THE POLITICAL REPRESENTATION OF ECONOMIC INTERESTS
Subversion of Democracy or Middle-Class Supremacy?

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ABSTRACT

Rising inequality has caused concerns that democratic governments are no longer responding to majority demands, an argument the authors label the *subversion of democracy model* (SDM). The SDM comes in two forms: one uses public opinion data to show that policies are strongly biased toward the preferences of the rich; the other uses macrolevel data to show that governments aren't responding to rising inequality. This article critically reassesses the SDM, points to potential biases, and proposes solutions that suggest a different interpretation of the data, which the authors label the *representative democracy model* (RDM). After testing the SDM against the RDM on public opinion data and on a new data set on fiscal policy, they find that middle-class power has remained remarkably strong over time, even as inequality has risen. The authors conclude that the rich have little influence on redistributive policies, and that the democratic state is apparently not increasingly constrained by global capital.

I. Introduction

A new, often-cited literature on redistribution and economic policy-making paints a gloomy picture of contemporary democracy. One form of the literature uses public opinion data to show that policies are strongly biased toward the preferences of the rich;[1] another uses macrolevel data on inequality, partisanship, and redistribution to show that democratic governments are no longer responding to rising inequality.[2] For the sake of simplicity, we refer to these arguments as the *subversion of democracy model* (SDM) because they imply that the democratic institutions that supposedly represent majority interests are either serving the rich or bowing to the pressures of global capital.

This article is a critical reassessment of the SDM. We outline method-

[1] E.g., Gilens 2005; Gilens 2012; Gilens and Page 2014; Bartels 2008; Bartels 2017.
[2] E.g., Streeck 2011; Streeck 2016; Piketty 2014; Hacker and Pierson 2010.

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ological and theoretical issues that can bias the results, and we propose solutions that point to a very different interpretation of the data. We label this alternative interpretation the *representative democracy model* (RDM) because it suggests that the way class interests are represented in government policies roughly corresponds with how representative democracy is expected to work. The RDM builds on, but moves beyond, recent work arguing that all classes are about equally influential:[3] the RDM considers the middle class to be politically pivotal, as implied by its favorable bargaining position at the center of the political coalition game. Since we focus on advanced democracies with well-established party systems, the RDM thesis is related to what's known as the responsible party government model[4] and to seminal work in comparative political economy that emphasizes the critical role of the middle class in the development of the welfare state.[5]

We make three contributions. First, we show that there's a crucial distinction between enduring class power and short-term spending preferences, which is highly consequential for the choice of empirical model and the interpretation of the evidence. Second, we present an axiomatic approach to the distributive consequences of taxation and spending. This allows us to directly estimate the interest-realization of different classes, as opposed to relying on broad measures of redistribution or social spending. Third, we offer a strategic test of the SDM against the RDM on both public opinion data and on a new data set on the distributive effects of fiscal policy by class.

Contrary to much recent scholarship, but consistent with an older literature on power and representation, we find that government policies and outcomes largely reflect the economic interests of the middle class, and that middle-class power over fiscal policies has remained remarkably stable over time, despite the rise of market inequality. The rich have little or no influence on redistributive policies beyond what would be expected from their participation in government coalitions, and it doesn't appear that the democratic state is increasingly constrained by global capital. The main vehicle for representation remains political parties.

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[3] Branham, Soroka, and Wlezien 2017; Enns 2015; Wlezien and Soroka 2011.
[4] Schattschneider 1942; Downs 1957.
[5] E.g., Baldwin 1990; Korpi and Palme 1998; Rothstein 1998.

II. The Micro Evidence

Subversion of Democracy: A Critique

Work on the United States by Larry Bartels, Martin Gilens, and Gilens and Benjamin Page,[6] and recent work testing their approach and extending it to other advanced democracies,[7] is unapologetically empirical: it invites us to forget preconceived notions of democracy and to examine the evidence. The conclusions these authors reach about democracy are stark, pessimistic, and provocative. In a nutshell, they find that the affluent dominate democratic politics to the extent that other income classes have no effect. This is obviously of normative concern, and it also challenges standard models of majority rule.

But these findings raise important questions about dynamics. If it's true that the affluent drive public policies, as Gilens finds for the Unites States and Bartels and Yvette Peters and Sander Ensink find for Europe,[8] where does that leave us in the long run? The obvious answer is that policies would converge to the preferences of the rich. But then how do we explain the two largest government programs in the United States, Medicare and Social Security, which are decidedly middle class? For that matter, how do we account for any aspect of the American welfare state, including Medicaid, food stamps, and the Earned Income Tax Credit? And why would the top 1 percent of income earners be paying about 40 percent of the federal income tax bill?[9]

The mystery deepens when we consider Western Europe. According to Bartels and Peters and Ensink, the affluent in Europe have an outsize influence on redistributive policies,[10] but this emphasis on the rich seems at odds with the sheer size of European welfare states. On average, almost one third of Western Europe's GDP goes to social spending.[11] It's hard to see how countries could reach this level of spending if the rich were so powerful, or how such high spending levels could be sustained for so long. Indeed, social spending across all advanced democracies has been rising—from about 18 percent of GDP in 1980 to about 25 percent in 2016, the historic peak.[12]

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[6] Bartels 2008; Gilens 2005; Gilens 2012; Gilens and Page 2014.

[7] Bartels 2017; Elsässer, Hense, and Schäfer 2018; Peters and Ensink 2015; Schakel 2019; Schakel, Burgoon, and Hakhverdian 2020.

[8] Gilens 2005; Gilens 2012; Bartels 2017; Peters and Ensink 2015.

[9] IRS 2018.

[10] Bartels 2017; Peters and Ensink 2015.

[11] OECD 2016.

[12] This is a simple average of total social spending as percentage of GDP for twenty-one OECD countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the UK, and the US.

The SDM also runs counter to long-standing theories of democratic parties and representation, from Anthony Downs to Herbert Kitschelt to John Aldrich, and it contradicts standard models of redistribution, from that of Allan Meltzer and Scott Richard to those of Gøsta Esping-Andersen and of Torben Iversen and David Soskice.[13] The most seminal work in social history would also have to be rewritten because in that literature, the political strength of the center-left is seen as a key driver of welfare state expansion.[14] Although there is an important literature that gives employers a major role in the formation of the welfare state,[15] no one—including Bartels, Gilens, or any of their followers—would claim that the rich created the welfare state.[16] Why then do the rich figure so prominently in their results?

Part of the explanation may be that the SDM overestimates the influence of the affluent. Critics argue that the high similarity and collinearity of class preferences naturally limit political inequality; they find little difference in representation across classes.[17] Peter Enns, for instance, argues that policies tend to end up in around the same place whichever class exerts more influence.[18] And even when there is disagreement, which is relatively rare, the rich win only marginally more often than the middle class.[19] Jeffrey Lax, Justin Phillips, and Adam Zelizer further nuance the SDM story, showing that in the US Senate, class influence is highly conditional on partisanship.[20]

Yet while critics of the SDM offer important caveats to the original conclusions, elevating the middle class to a sometimes coequal with the upper class doesn't explain why the rich so often get their way. Overall, the affluent appear to exert far more influence on public policies than what's normally ascribed to them by standard theories of democracy.

To solve this puzzle, we first revisit the logic behind the estimation models used in the SDM public opinion literature. We focus on govern-

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[13] Downs 1957; Kitschelt 1994; Kitschelt 2000; Aldrich 1995; Meltzer and Richard 1981; Esping-Andersen 1990; Iversen and Soskice 2006.

[14] Baldwin 1990; Korpi 1983; Rothstein 1998; Huber and Stephens 2001; Esping-Andersen 1985.

[15] Swenson 2002; Martin 2000; Mares 2003.

[16] Rueda 2018 shows that the rich are sometimes driven by altruism to support redistribution. Yet our data show that (1) the rich are less likely to support redistribution, and (2) their preferences do not drive policies when they diverge from those of the middle class. Insurance models of the welfare state (e.g., Moene and Wallerstein 2001) imply that demand for spending is rising with income (a "normal good"), but Rehm 2011 shows that this effect is far outweighed by the fact that the rich are much less exposed to risk.

[17] Enns and Wlezien 2011; Soroka and Wlezien 2008; Wlezien and Soroka 2011; see also Bashir 2015; Bhatti and Erikson 2011.

[18] Enns 2015.

[19] Branham, Soroka, and Wlezien 2017.

[20] Lax, Phillips, and Zelizer 2019.

ment spending and redistribution because it's far more obvious why class should matter in fiscal policy than in, say, foreign policy or reproductive policies. Moreover, unequal representation is naturally quite limited on most policies with no redistributive aim, since class preferences barely diverge.[21] Whether the general argument we present below also holds for noneconomic issues can, of course, be tested in future work.

