

Cross-National Support for the Welfare State Under Wealth Inequality

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Abstract

Wealth is often more unequally distributed than income, and there are considerable differences across countries. In this paper, we argue that wealth inequality helps explain cross-national variation in support for (and the size of) the welfare state because assets serve as private insurance. When wealth, particularly liquid assets, is unequally distributed across the income spectrum and high-income groups hold most assets, strong reinforcing preferences in favor of or against social policies result in antagonistic welfare politics and less government spending. When assets are more equitably distributed across the income spectrum, cross-cutting preferences emerge as more people support either insurance or redistribution. Welfare politics is consensual and facilitates a broader welfare coalition and more government spending. We analyze original cross-national survey data from nine OECD countries and provide evidence in support of our argument. Our findings suggest that wealth inequality reshapes the role of income in structuring welfare politics.

Keywords

social welfare programs, political economy, European politics, wealth inequality

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Income inequality has grown considerably across and within countries in recent decades. Much less is known about how wealth is distributed across countries or, more importantly, among individuals. Recent work based on surveys and administrative tax data has shown that wealth is even more unequally distributed than income (e.g., [Chwieroth & Walter, 2019](#); [Fuller et al., 2020](#); [Kuhn et al., 2020](#); [Zucman, 2019](#)). In China, Europe, and the United States, the top 10% of the population own more than 70% of the total wealth. The share of wealth held by the top 1% in the United States grew from 25% to 30% in the 1980s to around 40% in 2016 ([Piketty, 2014](#); [Saez & Zucman, 2016](#)). These numbers mask the fact that a growing share of households live paycheck to paycheck and set aside little or no savings to protect them from financial shocks ([Kaplan et al., 2014](#)). For example, [Lusardi et al. \(2011\)](#) find that over 25% of American survey respondents, including high-income respondents, could not come up with \$2000 within 30 days for unanticipated expenses such as a major car repair or a large medical co-payment; 19% could only cover such expenses through payday loans or selling items at pawnshops. Almost half of all US respondents indicated that they could “certainly not” or “probably not” come up with the financial resources to address a financial shock of this magnitude. [Hacker et al. \(2014\)](#) expand the notion of economic risk to include income losses, unexpected medical expenses, and limited assets to weather financial shocks, and document that the share of Americans that are insecure by that metric has increased steadily since the mid-1980s.

These patterns are not limited to the United States. [Kaplan et al. \(2014\)](#) show that households living paycheck to paycheck (with very little savings) represent about 30% of the population in Canada, Germany, and the United Kingdom and 20% or less in Australia, France, Italy, and Spain. Nor are these patterns limited to low-income households. The same study estimates that two-thirds of American households that live paycheck to paycheck hold a large amount of wealth in assets such as housing or retirement accounts but have very little or no liquid wealth. Thus, studies of households’ finances should measure multiple components of wealth and degrees of liquidity rather than just total wealth to fully understand wealth inequality ([Pfeffer & Waitkus, 2021](#)).

Yet we know little about the policy implications of this uneven distribution of different types of wealth across and within countries. In this paper, we are particularly interested in how it affects support for the welfare state. Most political economy models that consider material self-interest as the foundation of social policy preferences are based on individuals’ current or expected income ([Meltzer & Richard, 1981](#); [Romer, 1975](#); [Rueda & Stegmueller, 2019](#)) and economic shocks that negatively affect people’s incomes ([Rehm, 2016](#); [Rehm et al., 2012](#)). More recently there has been an increasing focus on how wealth—both illiquid housing equity and liquid

assets (Ansell, 2014; Hacker et al., 2014; Hariri et al., 2020)—, participation in financial markets (Chwieroth & Walter., 2019; Margalit & Shayo, 2021), and access to credit and indebtedness (Ahlquist & Ansell, 2017; Markgraf & Rosas, 2023; Wiedemann, 2021, 2022) influence people’s policy preferences, fairness perceptions (Scheve & Stasavage, 2016), and their incentives to opt out of public goods provision in light of private alternatives (Busemeyer & Iversen., 2020). These arguments have helped advance our understanding of redistributive politics, but often fail to take the *joint* distribution of income and wealth into account (see Fuller et al., 2020, for an important exception). Assets are an important aspect of people’s social policy preferences because they allow them to privately insure against the negative consequences of economic shocks such as unemployment. People with large amounts of assets may be less likely to support the welfare state, in particular social insurance. What matters most, however, is how the ability to self-insure is distributed across the income spectrum.

In this paper, we argue that wealth inequality—and in particular the degree to which income and assets holdings are correlated—and the degree of asset liquidity help explain variation in support for social policies across individuals as well as variation in the size of the welfare state across countries. At the micro level, we argue that the joint income–asset distribution yields four stylized groups with distinct social policy preferences. Most prior research has focused on the first two groups: what we call the “economically precarious” group with low incomes and low assets (which strongly supports the welfare state) and the “truly wealthy” group with high incomes and high assets (which strongly opposes it). But the two cross-pressured groups have been largely overlooked: those with high incomes and low assets (“income buffered”) or low incomes and high assets (“asset buffered”). These groups are moderately supportive of the welfare state’s insurance or redistribution function and play an important role in welfare state politics. For example, high-income people with few liquid assets have different social policy preferences than high-income people with lots of private savings since the former are more vulnerable to income losses than the latter. Only focusing on income misses this dimension.

These predictions have macro-level implications for the political coalitions behind the welfare state. The sizes of the four groups vary considerably across countries as a function of wealth inequality across income groups. The correlation between income and assets determines the strength of the political cleavages between economically precarious and truly wealthy voters. When assets are unequally distributed across the income spectrum, such that low-income people have few assets and high-income people have many, preferences in favor of and against social policies are reinforcing and will result in antagonistic redistributive politics and, ultimately, a smaller welfare state. By contrast, a weaker correlation between income and assets—and a more

equitable wealth distribution by income—will lead to cross-cutting and consensual preferences and broader support in favor of insurance, redistribution, or both; fewer voters will reject the welfare state outright. If politicians and political parties represent and are responsive to class interests (Iversen & Soskice, 2006; Meltzer & Richard, 1981), policy choices and welfare state programs should reflect people's social policy preferences (which depend on their position in the income and wealth distribution) and the strength of the political coalition in favor of the welfare state (which depends on the degree to which income and wealth are correlated at the individual level).

It is difficult to empirically test these arguments because we lack adequate micro-level data that combines information on individuals' financial balance sheets with political preferences *and* covers several countries for comparative analyses. The closest single-country data sets are the Survey of Economic Risk Perceptions and Insecurity, conducted by Rehm et al. (2012) in the United States as a special module in the American National Election Studies 2009 wave, and the British Household Panel Study, which contains only limited policy preference questions.¹ To address these shortcomings and collect this data, we conducted an original cross-national survey of over 20,000 respondents across nine OECD countries: Canada, Denmark, England, France, Germany, the Netherlands, Spain, Sweden, and the United States.

We find that in all nine countries, individuals in precarious economic situations are the most supportive of social policies—both insurance and redistribution—while the truly wealthy are the least supportive. More importantly, we document that cross-pressured income- and asset-buffered respondents are moderately supportive of the welfare state. In support of our argument that wealth matters because it serves as private insurance, we also demonstrate that liquid wealth has a greater impact than illiquid wealth on welfare state support. High-income people without assets to address economic shocks are more likely to demand redistribution and insurance than those with sufficient assets to weather financial shortfalls. Hence, wealth matters beyond income. Low-income people with above-median liquid assets are less likely to demand insurance than low-income people with above-median illiquid assets. This suggests that the composition and the degree of liquidity of the wealth holdings are relevant for social policy preferences, too.

Assets' role as a buffer against economic shocks undermines insurance preferences, but low income still drives demand for redistribution. Liquid asset holdings thus undermine the effect that income would have on insurance preferences if we do not take (liquid) assets into account. Our results highlight the importance of considering income and assets jointly and distinguishing between different types of assets and social policy dimensions.

We then illustrate that the degree of wealth inequality and the correlation between income and assets influence the size of the four groups in society and shapes political coalitions in favor of or against the welfare state. In countries

such as Denmark and the Netherlands, liquid assets are more equitably distributed across the income spectrum, which reduces the number of “truly wealthy” opponents of the welfare state. Instead, it creates cross-cutting preferences among income- and asset-buffered people, respectively, that lead to a consensual and broad coalition in support of welfare policies and a larger welfare state. The correlation between income and assets is much stronger in countries such as the United States, where most liquid wealth is concentrated in the hands of high-income groups. This pits the economically precarious against the truly wealthy and results in antagonistic welfare state politics—and, ultimately, a smaller welfare state.

