Summer June, 2013

"Consumption and Redistributive Politics: The Effect of Credit and China."

BASAK KUS, *Wesleyan University*

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Basak Kus
Wesleyan University, USA

Abstract
This article attempts to bring consumption into the study of redistributive politics. Analyzing data from 20 OECD countries over the period 1995–2007, I investigate whether factors that allowed lower and middle-income households to sustain their consumption had any impact on governments' redistributive efforts. The article focuses on two factors in particular: *access to credit* and *access to cheap imports* (notably, imports from China). I argue that by enhancing consumption these mechanisms moderated the effects of income inequality and suppressed public discontent with increasing income inequality, thereby lessening the political urgency of redistribution.

Introduction

This article examines the link between consumption, inequality and redistributive politics in advanced nations. Income inequality increased substantially in advanced nations over the past few decades.[1] However, governments' redistributive efforts have varied. Referring specifically to the US where income inequality grew especially sharply over the past few decades, Rajan (2010) argues that although politicians recognize the problem posed by rising inequality, they have not addressed it through social transfers or taxation. Growing inequalities, he claims, have instead been dealt with through mechanisms that allowed lower and middle-class households to sustain their levels of consumption (Rajan, 2010: 31). Enacting real policy change in an area where 'too many vested interests favor the *status quo*' would be hard for governments, and would require years to take effect, not really resolving the electorate's current anxiety whereas consumption offers a quicker way to 'mollify their constituents' (Rajan, 2010: 9). In short, 'whether carefully planned or an unpremeditated reaction to constituent demands', Rajan argues, the political response to rising inequality and job insecurity has been to support the mechanisms that would allow lower

Corresponding author:
Basak Kus, Department of Sociology, Wesleyan University, Public Affairs Center, Office: 318, Middletown, CT 06457, USA.
Email: bkus@wesleyan.edu

and middle-income households to keep up their consumption (2010: 8–9). This new politics shaped around consumption, one could argue, offered a convenient way to reconcile what seemed irreconcilable – markets and equality. Markets seemed to bring individuals and households closer in consumption, even if not in income. As consumption increased, and began to follow a somewhat more equal pattern across income groups, inequalities in income distribution became somewhat less politically salient.[2]

The argument that consumption is an integral aspect of inequality and redistributive politics should not come as a surprise from a sociological standpoint. A long line of work dating back to Weber and Veblen reminds us that life chances and social status groups are not only about income and class positions, but are also defined by consumption and life styles. Mechanisms that boost lower and middle-income groups' consumption might help bridge the social status gap that exists between these groups and their higher income counterparts, and this may in turn moderate the effect of real income inequalities and class differences. Be that as it may, the link between consumption, inequality and redistributive policy has not been thoroughly explored in the existing literature.

This study aims to fill this gap. Analyzing data from 20 OECD countries over the period 1995–2007, I examine whether factors that enhanced lower and middle-income households' consumption blunted redistributive efforts. I focus on access to credit, and imports from low-wage nations, from China in particular, as two major mechanisms that allowed lower and middle-income citizens to keep up their consumption. I find both variables to have a statistically significant inverse association with redistributive effort, controlling for a range of political and socio-economic variables, as well as unobserved country-specific effects.

These findings offer a fresh perspective for scholars and policy-makers who remain committed to understanding the political dynamics of inequality and redistribution. Although the question of why some nations redistribute more than others has been extensively studied, consumption has not been considered in these analyses as an independent variable before. Moreover, the study contributes to our understanding of what constitutes the neoliberal politics of inequality. It is seen as a paradox in the literature that governments in advanced nations actually managed to look the other way in the face of increasingly unequal income distribution. This article argues that the mechanisms that enhance consumption, such as access to credit and affordable imported products, moderate the effects of real income inequalities, and keep the lid on public discontent with increasing income inequality thereby lessening the political urgency of redistribution. Declining redistributive functions of the state along with increasing access to credit and affordable imported goods are complementary dimensions of the neoliberal mode of inequality management.

In what follows I first outline the theoretical framework. Then, in the third section, I provide detailed information about the methodology and data, and report the empirical findings. I conclude by briefly discussing the implications of my findings for theory and politics.

Theoretical framework

Existing explanations of redistributive policy have so far largely focused on the role of political parties, unions, economic globalization, and various labor market characteristics. Consumption has not been systematically explored as a factor that shapes the politics of inequality and redistribution.

Specifically, one scholarly tradition, *the power resources approach*, attributes governments' redistributive effort to working-class power, more specifically to labor unions and left parties (Esping-Andersen, 1990; Hicks and Swank, 1992; Huber and Stephens, 2001; Korpi, 1983, 1989;

Kwon and Pontusson, 2005). Another line of thought – *the median voter approach* – argues that high levels of earnings inequality fuel demand for redistribution (Meltzer and Richard, 1981; Milanovic, 2000; Perotti, 1996).[3] A third line of scholarship emphasizes the role of economic globalization. Some scholars claim that governments feel compelled to redistribute income and wealth so as to cushion the dislocations triggered by economic globalization – a theoretical framework known as *compensation* perspective (Barr, 1998, 2001; Garrett, 1998; Rodrik, 1998). Others meanwhile argue that economic globalization and redistributive effort are negatively associated since competitive pressures posed by economic integration make it impossible to sustain generous redistributive policies (Huber and Stephens, 2001).[4] Finally, the sectoral occupational structure has also been viewed as shaping governments' redistributive efforts. In this vein, Iversen and Cusack (2000) argued that labor market dislocations associated with *deindustrialization* played an important role in the expansion of social welfare effort in the 1960s and 1970s.

