards. At the point of entry into the education system, children from low socio-economic status backgrounds are therefore already disadvantaged compared to children from upper-class parents, irrespective of individual talent. With regard to access to higher education, this difference in starting position at the level of primary education is further compounded by secondary social origin effects. These effects come into play as individuals commence the transition from secondary education to either higher education or paid employment, weighing the expected utility of each available option. Formally, the decision scenario can be expressed as:

$$P_{HE} = (pU - C)_{HE}$$

The probability P of choosing a certain path—in this case pursuing an academic degree—therefore depends on three factors, given in the formula by p, U and C: the (subjectively assessed) probability p of successfully completing higher education HE multiplied by its total utility U (for example, increased life-time earnings), less the cost C associated with choosing that path. Accordingly, high values for the total utility and completion probability and low values for cost would independently contribute towards the decision to take up higher education. This cost-benefit calculation, in turn, is affected by the social background of an individual. Naturally, relative cost is higher for low-socio-economic status individuals, as low household income may make tuition fees or living expenses prohibitively expensive. Parents of high-socio-economic status individuals, on the other hand, can more easily afford to pay for higher education. According to Boudon, the other two components of the skill investment calculus—probability p and total utility U—are more important in producing inequalities, however. First, because of disadvantages stemming from primary social origin effects, the probability of successfully completing higher education is depressed for low socio-economic status individuals. Second, in addition to financial returns, the utility of pursuing higher education is judged relative to the current social class of the parents. Concerned with preserving their social status, high socio-economic status individuals have an overwhelming incentive to pursue higher education. Their lower-class counterparts, on the other hand, have a lower utility from enrolling in higher education, since it is not required for the preservation of their social status (Bornkessel and Kuhnen 2011, 49–55).

While Boudon's model offers an explanation of why class-based inequalities persist, it neglects the supply side of higher education. The question this chapter addresses, then, is how different configurations of variables shaping higher education systems may affect the cost-benefit analysis of individuals faced with the decision to pursue an academic degree. In order to do so, Boudon's approach of educational sociology is supplemented by insights from political economy.

The Political Economy of Higher Education

As mentioned in the introduction, scholars of political economy have increasingly focused on how the formation of skills is organized in different nation-states and what repercussions corresponding institutional designs have on, for example, production modes (Iversen and Stephens 2008), employment patterns (Ansell and Gingrich 2013) and welfare state policy preferences (Busemeyer et al. 2011). However, only recently have authors focused their attention on the complex relationship between institutional arrangements structuring the set-up of higher education systems. Here, I draw on Ben Ansell's (2008) recently proposed framework.

In essence, the author proposes that decision-makers are faced with a trilemma when designing (or changing) higher education systems. At any point in time, higher education systems logically can fulfil only two of three possible goals: high enrolment (defined as the proportion of individuals pursuing an academic degree after leaving secondary school), a high degree of public subsidization (defined as the amount of public money spent on each higher education student) and low public overall cost. To illustrate, if policy-makers put a premium on high enrolment and at the same time want to keep the overall cost of the higher education system as low as possible, they will not be able to highly subsidize each student, transferring the cost of higher education to private households in the process. Likewise, if policy-makers value high levels of public subsidization, for example to provide for a level playing field, they can only achieve it if they either limit enrolment or accept the overall cost of the higher education system to be a substantial burden on the public purse.

Accordingly, different configurations of two of the variables enrolment and degree of public subsidization lead to three ideal-typical models[2]: the elite model (low enrolment ratios and high public subsidization), the partially private model (high enrolment ratios and low public subsidization) and the mass model (both overall enrolment and public subsidization high).

Along with identifying these ideal types, Ansell develops a redistributive theory, positing that preferences over which system to implement are class-based and run counter to usual intuitions over public spending. Describing the preferences of three social strata, Ansell argues that the lower class will tend to prefer higher education systems with low levels of public subsidization (elite or partially private) because they are unlikely to benefit from increased public spending in higher education and will thus want to avoid the tax burden associated with it. At the other end of the spectrum, the upper class prefer to maintain an elite system since they receive higher education at any rate and do not stand to profit from either increased enrolment or subsidization. On the contrary, they might suffer relative losses once higher education becomes accessible to other strata.

[2] The third variable—overall cost of the higher education system—is essentially a function of the configuration of the other two. Put differently, overall cost increases as either enrolment or public subsidization increase.

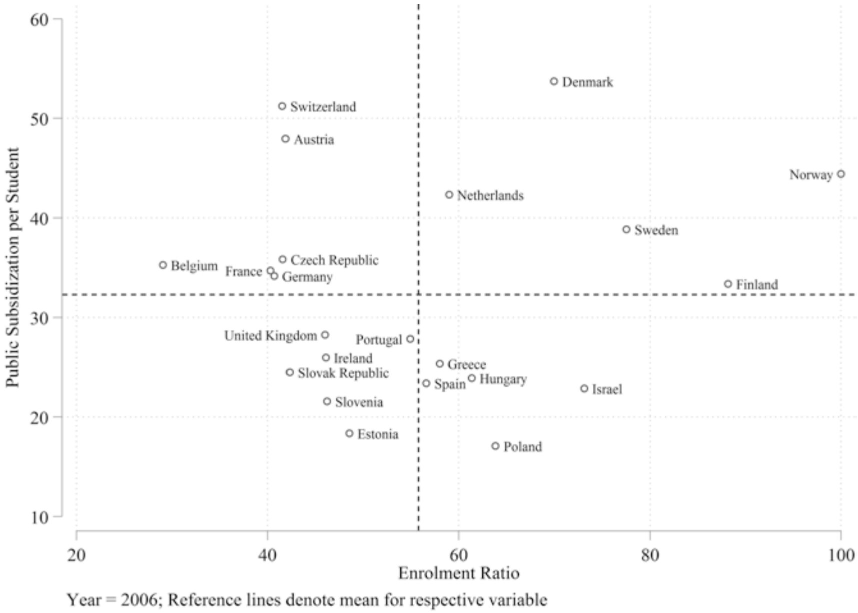

Fig. 8.1 Illustration of higher education system ideal types

The middle class, finally, is perhaps the most interesting group within Ansell's redistributive theory because their preferences are contextually dynamic and thus are the fulcrum for policy change: at elite levels of enrolment, the middle class prefers low levels of public subsidization, forming a cross-class coalition with the lower strata. Once enrolment expansion has led to their inclusion in higher education, however, they have a strong preference for high levels of public subsidization (Ansell 2008, 200).

How can different higher education systems be mapped according to these ideal types? In Fig. 8.1, the countries of the sample are plotted for the year of 2006 and along two dimensions characterizing higher education systems (public subsidization and enrolment). Data for both variables come from the database of the UNESCO Institute for Statistics.[3] *Enrolment ratio*—plotted on the *x*-axis—provides information about the number of

[3] Data for Germany's degree of public subsidization unfortunately is not available in the UNESCO database. However, it was possible to calculate it to the UNESCO's definition by resorting to data provided by the federal statistical office of Germany.

individuals enrolled in higher education, expressed as a percentage of the total population of the five-year age group following the official secondary school graduation age. On the *y*-axis, *Public subsidization per student* indicates public expenditures per student, expressed as a percentage of gross domestic product (GDP) per capita. As a proxy for public spending, it includes both direct funding of public institutions as well as stipends and other subsidies for students enrolled in private institutions. In addition, it is free of the cofounding influence of enrolment because of its focus on individual students rather than the entire student body. With lines denoting the mean values for the variables, the elite system can be found in the upper left quadrant. Unsurprisingly, it is most thoroughly realized in Austria and Switzerland, both of which emphasize vocational over higher education (Busemeyer et al. 2011; Bernhard et al. 2013). Likewise, the mass systems can be found in the upper right quadrant, which is populated by the Scandinavian countries and the Netherlands. The partially private model, finally, appears in the lower right quadrant and is realized in a more diverse set of countries: Greece, Hungary, Israel, Poland and Spain. Another six countries are situated in the lower left quadrant. They thus constitute a fourth ideal type in which both enrolment and public subsidization take on low values and in which only one of the three overarching goals of higher education policy—low overall cost—is being realized.

This snapshot, taken at the middle of the time frame for analysis, roughly illustrates the sample countries' position within the trilemma of higher education. It does not show, however, the trajectory of higher education systems between 2002 and 2010. As shown in Fig. 8.2, all countries except Estonia have expanded their higher education supply considerably within this span of time. The average increase in the enrolment ratio is almost 11 percentage points. Naturally, the biggest changes occurred in countries with low initial enrolment ratios, as elite and countries from the residual ideal type display high growth grates.

From a conceptual standpoint, therefore, the ongoing 'massification' of higher education as a fixed trend leaves countries with two choices within the trilemma: scale back public subsidization or incur escalating overall cost. As can be seen in Fig. 8.2, 15 of the 22 countries in the sample have decreased their per capita subsidization between 2002 and 2010, resulting in an average decline of –2.7 percentage points. This trend is

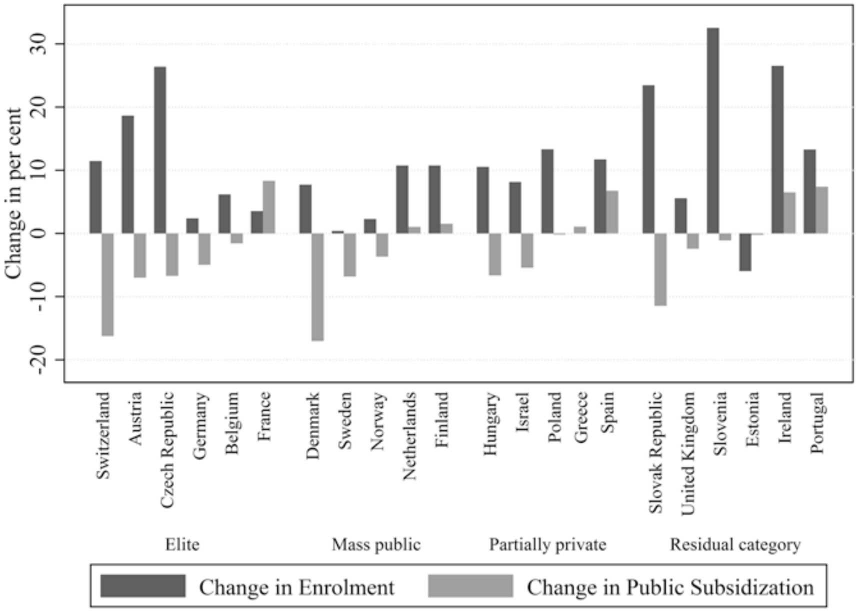

Fig. 8.2 Change in enrolment and public subsidization, 2002–2010 (For reasons of data availability, the bars for Greece denote the change in between 2002 and 2006 only.)

especially apparent for elite model countries, where, with the exception of France, all countries have cut subsidization. These countries are moving towards the lower right quadrant of the plot, and if their trajectory persists they will end up with partially private higher education systems. This picture is more varied with regard to countries belonging to the other three ideal types, but a general trend towards the privatization of higher education costs can be stated.

In light of these trends, one might ask whether these higher education system variables affect equality of opportunity to access higher education by altering the cost-benefit analysis of individuals from different social backgrounds in weighing their decision to enrol at a university. The direction of this moderating impact, however, is not so clear a priori. Even when supply is high, prospective students from a low socioeconomic background may still be disadvantaged in accessing higher education, especially if public subsidization is low and costs associated with pursuing higher education therefore have to be incurred by private households. On the other hand, a high degree of public subsidization may generally be associated with a smaller impact of parental education on the likelihood to study, but this effect may very well depend on the supply side of higher education. If, for instance, only a small proportion of students have a chance to pursue an academic degree, it is perhaps unlikely that students displaying low levels of parental education will belong to the select few (hence the term *elite model*). Consequently, the question becomes what happens to the prospects of low-socio-economic status individuals when one takes into account the recent trajectory in which enrolment ratios are increased at the expense of per capita public subsidization.

Theoretical Assumptions

In line with sociological approaches on educational equality, the main theoretical argument of this chapter is that admission to the university sector is positively correlated with the parental status in education via primary and secondary social origin effects. Put differently, young people leaving secondary schooling whose parents are well educated have a much higher likelihood of enrolling at a university than students whose parents are poorly educated. Thus, an overall effect of parental education on propensity to study for the entire cross-national sample is expected. However, because of unobserved heterogeneity between countries due to factors such as tracking in secondary education, it is also assumed that the effect magnitude of parental education may vary according to country. For instance, it is reasonable to assume that countries that put a premium on egalitarianism, such as Sweden or Finland, display a more moderate impact of parental education than stratified countries, such as Austria or France (see Schlicht et al. 2010; Teltemann 2014). As will be elaborated later, varying effect magnitudes can be modelled by fitting random slopes for each country in the sample. I thus posit the following initial hypotheses:

H1 : The level of parental education structures an individual's likelihood to enter higher education. The less educated one‘s parents, the less likely the individual is to be enrolled at a university.

H2 : The effect magnitude of parental education on propensity to study varies between countries.

Drawing on the political economy literature on higher education, I secondly assume that access to higher education may not only depend on individual-level factors but also on characteristics pertaining to the institutional design of the higher education system. Here, the crucial variables are the enrolment ratio (defined as the proportion of individuals pursuing an academic degree after leaving secondary school) and public subsidization (defined as the amount of public money spent on each higher education student as a proportion of GDP per capita). I assume that these macro-level variables—in conjunction denoting the position of a country within the trilemma of higher education—moderate the impact of parental education on the dependent variable (via cross-level interactions). Since the impact of these variables on the equal distribution of educational opportunities is unclear a priori, the corresponding hypothesis is non-directional in nature.

H3 : A country's enrolment ratio and its degree of public subsidization moderate the impact of parental education on the individual‘s likelihood of enrolment at a university.

Data and Method

In order to test these research hypotheses, cross-national comparative micro-level data as well information on the two macro-level variables thought to moderate the impact of parental education was needed. As is most often the case with secondary data not expressly designed to answer a given research question, I had to incur a set of trade-offs, as described below.

Individual-Level Data

The individual-level data are taken from the ESS, which is a large-scale cross-national survey financed by the European Science Foundation. It endeavours to track attitudes in 30 (mostly) European countries and has been carried out every two years since the year of 2002. In the following analysis, the first five waves (from 2002 to 2010) have been pooled to obtain sufficient sample sizes and to make it possible to compare both between higher education systems and over time (see ESS 2010, 2011). Non-OECD members were excluded, as well as countries that did not participate in the majority of the survey rounds (Italy and Turkey), leaving a sample size of 22.

As indicated in the previous section, I am interested in estimating the probability of university enrolment after secondary school. Accordingly, the population of the analyses is limited to the five-year age group after the official age of leaving secondary school in each country of the sample. By focusing on this age group, the goal is to adequately capture the competing options presented to young people after completing secondary schooling.

The dependent variable, therefore, would ideally be a dummy indicating whether the survey respondent at the time of the interview was a student in higher education. Perhaps surprisingly, most cross-national surveys including the ESS do not contain an item indicating university enrolment. I was therefore forced to deduce the information from two auxiliary items. First, I relied on a question asking respondents what their main activity was. Those who answered 'education' (as opposed to paid employment, apprenticeships or unemployment) to this item and at the same time had already obtained the qualifying degree in secondary education [as indicated by International Standard Classification of Education (ISCED) scheme] were coded as being higher education students. The dependent variable is thus a binary variable dubbed *Student*.[4] This coding procedure may confound the analysis to a degree, but it does clearly distinguish between entering vocational or tertiary education, thus eliminating

[4] Individuals who at the time of the survey indicated they already held a higher education degree were also coded into the *Student* category.

the most obvious source of bias. As described, the expectation is that the propensity to take up higher education is first and foremost structured by the level of parental education. While many studies exclusively focus on the father's education, my own preliminary analyses suggest that the level of education obtained by the mother also significantly and independently contributes towards study propensity.[5] Therefore, an index comprised of the highest level of education of both parents, again as indicated by the ISCED scheme, was constructed. In this coding scheme, zero points were given to parents who obtained a higher education degree. Consequently, for the completion of upper secondary education, one point was allocated; for the completion of lower secondary schooling, two points were given; and for respondents whose father or mother do not hold a degree, the maximum score of three points was assigned. Results for both parents were then added to each other, resulting in an index ranging from 0 (both parents hold higher education degrees) to 6 (neither parent holds a secondary degree). This variable—called *Parental Education*—is the central independent variable of the analysis. Because the effect of the different combinations of parental education may be non-linear, this variable in all but one model is treated as categorical, meaning that coefficients have to be interpreted in relation to a predefined reference category—which in this case means the value of the index equals 0. Overall, diminished odds for the propensity to study are expected for all subsequent values of the index. Moreover, effect sizes should increase as higher values are compared against the combination of both parents holding a higher education degree.

In addition to the central independent variable, a set of control variables was included in the models. First of all, dummy variables for each year under investigation (2002, 2004, 2006, 2008 and 2010) were introduced as covariates. This might have captured systemic differences between years, but was mainly done to absorb unobserved heterogeneity associated with each respective year. This is especially important with regard to the macro-level variables introduced below and is designed to inspire confidence that their effects are not artefacts

[5] In fact, in multilevel random intercept models, effect sizes and significance levels of father's and mother's education levels as explanatory variables were almost indistinguishable.

of concurrent developments over time. In addition, the migration background of an individual may be related to social background and have an independent impact on the propensity to study. The concept of migration background is captured by two variables. The first—*Foreign Born*—indicates whether a respondent was born in a country other than the one she is living in (= 1). The second—*Migration Background*—harkens back to the importance of parental status and differentiates between both parents having been born in the respective country (= 0), one parent born elsewhere (= 1) and both parents as immigrants (= 2). Finally, a dummy indicating the gender of the respondent (*Female* = 1) is included.

Macro-Level Data

To reiterate, the central hypothesis of this chapter is that the degree of educational inequality with regard to access to higher education may be moderated by characteristics of the respective higher education system. Specifically, the two variables that, in conjunction with each other, determine to which higher education ideal type a country belongs are also assumed to exert an influence on the equality of opportunity in higher education. As described, these two variables are dubbed *Enrolment Ratio* and *Public Subsidization per Student*. Logically, these variables operate on the macro rather than the individual level, and corresponding data is thus collected on the basis of countries and years. For each OECD country included in the ESS, information on the macro variables was matched to the survey data. The hypothesized conjectural relationship is modelled by introducing cross-level interactions of the parental education variable in its categorical form with the two macro-level variables in the following analysis.

Method

In order to test the hypotheses in a statistically sound way, the hierarchical structure of the dataset needs to be accommodated. In multilevel data, individual error terms are likely to be correlated within groups, violating the independence assumption of single-level regression analysis. In order to relax this assumption, I run multilevel models with random intercepts (see Luke 2004; Rabe-Hesketh and Skrondal 2012). I thus end up with a fixed component indicating the mean effect of independent variables across all groups and a random component designed to absorb unobserved heterogeneity between clusters.

In addition, since the dependent variable is binary, logistic regression is used. Essentially, then, the models predict the probability of being enrolled at a university, expressed as percentages between 0 and 100 and conditional upon the explanatory covariates. Formally, the regression equation for the random intercept model can be written as:

$$\begin{aligned}&\operatorname{logit}\left\{\Pr\left(\mathrm{STUDENT}_{ij}=1|,x_{ij}|,\varsigma_j\right)\right\}=\beta_1+\beta_2\,\mathrm{PARENTALEDUCATION}_{2j}\\&+\beta_3\,\mathrm{FEMALE}_{3j}+\beta_4\,\mathrm{MIGRATIONBACKGROUND}_{4j}\\&+\beta_5\,\mathrm{ENROLMENTRATIO}_{5j}+\beta_6\,\mathrm{PUBLICSUBSIDIZATION}_{6j}+\varsigma_j+\varepsilon_i,\end{aligned}$$

where logit is the S-shaped link function, $\left\{\Pr\left(\mathrm{STUDENT}_{ij}=1|,x_{ij}|,\varsigma_j\right)\right\}$ denotes the probability of *Student* = 1 conditional on covariates on both levels, the country-level random intercept ς_j, $\beta_1+\beta_2 x_{2j}+\cdots+\beta_6 x_{6j}$ is the fixed component of the equation, and ε_i stands for the individual-level error term. Cross-level interactions (*H3*) can be estimated by simply adding the product of the two variables of interest to the fixed component to the equation.

In addition, in order to test *H2*, the size of the effect of parental education has to vary by country. This is generally done by supplementing the random component of the equation with a random slope for the variable of interest. In such a model the purpose of the random component is not only to absorb unobserved heterogeneity on the country level, but also to relay substantive information about country-specific slopes of the regression line. Such a model can generally be written as:

$$\begin{aligned}\operatorname{logit}\left\{\Pr\left(y_{ij}=1|,x_{ij}|,\varsigma_j\right)\right\}&=\beta_1+\beta_2 x_{2j}+\cdots+\beta_6 x_{6j}\\&\quad+\varsigma_{2j}\mathrm{PARENTAL\ EDUCATION}_{ij}+\varepsilon_i,\end{aligned}$$

where ς_{2j}PARENTAL EDUCATION$_{ij}$, as part of the random component of the equation, is the country-specific slope for the impact of parental education.

Results

I present the results of my analyses in three consecutive steps. First, I demonstrate the country-specific impact of parental education on propensity to study. Then, I explore fixed effects for individual-level factors; finally, I introduce the cross-level interaction effects between parental education and the institutional environment of the higher education system.

Turning to the country-specific inequality of higher education access, a multilevel logistic is estimated in which the coefficient of parental education is allowed to vary by country (*random slopes*). In this model, only the individual-level data taken from the ESS is used. For illustrative purposes, the explanatory variable parental education is treated as continuous in this model (in all other models, it is treated as categorical).

Because at this point I am not interested in the fixed overall effect of parental education, only the coefficients of the mean slope (fixed slope + random slope) are reported in Fig. 8.3. On the *x*-axis, the steepness of the combined slopes can be observed for each country in the sample. Unsurprisingly, the model shows a strong impact of parental education on propensity to study for all countries in the sample, as all slopes have negative overall coefficients.

However, effect magnitude varies starkly between countries. On the one hand, the effect of parental education is strongest in Eastern European countries and Germany. On the other hand, the most equal countries are Sweden, the Netherlands and—perhaps surprisingly so—the United Kingdom and France. With regard to the higher education ideal types, no clear initial patterns emerge. While mass public models generally display low levels of inequality, the three countries with the biggest impact all belong to different ideal types. However, the volatility of the effect size by country (ranging from –0.18 in Sweden to –0.72 in the

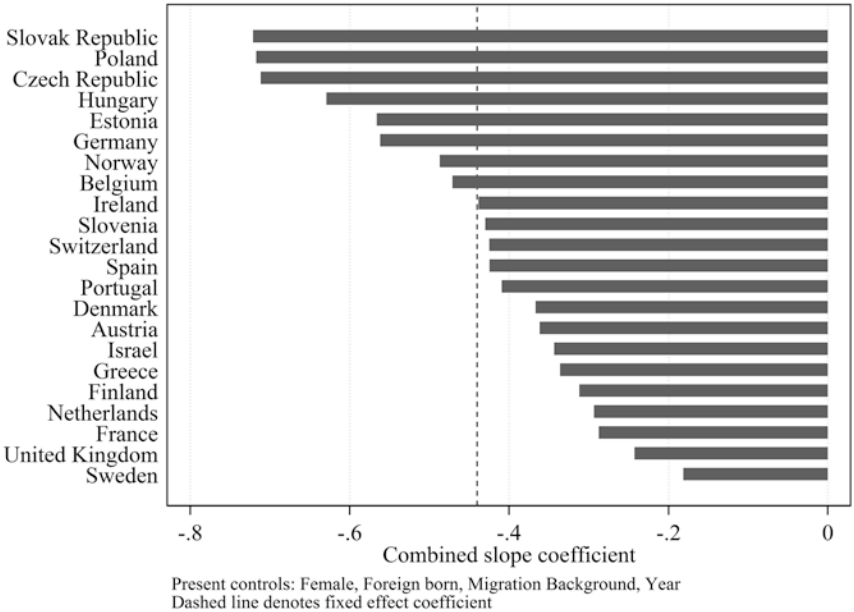

Fig. 8.3 Effect of parental education on propensity to study, by country

Slovak Republic) gives credence to the notion that equality of opportunity in access to higher education is realized to very different extents in the sample countries. This raises the question as to whether, despite the initial impression, part of these differences can be explained by the institutional characteristics of the higher education systems.

In order to answer this question, the results of the main analysis are presented in Tables 8.1 and 8.2. In Model 1, only the central independent variable (in its categorical form) is included in the regression. In Model 2, the other individual variables, Female, Foreign Born and Migration Background, are added to the equation. In Model 3, accordingly, the interaction terms with the macro-level variables are added. Coefficients are reported as odds ratios, meaning that point estimates under 1 denote a negative relationship between the variable and the probability to study, and point estimates larger than 1 denote a positive one.

Irrespective of the specification, the models show a strong and highly significant impact of parental education on the likelihood to be a student.