We want to draw attention to a methodological issue that concerns a crucial distinction between the responsiveness of policies to short-term trends in class preferences (the association between policy change and preferences for change) and their congruence with long-term class interests (the match between the level of policy and the level preferred by income classes).[22] We illustrate this issue in Figure 1 using simulated data. We assume that there are three income classes: low (L), middle (M), and high (H), and we measure time as two hundred periods (N) on the x-axis. The mean preferred level of total government spending, P_i, for each class i is captured by a straight horizontal line, where L (light grey) wants more than M (medium grey), and M wants more than H (dark grey).[23] We define spending as a share of GDP, and in this example we assume that the preferred mean levels of spending are $P_H = .1 < P_M = .3 < P_L = .5$, a ranking consistent with the survey data used in the empirical section below.

For the sake of argument, we further assume that governments only represent the interests of M, implying that mean spending is perfectly congruent with M's mean spending preference. This assumption could reflect a simple median-voter logic, but the justification for this assumption is analytical: we want to be able to examine whether the standard SDM estimation model applied to our fictive data yields the "correct" answer about representation and policy influence (that is, that M determines policies).

Over time, actual spending varies around M's mean preference, P_M, because of the business cycle, which we represent by a sine-function (black line). We assume that spending follows a New Keynesian countercyclical pattern. Thus, spending at the trough of the business cycle is at a maximum (because outlays peak and revenues bottom out), implying a budget deficit, while spending at the top of the cycle is at a minimum (because outlays bottom out and revenues peak), implying

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[21] Soroka and Wlezien 2008.

[22] See Achen 1978; Erikson, Wright, and McIver 1993; Wlezien 2017.

[23] Class preferences will be deductively derived in the next section; for now, it suffices to note that the ranking follows standard assumptions.
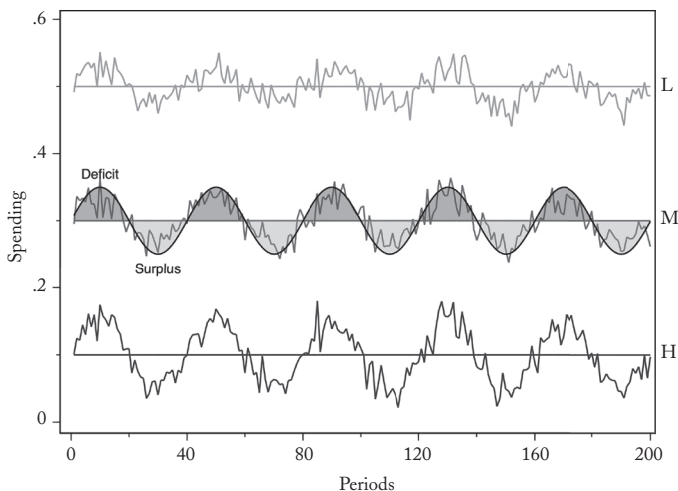
FIGURE 1

SPENDING PREFERENCES FOR THREE GROUPS AND GOVERNMENT SPENDING,
WHEN M IS POLITICALLY DOMINANT[a]

[a] Based on two hundred simulated time observations (N) in which the mean preferred spending levels (measured as a share of GDP) of the three groups are set to $L = 0.5$, $M = 0.3$, and $H = 0.1$. The black sine curve is actual spending, reflecting the mean preferred spending level of M plus a counter-cyclical budget reflecting the business cycle (dark grey = deficit; light grey = surplus). The light grey, medium grey, and dark grey jagged lines represent the preferred spending levels of L, M, and H at each time point.

a budget surplus. These budget swings can be interpreted partly as the result of automatic stabilizers (most importantly, spending on unemployment benefits) and partly as the result of deliberate countercyclical fiscal policies; either mechanism suffices for our purposes.[24] Note that this logic is independent of the preferred average level of spending—it's purely a function of optimal macroeconomic policies.

People may hold either a naïve, household-budget understanding of fiscal policy or a sophisticated, Keynesian understanding. It stands to reason that this distinction is closely tied to incentives to be informed about economic policies, and that such incentives are likely related to income and education, as Valentino Larcinese and Iversen and Soskice argue.[25] That's because those with high incomes more often make investment decisions that require accurate predictions about the economy

[24] It is well established that fiscal policies follow a countercyclical pattern in OECD countries. See Darby and Melitz 2008; Dolls, Fuest, and Peichl 2012.
[25] Larcinese 2005; Iversen and Soskice 2015.

and future economic policies. Also, the affluent typically have the education to acquire and process the necessary information at low marginal cost. Both logics imply a sophisticated view of fiscal policies. In contrast, those with low incomes and low education typically have neither the incentives nor the education to be well informed about public policies; they are apt to adopt a naive understanding of fiscal policies.

The conjectured differences across classes are a matter of degree, since again, class preferences are known to be highly correlated over time. We therefore assume a mix of people in L and M who adhere to either a Keynesian or household-budget understanding, with more in the L group adopting a household understanding (here assumed to be 25 percent) than those in the M group (15 percent). For H, we assume high information and a Keynesian understanding (the specific numbers are unimportant—only the ranking matters).

As shown in Figure 1, this logic means that the cross-time preferences of the three groups reflect the actual budget cycle to a greater or lesser extent. To add realism, we assume that idiosyncratic factors affect preferences at each time point, which is captured by a weighted combination of random draws from two normal distributions of disturbances (with a mean of 0 and a weight of .5 given to each distribution) added to the preferred spending level at each time point.[26] One distribution is the disturbances that L, M, and H have in common, while the other is unique to each group; this combination produces high, but not perfect, preference correlations.[27]

Of course, Figure 1 presents just one possible scenario. We are not claiming that it's an accurate model of the world, although we do have reason to think it's a plausible one, and we offer evidence below. Again, our main purpose is analytical: to present a case in which the preferences of governments and all groups are transparent, so we can evaluate whether empirical models correctly identify the relationship between preferences and policies.

We first apply the standard SDM methodology to the simulated data set and estimate the following model of influence:

$$\Delta S_t = \alpha + \beta_L \cdot \Delta P_{L,t} + \beta_M \cdot \Delta P_{M,t} + \beta_H \cdot \Delta P_{H,t} + \varepsilon_t, \qquad (1)$$

[26] We could also add random disturbances to government spending, but doing so wouldn't affect the substantive conclusions.

[27] Class preferences are assumed to have identical levels of disturbance. We could add more disturbance to lower- and middle-class preferences, as Stimson 2011 suggests that differential measurement error in class preferences might partly drive differential responsiveness. But doing so wouldn't alter the substantive conclusions.

where S_t is spending at time t, P_i is the absolute spending preference of group $i = \{L, M, H\}$, and Δ is the first difference operator. This model corresponds to the setup of the thermostatic tradition[28] and to Gilens's original setup,[29] in which survey questions ask respondents to indicate their preferences for changes in policy and the dependent variable measures actual changes. In Bartels' analysis of International Social Survey Programme (ISSP) data, the survey questions are likewise about preferred changes in policy, and all refer to fiscal policies (specifically, whether people want more or less spending on unemployment, health, old-age pensions, and education).[30]

Model 1 of Table 1 shows the results of estimating equation 1 on our simulated data. It's easy to see that they basically mirror those in Gilens and Bartels: only H is found to have a significant impact on policy. But we know that can't be true, since the model is constructed to reflect only the average preferences of M, not those of H. The result reflects that H is on average better informed about fiscal policy than M and L and therefore expresses more countercyclical preferences, which better reflect changes in actual policies. This does not mean that government policies ignore the intertemporal interests of L and M. If we had precise data about which members in each group are informed or uninformed, we could include this variable to show that the preferences of informed members of all groups are equally influential.

But without highly accurate measures of information, even slightly better information among the rich will produce the result that the rich are significantly more influential (as long as N is large enough). In Appendix A of the supplementary material, we experiment with the shares of informed and uninformed voters in each group and show that the bias persists even if Keynesians are just slightly more prevalent in group H than in M and L. The estimates are less stable and standard errors rise with smaller differences in shares, of course, but by far most often the models attribute the most influence to H.[31] To rule out biased estimators, one would need a perfect measure of information, which no survey offers.

But even if we could measure information perfectly, it still doesn't solve the problem. The results would suggest that each class has equal impact, but the key message of Figure 1 is that governments only represent the interests of M, and that mean spending therefore perfectly

[28] E.g., Soroka and Wlezien 2010; see also Erikson, MacKuen, and Stimson 2002.
[29] Gilens 2005.
[30] Bartels 2017.
[31] Elkjær and Iversen 2020b.