These theories provide significant insights into sources of the variations across nations and overtime. However, there are still some questions left unanswered – specifically, the questions of why despite rampant inequalities over the past two decades, advanced country governments did not make a more decisive attempt to counter these trends through social transfers and taxation, and why is it that increasing income inequalities since the early 1990s did not fuel a more robust demand for redistribution in advanced market economies, particularly in the liberal market economies. By bringing consumption into the study of inequality and redistributive politics, we may be able to account for a large part of these questions.

Bringing consumption in

On 10 February 2008 two Federal Reserve economists, Michael Cox and Richard Alm, published an op-ed piece in the *New York Times* with the title 'You Are What You Spend'. There, they wrote that the renewed attention being given to the gap between the haves and have-nots in America is misdirected since it is focused on the wrong measurement of financial well-being: income statistics. Income statistics, Cox and Alm argued, 'don't tell the whole story of Americans' living standards'. A far more direct measure of American families' economic status, they said, is household consumption, which shows that 'the gap between rich and poor is far less than most assume'. Cox and Alm were not the first to make this argument. Indeed, this consumption-based view of welfare had been rather popular among libertarian circles for some time. Irving Kristol (1997) made a similar point about a decade ago in the *Wall Street Journal* in his essay 'Income Inequality without Class Conflict'. On the academic front Slesnick (2001) claimed that switching the focus to consumption trends leads to an entirely different, and much more optimistic, picture of the growth of living standards and the decrease in inequality and poverty in the US. More recently, the same thread, namely that 'the dispersion of incomes at any given time has, at best, a tenuous connection to human welfare or social justice' was picked up by Wilkinson[5] (2009). Wilkinson argued that to get an accurate picture of overall material well-being, what we really should be looking at is the quantity of goods and services a person is able to consume, and the value to that person of all those goods and services. 'Fixating on income inequality', he noted, 'may have caused us to miss one of the biggest stories of modern times: America may have become materially more equal, and no one noticed' (2009: 4).

Here, I coin the term 'consumer welfare' to refer to this view of welfare which takes material standards of living as a reference point. This is very different from social welfare, at the heart of which are several core principles: (1) that citizens will be insured against economic risks and insecurities (*insurance*); (2) that there will be mechanisms in place to decrease their dependence on

markets (*decommodification*); and (3) that the distance between the poor and the rich in a society will not get too wide (*redistribution*).

The purpose of this article is not to discuss normatively whether consumer welfare can indeed be a viable substitute for social welfare. Nor am I suggesting that consumption trends are what we should care about rather than trends in income distribution. What I propose is to examine the empirical link between these two trends. The literature on redistributive politics has so far ignored the impact of mechanisms in society that boost consumption. I intend to bring them into the discussion. As they decouple consumption from income, such mechanisms create a sense of fairness and reduce public discontent with increasing inequality. In turn, redistributive government policies become less urgent. This tradeoff between consumption and redistribution remains a much neglected but an integral aspect of the politics of inequality the neoliberal era.

The analysis focuses on two factors that contributed to consumer welfare over the past two decades: (1) households' access to credit, which has substantially increased since the early 1990s, albeit to different degrees in different nations; (2) households' access to low-wage imports from outside the OECD zone – notably from China, which brought down the prices of a range of products that constitute a large portion of household consumption. I posit here that these factors have been particularly instrumental in increasing lower and middle income households' consumption capacities over the past few decades.

Access to credit

One of the most distinct features of the last few decades of capitalist development in advanced countries is the expansion of households' access to credit. In the US, credit has been central to the maintenance of middle-class Americans' living standards since the end of the Second World War (Logemann, 2007; Trumbull, 2010). In recent decades, however, this role became even more pronounced as the socio-economic base of credit usage expanded tremendously.[6] This recent increase in use of credit occurred in tandem with the increase in income inequality (Krueger and Perri, 2006). As different types of credit with varying characteristics became available, households, especially lower and middle-class households, increasingly turned to these financing tools to attain consumption opportunities that would have not been available otherwise (Krugman, 2009). This trend of increasing credit usage has not necessarily remained an American phenomenon. As Rajan (2010) argues, since the early 1990s, 'easy credit' emerged, in other rich countries as well, as a 'seductive' way of improving the material lives of voters whose income distribution was getting increasingly unequal.

As Figure 1 shows, household loans as a percentage of GDP increased in all OECD countries between 1995 and 2007, albeit at varying degrees, and as Figure 2 shows, households have begun to use credit more and more to finance their consumption expenditures.