Table 8.1 Multilevel regression results: micro specifications

	Model 1	Model 2
Parental Education		
Parental Education = 1	0.686*** (0.0422)	0.690*** (0.0418)
Parental Education = 2	0.338*** (0.0183)	0.339*** (0.0181)
Parental Education = 3	0.262*** (0.0174)	0.261*** (0.0171)
Parental Education = 4	0.189*** (0.0134)	0.190*** (0.0132)
Parental Education = 5	0.135*** (0.0154)	0.136*** (0.0151)
Parental Education = 6	0.0985*** (0.00908)	0.0986*** (0.00883)
Female = 1		1.328*** (0.0448)
Foreign Born = 1		0.854+ (0.0792)
Migration Background		
One parent born outside country		0.944 (0.0664)
Both parents born outside country		1.039 (0.0886)
Number of observations	168,868	16,278
Number of groups	22	22
SD of random intercepts	0.44	0.40

Exponentiated coefficients are reported. Standard errors in parentheses. Yearly dummies and constants are included in the models, but not reported
$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Compared with the reference category (both parents hold a higher education degree), odds ratios are consistently below 1 and decrease with every additional category denoting a lower level of parental education. In addition, effect sizes barely change as more variables are added to the estimation, indicating little multicollinearity with gender and migration background. In order to illustrate the impact of each category of parental education more intuitively, predicted probabilities for each category were calculated for Model 2 and are graphed in Fig. 8.4.

The model predicts a 62 per cent likelihood of pursuing an academic degree for the five-year age group following secondary school-leaving for survey respondents both of whose parents hold a higher education degree—true across all countries and years. Interestingly, the predicted probability does not decrease linearly, as the drop-off from values 0 to 1 (essentially denoting that one parent holds a higher education degree and the other an upper secondary degree) is just 9 per cent, but the drop-off from values 1 to 2 (which in more than 90 per cent of the cases denotes

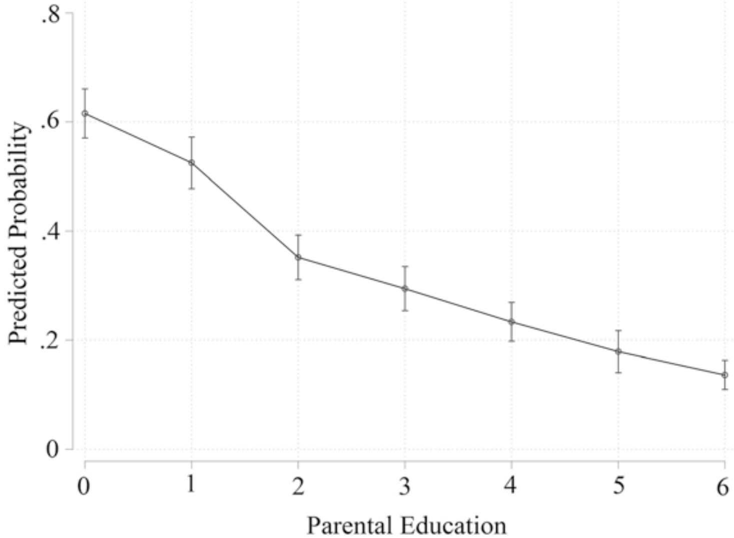

Fig. 8.4 Predictive margins of parental education, Model 2

that both parents hold an upper secondary degree) is much stronger at 17.3 per cent. In other words, experience and success in higher education even by one parent leads to a considerably greater probability of an individual to pursue an academic degree. Once the level of parental education reaches the value of 2, however, the propensity to study decreases rather linearly, with higher categories associated with a decreasing likelihood of close to 5 per cent each.

As for the control variables, the model predicts a highly significant ($p < 0.01$) effect for gender. According to the corresponding odds ratio, being female increases the likelihood of pursuing an academic degree by a factor of 1.3 as compared to males.[6] With regard to migration background, the model detects a marginally significant negative effect for being born in a foreign country. The migration background of the parents, however, does not seem to impact the propensity to be a higher education student.

Turning to the inclusion of macro-level variables in Models 3 and 4 (Table 8.2), the interaction between parental education and enrolment

[6] When all other variables are held at their means, the coefficient translates into a predicted probability of 39.3 per cent for females and 32.5 per cent for males.

Table 8.2 Multilevel regression results: micro-macro specifications

	Model 3	Model 4
Enrolment Ratio	1.007^{+} (0.00417)	1.005 (0.00360)
Public subsidization per student	0.989* (0.00469)	0.987* (0.00606)
Interaction Parental Education × Enrolment Ratio		
Parental Education = 1	0.994^{+} (0.00308)	
Parental Education = 2	0.997 (0.00281)	
Parental Education = 3	1.000 (0.00353)	
Parental Education = 4	1.006 (0.00399)	
Parental Education = 5	0.998 (0.00850)	
Parental Education = 6	0.996 (0.00710)	
Interaction Parental Education × Public Subsidization		
Parental Education = 1		0.999 (0.00552)
Parental Education = 2		0.995 (0.00488)
Parental Education = 3		1.004 (0.00602)
Parental Education = 4		1.022** (0.00672)
Parental Education = 5		1.023^{+} (0.0139)
Parental Education = 6		1.035** (0.0118)
Observations	16,203	16,203
Number of groups	22	22
SD of random intercepts	0.41	0.42

Exponentiated coefficients are reported. Standard errors in parentheses. The micro-specification shown in Model 2 is included in the models, but not reported
$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

ratio is largely insignificant. The sole (marginally) significant coefficient is for Parental Education = 1. The corresponding odds ratio is 0.994, suggesting that with increasing values of enrolment ratio, the gap between individuals from that group and from the reference category widens, albeit at a small margin.[7] Given the small effect size and the fact that the impact

[7] Over the entire range of the enrolment variable, the gap increases from 4.8 per cent (*Enrolment Ratio = 25*) to 14.9 per cent (*Enrolment Ratio = 100*), with all other variables held at their means. As a reminder, the overall fixed gap between these two groups was 9 per cent (see above).

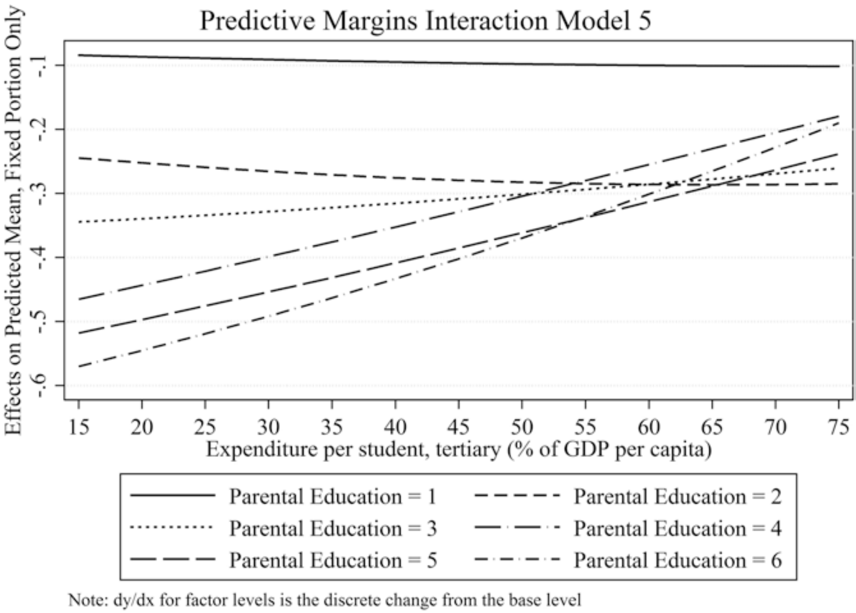

Fig. 8.5 Interaction of parental education and public subsidization. Note: *dy/dx* for factor levels is the discrete change from the base level

of parental education is not moderated by enrolment for any other group, the overall interaction is judged to possess little explanatory power. This is different, however, for public subsidization. Here, the model yields a moderating impact on the effect of parental education. More precisely, the interaction is significant for values 4 through 6 in parental education.[8] The positive odds ratios for these three groups indicate that the gap between them and the reference group gets smaller as public subsidization increases. Hence, respondents whose parents are not particularly well educated see their likelihood of studying increase at high levels of public subsidization.

To illustrate, marginal effects of Model 4 are plotted in Fig. 8.5. Over the entire range of the variable, the effect of parental education is strongest for low levels of public subsidization, where there are marked differences

[8] The fact that the interaction is only marginally significant for the value 5 is most likely an artifact of the corresponding group. Only 610 respondents (3.6 per cent of overall sample) belong to this category, naturally leading to larger standard errors.

between all seven groups. As public subsidization increases, the likelihood of individuals with parental education values 1, 2 or 3 to be students is relatively stable, compared to the reference group. However, the remaining groups with poor educational backgrounds catch up considerably. At a public subsidization rate of about 60 per cent of GDP per capita, there are no discernible differences between them and respondents whose parents have an aggregate education score of 2 or 3. At such a rate, these groups are 25 to 30 per cent less likely to pursue an academic degree than individuals from the reference group. While there remains a decided advantage for individuals whose parents have successfully completed a higher education degree, the catch-up effect of low socio-economic status individuals under conditions of high public subsidization is remarkable.

Conclusion

How does the higher education system affect inequality of opportunity? To answer this question, I have employed multilevel logistic regression analysis in order to (a) estimate the impact of parental education on likelihood to pursue an academic degree across 22 European OECD countries, and (b) analyze whether this effect might be moderated by two variables characterizing higher education systems. These two variables were the proportion of individuals taking up higher education after leaving secondary school (*Enrolment Ratio*) and the amount of public money spent on each higher education student (*Public Subsidization*). To sum up the results, I find a strong relationship between the level of parental education and the individual likelihood of pursuing an academic degree. The propensity to study is highest when both parents hold a university degree and progressively decreases with lower levels of parental educational attainment. I also hypothesized that there should be stark differences between countries with respect to the effect magnitude of parental education. Letting the coefficient vary by introducing random slopes for each country, I find this strongly to be the case. The effect is least pronounced in Sweden, the United Kingdom and France, and most pronounced in Eastern Europe.

Turning to the impact of system-level variables, the data does not point towards a moderating relationship between the enrolment ratio and parental education on the propensity to pursue an academic degree. For public subsidization, however, I do find a moderating impact for the three highest categories of the parental education index (signalling poor levels of educational attainment). In countries with high levels of public subsidization, the effect of parental education—while still visible—is much less pronounced than in countries that opt for less spending. These results suggest that the social investment component of the welfare state can meaningfully reduce existing inequalities. In light of recent trends of decreasing levels of public subsidization (see Fig. 8.2), however, the findings also imply that inequality in education is likely to actually intensify in many countries—even in the face of increasing enrolment rates.

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9

Labour Market Risks in Times of Welfare State Changes

Hanna Schwander

Labour markets have grown more unequal in the post-industrial societies of the twenty-first century: not only has wage inequality increased but also labour market risks are increasingly unequally distributed between labour market insiders and outsiders (OECD 2011a; Emmenegger et al. 2012b). Hence, the workforce is increasingly divided between a segment of secure labour market insiders and a segment of marginalized labour market outsiders. While insiders enjoy a stable position in the labour market, outsiders are confronted with a number of labour market risks, such as unemployment or atypical employment, with far-reaching consequences for poverty, inequality and social exclusion (Bonoli 2005; Taylor-Gooby 2005; Häusermann and Schwander 2012b; Emmenegger et al. 2012a). At the same time, the traditional 'industrial' welfare state has been under strong pressure to reform as globalization and European integration have limited the ability of policy-makers to manoeuver

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(see Chap. 2 for the general argument). Rigid labour markets and high labour costs have been detrimental to the flexible workforce that employers need in a knowledge-based economy, and policy-makers have started to reform the labour market and social protection systems. These reforms have had strong effects on the degree and structure of labour market inequality, and vary according to the reform strategy. The aim of this chapter is to analyze how *welfare state reforms have affected inequality in labour market risks in continental Europe*. More specifically, I examine whether reforms of welfare state and labour market institutions have reduced or increased labour market inequality in the last decade.

The paper focuses on continental Europe where the trend towards labour market inequality is most evident. Pressure to flexibilize the labour markets, in particular to reduce their rigid institutionalized employment protection, has been particularly strong in continental Europe with its low employment rates (Palier 2010b; Esping-Andersen 1999; Wren and Iversen 1998; Eichhorst and Marx 2012). The European Union (EU), as a powerful new actor, has urged its member states through reports and jointly set targets (for example, the Lisbon treaty or the European Employment Strategy [EES]) to adapt their labour market arrangements (Sacchi 2015; Pavolini et al. 2015). This effort has put external pressure on national policy-makers to embark on unpopular reforms and has provided them with the opportunity to shift the blame for those reforms onto the European Union (Guillen 2010; Sacchi 2015; Pavolini et al. 2015). Continental European countries managed to reduce their unemployment rates and increase their employment rates throughout the 2000s until the outbreak of the Great Recession in 2008. The price was increased inequality of labour market risks (Palier and Thelen 2010; Schwander and Häusermann 2013), both with regard to 'old' labour market risks, such as unemployment and 'new' labour market risks, such as temporary employment or other forms of atypical employment[1] (Esping-Andersen 2000; Jessoula et al. 2010; Palier and Thelen 2010; Eichhorst and Marx 2012; Kalleberg 2009; Regini 2000).

This inequality in labour market risks has important consequences for income inequality and poverty. As argued by Obinger et al. in Chap. 2 of this volume, declining replacement rates have made welfare states increasingly

[1] Atypical employment denotes all forms of employment that deviate from the standard employment relationship of employed, permanent full-time employment such as part-time employment, temporary employment, self-employment, agency or seasonal work.

less generous and less redistributive. In addition, the tightening of eligibility criteria for social insurance programmes has made it more difficult for those with atypical employment biographies to qualify for these programmes. This holds particularly true in the continental welfare states, which have gradually complemented their social insurance systems with tax-financed but less generous needs-tested schemes for those outside the traditional social insurance systems (Palier and Thelen 2010). As a consequence, the welfare state perpetuates labour market inequalities and translates them into net inequalities and permanent forms of social and economic exclusion (Häusermann and Schwander 2012b).

In this chapter I analyze the effect of welfare state transformations and changes in the regulatory framework of labour markets on the distribution of labour market risks in four European countries from the mid-2000s onwards. In keeping with the focus on labour market integration, I understand labour market inequality as an unequal *distribution of labour market risks*. More specifically, I focus on unemployment and temporary employment as the dominant forms of old and new labour market risks, respectively. These two forms of labour market risks have strong effects on economic and social deprivation, and are often linked to a permanently inferior labour market status because of their negative effects on human capital and work experience (Gash 2008). France, Germany, Italy and Spain represent four cases with different reactions to the flexibilization pressures on their welfare state in the last two decades. Accordingly, I expect labour market inequality to have developed differently in these countries. I examine whether welfare state transformations and changes in the regulatory framework of labour markets have reduced or increased labour market inequality in the last decade. In addition, the chapter aims to shed light on the development of labour market risks among different social groups known for their weak attachment to the labour market. I examine whether labour market inequality between these potential outsider and insider groups has increased.

The chapter is structured as follows: I first briefly discuss the need for welfare state reforms in continental Europe and the link between welfare state institutions and labour market risks. Next, I compare labour market regulations in Germany, France, Italy and Spain, and present a short history of their recent labour market reforms. I then present evidence on patterns of labour market risks in the four countries and analyze the development of labour market inequality among different labour market groups.

The Challenge for Continental Europe

Understood as a set of social policy and labour market institutions, the welfare state has been under enormous pressure to adapt to the requirements of a post-industrial and internationally competitive economy with a flexible and high-skilled workforce, especially in continental Europe. The compatibility of welfare state institutions with a post-industrial economy influences the functioning of the labour market and impacts both the structure and level of unemployment. The service sector trilemma perhaps exemplifies best the difficulties of continental European countries in adapting to a post-industrial economy (Wren and Iversen 1998). The basic idea of the service trilemma is that, in the post-industrial era, economies are unable to achieve simultaneously the three desirable goals of wage equality, high employment and balanced public finances. This inability occurs because, in contrast to industrial employment, the capacity for productivity increase in service sector employment is low (the famous 'Baumol-disease', see Baumol 1967). Competitivity, therefore, must be achieved by means of low labour costs, that is, low wages. If governments want to increase employment in service sectors, they must either allow for greater wage dispersion and sacrifice equality or provide these jobs in public employment at the expense of a balanced budget (Wren and Iversen 1998). It is easily discernible that the three welfare regimes have chosen different strategies to solve the trilemma. High levels of wage dispersion have always characterized the labour markets in liberal countries, allowing for private service sector expansion at the lower end of the skill distribution. The nordic welfare states pushed employment expansion by expanding public employment, while the equalitarian wage-setting institutions and rigid labour markets of continental European countries kept wages relatively high with the effect of restraining expansion of private service employment. What makes the trilemma so vexing is that, because of saturated production markets, globalization and increased international competition, employment growth is likely to occur only in the service sector (Wren 2013; Wren and Iversen 1998). Accordingly, continental European countries have come to be associated with low levels of employment and high levels of unemployment. This trend has been exacerbated by labour shedding strategies and low employment rates among women, resulting in the dubbing of the three welfare regimes as 'the good, the bad and the ugly' (Manow 2004). What is more, continental countries have shown difficulties in developing jobs in the highly productive information and communication technology sectors as their education and training systems are still targeted at providing a skilled workforce for industrial production (Wren et al. 2013; Ansell and Gingrich 2013).[2] Taken together, labour markets in continental Europe do not provide employers with the flexible workforce they need to compete in a globalized era.

The link between welfare state institutions and employment is bidirectional. Not only does the design of welfare state institutions have an important impact on employment rates but the employment rate itself is also important for the sustainability of the welfare state (Nelson and Stephens 2013). If employment rates are high, more people contribute to the welfare state, thus making a generous welfare state viable. In contrast, if employment levels are low and the proportion of the non-active population (the unemployed, housewives, the disabled and the early retired) is high, generous benefits are likely to generate large budget deficits and pressure for retrenchment. Such pressure is ardent in continental Europe, whose social insurance-based schemes are highly dependent on social contributions, hence high employment rates.

Policy-makers in these countries face strong pressure to reform their welfare states and flexibilize their labour markets to increase employment rates. In response, they have developed different reform strategies that either (a) *flexibilized* the labour markets, that is, reduced insiders' privileges, or (b) dualized the labour market, that is, *flexibilized the labour market selectively at its margins* (Toharia and Malo 2000). While this latter type of reform preserves the privileges of the standard employed core workers, it allows for more flexible forms of employment for those at the *margins of the labour market* with the result of increasing inequality in the distribution of labour market risks. As a last option, although it is hardly a strategy, policy-makers have (c) *refrained from reforming* the welfare state.

[2] However, it must be noted that the low youth unemployment rates in Germany, Austria and Switzerland are attributed to this very reliance on vocational training and are highly praised by both the OECD and the European Union.

Table 9.1 Reform strategies and expected trends in labour market inequality

Country	Direction of reforms	Examples	Exp. inequality trend	Main dividing line
Germany	Flexibilization	*Hartz I-IV*: reduction of unemployment protection for insiders	↓	
France	Incremental reforms	*Delalande contribution*: tax to be paid for the dismissal of an older worker *Contract Nouvelle Embouche*: reduces employment protection for newly employed	→	Young versus older workers
Italy	Selective flexibilization	*Treu reform*: deregulates atypical employment	↑	Young versus older workers
Spain	Selective flexibilization	*Ley 32/1984*: introduces temporary contracts *Real Decreto-Ley 5/2001*: restricts the use of temporary contracts *Ley 43/2006*: facilitates the conversion of temporary to permanent contracts	↑	Young versus older workers

Figure 9.1 illustrates this development. In most continental European countries, employment protection has remained (until the Great Recession) high while the use of temporary contracts has been steadily deregulated. In Germany, employment protection even increased until 2005, yet temporary work did not become deregulated either. The only exception is Spain, where the standard employed lost part of Spain's admittedly record-high employment protection in 1997. By this time, however, temporary employment was already established among Spanish employers as a strategy to enhance external flexibility (Polavieja 2005: see also Fig. 9.2).

As a result of these reforms, but also due to structural social and economic changes, new labour market risks, such as atypical or precarious employment, emerged (Esping-Andersen 2000; Jessoula et al. 2010;

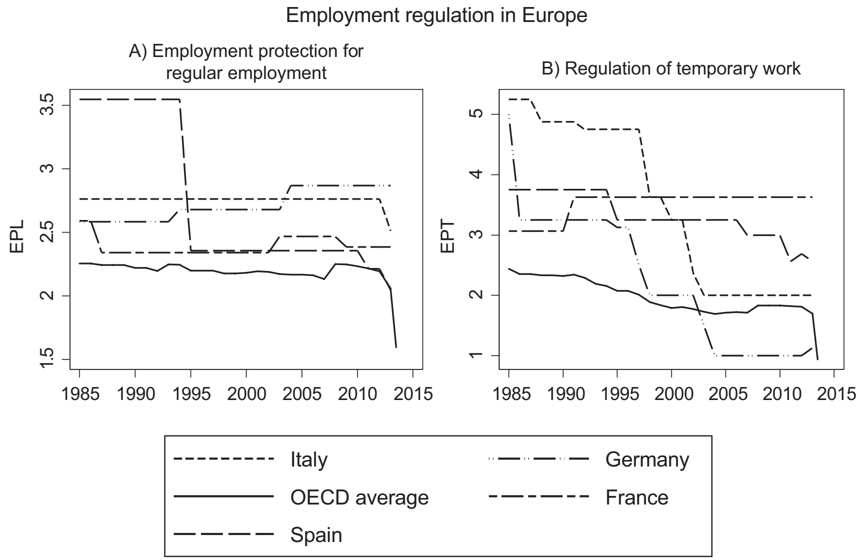

Fig. 9.1 Labour market regulation over time. Source: OECD stat 2015.

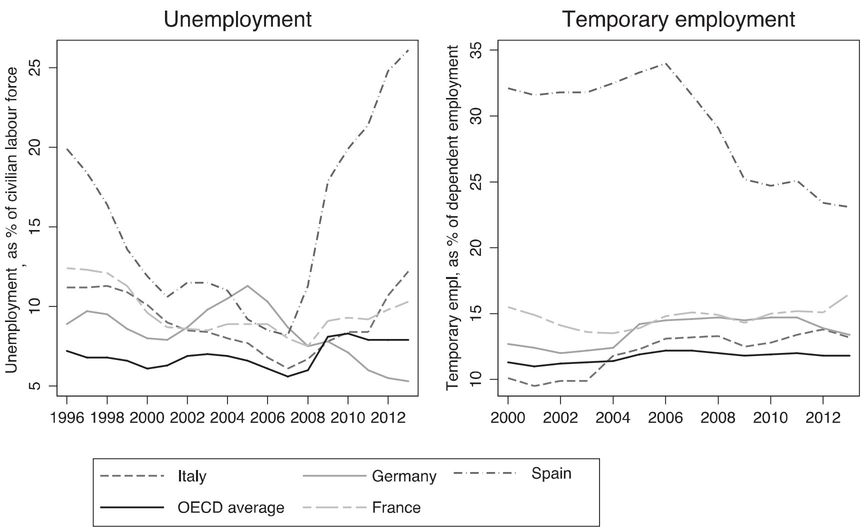

Fig. 9.2 Unemployment and temporary employment in continental Europe over time. Source: OECD stat 2015.

Palier and Thelen 2010; Eichhorst and Marx 2012; Kalleberg 2009; Regini 2000), accounting for the largest share of job growth in the European Union (Plougmann 2003; OECD 2011b). For instance, the number of temporary workers grew by 15–20 per cent annually between the 1980s and early 1990s, which represents about 10 times the overall rate of employment growth (Standing 1993). Figure 9.2 confirms the growing importance of temporary employment for the 2000s. Of course, part of the flexibilization of employment forms can be seen as a response to increasing demand from the workforce for flexible work arrangements. However, research shows that fixed-term contracts tend to imply economic disadvantages in terms of lower wages and lower chances of job promotion, and most temporary employed express preferences for a permanent job (Kalleberg et al. 2000; Booth et al. 2000; Gash 2008). In Spain, 80 per cent of temporary employed prefer a permanent position to their current job. Furthermore, even voluntary atypical work leads to lower social rights in the European social insurance states since welfare states were created to cover the 'average production worker' (Hinrichs and Jessoula 2012; Thelen 2004; Häusermann and Schwander 2012a). Atypical work, like unemployment, can therefore be interpreted as a condition of social and labour market vulnerability.

Yet, labour market risks have not only become more diverse, they are also increasingly unequally distributed within the workforce, dividing the workforce into insiders with secure positions and outsiders with weak labour market attachment. This unequal distribution of labour market risks is known as 'labour market dualization' (Saint-Paul 2002; Rueda 2007; Palier and Thelen 2010; Emmenegger et al. 2012a). What is more, these labour market risks have a distinct socio-structural foundation. The literature on the micro-foundations of labour market dualization and labour market sociology teaches us that labour market risks are concentrated among some social groups, namely *women, young labour market participants and low-skilled workers*. Atypical employment, in particular part-time, but to a lesser degree also temporary employment, is gendered in most countries and clearly so in continental Europe (Schwander and Häusermann 2013; Esping-Andersen 2009; Esping-Andersen 2000;

Fellini and Migliavacca 2010). Similarly, atypical employment is more widespread among younger labour market participants than among the prime-aged workforce (Schwander and Häusermann 2013; Esping-Andersen 2000; Chauvel 2009; Ranci 2010). In France and Spain, for example, over 50 per cent of young adults in dependent employment were employed on a temporary basis in 2010, while this rate is much lower for employees in their prime age. Hence, I consider these social groups potential labour market outsiders as they experience disproportionate exposure to labour market risks.[3]

The Incidence of Labour Market Risks in Continental Europe

I will analyze the risk of unemployment as an old labour market risk and the risk of temporary employment as an example of a new labour market risk in four European countries: France and Germany as two northern continental countries, and Spain and Italy as two countries of southern continental Europe. The analysis will focus on skill and age, and their interaction as determinants for labour market vulnerability. Throughout the analysis, gender has proven to be of less importance for labour market inequality with regard to unemployment and temporary employment risks. Moreover, the disadvantage of women is rather static over time. Evidence of gender as a determinant of labour market risks is therefore not presented systematically but discussed only when shown to be relevant.