Our paper makes three important contributions to the literatures on social policy preferences, private alternatives to public policies, and policy feedback effects. First, we propose a new argument that integrates income and wealth into a unified framework, and reveals that the correlation between income and wealth creates new types of political cleavages and fragments support for the welfare state. Focusing only on voters’ income may generate a misleading picture of their support for the welfare state. Second, we offer new empirical evidence in support of our argument, drawing on an original cross-national survey that combines information on individuals’ incomes and balance sheets with their policy preferences. This allows us to test the micro-foundations of our argument and examine the comparative dimension of our claims. Third, our findings suggest that wealth inequality reshapes and potentially outweighs the role of income in structuring welfare politics. Where wealth inequality is rising and higher-income people are reaping growing returns on their asset classes, this can undermine support for social policies and make welfare politics more antagonistic.

Welfare Politics under Wealth Inequality

Many prominent models of welfare state support identify individuals’ economic position and material self-interest as key drivers of social policy preferences. According to the canonical Meltzer-Richard model, the median voter will push for more redistributive spending up to the point at which the efficiency costs of distortionary taxes outweigh the flat-rate benefits of redistributive spending (Meltzer & Richard, 1981; Romer, 1975). Individuals with higher incomes are less supportive of redistribution. Yet welfare states are not only about redistribution; they also provide social protection and insurance against socio-economic risks such as unemployment or sickness. Growing risks and rising insecurity increase the demand for social insurance (Cusack et al., 2007; Hacker et al., 2013; Moene & Wallerstein, 2001; Thewissen & Rueda, 2019). Other arguments focus on how skill specificity shapes attitudes toward social policies. Individuals who invest in highly specialized skills linked to specific industries that cannot easily be transferred

to other sectors or occupations may face longer periods of unemployment and thus more significant declines in income if they lose their jobs (Iversen & Soskice, 2001; Rehm, 2009). As a result, these individuals—even high-income earners—support social policies that protect them against such risks (Estevez-Abe et al., 2001; Mares, 2003).

Recent work has introduced another dimension: wealth can serve as a buffer against economic risks and income loss. Ansell (2014, 2019) documents that homeownership and housing wealth offer a form of private insurance through housing assets as a “nest egg.” Rising asset prices increase both the value of houses and homeowners’ private wealth buffers, which make homeowners less likely to support social insurance. In a related study, Hariri et al. (2020) focus on liquid wealth and show that savings-constrained households in Denmark are more likely to support social insurance because they lack alternative financial buffers. And recent experimental work has demonstrated that engaging with financial markets such as trading stocks makes individuals more politically conservative on issues involving inequality and redistribution (Margalit & Shayo, 2021). Finally, access to credit allows individual to smooth income losses or invest in human capital and financial assets, which in turn can strengthen or weaken support for social policies, depending on the type of debt (Ahlquist & Ansell, 2017; Wiedemann, 2021, 2022). Markgraf and Rosas (2023) use cross-national and experimental data to show that, conditional on income and job loss risk, individuals with better credit access demand less redistribution and lower taxation. One implication of these findings is that people with the ability to self-insure through credit access or wealth prefer to opt out of the welfare state (Busemeyer & Iversen., 2020). Another is that demands for social policy may change as the share of individuals with concentrated economic insecurity, for example, due to a combination of income losses, unexpected medical payments, or limited savings to cope with economic shocks, is rising (Hacker et al., 2014).

These accounts are important, but they tend to focus on a single economic dimension as the driving force behind welfare state support. We argue that this perspective is misleading because it masks an important yet understudied aspect: individuals occupy different positions along the income *and* wealth distributions. High-income individuals do not necessarily hold large amounts of assets. For example, young professionals a few years out of college might have high-paying jobs but limited, if any, savings. Other people might have low incomes but large amounts of assets, such as retirees, low-income homeowners, or people with large inheritances but small earnings. These examples suggest that a comprehensive understanding of the self-interest economic motives underlying social policy preferences should take into account the *joint* distribution of a person’s income *and* her ability to financially self-insure against economic risks. Yet we know little about how

individuals' financial balance sheets affect social policy preferences, how these dynamics vary across countries, and what the implications are for the structure of welfare state politics.

Most models of redistributive politics assume that risk-averse individuals will demand some level of insurance against future income losses (Moene & Wallerstein, 2001). We argue, however, that individuals' ability to privately insure against risks moderates—and even undermines—the relationship between income and social policy support. Our argument is related to the theoretical framework introduced by Rehm et al. (2012), who demonstrate that individuals' income and exposure to economic insecurity jointly determines welfare state support and, as a result, shapes preference polarization and average welfare support at the country level. Our study builds on this framework but shifts the focus to wealth, one of the most important forms of private insurance against economic shocks, and how wealth is distributed across incomes. In particular, we distinguish between different types of assets (liquid and illiquid) and different types of social policies (redistribution and social insurance) to generate theoretical predictions about the relationship between income, assets, and welfare support.

Research from the United States and Denmark shows that household consumption drops substantially when a person loses their job, both at the onset and later when unemployment benefits are exhausted, indicating that households are far from perfectly insured against job losses (Andersen et al., 2022; Ganong & Noel, 2019). Andersen et al. (2022) study several channels of economic responses to unemployment and find that households' depletion of liquid wealth is by far the most important source of private financial insurance. Other channels such as home equity loans, mortgage refinancing, private transfers, and spouses increasing their work hours are all minor in comparison. Their results demonstrate that not all types of assets are equally well suited as buffers against temporary income shocks. We therefore hypothesize that assets' *degree of liquidity* matters. Most household wealth is tied up in assets that are costly to liquidate on short notice such as housing or pensions.² The high degree of illiquidity of most households' wealth holdings makes them vulnerable to economic shocks and risks (Kaplan et al., 2014). We therefore argue that *liquid* assets are more important in shaping social policy preferences than illiquid assets, and that this effect might hold across, or at least for large parts of, the income distribution. While income should be negatively correlated with social policy preferences, we expect that liquid assets (or lack thereof) can overshadow part of the income effect on welfare state support.

There are at least two reasons why the ability to buffer income shocks and economic risks through assets should matter above and beyond income. First, high-income groups with little private savings are likely to have different social policy preferences than high-income groups with lots of private savings since the former are economically more vulnerable to income losses. Aversion

to the welfare state among higher-income groups might therefore be moderated by their lack of private savings. Similarly, low-income groups with high savings are less vulnerable to income shocks and are likely to demand less social insurance than low-income groups with little savings. Second, the distribution of income and self-insurance is not perfectly correlated and varies considerably within and across countries, as we show in the empirical section of the paper. Wealth inequality plays an important role in shaping welfare state support.

Our argument yields two key predictions. At the micro level, the combination of individuals' income and assets to self-insure against economic shocks generates different social policy preferences. At the macro level, our framework suggests that overall support for—and, as a consequence, the size of—the welfare state varies cross-nationally according to the extent of wealth inequality, as measured by the degree to which income and self-insurance through asset holdings are correlated.

Micro-Foundations: The Role of Assets in Social Policy Preferences

A comprehensive theory of welfare state support must incorporate wealth inequality—in the form of liquid and illiquid assets—and distinguish between redistribution and social insurance as different dimensions of the welfare regime. We offer a generalized argument of social policy preferences based on the joint distribution of individuals' income and ability to self-insure. We divide a country's society along the income and self-insurance dimensions into four stylized groups as depicted in [Figure 1](#). The horizontal axis captures redistributive preferences based on individuals' income; the vertical axis shows social insurance support based on individuals' ability to privately self-insure.³

Considering each dimension separately, however, overlooks the fact that all four groups have distinct social policy preferences based on their position on the income and self-insurance dimensions and fails to take into account the fact that the welfare state has a dual role of providing both redistribution and social insurance. Individuals with a low income and a weak ability to self-insure (bottom-left quadrant) demand both redistribution because their income is below the median and insurance because they have no ability to privately insure against income losses or other adverse economic shocks. We call this group “economically precarious” because its members are doubly disadvantaged. By contrast, individuals with both a high income and a strong ability to self-insure (top-right quadrant) have no or very few incentives to support redistribution or social insurance based on their own economic self-interest. We term this group the “truly wealthy.”

