

Inequality in Different Welfare States: Status Quo, Reasons and Measures ——Take Germany, Sweden and the United States as examples

Linan Li

linan@cua.edu

School of Liberal Art, Xiamen Institute of Technology, Xiamen, China

Abstract: Income inequality has increased rapidly in recent decades. According to the welfare states theory of Gosta Esping-Andersen, taking Germany, Sweden and the United States as examples analysis of the inequality in different Welfare States: status quo, reasons and measures. Seen from the experiences and lessons of developed countries in reducing the income gap, many reasons are accountable for explaining income inequality, such as the nature and scale of government intervention in social welfare, the degree of the marketization of social welfare, and the extent of stratification in society. Taking into account these factors, China should form social security institutions based on its concrete national conditions and institutional structures.

Key words: Income inequality; Welfare States; status quo, reasons and measures

1. INTRODUCTION

World Inequality Report 2018 shows that income inequality has increased in nearly all countries but at different speeds. Inequality in North America, China, India, Russia, America, Latin America, South Africa and the Middle East. *World Inequality Report 2018* points out, “China’s rapid economic growth has moderated this increase” (WIL 2018, 22). According to the report,

Since 1980, income inequality has increased rapidly in North America, China, India, and Russia, and inequality has grown moderately in Europe. From a broad Historical perspective, this increase in inequality marks the end of the postwar egalitarian era, in the face of this different countries have taken different choices. (WIL 2018, 9)

Therefore, based on the classification of welfare states in, we analyze the current status of income inequality in different welfare state, and then think the impact and enlightenment of different social welfare policies on inequality.

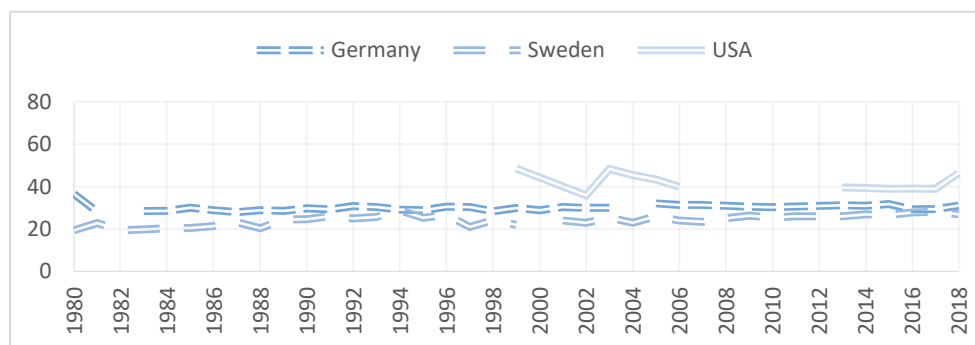
2. THE SKETCH GOSTA ESPING-ANDERSEN 'SWELFARE STATE THEORY

According to the welfare states theory of Gosta Esping-Andersen (2010, 45-51), based on the scale of state responsibility, the degree of marketization and hierarchy, three main types of welfare states are classified for the contemporary Western welfare state: liberal regimes, conservative regimes and social democratic regimes. Liberal regimes follow the Anglo-Saxon countries' model in which countries use economic research of different degree and social relief supplemented by a small amount of universal transfer payment or the limited social insurance scheme. Liberal regimes mainly include the United States, Britain, Canada, Australia, etc. Conservative regimes include almost all countries in the European mainland, whose characteristic is the qualification of enjoying the social rights determined by work achievement, that is, receiving social security is based on participating in the labor market and social security payment records. Conservative regimes include Germany, France, Italy, Austria and other countries; social democratic regimes basically include the Nordic countries, including Sweden, Norway, Denmark, etc., and these countries confirm Beveridge's principle of universal citizenship, that is, the welfare policies depend mainly on citizenship or long-term residence status (Jiang 2010, 104-109).