[3] The focus of the chapter is on inequality in labour market risks, and individuals act as individual risk-takers. The unit of inequality is therefore the individual, although the family might counteract some of the negative consequences of risk exposure due to intra-household redistribution. Young adults might live with insider parents, for example. For other groups, however, the household does not provide the same safety net as in the industrial area. Research has shown that the household tends increasingly to exacerbate income differences due to the growing relevance of wealth or assortative mating (see the chapter by Groh-Samberg, see also Häusermann et al. 2016 for the mediating effect of the household on the translation of labor market risks on policy preferences).

For an impression of labour market conditions in general, Fig. 9.2 contrasts the trends in unemployment and temporary employment in the four countries to the general developments in the Organization for Economic Cooperation and Development (OECD).

The first insight is that the four countries display above OECD-average rates of unemployment and temporary employment, confirming the notion of sclerotic continental labour markets (Jessoula and Alti 2010). Italy, and to a lesser extent France, managed to reduce unemployment until the economic crisis annihilated the job growth of the previous decade and unemployment began to rise again. Germany, by contrast, saw growing unemployment until the introduction of the structural reform package Agenda 2010 from 2003 to 2005. As a result of these substantial welfare and labour market reforms, Germany has experienced a steady decline in unemployment ever since. Consequently, unemployment rates fell below the OECD average in 2009, which is also a result of the sharp increase in unemployment within the OECD due to the crisis. Today, Germany has achieved near full employment. At the same time, and again as a consequence of Agenda 2010, temporary employment steadily gained significance until 2011. In 2012, 12.4 per cent of the workforce held a temporary contract. The proportion of individuals employed on a temporary basis has also been continuously growing in Italy since the 2000s and has remained high at around 15 per cent in France.

The second noteworthy point from Fig. 9.2 is the exceptional labour market situation in Spain. Spain clearly stands out for its high levels of both unemployment and temporary employment among the four countries and from an OECD perspective. After a period of steadily decreasing unemployment in the 1990s and 2000s, when the selective flexibilization of the Spanish labour market resulted in both decreasing unemployment and extremely high levels of temporary employment, the bursting of the housing bubble and the subsequent breakdown of the construction sector and other sectors caused unemployment rates to soar again. In 2013, unemployment in Spain stood at a record level of 26.1 per cent (Eurostat 2014). At the same time, the extremely high levels of temporary employment were substantially reduced when the contracts of many temporary employed expired and they moved into unemployment.

A Short History of Labour Market Reforms in Germany, France, Spain and Italy

Before analyzing the distribution of labour market risks, I will briefly review the most important labour market reforms in Germany, France, Spain and Italy in the last two decades, starting with Germany as a case of profound flexibilization.

Germany

Throughout the 1990s and early 2000s, Germany was dubbed the 'sick man in Europe' (Economist 2004) for its sluggish growth rates, persistently high unemployment and low employment rates. With the path-breaking Agenda 2010—and the aid of a decade of wage moderation and advantageous currency rates—it managed a spectacular turnaround and is now the celebrated poster child of labour market liberalization.

Many and different reasons have been proposed to explain why the red-green government under Chancellor Schröder undertook such an extensive reform of the German welfare state, which was thought to be reform-resistant and stalemated (see Kitschelt 2003).[4] Regardless of political motivations, Agenda 2010 undoubtedly signifies a turning away from the traditional Bismarckian 'social insurance' welfare state model (Kemmerling and Bruttel 2006; Seeleib-Kaiser and Fleckenstein 2007). Since reforms in the labour market are usually considered to be at the heart of the reform package, the following discussion focuses on the changes in labour market policies, implemented in a package of four *Hartz* laws.

[4] Kemmerling and Bruttel (2006) emphasize the window of opportunity provided by a scandal in the Public Employment Service, Hassel and Schiller (2010) point to the looming collapse of West German communes due to sky-rocketing expenditures for the long-term unemployed related to the German federal system and Rehm (2016) advances the argument that public support for generous unemployment benefits shrank due to increasing inequality in labour market risks. Others point to policy-learning effects and the model role of the British labour market and welfare reforms (Seeleib-Kaiser and Fleckenstein 2007).

The first two *Hartz* laws, enacted in 2003, increased the activation orientation and tightened benefits requirements. Once a spell of unemployment lasts longer than 18 months, the unemployed are forced to take any available job, regardless of their original qualifications and pay. The introduction of so-called *mini-jobs* that reduced social contributions on low-paid jobs and secondary employment also reduced labour costs. Other activation measures included the so-called *Ich-AGs* ('me inc.'), that is, the facilitation of small (and smallest) enterprises. The third *Hartz* law entailed an internal reform of the public placement agency with the aim of improving management and placement of jobseekers.

Last and most controversial of the four laws, *Hartz* IV reformed the structure of unemployment insurance. In the past, Germany had three kinds of assistance for the unemployed: unemployment benefits, unemployment assistance and social assistance. The unemployment benefits system built on the insurance principle and was insider-oriented: benefits were earnings-related and the amount received depended on contribution records as well as the age and family status of the job seeker, thus highly benefiting (male) insiders. After up to 32 months,[5] the unemployed moved to unemployment assistance where benefits were lower but still earnings-related (54 per cent of previous earnings) and *unlimited in eligibility time*. Only those who did not qualify for unemployment insurance/assistance (lone parents, those with incomplete contribution records or the marginally employed) relied on social assistance—a means-tested and stigmatizing benefit. What is more, unemployment benefits were often used as a pre-early retirement scheme (Manow and Seils 2000). Unemployed above the age of 58 were not expected to return to the labour market but received the first three years of unemployment benefits (often topped up by their employers to receive benefits corresponding to original levels of their wages) before qualifying for early retirement.

Hartz IV stands for a radical change in this system. It reduced the generous earnings-related unemployment benefits (*Arbeitslosengeld I*) from 32 to 12 months and merged unemployment and social assistance in a single flat rate and means-tested benefit called *Arbeitslosengeld II* (colloquially called *Hartz IV*). The *Arbeitslosengeld II* corresponds roughly

[5] This was one of the longest durations of unemployment benefits amongst all countries in the OECD.

to the level of the former social assistance benefits. More than two thirds of the unemployed today have to rely on the means-tested benefits (Hassel and Schiller 2010; Seeleib-Kaiser and Fleckenstein 2007). Considering that the 'old' welfare system protected status and qualifications of skilled insider workers, these reforms represent a major break with the orientation of the German welfare system. At the same time, however, the regulation of regular contracts slightly increased with a sequence of reform steps between the mid-90s and the Agenda 2010 package of 2003, basically changing only the threshold of the size so that firms with fewer than ten employees are exempt from dismissal protection when it comes to new hiring (see Fig. 9.1).

One of the reasons Germany is celebrated for its labour market reforms is that it was largely impervious to the economic crisis of the late 2000s. This result is largely explained by the Agenda reforms, which increased the internal flexibility of the workforce (Eichhorst et al. 2010). To meet the crisis, additional measures to increase external flexibility were enacted in 2008. The use of short time work schemes was subsidized and the duration of the programmes enhanced (Eichhorst et al. 2010). *Arbeitslosengeld I* was increased for those above 50 to 24 months depending on the contribution period. In 2012, the government re-regulated temporary employment by introducing the principle of equal treatment of temporary and permanently employed.

In sum, the German labour market has become much *more flexible* in terms of the use of atypical employment, but insiders have lost large parts of their previous privileged position in the social insurance system and are more strongly exposed to the vagaries of flexible labour markets despite their highly institutionalized employment protection. Hence, on account of the profound flexibilization and the economic upswing, I expect labour market risks to be less unequally distributed in Germany.

France

Along with Germany, France in the early 2000s was seen as a country in need of structural labour market reforms (Eichhorst 2007). Since then, France has changed its labour market policies, but it has done so rather slowly and incrementally. With fairly highly institutionalized protection of regular employment (see Fig. 9.1), the most important means of introducing flexibility is through temporary contracts. This is true despite a relatively strict regulation of fixed-term employment, which is allowed only for replacing employees on leave, for temporary labour, or for seasonal or sectoral reasons. Contracts can only be renewed once, with a total duration of 18 months[6] (Eichhorst 2007). Nevertheless, most new jobs are issued on a temporary basis. In addition, as most new contracts go to labour market entrants, the dividing line in the French labour market is between younger and older workers. Thus, France is considered a dualized country (Palier and Thelen 2010; Clasen and Clegg 2012; Clegg 2012; Palier 2010a). Older workers are further protected from dismissal by the so-called *Delalande contribution*—a contribution to be paid in case of dismissal of a worker above the age of 50 (Jamet 2006). The *contrat nouvelle embauche* (CNE), which relaxed employment protection for those newly employed in smaller firms, is mostly used to employ younger adults. A bill generalizing the CNE for all young people below 26, the *Contrat Première Embauche* (CPE), was withdrawn by the government after major protests in the spring of 2006.

The dualization between younger and older workers is reflected in the social protection system, where older workers enjoy more generous protection than younger workers. For example, unemployment insurance offers more generous benefits for a longer period of entitlement to elder workers.[7] In addition, several bridges to early retirement are still available. By contrast, social protection is problematic for younger labour market participants. For example, young adults are not entitled to the minimum income scheme *revenue minimum d'insertation* (RMI). At the same time, France has continued on its path of 'insertion', that is, providing for different models of fixed-term subsidized employment addressing diverse target groups of unemployed (Clasen and Clegg 2012). Yet, until very recently, these measures have not led to a stronger activation of the unemployed (Clegg and Palier 2014), nor have they reduced labour market risks. In contrast to Germany's Agenda 2010 reforms, the plan affects

[6] 24 months for specific reasons.

[7] This is true even after eligibility cuts from 60 to 42 months in 2002 and to 36 months in early 2006 for the unemployed aged 50 and over (Clasen and Goerne 2011).

only a minority of unemployed (Jamet 2006). In addition, the relatively high level of guaranteed minimum income and minimum wages reduces the effectiveness of in-work benefits (Eichhorst 2007).

Taken together, the French labour market has remained fairly regulated for standard employment, and France has implemented only superficial labour market reforms. Unintentionally, and as a consequence of the lack of flexibility of standard employment, temporary employment has become the main means of introducing flexibility for employers. New jobs have been assigned on a temporary basis leading to a dualization of the labour market between, on the one hand, young adults who are entering the labour market and, on the other hand, those in their prime age and older workers with permanent contracts. Hence, *I expect labour market inequality to be strongest between younger and older workers and to increase over time*.

Italy

Until the 1990s, the Italian employment strategy consisted of two approaches. Recurrent devaluations increased the competitivity of the Italian economy, and the productivity of its labour force was guaranteed by a 'labour shedding' approach. Consequently, a defining feature of the Italian labour market since the 1970s has been strong insider-outsider divides between fully protected insiders in the primary labour market, often working in large companies in the industrial sector, and outsiders with insecure positions (Ferrera 1996; Jessoula et al. 2010; Picot and Tassinari 2015). By the early 1990s, the traditional employment policy approach had reached its limits because of Italy's ambition to enter the European Monetary Union (EMU) (Jessoula and Alti 2010; Ferrera and Gualmini 2004). Italian policy-makers managed to defrost the labour market and recalibrate social policies in the 1990s, but these policy reforms provided only temporary alleviation and most of all introduced selective flexibilization of the labour market. Among the most important reforms of this hopeful period was the elimination of the automatic indexation of wages to prices that was so advantageous to insiders and the reform of collective bargaining in 1992–1993 just after the 'Tangentopoli' scandal (Jessoula and Alti 2010). The institutional design of unemployment insurance and the unions' strategies of wage setting greatly exacerbated insider-outsider divides, even more as these insider institutions were not offset by similar activation or integration institutions for outsiders.[8]

Four years later, the centre-left cabinet, headed by Romano Prodi, pushed forward a path-breaking reform of employment policies—the so-called *Treu-reform*. This reform prompted a '*selective flexibilization*' of labour market arrangements: flexibility was pursued 'at the margin', by favouring the spread of atypical, flexible job contracts with lower labour and redundancy costs than typical full-time permanent jobs, and by re-launching part-time work. At the same time, the automatic conversion of temporary to permanent contracts was abolished (Ferrera and Gualmini 2004). By contrast, job security for insiders remained untouched (Jessoula 2012), and the security side, that is, unemployment insurance, was not reformed. Hence, temporary employment was to become the dominant form of atypical employment alongside self-employment, while part-time employment grew at a much slower pace. Within two years, temporary employment rose from 5.1 per cent to 9.3 per cent (Ferrera and Gualmini 2004: 101). Again, the EU, in particular the Maastricht Treaty and later the discussion about EES, exerted a crucial influence in inducing a policy-learning effect among Italian policy-makers (Jessoula and Alti 2010).[9]

After a failed attempt in 2002 by the second Berlusconi government to reduce employment protection for insiders, that is, to reform the famous Article 18 on the Workers Statute, the government continued its line of selective liberalization throughout the 2000s until the outbreak of the crisis in 2008.[10] In addition, the government ended the minimum insertion income, which had established a minimum safety net for outsiders.

[8] However, proposals to facilitate the integration of young adults into the labour market by creating a system of vocational training and to introduce active labour market policies were seriously discussed in the wake of the employment crisis in the 1970s (Eichhorst 2007).

[9] The influence of the EU is shown in the Legislative Decree 368 of 2001 implementing the 1999 EU Directive (1999/70/EC), which eliminated the need for employers to justify the need to limit the duration of a contract (Jessoula and ALti 2010).

[10] Law 30/03 further pursued flexibilization at the margin by introducing a number of new atypical contracts (that is, on-call work, job sharing and so on).

Instead, resources were re-directed to ordinary unemployment insurance, which benefits mainly insiders (Jessoula and Alti 2010: 176).

Just as the EU acted as a catalyst for labour market and social policy reforms, the persistent crisis since 2008 acted as a catalyst for labour market and social policy reforms. The crisis has caused unemployment to increase again after a long decline and a rise in employment rates. Flexible workers were the first victims of the crisis, and the shortcomings of 'selective flexibility' without security dramatically appeared (Jessoula et al. 2010).[11] Although Italy has been repeatedly criticized for its slow reaction to the crisis, a series of reforms has been implemented that re-regulate the use of temporary employment by facilitating the conversion of fixed-term to permanent contracts if the reason for the contract is not naturally limited. For example, the Monti government's *Riforma Fornero* (Law 92/2012) introduced restrictions on the use of temporary contracts in 2012, and it improved unemployment benefits for non-standard workers.[12] However, the following labour market reform, the Poletti decree (Law No. 34/2014), deregulated fixed-term contracts and apprenticeship contracts in an attempt to quickly reduce mass unemployment and at a budget price (Picot and Tassinari 2015). Yet, the most noteworthy and intensely debated reform concerns the revision of Article 18 of the Workers' Statute intending to reduce *employment protection for insiders*. After pressure from EU institutions and meeting fierce resistance from trade unions, Mateo Renzi, the prime minister of the left Partito Democratico (PD), replaced Article 18 employment protection for permanent employment with a new contract for new hires that features increasing employment protection according to seniority of employment (Picot and Tassinari 2015).

To sum up, Italy is a strongly dualized country with a selectively flexibilized labour market and an insider-biased social protection system. As a reaction, *I expect labour market inequality to increase over time*.

[11] This can be seen in Fig. 9.1, as unemployment and temporary employment move simultaneously.

[12] It also aimed at reducing 'pseudo self-employment,' and limiting employer abuse of apprenticeship contracts, which enjoy notable fiscal benefits (Picot and Tassinari 2015).

Spain

If Germany stands out as the paragon of the conservative welfare state, Spain can be considered the paragon of 'selective flexibilization' (Toharia and Malo 2000; Bentolila and Dolado 1994; Eichhorst et al. 2010). It had one of the highest employment protections for regular employment in the OECD (until the reform in 1997). Therefore, temporary employment became the favourite means of increasing external flexibility, and Spain introduced temporary employment as early as 1984. Subsequently, temporary employment expanded rapidly, and in 1991 a third of employees held a temporary contract (Polavieja 2006).

Just as in Italy, the need to stick to the Maastricht criteria led to reforms in the labour market and welfare state in Spain in the 1990s, but in a retrenching and further dualizing way. Conditions for unemployment benefit entitlements were tightened in 1992 from 6 to 12 months of previous contributions (Guillen 2010). Accordingly, coverage rates fell, and it is safe to assume that they fell particularly among the temporarily employed who had more difficulties in meeting the tightened requirements. Expenditure growth on activation policies also slowed for the rest of the decade (Gutierrez and Guillen 2000). It was only in 2000 that an active integration subsidy was created for older long-term unemployed. The 1990s witnessed not only two further waves of labour market flexibilization but also in 1999 an equalization of social rights between atypical employment forms and standard employment. Among other measures, the flexibilization reforms from 1993–1994 included promoting job creation through new tax and social contribution exemptions for employers contracting outsiders (young adults, the long-term unemployed and old or disabled workers). The measures also fostered work-experience, job-training contracts and the reduction of barriers for certain kinds of redundancies. On this occasion, and in contrast to the 1984 reform, part-time contracts were more vigorously promoted by providing them with more public subsidies. The 1996 reform promoted the creation of open-ended contracts, modified part-time contracts and reduced the cost of redundancies (Guillen 2010). These flexibilizing reforms had the simultaneous effects of lowering the old labour market risk of unemployment and increasing the new labour market risk of temporary employment.

In the early 2000s, the rate was still twice as high as the OECD average, and 80 per cent of newly created jobs were assigned on a temporary basis (Polavieja 2006: figures 1 and 2).

After coming back to power in 2006, the Socialist PSOE (*Partido Socialista Obrero Español*) undertook another attempt at limiting the use of temporary power by limiting the subsequent renewal of temporary contracts. One year later and following EU legislation, the PSOE government enacted the 'Law on Gender Equality' to reduce labour market inequality between men and women.

In Spain, the deep and perturbing employment crisis that followed the bursting of the housing bubble in 2008 led not only to sky-rocketing unemployment rates (see Fig. 9.2) but also to a profound reform of labour market policies in 2010 and 2012. The reforms in 2010 aimed to reshape the overall functioning of the labour market and, especially, to reduce the privileges of insiders by smoothing differences in dismissal costs between temporary and permanent contracts (Wölfl and Mora-Sanguinetti 2011; Pavolini et al. 2015). The reform in 2012 improved the flexibility of the collective bargaining system, decreased employment protection for regular employment and introduced a new contract as a bridge between temporary and permanent employment reform (Sola et al. 2013). Although the OECD expresses some optimism about Spain's potential to reduce labour market inequalities and suggests that the reform was responsible for the creation of about 25,000 new jobs per month in 2012 (OECD 2013), it is too early to analyze the impact of the reform.

From this section, I develop the following expectations: because of the profound flexibilization and the economic upswing, I expect labour market risks to be less unequally distributed in Germany, while labour market inequality is expected to increase in Italy and Spain. In France, I expect labour market inequality to remain constant although at a high level. Atypical employment is a common feature in France. Although the French labour market is not characterized by selective flexibilization as in Italy or Spain, it combines strong employment protection for standard employment with a means for flexible adjustment of the labour market supply of temporary employment and therefore needs no special promotion. At the same time, I expect labour market risks to be particularly concentrated among the younger cohorts in France, Italy and Spain.

Patterns of Labour Market Inequality in Continental Europe: Data and Operationalization

I analyze labour market inequality in Germany, France, Spain and Italy from 2005–2012 with two questions in mind. First, have labour market risks become more unequally distributed in terms of unemployment and temporary employment? In other words, has the difference between insiders and outsiders widened because insiders have become even more shielded or because outsiders have become more vulnerable? For this, I compare the labour market risks of insiders with the labour market risks of outsiders to see whether the gap has widened. The second question concerns the structure of labour market inequality. Have labour markets become riskier for different age or skill groups or between men and women? Does the importance of these determinants change over time, that is, do we observe young adults benefiting at the expense of lower-skilled individuals?

There are several ways to conceptualize labour market inequality depending on one's specific research question. I understand labour market inequality as an unequal *distribution of labour market risks between insiders and outsiders*. Labour market risks are the probabilities of becoming unemployed or being temporarily employed. These probabilities are determined by the unemployment (temporary employment) rates of the individual's reference group minus the national rate of unemployment (temporary employment). To control for the general labour market condition, I subtract the national mean of unemployment (temporary employment). The indicators are therefore the *deviations* from the national mean and a *relational* measure of labour market risks (see Chap. 3 on the distinction and relation between absolute and relative inequality). Accordingly, risk exposure is assumed to be high for individuals whose group-specific rate of unemployment (temporary employment) is above the national average (see Schwander and Häusermann 2013 for a more extensive discussion of the relationship between labour market vulnerability, labour market risks and the incidence of atypical employment and unemployment among an occupational reference group, as well as

Rehm and Kitschelt 2005 on measuring occupational unemployment risks). To analyze the development of labour market inequality, I rely on various waves of the EU-SILC (*survey on income and living standards*).[13] Unemployment is a binary variable indicating whether a respondent is unemployed. Temporary employment, also a binary variable, takes the value 1 if the respondent holds a non-permanent employment contract.

More specifically, I show the distribution of labour market risks between those social groups known for their weak labour market attachment (i.e., potential outsiders: women, young adults, older workers and low-skilled workers) and social groups that hold a firm position in the labour market (i.e., potential insiders: men, workers in their prime age and higher-skilled individuals). Age and education are measured in three categories: 18–35 years denotes the cohort of young adults (a group of potential outsiders); 36–49 years denotes the cohort of prime-aged individuals; and those above the age of 50 are older workers.[14] Note that the analysis is restricted to individuals of working age. The second group of potential outsiders consists of individuals with low skill levels, that is, a degree below completed secondary education. A skilled individual has a secondary or post-secondary degree, and high-skilled individuals hold a tertiary degree.

Patterns of Labour Market Inequality in Continental Europe: The Analysis

The following figures show the distribution of labour market risks. Lines represent the deviation of group-specific rates of temporary employment (left side of figure) or unemployment (right side of figure) from the

[13] This survey is unrivalled by the number of respondents per country and wave. Since I want to analyze labour market risks of different socio-structural groups, and unemployment and temporary employment are labour market conditions that affect nevertheless a minority group of individuals, a large number of respondents is essential for a thorough analysis of labour market risks.

[14] The reason for setting the age threshold for young adults at 35, although, of course, arbitrary, is the prolonged period of education in post-industrial societies. Most European countries still have a considerable number of young adults in education at the age of 30 (Ferrera and Gualmini 2004). Given that it takes another few years to acquire a stable position in the labour market, it is reasonable to assume that a substantial share of young adults below age 35 must still be counted as labour market entrants.

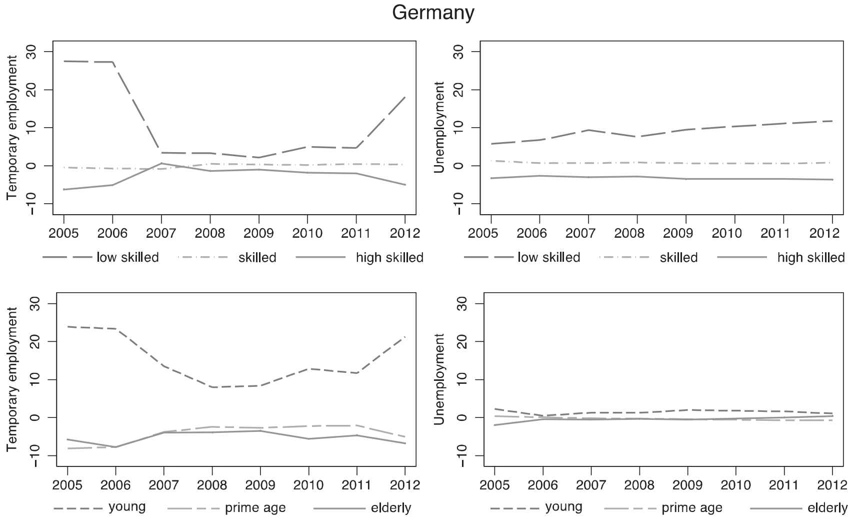

Fig. 9.3 Labour market risks according to skill and age in Germany

national average in a particular year. I start by discussing inequality in labour market risks in Germany.

The left side of Fig. 9.3 demonstrates that the risk of temporary employment has become more equally distributed since the 2005 implementation of Agenda 2010. At that time, the risk of temporary employment was considerable for two potential outsider groups, young adults and low-skilled individuals. It has declined since then. Overall, Fig. 9.3 suggests that the risk of temporary employment has not only become less frequent since the introduction of Agenda 2010 (see Fig. 9.2) but also that it is more equally distributed between different age and skill groups. At the same time, it is possible to observe a widening inequality of risk of unemployment with regard to skill levels. Hence, it seems that for low-skilled individuals Agenda 2010 replaced one form of labour market inequality with another.[15]

[15] I would like to add that the risks of both unemployment and temporary work are not particularly gendered. This, of course, could not be said for part-time work, which is strongly and constantly gendered in both its voluntary and involuntary version in Germany (results not shown, see the contribution by Irene Dingeldey to this volume). To maintain the focus of the chapter on temporary employment and unemployment, I refrain from analyzing part-time employment more systematically.