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TABLE 1
THE EFFECT OF CLASS PREFERENCES ON SPENDING[a]

	First-Difference Regression (1)	Prais-Winsten AR(1) Regression (2)	LDV Regression (3)
Constant	−0.00	0.30*	0.03
	(0.00)	(0.02)	(0.02)
ΔP(L)	−0.01		
	(0.02)		
ΔP(M)	0.01		
	(0.02)		
ΔP(H)	0.07*		
	(0.02)		
P(L)		−0.01	−0.01
		(0.03)	(0.03)
P(M)		0.01	0.05
		(0.02)	(0.03)
P(H)		0.07*	0.10*
		(0.02)	(0.03)
LDV			0.86*
			(0.03)
R^2	0.07	0.31	0.98
N	199	200	199

*$p < 0.05$; standard errors in parentheses
[a] Based on simulated data shown in Figure 1.

matches M's mean preference. To discover this critical "fact," we need a model that uses levels of—not changes in—spending and spending preferences.[32] We therefore estimate the following model:

$$S'_t = \alpha + \beta_L \cdot P'_{L,t} + \beta_M \cdot P'_{M,t} + \beta_H \cdot P'_{H,t} + \varepsilon_t, \qquad (2)$$

where the variables have been corrected for first-order autocorrelation using a Prais-Winsten transformation. This model yields the results reported in column 2 of Table 1. At first glance they look almost identical to the results in column 1. This is because the AR(1) correlation is so close to 1 that transforming the data is nearly identical to differencing. But there's a crucial difference: the estimated constant of .30 reflects that governments represent the mean preference of M and therefore spend 30 percent on average. By comparing the mean preferences of the three classes to the estimated constant, we immediately discover that M's interests are better represented than those of either H or L.

[32] Consistent with Plümper, Troeger, and Manow 2005.

The empirical strategy suggested in equation 2 can be extended to multiple countries for which the country-specific intercepts are estimates of average policy preferences influencing government policies in each country. In principle, we can compare these estimates to the expressed preferences of each income group to arrive at conclusions about which income class exerts greater long-term influence.

In model 3 of Table 1, we include a lagged dependent variable because it is a common way to deal with autocorrelation while explicitly modeling the dynamics. Alas, this model also yields the wrong answer, for reasons explained by Christopher Achen.[33] When the explanatory variable (here, spending preferences) is slow-moving and in the presence of high autocorrelation, the estimate of the effect of the preferred level is biased downward. In this case, the intercept is close to 0, and using this model we would make the double mistake of attributing both the level of spending and the change in spending to H.

The difference we find in our simulated data between (preferences for) changes in fiscal policies and (preferences for) levels of such policies is related to what we see as an important feature of indirect democracy. The RDM is based on the notion that political parties act as "trustees" of their constituencies and pursue their long-term interests in government.[34] Voters needn't be informed about the details of short-run policies, but it's assumed that they will learn over time which parties produce good outcomes for their group and will vote based on the accumulated reputation of parties. Particular policies, especially short-term changes in policy settings, may not be well understood by voters who are "information misers."[35]

If this interpretation of indirect democracy in strong party systems is correct, it opens the door to a significant divergence in results when using (preferences for) changes in particular spending policies as opposed to (preferences for) the overall level of spending (what we refer to as "interests"). Again, even if we had a perfect measure of information, regressing actual policy change on preferences for policy change will yield incorrect conclusions if interests differ. Making inferences from one mode of analysis to the other is fraught!

This conclusion isn't limited to the particular macroeconomic example used in the simulation. Many short-term changes in government policies are responses to volatility in revenues and outlays that most

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[33] Achen 2000.
[34] What Mansbridge 2003 refers to as promissory representation.
[35] Hinich and Munger 1994; Kitschelt 2000.

people pay no attention to. If more young people enter into the higher education system in a given year, there are consequences for education spending; if rising property prices produce a windfall in tax receipts, it may trigger an adjustment in the property-tax rate; if more people retire early, it will affect public pension spending, and so on. Only the best-informed will be aware of these dynamics, yet small differences in such awareness can have broad consequences for estimates of responsiveness. To draw inferences about the congruence between government policies and long-term class interests, we need information about preferences for levels of spending and actual spending.[36]

AN EMPIRICAL TEST: WHOSE PREFERENCES ACTUALLY COUNT?

To test our conjectures, we rely on two often-used questions from the ISSP that relate to preferences for redistribution. The first pertains to preferences for change: "Listed below are various areas of government spending. Please indicate whether you would like to see more or less government spending in each area. Remember that if you say 'much more,' it might require a tax increase to pay for it."[37] Bartels uses this question, and we follow him in constructing an index of support for social spending based on preferences for spending on health, education, old-age pensions, and unemployment benefits.[38] We use net support as our measure, which is an estimate of the share of people who support more spending minus the share who support less spending, so higher values mean stronger support for more spending.[39]

As an estimate of preferences for the level of redistribution, we rely on the second ISSP question, which asks: "On the whole, do you think it should or should not be the government's responsibility to reduce income differences between the rich and the poor?"[40] We code "definitely should be" and "probably should be" as 1, and "probably should not be" and "definitely should not be" as 0. Some of the ISSP surveys also have a neither/nor category, which is also coded as 0. The variable thus captures the proportion of people who support redistribution over-

[36] The logic of our model setup follows Gilens (2012) and Bartels (2017), but it can be interpreted in terms of relative preferences (Soroka and Wlezien 2010). In our notation, relative preferred spending is $R_i = S − P_i$, which is a spatial measure of how far i would like to move the status quo. If we estimate model 2 above using R_i instead of P_i, we would get identical results subject to multiplying by a constant.

[37] We use the International Social Survey Programs's (ISSP) Role of Government I–IV surveys.

[38] Bartels 2017.

[39] Similar to Soroka and Wlezien 2010.

[40] We use the ISSP's Role of Government I–V, Environment I–III, and Social Inequality I–IV surveys.

all, which is unlikely to be related to information about short-term fiscal policies.

We estimate support for redistribution by income class using the procedure proposed by Gilens.[41] For each country-year survey, we first assign the respondents a score equal to the midpoint of their income category, based on the income distribution from the survey. Next, we regress support for (change in or level of) redistribution on the respondents' placement in the income distribution and its squared term in a logistic or linear regression, and we use that model to predict the level of support for people at the 10th, 50th, and 90th income percentiles.

We then merge the preference data with data on public social spending as a percentage of GDP (from the OECD Social Expenditure Database)[42] using the year in which the survey data were collected as the matching year (we discuss lag structure below). Doing so gives us a data set that contains information on the following twenty-one advanced democracies in the period 1985–2016: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.[43]

To present a sense of the data, Figure 2 (a–c) compares preferences for redistribution of low-, middle-, and high-income groups. The preferences of the lower-income group are plotted on the x-axes and those of the higher-income group are on the y-axes; for ease of interpretation, we include a diagonal line. Not surprisingly, the figure shows that low-income groups are more supportive of redistribution than high-income groups and that preference divergence is greater at the top of the income distribution.[44] Mirroring Stuart Soroka and Christopher Wlezien's findings for spending preferences, the figure also shows that preferences are highly correlated—a correlation that is most pronounced between the lower and middle classes.[45] These results are consistent with the assumption in the simulation model and echo most other studies in the literature.

[41] Gilens 2012.

[42] We would have preferred to also include a direct measure of redistribution in the analysis, but doing so would greatly reduce the sample size, and it is well known that social spending is closely related to redistribution (Bradley et al. 2003). The OECD database is available at https://www.oecd.org/social/expenditure.htm.

[43] We omit South Korea and Israel due to a lack of comparable data on partisanship. The results are substantively similar when these countries are included, but South Korea is an outlier because of its low levels of social spending.