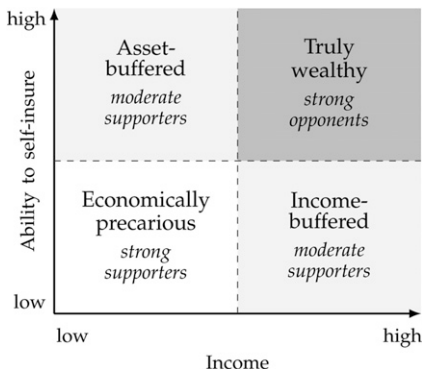


Figure 1. Welfare state support by income position and ability to self-insure through assets. *Notes:* This figure illustrates overall social policy support across the joint income and asset distribution.

The two off-diagonal groups have received less attention in the literature but are equally important to fully understand the structure of welfare state support. Individuals with a high income but limited ability to self-insure (bottom-right quadrant), such as recent college graduates with relatively high incomes but low or even negative (net) savings, are less likely to support redistributive policies based on their position in the income distribution but more likely to support insurance because they have a low buffer stock. We refer to this group as the “income buffered.” By contrast, people with low incomes but many assets to privately insure against risks (top-left quadrant), such as retirees or self-employed and freelance workers with volatile incomes and private savings, are considerably more likely to support redistribution because they earn below-median incomes though less likely to support public insurance because their assets insure them privately. We call this group the “asset buffered.” Taking into account the joint distribution of income and self-insurance reveals that both groups—“income buffered” and “asset buffered” individuals—are overall moderately supportive of the welfare state because they are more likely to value either insurance or redistribution. In practice, the distinction between these dimensions may not be as clear cut. For instance, unemployment insurance always incorporates a redistributive element, and voters often conflate both dimensions in their minds.

Macro-Implications: Political Coalitions in Support of the Welfare State

Our micro-level argument, illustrated in Figure 1, suggests that economically precarious voters strongly support, and income- and asset-buffered voters moderately support, the welfare state. The size of these constituent groups varies across countries depending on how unequally assets are distributed across the income spectrum—or, put differently, how strongly income and assets are correlated.

The panels in Figure 2 illustrate two stylized scenarios of welfare state politics under different asset distributions.⁴ The top panels display the relative sizes of the four groups introduced in Figure 1 (economically precarious, income buffered, asset buffered, and truly wealthy voters) as a function of the correlation between income and assets, which is indicated by the thick diagonal line. A steeper slope such as in the upper panel of Figure 2a indicates that income and the ability to self-insure through assets are strongly positively

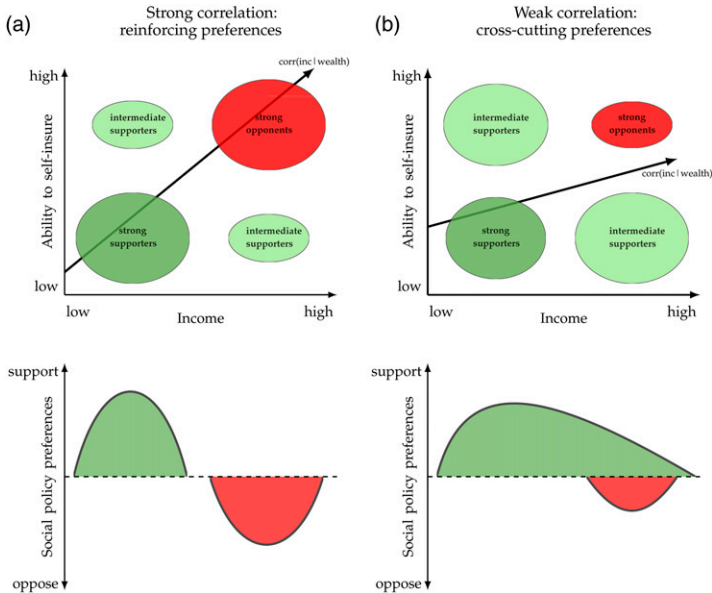


Figure 2. How the correlation between income and assets shapes social policy support. *Notes:* The figure illustrates how the correlation between income and assets shapes group sizes in support for and opposition to the welfare state. The two left panels denote a situation in which assets are strongly correlated with income; the two right panels indicate a weak correlation between assets and income.

correlated. The bottom panels display the corresponding social policy preference landscape.

Figure 2a shows a country in which wealth is unequally distributed such that asset holdings increase with income. High-income people have the most assets, which serves as a form of private insurance, whereas low-income groups are doubly disadvantaged by small earnings and weak private insurance due to limited, if any, savings. The bottom-left panel shows that these divisions drive a wedge through the social policy preference space. High-income groups can self-insure against economic risks, which undermines their support for the welfare state in general and for social insurance in particular. In other words, the ability to privately insure reduces high-income groups' demand for social insurance. If the ability to self-insure increases with income, opposition to the welfare state will become amplified because the "truly rich" can opt out of social policy programs and are less likely to support a comprehensive welfare state. The "economically precarious," however, demand more support from the welfare state not only because they stand to gain from redistribution, but also because they have limited savings with which to privately insure against risks. Such reinforcing preferences result in antagonistic welfare state politics, with little room for a broader coalition in support of social policies. The economically precarious voters in this scenario are unlikely to see their preferences for more social support translated into policies because the truly wealthy are more likely to win in the political arena, for example, because of policymakers' differential responsiveness to the preferences of the rich (Elsässer et al., 2020; Enns, 2015; Gilens, 2012), or lower turnout and lower levels of information among the poor (Kuziemko et al., 2015; Peters & Ensink, 2015).

Figure 2b, by contrast, denotes a country with a much weaker correlation between income and assets. As a result, the ability to self-insure is more equally distributed across the income spectrum (with a slightly positive correlation with income). Low-income groups are moderately self-insured, for instance, because they hold some liquid assets or own homes. Support for the welfare state, particularly for redistribution, still declines with income, as predicted by the Meltzer-Richard framework. The key difference here is that high-income groups have fewer liquid savings while low-income groups have more liquid savings compared to the country depicted in the left panels. We therefore expect overall stronger and broader support for social policies across the income distribution because higher-income individuals have a limited ability to self-insure through savings and fewer people outright reject the welfare state; this overlap is indicated in the bottom-right panel. The extent of overlap between income and the ability to self-insure therefore has implications for social policy preferences and welfare state politics.

Our argument relies on a coalitional perspective to connect micro-level preferences to macro-level outcomes. We assume that office-seeking

politicians want to win elections and are therefore responsive to the opinions and interests of the public. Whether policymakers are responsive to preferences of the public, or whether responsiveness is biased by income, is a largely unresolved question.⁵ Influential studies have documented that policy outcomes are more likely to reflect the preferences of the rich (e.g., [Bartels, 2010](#); [Elsässer et al., 2020](#); [Gilens, 2012](#)); others have found that the middle class (and sometime the poor) see their preferences implemented, either because of overlapping group preferences and “coincidental representation” ([Enns, 2015](#)) or because different data sources, modeling assumption, and group definitions yield different empirical results ([Elkjær & Iversen, 2020, 2022](#)).

In our paper, we provide cross-national micro-level evidence for social policy support across the income and asset distribution and demonstrate how the size of the respective coalitions in favor of and against the welfare state translates into macro-level policy outcomes. If politicians and their parties represent the interests of either low, middle, and high-income voters, respectively, the preferences of the middle class (or the median voter) are pivotal for welfare state politics and the underlying support coalition ([Brooks & Manza, 2007](#); [Iversen & Soskice, 2006](#)). In our case, the pro-welfare coalition consists of economically precarious voters and the two cross-pressured groups that form part of the middle class. A stronger correlation between income and assets will lead to more reinforcing preferences in favor or against social policies and result in antagonistic welfare state politics. Political parties have few incentives to enact comprehensive social programs because the size of the two cross-pressured groups is smaller and their support for the welfare state is muted and fragmented or because the truly wealthy are politically empowered to block unfavorable policies. By contrast, a weaker correlation between income and assets will lead to cross-cutting preferences and broader support in favor of insurance, redistribution, or both; fewer voters will outright reject the welfare state. In this case, political parties are more likely to enact comprehensive social policies because of broader majoritarian support by the middle class.

It is important to note that our theory and findings reflect an equilibrium outcome and do not assume that people’s position in the income and wealth distribution and the correlation between income and wealth at the country level are entirely exogenous. For example, the joint distribution of income and wealth may not arise independently of the welfare state, which could in turn shape people’s views on social policies. Asset holdings could be endogenous to welfare state generosity and tax and transfer policies because comprehensive social programs, access to defined-benefit public pensions, or homeownership (often subsidized through the tax system) could reduce individuals’ propensity to save. We argue that the particular distribution of income and wealth—with the factors that might have shaped it—matters for electoral coalitions in support of the welfare state. It is beyond the scope of this

paper to identify the causal effects of these potential factors on individuals' positions in the income and wealth distribution and, ultimately, the effects on policy preferences with our cross-sectional data. We do, however, discuss and address potential biases in our regression models in detail below. It is generally not the case that countries with more comprehensive welfare states have lower savings rates. Households save, on average, more in countries with stronger social policies such as the Nordics or Germany and less in countries with weaker social policies such as the United Kingdom and the United States. And the distribution of wealth and income differs across countries with similarly comprehensive or limited welfare states. At the individual level, controlling for factors such as risk aversion and economic expectations, which might affect both income-wealth positions and policy preferences, does not substantially change our results either.