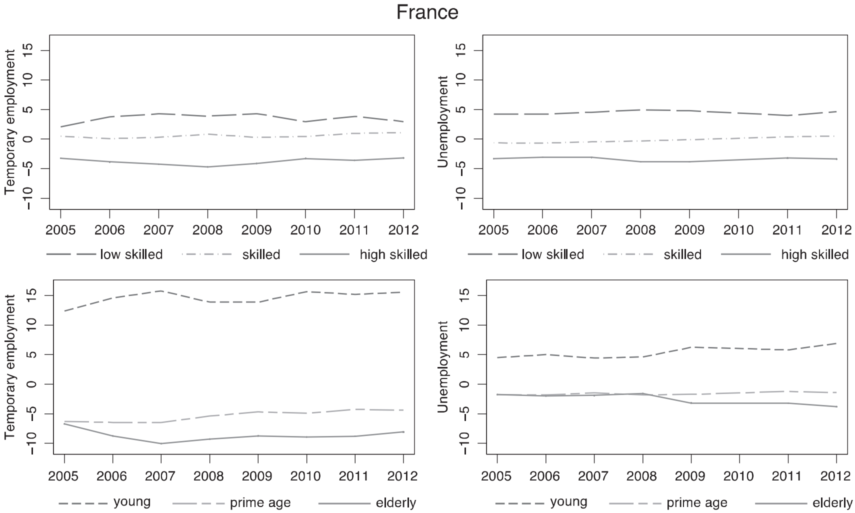

Fig. 9.4 Labour market risks according to skill and age in France

Things are different in France as the following figure shows. In France, labour market risks in terms of both unemployment and temporary employment (see bottom panels of Fig. 9.4) are and remain highly unequally distributed between young adults on the one hand and those in their prime age and above 50 on the other. Particularly telling for the story of dualization, older workers have become even *less* exposed to unemployment and temporary employment risks over time. Hence, while the overall situation on the French labour market has deteriorated, older workers have been able to shield themselves from these vagaries. Young adults, by contrast, face considerable disadvantages. Policies like the *Delalande contribution* that make the dismissal of older workers more costly have certainly contributed to this development. Unemployment risks are also high for low-skilled individuals (right top panel of Fig. 9.4). If we compare the magnitude of the disadvantage by considering the deviations from the national rate, we see that low-skilled individuals and young adults are similarly disadvantaged in terms of unemployment risks. Hence, it might not be surprising that low-skilled young adults are clearly the most disadvantaged group in the French labour market. Their exposure to unemployment and temporary employment is between 20 and 30 percentage points above the national mean. However, temporary work is not confined to low-skilled young adults; young adults with medium or high levels of education are also disproportionally at risk of working in temporary employment. By contrast, education helps to reduce unemployment risks for young adults, although skilled young adults still have a considerably higher unemployment risk than the rest of the workforce (results not shown).

I conclude that labour market inequality has remained stubbornly high in France over the last years. I relate this to the rigid labour market and, until very recently, the lack of more than superficial labour market reforms in the last decades. Indeed, France is a case where we observe a clear effect of a *non-event* mostly at the cost of the younger generation, which is clearly confronted with higher labour market risks than individuals in their prime age or even older individuals.

As discussed in the previous section, Italy and Spain have flexibilized their labour markets selectively over the last decades. Consistent with these policies of 'selective flexibilization', Italy and Spain display pronounced levels of labour market inequality. On the national level, unemployment in Spain and Italy tends to decrease from the 1990s until the outbreak of the economic crisis in 2008. This trend reduced the risk for unemployment in general (see Fig. 9.2). The detailed analysis for the insider-outsider groups reveals that the same cannot be said for young adults for whom unemployment risks remain high. Those who find employment are more likely to be in temporary employment, unlike individuals in their prime age or above 50 years old. With deviations from the national mean between 14 and 20 percentage points, the disadvantage is considerable in both Spain and Italy. Low-skilled individuals, by contrast, are not that strongly disadvantaged. They do face a higher risk of temporary employment and unemployment than the national average, but the differences are modest, as the top panels of Figs. 9.5 and 9.6 indicate.

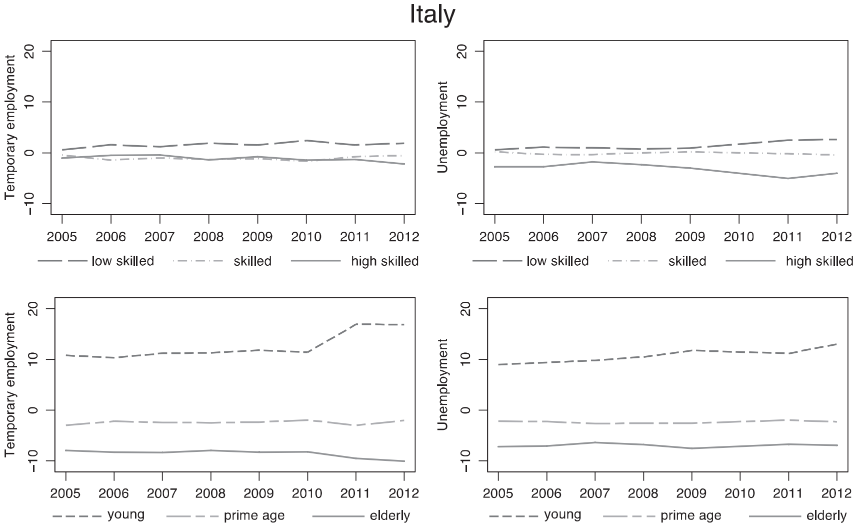

Fig. 9.5 Labour market risks according to skill and age in Italy

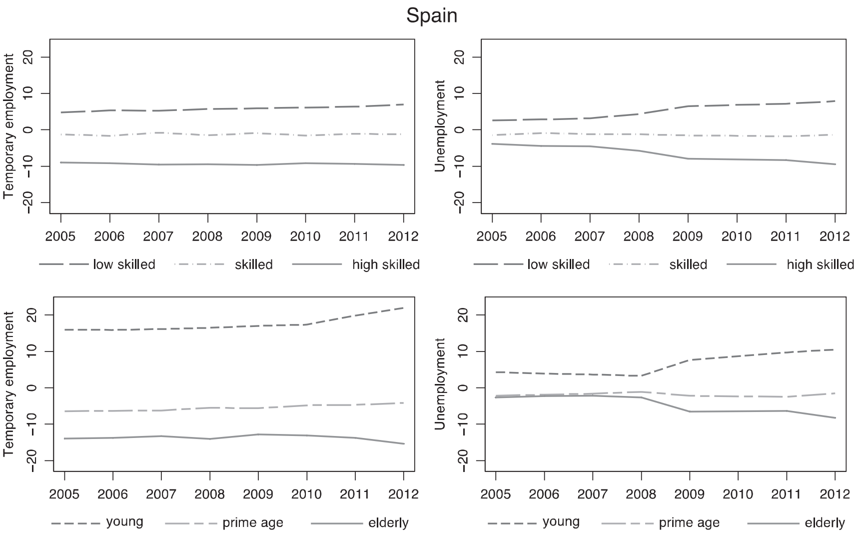

Fig. 9.6 Labour market risks according to skill and age in Spain

With regard to the development of labour market inequality over time, the economic crisis contributed to a further divide, albeit modest, in temporary employment risks in Italy (Fig. 9.5). Temporary employment among young adults sky-rocketed from 2008 onwards, while workers in their prime age and those above 50 managed both to reduce their risk of unemployment *and* stabilize their risk of temporary employment. By contrast, for young adults in Italy, temporary employment rates are between 9 and 19 percentage points above the national mean in 2012. With excess rates between 16 and 20 percentage points, young adults are even more disadvantaged in Spain.

Again, and even more clearly than in France, *education does not shield young adults from exposure to labour market risks*. In both countries, unemployment rates and rates of temporary employment are decidedly higher for young adults with low, medium or high skill levels than for other groups. Ansell and Gingrich (2016) relate this to high barriers of entry that prevent graduates from entering the labour market when the number of high-skilled jobs does not keep pace with the number of graduates (a scenario called 'skill mismatch' and mostly to be found in southern Europe, see also Felgueroso et al. 2015). The only group that faces a higher exposure to unemployment risks is that of low-skilled individuals in their prime age, whose unemployment risks have been steadily increasing since the outbreak of the crisis. At the same time, higher-skilled adults are somewhat less exposed to the risk of unemployment (results not shown). The crisis seems to have emphasized the importance of skills at the expense of generation in terms of unemployment, as the easing unemployment risks for young adults with high-skill levels indicate.

I conclude that labour market risks in Italy and Spain are unequally distributed and occur clearly along the lines of generations, with young adults being the most disadvantaged group in the labour market. There is clearly *a dualization of labour market risks between young and older workers with regard to both new and old labour market risks*. The findings that even young adults with a tertiary degree are exposed to labour market risks gives nuance to the notion of a skill premium for higher-educated workers. This premium might be beneficial in terms of wages (see Chap. 2), but, regarding risk exposure, the main dividing line in France, Italy and Spain is between older and younger workers.

Conclusions

Rising economic inequality in OECD countries is one of the most worrisome developments in the last decades because of its many negative consequences for economic prosperity, democratic sustainability and prospects for individuals' pursuit of personal happiness and self-fulfilment. The rise in economic inequality is partly the result of increased and more diverse labour market inequalities for which the state is less able to compensate than in earlier times. These labour market risks have not only increased all over Europe but they have also become more diverse. In addition to the old labour market risks of unemployment, new risks include long-term unemployment, temporary employment and part-time or marginal employment. These new labour market risks and their unequal distribution within the workforce are the focus of this chapter.

I analyze the effect of welfare state transformations and changes in the regulatory framework on the distribution of labour market risks from the mid-2000s onwards in Germany, France, Italy and Spain where governments reacted differently to the pressures of labour market flexibilization exerted from increased international competition and such supra-national actors as the EU.

Relying on several waves from the EU-SILC, I analyze patterns and distribution of labour market risks between groups with different skill and age levels, and the interaction of these two factors. I conclude that varying patterns of unemployment and temporary employment can be observed in the four countries. In Germany, labour market risks have become more equally distributed since the 2005 implementation of Agenda 2010, which profoundly reformed the German labour market and limited insiders' privileges. By contrast, labour market inequality has increased in Spain and Italy, and remained constant in France.

The strongest dividing line for exposure to labour market risks in Germany was between those individuals with low skill levels on the one hand, and those with medium or higher skill levels on the other hand. *Yet, differences between the groups were declining for both forms of labour market risks*. The same holds for labour market inequality between younger and older workers. When unemployment and temporary employment rates fell, they fell to the benefit of young adults, too.

By contrast, in France, Italy and Spain, young adults bear the brunt of labour market risks while those in their prime age and also older workers are shielded from the vagaries of flexible labour markets. In France, it even seems that older workers managed to protect themselves more vigorously from unemployment during the economic crisis by means of policies such as the *Delalande contribution*, which makes dismissal of elder workers particularly costly.

I also emphasize that while the labour market situation is particularly distressing for young adults with low skill levels (their unemployment rate is almost 20 per cent higher than the average unemployment rate in 2011), labour market risks are concentrated in southern Europe among the younger cohort *regardless of their skill levels*. In Spain, labour market inequality has substantially widened between younger and older cohorts since the economic crisis, and labour market reforms have been unable to alleviate the situation. Hence, while higher education represents an escape from labour market risks to some extent in France, even this way out is blocked in Italy and Spain (see Ansell and Gingrich forthcoming on 'skill mismatch' as an explanation for this). Recently, both Italy and Spain have implemented labour market reforms to provide more security for the temporarily employed and to facilitate the conversion from temporary to open-ended contracts. The effect of these labour market reforms could not be analyzed in the present chapter due to the limited amount of time that has passed since their implementation.

Let me end the paper with a speculative remark. Given the persistent difficulties of Italy and Spain and to some extent also of France in recovering from the Great Recession, one could speculate whether age-related labour market inequality has a potentially negative effect on employment and economic growth while the concentration of labour market risks among the lower-skilled seems to have a more positive effect on employment and economic performance.

It remains my hope that the crisis exerts sufficient pressure on policymakers to enact labour market reforms that reduce the concentration of labour market risks in one generation to the benefit of another. The waste of innovation, human capital and human opportunities is likely only to prolong the economic straits of these countries.

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10

Changes in Labour Market Policies, the Gender Model and Social Inequality: Institutional Dualization Revisited

Irene Dingeldey

Since the 1990s, the new welfare state paradigm of the social investment or activating welfare state has inspired policy reforms in many Organization for Economic and Cooperative Development (OECD) countries (Hemerijck 2012; Morel et al. 2012). The flexibilization of labour markets and wages has formed part of these countries' reform trajectories. A particular goal of activating labour market policy fostered by both European Union (EU) policies and OECD policy recommendations has been to increase females' and, in particular, mothers' employability (Dingeldey 2011). Although once considered 'frozen landscapes' (cf. Esping-Andersen 1999) because of their previous resistance to fundamental change, conservative welfare states have since joined these reform initiatives. Based on analyses of labour market policies, employment regulation and collective bargaining, a particular strand within comparative

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welfare state research has identified institutional dualization[1] as a central feature of policy reform. Institutional dualization emerges because existing institutions are defended by inter-class coalitions of organized labour and management (Palier and Thelen 2010). Hence:

'The status and privileges of labour market insiders remain relatively well protected, with the flexibility necessary to stabilize the core being achieved at the expense of a growing number of workers in 'atypical' or 'nonstandard' employment relationships.' (Palier and Thelen 2010, 139)

Change therefore occurs by either 'layering' or 'drift'. While the first mechanism means that newly created institutions have gained importance and paralleled the old ones, the second suggests that institutions have lost their importance due to their resistance to structural change (Streeck and Thelen 2005). So far, however, institutionalist analyses reflect neither changes in the gender model nor the impact of such changes on newly emerging patterns of inequality. Although Palier and Thelen (2010) lean strongly on the varieties of capitalism approach (VoC) (Hall and Soskice 2001), they reject the assumption that institutional complementarities support stability, identifying instead an 'unravelling of institutions' as change in one area destabilizes relations in another. (Palier and Thelen 2010, 121) Their observation, however, supports the assumption that changes in labour market policy go along with changes in family policy and the established gendered distribution of work.

Drawing on Palier and Thelen's (2010) research, Emmenegger et al. (2012) as well as Kroos and Gottschall (2012) noted the emergence of a labour market divide as well as an overrepresentation of women among outsiders. This characterization, however, may be too simple to adequately characterize the complexity of emerging patterns of social inequality. As early as the 1970s, the thesis of a dualization of the labour market, referring to the divide between internal and external labour markets in American enterprises (Doeringer and Piore 1971), was rejected and substituted by the segmentation approach. With reference to Germany, this approach emphasized the existence of multiple labour market divides according to qualification and profession (Sengenberger 1978). Additionally, femi-

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Conceptually, institutional dualization differentiates between process (dualization), output (institutional dualism) and outcome (divide) (Emmenegger et al. 2012).

nist researchers drew attention to gender segregation in professions and branches, as well as to the hierarchical structures that gender segregation creates (Rubery et al. 1998). Against that background, the newly introduced term 'dualism', understood simply as the distinction between standard and flexible forms of employment, was already being criticized as 'tautological' (Knuth 2011, 584).

The discussion on 'gendering' the VoC approach (Hall and Soskice 2001) emphasized that in coordinated market economies, collective bargaining and training generate sufficient income for full-time working men. Thus, women's labour market participation only increases when the state generates public sector employment and provides universal childcare. This approach was practiced mainly in the Scandinavian countries (Estévez-Abe 2005; Soskice 2005). In conservative welfare states like Germany, the lack of affordable childcare hindered full-time female employment or encouraged non-participation even among highly qualified mothers. However, the contention that 'women always lose out' (Rubery 2009, 199) has yet to be proven. Since the 1980s, employment growth has generally been due to an expansion of the service sector. Hence, increasing rates of female labour participation have been accompanied by a rise in different forms of part-time employment (Hassel 2014). This development has been reinforced by labour market activation policies since the beginning of the new millennium (Dingeldey 2011). At the same time, collective bargaining institutions have largely eroded in the private service sector. As a consequence, throughout Germany wage dispersion has grown (Dustmann et al. 2009; Eichhorst 2015).

Hence, a more encompassing study of institutional dualization and institutional complementarities is needed in order to show how increasing commodification and market flexibility are adapted to the needs of social reproduction and family relations (Streeck 2009). Simply put, a gender-sensitive focus on institutional reforms in collective bargaining and labour market regulation, as well as on their specific outcomes, is necessary. Family policy and the supported gender model should be included in the analysis because they form institutions relevant to the coordination of production and reproduction. If we then follow the argument that the family both presupposes and compensates for inequalities with respect to gendered labour market patterns and wage differentials

(Lehweß-Lietzmann 2012), the analysis must go beyond the labour market status of individuals. Social inequalities must be considered at the household level. Concrete questions to be answered within that framework are as follows:

1. Does institutional dualization also apply to family policy, and do outcomes of dualization indicate gendered effects?
2. Do institutional complementarities across the different policy fields support a particular gender model?
3. How does the social divide between labour market insiders and outsiders develop when household level is considered?

The following reassessment of institutional dualization as a particular pattern of change is based on an in-depth study of Germany, which is typologized both as a coordinated market economy and as a conservative welfare state (Schröder 2009) with a strong male breadwinner model (Lewis 2001). The focus has been on institutional changes since the turn of the millennium. The impact of these reforms is analyzed using the most recent data on employment forms, wages and family employment patterns. Although the empirical evidence may reaffirm individual facts that are already well known, recent changes in institutional complementarities between collective bargaining and wage setting, and between labour market regulation and family policy, to date have not been outlined. Furthermore, the perspective on households indicates that the worsening of working conditions borne by different labour market segments is 'compensated' for by the consolidation of a one-and-a-half earner or modernized (male) breadwinner family model. Although this development is well known, its relevance with respect to the particular segmentation of the German labour market and its function for social inequality is hardly discussed. Hence, particular combinations of employment and family forms create a social divide.

After discussing theoretical concepts used to operationalize the research questions, I briefly outline the starting point of historical institutional complementarities in the German model and its development until the end of the 1990s. On this basis, I analyze the institutional dualization of family policy. Gendered outcomes of that process are traced in the fields of labour market regulation and collective bargaining. I then discuss institutional complementarities across different policy fields and examine social inequality in light of emerging employment and income patterns at the household level. In the conclusion, I highlight the main findings from the German case and compare them to results from other OECD countries. Finally, I identify questions for further research.

(Re)Conceptualization of Family and Gender Models

Feminist welfare state research focuses on the gender-selective nature of the commodification of labour. In the immediate post-WWII era, the family's traditional function with respect to physical reproduction was based on the male breadwinner/female housewife model (Knijn and Ostner 2002). Hence, welfare state policies supported a traditional and unequal gender model. Since the 1960s, secondary trends of modernization and individualization, connected to labour market tertiarization, changed those respective arrangements, albeit to a rather different extent in different OECD countries. Various typologies were developed that distinguished welfare state policies according to their degree of support for the traditional breadwinner model (Lewis 2001). 'Familialization' and 'de-familialization' emerged as central categories to distinguish welfare state policies with respect to the production of care, either through the family or through the state and the market (Esping-Andersen 1996). These categories, however, may somewhat disguise gender relations within the family and the still prevalent role of women as primary caregivers (Daly 2011). Typologies for the gendered division of labour additionally identified a modernized male breadwinner family as a one-and-a-half earner model where women worked part-time. Furthermore, the dual-earner/dual career model referred to a more equal distribution of labour market integration and (possibly) care responsibilities between men and women in family households (Pfau-Effinger 1999). In contrast, the adult-worker model describes an ideal individualization of employment status and the attribution of care responsibilities to both men and women alike (Daly 2011).

So far, however, most studies on welfare state policies have not analyzed complementarities between the systems of collective bargaining and wage setting, and their influence on family or gender models. If we follow Palier and Thelen's (2010) idea that institutional complementarities in coordinated market economies lead to an unravelling of institutions, institutional dualization may also apply to family policy. Here, dualization can be assessed if institutional incentives support the traditional breadwinner model even as newly created institutions support a dual-earner model.

To identify institutional complementarities across different policy fields, other concepts must be used. The gender contract not only highlights contractual relations but also draws attention to gendered power relations (Hirdman 1998), including the role of collective actors, such as trade unions, and their impact on women's working conditions. Furthermore, a change in the gender contract over time is assumed in accordance with the changing role of the state, its provision of care beyond the family and other support towards more equal gender relations (Hirdman 1998; O'Reilly and Nazio 2013). The concept of the 'reproductive bargain' (Gottfried 2013, 124) emphasizes that these respective relations are subject to negotiations between men and women, and that they may vary not only over time but also between different groups within the same society. The reproductive bargain captures labour market flux and the growth of precarious employment (Connolly and Whitehouse 2010) and highlights the link between the spheres of economic production and social reproduction (Streeck 2009).

Thus, cumulative incentives created across different policy fields towards a particular family model can be regarded as empirical evidence of institutional complementarities. As decisions are influenced but not determined by institutions, families themselves are actors of institutional coordination as well. Worsening employment conditions in (different) occupational labour markets that emerge as individual risks for each partner may therefore be mutually 'secured' at the household level. Decisions concerning an increase in a household's labour supply, however, may vary due to different social norms or socio-economic status (Gottfried 2013). Furthermore, consideration must be given to the fact that some strategies to compensate for social risks are not available to all households—for example, single persons and single parents are not able to draw on a partner's income. Emerging patterns of social inequality may thus be far more complex than the simple insider-outsider divide suggests.

The 'German Model' Until the 1990s

With the division of Germany after the war, the institutional regulation of work differed between East and West. Institutions in West Germany enshrined the *standard employment relationship* (SER) as the dominant male employment form. A *family wage* enforced by strong industrial unions was the financial basis for the *male breadwinner/female housewife model*. Within that model, familialized welfare production was the dominant social norm and practice (Gottschall and Schröder 2013). The respective regulations showed strong complementarities concerning a gender-specific distribution of work in both spheres—production and reproduction. The standard employment relationship, regulated as continuous and full-time, provided access to full coverage within the social security system. As labour market segmentation and segregation already existed in the heyday of the German model, high wage levels were predominant among the so-called *Facharbeiter* (employees with a medium qualification level acquired in the dual-apprenticeship system) in male-dominated industries. Comparatively strong trade union affiliation and collective bargaining coverage in services existed only in occupations dominated by big companies. Overall, female-dominated crafts and professions, e.g. hair styling or hotel service and catering, were spread across small workplaces with low unionization and a rather low wage level. Comparatively low wages characterized even female professions within the public sector since it was expected that women in these fields would not have to maintain a family (Gottschall and Schröder 2013).

The family wage was supported by the tax splitting and social security systems, providing non-employed family members with derived social rights (Dingeldey 2001). Child benefits were first exclusive to child-rich households and became universal only after 1975. That childcare services were only marginally developed, mostly on a part-time basis, made it impossible for West German women with care responsibilities to fit into the (male) full-time norm or to integrate at all into the labour market (Esping-Andersen 1999).

A creeping erosion of this institutional setting in West Germany began with societal changes at the end of the 1960s. Since then, the participation of women in the labour market has risen and 'new' family forms, such as lone-parent households, have gained importance (Ebert and Fuchs 2012). Since the 1970s, recurrent economic crises and upturns have been accompanied by growing unemployment and structural changes towards a service economy. With the rise of the neo-liberal paradigm in the 1990s, the implementation of austerity policies has led to welfare cuts and has been accompanied by wage restraint policies. Finally, reunification has exerted severe pressures on the German model (Hassel 2014).

Developments in the former East Germany have been quite distinct. As early as the post-WWII era, the integration of women into the labour market was supported in accordance with the aims of the early labour and women's movements, and was spurred by labour shortages. However, as women were still responsible for childcare, the double burden of employment and family was widely individualized. In the 1960s, an expansion of childcare facilities helped guarantee the full-time employability of mothers (Dölling 2003). Although a redefinition of gender roles and care responsibilities did not take place (Trappe et al. 2015, 233), women nevertheless became economically independent, and a family wage for male breadwinners was not developed.

Following reunification, Germany confronted a significant rise in (long-term) unemployment, income inequality and poverty (Dingeldey 2011). Labour market institutions that had characterized the German model were neither transferred to the expanding and feminized service sector nor to former East German regions (Thelen 2012). Accordingly, collective bargaining and membership in trade unions and employers' organizations became much more selective (WSI-Tarifarchiv 2015). Real wages stagnated and wages were increasingly polarized (Dustmann et al. 2009). Analysis of the gender pay gap in Germany highlights the significance of not only vertical segregation, that is, a gender-specific distribution of different positions in the employment system, but also horizontal segregation, referring to the unequal distribution of men and women according to occupation and trade (Eichhorst et al. 2015). After reunification, the dual-earner, full-time model was more prominent in eastern than in western Germany. Reasons for this difference were rooted in the normative and cultural orientations of the two regions as well as in the still extant regional differences in childcare facilities (Pfau-Effinger and Smid 2011).

Renewing Family Policy and the Gender Model

At the beginning of the new millennium, the changes in family policy embarked upon since reunification were intensified through reforms inspired by the activating or social investment state paradigm. Despite reform attempts during the first legislation of the red-green government (1998–2002) (Henninger et al. 2008), the tax splitting system remained a core institution to support traditional family employment patterns. Via tax-free allowances and joint-taxation tariffs, the tax splitting system produced high tax deductions when income differences between spouses were high or when there was only a single earner. As a consequence, if a family passed the tax free allowance, high marginal tax rates for a second earner emerged and social security contributions became liable (Dingeldey 2001).