Although I argue here that access to credit was a mechanism that enhanced consumption and therefore helped moderate the effects of income inequality, an argument can be made that it is a mechanism that will immiserate lower and middle-income households in the long run by pushing them into debt. In fact, the developments that unfolded during the past five years clearly displayed to governments the unsustainability of the credit-reliant, consumption-based inequality management. However, the objective here is not to evaluate the sustainability of the credit-reliant consumer welfare. My goal is to examine the link between credit-reliant consumption and redistribution. As Rajan (2010) notes, the benefit of credit – that is, higher consumption – remained immediate, and paying the inevitable bill could be postponed into the future. Cynical as it may seem, Rajan argues, 'let them eat credit' logic provided governments a palliative way to address the deeper
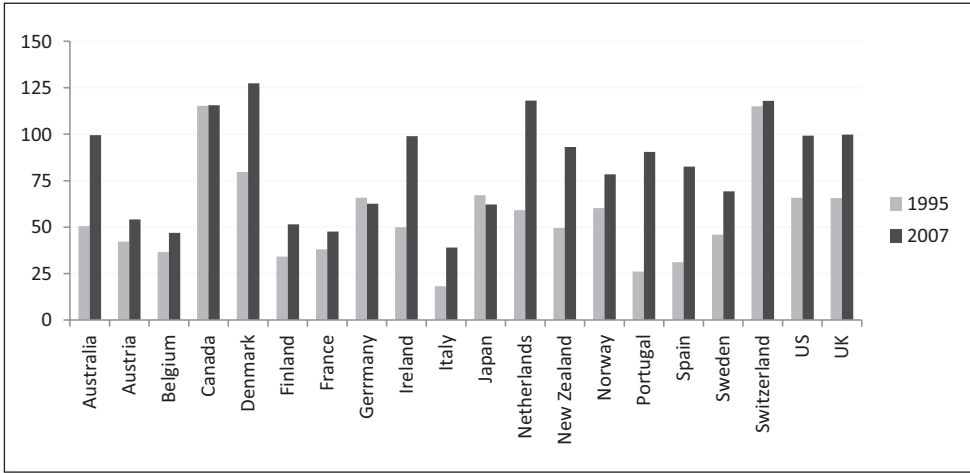
Figure 1. Household indebtedness as % of GDP.
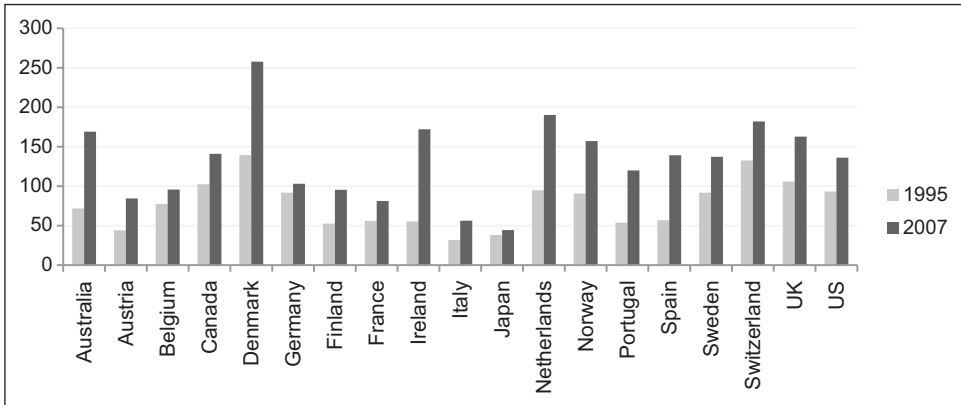*Source*: OECD Statistics.

Figure 2. Total credit to households as a % of final consumption expenditure of households.
Source: European Credit Research Institute.

anxieties of those that remained in the lower tail of income distribution. Easy access to credit took the edge off discontent of lower and middle-income constituents, thereby lessening the political salience and urgency of redistribution. Data collected from 17 OECD countries through the International Social Survey shows a strong negative correlation between access to credit and citizen support for redistribution, as seen in Figure 3.[7]

Recently, economic sociologists and political economists began to offer important theoretical and empirical insights regarding the role of credit in sustaining socio-economic stability. Crouch (2009), for instance, claims that excessive credit use over the last two or three decades must be seen as the rise of 'privatized Keynesianism' – a policy regime whereby households and individuals, rather than governments, take up debt so as to stimulate the economy and create economic stability. Schwartz and Seabrooke (2008) talk about 'housing and the welfare trade off',
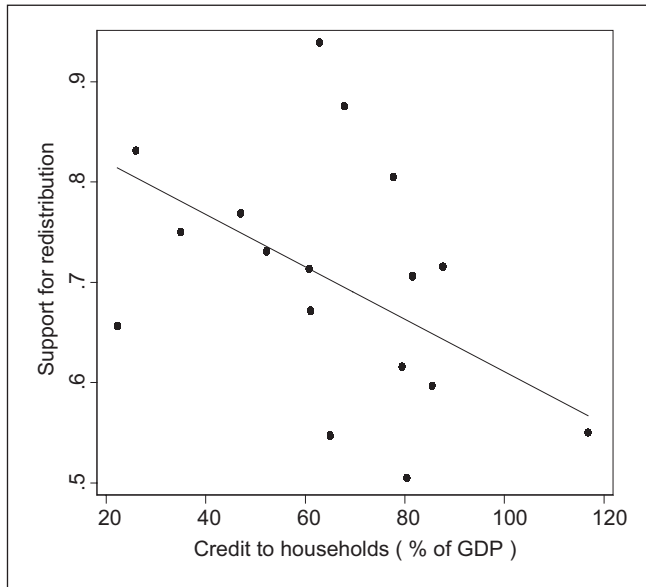
Figure 3. Support for redistribution and credit to households (% of GDP).

discussing how residential property ownership interacts with welfare regimes. Warren and Tyagi (2004) and Prasad (2010) discuss credit reliance in the US as an outcome of a weak welfare state. Here I contribute to this budding literature by examining the link between credit growth and redistributive effort. I view easy access to consumer and mortgage credit as one of the mechanisms that obfuscated growing income inequality. I hypothesize that as access to credit increases, redistributive effort decreases.

Hypothesis 1: As access to credit increases, redistributive effort decreases.