Our goal is, first, to document that people's social policy preferences depend on their position in the wealth and income distribution; and, second, that political coalitions in support of the welfare state at the country level vary based on the degree to which income and wealth are correlated at the individual level. We believe that our analyses provide evidence that wealth inequality in the form of the distribution of asset holdings across the income spectrum helps explain social policy preference formation and cross-national differences in welfare state politics. In the following sections, we will provide empirical support for our micro- and macro-level predictions.

Cross-National Support for the Welfare State: The Role of Income and Wealth

In this section we provide empirical evidence to support our argument that individuals' ability to self-insure undermines the relationship between income and welfare state support. Cross-national research on this question has been hampered by a lack of data on households' financial assets *and* individuals' policy preferences. To address these shortcomings, we designed and fielded an original cross-national survey of over 20,000 respondents in nine OECD countries—Canada, Denmark, England, France, Germany, the Netherlands, Spain, Sweden, and the United States—in April and May 2017. We administered about 2,000 interviews in each country except the United States, where we conducted approximately 5,000. Respondents were contacted by the survey company Epinion, which provided us with a nationally diverse sample for each country. The average response rate across all nine countries was 66% (for details, see [Appendix Table A1](#)).

Data and Measurement

We use several survey items to test the empirical implications of our argument.⁶ First, we measure preferences for redistribution and social insurance by asking respondents whether the government “should do more to reduce income differences” and “should do more to help the unemployed” (5-point answer scales ranging from strongly disagree to strongly agree). Second, we measure income using respondents’ total household net annual income. Third, we measure individuals’ ability to self-insure by asking respondents about their financial assets, including money in their checking and savings accounts, cash holdings, and current stock, bond, or other investment fund holdings (excluding pensions). The sum of these amounts constitutes respondents’ *liquid* assets. We also asked respondents about the value of their homes, if applicable, which constitutes their *illiquid* assets. To ensure high-quality survey responses about households’ financial portfolios, we adopted the following sequential procedure. Respondents were first asked for the specific numeric value of their income and assets. If respondents did not want to answer, we offered them the choice to select a grouped range value (e.g., income between 1,000–1,500 USD). We compute the final value as either the true numeric value or the mid-point of the grouped range. As an additional robustness check, we asked respondents after each question about their income and assets how certain they are about the information they just gave to gauge reliability of their answers. In some of our regression models below, we check the robustness of our results by only including survey data where respondents confirmed high certainty in their answers.

To examine how the joint distribution of income and assets shapes social policy preferences, we grouped respondents into four clusters based on our theory (see [Figure 1](#)): the economically precarious and the truly wealthy (with either low incomes and low assets or high incomes and high assets, respectively) and the cross-pressured groups that are either asset buffered (low incomes and high assets) or income buffered (high incomes and low assets). We construct these groups as follows. We first winsorize income and asset data by setting values below the 2.5th percentile to the 2.5th percentile and values above the 97.5th percentile to the 97.5th percentile, to make our estimation less prone to outliers. We then use the country-specific median of the respective income and asset distributions as a cutoff to allocate individuals into “low” (i.e., below the median) and “high” (i.e., above the median) groups. The four clusters are defined separately for liquid and illiquid assets. There are three reasons why we chose to estimate the regression models using four categorical groups based on the median split for asset and income variables. First, we wanted to match the empirical analyses as closely as possible with our theoretical expectations regarding the preferences formation along the four groups delineated in [Figure 1](#). We follow the logic of the Meltzer-Richard

model, where the median voter is the politically relevant unit and where groups above and below the median have different policy preferences. Second, using categorical groups instead of continuous variables is more appropriate because many respondents have zero assets, which could bias the regression models due to a strong left-skew in the asset variables. It also makes the results less prone to outliers. And third, we want to explicitly allow for non-linear effects and not impose functional form restrictions, since the two cross-pressured groups (low-income and high-assets; high-income and low-assets) may have diverging social policy preferences that a linear model would not pick up.

Descriptive Patterns

[Table 1](#) displays the cross-national summary statistics for income and liquid and illiquid assets in our data. Average and median incomes vary across countries; households in Spain earn the least and those in the United States earn the most—and more than twice that of Spanish households. Assets are even more unequally distributed. The average American household has nearly five times more liquid assets than its German or Dutch counterparts. But the large standard deviation indicates that most assets are distributed highly unequally within each country. Danish and English households have the largest average illiquid (i.e., housing) wealth, nearly three times that of German households. One reason housing assets vary considerably is due to differences in homeownership rates across these countries. In [Appendix Section B](#), we present heatmaps depicting population shares across the income and asset deciles in each country.

[Table 2](#) shows the distribution of social policy preferences across the nine countries in our sample. A majority of respondents in each country stated that the government should do more to reduce income differences and help the unemployed. Support for redistribution is strongest in Spain and Germany and weakest in Denmark and Sweden. Since the two Scandinavian countries already have the most generous welfare states in our country sample, it is perhaps unsurprising that fewer respondents demand *more* redistribution. The results are similar for unemployment insurance, though a slightly larger share of US respondents favors more support during job loss. Since our individual-level analysis of how the joint income–asset distribution shapes social policy preferences is based on within-country variation across individuals, it is not a concern that respondents' demands for more redistribution and social insurance depend on the country's baseline level.

Finally, [Figure 3](#) displays the descriptive differences in support for social insurance and redistribution for each of the four clusters. Average levels of social policy support closely match our theoretical intuition laid out in [Figure 1](#). Respondents in the far-left panel with low incomes and low

Table I. Summary Statistics for Individuals' Financial Balance Sheets.

Variable/country	Mean	Median	Std. Dev.
Income (USD)			
Canada	45,564	37,321	32,634
Denmark	57,496	52,569	40,930
England	40,699	35,055	29,142
France	33,177	29,234	23,424
Germany	34,808	30,359	25,683
Netherlands	36,336	33,732	22,741
Spain	30,684	26,986	20,548
Sweden	45,232	40,434	30,600
USA	61,404	50,000	51,562
Liquid assets (USD)			
Canada	65,110	10,932	133,479
Denmark	57,653	11,330	116,328
England	43,497	6,492	90,100
France	24,346	5,251	46,308
Germany	20,703	4,498	36,068
Netherlands	20,254	3,500	41,406
Spain	26,469	7,500	44,747
Sweden	49,943	12,059	91,568
USA	101,832	12,000	216,560
Illiquid assets (USD)			
Canada	163,285	89,570	200,224
Denmark	190,563	120,849	232,445
England	172,983	94,500	217,097
France	93,694	0	148,601
Germany	61,848	0	128,654
Netherlands	90,782	0	137,831
Spain	109,338	40,500	145,293
Sweden	131,752	13,500	205,429
USA	136,675	40,500	195,314

Notes: Income is total net household income. Liquid assets include money in checking and savings accounts, cash holdings, and current stock, bond, or other investment fund holdings (excluding pensions). Illiquid assets denote the value of respondents' homes. Amounts are 95% winsorized and converted into US dollars using the exchange rate when the survey was fielded.

assets—the economically precarious—are the most supportive of the welfare state, regardless of asset type. Truly wealthy respondents (high income and high assets) are the least supportive on average, and support for redistribution is considerably lower than support for insurance (about a one-third standard deviation difference). This matches the insurance logic of the welfare state for high-income groups (Moene & Wallerstein, 2001).

Table 2. Summary Statistics for Social Policy Preferences.

Country	Redistribution		Unemployment insurance	
	Disagree (%)	Agree (%)	Disagree (%)	Agree (%)
Canada	11.83	66.99	7.82	71.90
Denmark	27.33	45.12	11.47	59.92
England	12.56	63.73	8.81	65.79
France	11.49	71.63	14.18	66.14
Germany	7.21	77.82	9.96	63.72
Netherlands	17.09	63.86	11.13	67.02
Spain	6.96	80.28	5.63	82.38
Sweden	15.56	57.93	7.59	66.37
USA	19.33	59.70	12.97	64.61

Notes: The table shows the country-specific population shares of respondents who said they either “dis-/agree” or “strongly dis-/agree” that the government should do more to (i) reduce income differences and (ii) help the unemployed.