Following reunification, however, the Conservative-led government attempted to weaken the familialization of childcare by proposing a formal right to childcare for children between 3 and 6 years of age. In 2005, the Social Democratic/Green government passed the child day-care expansion act (*Tagesbetreuungsausbaugesetz*) to increase childcare facilities for children under 3 years of age. This act was finally turned into a legal right to day care (*Kinderförderungsgesetz*), to be put into practice until the summer of 2013 (Dingeldey 2011, 312). However, throughout western Germany, the employability of both parents on a full-time basis is still limited or can only be achieved with support from the extended family or from contracting additional paid services. In 2015, the coverage for 1- to 3-year-old children was 28 per cent with a part-time rate of 25 per cent. Due to different traditions, coverage in eastern Germany reached 52 per cent with only 6.4 per cent for part-time places. For 3- to 6-year-olds nearly universal coverage of around 96 per cent was achieved throughout Germany, although regional differences with respect to part-time and full-time places remained for this age group. With respect to after-school care (6- to 11-year-old children), coverage differed between 16 (western Germany) and 52 (eastern Germany) per cent (BMFSFJ 2015; Statistisches Bundesamt 2015a).

Another milestone towards achieving a dual-earner family model can be seen in subsequent reforms that finally led to the introduction of the parental leave allowance by the grand coalition in 2007 (*Elterngeld*). To win the support of businesses and the conservative wing of the Christian

Democratic parties, then-family minister Ursula von der Leyen emphasized supporting parents so they could live economically independent of social transfer. Furthermore, she highlighted the need to raise the birth rate. She did not, however, explicitly support a more egalitarian gender model (Henninger et al. 2008). The main features of the reform included limiting parental leave to 12 months, which encouraged a quick return to employment, with two additional months of paid leave available if taken by the second partner—usually the father. Financial compensation was based on previous income. In 2013, 96 per cent of mothers and 32 per cent of fathers claimed the benefit. Although there has been a steady increase in male uptake, 79 per cent of males limit their claim to two months only (Statistisches Bundesamt 2015b).

The continued high level of political support for a male-breadwinner family model was made clear by Conservative Party members' demands to maintain women's 'choice' between employment and full-time care. Due to that pressure, a care allowance was introduced in the summer of 2013 (*Betreuungsgeld*). The respective flat rate of 150 euros per month was paid to parents who did not use childcare facilities for children between the ages of 15 and 36 months. In July 2015, the constitutional court ruled that the care allowance was inconsistent with the constitution, saying that only the *Länder* and not the federal state were able to introduce such an allowance. A defender of the care allowance, Bavaria immediately announced that it would reintroduce the policy (Spiegel 2015).

Altogether, institutional dualization also applies to family policy in the sense that new institutions—in setting incentives for a dual-earner, dual-career model—paralleled existing institutions favouring the single-breadwinner model. These seemingly contradictory incentives culminated in the one-and-a-half earner model that still 'benefits' from the tax splitting system and is able to cope with both the ongoing tradition of part-time public childcare and the educational system found throughout western Germany. As incentives produced by welfare state institutions are rather gender-neutral, the fact that it is mostly mothers who reduce their labour market commitment can be attributed to cultural values (Pfau-Effinger and Smid 2011). However, the gendered outcomes of institutional dualization in labour market policies and collective bargaining also support this particular gendered distribution of work.

Labour Market Regulation and Gendered Outcomes

At the end of the 1990s, the flexibilization of the German labour market was still considered modest. With respect to the standard employment relationship, consistently high dismissal protection was maintained with minor exceptions. However, the foundation was laid for subsequent flexibilization with respect to temporary work agencies and fixed-term contracts. The first Social Democratic/Green coalition introduced a policy of limiting flexibility, which included the reintroduction of full dismissal protection for employees in small enterprises. Marginal part-time employment was partly covered under social security. In 2001, a law on part-time work and temporary employment (*Teilzeit- und Befristungsgesetz*) was passed to restrict the use of fixed-term contracts and to increase the acceptance and facilitation of the switch from full-time to part-time employment (Eichhorst and Marx 2009b).

A turnaround towards activation and flexibilization became relevant when the so-called modernizers around Gerhard Schröder became influential within the Social Democratic Party (Dingeldey 2011). The so-called *Hartz* reforms consisted of four subsequent legislative acts advanced by the Commission for Modern Labour Market Services between 2002 and 2005. While all flexible forms of employment were deregulated, the (re) regulation of marginal part-time employment in the form of so-called 'mini-jobs' was crucial with respect to the family model and increased the lower earnings limit by up to 400 euros per month. It also abolished an existing working time limit (Eichhorst and Marx 2009b).

The reforms were backed by an economic upswing after 2005 and a rather brief downturn during the economic crisis in 2007–2008. Employment rates rose to 77 per cent of the working age population in 2011.[2] As the number of standard employees has remained constant, employment growth since 2004 seems to be strongly related to an increase

[2] The data source for the following numbers and Fig. 10.1 is the German Socio-Economic Panel (GSOEP). The calculations are based on working age population, excluding apprentices. Fixed-term part-time and part-time employees are summed up as part-time. Calculations were generously performed by Tim Schröder.

in flexible employment. A gendered reflection of this development shows that male employment (all men of working age) grew slightly to 85 per cent in 2008, while employment of men holding a standard employment relationship increased to nearly 64 per cent. By 2011, the slight decrease was compensated for by a rise in flexible forms of employment. Labour market integration of women grew steadily in the period before 2005 but increased significantly after, rising to 73 per cent in 2011. However, the majority of women did not hold a standard employment relationship but were employed in non-standard employment forms. Nearly a third of all women had part-time employment liable to social security and about 5 per cent had a mini-job (see Fig.10.1).

The gendered distribution of employment forms is accompanied by an unequal distribution according to different sectors.[3] The standard employment relationship is still prevalent in male-dominated sectors like manufacturing and the construction industry and in services dominated by big enterprises such as banking and insurance. Even in IT services and consulting, the majority of employees hold a standard employment relationship (Eichhorst and Marx 2009a). These trends contrast with developments in other, mainly female-dominated services. The standard employment relationship has been crowded out by part-time employment in social and personal services. In education, other than part-time employment, fixed-term employment is most common. In hotel and catering more than a quarter of employees hold a marginal part-time job, and in cleaning more than half do, while the beauty business is characterized by a high share of solo self-employment (Eichhorst and Marx 2009a).

Labour market structures thus reflect the different stages of the female life course according to the dominant gender and family model. In 2010, full-time work was at 68 per cent among women without children and 29 per cent among mothers (with children younger than 18 years), whereas part-time work was at 32 and 71 per cent, respectively (Knittel et al. 2012). Thus, part-time employment became the standard form of employment for mothers.

[3] The following proportions of atypical employment are relatively higher than in figure 10 because they do not relate to persons of working age but only to employed persons.

A slight backlash against labour market flexibilization came under Conservative rule in 2011 when, for example, the re-employment of former employees as agency workers by the same employer was prohibited. This development was closely related to a campaign by the metal workers' union to demand equal pay (Bispinck and Schulten 2011). In contrast, the attempt to hinder a further expansion of the marginal part-time limit to 450 euros per month in 2013 failed. This employment form remains highly attractive due to the payment of a lump-sum tax, and social security and liability allow married couples to maintain tax splitting advantages (Dingeldey 2001). At the same time, the various employment forms comply with employers' demands for a flexible labour force (*Arbeitgeberverbände* 2013).

Altogether, the dualization of labour market regulation can be confirmed because the standard employment relationship is granted high social protection at the same time that flexible forms of employment have been deregulated and have therefore increased. This unequal protection, however, cannot be easily interpreted as a dualization of the labour market structure; rather, labour market regulation has developed a patchwork approach to flexibility that is highly gendered and varies according to sectors and branches (Eichhorst et al. 2015).

Segmentation of Collective Bargaining and Gender Wage Gap

The process of reunification eroded collective bargaining and employee representation in the workplace in Germany. By 2013, coverage by collective bargaining had fallen to 60 per cent in western Germany and 47 per cent in eastern Germany[4] (Schulten and Bispinck 2014). Furthermore, only 42 per cent of all employees were represented by a work council. Accordingly, only a third of all employees were fully protected by the different legal institutions of the German industrial relations system (WSI-Tarifarchiv 2015). This development was attributed to structural changes as well as to

[4] This refers to the share of employees who are covered by collective bargaining in relation to all employees.

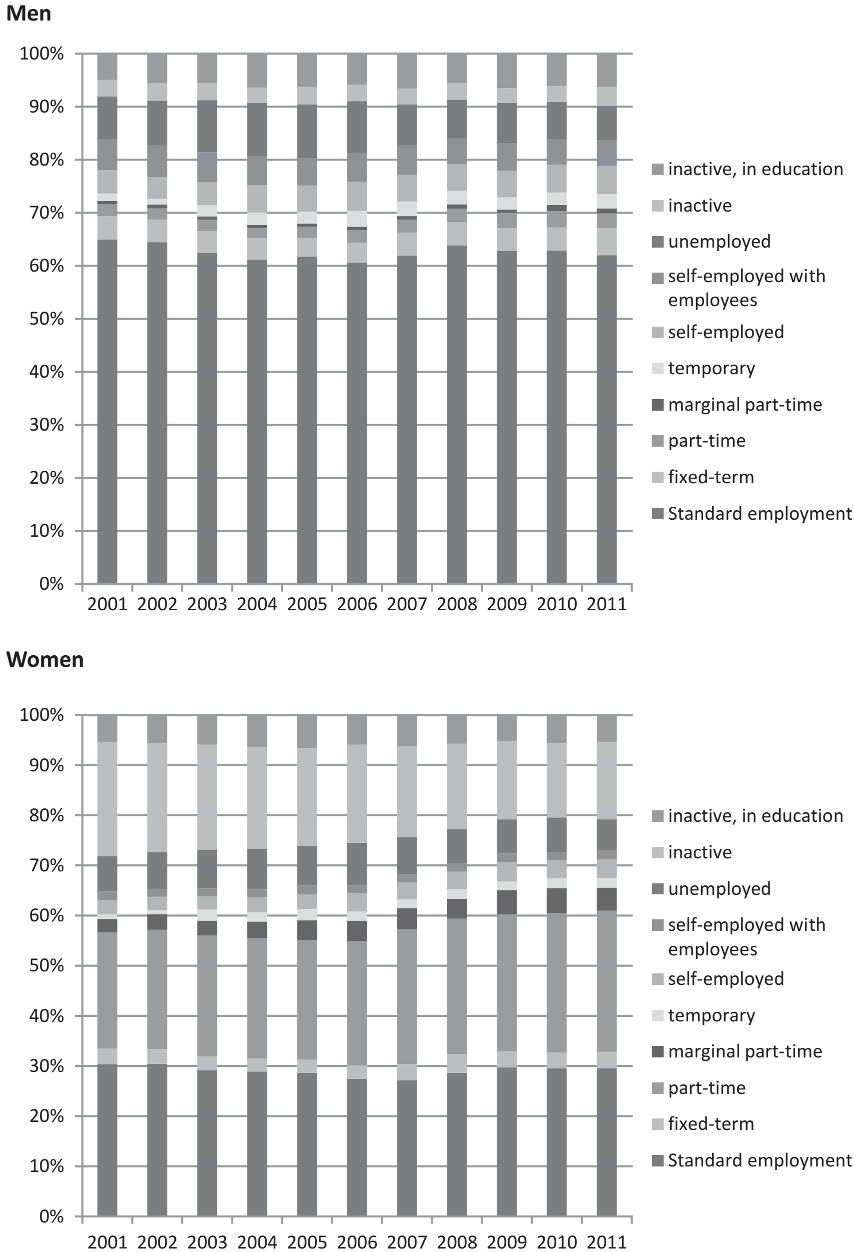

Fig. 10.1 Employment development in Germany by gender (2001–2011): (a) men, (b) women

employers' decisions to leave or not to join employers' organizations. The resulting segmentation of collective bargaining (Artus 2010) accumulated with the segmentation and segregation of the labour market. In 2013, a comparatively high coverage by collective bargaining (60–86 per cent) was still to be found in male-dominated industries (e.g., energy, construction or manufacturing) and in some gender-mixed branches of the service sector (e.g., banking and insurance). Much lower coverage (about 40 per cent) was found in female-dominated services such as the hotel, catering or retail trades. All respective categories displayed regional differences, indicating that coverage in eastern Germany generally was much lower than in western Germany (WSI-Tarifarchiv 2015). These differences coincided with diverging power relations between the social partners in different branches. Therefore, between 2000 and 2013, negotiated wages in retail and the public sector increased only by 3 and 6 percentage points, respectively, while in chemicals and metalworking they increased by 17 and 15 points, respectively (Schulten and Bispinck 2014; see also Hassel 2014).

Closely related to these developments was the increase in low-wage employment (60 per cent of median wage per hour) to 19 per cent in western Germany in 2010, and the maintenance of the rather high level of 37 per cent in the east. Although nearly half of all low-wage earners were full-time employees, the relative share among flexible employees was higher, with marginal part-time employees the most affected (Table 10.1). Females, the young, the low-qualified and migrant workers were overrepresented in the low-wage sector (Schulten and Bispinck 2014).

To tackle the increase in low-wage employment, a 2007 compromise was reached by the grand coalition (Oschmiansky and Kühl 2011) to introduce sector-specific minimum wages according to the law on posted workers (*Arbeitnehmer-Entsendegesetz*). In 2015, Germany had 18 sector-specific minimum wage regulations, but these were related to different legal contexts (WSI-Pressedienst 2015). The minimum wage is highest in the western German construction industry (14.20 euros for qualified workers) and lowest in eastern German female-dominated professions such as eldercare or laundry/dry cleaning services (8.00 euros). Accordingly, these minimum wage regulations were rather weak in counterbalancing both the regional gap and the gender pay gap. The introduction of a statutory minimum wage of 8.50 euros in 2015 may help here, although several

Table 10.1 Structure of low-wage employment and share of low-wage employees among different groupsa (share in per cent)

	Structure of low-wage employment			Low-wage employees as share of all employees in the respective group	
	2000	2005	2010	2000	2005
Sex					
Men	35	33	36	12	14
Women	65	67	64	27	30
Working time					
Full-time	54	49	48	13	14
Part-time	24	24	22	27	28
Marginal part-time	10	14	13	62	70
Region					
Western Germany	66	73	72	15	18
Eastern Germany	34	27	28	37	38

aWithout apprentices and without persons in employment promotion measures
Source: Brenke and Grabka (2011)

exceptions are allowed until 2017 (Schuler 2015). Calculations project a decrease in the (unadjusted) gender wage gap from 19.6 per cent to 17.1 per cent (according to data from 2012; Boll et al. 2015).

As a consequence, institutional dualization can be seen in the continuity of a collective bargaining system that is paralleled by 'bargaining free zones' and the reflexive introduction of a (statutory) minimum wage. Outcomes, however, differ not only between collective bargaining and non-coverage but also between negotiated wages according to power relations between social partners in different sectors.

'Marriage of Flexibility and Security'[5] and Social Inequality

Institutional dualization in family policy, labour market regulation and collective bargaining produces accumulated incentives for decisions in favour of the modernized male-breadwinner model. If men work in the core industrial sector and combine a standard employment relationship

[5] This term was originally used to describe the Hartz reforms (Leschke et al. 2006), but it is employed here with a different meaning.

with comparatively high hourly wages while women work in sectors and occupations with a low(er) wage level, the reproductive bargain encourages mothers to opt out or reduce working time. Such a *marriage of flexibility and security* on the household level maximizes time flexibility and income security in order to reconcile work and family—and to cope with a rigid supply of childcare. As a consequence, the number of persons working in western Germany according to the modernized male-breadwinner model has nearly doubled since the beginning of the 1990s. At present this model is practiced in western Germany by more than 30 per cent of all households with children younger than 18 years. In eastern Germany, the number of households following the model increased to 28 per cent in 2007[6] (Ebert and Fuchs 2012).

In terms of family household income, the expanded (part-time) labour supply of women offset the wage stagnation that also hit many male breadwinners. From 2005 to 2011 in western Germany, only 66 per cent of the group of core workers (*Facharbeiter*) gained a wage that would have brought their family (with a resident partner and at least one child) above the poverty line. In eastern Germany, the same group represented only 20 per cent of core workers. When social transfers and women's income were added, however, hardly any of the remaining families in western Germany were poor (60 per cent of medium income). About 80 per cent even reached a medium standard of living (80 per cent of medium income). In eastern Germany only 5 per cent of this group was poor and nearly 70 per cent achieved a medium standard of living (Berninger and Dingeldey 2013). Furthermore, nearly half of all flexible employees (and 56 per cent of part-time employees) lived with someone who held a standard employment relationship, so that poverty rates among atypical employees remained modest (14.3 per cent in 2008; *Statistisches Bundesamt* 2009). The high representation of women in low-wage employment did not translate into equally high poverty rates (George 2011). Thus, the increasingly popular modernized male-breadwinner model also reflects how families have actively counterbalanced negative labour market developments on the house-

[6] If the focus is on only coupled households with children younger than 18, the figure is about 70 per cent (Keller 2013).

hold level. The adapted reproductive bargain, an essential element of complementarity in conservative welfare states, maintains a rather high level of familialization with respect to childcare and to successfully combining demands for flexible wages and (timely) flexible labour with a still modest level of precarity.

The outlined developments question whether a generalization of an insider-outsider divide is the dominant structure of social inequality. Outcomes of institutional dualism are strongly segmented and gendered. The changing reproductive bargain at the household level both counterbalances elements of precarization produced by the labour market and enforces the endurance of gender inequality within more or less traditional family constellations. As the displayed institutional incentives have a strong influence but do not determine individual or household decisions, these vary according to socio-economic characteristics. In 2007, the majority of middle- and high-qualified mothers responded to their respective incentives as the one-and-a-half earner model reached a frequency of around 53 per cent. Low-qualified mothers had the lowest labour market participation. Only 37 per cent practiced the one-and-a-half earner model. Among the high-qualified we find the highest rate of a dual full-time arrangement, namely 15.6 per cent (Hook 2015). As an outcome, the differentiation of employment forms and wages corresponds to a polarized labour supply among family households according to qualification level. This outcome enforces the polarization of disposable household income and social inequality (Bosch and Kalina 2015).

Furthermore, the increasing number of economically struggling lone parents and single-earner family households (Ebert and Fuchs 2012) indicates that either the availability of compensation strategies based on an expanded labour supply or the mutually provided security in dual-earner households is restricted. Institutional complementarities that support a modernized male-breadwinner model as the standard family structure may therefore partly explain why Germany produces comparatively high poverty rates for 'deviant' forms, namely among single persons, lone parents and single-earner family households (Bahle et al. 2015).

Conclusion

The facts outlined above indicate a change in the reproductive bargain as a relevant element of institutional complementarities in welfare capitalism. Institutional dualization in Germany refers not only to labour market policies and collective bargaining but also to family policy. The combined outcomes create incentives for partnered families to choose a modernized male-breadwinner model. Accordingly, gender inequalities with respect to labour market participation have diminished, while gender inequalities within the labour market have increased in terms of flexible forms of employment and pay. However, within coupled family households even an unequal reproductive bargain helps to diminish social risks. Overall, if men still hold stable employment possibly in the manufacturing sector, declining pay may be compensated through female labour market participation. At the same time, flexible or low-paid employment in female branches of the service sector may still be 'secured' within the male-breadwinner arrangement. However, compensation mechanisms are not only rather limited but also unavailable for single persons or single-parent households. In contrast, amongst higher-educated couples, we see more equal gender models overall. The contrast between work-rich and work-poor households adds to the polarization of disposable income. The social divide within conservative welfare states therefore does not manifest primarily along standard and flexible forms of employment but arises out of particular combinations of employment and family forms. As these vary during the life course, it becomes more difficult to predict which individuals will face precarization.

These finding are in line with other studies (Cantillon 2011; Solga 2014; Vandenbroucke and Vleminckx 2011) indicating that inequalities rise as a consequence of labour market and social policies enacted according to social investments or the activating welfare state paradigm. At the same time, this investigation explains why the level of social inequality in Germany is still comparatively low in relation to other OECD countries (OECD 2012). Whether the particular development of the German model is paradigmatic for other coordinated market economies in combination with conservative welfare states or whether other gender models—as, for example, in France—induce different social outcomes will have to be proved by further comparative research.

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Part III

National versus Global Inequalities

11

Global Social Policy in the Context of Global Inequality

Alexandra Kaasch

This chapter concerns the attention given to matters of inequality by global social policy actors and discusses how their ideas and mechanisms may—potentially—affect inequalities. This section introduces the concept of global social policy and demonstrates how inequality is addressed in different dimensions of that concept.

Global social policy has two dimensions (Deacon 2007; Deacon et al. 1997). The first consists of prescriptions, ideas and discourses by global social policy actors in regard to national social policies. Functioning as knowledge providers, global social policy actors generate prescriptions, ideas and discourses. The literature on knowledge networks (Stone and Maxwell 2005), epistemic communities (Haas 1992) and policy ideas and discourses in global social policy has shown how global knowledge is developed, shared and disseminated. This process is particularly relevant for models about national social policies disseminated by global policy actors (Deacon 2007;

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Kaasch 2015). The second dimension of global social policy is that there are 'truly' (or supranational) global social policies made up of the so-called three Rs: redistribution, regulation, rights. A number of scholars have taken up and the three Rs and applied them to different cases and social policy fields (for example, Koivusalo 2014; Yeates 2014; Fargion and Mayer 2015). In response to the increasing awareness that natural resources are limited and to the constraints posed by class, gender and ethnicity where human relationships are concerned, Deacon (2014) considers the need to add another two Rs, namely, resource consciousness and relational structures. At the same time, development aid, global targets, global funds or global taxation mechanisms may all affect inequalities of different kinds in the potential realization of global social redistribution, regulation and rights.

Inequality as such has emerged as an important topic within global social policy discourses. The inclusion of an 'inequality goal' (namely, Sustainable Development Goal 10 (SDG10): 'Reduce inequality within and among countries') in the post-2015 UN development agenda is only the latest expression of this emphasis. Social policies that have an impact on the extent and patterns of inequalities within national societies are primarily set up and reformed at the national policy level; global attention to the issue of inequality implies that global social policy has also developed ideas and mechanisms with a potential impact on inequalities. Inequality defined on a global scale may refer to the differences between countries or the differences between people, and as such it generates global responses of various kinds.

Global social policy is less about institution building, change or reform and more about changing ideas and discourses (Deacon 2007; Kaasch 2015) and the dynamic actor relationship (global social governance) (Kaasch and Martens 2015). Global social policy emerges in the form of policy ideas on how to understand and address inequality within national policy-making contexts. As far as ideas matter, global social policy may have an impact on social policy reform at the national level, which in turn affects social policy at other levels. Perhaps the only global actors with a direct impact on social policy reform at the national level are international financial institutions who put conditionalities on loans and credits for borrowing countries.

It is important to understand global social policy when addressing questions of inequality at any level. The expansion of global social policy ideas or knowledge does not just derive from a growing global interest in the topic; it is driven by an increasing interconnectedness of societies as ever more non-citizens need to be cared for in many countries, as families are spread over several countries in order to make a living, as employees and workers in one place work under the labour jurisdiction of another and so on. Connected social problems and needs of affected people are growing not only in scale but also in global and national public attention. The literature on world-regional and global social policy has provided evidence for the multiple forms, actors, structures and fields of global (or transnational) social policies that seek to respond to these problems (Kaasch and Martens 2015; Kaasch and Stubbs 2014; Deacon et al. 1997, 2010; Deacon 2007; Yeates 2014).

The understanding of and measures taken to tackle inequality are influenced by the knowledge and ideas provided by international organizations and other global social policy actors. However, global social policy also has an important normative dimension. We need a moral justification for addressing inequality as an issue of social concern that requires justice and redistribution at the global level. This chapter engages with the following: (1) the possibilities of placing social justice and redistributive claims on a global scale; (2) the way global actors make inequality a global concern; and (3) the identification of redistributive structures and mechanisms seeking to impact inequalities.

Global Social Justice, Redistribution and Inequality

In order to arrive at prescriptions, recommendations and other expressions of global social policy, the analysis and manifestation of a global social problem must be contextualized within a global (moral) framework that brings forward redistributive, recognitional and regulatory claims. This process, however, is not self-evident. While within national societies *national* public institutions and political representatives are usually responsible for the well-being of a nation's citizens or inhabitants, placing similar expectations on transnational policy levels follows a different logic and is more contested. It is, of course, possible to identify *global* factors and determinants (including global trade systems, global labour markets, the implications of conditionalities imposed by international financial institutions and so on) that lead to manifold inequalities at the national level. However, addressing inequalities is still often considered to be the task of national (social) policy-makers. There is no supranational body that can really be held accountable. Rather, structural factors are what have an impact on inequality. Therefore, linking global social policies with any impact on inequality requires linking the global structures and worldwide inter-relationships between people, societies, countries and institutions. We need to ask about the principles of distributive justice before we can understand the meaning of global social policies for inequality.

Since Rawls (1971) introduced his 'difference principle', the claim that creating differences between people in the sense of social and economic inequalities can be justified, provided such differences arise under the condition of fair equality of opportunity and to the benefit of the least advantaged members of a society, various authors have asked whether and how this principle can be applied on a global scale. Identifying global inequalities does not automatically justify the emergence of a global social policy targeted at these inequalities. At the very least, it requires careful thought about the validity of claims that emerge from identifying and describing global inequality. There might be obligations beyond national societies; however, obligations at a global level would look different from national-level ones. Only between people within a national society would reciprocity based on the distribution of collective goods be required (Sangiovanni 2007). Acknowledging differences between national and global levels regarding the application of justice and concerns about inequality, Hinsch (2001) has established an inter-societal model for the global level in which the relationship between countries matters but not necessarily the relationship between world citizens.