[44] Net support for spending is similarly structured by class.
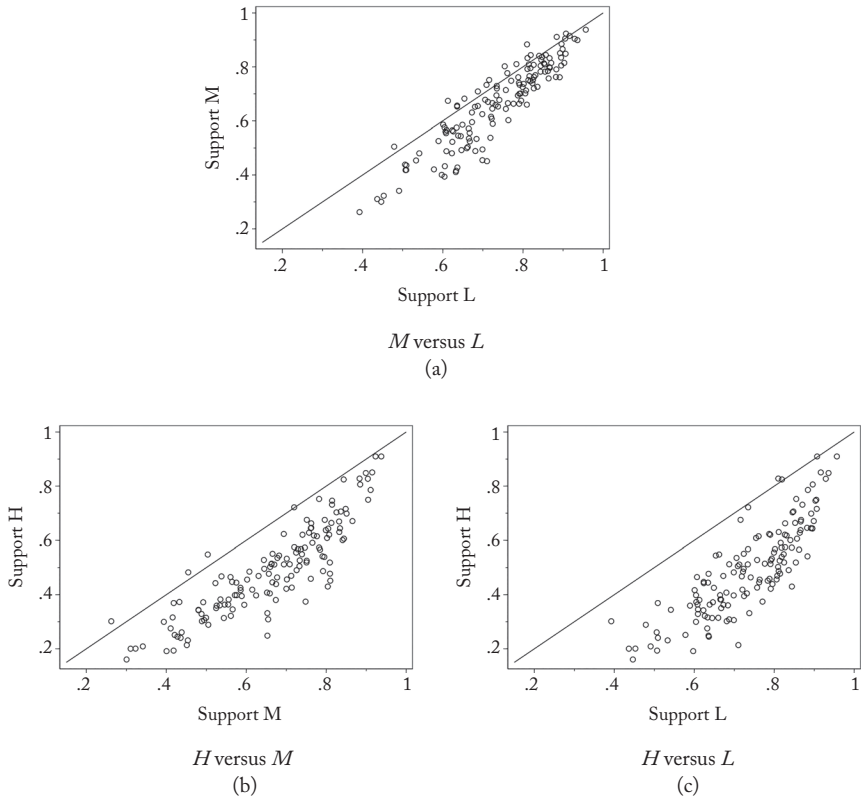
[45] Soroka and Wlezien 2008.

FIGURE 2
ABSOLUTE SUPPORT FOR REDISTRIBUTION OF *L*, *M*, AND *H*[a]

[a] N = 142. Each circle represents a country-year. The axes describe the share of individuals in an income class who support redistribution.

WHO INFLUENCES CHANGES IN SPENDING AND LEVELS OF REDISTRIBUTION?

We now turn to an empirical test of which income classes policymakers respond to. We start by estimating representation using *preferences for change* and *actual changes in spending*, as these relate most closely to the setup of the SDM. In Table 2, we estimate the effect of net support for social spending on subsequent two-year changes in social spending. The results are consistent with our expectations and show that only the rich exert independent influence on changes in social spending. This mirrors the stark results of Gilens, and it essentially replicates Bartels'

TABLE 2

THE EFFECT OF NET SUPPORT FOR SOCIAL SPENDING
ON SUBSEQUENT TWO-YEAR CHANGES IN SPENDING, BY INCOME GROUP [a]

| | *Two-Year Change in Social Spending as Percentage of GDP* | | | | | | | |
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Low income	2.25*			−0.32	5.51			−1.92
	(0.93)			(2.49)	(3.69)			(6.51)
Middle income		1.94*		−4.57		4.01		−6.60
		(0.78)		(3.82)		(2.54)		(4.90)
High income			2.46*	6.66*			5.64*	12.35*
			(0.80)	(2.85)			(2.41)	(4.71)
Country FE	no	no	no	no	yes	yes	yes	yes
Constant	−0.72	−0.37	−0.30	0.62	−2.59	−1.38	−1.42	0.51
	(0.54)	(0.38)	(0.33)	(0.59)	(2.12)	(1.24)	(0.85)	(2.34)
R^2	0.06	0.06	0.12	0.17	0.10	0.09	0.20	0.26
N	43	43	43	43	43	43	43	43

*$p < 0.05$; standard errors clustered by country in parentheses
[a] Preference data are not available for Belgium and Iceland; nineteen countries included.

findings.[46] But if the poor and uneducated adopt a household-budget view of fiscal policy, and the rich and educated adopt a Keynesian view, any government pursuing a standard New Keynesian policy would appear to represent only the rich, even if it fully represents the redistributive interests of the poor or middle classes. And as we demonstrate above, even in the unlikely case that all classes are equally informed, regressing changes on preferences for change would still produce misleading results for the representation of long-run economic interests. Instead, we need to regress levels of, not changes in, social spending on preferences for the level of redistribution.

Lacking direct measures of preferences for spending levels, we turn to expressions of absolute support for redistribution (as shown in Figure 2 (a–c) above). We model the relationship between the level of social spending and support for redistribution using Prais-Winsten regressions for the reasons discussed.[47] In Table 3, we first estimate simple bivariate responsiveness models to examine how well social spending aligns with the preferences of each income class.[48] Models 1 through 3 show that the level of social spending across countries over time is

[46] Gilens 2012; Bartels 2017.
[47] The results are substantively similar when using five-year averages; when lagging preferences by one, two, or five years; and when using OLS with clustered standard errors (results available from the authors).
[48] We have imputed two values of social spending for Austria (1986 and 1988) by linear interpolation.

TABLE 3

THE EFFECT OF SUPPORT FOR REDISTRIBUTION
ON THE LEVEL OF SOCIAL SPENDING, BY INCOME GROUP

| | *Social Spending as Percentage of GDP* | | | | | | | |
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
Low income	12.62*			−6.13	−1.01			−7.93*
	(2.94)			(4.94)	(2.32)			(3.33)
Middle income		12.64*		19.98*		2.75		6.89*
		(2.01)		(4.72)		(2.32)		(3.49)
High income			8.38*	−3.61			2.40	3.00
			(2.01)	(3.50)			(2.29)	(3.10)
Country FE	no	no	no	no	yes	yes	yes	yes
Constant	11.70*	12.60*	16.87*	14.05*	15.95*	13.83*	14.44*	15.53*
	(2.22)	(1.36)	(1.10)	(2.11)	(1.59)	(1.39)	(1.03)	(1.65)
R^2	0.58	0.71	0.66	0.72	0.90	0.87	0.87	0.88
N	140	140	140	140	140	140	140	140
N of countries	21	21	21	21	21	21	21	21

*$p < 0.05$; standard errors corrected for heteroskedasticity in parentheses

aligned with the preferences of all income classes. The association is strongest for the middle class, suggesting that the middle class is instrumental in setting the level of redistribution. In model 4, we include the preferences of all three classes simultaneously to test which ones policymakers respond to most. Strikingly, the level of redistribution turns out to be influenced *only* by the preferences of the middle class, consistent with the RDM. The preferences of *L* and *H* have no significant effect, and are in the wrong direction.[49] When controlling for differences in the state of the economy across countries and years, spending is still influenced only by *M*, and is not even aligned with the preferences of *H* (see Appendix B in the supplementary material).[50] These results directly contradict the SDM.[51]

It is hard to be certain that better information about fiscal policies among the rich is what drives the change results in Table 2, or that a better match of policies to the long-term interests of the middle class drives the level results in Table 3 (as is the case for our simulation). But we can offer some indirect evidence. Using data on preferences for changes in government spending and actual changes in spending,

[49] If preferences are partly endogenous to spending, this bias would go against *M* and *L* because they are less informed than *H* (See Appendix C in the supplementary material, Elkjær and Iversen 2020b). Because we find that *M* is most influential, endogeneity bias would therefore underestimate the observed differences in influence between *M* and *H*.

[50] Elkjær and Iversen 2020b.

[51] Bartels 2017; Peters and Ensink 2015.

Mads Elkjær finds differences in responsiveness across income classes in Denmark that are remarkably similar to those found by Gilens in the US and by Bartels and Peters and Ensink elsewhere in Europe.[52] While the striking similarity of these findings can't be explained by structural factors (due to the great differences across the political-economic contexts), Elkjær shows that compared to lower-income classes, the rich possess better economic information and that they adjust their preferences more in line with countercyclical fiscal policies. This seems broadly true of advanced democracies. In a study of thirty-two European countries, Ann-Kristin Kölln finds that respondents with higher levels of political sophistication adjust their preferences for changes in social policies relatively more countercyclically to the business cycle than do respondents with less political sophistication.[53] And by consulting the Comparative Study of Electoral Systems (CSES) data set, which, unlike the ISSP surveys, asks questions about political information (but not about spending preferences), we can confirm that information is indeed rising with income (and is statistically highly significant), also when controlling for education.[54]

CONGRUENCE BETWEEN POLICIES AND PREFERENCES

Regardless of the role of information in fiscal policies, it's obviously important to the debate between the SDM and the RDM that democratic governments primarily respond to middle-class preferences when setting the level of redistribution. At the same time, the results shown in Table 3 don't convey much direct evidence about the congruency between the actual level of social spending and the level preferred by the income classes. Ideally, we would estimate a model with country-specific intercepts and compare the intercepts to the preferred spending levels, as we did for our simulated data. But because we don't have measures of preferred spending as a share of GDP, we're forced to take a more indirect approach: we estimate how strongly the country-specific intercepts correlate with support for redistribution in different classes.