The cross-pressured income- and asset-buffered groups occupy a middle position in the preference space. Levels of support are relatively similar among both groups based on liquid assets. However, the patterns are different for groups defined by illiquid housing wealth. Low-income people with more illiquid assets (such as lower-income homeowners) are more supportive of redistribution, while high-income individuals with few assets are less supportive. One reason why respondents with illiquid wealth tend to be more supportive of social policies is that their assets cannot easily be liquidated to address financial shortfalls. Liquid assets, however, serve an important buffering function and mediate the effect of income on social policy preferences. For example, low-income respondents with more liquid assets are less supportive of the welfare state than those with fewer liquid assets; this group is also less supportive of the welfare state than low-income people with illiquid assets. Liquid asset holdings can undermine the effect of income on social policy preferences. In the next section, we formally estimate how the effect of assets on social policy preferences varies across the income distribution.

Social Policy Preferences Across the Income and Wealth Distribution

We estimate how the effect of individuals’ liquid and illiquid wealth holdings on social policy preferences varies across the income distribution in the following model:

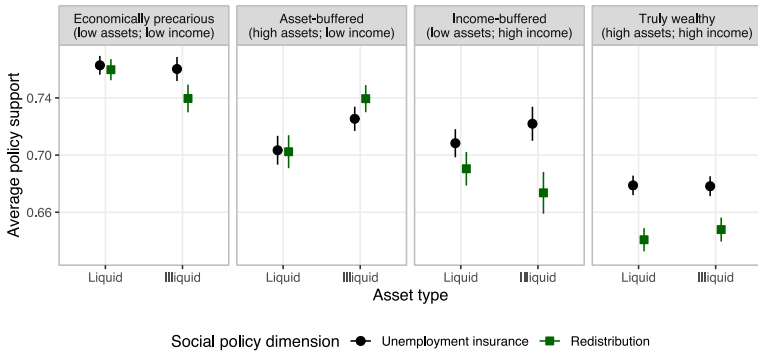


Figure 3. Average welfare state support by income and asset groups. *Notes:* Cutoffs for low- and high-income/asset groups are based on the country-specific income and asset medians. Social policy preferences are standardized to the 0–1 interval.

$$Y_{i[c]} = \beta_1^g \sum_{g=2}^4 G_{i[c]} + \gamma \mathbf{X}'_{i[c]} + \alpha_c + \epsilon_{i[c]} \tag{1}$$

where $Y_{i[c]}$ denotes the redistributive and social insurance preferences of respondent i in country c . $G_{i[c]}$ indicates the joint income and asset group—as defined above—that respondent i falls into: economically precarious, income- or asset-buffered, or truly wealthy. The latter group serves as the omitted baseline. $\mathbf{X}_{i[c]}$ is a matrix of individual-level covariates, including socio-economic characteristics such as age and age squared, gender, employment status, education, marital status, and number of children. Education levels shape redistributive preferences because they are associated with investment in specific skills that people want to insure (Iversen & Soskice, 2001; Rehm, 2016), because highly educated people are more likely to have cosmopolitan or altruistic attitudes (Rueda, 2018), and because investment in human capital influences how fast a person will find new employment after job loss. We further control for whether the respondent owns her home, since homeowners are more likely to hold conservative views and less likely to support redistribution, particularly when house prices are rising (Ansell, 2014). α_c are country fixed effects that account for unobserved differences across countries. Robust standard errors are clustered at the country level. We estimate four separate models for insurance and redistributive preferences as well as groups based on liquid and illiquid assets.

Main Results

Figure 4 plots the marginal effects of support for unemployment insurance and redistribution across the joint income and asset distributions, relative to “truly wealthy” respondents (i.e., high incomes and high assets) in the omitted baseline group. Each regression coefficient comes from a separately estimated model based on equation (1) and indicates respondents’ social policy preferences relative to “truly wealthy” respondents in the omitted baseline group.

The figure demonstrates that respondents in the economically precarious group are the most supportive of the welfare state’s insurance and redistributive dimension, compared to the truly wealthy. This pattern holds for both liquid and illiquid wealth. For example, low-income and low-asset respondents are over one-third of a standard deviation (.35) more supportive of redistribution and .26 standard deviation more supportive of unemployment insurance than high-income and high-asset respondents. More importantly for our argument, however, is the fact that the cross-pressured income- and asset-buffered respondents are also more invested in the welfare state. Preferences diverge along the income and asset distributions; thus only considering a persons’ position in the income distribution in predictions of welfare state support would be misleading. High-income individuals without assets to address economic shocks (i.e., the income buffered) are in fact more likely to demand redistribution and insurance than those with assets that serve as a private buffer stock (.07 standard deviation difference). Asset-buffered individuals are slightly more supportive of social policies than income-buffered people and in particular more likely to demand redistribution than insurance.

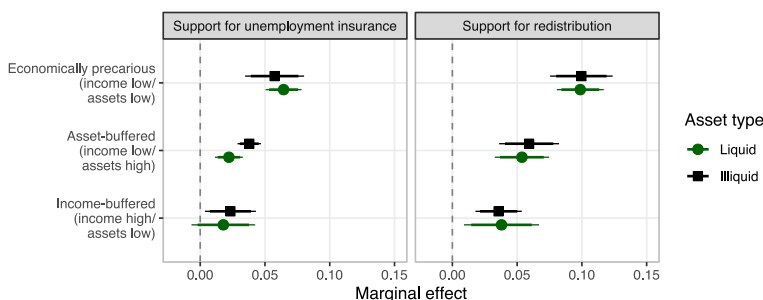


Figure 4. Effect of joint income and asset holdings on social policy preferences by asset type. Notes: Regression coefficients from separately estimated models based on equation (1) with country fixed effects. Social policy preferences are standardized to the 0–1 interval. Effects relative to the “truly wealthy” omitted baseline group (i.e., high incomes and high assets). Cutoffs for low- and high-income/asset groups are based on the country-specific income and asset medians. Appendix Table D1 reports the full regression results.

In other words, assets' role as a buffer against economic shocks undermines insurance preferences, but low income still drives demand for redistribution.

The degree of asset liquidity further mediates the role of income on social policy preferences. Income-buffered respondents with few liquid assets are nearly twice as likely to support redistribution than social insurance (.06 standard deviation difference), while the difference for illiquid assets is only half as strong. And low-income people with above-median levels of liquid assets are less likely to demand insurance than low-income people with above-median illiquid assets, which supports our argument that the degree of asset liquidity matters for welfare state support—particularly for the insurance dimension. Liquid wealth is more readily available to smooth income losses than illiquid wealth such as a house, which would be costly to liquidate.

Our results demonstrate that the *joint* distribution of income and assets is important for understanding support for the welfare state. We find substantively meaningful differences in average social policy support across the four different income-asset clusters. However, the marginal differences between social policy domains and asset types are not as large as expected given our theory. One reason is that the distinction between the insurance and redistributive dimensions might not be as clear cut conceptually in voters' minds; another is that our group categorization is too broad to fully capture fine-grained differences. In [Appendix Section E](#), we present additional regression results using the continuous income and asset variables. We find similar but substantively stronger effects, especially with regards to differences by asset liquidity. Having liquid assets almost entirely eliminates the income gradient in support for social insurance. This is not the case for illiquid asset holdings, where social insurance preferences still vary considerably across income deciles for the asset-buffered group.

The variation in societal support for the welfare state across rich countries that we observe might be partly explained by the distribution of assets across the income spectrum. The reason is that the constituent coalition in support of the welfare state not only comprises economically precarious people but also income- and asset-buffered groups with varying abilities to privately insulate themselves from income shocks who support different aspects of the welfare state.⁷

As we noted before, our theory and findings reflect an equilibrium outcome and not necessarily a causal relationship. The joint distribution of income and wealth may not arise independently of the welfare state, which could in turn shape people's views on social policies. For example, asset holdings could be endogenous to welfare state generosity if comprehensive social policies reduce individuals' propensity to save. We nonetheless believe that our analyses provide evidence that wealth inequality in the form of the distribution of asset holdings across the income spectrum helps explain social policy preference formation and cross-national differences in welfare state politics. Before we

examine the macro-level implications of our findings, we therefore consider several alternative explanations of our micro-level results.