Milanovic (2007, 22) has expressed doubts about the possibility of setting up inter-state social justice, leaning instead towards the promises either of global governance or of the 'creeping globalization of international governance' facilitated by international organizations that might be much more promising and appropriate in tackling global inequalities than claims of justice between countries or people as such. Therefore, he assumes a 'creeping cosmopolitanism' resulting from increasing global inequalities and redistributions. Nevertheless, for Young (2006, p. 18) social processes are what produce mutual obligations of justice. In the so-called 'social connection model', she proposed that all agents taking part in such structural processes have an obligation to remedy resulting injustices.

On the issue of how to approach inequalities, Nancy Fraser's (2008) concept of justice puts the parity of participation at the heart of responding to injustices and inequality triggered by (global) economic structures that deny access to resources for particular groups of populations. If people are able to participate in decision-making, then redistribution and recognition will follow. This kind of theory focuses on individuals rather than the citizens of a particular state and imagines a world society of equal people within which redistributive claims can be made. From this perspective, official development aid programmes can be seen as 'an international projection of income-redistribution mechanisms that characterise the organization of social relations in developed countries' (Noel and Thérien 1995: 523). This view would imply some kind of global social policy—that of global social redistribution.

Nevertheless, world society is not only a sphere of claims for justice in response to inequalities between people. It is also an arena of mutual observation that may have an impact on how national social policies are developed and reformed (Kaasch 2015). In effect, these policies might have at least as much transformative power and impact on inequality as the providing of official development assistance. National policy-makers observe the measures taken in other countries to tackle particular social needs (Dolowitz and Marsh 2000). This mutual observation does not only happen in a direct way between two or more countries but is also facilitated by data collection and the provision of knowledge by various global policy actors. The Organization for Economic Cooperation and Development (OECD) and the World Bank are two prominent examples of this type of actor, in the field of social policy as well (Mahon and McBride 2008; Stone 2003). The reports, analyses and prescriptions disseminated by global actors are just as much taken up as 'neutral' information as they are interpreted as promoting particular ideologies. Global knowledge actors' activities and roles provide a global arena within which social policy emerges as a part of world society.

Even if justifications for global responsibilities for inequalities may not happen consciously, global social policy actors, in their function and roles, understand that they should engage with inequalities and questions of social policy, and that this engagement itself will have some kind of impact on reducing inequalities. The following sections illustrate how global policy actors present inequality and what kinds of mechanisms are being provided to address these inequalities as a global social problem.

Global Ideas on Inequality

In the past, poverty reduction or alleviation was the focus of global debates, projects and initiatives, and it came with the assumption that economic growth would automatically lead to improved welfare. Now, however, the insight that there is too much inequality between people and countries has also become an important point in global discourses. The tension between development advances on the one hand and problematic tendencies of growth of inequality on the other has been discussed by Angus Deaton in *The Great Escape* (2013). Deaton argues that, while many people in the world are now much better off than in previous times, there are still millions of extremely poor people. What is interesting today is the high degree of inequality between people in the world. This situation implies that the world has moved beyond a bipolar structure of poor and rich countries and towards a world with not only rich and poor countries but also many in the middle. In addition, most countries of the world now have rather high degrees of internal inequality. Therefore, inequality within countries is on the rise. On a world society scale this means that the differences between people are greater than the differences between countries. Branko Milanovic's work is particularly instructive when it comes to changing patterns of global inequality. He found a very high level of global inequality in the late 1990s and a significant increase in inequality between 1988 and 1993 (Milanovic 2005: vii). Similarly, Thomas Piketty's *Capital in the Twenty-First Century* (2014) analyzes the history of wealth and the reasons for unequal distribution on a world scale. He also reports rising inequality as an expected outcome of the current global political economy.

However, not only is there a linear development towards greater global inequality but, according to OECD data for its own member states, there is also an 'inequality convergence' or a decline in inequality (in household disposable income) in the most unequal countries and a rise of inequality in those countries that used to be most equal. Sweden, for example, traditionally one of the most equal countries in the world, has seen a significant rise in inequality. At the same time, a middle-income country like Turkey has experienced a decline in inequality (Causa et al. 2015). With reference to the global economic and financial crisis of 2007/2008, the International Labour Organization (ILO)'s *World Employment Social Outlook* (2015) reports a similar trend; namely, in high-income countries inequality has risen following the crisis, and the gap between high- and middle-income economies has been narrowing.

Several global social policy actors, particularly international organizations, have turned such information and findings into global social policy ideas and prescriptions, and have generated global discourses on inequality and social policies. To mention only a few that carry inequality in the title, there is the World Bank's *World Development Report 2006: Equity and Development*; the ILO's *World of Work Report 2008: Income Inequalities in the Age of Financial Globalization*, and its *Global Wage Report 2014/15: Wages in Income Inequality*; the United Nations Department for Economic and Social Affairs (UN DESA)'s *Report of the World Social Situation 2013: Inequality Matters*; the OECD's *Divided We Stand: Why Inequality Keeps Rising* (2011); and the UN Development Programme (UNDP)'s *Humanity Divided: Confronting Inequality in Developing Countries* (2014).

More concretely, current reports illustrate the problem of inequality in different ways. For example, the OECD (2015c) first illustrates that the richest 10 per cent of the population have 9.6 times more in income than the poorest 10 per cent, with the gap getting wider. The report then argues that additional degrees of the extent of global inequality emerge when looking at the poorest 40 per cent, which includes many of those people with temporary, part-time and other precarious working arrangements. This perspective reveals that these poorest 40 per cent are often not benefitting from economic growth and have even seen a decline in their income. Oxfam even finds that for 2014 'the richest 1% of people in the world owned 48% of global wealth, leaving just 52% to be shared between the other 99% of adults on the planet' (Hardoon 2015: 2; see also Social Watch 2015b). These are only two examples among many that demonstrate the interest in finding ways of collecting and presenting data to show that the gaps are widening and that inequality at a global scale is no longer an issue of the comparison of and relationship between states; there is an increasing concentration of wealth at the (very small) top of populations within states.

The relationship between income and wealth is another important aspect in understanding inequalities, and here it has been shown that wealth is more concentrated than income (OECD 2015c). Regarding the different connotations associated with inequality of income and wealth, respectively, Piketty points out that wealth inequalities are often less accepted by public moral views than those based on income. In the case of income inequality, the popular assumption is that the difference is related to individual talent and effort (Piketty 2014: 241).

Other forms of inequality, such as health inequalities (see, for example, WHO 2015), inequalities in access to education (see, for example, UNESCO 2008) or gender inequality (see, for example, UN Women 2015), are also subject to global ideas and discourses. In particular, global accounts of gender inequality appear to be slightly more positive and optimistic. For example, gender differences in employment are shrinking in the OECD world, which leads to lower income inequalities on that account (OECD 2015c). However, there are still considerable differences in gender equality on the global level. As the UN (2015b: 13) reports, in almost all countries in Asia, for example, the participation of women in the labour market is below 40 per cent (compared to 75 per cent of men).[1]

Given that inequalities based on age, gender and other factors do not often appear in isolation, an Overseas Development Institute (ODI) report has emphasized the problem of intersecting inequalities. With reference to Kabeer (2010), the notion of intersecting inequalities refers to 'the "deep exclusion" of groups of people who suffer multiple forms of discrimination and disadvantage—and the need to tackle such intersecting inequalities in order to complete the job of eradicating absolute poverty' (ODI 2014: 1).

[1] More data can be found at WomanStats Database, the most comprehensive compilation of information on the status of women in the world.

Accordingly, the global discourse on inequalities is a broad and complex field made up of the illustrations, explanations and prescriptions of global social policy actors. Given that SDG10 addresses inequality, it is likely that the issue will continue to be subject to such reports. This prospect indicates a current emphasis in global discourse on placing issues of poverty in the context of a connected world and presenting data to show the comparative relationships between different places in the world. Income inequality is also often emphasized. Other and to some extent related debates concern gender inequalities, health inequalities and other inequalities related to particular groups.

Global Social Policy Mechanisms Affecting Inequality

Moral justifications and ideas are not the only concerns of national social policy-makers when addressing inequality. Global context, structures and conditions must also be considered. In this section, I address: (1) global context and structures that matter for inequalities; (2) prescriptions for 'basic packages' that should be available to any citizen of the world; and (3) redistribution via development aid.

Global Structures

In an interconnected world, global policies and structures matter for inequality. Historical trajectories (colonialism, for example), global economic structures, trade patterns and so on have an impact on the extent and patterns of global inequalities. The idea of global social policies is, ideally, to influence and shape such global structures in order to cushion the effects of globalization on vulnerable people and to make a more social world. This desire to go beyond analyses and to provide prescriptions for tackling the extent and shape of global inequalities is visible in several accounts. The OECD's report *In It Together: Why Less Inequality Benefits Us All*, for example, discusses the adverse effects on patterns of inequality of the global economic and financial crisis that started in 2007/2008. In the aftermath of economic and financial breakdowns, unemployment has grown, and in many countries austerity policies have dominated political reform agendas. OECD data testify that, as a consequence, inequality has reached historic heights (OECD 2015c). Such a view is shared by Oxfam's *Working for the Few* briefing paper (Oxfam 2014b), which argues that not only is extreme economic inequality is a moral problem, it also negatively affects economic growth and poverty reduction. Both the OECD and Oxfam publications conclude that policy packages must address these challenges. For the OECD, that includes women's participation in economic life, employment promotion, skills and education, and tax-and-transfer systems for efficient redistribution (OECD 2015c). Oxfam emphasizes the importance of democratic participation, universal health care, education and social protection for citizens, living wages (wage floors and workers' rights), and equal rights and opportunities for women (Oxfam 2014b). The ILO frequently pushes for the involvement of social partners and social dialogue to guide decisions on social policies (see, for example, ILO 2013).

Another perhaps more abstract and regulatory mechanism of redistribution can be seen in attempts to promote global taxation. The OECD is one of the actors involved in improving the national and international tax system. This involvement has included facilitating international exchange on transfer pricing, informational exchange and measures against tax avoidance and evasion (see, for example, OECD 2014). While these are relatively strong initiatives, the energy behind setting up 'real' global taxation is much less convincing. For example, there is little progress on financial transaction taxes (see, for example, Oxfam 2014a), the Tobin tax or the air ticket tax, all of which have been considered ways to generate resources that allow for global redistribution and that support development. At the same time, there are important issues around tax havens and tax avoidance by multinational corporations. In the context of global taxes and social justice, Brock (2008: 177) argues that making sure everybody is paying a fair share of taxes on profits, income, wealth and so on will facilitate proper public services in education, infrastructure, health and other areas, even in low-income countries.

Meanwhile, at the more individual level, remittances factor importantly in global redistribution and thus affect inequality. In the context of significant labour migration, the World Bank's 2015 'Global Economic

Prospects' report shows remittances to be relatively stable and acyclical (see also World Bank 2014, 2015: 176), thus serving the purpose of continuous global (re)distribution even in times of global economic crisis. Interestingly, this redistribution is not happening in just a north–south direction. In fact, the majority of migrants are in countries of the Global South, implying that remittances from one southern country to another are at least as important as those from the Global North to the Global South (IOM 2014).

Basic Packages

Prescriptions in the form of basic packages of social protection accessible to every human being are among the ways that global social policies can have an impact on national social policy arrangements and on the focus and allocation of official development assistance. Numerous global social policy actors have expressed the need for basic packages linked to expectations for national systems of social protection and argued for within discourses about the focus of aid policies and the allocation of development aid. These packages would provide education, health care and social protection. Furthermore, UN DESA's *Report on the World Social Situation* (2013): *Inequality Matters* calls for universal social policies that include universal access to essential services in health, education and social protection (similar claims with a focus on the very poorest are made in the ODI's chronic poverty report (ODI Chronic Poverty Advisory Network 2014)). Such ideas are closely connected to the ILO's *R202—Social Protection Floors Recommendation* (2012; for background, see Deacon 2013). The development and ratification of this recommendation came with the attempt to define social protection as something that should be available to every human being. Deacon (2013) describes how, at an early stage, the idea was to define a set of specific benefits (for example, universal pensions or family benefits), but it subsequently changed into a set of outcomes to be achieved by governments.

Apart from such prescriptions concerning basic packages and participation, there are also attempts to tackle the issue from two sides, that is, by designing globally-nationally linked insurance mechanisms that would organize risk and redistribution over the life course or in relation to particular risks (see Milanovic 2007). For example, there are mechanisms to provide development aid to health insurance schemes by matching through development aid every dollar people pay (WHO 2001).

Another way to define a basic minimum is through the formulation of global goals such as the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs). By looking at attempts and plans to achieve such goals, one can derive an idea of what matters most, in the eyes of the international community, in terms of social development. Such goals focus on particular priority issues and measures, and define specific benchmarks that should be met nationally as well as globally. The new SDGs agenda, though, is much broader than the MDGs and will most likely generate other kinds of approaches and aims than the more narrow and focused approach of its predecessor. However, given that that there is now a specific goal on inequality (SDG10), and inequality is also an expressed issue with regard to gender and health, strategies to achieve the SDGs may be more directed towards addressing inequalities than merely meeting particular percentage points in improving maternal mortality, for example.

Particularly interesting in the context of SDG10 on reducing inequality within and among countries is the particular focus on income growth among the bottom 40 per cent; empowering and promoting the social, economic and political inclusion of all; ensuring equal opportunity; reducing inequalities of outcome and adopting equality-achieving policies, including social protection policies. The Third World Network reported a controversial debate on this goal in which the G77 and China were in favour and the richer countries opposed (Third World Network 2014). Other non-governmental organizations are critical of the goal's implications as it currently stands since 'it provides neither a measure nor an explicit value for an improved income distribution and may lead to the wrong policy recommendations' (Civil Society Reflection Group on Global Development Perspectives 2015: 6). Organizations such as the ODI (2014: viii–ix), however, have supported the goal, stating that a 'specific inequality goal would be a powerful normative signal to encourage countries to tackle intersecting inequalities'.

Redistribution via Development Aid

These global development goals not only provide important guidance on how to address inequalities and set normative standards but are also linked to global social redistribution in the form of official development assistance provided by richer to poorer countries.

Regarding the question of how to generate additional funding to reach the SDGs, a number of funds are currently debated. A general one is the 'SDG Fund' under the aegis of the UNDP. Initial contributions for this fund came from Spain, and the idea behind it is to facilitate the transition process from the MDGs to the SDGs (UNDP 2016). Questions address whether funds for specific goals are needed. Jeffrey Sachs has suggested a new global fund for health that could address the problems of underdeveloped health systems and would combine some of the existing ones, including the Global Fund to Fight AIDS, Tuberculosis and Malaria (SIDA 2015). Sachs made a similar proposal for a fund for the field of education (Sachs 2015). Karen Mundy (Global Partnership for Education), though, argues: 'What the education sector needs is not a new global fund for education. Such an entity already exists: it is the Global Partnership for Education. It's time to reinforce and strengthen this existing partnership.' (Mundy 2015) Such reform could, of course, also be recommended in other global social policy fields.

At the same time, the current state of official development assistance is complex and contradictory. On the one hand, according to OECD Director-General Angel Guerria, the volume of development aid has never been higher and is expected to remain stable.[2] On the other hand, looking at OECD Development Assistance Committee (DAC) data, aid to the poorest countries continues to decline (OECD 2015b). Furthermore, the aim of committing 0.7 per cent of gross national income (GNI) to development is, despite frequent reassertions (most recently, for example, in UN ECOSOC 2016), still only met by very few countries, namely, Denmark, Luxembourg, Norway, Sweden and the UK (OECD 2015a). As a response, the Social Watch (2015a) reports that

[2] http://www.oecd.org/dac/stats/development-aid-stable-in-2014-but-flows-to-poorest-countries-still-falling.htm

Alliance Sud is 'calling for at least half the development budgets of donor countries to go towards the poorest countries'. The Third International Conference on Financing for Development (13–16 July 2015 in Addis Ababa, Ethiopia) ended with a rather vague document (UN 2015a) in this regard. Specifically, reading Sect. 10 of the document, one gets the impression that instead of more cooperation, the expectation is for low-income countries themselves to find ways out of poverty. At the same time, the declaration claims under Sect. 12, 'Delivering social protection and essential public services for all', that the international community is committed to a new social compact. Such a prospect is, of course, highly problematic considering inequalities both within and between countries. Even if national societies are getting more unequal, the poorest countries still often have high shares of the world's poorest people and still are not among the main beneficiaries of development aid. Therefore, while official development assistance is perhaps the most concrete form of a redistributive global social policy, it is not a reliable source of income for those countries with major poor populations. Nor is it necessarily primarily directed at the poorest parts of world society.

Finally, aid in the form of loans from global development institutions (such as the World Bank and other regional development banks) might be more institutional and reliable, as these are institutions collecting money from member states and then allocating that money based on their perception of need in recipient countries. However, these international financial institutions have long been criticized for the conditionalities, including those in the social sector, they attach to loans to developing countries. Even as we see the emergence of regional development banks (particularly in the context of the BRICS), the question arises as to whether aid without any considerations of social development is the way forward (a related discussion can be found in Surender and Urbina-Ferretjans 2015). Simply put, global redistribution might be realized to some extent, but in what way, if at all, it significantly affects global inequalities is rather unclear.

This section has provided an overview of some of the ways in which global structures, ideas and redistributive mechanisms may respond to the problems of global inequality. Measuring concrete impact, however, would require detailed case studies.

Conclusion

This chapter has shown that inequality can be understood both in a global context and in different dimensions of global social policy. National governments, however, are not necessarily losing their importance in building and reforming institutions that may affect inequalities, but global structures, ideas and mechanisms also matter in an increasingly interconnected world. This chapter deals with a very broad policy area and, as such, cannot provide a full or comprehensive picture of the topic. The intention is to show how to place questions about inequality and social justice on a global scale, what forms of global social policy can be identified at the global level, and how these might have an impact on inequality.

It has become obvious that there is a consensus among global actors (in the form of international organizations and powerful individuals) that rising global inequalities can be viewed from various perspectives. Furthermore, there is considerable global debate, most recently fuelled by Piketty's *Capital in the Twenty-First Century* (2014), about the problem connected to *rising* inequality and key measures to address it, and the inclusion of an inequality goal in the Agenda for Sustainable Development (particularly SDG10).

In this way, global social policy actors (both organizations and powerful individuals) have successfully established inequality as a global concern, and have given themselves a place and a role in addressing and reacting to various forms of inequalities within countries (by prescription) and between countries (by different forms of global social redistribution).

Nevertheless, no matter what diagnosis of inequality we might come up with or emphasize, claims and demands regarding the need to address these issues with multi-level social policies require the underpinning of moral justification to explain why issues of social justice arise globally. In addition, as has been shown, not all political philosophers agree on the possibility of contextualizing claims of social justice at transnational levels. It is obvious that the sense of obligation, solidarity and mutual responsibility often and for many appears to be stronger in a national context (or even a sub-national one). National systems of social protection and social assistance are based on, and justified by, particular national cultures. However, this chapter has also shown that there are various structures that connect people globally. Trade, migration, class, religion, family and other factors mean that people are interconnected in various ways. These structural connections may have (re)distributive functions. However, they may also be responsible for generating a major part of observed global inequalities. It is in this context that claims arise concerning the need to address these inequalities by some kind of global measure or mechanism.

While aiming to shape and guide global social policies to address global inequalities, prescriptions for and mechanisms of global social redistribution come in very different shapes. Some ideas relate to defining particular packages for the provision of health care, education and social protection. Other sets of recommendations connect to labour market regulation and labour rights to rectify income inequalities not so much by social redistribution as by structurally changing the conditions of work and employment (also in the context of a global labour market).

The real challenge arises in the context of multiplying social problems or intersecting inequalities. As the list of needed measures lengthens, the likelihood of equality being achieved in a context of global mutual health seems increasingly unrealistic. This is particularly the case when we look at the difficulties in changing official development assistance commitments of developed countries.

Global social policy research attempts to understand the many actors, ideas and mechanisms that respond to inequalities. Global social policy also takes a normative approach towards the moral obligation to address inequalities from a global perspective and at a global level. However, both 'streams' are still underdeveloped, and the question of how global social policy actually affects inequalities will have to be addressed in future research and by using case studies on particular vulnerable groups, countries and social policy fields.

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12

Freedom of Movement in the EU and Welfare State Closure: Welfare Regime Type, Benefit Restrictions and Their Implications for Social Mobility

Christof Roos

In 2014, mobilization against European Union (EU) freedom rights was one of the winning formulas for the European Parliament (EP) victory of populist parties in France, the United Kingdom (UK) and Denmark (Tanev and Novotny 2014, 1). A year earlier, the governments of Austria, Germany, the Netherlands and the UK had already criticized freedom rights of EU citizens. They called upon the European Council to act against poor EU citizens who allegedly 'abuse' their freedom of movement rights through undue access to welfare benefits. Although EU migrants are less likely to claim welfare benefits than nationals (GHK 2013), governments of EU member states feared that 'welfare tourists' (UK) and 'poverty migrants' (Germany) could become a burden on their budgets.

Since its eastern enlargement in 2004, exacerbated by the economic and financial crisis, the EU has entered a new phase in its free movement regime. Free movement in Europe has become more and more

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diverse, and EU migrants reflect socio-economic disparities among EU member states (Eurofund 2015). Next to mobile middle- and upper-class professionals, 'Eurostars' (Favell 2008), people who find themselves in low-pay and low-status groups, increasingly define EU migrant (Galgóczi et al. 2009, 21; Recchi 2015). For many of these poorer EU citizens, the move to industrial centres in the north and west of Europe is a viable option for a better living. Increasing spatial mobility of EU citizens can be understood as a result of growing social inequality among EU member states.

Against the backdrop of these developments, this chapter scrutinizes welfare state transformations of EU member states reacting to EU internal mobility and migration. A trend towards welfare state closure with varying impacts on immigrants of different legal and socio-economic status has been observable across the entire Organization for Economic and Cooperative Development (OECD) world since the 1990s (Sainsbury 2006, 239–240; on the general increase in inequality in the OECD, see Obinger et al. this volume). EU citizens moving within the EU Schengen area had been exempt from those developments. On the contrary, their social and freedom rights had been expanding for the last six decades. Equal treatment among member state nationals and EU citizens was a key achievement of the EU integration project (Favell and Hansen 2002). But, member states' recent critique of EU rights seems to seek to reverse this development. *How and why member states aim to change social and freedom rights of EU citizens* are questions that still pose a research gap. Some scholars point to legal uncertainty as an explanation for policy change. This means EU rights and their interpretation by courts leave member states with legal uncertainty with regard to policy implementation (Blauberger and Schmidt 2014, 2). I contribute to this explanation by scrutinizing the role of the welfare state in providing access to benefits. Accordingly, this chapter adds to the literature by looking at how EU mobility and welfare states interact in motivating policy change.

The debate on EU social and freedom rights is not only about possible restrictions on access to the territory and the welfare state, but also about whether the mobility of EU citizens of low socio-economic status should be encouraged, tolerated or prevented. EU rights for person mobility imply not only rights for exercising economic freedoms but also rights for social inclusion. The social dimension calls for equal treatment and access to certain benefits and has been promoted politically as well as by court judgments. European integration supports a vision of social via spatial mobility in order to foster social cohesion (Prelim 17, Directive 2004/38/EC). Thus, EU freedoms granted to goods, services and capital have been extended to the citizens of member states. Accordingly, the critique of social and freedom rights in the EU poses empirical and normative questions: *How and why do member states aim for changing rights?* and *Do restrictions on access to benefits curtail the aim to promote social via spatial mobility in the EU?* In answering these questions, this chapter shows how some EU member states transform their welfare states in order to restrict and discourage movements of poorer EU citizens, thus potentially exacerbating inequality (on the multifaceted concept of inequality, see Gosepath this volume).

This chapter proceeds as follows: the first section gives an account of the legislative evolution of freedom and social rights for EU citizens, from the facilitation of cross-border worker mobility to EU social citizenship. It shows that equal treatment provisions in the EU encourage social via spatial mobility. The second section develops an explanation of member state responses and assesses the hypothesis that the existence and accessibility of non-contributory benefits in the respective welfare state regimes of EU member states are strong predictors of attempts to restrict access to benefits. As empirical basis for this argument, the chapter next studies how and why three EU member states with different welfare state regimes—Germany, Sweden and the UK—try to limit EU citizens' access to benefits. Data are provided by an analysis of legal and policy documents, grey literature and a secondary analysis of the legal literature on EU freedom rights.

EU Social and Freedom Rights Promoting Social via Spatial Mobility

Freedom of movement in Europe evolved from its initial purpose of encouraging cross-border mobility of workers to that of ensuring citizens' mobility. A first phase, from 1950 to 1970, established intra-EU mobility of workers from member states (Regulation EEC/1612/68, Regulation EU/492/2011). This phase facilitated labour migration of southern Europeans to the industrial centres of the north (Dahlberg 1968, 311). Initially, EU freedom of movement aimed at satisfying economic purposes and focused on EU-wide availability of workers. Labour mobility is one of the four essential market freedoms next to those defined for capital, services and goods. Its purpose is to facilitate efficient resource allocation for production. In theory, the smooth functioning of the single market depends on free movement of labour (Haas 1958, 12). A second phase, starting in the 1990s, broadened the scope of freedom of movement. Free movement became borderless due to the Schengen agreement, and all EU citizens, not only workers, could freely decide where to reside in the EU. The establishment of EU citizenship by the Maastricht Treaty of 1992 and its further definition in the citizenship directive (Directive 2004/38/EC) as well as in the regulation on social security coordination (Regulation EU/883/2004) decoupled freedom of movement from its purely economic purpose (Favell and Recchi 2009, 10).