Low-wage imports and 'made in China'

Lower and middle-income households' consumption has also been impacted by the continuous decrease in price of a wide range of products that households use. It is well-known[8] that many products that until recently were only affordable to the mega-rich are now enjoyed by households even in lower-income brackets in today's advanced nations (Nye, 2002).[9] While the downward trend in the prices of goods that make up a large portion of household consumption has been an ongoing trend for some time, largely thanks to technological advances, advanced nations saw a significant increase in the availability of highly affordable consumer products in the past two decades. Trade with labor-abundant low-wage countries decreased the prices of labor intensive goods in advanced nations (Krugman, 2008). Recent research notes China's rapid export expansion as a major source of the decline in the aggregate price of trade manufactures recorded by the IMF after the mid-1990s (Amiti and Freund, 2007, 2008; Auer et al., 2010; Fu and Gong, 2009; Fu et al., 2009; Kaplinsky, 2005; Lai, 2004; Villoria, 2009). Thanks to its low-cost labor and sustained productivity growth, China became the world's factory floor since the mid-1990s. Her export volume increased more than tenfold since 1995. As Amiti and Freund (2007) note,

Table 1. Imports from China as % of total imports.

Year	% of US imports	% of JAPAN imports	% of EU imports
1985	1.2	5.4	0.4
1990	3.3	5.7	0.8
1995	6.5	12.1	1.6
2000	8.1	16.1	2.7
2005	14.4	22.9	4.7

Source: US Census Foreign Trade Statistics and US Congressional Research Service.

this far exceeds the tripling of world trade that took place over the same period. As Table 1 shows, while in 1985, China accounted for only 1.25 percent of all US imports, this number was up to 14 percent by 2005.

Regarding the effect of China's export growth on commodity prices, Auer et al. (2010) estimate that when Chinese exporters capture 1 percent of European market share, producer prices decrease about 2 percent. Amiti and Freund (2008) report a similar effect for the US product markets estimating that between 1997 and 2005 China's export prices to the United States fell by an average of 1.6 percent per year. What this means for households in importing nations is access to goods at lower prices – an important trend given that Chinese manufactures are disproportionately consumed by low and middle-income sections of society.

I posit here that the rise in the share of OECD imports from low-wage countries and China in particular increased lower and middle-class households' access to affordable products thereby moderating the effects of real income inequalities. I therefore hypothesize that *access to low-wage imports* and *'made in China'* has an inverse relationship with redistributive effort.

> *Hypothesis 2*: As countries' imports from low-wage countries and China increase, redistributive effort decreases.

Data and methodology

I conducted a panel data analysis to examine the relationship between my main explanatory variables of interest – namely, *consumer welfare, access to credit*, and *access to cheap imports* – and the dependent variable, *redistributive effort*. The analysis involves data from 20 OECD countries,[10] and focuses on the period of 1995–2007, due to limitations concerning data availability. The units of observation of dependent and independent variables are the country-years. To help isolate the relationship between the main explanatory variables and the dependent variable, I include in my analysis several control variables derived from the literature – namely, union density, left party power, economic growth, the percentage of old aged population, the rate of unemployment, share of manufacturing in total employment, female participation in the labor market, gross income inequality, as well as two variables capturing economic globalization. Table 2 provides the summary statistics for the variables included in the analysis.

The dependent variable: Redistributive effort

I measure redistributive effort, the dependent variable, primarily in terms of *social transfers as a percentage of GDP*. The data come from the widely used Comparative Political

Data Set compiled by Armingeon et al. (2010). As an alternative measure, I use the *degree of redistribution*, which I calculated using Solt's (2008) gross and net GINI measures. The gross GINI measure captures the inequality in the distribution of market incomes, whereas the net GINI measure captures income distribution after taxes and transfers. In order to calculate the degree of redistribution for each nation in a given year, I deduct the net GINI value from the gross GINI value and divide the difference by the gross GINI value. The result is multiplied by 100 to express relative change as a percentage.

Key independent variables

Access to credit. Household access to credit is one of my major explanatory variables of interest. Following Prasad (2010), I calculated *household access to credit* using OECD's net lending/net borrowing in the household sector data and inverting the negative and positive debt values. This variable essentially captures households' credit-based net debt. As an alternative measure, I use data on consumer credit as a percentage of GDP from the *European Credit Institute.*

Access to cheap imports ('made in China'). I measured households' *access to 'made in China'* in terms of China's exports to individual countries as a percentage of the importing country's GDP. The data come from IMF's Direction of Trade (DOT) statistics. As an alternative measure, I use the more comprehensive variable of *low-wage imports* that measures the ratio to GDP of low-wage imports to individual countries. The data come from OECD's bilateral trade statistics. It measures imports from non-OECD countries excluding OPEC countries and Saudi Arabia.

Consumer welfare. Although the study runs regressions separately on both credit and China variables, it seems conceptually convenient for the purposes of the present article to have an aggregated *consumer welfare* variable that measures both of these variables at the same time; therefore, I constructed a compound consumer welfare variable out of these two variables. In order to do this, I first converted both variables into standardized z scores. Then I calculated and standardized the average value. The unit of measurement for the consumer welfare variable, hence, is the standard deviation.

Control variables

Left party power and union density. As discussed before, the power resources theory sees social welfare effort as a function of working-class power. Thus, *union density* and *left party power* variables were included in the analysis as control variables. The data for both of these variables come from Armingeon et al. (2010). The *union density* variable measures union membership as a proportion of wage and salary earners in employment. The left party power variable indicates whether there is a left party in power or not (left party in power = '1'; otherwise, '0'). The data for both of these measures come from Armingeon et al. (2010).