In models 5–8 of Table 3, we therefore add country-specific intercepts to the specification, dividing the total variance into intertemporal and cross-country variance. The coefficients of these models suggest that the within-country fluctuations in social spending align with the

[52] Elkjær forthcoming; Gilens 2012; Bartels 2017; Peters and Ensink 2015.
[53] Kölln 2018.
[54] Going from the lowest income quintile to the highest increases the probability of being highly informed from 19 to 35 percent, while the probability of being uninformed declines from 22 to 10 percent. The CSES data set covers the same set of countries as the ISSP for the subperiod 1996–2011; see Appendix C in the supplementary material for specifics on data and estimation, Elkjær and Iversen 2020b.

TABLE 4

THE EFFECT OF CLASS PREFERENCES AND PARTISANSHIP
ON THE LONG-RUN LEVEL OF SOCIAL SPENDING[a]

| | *Estimated Long-Run Level of Social Spending (Intercepts)* | | | | | | | |
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
Low income	13.20			−23.48	2.44			−5.74
	(9.66)			(39.46)	(8.86)			(37.21)
Middle income		11.06		63.66+		2.10		31.38
		(7.00)		(32.59)		(6.72)		(33.78)
High income			4.52	−33.09*			−1.09	−21.55
			(6.34)	(15.58)			(5.42)	(15.35)
Government partisanship (right)					−7.05*	−6.96*	−7.46*	−5.51+
					(2.35)	(2.43)	(2.27)	(2.69)
Constant	11.25	13.58*	18.80*	12.32	19.81*	20.19*	22.23*	15.52
	(7.29)	(4.87)	(3.42)	(11.89)	(6.75)	(4.74)	(2.96)	(11.02)
R^2	0.09	0.12	0.03	0.32	0.39	0.39	0.39	0.46
N	21	21	21	21	21	21	21	21

*$p < 0.05$, +$p < 0.1$; standard errors in parentheses
[a] The DV is the intercepts from Table 3, model 8. Class preferences are mean support for redistribution in 1985–2016. Government partisanship is measured as the share of government-controlled parliamentary seats held by right parties minus the share held by left parties averaged in 1960–2016 (Portugal: 1976–2016, Spain: 1977–2016) using data from Armingeon et al. 2018.

preferences of the middle- and high-income groups and not with those of the poor. These results are consistent with our simulated regression results. But we're more interested in how the long-run level of social spending is related to support for redistribution, which is captured by the intercepts and analyzed in Table 4. Since we're here looking at stable cross-country differences (the intercepts), the number of observations is only twenty-one.

The bivariate relationships between class preferences and levels of spending across countries are in the expected direction, but statistically insignificant (models 1–3). But when we include the mean preferences of all three groups simultaneously (model 4), we find that the preferences of *M* have a positive effect that is statistically significant at the .1 level, whereas those of *L* and *H* are negatively associated with spending levels (significantly so in the case of *H*). We should interpret these results with caution due to the small sample size and high preference correlations. But again, they point to the critical role of the middle class. There's no indication that the rich matter for levels of redistribution.

Although the results suggest that the level of redistribution is largely decided by the middle class, they don't tell us *how* representation hap-

pens. Following a long tradition, the RDM implies that parties are the organizational vehicles for representing class interests and that policies are a function of who controls the government. If representation takes place through parties and governments, we would expect that the direct effect of preferences on social spending decreases when government partisanship is added to the regression. Models 5–8 in Table 4 show that this is precisely what happens.[55] The direct effect drops to 0, which suggests that most representation takes place through parties. The level of social spending is higher in countries with stronger left-party governments than in those with stronger right-party governments. These results are consistent with recent work that tries to disentangle the power of money and partisanship,[56] and they support the RDM.

III. The Macro Evidence

Weak States in a Globalized World?

The results from our reanalysis of public opinion data and social spending indicate that the middle class is far more influential than the recent SDM literature acknowledges. But the use of public opinion data has limitations. Broad questions about spending and redistribution don't capture the targeting of taxes and spending to particular classes, and it's a problem that we don't have direct measures of voters' preferred spending levels. Perhaps governments do respond to middle-class electorates, but these responses are increasingly constrained and inadequate. New work in comparative political economy highlights macro trends that appear to show that governments don't respond to rising inequality as predicted by the RDM—a puzzle known as the Robin Hood paradox.[57] Business and the rich may exert veto power behind the scenes, outside the light of public opinion surveys.[58] Or perhaps governments are so hamstrung by footloose capital that any policies initiated in response to popular demands end up as woefully inadequate. Prominent proponents of this view are Wolfgang Streeck, Thomas Piketty, and Dani Rodrik, who all argue that capital mobility has undermined the capacity of governments to tax and transfer in response to popular demands.[59]

[55] Partisanship is measured as an average for the long period 1960–2016 because Huber and Stephens 2001 convincingly argue that partisanship can have long-run consequences by affecting institutions and the structure of spending programs. But our substantive results are the same if we use the mean for the period 1985–2016 or even for 1960–1984.

[56] Lax, Phillips, and Zelizer 2019.

[57] Following Lindert 2004.

[58] Hacker and Pierson 2010.

[59] Streeck 2011; Streeck 2016; Piketty 2014; Rodrik 1997; Rodrik 2011.

But there are theoretical reasons to be skeptical of these arguments. Advanced capitalism is based on investment in skill-intensive production, and such production is rooted in local skill clusters (mostly in successful cities) complemented by dense, colocated social networks, which are hard to uproot and move elsewhere.[60] In this perspective, trade and foreign investment reinforce local specialization and raise the dependence of multinational capital on highly location-cospecific assets, most importantly on highly skilled labor. Intense market competition, especially in globalized markets, also makes it hard for business to coordinate politically. From this perspective, globalization enhances the capacity of democratic governments to be responsive.

To critically reassess the macro evidence, we adopt an axiomatic approach in which class preferences (interests) are derived deductively and then compared to actual tax-and-spend policies over time. Who are the winners and losers from government policies? Do policies change over time in a manner that is more consistent with an SDM interpretation or an RDM one? This approach doesn't presuppose any particular channel of influence, or whether voters are informed or not, or whether governments have high capacity or not. Instead, it shows who actually gains and loses from government policies.

CLASS PREFERENCES OVER GOVERNMENT POLICIES

We retain the three-class setup, in which each class is defined as a third of the distribution of before tax and transfer income: L (bottom third), M (middle third), and H (top third). The goal of each class is to maximize net income.[61] In the case of the middle class, this means that it wants to set taxes and transfers unilaterally to maximize its own net income:

$$\text{Max } y_M^{net} = y_M + t \cdot (y_H - \tfrac{1}{2} \cdot \alpha \cdot t \cdot y_H), \qquad (3)$$

where t is the tax rate and α is a measure of the efficiency loss from taxation, including the possible loss of income and revenue because of capital flight. Consistent with this maximand, it is assumed that M wouldn't want to tax itself.[62] We also rule out the possibility of regressive transfers, so that M cannot tax L and transfer to itself. By a similar logic, H cannot tax M and use the proceeds for itself. L, however, is uncon-

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[60] Iversen and Soskice 2019.
[61] We consider spending on public goods and insurance below.
[62] But this implies a sharp discontinuity between middle and high incomes, which introduces a discontinuous marginal tax rate right around the threshold. For this reason, a more proportional tax rate with income-graduated transfers may be preferable. The model abstracts from this complication, but the distributive logic wouldn't change with a more proportional tax rate.

strained to tax both M and H. Nonregressivity is a standard assumption in all models of redistribution in advanced democracies, and it holds for every country-year observation in our sample.[63] The specific form of the utility function is for mathematical convenience.

The tax rate on H that maximizes M's net income is:

$$t_M^{H*} = \frac{1}{\alpha}.$$

We see that the optimal tax rate depends only on the efficiency losses of taxation, not on the income of either M or H. Again, M doesn't want to tax itself, so

$$t_M^{M*} = 0.$$

At M's optimal tax rate, M's net income is:

$$y_M^{net*} = y_M + T_M = y_M + \frac{1}{\alpha} \cdot (y_H - \tfrac{1}{2} \cdot y_H) = y_M + \tfrac{1}{2} \cdot \frac{y_H}{\alpha},$$

where T_M is the net transfer to M. Correspondingly, H's net income is:

$$y_H^{net} = y_H + T_H = y_H - t \cdot (y_H + \tfrac{1}{2} \cdot \alpha \cdot t \cdot y_H) = y_H - \tfrac{3}{2} \cdot \frac{y_H}{\alpha}.$$

Note that H's loss is greater than M's gain because of the efficiency cost of taxation, which reduces H's income without raising M's income by the same amount.