By including economically inactive EU citizens in freedom of movement, the earlier economic, market-making focus of EU freedom of movement (Favell and Hansen 2002, 568) was widened by a social citizen component. Politically, the idea of social citizenship is contested among actors at the EU and national level.

As EU citizens, movers have rights beyond mere participation in the single market (Wollenschläger 2011, 24; Eigmüller 2013, 365–366). Equal treatment provisions defined in the Treaty of the EU (TFEU Art. 18) are a key condition of social citizenship. Equality in rights and non-discrimination are the core principles that regulate mobility of EU citizens. EU liberties for freedom of movement and establishment support the pursuit of life projects such as education, labour market position or wealth. Unfavourable social positions can be overcome by geographic mobility (Verwiebe and Eder 2006). Thus, the regulation of mobility impacts social mobility. According to Groh-Samberg and Mau (this volume), access to territory, the labour market or welfare systems determines a person's life chances. Restricting mobility to certain groups of people can contribute to social inequality (Mau et al. 2012, 198). At the same time, EU legislation promotes the mobility of all EU citizens as a measure of confidence in its positive effects for the EU's economic development and social cohesion (Prelim 17, Directive 2004/38/EC).

Non-discrimination between nationals and EU citizens provides EU migrants access to the welfare systems of member states. According to EU primary and secondary law, the scope of EU citizenship can be interpreted in terms of 'social citizenship' (SVR 2013, 70). Social rights are connected to movers' rights as residents and as workers. This means that economic activity is not a requirement for access to the welfare system. Once an EU mover establishes residence in a member state within the category of worker, self-employed or other, the duration of residence is the criterion that determines access to many welfare benefits. Except for the first three months of stay, EU citizens who reside as students, jobseekers, retirees or family members have, based on the equal treatment principle, a rightful claim to non-contributory benefits, including social assistance, means-tested unemployment benefits or child benefits (Cornelissen 2013; Groenendijk 2013, 4).

The conditions for freedom of movement independent from employment are considered easily met (SVR 2013, 70). EU citizens who move to another member state for a period longer than three months must provide their means of subsistence and must have health insurance (Article 7, Directive 2004/38/EC). However, the threshold for means of subsistence is a rather flexible criterion. It is set at the level of social assistance in the respective member state but also takes into account the individual situation of EU citizens (Article 8, Directive 2004/38/EC). Because of equal treatment provisions, fulfilling subsistence requirements does not preclude obtaining non-contributory benefits (Cornelissen 2013, 110). EU citizens who have already lived in a member state for more than five years have the status of permanent resident and are fully eligible for welfare state access. The residence status of non-permanent EU movers can only be revoked if they become an 'unreasonable burden' to the social security systems of the host member state (Article 14, Directive 2004/38/EC). However, simply claiming benefits does not automatically lead to revocation of residence status (Article 14 (3), Directive 2004/38/EC). The interpretation of what is considered 'unreasonable' or of which persons should receive benefits points to ambiguity in the scope of welfare state access that underpins this freedom right.

Explaining Welfare State Closure

Courts at national and EU levels are the major drivers giving more room to the social dimension of freedom of movement. Legal research indicates that the case law of the European Court of Justice (CJEU) points to a rather permissive interpretation of primary and secondary EU law with regard to EU migrants' access to social rights and benefits (Rogers et al. 2012, 60–61; Verschueren 2012). An example of such a CJEU judgment is the case of *Grzelczyk*, in which the French student Rudy Grzelczyk was found to have a rightful claim to access to the Belgian social assistance scheme 'minimex' on grounds of non-discrimination (C-184/99). Also noteworthy in this regard is the case of the Spanish national Maria Martinez-Sala, who lived in Germany as a permanent resident. Although she was unemployed, the CJEU found her to have a rightful claim to child benefits (C-85/96). In both cases, the Court extended eligibility for benefits to economically inactive persons on grounds of non-discrimination. This is the CJEU's key justification for EU movers' welfare state access, their equal treatment with nationals and the prohibition of discrimination on grounds of citizenship (Art. 18 TFEU).[1] At the same time, the Court would only justify access to benefits with regard to an individual assessment of the claimant's degree of integration in the host member state and the nature of the benefit in question (Wollenschläger 2011, 23). An example of this reasoning is the *Dano* case (C-333/13), in which the advocate general of the CJEU pleaded against a claim for granting access

[1] Among others cases that point in a similar direction: C-140/ 12 (Brey), C-456/ 02 (Trojani), C-413/99 (Baumbast).

to social assistance when a Romanian citizen claiming social assistance in Germany was found not to be eligible on grounds of missing ties to the country of residence (C-333/13 para 152). Accordingly, Wollenschläger (2011, 22) sees a 'limited claim to social solidarity' inferred by CJEU judgments and finds the claims of economically active EU citizens for social solidarity to be much stronger than those of the inactive. Others view EU citizens' access to nationally defined welfare states much more critically. For example, Scharpf criticized the CJEU's 'refusal to consider national fiscal concerns as a potential limit on the exercise of European liberties' (2009, 194).

So far, scholarly analysis on member state responses to the potential and actual access of EU citizens to their welfare states is scarce. Following a judicial politics explanation, member states aim for changes in their welfare regimes because of legal uncertainty created by CJEU interpretations of EU legislation. Member states re-regulate EU legislation in order to minimize the impact of Court jurisdiction on their domestic welfare administrations (Blauberger and Schmidt 2014, 3). In light of underdetermined EU legislation and an increase in permissive Court judgments, this argument is convincing. Still, member state responses can be different, aiming for more or less domestic re-regulation (Groenendijk 2013). Therefore, this article accounts for member state variations in terms of the respective welfare system that must cope with EU citizens' right to equal treatment. Accordingly, the respective type of welfare system is closely scrutinized in explaining and assessing the scope of change that member states aim for. In fact, the extent of benefits that EU citizens can receive is determined by the structural conditions of the respective welfare systems of member states.

Drawing a relationship between welfare state type and benefits accessible for immigrants does not reinforce the 'welfare magnet' hypothesis (Borjas 1999).[2] If the latter were to be researched, EU migrants' decisions and not member state policy change would need to be analyzed. Policy change can be based on actual or perceived welfare state access of EU citizens. This means that welfare state closure can be reactive as much as pre-emptive. The notion of 'welfare state type' builds on the idea that

[2] With regard to EU member states, Menz clearly disagrees with the hypothesis that generous welfare states would draw more immigration (2006, 395).

different welfare states perform differently with regard to non-nationals' rights of access (Sainsbury 2006). As for this specific research question, the focus is on benefits accessible by economically non-active or only partially active EU citizens. Hence, it is assumed that universalistic and residence-based systems, such as those of the Nordic welfare states, offer access to a wide range of benefits to the EU migrant who lacks the status of EU worker (Brochmann and Skevik Grødem 2013, 62). In contrast, fewer benefits should be offered in more conservative welfare regimes that base benefits on contributions paid and on work performance (Sciortino 2013, 82). The 'liberal' welfare state providing for means-tested assistance on a rather moderate scale is the third welfare state type to be explored. Compared to the universalistic and conservative type, the means-tested component of the liberal system and its tax base provides rather easy access to non-contributory benefits (Menz 2006, 401–403). For analytical purposes it is convenient to neatly separate welfare state types. However, Obinger et al. (this volume) also observe convergence among these types. Accordingly, the empirical section of this chapter assesses how the existence, scope and accessibility of non-contributory benefits for EU migrants determines member state responses.

Restrictions on Mobility and Social Rights of Poor EU Migrants

How do member states respond to EU migrants' social rights within the limits of EU law? In the following, I will assess whether and how member states restrict access to their welfare states. Following the literature on immigrant rights and welfare state types, the empirical component examines evidence from three different regime types: the conservative, contribution-based German welfare state; the universalistic Swedish welfare state; and the liberal welfare state of the UK. The cases are selected based on the independent variable of regime type in order to assess the potential influence of the welfare system on policy response. It is difficult to draw generalizations from this small sample. However, we will see whether and how regime type is significant in determining policy response and how other variables are important in shaping policy output.

Germany: Reducing Opportunities for 'Fraud'

The German media and public intensively discuss EU movers' potential and actual access to the welfare state. Especially in 2014 in preparation for Romanians' and Bulgarians' eligibility for full EU freedom of movement rights, the media reported on cases where EU citizens had gained access to the welfare state without having contributed to the system. Although the reception of benefits was legitimate by law, the fact that EU citizens were economically inactive or only partially active and receiving benefits was considered fraudulent. At the same time, actual cases of abusive behaviour could hardly be found. The discussion started with reports from municipalities that claimed to be overburdened with EU movers' access to public services and social assistance. In this debate, particular attention was on members of the Roma minority, their destitute living conditions and visible poverty.[3] Many Roma had entered Germany within the EU freedom of movement regulation for workers and the self-employed. As citizens of Bulgaria or Romania—EU member states since 2007—they could claim access to the German market as self-employed service providers (Art. 56 TFEU). This option allowed EU migrants to establish residence status in Germany as self-employed traders or business owners. The requirements for obtaining this status are low: the place of residence could be shared and the business to be undertaken did not have to fulfil any requirements. Municipalities saw a causal relationship between easy conditions for taking up residence and the rising numbers of Romanians and Bulgarians moving to Germany. Between 2007 and 2012 their numbers had doubled from 30,000 to more than 70,000 (Freie Hansestadt Hamburg 2013, 3–4).

Once residence status is gained, certain non-contributory benefits can be accessed. Among other benefits, the comparatively generous German child allowance of 184 euros per child, and more for families with many

[3] See media coverage on the topic: Budras, Corinna. 2014. "Welche Sozialleistungen stehen EU-Bürgern zu?" *F.A.Z.*, 28 March. Accessed August 5, 2015. <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/armutszuwanderung-welche-sozialleistungen-stehen-eu-buergern-zu-12865438.html> Stegemann, Jana. 2013. 'Job-Center verweigern rechtswidrig Leistungen für EU-Bürger', *Süddeutsche Zeitung*, 11 October. Accessed August 5, 2015. <http://www.sueddeutsche.de/wirtschaft/sozialleistungen-fuer-einwanderer-job-center-verweigern-rechtswidrig-leistungen-fuer-eu-buerger-1.1792475>

children, can be claimed. Residence of one parent is the sufficient condition for this benefit; the children can live in another EU country. In 2013, the German government paid this allowance for 66,261 children who did not live in Germany. Children of Polish workers living in Poland were the largest group of recipients. The German *Länder* considered the residency status of only one parent too lenient to be the sole requirement for eligibility to claim the child allowance. Using a comparatively low average income in some member states as the basis for their position, the *Länder* claimed child allowance to be an incentive for EU movers to come to Germany (Freie Hansestadt Hamburg 2013, 14). Next to their concerns over eligibility for child allowance, they raised awareness of their increasing financial burdens in providing for education, housing and emergency healthcare for EU citizens (Freie Hansestadt Hamburg 2013). In the run-up to the election of the European Parliament in 2014, the centre-right Christian Social Union (CSU) jumped on the municipalities' critique and campaigned for policy change in EU citizen access to the welfare system. Under pressure from a newly founded Eurosceptic party, the Alternative for Germany (AfD), the CSU pushed the issue at the federal level.

Public and political debate motivated the centre-left federal government to adopt measures that restricted access requirements for the establishment of EU residence as self-employed person or jobseeker. In the conservative German welfare state, participation in the labour market leads to access to benefits (Menz 2006, 404). Accordingly, in order to rule out the possibility of bogus self-employment, trade authorities now more rigorously scrutinize business intentions of EU citizens who claim self-employment status. The right to reside as a jobseeker has been restricted to six months (BMI and BMAS 2014, 94). The length of stay for this category of EU migrant is not determined in EU law; its restriction to six months means a serious restriction in the opportunities of EU jobseekers to find employment in Germany.

The room for the national legislature to restrict access to benefits is quite limited. As discussed above, child allowance was a major issue of concern since its easy accessibility was considered an incentive for moving to Germany. The *Länder* aimed for the connection of the allowance to the child's residence in Germany or school enrolment, although child allowance is a tax benefit that supports the subsistence of the child and cannot be used for social regulation. However, authorities can tighten checks with regard to the lawful residence status of the parents. It used to be common practice to imply the rightful and habitual residence of EU citizens who claimed child benefits to be the municipality in which they lived. This practice has been changed: the local administration must now check the right of residence and look for proof of rental contracts documenting habitual residence. In addition, eligibility for child allowance is tied to a tax identification number (BMI and BMAS 2014, 9, 97–99). Despite these measures aimed at restricting access to the welfare state, the government has also supported municipalities in their efforts to provide housing, schooling and health. More than 200 million euros have been allocated for on-site support for destitute EU migrants (Federal Government of Germany 2014).

The German response to EU citizens' access to the welfare state concentrates on reducing opportunities for fraud by making access to residence status more cumbersome. In cases of fraud, legislative changes allow for banning EU citizens from re-entering Germany after expulsion. Despite open borders, re-entry bans are supposed to make expulsion of EU citizens more efficient. The government has framed these measures as a response to the possibility of welfare state abuse. Although such abuse has been difficult to prove, the measure might have negative effects on groups of EU movers, first of all those of lower socio-economic status. The right of residence of EU citizens claiming the status of self-employed or jobseeker will be checked more thoroughly or be restricted in length so that access to non-contributory benefits can be limited. At the same time, the government has allocated decisive resources in order to improve the living conditions of destitute EU citizens in German municipalities. In this regard, the case of Germany is paradoxical: restriction and expansion of access to resources occurs simultaneously. By restricting legal opportunities for poor EU migrants to acquire residence status, EU freedom of movement is limited in its function as a tool for the promotion of social via spatial mobility.

United Kingdom: Restricting 'Benefit Migration'

In the UK, intra-EU mobility has become a highly salient issue, beginning in the last decade. The British government immediately opened its labour markets to the citizens of Central and Eastern European countries acceding to the EU in 2004. While most other northwestern EU countries applied transition rules and restricted the access of Eastern Europeans to their labour markets, the openness of the British labour market attracted and absorbed more than half a million Eastern Europeans between 2004 and 2008 (Office for National Statistics UK 2015, 6; on the flexibility of labour markets in the EU, see Schwander this volume). In preparation for these newly arriving EU movers, UK Home Secretary David Blunkett distinguished between rightful EU movers coming to take up work and those who supposedly only came to claim benefits. Already in 2004, measures were adopted with the aim of pre-empting access to benefits of economically inactive EU citizens in the UK (Johns 2013, 99). The fear of 'benefit tourism' led to the introduction of the concept of 'right to reside' as a requirement for access to residence-based benefits such as jobseeker allowance, housing benefit, income support and tax benefits. Eligibility for benefits is not only dependent on habitual residence in the UK but also on the person's right to reside there (Groenendijk 2013, 9–10). The right to reside can be acquired by all categories of EU movers falling within Directive 2004/38/EC. However, making claims for benefits dependent on the right to reside test takes initial entry and residence requirements as the threshold for benefits. Accordingly, a person who worked in the UK but became unemployed can be withheld a jobseeker allowance because the requirements for a right to reside as a worker cannot be met at the time of assessment (Larkin 2005, 436). It is quite obvious that the British government did not merely try to restrict access to benefits within the realm of EU law but violated Directive 2004/38/EC (Commission of the European Communities 2013). The Commission initiated an infringement procedure against the UK's unfair discrimination against nationals from other member states. The requirement of a right to reside in addition to habitual residence for granting benefits is in breach of the EU citizenship directive (Groenendijk 2013, 11; Commission of the European Communities 2013).

The financial crisis in 2009 ended an economic boom in Britain. A recession followed in which entry and stay conditions of EU migrants were at the centre of a public debate. Aware of the government's limited capacity to restrict EU mobility, media and politicians again emphasized access to welfare benefits as an incentive for EU citizens to move to the UK (Johns 2013, 105). The context to this debate was a conservative government under pressure from Eurosceptics in its own party and the UK Independence Party that pushed for leaving the EU in a popular vote. Among other topics, the loss of sovereignty in controlling EU movements and the claim of benefit tourism by EU citizens from Eastern Europe fuels anti-EU sentiments in the electorate. In the 2014 EP elections, the Eurosceptic party won by a landslide. Accordingly, it is not surprising that in 2014 the conservative British government responded to this populist pressure by further restricting EU movers' access to benefits. In justifying the measures, Work and Pensions Secretary Iain Duncan Smith declared:

> These reforms will ensure we have a fair system—one which provides for genuine workers and jobseekers, but does not allow people to come to our country and take advantage of our benefits system. The British public are rightly concerned that migrants should contribute to this country and not be drawn here by the attractiveness of our benefits system. (UK Government 2014a)

The measures adopted aim at restricting access to the status of EU worker, self-employed or jobseeker. Some of the measures are comparable to the plans of the German government to more tightly scrutinize EU movers' claims of self-employment or worker status. In this regard, the UK introduced a minimum earnings' threshold. 'Genuine and effective' work must be undertaken at an income of at least £153 a week for a period of three months. If the work undertaken does not meet this threshold, it can be considered 'marginal and ancillary'. As a consequence, the status of worker or self-employed will not be granted; this change has consequences for individuals becoming eligible for housing benefits and income support. Further restrictions apply to EU migrants coming to the UK as jobseekers. According to EU legislation, jobseekers are exempt from the self-sufficiency requirement as a prerequisite to taking up residence in another EU member state (Directive 2004/38). In contrast to Germany, where unemployment benefits are contributory, in the UK the jobseeker allowance is non-contributory and applies to anyone residing in the country. Therefore, EU migrants with the status of EU jobseeker enjoyed the allowance in Britain but not in Germany. On 1 January 2014, the UK government introduced a delay of three months before EU jobseekers could claim this benefit. Also, jobseeker status and its benefit are cut after six months if no job prospects are in sight. In addition, the government cut the housing benefit for EU jobseekers. The strategy to introduce waiting periods for access to benefits also applies to economically inactive people claiming child allowance. This group of people can only obtain benefits after three months of residence (UK Government 2014b).

Summing up, the UK's approach to restricting EU citizens' access to its welfare system shows that some measures are in conflict with EU legislation and mean a considerable constraint on EU citizens' social rights in the UK. Instead of aiming for equal treatment with nationals, the UK government draws new boundaries between its own and EU citizens. Again, empirical proof for benefit tourism or intentional abuse is hardly available, but the issue's salience in the public and political debate seems to be justification enough for limiting the rights of EU migrants.

Sweden: Defending Mobility and Social Rights of EU Migrants

In Sweden issues related to EU migration and mobility had a short period of public and political salience at the time of the first eastern enlargement of the EU in 2004 (Bruzelius et al. 2014, 12). Next to Ireland and the UK, Sweden was one of the few countries to open its labour market immediately to citizens of newly acceded Eastern European member states. The country did not impose transition periods on any Eastern European citizen, neither in 2004 nor in 2007. As the cases of Germany and the UK have shown, welfare tourism has been debated in connection to the most recent liberalization of the movements of Romanian and Bulgarian citizens. In Sweden the major debate on welfare tourism took place in 2004 (Bruzelius et al. 2014, 15). At that time, a social democratic minority government considered the generous Swedish welfare state to be a potential pull factor for EU migrants from the East. The government's attempt to apply transitional measures would not pass parliament; consequently, Sweden's labour market remained open. After enlargement, no proof could be found that many more EU migrants came to Sweden or took excessive recourse in the Swedish welfare state, neither with regard to social assistance nor child benefits. In the case of child allowance, most benefits are paid to children of foreign workers living in neighbouring Denmark, Norway or Finland (Wadensjö 2007, 15–16).

However, civil society organizations criticized the significant barriers that restrict access to the Swedish welfare state (Vittoria and Zhyla 2013, 13–14). A right to stay can be claimed with the migration board (*Migrationsverket*) in a given municipality. After three months, a right of residence can be acquired from the same authority by any EU citizen who has a legal right to stay as worker, self-employed, jobseeker, family member or person with sufficient resources. Access to benefits is channelled through the Swedish tax agency and its issuance of a social security number (*Personnummer*). It is this number that entitles individuals to most benefits relevant for living in Sweden: healthcare, social housing, access to the employment agency, opening a bank account, signing a lease and taking language classes. Registration and thus access to all these services only apply to people staying for at least one year. People staying less than one year receive a coordination number allowing access to labour market services. Since registration for a social security number is the key to accessing social benefits, being without such a number can have the effect of exclusion. For example, EU job seekers only have a right to stay for six months and are not eligible for a social security number (Skatterverket 2015). With regard to EU citizens claiming registration, the Swedish tax agency has been criticized for demanding too many documents, not accepting short-term employment contracts or creating long delays in issuing social security numbers (Vittoria and Zhyla 2013, 14–15). Similarly, some benefits such as child and jobseeker allowances could be accessed more easily in the UK and Germany. Thus, administrative barriers to full access to the welfare state select EU migrants with long-term employment contracts over people who have a more precarious status on the labour market.

While access to the core of the Swedish welfare state can be effectively denied, poor EU migrants still reside in Sweden and have access to emergency health care and housing (EP DG Internal Policies 2009: 149). EU migrants making a living as beggars have become an issue for the public and politics, but not with regard to a debate on welfare tourism. In contrast, politicians and the media identify the issue as a collective European problem that needs to be addressed in EU countries of both origin and destination (Radio Sweden 2014). More instead of less concern for the fundamental social rights of EU citizens is claimed (Bruzelius et al. 2014, 18–19). No direct changes to welfare state access for EU citizens can be reported for Sweden. This account can be traced to the select openness of the welfare state as well as the absence of political mobilization against EU migration.

In Swedish politics there is widespread consensus on the need to protect and appreciate freedom of movement in the EU. This agreement can be explained in the context of the media in a country that holds, by majority, liberal positions and was led by a former liberal-right government (2006–2014). Then-Prime Minister Reinfeldt was pro-European and changed the country's labour migration policy to become one of the most liberal policies in OECD countries (OECD 2011). The only political party that would disagree with the prevailing consensus on EU freedom of movement and general migration policy is the right-wing Sweden Democrats. So far, the political establishment in Sweden has shunned that party (Bruzelius et al. 2014: 15). However, its electoral success in 2014 will keep a critical voice on EU mobility and migration in the debate.

Welfare State Regimes and Inequality of Mobility Chances

The comparison of three EU member states' responses to actual or perceived access of EU citizens to the welfare system does not confirm a uniform trend towards welfare state closure (see Table 12.1). In contrast to Germany and the UK pushing for restrictions of access by EU citizens

Table 12.1 Welfare state closure and social rights of EU citizens

Restrictions of EU migrants' social and mobility rights	**Germany** Conservative: Rights mostly based on work (contributions)	**Sweden** Universal: Rights mostly based on residence (tax)	**UK** Liberal: Rights based on need (tax)
Control on access to self-employment status	✓		✓
Jobseeker status shortened	✓		✓
Restrictions on access to child, jobseeker allowance, housing support	✓		✓✓✓
Re-entry ban for fraud	✓		✓
Requirement of habitual residence/extended waiting times	✓	✓	✓

to benefits, policy changes could not be found in Sweden. EU social and mobility rights have not become publicly and politically salient to the same extent. The analysis of policy change showed that different structural conditions of the respective welfare state partially explain variance in responses. The assumption that existence and accessibility of non-contributory benefits is a predictor for welfare state closure could be supported. Conditions such as means-tested or contribution-based systems have an impact on accessibility. This finding confirms assumptions of Sciortino (2013) and Menz (2006) on the respective regime type and its general openness to benefit access. At the same time, built-in barriers to access can mediate the impact that benefit-seeking EU migrants have on the respective system. In the UK, where the welfare system is overwhelmingly tax-based and access to non-contributory benefits means-tested, reactions in terms of restriction to access are strongest. In Sweden many benefits are non-contributory and tax-based as well, but accessibility is far more difficult, as built-in barriers restrict access of people with precarious status. Thus, the Swedish government saw no need to restrict access of EU migrants. In the case of Sweden, the assumption that universal systems would generally be more open for benefit access by EU migrants does not hold (Brochmann and Skevik Grødem 2013). Germany's conservative, contribution-based system is situated between the liberal and the universal Nordic regime. There, policy change could be observed in few and very specific areas. Restrictions concentrate on the prevention of fraud and an increase in access requirements to residence status as self-employed or jobseeker, which would allow entrance into the labour market and welfare system. In sum, the existence and actual accessibility of benefits have to be considered in drawing conclusions from the respective welfare regime type as a predictor of benefit restriction.

Common to Germany and the UK is the assumption that EU benefit tourism is not only a topic for the political right but also for mainstream political parties. In the UK the debate on EU migrants mixes with anti-EU and anti-immigration attitudes. In Germany, the issue, which first was only debated among municipalities, shifted to the federal level because of the CSU and its populist campaign against access to EU social rights in the EP election. Accordingly, partisan politics is a factor in addition to welfare regime type that seems to explain the timing of the legislative response. This is somehow unexpected since politicization of EU governance does not necessarily trigger immediate policy response. Restrictions on access of EU citizens to social and freedom rights are connected to mainstream parties' concern about 'welfare tourism' and the presence of a Eurosceptic or far-right party pushing for restrictions. Unlike the UK, mainstream political parties in Germany and Sweden have, so far, resisted pressure from populist or right-wing parties to take up the issue. This could explain the absence of a debate politicizing the general legitimacy of the rights of EU citizens.