3. A COMPARISON OF INEQUALITY IN THE UNITED STATES, SWEDEN AND GERMANY

According to the theory, we choose three countries for comparative analysis: the United States, Germany and Sweden.

3.1 Comparison of Gini Coefficients



Source: WIID.

Figure 1. Gini coefficient

The Gini coefficient ranked from low to high is (Figure 1 & Table 1): Sweden, Germany, the United States.

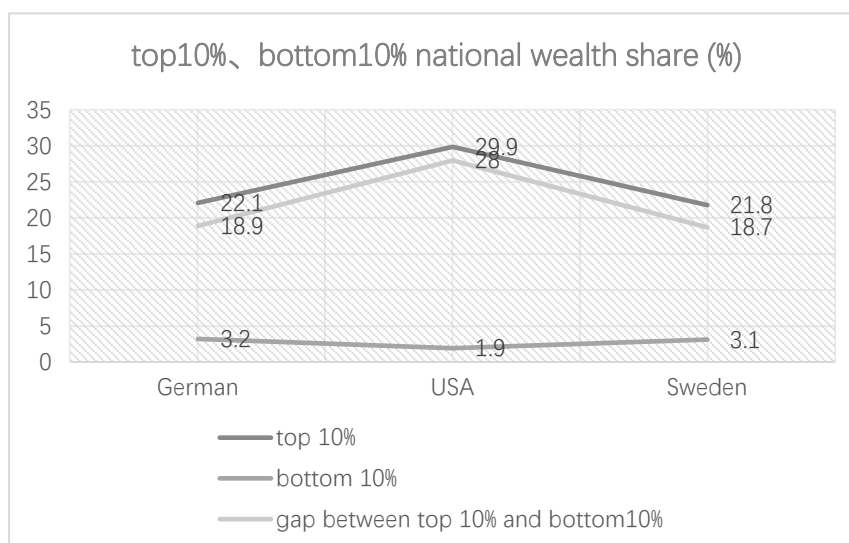
Table 1. Gini coefficient

	Germany	Sweden	USA
2001	30	24	40.8
2010	28.3	25.5	40.8
2011	28.3	26	40.8
2013	31.2	26	-
2015	31.8	26.7	39
2016	29.3	27.8	39.1
2017	29.4	28.2	39
2018	31.1	27	46.42

Source: HDR (2018).

3.2 Comparison Between the top 10% and the Bottom 10%

The Data displays (Figure 2 & Table 1) that firstly, the top 10% wealth share in these countries present three categories: the United States are close to 30%, Sweden and Germany have less than 23%. Secondly, the bottom 10% wealth share have less than 5% in these countries. The lowest of it is less than 2% in the United States, 3.2% in Germany and 3.1% in Sweden.



Source: HDR2018.

Figure 2. Top 10% and Bottom 10% Wealth Share (%)^①

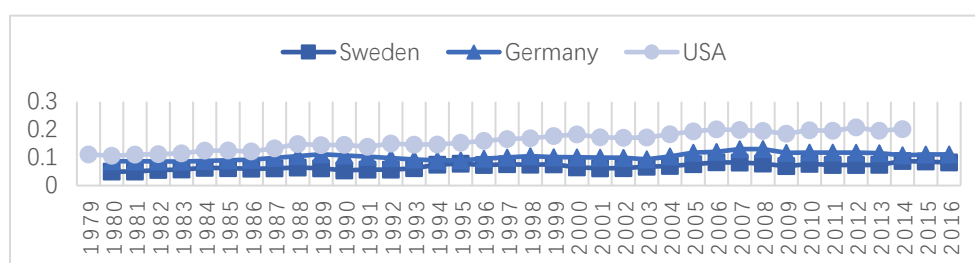
Table 2. Top 10% and Bottom 10% Wealth Share (%)

	top 10%	bottom 10%	Gap between top10 & bottom 10%
Germany	22.1	3.2	18.9
Sweden	21.8	3.1	18.7
USA	29.9	1.9	28

Source: HDR2018.