Alternative Explanations and Robustness Checks

In this section, we consider several alternative explanations for the estimated relationship between income, wealth, and social policy preferences. The panels in Figure 5 plot the regression coefficients for redistributive preferences (top panel) and insurance preferences (bottom panel). We include the regression coefficients of the original baseline models for comparison. Appendix Tables D3–D5 report the full regression results.

Income Expectations and Risk Aversion. One potential concern is that respondents with a more positive economic outlook overestimate their assets and demand less social policy support. For example, prior work has shown that expectations of upward mobility and income gains are associated with weaker

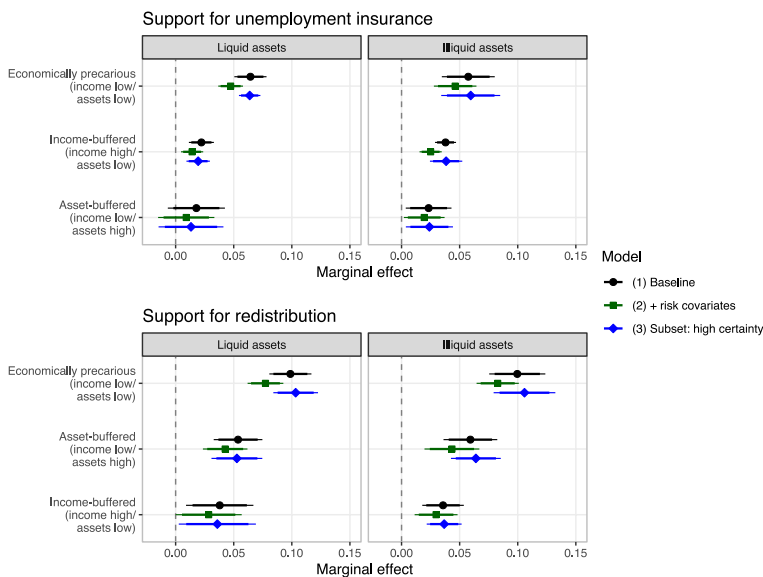


Figure 5. Alternative regression specifications. *Notes:* Regression coefficients from separately estimated models. Social policy preferences are standardized to the 0–1 interval. Effects relative to the “truly wealthy” omitted baseline group (i.e., high incomes and high assets). Cutoffs for low- and high-income/asset groups are based on the country-specific income and asset medians. Appendix Tables D3–D5 report the full regression results.

welfare state support (Alesina & La Ferrara, 2005; Benabou & Ok, 2001). Relatedly, risk aversion could influence whether people are willing to build up their savings for rainy days and how much social support they demand from the government (Rehm, 2016; Rehm et al., 2012).

To address these possibilities, we asked respondents (i) whether they expect their total household income to increase, decrease, or remain the same this year; (ii) how worried they are about their own and their families' economic security; and (iii) how willing or unwilling they are to take risks.⁸ We then estimate our main model (equation (1)) controlling for worries about economic insecurity, expectations about future income, and risk aversion. The regression coefficients indicated by the green squares in Figure 5 show that the effect size falls slightly—especially among the economically precarious—but remains substantively similar to the results of the original specification. In Appendix Table 7, we show that including a measure of respondents' self-assessed risk of unemployment to capture job security does not change the results.

Uncertainty About Wealth. A second concern is that respondents have difficulties recalling or estimating their wealth. For example, our results could be biased if low-income individuals systematically under- or overestimate their financial balance sheet. To preempt this concern, we asked respondents how certain they are about their stated incomes and financial assets. An average of 70% of respondents were "certain" or "very certain" about the amounts they reported. We then estimate the main model on the subset of respondents who indicated that they were "certain" or "very certain" about their income and assets. The results for liquid and illiquid wealth—displayed by the blue diamonds in Figure 5—remain unchanged from the baseline specification.

Macro-Economic Conditions, Government Ideology, and Political Institutions. A final potential concern pertains to country-level factors such as macro-economic conditions, government ideology, social and fiscal policies, and political institutions that could drive our results and provide alternative explanations for the patterns we uncover.⁹ The country fixed-effects in the regression models in equation (1) take into account any country-specific variables that could shape people's social policy preferences by influencing income and assets. In this section, we discuss these factors in greater detail.

Macro-economic conditions such as unemployment and economic growth could influence social policy preferences by affecting income (current and expected) and assets. The country fixed effects control for cross-country differences in unemployment rate, GDP growth, and other business cycle effects. Moreover, the generosity of a country's welfare state could directly affect our results if, for example, respondents in countries with comprehensive social policies have fewer incentives to save for emergencies because they

expect greater support from the government (Brooks & Manza, 2007).¹⁰ It is generally not the case, however, that more generous welfare states have lower savings rates. Sweden and Denmark—which have comprehensive social policies—have higher savings rates than the United Kingdom and the United States with much more limited social policies (OECD, 2021). In our data, the average amount of liquid savings in England is lower than in Denmark even though the British welfare state is less comprehensive than Denmark's (see Table 1). Respondents might also be less inclined to support *more* social spending when baseline levels of social support are already high in their country. Again, the country fixed effects account for country-level differences in variables such as government spending as well as, for instance, the age composition of the population, which could influence the demand for social insurance and savings behavior.

The ideology of a country's government could also be influencing our results. Conservative governments are more likely to favor economic freedom, limited government regulation of market activity, and personal autonomy and responsibility. Conservatives tend to support the private provision of social benefits over government transfers, and favor lowering taxes and providing fewer regulations and welfare benefits over government-based efforts to equalize economic outcomes (Cooper, 2017; Ellis & Stimson, 2012; McCarty et al., 2013). Government partisanship could therefore be driving our findings if conservative governments are more likely to adopt private instead of public insurance programs by incentivizing individuals to build up their savings or to become homeowners. The country fixed effects address this possibility by implicitly accounting for government partisanship.

Lastly, our results could be confounded by political institutions that influence both welfare state policies *and* individuals' financial balance sheets. Countries with proportional representation (PR) electoral systems tend to spend and redistribute more (Iversen & Soskice, 2006; Persson et al., 2007) and adopt policies that are biased toward producers and against consumers (Rogowski & Kayser, 2002). Countries with majoritarian electoral rules, by contrast, spend and redistribute less and are more likely to adopt pro-consumer policies. Rosenbluth and Schaap (2003) show that financial services in countries with PR electoral rules are relatively expensive because politicians are incentivized to cater to organized producer groups. By contrast, financial services are cheaper and more widely available in majoritarian countries because politicians are under greater pressure to implement policies will appeal to a broad array of voters. Our findings could thus be biased if majoritarian electoral rules are associated with low-cost and widely used banking and financial services and less comprehensive social programs. The electoral influence of the economically precarious and the two cross-pressured groups might also vary as a function of electoral rules, since these groups are more likely to wield proportionately more legislative power under PR than under

majoritarian rule. Country fixed effects again take care of any level differences in political preferences which might be due to country differences in time-invariant political/electoral factors such as electoral regime type and federalist structure and veto points, which make it more difficult for left-wing parties to overcome opposition to redistributive policies (Huber et al., 1993).¹¹

In sum, even when accounting for individual- and country-level characteristics that could affect both individual's income and wealth holdings *and* policy preferences, our results do not substantially change. This does not mean that we consider people's position in the income-wealth distribution and the resulting country-level differences as entirely exogenous. However, we interpret our results as evidence of important electoral groups in support of the welfare state that have been understudied in the existing literature: the income- and asset-buffered, respectively, that are neither truly wealthy nor economically precarious. The robustness checks suggest that neither risk aversion, income expectations, and uncertainty about assets, nor country-level factors such as macro-economic conditions, government ideology, or political institutions drive our results. The joint income-wealth distribution shapes policy preferences. Another question then is what shapes the income and wealth distribution, and overlap of the two. This question is beyond the scope of this paper, but we discuss potential policies that might matter for this in the Discussion and Conclusion section.

Wealth Inequality and Welfare State Politics Across Countries

Our findings so far show that welfare state politics pits economically precarious voters (who strongly support social policies) and income- and asset-buffered voters (who moderately support them) against the truly wealthy (who oppose them). How deep these societal and political cleavages are, and how antagonistic welfare politics will be as a result, depends on the correlation between individuals' income and their ability to self-insure. When assets are more equally distributed across the income spectrum, such that wealth is not concentrated only among high-income people, the groups strongly in favor of and strongly opposed to the welfare state are much smaller and joined by sizable moderately supportive income- and asset-buffered groups. Welfare state politics is likely to be less antagonistic and more consensual. A broader coalition in favor of social policies will result in a larger and more comprehensive welfare state.