We can conveniently express the (observed) transfer to M as a proportion of H's net income:

$$\tau_M^{H*} = \frac{T_M}{y_M^{net}} = \frac{\tfrac{1}{2} \cdot \dfrac{y_H}{\alpha}}{y_H - \tfrac{3}{2} \cdot \dfrac{y_H}{\alpha}} = \frac{1}{2\alpha - 3}. \tag{4}$$

We refer to this as the *rate of transfer*, τ_M^{H*}, and just like the tax rate, it isn't dependent on the income of either M or H.[64] In the RDM, where

[63] See Iversen and Soskice 2006 for a discussion of the assumption. A simple justification builds on Acemoglu and Robinson's (2006) model of democracy. For democracy to be a credible commitment to redistribution, net transfers under democracy can't be regressive. Stable democracy requires such a credible commitment, and since advanced democracies are stable, it stands to reason that the assumption is satisfied. Again, for our purposes it suffices that there are no instances of regressive net transfers in our data.

[64] The reason we express transfers as a proportion of net income instead of as a proportion of y_H is that we can't observe gross income in a hypothetical world without taxes. But we can observe the net income of H, just as we can observe the net transfer to M, by comparing the change in the income of

the middle class is pivotal—loosely speaking, a median-voter model—this is the expected transfer rate. We can't observe this rate directly since we don't know α, but we can infer that τ_M^H will be orthogonal to (independent of) relative income:

$$\tau_M^H(M) \perp y'_H/y'_M,$$

where y'_H/y'_M is the observed before tax and transfer income of H relative to M.

This implication of the RDM is important because it means that top-end inequality doesn't matter, in stark contrast to the SDM. In the SDM, the transfer rate, τ_M^H, should respond negatively to the income of H relative to M:

$$\tau_M^H = f(\overset{-}{y'_H/y'_M}).$$

Money in the SDM begets influence, and more money begets more influence. Thus, rising top-end inequality should reduce taxation and transfers from the rich to the middle class—a conjecture that corresponds to much of the contemporary commentary and to academic scholarship.[65]

A complementary SDM interpretation is that if capital is becoming more mobile, it raises the cost of taxation, α, and the transfer rate should fall as a result (see equation 4). Hence,

$$\tau_M^H = g(\overset{-}{\text{capital mobility}}).$$

Again, in the pure RDM, assuming that the state is strong, neither rising inequality nor growing capital mobility should affect the transfer rate to M.

We can generalize the RDM by defining the preferred rate of transfer for L and then allowing government coalitions to be formed between any pair of classes.[66] If M can't govern alone, the result will reflect the outcome of a coalition bargain, which is a policy vector of taxes and transfers to and from each class. We show the implications of different coalitions in Appendix D in the supplementary material, but the

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the middle class from before taxes and transfers to after. This is convenient because the effective tax rate of H or M is usually not known.

[65] Hacker and Pierson 2010; Page, Bartels, and Seawright 2013.

[66] In Appendix D of the supplementary material, we show that in a model of pure redistribution, where public goods and insurance don't matter, H wants no taxation while L wants to tax both M and H at their maximum rates and transfer the proceeds to L. This corresponds to the preference ordering assumed in Figure 1 and shown in Figure 2 above.

results confirm the intuition that an *LM* coalition will benefit *L* more and hurt *H* more than an *MH* coalition.[67] Depending on bargaining power within the coalition, which may be captured by the share of seats or votes, *M* can usually ensure that it will come out as a net beneficiary of any coalition, but this is an empirical matter, of course. Again, this conclusion only holds if the power of democratic governments isn't subverted by money or by the structural power of capital.

THE ROLE OF INSURANCE AND SERVICES

So far we have focused on redistribution of income, but many models of the welfare state emphasize the role of insurance and the provision of public goods.[68] How do we incorporate these into the analysis? For public goods—health, education, housing, care for the young and elderly, and other in-kind services—the answer is simple in principle: include the net (after-tax) value of these services in the disposable income of each class. Below, we construct a new data set that does this based on recent estimates from the OECD and Eurostat.

In the case of insurance—replacing lost income due to unemployment, illness, or other bad luck—we can indirectly account for its value by assuming that there's a risk of downward mobility, so that *M* benefits in some measure from transfers to *L*. The same is true of *H*, but those in the high-income group tend to be shielded from risks in the first place (for example, risk of unemployment is strongly negatively related to income).[69] With a standard concave utility function (which implies risk aversion), the value to those in the "good" state from transfers to those in the "bad" is proportional to the risk of falling into the bad state, measured over some politically relevant time horizon.[70] We can capture this logic by weighting the transfer rate for *M* by the transfer rate for *L*, where the risk of falling into the bad state determines the weight. In the empirical analysis, we proxy this risk by the unemployment rate plus the rate of involuntary part-time employment,

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[67] Elkjær and Iversen 2020b.
[68] Baldwin 1990; Moene and Wallerstein 2001; Rehm 2011.
[69] See Rehm 2011 for evidence.
[70] Formally, if we assume a log utility function and that those in the good state make targeted transfers to those in the bad, the utility function to be maximized is:

$$U = \ln[(1-t) \cdot y] \cdot (1-p) + \ln\left(\frac{t \cdot \bar{y}}{(1-\Theta)}\right) \cdot p,$$

where t is the tax rate, y is income in the good state, $\bar{y}$ is mean income, Θ is the share of the population in the good state, and p is the risk of falling into the bad state. The first bracketed term is income in the good state; the second, in the bad. The tax rate that maximizes this function is simply p. If M is in the good state, M derives utility of the transfer to L, weighted by p.

but we also show that our conclusions are robust to a wide range of weights.

ESTIMATING EQUATION

We can put these predictions together in a simple encompassing regression model using the transfer rate to *M,* including services and insurance, as the dependent variable:

$$\tau_{M,i,t}^{H} = \alpha_i + \beta_1 \cdot \left(\frac{y'_H}{y'_M} \right)_{i,t} + \beta_2 \left(\frac{y'_M}{y'_L} \right)_{i,t} + \beta_3 \cdot Mobility_{i,t} + \beta_4 \cdot$$

$$[Right_{i,t} - Left_{i,t}] + \varepsilon_{i,t}, \tag{5}$$

where the first two terms measure the direct effects of relative income on the transfer share to *M, Mobility* refers to widely used measures of the internationalization of capital (we use capital market openness and trade), and the *Right-Left* variable captures the difference in right and left cabinet shares in government. The relative income of *M* to *L* is included as a control to see if the power of income (also) matters at the lower half.

The hypotheses of the two models are as follows:

Subversion of Democracy Model: $\beta_1 < 0$; $(\beta_2 > 0)$; $\beta_3 < 0$; $\beta_4 = 0$

Representative Democracy Model: $\beta_1 = \beta_2 = \beta_3 = 0$; $\beta_4 < 0$

The hypothesis $\beta_2 > 0$ in the SDM model is in parentheses because it's not clear that there's any scope for *M* to shape outcomes under SDM assumptions. Needless to say, it's possible that both models capture part of the variance.

EMPIRICAL ANALYSIS: WHO ACTUALLY BENEFITS?

In this part of the analysis, we use a new data set developed for this project that relies on data from the Luxembourg Income Study (LIS), supplemented by OECD and Eurostat data on spending on services and transfers, as well as taxation of property, capital, and consumption. LIS provides an impressive database, with household income data stretching back as far as the 1970s across a broad range of countries. We restrict our sample to the following eighteen advanced democracies for which data were recorded at more than one point between 1974 and 2016: Australia, Austria, Belgium, Canada, Denmark, Finland, Ger-

many, Greece, Iceland, Ireland, Luxembourg the Netherlands, Norway, Spain, Sweden, Switzerland, the UK, and the US.[71] In accordance with standard practice, we confine the sample of households to those that are active on the labor market and have positive market and disposable incomes.[72]

We measure market income as factor income (labor cash income plus capital income) plus private transfers, and disposable income as total cash income minus income taxes and social contributions. Following LIS standards, market and disposable incomes are equivalized by the square root of the number of household members, and they are bottom- and top-coded at 1 percent of the mean equivalized income and at ten times the median unequivalized income. We use market income to calculate inequality indices and to divide households into deciles.

The LIS database accounts for cash transfers but not for in-kind services. To include the value of services, we rely on estimates of the combined value of education, health care, social housing, elder care, and early-childhood education and care. The estimates are from the OECD/European Union database on the distributional impact of in-kind services; to the best of our knowledge, these are the only available data.[73] We also rely on an allocation key from this database to distribute the gross value of services to each income decile's disposable cash income.[74] The exact procedure we use is explained in Appendix E in the supplementary material.[75]

Before estimating the transfer rate, we allocate the costs of transfers and services to the income deciles' disposable income. Transfers and services are financed by tax revenues mainly derived from taxation of income, capital, property, and consumption. The LIS data capture the income tax burden of each income decile. Business taxes are treated as neutral with respect to income classes, and are simply added to government revenues. The rest is financed by (1) property and wealth taxes, which are paid almost exclusively by those in the top few percentiles and therefore added to the tax burden of the top income decile, and (2) consumption

[71] Italy and France and some country-years couldn't be included because data on prefisc income weren't recorded. South Korea is omitted because it has no information about employment status, and Israel is omitted due to a lack of comparable data on the value of services and several independent variables.