Economic globalization. The economic globalization variables also come from Armingeon et al. (2010). One of these variables – financial openness index – measures the extent of openness in capital account transactions with higher scores indicating more openness, while the other one – openness to international trade – measures the openness of the economy in current prices, measured as total trade (sum of import and export) as a percentage of GDP.

Table 2. Summary statistics.

Variable	Mean	Std Dev.	Min.	Max.
Social transfers (% of GDP)	13.88	3.45	7.7	22.17
Degree of redistribution (%)	33.91	10.89	11.23	54.56
Union density	34.95	20.77	7.6	83.1
Left party power	0.274	0.45	0	2.54
Financial openness index	2.41	0.29	1.18	184.31
International trade (% of GDP)	74.74	36.33	16.9	22.96
Unemployment (%)	6.88	3.24	2.12	23.19
Manufacturing employment (% of total employment)	16.26	3.2	9.88	21.49
Percent elderly	15.18	2.19	10.85	61.05
Gross GINI	44.99	4.56	36.35	11.5
Economic growth (%)	2.91	1.74	−2	4.62
Imports from China (% of GDP)	0.78	0.81	0.078	6.21
Cheap imports (% of GDP)	5.38	3.47	1.72	23.04
Access to credit (credit-based net debt; % of GDP)	−1.56	3.25	−10.53	6.05
Consumer welfare (z score)	0	0.99	−2.23	4.63
Consumer credit (% of GDP)	5.38	3.47	1.72	23.04

Share of manufacturing in total employment. Following Iversen and Cusack's (2000) influential work, it has become an established understanding in the literature that the sectoral composition of the economy matters for government's social welfare policy. According to Iversen and Cusack (2000) labor market dislocations associated with major shifts in the sectoral occupational structure between the 1960s and 1990s (the shift from manufacturing to services, in particular) remained a driving force in expansion of transfers and social spending. Therefore, I control for the manufacturing's share of employment in this study.[11] The study includes the *share of manufacturing in total employment* as a control variable. The data come from OECD Statistics.

Gross GINI. Following the median voter theory which sees social welfare effort to depend in part on the distribution of market incomes, an inequality variable – *gross GINI* – was included in the analysis. The data for this variable come from Solt's (2008) *Standardized World Income Inequality Database*. The *gross GINI index* that was included in this analysis measures the distribution of gross income, that is, the distribution of market income before taxes and social transfers, as opposed to a *net GINI index*, which measures the distribution of disposable income. The reason that I decided to include *the gross GINI index* and not *the net GINI index* is because the latter is affected by social transfers and expenditures which make up the dependent variable, hence, would pose an endogeneity problem.

Growth, unemployment, female participation in the labor market, and percent elderly. The data on economic growth, rate of unemployment, female participation, and percentage of elderly in the total population all come from Armingeon et al. (2010). *Economic growth* is measured in terms of the growth of real GDP (percentage change from previous year). *Rate of unemployment* is measured as a percentage of the civilian labor force. *Percent elderly* measures population 65 and over as a percentage of the total population. The data on *female participation in the labor market* come from UN Statistics, and captures women's share of active labor force.
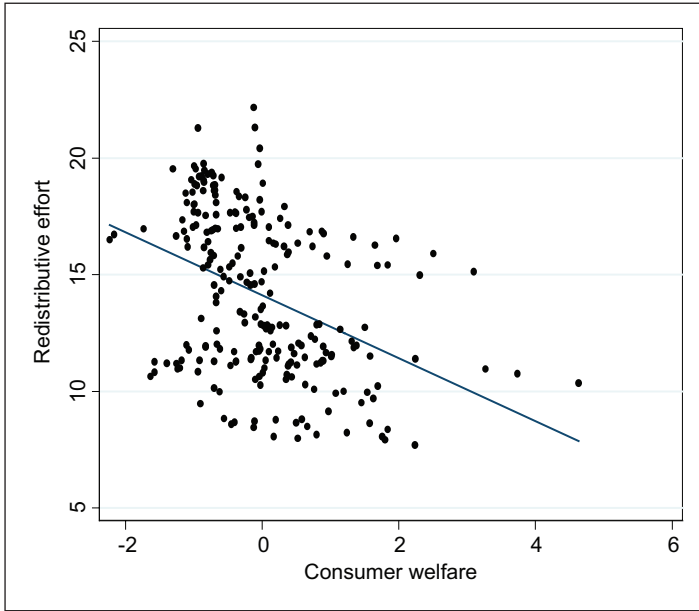
Figure 4. Consumer welfare and redistributive effort.

Model specification and results

I use a fixed effects model here to control for unobserved country-specific characteristics omitted from the model. While this estimator makes it harder to find statistically significant effects, it ensures that the findings are not an artifact of country-specific unobservables. Moreover, I lag the right hand side variables by one year so as to control for the possible reverse impact of the dependent variable on the independent variables.

As is well known, panel data analysis presents several statistical challenges – most notably, that of autocorrelation and heteroskedasticity in the error term. To circumvent these problems, I calculated panel-corrected standard errors, following Beck and Katz (1995), and estimated Prais-Winsten regressions.[12]

Below, I provide the statistical results on which the present analysis rests. Figure 4 offers a basic scatter plot to display the negative association between consumer welfare and redistributive effort.[13] Regressions in Table 3 examine whether this relationship holds when controlling for other theoretically relevant factors.