Wealth Inequality Across the Income Spectrum

How does the individual-level correlation between income and assets vary across countries? [Figure 6](#) displays the relationship between income and liquid

and illiquid wealth in the nine countries in our sample using a series of binned scatter plots, which show the average amount of liquid and illiquid assets for 20 equally sized bins across a country’s income distribution as well as fitted trend lines. In all countries, illiquid housing wealth is strongly concentrated among higher-income people. The black circles and fitted lines in Figure 6 show a steep positive slope in all countries, indicating that illiquid wealth is closely related to respondents’ position in the income distribution. Illiquid wealth does not emerge as a unique fault line that divides social support for the welfare state beyond the effect of income.

This is not the case when we consider the distribution of liquid wealth across the income spectrum. The green squares and fitted lines demonstrate that liquid savings increase with income. The slope of this relationship is relatively flat in countries like Denmark and Sweden and much steeper in Canada and the United States. There is a greater overlap between individuals with low incomes and few assets in the latter group of countries than in the former. As a result, the political coalition behind the welfare state is likely to be smaller—as we show below—because people supporting either the redistributive or the social insurance dimension of the welfare state tend to overlap.

These patterns become clearer when we directly examine the individual-level correlation between income and liquid wealth. For each country, we

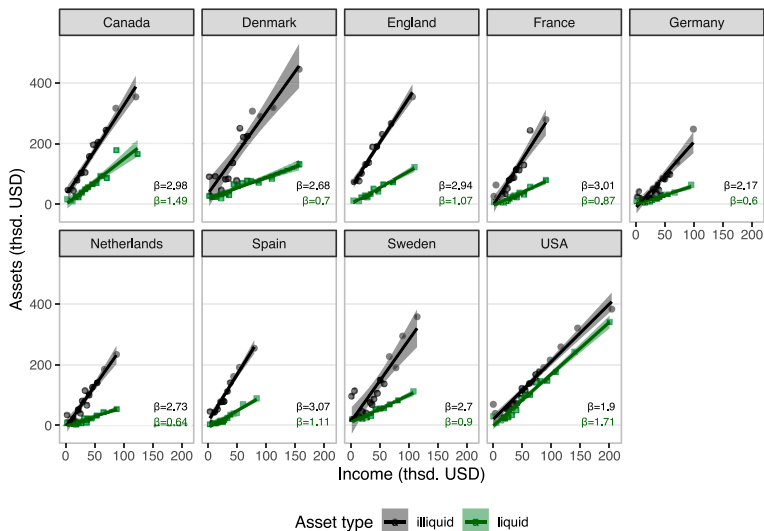


Figure 6. Correlation between wealth and income across countries. Notes: Each panel is a binned scatter plot with 20 country-specific bins.

calculate the correlation between respondents' position in the country-specific income distribution and the liquid asset distribution based on our decile measures. Figure 7 shows that income and liquid assets are positively related in all nine countries: higher-income individuals have more liquid savings. Yet the strength of this correlation varies considerably, from .3 in Denmark to .57 in the United States. This means that people's ability to self-insure by tapping into savings is much more equally distributed across the income spectrum in Denmark and much more concentrated among higher-income groups in the United States.

The cross-national variation in the distribution of wealth, particularly liquid assets, across the income distribution implies that the size of the groups on either side of the welfare state politics space varies too. Figure 8 shows the share of respondents with either low incomes and lots of liquid assets ("asset buffered") or high incomes and few liquid assets ("income buffered"). As before, individuals with below-median incomes or assets are grouped in the "low" categories, and those with above-median income or assets are in the "high" categories. Denmark has the largest shares of both income- and asset-buffered individuals (21.4% and 17%, respectively). These groups are much smaller in the United States, where only 13.8% and 12.4% fall into the income- and asset-buffered categories, respectively. Denmark has 12 percentage points more moderately supportive cross-pressured voters than the United States. This leads to a more cross-cutting and consensual landscape of social policy preferences and a broader coalition in support of the welfare state in Denmark. The preference landscape in the United States is more antagonistic

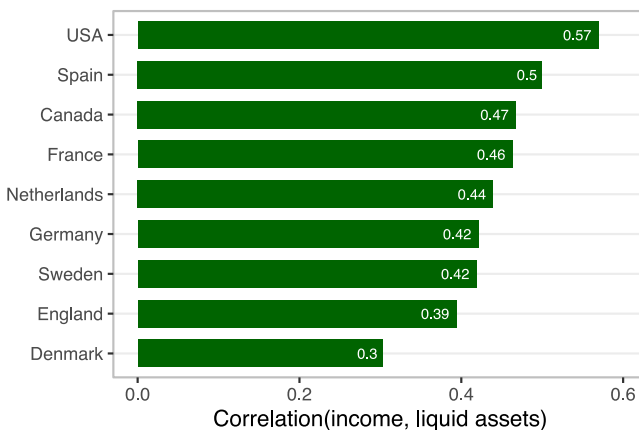


Figure 7. Individual-level correlation between liquid assets and income by country. Notes: The country-level correlations are based on individual-level data.

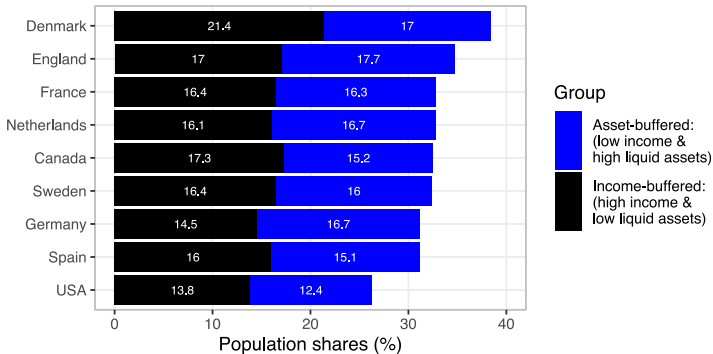


Figure 8. Shares of individuals in the asset-buffered and income-buffered groups. Notes: “Asset buffered” individuals are those with income below the median and assets above the median; “income buffered” individuals are those with income above the median and assets below the median.

since fewer people have cross-cutting preferences. The other countries fall somewhere in the middle. These differences are even more pronounced when we define groups by tertiles instead of median splits. Appendix Figure F1 shows that using this definition, about 11% of US respondents in our survey are either asset or income buffered, compared to 18% in Sweden and 27% in Denmark.

To summarize, since social policy preferences related to redistribution and unemployment insurance depend on the joint distribution of income and wealth—as Figure 4 illustrates—and since the correlation between income and wealth varies considerably across countries—as Figures 7 and 8 demonstrate—these dynamics have important implications for the structure and size of the political coalition in support of the welfare state.

Political Coalitions and the Size of the Welfare State

The two groups that traditionally oppose one another in welfare state politics—those rich or poor in both income and (liquid) wealth—vary in size across countries. But so does the size of the income- and asset-buffered groups, in part because wealth inequality manifests itself in different distributions of assets across the income spectrum. Since these groups have distinct social policy preferences, variation in group sizes will lead to new political cleavages. In countries where income and wealth are strongly correlated, the groups that either oppose or support the welfare state are more distinct and less likely to overlap (bottom-left panel of Figure 2). Welfare state politics is more antagonistic and less consensual, which results in a more

residual welfare state. By contrast, in countries where income and wealth are weakly correlated—and assets more equally distributed—cross-cutting cleavages between individuals along the income and asset distribution emerge. The result is a broader coalition supporting the welfare state, which consists of economically precarious voters who strongly support the welfare state as well as income- and asset-buffered moderate supporters (bottom-right panel of [Figure 2](#)). A country with this socio-economic structure avoids strong antagonism in welfare politics because high-income people with few liquid assets support social policies. But having a large group of economically precarious individuals does not necessarily guarantee a more comprehensive welfare state if there is a larger group of truly wealthy individuals. The support of the income-buffered and asset-buffered groups is crucial.