[72] Market income inequality and transfers are greatly exaggerated if nonworking households are included, primarily because of retirees. Studies using LIS data therefore usually restrict the sample to working-age households (e.g., Huber and Stephens 2001).

[73] OECD 2011, chap. 8.

[74] For more information about these data see Verbist, Förster, and Vaalavuo 2012. We are grateful to these authors for providing us with the estimates.

[75] Elkjær and Iversen 2020b.

taxes, which we assume are paid in proportion to each income decile's consumption share. Further details are provided in Appendix E.

The sum of disposable cash income and the net value of in-kind services is the net extended income of each income decile. Subtracting market income from net extended income yields net transfers received. Following the formal logic set out above, the rate of transfers to M, our main dependent variable, is net transfers received by the fifth income decile divided by the net extended income of the top income decile. To account for the value of insurance, we add the transfer rate to L weighted by the sum of the unemployment and involuntary part-time employment rates, as explained above (the mean weight is .1).[76]

Figure 3 (a–d) presents the spatial and temporal variation in net transfers to M as a share of the net extended income of H (top panels) and M (bottom panels), with and without accounting for insurance (left and right panels). The grey lines are country-specific local polynomial smoothers; the black line describes the entire sample of countries and years.

The panels show considerable spatial variation in the rate of transfers to M. The highest average values are observed in Ireland, Luxembourg, and Sweden; the lowest in the Netherlands and Germany. The average transfer rate to M is .05, ranging from −.06 in the Netherlands in 1993 to .14 in Ireland in 2010 (top left panel). The negative values imply that the fifth income decile is a net contributor to spending in a few country-years. That's the case in Germany in the 1990s, in the Netherlands in the 1990s and 2000s, and in Australia in 1981.

Accounting for insurance increases the rate of transfers to M on average by .022, and makes the fifth income decile a net beneficiary of spending in Germany already in the mid-1990s and in the Netherlands in the mid-2000s (top right panel). But we may be significantly underestimating the value of insurance. Our calculation is based on the twin assumptions that people are mildly risk averse (RRA = 1) and that the risk of falling into the L group is equal to the rate of unemployment and underemployment. If people are more risk averse (as empirical estimates suggest), and if there are risks of falling into the L group for other reasons, such as long-term illness or divorce, the value of insurance will increase. A more accurate accounting of the value of insurance is an important task for future research, but our substantive results are robust to

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[76] Nine values of involuntary part-time employment were imputed in Australia, the UK, and the US based on trends of countries belonging to the liberal welfare state cluster.
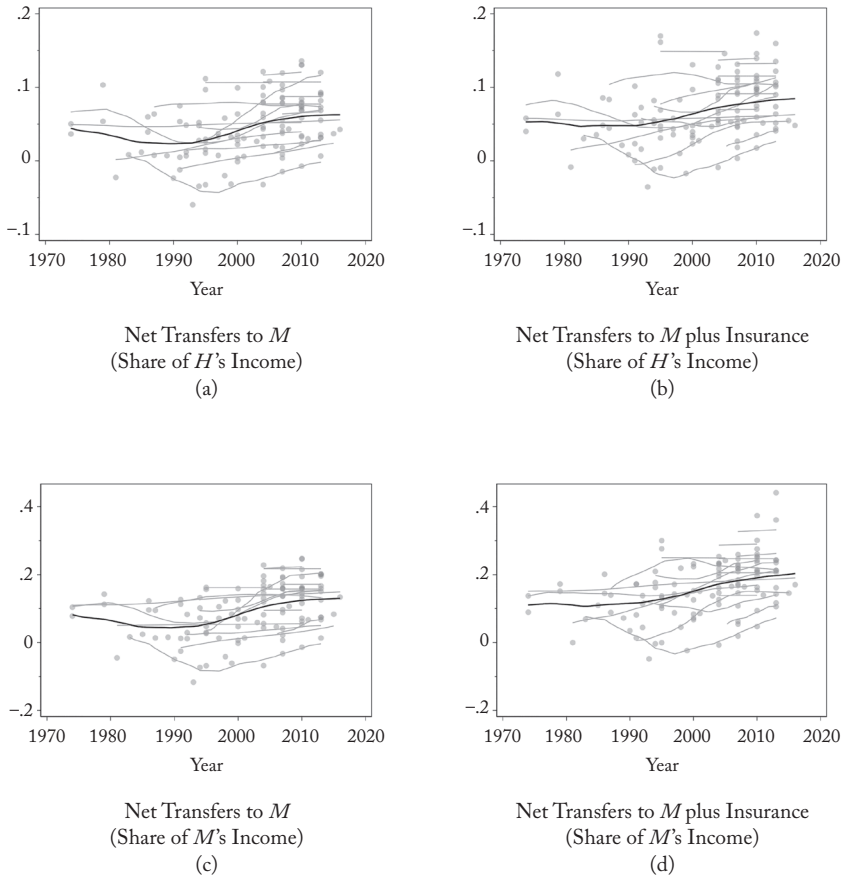
Net Transfers to M
(Share of H's Income)
(a)

Net Transfers to M plus Insurance
(Share of H's Income)
(b)

Net Transfers to M
(Share of M's Income)
(c)

Net Transfers to M plus Insurance
(Share of M's Income)
(d)

FIGURE 3

NET TRANSFERS TO M AS A SHARE OF THE NET EXTENDED INCOME OF H AND M [a]

[a] N = 110.

increasing the weight of L's transfer rate all the way to 50 percent (results are reported in Appendix F in the supplementary material).[77]

The lower panels of the figure show that transfers and services account for a substantial part of M's extended income. On average, 9.3 percent of M's extended income comes from transfers and services, topping at 25 percent in Ireland in 2010. Adding the value of insurance increases the average to 16 percent, with a maximum of 44.1 percent in Spain in 2013.

[77] Elkjær and Iversen 2020b.

The trends in Figure 3 show that during the past forty years, a period of sharply rising inequality, the rate of transfers to *M* has been remarkably stable and actually, slightly increasing. This stability suggests that *M*'s transfer rate is largely orthogonal to relative income, in support of the RDM and contrary to the SDM—a finding confirmed by our statistical analysis. It serves as the first clear-cut indication that increased inequality hasn't weakened the power of the middle class to tax and redistribute income from the rich.

We test this descriptive result in Table 5, in which we regress the rate of transfers to *M* on market income inequality (P90/P50 and P50/P10 ratios), capital mobility, and government partisanship. Capital mobility is measured by Menzie Chinn and Hiro Ito's capital account openness variable[78] and as the sum of imports and exports as a share of GDP (trade openness).[79] Government partisanship is a twenty-year moving average[80] of the share of government-controlled parliamentary seats held by right parties minus the share held by left parties.[81] We add a time trend to the specification to ensure that our results aren't driven by temporal trends.

The results of Table 5 suggest that there is no association between top-end market income inequality and the rate of transfers to the middle class. In fact, contrary to the prediction of the SDM, the coefficient is positive. The coefficient is also positive for bottom-end inequality, which suggests that *M* is becoming politically more powerful with both top- and bottom-end rising inequality. Capital mobility, whether measured by capital account openness or trade openness, has no impact on the rate of transfers to the middle class.

Instead, political power seems to depend heavily on partisanship. In model 2 of Table 5, the coefficient for partisanship of the government suggests that stronger left-party participation in government is associated with higher rates of transfers to the middle class. And the size of the effect is substantial. A one standard deviation increase in left (right)

[78] Chinn and Ito 2006; Chinn and Ito 2008.

[79] We have imputed five values on Chinn and Ito's capital account openness variable, one for Switzerland in 1992 and four for Luxembourg in 2004–2013. In all cases, we have imputed values equal to 1. The mean for Switzerland is 1 with a standard deviation of 0, and the mean for the EU countries included in our models in 2004–2013 is also 1 with a standard deviation of 0. Two values of trade openness have been linearly extrapolated: Germany 2014 → 2015 and the US 2014 → 2016.

[80] The relatively long moving average is, again, in recognition of Huber and Stephens' 2001 argument that partisanship works over long time periods. But a fifteen-year moving average yields similar results.

[81] The Comparative Political Data Set (CPDS) (Armingeon et al. 2018) contains data going back to 1960. That means that the average partisanship of the government in the UK and the US in 1974 are only fifteen-year averages. Trade openness and control variables are also from the CPDS.