Model 1 examines the effect of consumer welfare on redistributive effort. Controlling for political influence variables (union density and left party power), economic globalization variables (capital account liberalization and openness to trade), economic growth rate, unemployment, female participation in the labor market, share of manufacturing in total employment, percent elderly, gross GINI (income inequality before taxes and transfers), and country fixed effects, I find that consumer welfare displays a highly significant negative association with redistributive effort ($p = .002$). A one standard deviation increase in consumer welfare is associated with a .48 percent decrease in the redistributive effort.

Model 2 examines whether households' access to credit has any effect on government commitment to redistribution. Here also, I conduct the analysis using the full set of control variables including the country fixed-effects. If Hypothesis 1 holds, then it follows that access to credit has

Table 3. Regression estimates; fixed effects, panel corrected standard errors.

Dependent variable: Redistributive effort *p* < 0.10; **p* < 0.05; ***p* < 0.01	Model 1	Model 2	Model 3	Model 4
Consumer welfare	−.478*** (.158)			
Access to credit		−.076** (.038)		
Access to 'made in China'			−.563*** (.222)	
Access to low-wage imports				−.106** (.043)
Economic growth rate	−.051 (.041)	−.059 (.039)	−.093** (.042)	−.084** (.041)
Unemployment rate	.185*** (053)	.178*** (.053)	.173*** (.041)	.155*** (.042)
Gross GINI	.006 (.021)	.011 (.022)	.007 (.021)	.012 (.019)
Old-age population	.518*** (.064)	.518*** (.022)	.471*** (.067)	.462*** (.068)
Female participation in the labor market	−.028 (.119)	−.079 (.119)	.013 (.114)	.013 (.118)
Employment in manufacturing	−.159** (.073)	−.078** (.083)	−.141** (.066)	−.074 (.075)
Union density	.071* (.041)	.079** (.041)	.092** (.038)	.114*** (.037)
Left party power	.004 (.131)	.008 (.041)	−.116 (.130)	−.081 (.133)
Financial openness	.210 (.289)	.240 (.273)	.110 (.259)	.003 (.240)
Trade openness	−.036*** (.013)	−.034*** (.012)	−.024*** (.013)	−.022** (.010)
Constant	3.250 (5.096)	4.273 (5.296)	1.214 (5.263)	−.058 (5.948)
N	217	219	235	237

Note: The dependent variable – redistributive effort – is measured in terms of social transfers as a percentage of GDP.

a negative effect on the redistributive effort. This is indeed the case. The credit variable displays a significant negative association with the redistributive effort (*p* = .043).

Model 3 looks at the effect of access to 'made in China'. If Hypothesis 2 holds, then it follows that access to 'made in China' has a negative effect on the redistributive effort, which this analysis shows to be the case (*p* = .011).

In Model 4, I replace the access to 'made in China' variable with an access to low-wage imports variable. I find that the effect of low-wage imports is still significant (*p* = 0.015), although it has a smaller magnitude compared to the 'made in China' variable. This is not entirely surprising. Other research shows that not all low-wage imports have the same effect. Auer (2010) demonstrates, for instance, that low-wage competition has strong price effects, but this is largely driven by Chinese exports. According to Auer and Fischer (2010) when Chinese exporters capture 1 percent of European market share, producer prices decrease about 2 percent, whereas no such effect is present for import competition from low-wage countries in Central and Eastern Europe.

Looking across Table 3, we see that union density, unemployment, percent elderly, economic globalization, and manufacturing employment variables consistently display a highly significant relationship with redistributive effort as well. Left party power does not seem to have any significant effect on redistributive effort.

Additional robustness tests

In a cross-sectional time-series analysis of this sort where results tend to be sensitive to the cases included in the study, as well as the time-frame and the specific measures used, we must take in assuming causation. I conduct several sensitivity tests to evaluate the robustness of the

Table 4. Regression results; fixed effects, panel corrected standard errors.

Dependent variable: Redistributive effort	Model 5	Model 6	Model 7	Model 8
	Consumer welfare	Access to credit	'Made in China'	Consumer credit
p < 0.10; ** *p* < 0.05; ***p* < 0.01	−1.005*** (.343)	−.237** (.115)	−1.083*** (.341)	−.363** (.169)
N	215	217	233	201

Note: The dependent variable, redistributive effort, is measured in terms of the degree of redistribution. The degree of redistribution was calculated in the following way: (Gross GINI-Net GINI) x 100/Gross GINI. This way nations' actual redistributive efforts can be measured in proportion to the initial inequality level observed in the distribution of market income.

key findings. These robustness checks include alternative measures of the main variables and alternative model specifications. While these tests are not fully conclusive, they do support the main thesis of the study.

Using alternative measures for the key variables. First, I wanted to see if the inferences would still hold when I use an alternative measure for the dependent variable. I ran the same fixed effects model this time measuring the dependent variable in terms of the *degree of redistribution*. Once again, as seen in Table 4,[14] despite the strong effects of the control variables, including country-specific effects, consumer welfare still displays a highly significant effect (p = .003). Model 5 shows that for an increase of one standard deviation in consumer welfare, redistribution decreases 1 percentage point. Similarly, access to credit and 'made in China' variables both display a statistically significant negative effect on redistribution (p = .040 and p = .002, respectively).

I also wanted to see how the results would fare using an alternative measure for the *access to credit* variable. Model 8 specifically looks at the effect of consumer credit on redistribution, and finds it to have a negative significant association with redistributive effort (p = .031).