One observable implication of our argument is that countries with a weak relationship between income and wealth—and a larger share of income- and asset-buffered moderate supporters—should have a larger welfare state. This is because social policy preferences are cross-cutting and translate into broader majoritarian social policy support and less antagonistic welfare state politics, compared to the case where income and wealth is strongly correlated and the rich are more likely to hold most assets. For individuals' policy preferences to translate into policy outcomes, we assume that politicians and political parties are responsive to class interests and enact policies according to the preferences of the group they represent ([Iversen & Soskice, 2001, 2006](#)). Prior work has found policymakers to be broadly responsive to public opinion, both for aggregate measures of liberal or conservative opinion and policy change and for specific policy domains ([Caughey & Warshaw, 2018; Erikson, 2015; Erikson et al., 2002; Wlezién, 1995](#)). However, the extent to which politicians are responsive to voters' preferences, and in particular whether responsiveness is biased in favor of particular groups such as the rich, is an open question in the literature (e.g., [Elkjær & Iversen, 2022; Elsässer et al., 2020; Enns, 2015; Gilens, 2012; Grossmann et al., 2021; Iversen & Soskice, 2019](#)).¹²

Our argument emphasizes the pivotal role of the two cross-pressured groups in welfare state politics. Politicians may be more responsive to the demands of the truly wealthy under high wealth inequality but less so when assets are more equally distributed by income. The reason is because the two cross-pressured groups are too large to be ignored in the electoral arena. While testing these country-level policy implications of our coalition argument rigorously and in greater detail is beyond the scope of this paper, we provide suggestive evidence in support of our argument. [Figure 9](#) plots social spending on redistributive and insurance programs, measured as the share of GDP, against the individual-level correlations between income and liquid assets in each of the nine countries in our sample. It demonstrates a strong negative relationship between the degree of overlap of income and liquid assets and

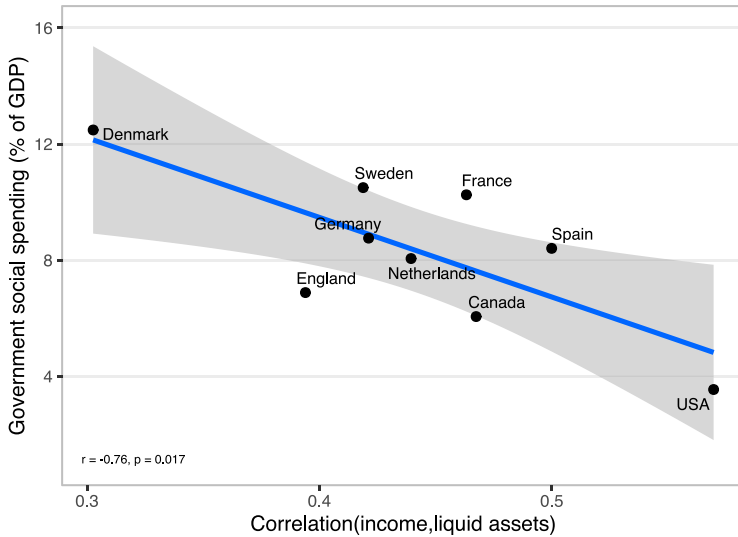


Figure 9. Self-insurance and income correlation and government social spending. Notes: The correlation between income and liquidity is based on individual-level data from each country. Social spending includes public expenditures on unemployment, active labor market programs, social housing, family, incapacity, survivors, and other social policy areas. Spending data is from 2017. Source: OECD Social Expenditure Database. 2022.

social spending as a share of GDP ($r = 0.76, p = .018$).¹³ The results provide suggestive evidence that in countries where wealth is more evenly distributed across the income spectrum, the welfare state is more comprehensive because the coalition in favor of social policies is broader and welfare state politics is less contentious. By contrast, in countries where wealth is more strongly correlated with income, such that high-income people hold most assets, the welfare state is less comprehensive. This is because popular preferences in favor and against the welfare state are more sharply divided between the economically precarious and the truly wealthy, lacking middle-class support and resulting in more antagonistic redistributive politics.

Discussion and Conclusion

In this paper, we argue that the distribution of assets across the income spectrum (and the liquidity of these assets) helps explain cross-national variation in support for the welfare state. Using data from an original cross-national survey in nine OECD countries, we show that where wealth is

highly unequally distributed across the income spectrum—such that high-income people hold most of the liquid assets while low-income people have little savings—welfare politics is more antagonistic because economically precarious and truly wealthy voters hold reinforcing preferences and oppose each other on welfare state politics, with little social policy support from other groups. However, when assets are more equitably distributed across the income spectrum, income- and asset-buffered individuals with cross-cutting and moderately supportive social policy preferences become sizable members of a broad and more consensual welfare state coalition. While our empirical setup prevents us from identifying the causal effect of individuals' income-wealth positions on social policy preferences, we demonstrate that our results are robust to a variety of individual- and country-level characteristics that could affect both income-wealth positions and preferences. Due to the cross-sectional nature of our data, we interpret our finding that countries with a weaker correlation between income and wealth have a broader coalition in support of the welfare state and, therefore, a more comprehensive welfare state, as an equilibrium outcome rather than a causal relationship. In sum, our paper highlights the importance of considering income and assets jointly and distinguishing between different types of assets and social policy dimensions to fully capture the preference landscape of the cross-pressured income- and asset-buffered groups in society.

Our paper has several implications for the future of social policies that merit further attention. Our results suggest that wealth inequality reshapes and undermines the role of income in structuring welfare politics. But the distribution of wealth across the income spectrum—and the strength of the correlation between income and assets—is not set in stone and could be changed by at least three types of policies that directly and indirectly influence the nature and size of the coalition in support of the welfare state. One such policy domain is tax subsidies for savings and investments. These include tax deductions for pension savings and mortgage interest payments or the relatively low taxation of owner-occupied housing. Some countries have mandatory government savings programs in which people must pay a fixed share of their income into savings accounts. Many employer benefit plans also include various types of savings or investments. Changes to these policies can encourage asset building, which can shift the income–asset correlation and affect the size of the welfare state support coalitions. Changes to these policies might also shift the distribution between wealth held in liquid versus illiquid assets, respectively, for example, through crowding-out effects of mandatory savings, which would affect the size and nature of welfare state coalitions.

A second policy domain of interest in relation to our results is policies that change the liquidity of different asset classes or lower the price of liquidating these assets, which might also shift the income–asset correlation. For example, policies that enable or lower the price of home equity loans will reduce the cost

of liquidating part of otherwise illiquid housing wealth. Policies that decrease the penalty on early withdrawal of pension wealth or the taxation of stock gains might affect the price of liquidating these assets in a similar way. Since ownership of housing, stocks, and pension wealth tends to be concentrated in the upper part of the income distribution, this will affect the distribution of liquid wealth and hence private insurance across incomes.

A final domain pertains to policies that influence the position of voters with few liquid assets along the income distribution in ways that shift the income–asset gradient. Policies that promote and strengthen income mobility might weaken the relationship between liquid assets and income and, as a result, broaden support for the welfare state. If liquid wealth persists throughout people’s lives, for example, because of inter-generational effects on wealth or people’s fixed saving preferences, then policies that increase income mobility can even out the distribution of low liquidity and self-insurance across the income distribution. One example are the Scandinavian countries, where economic mobility is relatively high and where liquid wealth is more equitably distributive across income groups.

As wealth inequality rising, and as returns on investments are disproportionately enjoyed by high-income people, support for social policies and welfare politics might become more fragmented and antagonistic in the future.

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IRB Statement

The survey has received IRB approval from MIT’s IRB board (#1701804164). Replication materials and code can be found at [Jensen and Wiedemann \(2022\)](#).

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Supplemental Material

Supplemental material for this article is available online.

Notes

1. See also [Hacker et al. \(2014\)](#) for a novel measurement approach of economic insecurity.
2. Housing wealth can operate as a form of private insurance when homeowners can borrow against equity in their home through home equity loans. See, for example, [Ansell \(2014\)](#).
3. Individuals in each group may, of course, have other reasons to support certain aspects of the welfare state, for example, due to left-wing partisan ideology or values and beliefs about fairness, reciprocity, or altruism ([Alesina & Angeletos, 2005](#); [Bénabou & Tirole, 2006](#); [Cavaillé & Trump, 2015](#)).
4. See [Rehm et al. \(2012\)](#) for a related conceptualization of the relationship between income, risk, and social policy preferences.
5. For a recent systematic review, see [Elkjær and Klitgaard \(2021\)](#).
6. [Appendix Section A2](#) details the full question wording for all survey items.
7. [Appendix Table D2](#) removes homeownership from the regression models, showing that the results are not sensitive to controlling for homeownership status, which could be correlated with liquid wealth.
8. See full question wording in [Appendix A2](#).
9. [Appendix Section C](#) lists the data sources for all country-level covariates.
10. See [Kenworthy \(2009\)](#) for a different perspective.
11. [Appendix Table D5](#) shows regression results that separately control for macro-economic conditions, government ideology and social spending, and electoral rules and federalist structures without country fixed effects.
12. For a recent systematic review, see [Elkjær and Klitgaard \(2021\)](#).
13. The results are similar for social spending as a share of total government spending ($r = .78$, $p = .014$, see [Appendix Figure G1](#)).

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