Conclusion

To a certain extent, EU freedom of movement aims to create social cohesion among EU citizens. EU legislation encourages spatial mobility as a means to promote social mobility. EU primary and secondary legislation aim at enabling participation in the common market for all EU citizens, irrespective of social and economic status. However, actual transnational social solidarity among EU citizens would need to transcend redistributive systems that are nationally confined (compare Groh-Samberg in this volume). Therefore, some member states strictly distinguish between their own nationals and EU citizens. In Germany and the UK, eligibility is scrutinized more strictly and focuses on an economic and reciprocal logic based on the concept of the bounded nation-state where state borders regulate access to labour markets and welfare systems. The discussion of re-entry bans and expulsion measures signifies national policy-makers' understanding of the bounded and bordered national welfare state. The 'universal' Swedish welfare state seems less universal, considering the analysis. Built-in barriers to universal coverage function as effective borders against EU citizens who cannot live up to the entry requirements. The idea of social via spatial mobility supported by transnational redistribution conflicts with nationally bounded welfare regimes. EU member state responses towards EU citizens' claims for benefits can partially be explained by the respective system of benefits and how that system defines their accessibility. However, regime type alone does not explain welfare state closure. Responses are moderated by partisan politics and opportunities for issue politicization.

This chapter discovered an antagonism between the EU's ideal of mobility chances for all and some EU member states' strict separation between wanted and unwanted EU migrants. Theory and practice of EU freedom of movement reveal an inherent contradiction: for finding work, people are expected to be mobile, but for the purpose of claiming benefits they should be settled and have ties to their respective communities (Anderson et al. 2014, 44). Mobility requires capital. Without assistance of some sort, the unemployed and people of lower-income groups will face greater difficulties in making use of the advantages of the common market. Spatial mobility for the sake of social mobility is not attainable for all EU citizens. Member states hardly share an ideal of mobility for all in the EU. Essentially, increased inequality among EU citizens and its resulting movements are met with the re-enforcement of welfare state boundaries and restrictions in mobility rights. This observation is linked to the discussion concerning what kind of inequality can be morally accepted (see Gosepath in this volume). In terms of EU freedom rights as a life chance, this discussion seems more urgent as opportunities for spatial mobility and its possible effects on social mobility are increasingly attainable only for those EU citizens who are better off.

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Part IV

Conclusion

13

The New Welfare State Constellation and Inequality: Findings and Perspectives

Tonia Bieber and Melike Wulfgramm

Social inequality across the OECD world has been rising since the 'Golden Age' of the welfare state of the 1960s and 1970s. Strong external and internal pressures have affected social policy-making (Leibfried et al. 2015). Challenges such as migration, demographic change, mass unemployment, skill-biased technological change and changing family models have posed increased social risks to society, politics and individuals. These socio-economic challenges have put a halt to the post-war expansion of the welfare state. The welfare state is forced to react swiftly and sustainably to cope with rising gross inequalities. At the same time, social, economic and cultural globalization have blurred the traditional bound-

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aries of the national state. Economic inequality is tightly intertwined with other types of inequality, such as inequality of opportunities, social exclusion and political inequality. While gross inequalities have been the major force driving recent net inequalities, cuts in social transfers and the redesign of the welfare state have further widened the gap between financially weak and strong groups of society. In this volume, however, we have shown that policy reactions have neither been homogeneous across countries nor across policies.

In recent decades, incremental and paradigmatic changes across social policies have accumulated and led to deep welfare state transformations in distribution, reduced social cohesion and increased disparities. In a political science, philosophical and sociological perspective, the authors have investigated the substance of these changes in various crucial social policies as well as their distributional outcomes. We have assessed the ways in which recent welfare state transformations have impacted the distributional dimension in OECD countries from the 1980s to the first 15 years of the twenty-first century. To what extent and how has social policy change across advanced democracies shaped—alleviated or strengthened—social, political and economic inequalities? The policies assessed include classical pillars of the welfare state edifice such as pension, labour market and health policy, but they also embrace adjacent fields like education, migration and tax policy—with taxes serving as a financial foundation for all other policies but also as social policy instruments themselves—which have become central for the new paradigm of the supply-side welfare state. Furthermore, different dimensions of inequality—such as gender, class or spatial divides in social, political and economic spheres—have been analysed.

The authors have shown that OECD welfare states have not merely responded to international and domestic demands, but they also actively shaped inequality in building the trend from compensation to a supply-side orientation in social policy-making. This involved a shift of welfare state characteristics from redistribution, income substitution and social insurance towards social investment in health, education, labour market and family services. At the same time, activation through deregulation at the margins of the labour market has taken place to provide incentives for work and to individualize outcome risks. The volume has revealed that the shift towards supplyside-oriented policies has contradictory effects on *gross inequality* and varies by policy. Policies that individualize risk, like the trend towards stressing the private component in multi-pillar pension systems, foster an income spread ahead of taxes and transfers. In contrast, social investment policies aim at balancing (pre)distribution, yet they do so with mixed results. While healthcare policy converges in an upward direction towards more risk solidarity across OECD welfare states, the trend in tertiary education policy to broaden enrolment while cutting public subsidies per student actually affects equality of opportunity adversely. Concerning *net* rather than *gross inequality*, stagnating or even declining replacement rates limit redistribution across traditional OECD welfare state policies, and dualization in benefit access and generosity amplifies the inequalities resulting from existing labour market risks. Thus, the trend towards supply-oriented welfare states means that once gross inequalities manifest themselves, they translate into higher net inequalities. However, selective cuts do not decrease overall social spending, as demands on the welfare state are high, and also, social policies have shifted to areas that may contribute to economic growth.

Political scientists conducting social policy research have predominantly focused on describing welfare state change and its determinants (see, for example, Pierson 1994; Bonoli 2001; Ebbinghaus 2010; Immergut 2010; Schmidt 2010). Furthermore, sociologists have widely analyzed the changing social realities of risks and needs (Beck 1986), while economists have concentrated on economic inequality (Atkinson 2015). Great advances were made methodologically and in providing data on more countries and additional time periods. However, these research trends have not been sufficiently linked amongst disciplines to investigate how welfare state change has actually contributed to socio-economic disparities. As changes in social policy outcomes in recent years have concerned both policy-makers and researchers, we explored these outcomes in different policies across OECD countries, applying theories like the theory of institutional dualization (Emmenegger et al. 2012a, b), theories of justice, approaches to the globalization-welfare state nexus (Garrett 1995; Rodrik 1997), convergence approaches and human capital approaches (Boudon 1974). Applying both qualitative and quantitative methodology, reaching from regression analysis to the construction of indices, our authors cater to the growing demand for knowledge about the distributional outcomes of both domestic and global social policy.

Key Findings and the State of the Literature

In this volume, we have investigated whether and to what extent increased needs have overburdened the welfare state with compensating for *gross inequalities*. In addition, we have also assessed if and how welfare state transformations have actively contributed to rising *gross* and *net inequality* by shifting to a supply-oriented model. We will now highlight our key findings on the relationship between changes in welfare state systems and issues of economic, social and political inequality. In particular, we will show both commonalities and differences between different social policies and different types of inequality in various OECD countries.

Studying welfare state transformation across the OECD world, Peter Starke, Melike Wulfgramm and Herbert Obinger assessed external and domestic challenges to advanced welfare states, the resulting welfare state transformations since the 1970s, and their implications for inequality. The authors find *two broad developments in social policy*. First, quantitatively, there is a strong upward convergence between OECD states in total public social expenditure (see Schmitt and Starke 2011). This convergence corresponds with the state of research (Huber and Stephens 2001; Kittel and Obinger 2003; Kwon and Pontusson 2010): socio-economic settings have driven recent social policy developments and lessened the differential effects of political factors. Second, qualitative convergence to a supplyside-oriented welfare state model has occurred. Instead of concentrating on compensatory transfers, supply-oriented policies are about changing primary outcomes by investing in skills and setting incentives for employment. In addition, the authors argue that modern welfare states shift responsibilities for policy outcomes to the individual and deregulate labour markets at the margins. For *gross inequality*, the implications of supplyside-oriented policy-making are inconsistent and depend on the particular policy chosen: While policies of social investment such as health, active labour market and education policy aim at equalizing (pre)distribution, policies that individualize risk such as private pension policies tend to increase income polarization. Regarding *net inequality*, the development is more even across classical social policies: benefit durations and replacement rates are stagnating or declining, thus narrowing redistributive efforts. This does not reduce welfare state expenditure, but shifts the focus to policies fostering economic wealth, such as education policy. However, once gross inequalities manifest themselves, the decreasing focus on compensatory transfers means that gross inequalities translate ever more directly into net inequality.

In his study on findings and concepts of inequality research, Olaf Groh-Samberg provides us with both evidence of persistent social cum rising economic inequalities, and he reports on the resulting challenges to the welfare state. Considering the recent increase of economic inequalities in most OECD countries, he finds that inequalities in life chances between social groups remained rather stable, although the level of life chances in general had increased for citizens in the Golden Age of the national state. This setting has changed with shrinking growth rates in national economies and rising economic inequality between and within social classes. Groh-Samberg argues that recent policy trends towards social investment and the pursuit of equality of opportunity have largely failed to increase social mobility between classes. Increasing economic inequalities coupled with persistently low levels of equality of opportunity are argued to spur political and cultural conflict both within and between social classes. The resulting lower social cohesion may further undermine the foundations of the welfare state as current welfare state transformation and inequality trends short-circuit in a potentially vicious feedback circle.

In his chapter on the philosophical foundations of equality and inequality, Stefan Gosepath argues that the discussion about equality rests on the notion of our common humanity. Inequality is only disturbing insofar as it violates basic principles of justice tied to contemporary egalitarianism. However, determining which particular type of distribution is acceptable is highly complex due to the multi-faceted nature of inequality and the partly controversial principles in the theory of justice itself. Still, Gosepath maintains that the principles of formal, proportional, moral and social equality find broad agreement in modern western societies and should, therefore, be applied. Then, the welfare state's task is to tackle inequalities that have been collectively identified as normatively problematic. The author broadly distinguishes between two reasons for the equalizing functions of social policy that all advanced welfare states share. First, advanced societies provide for the basic needs of their citizens to preserve a minimum standard for a decent life. The condition to fulfil basic principles of justice is assuring physical subsistence through social security that protects against basic social risks. More importantly, however, the second reason is that the pursuit of social equality is explicitly aimed at securing a decent equal standing for all citizens based on our common humanity.

In tax policy, Laura Seelkopf and Hanna Lierse trace the co-developments of the changing OECD tax systems and income (re) distribution since the 1980s. The authors argue that governmental tax strategies and their effects on economic inequality within states are more intricate and varied than was previously recognized. They show that with increasing tax competition, both gross and net income inequality have risen in most OECD countries since the 1980s because income taxes have become less effective in reducing high levels of market income inequality. Consistent with the *efficiency school*, this trend suggests that states are increasingly incapable of redistribution. However, the authors show that the negative forecasts of efficiency scholars (Frieden 1991; Andrews 1994; Cerny 1994; Rodrik 1997) did not become real in all OECD states. Despite the common constraint posed by global capital markets, countries still have sufficient leeway to manoeuvre, which corresponds to the approach of the *compensation school* (see Garrett 1995). However, the extent to which governments have made use of their leeway differs significantly. While smaller states have more to gain from tax competition, larger states can sustain redistributive taxation. Even if progressive taxation is diminishing, the revenue-raising capacity of states remains high, allowing redistributive policies on the spending side. Nonetheless, tax competition has generally undermined vertical, horizontal and international equity principles.

In healthcare policy, contrary to established indicators (De Graeve and Van Ourti 2003; Wagstaff et al. 1999), the self-constructed Index of Risk and Income Solidarity (IRIS) allows us to compare equity issues in healthcare financing in OECD countries over time. The shift to austerity policies, comprising individual responsibility and individualization trends, would suggest a decreasing risk and income solidarity and, therefore, rising inequality. However, compared to other social policies, austerity policy does *not* imply direct retrenchment, but incremental adjustment (Seeleib-Kaiser 2008; Obinger et al. 2010; Rothgang and Schneider 2015): Achim Schmid, Pascal Siemsen and Ralf Götze find upward convergence of *risk solidarity* in eleven OECD states over four decades, showing health policy as a social policy in which the social investment strategy helps to combat increasing inequality between groups with different health risks. Regarding *income solidarity*, redistribution is not reduced either: Average income solidarity remains stable while variance drops only slightly. Hence, there is no 'race to the bottom'. In theoretical terms, IRIS demonstrates that risk and income solidarity are not consistent but that countries each build their own particular combination of health financing. While risk solidarity follows the shared needs of OECD states and is driven by functional requisites to offer health services to all citizens, income solidarity reflects country-specific power relations. The high potential of risk and income redistribution for political conflict reduces the scope for radical reforms. In terms of methodology, the authors find that the validity of IRIS depends on the stability of the redistributive effects as attributed to a particular financial basis. Concerning risk solidarity, the authors confirm earlier findings of convergence in healthcare financing (Barros 2007; Rothgang et al. 2010). However, income solidarity is mainly shaped by country-specific forces. In line with the literature on welfare and healthcare systems, their findings support the dominance of incremental readjustment processes (Obinger et al. 2010; Rothgang and Schneider 2015).

Observing the case of pension policy in Germany and the United States, Jan Paul Heisig identifies considerable inter-generational and rising intra-generational inequality in retirement income and household income. He shows how pension reform has strengthened individual responsibility and transferred financial risks associated with disability, job loss or market fluctuations from the state and employers to individuals. In both countries, recent retirement cohorts experienced larger declines in disposable income than did those in the 1980s. Inequalities between different groups of retirees have risen: vulnerable groups such as involuntary or less-educated retirees were hit the hardest by recent changes.

Germany chose the same pension policy as many OECD countries have done since the mid-1990s: having a strong public pension pillar that sustained generous early retirement options for a long time, it reformed its pension system and other welfare programs to support later retirement and ease budget pressures. In contrast, in the mature multi-pillar system of the US, the generosity of public benefits declined and the increasing defined-contribution plans in company pensions shifted risks from employers to workers. Evaluating the effect of these ongoing reforms on recent retirement cohorts, the author finds that recent reforms resulted in the return of old-age poverty and aggravated economic inequality among the elderly. In both countries, the typical income trajectory of men's retirement has worsened in the 2000s compared to the 1980s. Furthermore, disposable income declined more strongly relative to pre-retirement levels, and large losses occurred more often. In Germany, the retrenchment of early retirement options increased the gap between involuntary and voluntary retirees. In the US, large losses of pre-retirement income and entry into income poverty also became more common. There was also an emergence or amplification of inequalities so that low-educated retirees are increasingly falling behind, a finding consistent with other studies (Wolff 2011).

Investigating the effects of higher education policy on equal opportunity, Timm Fulge finds a strong positive effect of the individual-level factor of *parental education* on the individual likelihood of pursuing an academic degree across 22 European OECD countries. There are great differences between countries, while the effect of parental education is least pronounced in Sweden, the UK and France and strongest in Eastern Europe and the German-speaking countries. Furthermore, the author argues that variation between states concerning the effect of parental education on the propensity to pursue higher education can, in parts, be explained by *features of national higher education systems*. His findings suggest that systems with strong public subsidization reduce inequalities between classes in access to higher education, but that high levels of enrolment do not. These findings show that the social investment component of the welfare state reduces inequalities only if public subsidies rather than a higher enrolment rate is emphasized. In light of recent trends of increased cuts in public subsidies, these results imply that educational inequality will rise across OECD countries and support the view that public education investment is needed to attain equality of opportunity. The overall findings are consistent with theories of educational choice that emphasize the importance of both primary and secondary social origin effects in skill investment decisions.

In labour market policy, reform strategies of national governments play a large role in labour market inequality, which is mostly distinct for both young and, more critically, low-skilled groups. Hanna Schwander investigates dualization patterns in labour markets and labour market policy in continental Europe. Continental welfare states are seen as the OECD countries that are the most affected by such polarizing tendencies. The author observes different reactions of national governments to pressures of labour market flexibilization stemming from increased international competition and supra-national actors in the two last decades. Assessing the development of labour market risks among different outsider groups, she identifies varying patterns of labour market inequality between insiders and outsiders depending on government reform strategies. In Germany, labour market risks have become more equally distributed since the *Agenda 2010* in 2005, but low-skilled individuals are most deprived. However, differences between the groups have been declining for both forms of labour market risks, namely unemployment and temporary employment as old and new risks respectively. The same holds for inequality between younger and older workers. When overall unemployment and temporary employment rates fell, they also fell among young adults. In Spain and Italy, inequality has increased, while remaining steady in France. Interestingly, labour market risks focus on the younger cohort in southern Europe, irrespective of their skill level. In France, special policies protect older workers from unemployment during economic crisis. In Spain, reforms were ineffective in addressing the inequality that obtains between younger and older cohorts, an inequality which has increased since the crisis.

Irene Dingeldey investigates the gendered outcomes of labour market policies and collective bargaining in Germany. As enticements for a modernized male-breadwinner model she identifies institutional complementarities that counterbalance labour market hazards at the household level. Hence, not only employment status but also the particular family arrangement influences the degree of social inequality. The social cleavage between single-earner households and dual full-time earner households is increasing, especially for the highly qualified. Accordingly, gender inequalities declined as regards labour market participation but increased within the labour market regarding the different forms of flexible employment and pay. However, within coupled family households, even an unequal reproductive bargain diminishes social risks. Flexible or low-paid employment in female branches of the service sector may still be 'secured' within the male-breadwinner model. However, compensation mechanisms are limited to complete families and are not available for single-person households. These contrasting forms of working rich and working poor households further polarize income. Thus, the social divide in conservative welfare states does not stem from standard and flexible employment types but from particular combinations of employment with family forms. These findings are in line with other studies that explain why German social inequality is low compared to other OECD states (OECD 2012, 2015). These studies indicate rising inequalities due to labour market and social policies informed by the welfare paradigm of social investment and activating policies (Cantillon 2011; Vandenbroucke and Vleminckx 2011; Solga 2014).

At a global level, Alexandra Kaasch explores how global social policy actors, their ideas and mechanisms, impact inequalities. She demonstrates that inequality can be understood both in a global context and in different dimensions of global social policy. While governments still shape institutions that may affect inequalities, global structures also matter in an increasingly interconnected world. She finds a consensus among global actors that there are rising global inequalities which arise in various perspectives. Furthermore, she identifies a considerable international if not global debate (see Piketty 2014; Sen 1999; Atkinson 2015) on rising inequality and related measures, and discusses the inequality goal in the Agenda for Sustainable Development of the United Nations. In this way, global social policy actors successfully established inequality as a global concern and assumed an important role in addressing various forms of inequality. Nevertheless, a moral justification of why issues of social justice arise globally is required to underpin claims and demands regarding the need to address these issues in multi-level social policies. In addition, not all political philosophers agree on the possibility of institutionalizing social justice claims at the transnational level, as the sense of obligation, solidarity and mutual responsibility is crucially stronger in a national context. While they are all aiming to shape global social policies so as to address global social inequalities, mechanisms of global redistribution come in different shapes, such as healthcare, education, social protection and labour market regulation.

At the European level, increased inequality among EU citizens and the resulting migration reinforce welfare state boundaries through the restriction of mobility rights. There is a contradiction between the EU's model of freedom of movement for all EU citizens and the increasing closure of welfare states by some member states, who distinguish between desired and undesired EU migrants, repelling the latter. Christof Roos investigates the implications of increased freedom of movement in the EU plus welfare state closure for welfare state transformations of EU member states and hence for social mobility in Germany, Sweden and the UK. He finds that EU member states' attempts to restrict movements of poorer EU citizens can, in part, be explained by the national welfare system plus the existence and accessibility of its benefits as mediated by party politics and issue politicization. Thus, social-via-spatial mobility is less attainable for EU citizens of lower socio-economic status. Although EU legislation enables all EU citizens to participate in the common market, as transnational social solidarity among EU citizens would need to transcend national redistributive systems, some states distinguish between their own and EU citizens. In Germany and the UK, eligibility is scrutinized more strictly and focuses on an economic and reciprocal logic, based on the concept of the bounded national state. In contrast, the Swedish welfare state seems less universal because barriers to universal coverage function as borders against EU nationals who do not fulfil entry requirements. Nationally bound and increasingly closed welfare regimes contradict the idea of social-via-spatial mobility supported by transnational redistribution. Theory and practice of the EU freedom of movement reveal an inherent contradiction: people are expected to be mobile to find work, but they should be settled to claim benefits. Hence, with the recurring trend towards welfare state closure, economically disadvantaged people face greater difficulties in utilizing the advantages of the common market. Overall, findings support the argument that welfare state closure is intensified by the existence of and an easy accessibility of non-contributory benefits.

Prospects for Further Research and the Transformed Welfare State Constellation

In view of the radical changes that social policy has undergone worldwide, this comparative study has systematically explored how economic, social and political inequalities have been affected by the transformations of the welfare state and its central policies. The study covers both classical social policies and some neighbouring policy areas like taxes, migration and education. The findings may inform both decision-makers in international organizations and domestic policy-makers about the degree and conditions of the effectiveness of welfare policies in the light of their distributional outcomes, and provide insights into broad trends of welfare state transformation.

Notwithstanding the various contributions of this study, our results also raise new issues and pose new puzzles for future research on the effects of changing governmental activities in the welfare sector on social inequality. Further studies are necessary to fully explore the implications of transformations of the welfare state in different social policies for the multi-dimensional inequality landscape of OECD countries.

Corresponding to the relatively broad Scandinavian concept of the welfare state that embraces all public responsibilities except for military tasks, future research should assess the possibility of transferring the theoretical and methodological approaches of our analyses to the study of other *public policies* like primary education, special needs education, economic policy, housing and social assistance. So, how have policy changes in primary education such as the introduction of obligatory kindergarten attendance in some countries affected the inequality in opportunity of young generations? Furthermore, a systematic analysis of the institutional and political spillover effects of and complementarities among different policy areas—especially regarding the integrative function of education and training—has not been undertaken in sufficient depth, and thus is an important task left to future research.

Based on our findings, various questions in different policy areas should be addressed by social policy scholars. Increased inequality among EU citizens and the resulting cross-border movements reinforce welfare state boundaries and restrict *mobility rights* (see Roos in this volume). This raises the question: what kind of inequality can be morally accepted? (See also Gosepath in this volume.) When we see EU freedom rights as granting life chances, this discussion seems to become more urgent as opportunities for spatial mobility and its attendant effects on social mobility are increasingly attainable only for already socially advantaged EU citizens. Furthermore, future research on the effects of *global social policy* on inequalities (see also Kaasch in this volume) could employ case studies of especially 'vulnerable' groups of society such as the young and persons with atypical employment or disabilities. In *family policy* (see Dingeldey in this volume), comparative research should assess whether the particular development of the German model is exemplary for other coordinated market economies when combined with conservative welfare states, or whether other gender models do induce different social outcomes. Also, coordinated market economies should be contrasted with liberal ones.

The results of the studies in this volume may also be used to comparatively analyze the potential influences of welfare state reforms not only on economic inequality but also on the equality of opportunity and political representation in *other geographical regions* of the globe. For example, are there any mechanisms at work in developing nations that are comparable to those in the OECD world examined here? Comparative research of and within a larger number of geographic regions may offer a broader and, therefore, more general contribution to the study of inequality as transformed by recent welfare state change. Further studies should also assess the development of social policy regionalism (Bianculli and Hoffmann 2016)—that is, the delegation of policies and political authority to regional institutions—in other world regions, such as the Association of Southeast Asian Nations (ASEAN) or the African Union, and its outcomes. For example, it would be fruitful to elaborate the specific conditions and forces driving policy diffusion of particular ideas and institutional settings of OECD countries to other parts of the world. Such research could contribute to knowledge on how Western-style policies and modes of governance have travelled and turned into a global template for social policy reform initiatives to address current inequality issues.

The *socio-political consequences* of welfare state reforms are another string of topics not covered in depth here. Political reforms may be perceived very differently by the groups affected (like retirees, students or workers) than they are by the initiating politicians. How are the changes in outcomes evaluated by societal stakeholders, and how does this translate into actual social movements? Empirical findings on such issues would further our understanding of the real world impact of macro-level reforms on micro-level actors and of potential feedback loops back from the micro- to the macro-level.

Related to perceptions of various stakeholders, the crucial topic for the sustainability of the transformed welfare state is its *democratic legitimacy*. Does the latest upsurge in economic inequality and do the observed policy reactions damage the democratic foundations of national welfare states? While legitimacy of and public opinion on the transformed welfare state constellation need to be researched in more depth, our results point to damages for democratic legitimacy. During the so-called Golden Age of the national state, full employment, steadily increasing real wages, high levels of growth and the continuous expansion of compensatory social policy legitimized representative democracy and, at the same time, democratically legitimized the welfare state itself (Busemeyer et al. 2013). In other words, democratic political structures were legitimized by steadily increasing economic prosperity and social security shared by all voters (Przeworski 2010). Against today's background of slow or even negative growth rates and market pressures pushing for unequal distribution in recent years, the transformed welfare state can no more rely on this gratuitous external source of legitimacy. Thus, in order to sustain the supply-oriented welfare state, the content and outcomes of such social policy changes need to convince a political majority per se plus again and again.

In terms of distribution, the paradigmatic ambition backing the supply-oriented welfare state is increased equality of opportunity plus equality of gross outcomes through social investment and more incentives to raise employment and self-reliance. The volume has shown that these pre-distributive policies can indeed be successful if applied sensibly, such as through public subsidies for education and higher risk solidarity in healthcare financing. However, the window of opportunity for such policy-making is limited by trends in market pressures that consistently push for higher gross inequality. Therefore, sensible supply-oriented policies need to complement rather than substitute for 'old fashioned' compensatory social policies. Otherwise, gross inequality will continue to transform into growing net inequality, producing detrimental social outcomes and severely undermining the legitimacy of the transformed welfare state itself.

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