Alternative model specification: Arellano and Bond dynamic panel estimators. Finally, I re-estimate the results using GMM (generalized method of moments) estimation techniques. This estimator was first introduced by Arrelano and Bond (1991), and further developed in a series of papers including Arraleno and Bover (1995), Blundell and Bond (1998) and Roodman (2009). Dynamic panel estimation is most apt for panel analyses in the presence of independent regressors that are not strictly exogenous, fixed unit effects, and individual-specific patterns of heteroskedasticity and serial correlation (Roodman, 2009). The procedure consists of first-differencing the data, as opposed to the fixed effect transformation that demeans them. Endogenous variables are then instrumented using their own lagged values. This is a much more stringent test of the notion that temporal changes in the independent variables are associated with changes in the dependent variable. In my study I found that that the key variables are still statistically significant (at p = .03; p = 0.06, and p = .05 for consumer welfare, credit, and 'made in China' variables, respectively) when we use a system GMM estimator, although, they have a much smaller magnitude[15] (see Table 5).

Overall, using various measures and model specifications, the findings seem to provide support for the two hypotheses I outlined in the previous pages – namely, declining redistributive functions of the state along with increasing access to credit and affordable imported goods have formed complementary dimensions of the neoliberal politics of inequality.

Table 5. Regression results, GMM estimators, robust standard errors.

Dependent variable: Redistributive effort	Model 9	Model 10	Model 11
	Consumer welfare	Access to credit	'Made in China'
p < 0.10; **p* < 0.05; ***p* < 0.01	−.160*** (.046)	−.041* (.021)	−.121** (.058)
N	201	202	217

Note: The dependent variable – redistributive effort – is measured in terms of social transfers as a percentage of GDP

Conclusion

This article attempts to bring consumption into the study of redistributive politics. The existing literature considers the influence of a wide array of political, economic and demographic variables on redistribution, including the power of labor unions and left parties, globalization, unemployment, aging, female employment, and economic growth. However, an analysis of the impact of consumption has not been conducted. This needs to change. Individuals' perceptions and experiences of inequality are not only shaped by income levels but also by consumption and lifestyles. Various mechanisms in society boost consumption creating a sense of material welfare and fairness. This keeps the lid on public discontent with increasing inequality, and decreases the political urgency for redistribution.

The present analysis focuses on two factors that boost lower and middle-income citizens' consumption: *access to credit* and *low-wage imports* – in particular, *imports from China*. Both variables are found to have a statistically significant negative association with redistributive effort, controlling for a range of variables. I argue that by enhancing consumption these mechanisms moderated the effects of real income inequality over the past few decades. I should note that the suggestion here is not that these mechanisms actually decrease the relevance of rising income inequality as a socio-economic and policy concern. As Crouch (2011) notes, this argument, which has been made time and again by libertarian economists and neoliberal politicians, ignores the long-term consequences of widening income disparities for democracy and social trust in society and obliterates the role of the state in dealing with income inequality.

Looking into the relationship between consumption and redistribution contributes to our understanding of the neoliberal politics of inequality and helps clarify some of the prevailing questions concerning redistribution – particularly the questions of how it is that governments in advanced nations did not respond to increasing income inequality in a more robust way, and why public support for redistributive policies remains rather limited still. These questions compel us to rethink the factors that shape the salience of inequality as a policy issue in advanced nations.

In their 2008 article, Kenworthy and McCall show that in the US, income inequality increased during the 1980s and 1990s, however, the perceived level of inequality declined, especially starting from the early 1990s. The same period did not see heightened support for redistribution, nor was there a commensurate increase in the generosity of redistributive programs. How could this be? This analysis suggests that this was possible because of various mechanisms, such as credit expansion and affordable imported products, which allowed lower and middle income households to keep up their consumption. Declining redistributive functions of the state and increasing consumption capacity are the two sides of neoliberal inequality management.

The analysis conducted here is macro-comparative. It provides support for the thesis of a consumption–redistribution tradeoff. It does not however analyze the underlying mechanisms and micro-foundations of this tradeoff in a systematic way. Two lines of inquiry would be particularly useful in that regard. One of these empirical steps involves analyzing the impact of factors that boost consumption on citizens' opinion of redistribution in a multi-level analytic framework. Although this article provides partial data to speak to that question, a more comprehensive analysis is needed. Second, a qualitative study of neoliberal policy-makers' views on redistribution would help us understand how neoliberal policy-makers in different countries understood the problem of inequality, and what role consumer welfare played in their understandings. Crouch (2011) notes, for instance, that former British Prime Minister Tony Blair often expressed the view that income disparities do not matter anymore because the great majority is *materially* well off. A systematic qualitative study of such political statements and policy ideas in a comparative framework would reveal the extent to which this consumption–redistribution tradeoff was an integral aspect of the neoliberal redistributive paradigm in advanced nations.

Although this analysis is limited to explaining redistributive policies in the neoliberal era, the findings suggest that revisiting the existing knowledge of the historical development of redistributive regimes would prove valuable. The well-known 'three worlds of welfare capitalism' depicts the US, along with several other liberal market economies, as a residual welfare state that does relatively little by way of redistribution. This characterization stands accurate on many accounts. In terms of redistribution, the US does less in comparison to many other advanced countries. Various surveys about people's attitudes towards welfare also show that Americans are much less willing to redistribute from the rich to the poor than Europeans. Nevertheless, the differences between regimes might be running deeper than this characterization suggests. From its early origins onwards, raising living standards through extension of credit rather than redistribution of income has remained central to the American political economy. The early development of the credit system in the US and the role of credit in creating material affluence for working citizens must be considered carefully vis-à-vis the under development of generous redistributive policies. Several scholars have already started to transform our comparative understandings of welfare and redistributive regimes along these lines (Logemann, 2007; Prasad, 2010; Trumbull, 2010).