TABLE 5
DETERMINANTS OF NET TRANSFERS TO *M*
AS A PERCENTAGE OF *H*'S NET EXTENDED INCOME

	Transfer Rate M (%)		Transfer Rate M Incl. Insurance (%)	
	(1)	(2)	(3)	(4)
P90/P50	2.80	2.43	3.83	3.44
	(4.69)	(4.40)	(4.17)	(3.88)
P50/P10	1.02	1.34*	2.33*	2.67*
	(0.71)	(0.62)	(0.75)	(0.67)
Mobility				
Trade openness (ln)	−0.11	−0.07	−0.15	−0.11
	(3.08)	(3.00)	(2.82)	(2.74)
Capital market openness	1.56	1.11	0.84	0.37
	(2.09)	(2.01)	(2.82)	(2.65)
Government partisanship (right)		−3.68*		−3.86*
		(0.95)		(1.17)
Labor force participation	−0.08	−0.14	−0.19	−0.25*
	(0.12)	(0.10)	(0.11)	(0.10)
Trend	−0.36	−0.29	−0.34	−0.27
	(0.22)	(0.19)	(0.23)	(0.20)
Trend^2	0.01$^+$	0.01	0.01$^+$	0.01
	(0.00)	(0.00)	(0.00)	(0.00)
Country FE	yes	yes	yes	yes
Constant	3.18	7.19	7.96	12.18
	(20.36)	(19.07)	(18.79)	(17.77)
R^2	0.34	0.41	0.41	0.47
N	110	110	110	110
N of countries	18	18	18	18

*$p < 0.05$, +$p < 0.1$; standard errors clustered by country in parentheses

partisanship of the government is associated with a 1.4 percentage-point increase (decrease) in the rate of transfers to *M* (or .34 sd). As can be seen by comparing model 2 with model 1, partisanship doesn't affect the estimated effects of other variables.

In models 3 and 4, we include insurance as part of the transfer rate to *M*. Overall, the effects are very similar to those of models 1 and 2. Top-end inequality and capital mobility aren't related to the transfer rate, but bottom-end inequality is. The effect of partisanship remains stable. All in all, accounting for insurance increases the transfer rate to the middle class, but the associations between transfer rate, inequality, capital mobility, and government partisanship remain stable.

In Appendix F, we test the robustness of the results using a series of

additional model specifications.[82] In all specifications, we find that top-end inequality and capital mobility are irrelevant to the transfer rate to *M*, while left (right) partisanship increases (reduces) it. These results indicate that the power of the middle class is very stable over time, despite the sharp rise in top-end inequality. The rich are becoming richer, but the political power of capital and the rich is only as great as their electoral strength implies (via right parties). This strongly complements the public opinion evidence in the previous section, and it is much more consistent with the RDM than the SDM.

A potential objection holds that the rising incomes of *H* before taxes and transfers have come at the expense of *M*, perhaps because of declining unionization, rising monopsony power in labor markets (putting downward pressure on wages), or rising monopoly power in product markets. As in much of the literature, our focus is on who influences government policies, but Iversen and Soskice suggest a simple test of this broader notion of business power: examining the position of the middle class in the overall income distribution over time.[83] If a fall in earnings of the middle class—referred to as the hollowing-out, or polarization, thesis[84]—outweighs middle-class power over government spending, it will show up as a decline in median-to-mean net incomes. We test this possibility in Appendix G in the supplementary material.[85]

It turns out that the middle class has been able not only to secure a more or less constant rate of transfers from the rich, but also (partly as a result) to defend its position in the overall net income distribution. From 1985 to 2010, the change in the median-to-mean net income ratio is indistinguishable from zero across the nineteen advanced democracies for which we have comparable data.[86] This might seem surprising against the evidence of the hollowing-out thesis, but those most affected are workers in clerical jobs and manual jobs in manufacturing, which are typically somewhat below the median. The middle class has generally been able to defend its living standard by either acquiring new skills or relying on government transfers and the generous provision of public services and insurance. This shouldn't be taken to mean that the political upheaval over rising inequality and fear of middle-class decline

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[82] Elkjær and Iversen 2020b.

[83] Iversen and Soskice 2019, chap. 1.

[84] Goos and Manning 2007.

[85] Elkjær and Iversen 2020b.

[86] We have comparable LIS and OECD data for Australia, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, the UK, and the US. Across these nineteen countries, between 1985 and 2010, the average change in the median-to-mean net income ratio is −1.2 percent, ranging from a decline of 6.8 percent in the UK to an increase of 6.5 percent in Spain.

isn't real. To the contrary, it's precisely because of such upheaval that the middle class is able to defend its position. This is what representative democracy enables.

At the same time, democracy doesn't guarantee the interests of *L*. In our public opinion results, *L* exerts little independent influence over policies, although *L*'s preferences are fairly well aligned with those of *M*. When preferences do diverge, *L* depends on participation in government. If we use the transfer rate to *L* as the dependent variable and run the same set of regressions as in Table 5, we find that *L*'s interest in more transfers is at least partly met under center-left governments (these results are included in Appendix F). A one standard deviation increase in left (right) partisanship increases (decreases) the transfer rate to *L* by 2.5 percentage points (or .30 sd). Since left-leaning governments are almost always supported by center parties, and therefore include middle-class interests, it's hard to disentangle the effect of middle-class preferences for public goods and social insurance from the political clout of the poor. But "who governs" clearly matters, and unlike *M*, *L* is often and increasingly excluded from government power. We also note that top-end inequality and capital mobility are negatively related to *L*'s transfer rate, but the effects are imprecisely estimated. Surprisingly, bottom-end inequality has a positive effect on *L*'s transfer rate; we have no explanation for this (neither the SDM nor the RDM predicts it).

IV. CONCLUSION

The rise in income inequality over the past four decades has created concerns that democracy is being undermined by the rich, by footloose capital, or by both—what we labeled the subversion of democracy model. These concerns are backed by recent and alarming evidence that public policies, especially those pertaining to taxes, social spending, and redistribution, are being dictated by the rich or by the rising structural power of capital. This article doesn't assuage concerns over rising inequality, particularly at the lower half of the distribution, but it does challenge the idea that democratic governments are no longer responsive to majority demands, especially those of the middle class.

Using both survey evidence for individual policy preferences and macro evidence for transfer rates, we find consistently and unambiguously that policies are aligned much better with the distributive interests of the middle class than with those of either the poor or the rich. The level of social spending is closely associated with the expressed

preferences of the middle class, and the transfer rate (including the value of services) to the middle class has remained constant or even risen slightly during a period in which top-end inequality grew notably. This isn't consistent with a view that accords exceptional and rising influence to the rich. Indeed, since we measure transfer rates as a share of the net income of the rich, it's unambiguously the case that net transfers as a share of middle incomes have risen over time. This finding isn't acknowledged in the current literature, but it is very much in accordance with a long-standing tradition in the field, which emphasizes the pivotal role of the middle class—what we call the representative democracy model.

We believe our results gain credibility because we're able to replicate and explain the accumulated evidence suggesting that the rich exert outsize influence on public policies. This finding often follows when regressing changes in spending policies (or redistribution) on class preferences for changes in such policies. But this approach can be deeply misleading because it completely discounts preferred levels of spending across classes and will pick up differences in information about short-term fiscal policies. Such differences in information needn't be large to cause havoc with the results, as illustrated by our simulations. And when preferred spending levels are used in the empirical analysis, we find no evidence that the rich drive policies. Instead, the evidence that the middle class is influential is consistent across micro- and macro-level data, and robust to alternative model specifications.

Our results thus provide reassuring evidence about the continued importance of democracy for distributive politics. But it is important to add that democratic politics is no guarantee that inequality is being adequately addressed.[87] One misleading assumption in much of the contemporary literature is that a working democracy will compensate for inequality, meaning that when we see rising inequality, we should also expect to see more redistribution; this is not implied by majority rule. Distributive politics is multidimensional, and political alliances determine who benefits and who does not. Since the middle class and its representatives usually stand at the center of the political coalition game, middle-class interests are generally well attended to. But that isn't true of the poor or the lower middle classes, whose members depend on participation in government coalitions, on nonexcludable public goods, on the insurance concerns of the middle class, or on the generosity of higher classes. The trend toward center-right governments since the

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[87] See, e.g., Kelly and Enns 2010.

1990s has hurt the poor, and bifurcation of risks may have undermined insurance motives to support bottom-end redistribution. Precisely because democratic governments are so important for redistribution, explaining partisanship and middle-class preferences remain important tasks for political economy.

Supplementary Material

Supplementary material for this article can be found at https://doi.org/10.1017 /S0043887119000224.

Data

Replication material for this article can be found at https://doi.org/10.7910/DVN /8OVAL6.

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KEY WORDS