Similarly, while this study is limited to advanced nations, the trends that are analyzed here are by no means exclusive to advanced nations. In recent years expansion of credit, in particular, has become widespread in developing nations as well. It would be worthwhile to study the link between consumption and redistribution in developing countries as well.

As Pierson (1996) and Brady et al. (2005) note, the causal factors that have shaped the politics of welfare and redistribution in the past – most notably in the period of welfare expansion after the Second World War – cannot be expected to fully explain the political dynamics and policy choices of the present era. We must also consider the factors that have drastically changed the way capitalist economies function in more recent periods. This article attempts to consider these factors by examining the welfare and redistributive effects of both credit expansion and the growth of China's export sector. To be sure, this study only scratches the surface of a complex relationship between the management of consumption and social welfare politics in advanced nations. More nuanced results and robust claims to causality would require further study. Regardless, I hope that this study will convince the readers of this journal that management of consumption must be seen as an integral part of redistributive politics.

Acknowledgements

reviewers for their valuable comments and suggestions. I also would like to thank Dana Louie, my student research assistant, for proofreading various versions of this manuscript. Earlier versions of this article were presented at the 2011 Annual Meeting of the Society for the Advancement of Socio-Economics, and the 2012 Dublin Workshops on Financialization, Consumption and Social Welfare Politics. The study was supported by the Irish Research Council for Humanities and Social Sciences.

Funding

Notes

1. See Bartels (2008); Kenworthy and Pontusson (2005); Krueger and Perri (2006); OECD (2008).
2. The jury is out on the question of whether consumption inequality has actually increased, stayed stable, or decreased, and to what extent. However, there seems to be a general consensus that consumption inequality has remained much less pronounced than income inequality (Cutler and Katz, 1992; Johnson et al., 2005; Krueger and Perri, 2006; Meyer and Sullivan, 2010).
3. Empirical evidence does not allow for a clear consensus on this thesis, however. Some scholars have argued that income inequality is negatively associated with redistributive effort: redistribution in countries with higher inequality tends to be less generous, rather than more (Alesina and Glaeser, 2006; Kenworthy and McCall, 2008; Lindert, 2004; Moffitt et al., 1998; Perotti, 1996). It has also been argued that the level of income inequality has no effect on levels of redistribution.
4. Other scholars yet take a more balanced approach. Hicks (1999), for instance, argues that globalization's effect on welfare states is curvilinear, and Brady (2005) argues that 'globalization does not have one overall effect on the welfare state,[1] and what effect it has is most certainly relatively small' (p. 945). Busemeyer (2009) has recently argued that welfare erosion effects of globalization are now becoming more apparent, having been obscured by earlier data-aggregating studies. For further discussion, see also Brady et al. (2007); Genschel (2002); Mosley (2000); Wibbels and Arce (2003).
5. Will Wilkinson is a Fellow of the Cato Institute in Washington, DC, and is the former Editor of *The Cato Unbound*.
6. The widening in the socio-economic base of credit usage is often described as part of a 'democratization of finance'. This implies that access to credit, which has been a privilege of only a certain part of the population (i.e. white, upper and middle classes), has now become available to a large part of the population.
7. I measure citizens' preferences about redistribution using International Social Survey data from 1996, 1999, and 2006. The 1996 and 2006 surveys ask the question: 'Do you think it should be or should not be the government's responsibility to reduce income differences between the rich and poor?' In 1999, the survey question was slightly modified. Respondents were asked how much they agree or disagree with the following statement: 'it is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes'. For purposes of simplicity I recoded the answers into two categories where 0 equals 'Disagree', and 1 equals 'Agree'.
8. This argument often animates discussions of poverty and inequality in libertarian circles.
9. As Wilkinson (2009) notes, based on the Montgomery Ward catalogue, while it took 260 hours for an average worker to earn a one-speed bike in 1895, in 2000 it took only 7.2 hours; while buying a hundred-piece dinner set meant 44 hours of labor for an average worker in 1895, in 2000 it took only 3.6 hours.
10. Australia Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, New Zealand, Portugal, Spain, Sweden, Switzerland, UK, US.
11. I should note that in accounting for the role of deindustrialization, Iversen and Cusack (2000) do not simply use data on manufacturing's share in total employment, as I do here. Their measurement takes into account the percentage of the population employed in both the agricultural and industrial sectors over all the active age population. My argument, however, is not about welfare expansion in the post-1960s era, but about recent changes. I do not think that factors such as the drastically changing size of

     the agricultural labor force are as relevant to our time frame and question as it is to Iversen and Cusack.

12. Following Beck and Katz (1995), the inclusion of a lagged dependent variable to the right side of the equation has become a common way of dealing with autocorrelation. I do not follow this approach here. As Achen (2000) and Plumper et al. (2005) elaborated in much detail, the inclusion of a lagged dependent variable runs the risk of suppressing the power of other independent variables.

13. Redistributive effort is measured in terms of social transfers as a percentage of GDP.

14. In Tables 4 and 5 I report the results only for the key variables. I would like to note however, that I included the full set of control variables in both analyses.

15. It is common to see a downward bias in coefficients when GMM technique is used.

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