3.3 Comparison of the Top 1% Pretax Income Share

We further analyze the top 1% pretax income share in these countries (Figure 3). For example, in 2005, the order of the top 1% pretax income share from high to low is the United States, Germany and Sweden.



Source: WID.

Figure 3. Top 1% Income Share

Above all, the Gini, the top 1% income share and 10% income share shows that income inequality ranks from low to high is: Sweden, Germany and the United States. Therefore, from the above comparison, Sweden as social democratic regimes has the lowest level of inequality, Germany as conservative regimes is second, and USA as liberal regimes is the highest. Although we only selected three countries according to Esping-Andersen's different types, the three countries, as developed capitalist countries, have relatively mature and stable systems and development models, so they have certain typicality and representative significance. According to the theory of welfare states, the classification of these three types of countries is mainly based on the three factors: the size of the state's responsibility, the degree of marketization and stratification. Therefore, these factors have become important factors that cannot be ignored in the analysis of inequality.

4. THE REASON ANALYSIS ABOUT INCOME INEQUALITY IN DIFFERENT COUNTRIES

Some scholars believe that since 1980 "inequality levels are so different among countries, even when countries share similar levels of development, highlights the important roles that national policies and institutions play in shaping inequality" (WIL 2018, 9). From the perspective of social welfare policies, the higher degree of non-marketization, non-hierarchy

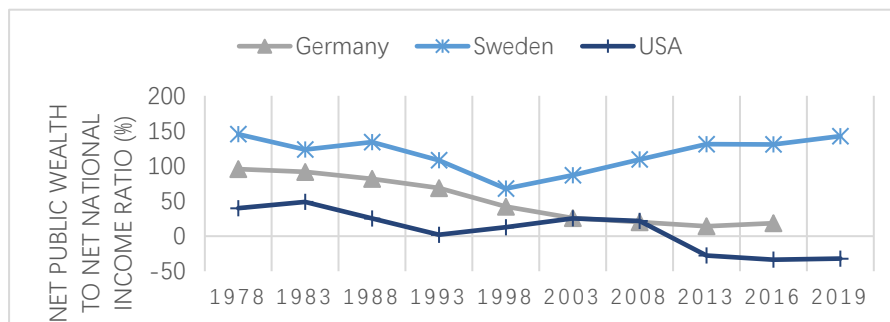
and the more state responsibility is, the lower the Gini coefficient is. Among them, Sweden is a more typical example.

4.1 The Degree of Non-marketization and Non-hierarchy

Marketization and hierarchy are often closely related. Take the United States as an example. Three factors matter in the income inequality of USA: unequal educational opportunities, the higher share of the capital income since 2000, and the progressivity of income taxes decreasing sharply. By comparison, the share of capital income in Europe has recovered, but the falling extent of progressive income taxes is less than the United States. In addition, education policies and wage policies in Europe mainland benefit the low-income and the middle-income families. Marketization and hierarchy are closely related, and the country with the higher degree of marketization has the higher degree of hierarchy which leads to the higher income inequality.

4.2 The Scale of State's Responsibilities

The state can avoid a series of problems caused by marketization and hierarchy. The state's responsibility is closely related to the proportion of public wealth. The practice turns out that public wealth is too small to limit the government's ability to regulate the economic activities and eradicate the inequality. Since 1980, privatization has been common in all the countries, either rich or emerging. Especially in rich countries, national wealth has increased, but public wealth is zero or even negative (Figure 4). "Over the past decades, countries have become richer but governments have become poorer." (WIL 2018, 14) Countries with a rapid decline in the share of public wealth are also countries with a more significant income inequality.



Source: WIL (2018, 163).

Figure 4. The Decline of Public Capital, 1978-2016

Public wealth is used mostly for productive investments such as infrastructure, or is used for consumption (for example, the United States has invested heavily in medical insurance without good effect) or to help the financial industry (the United States uses public wealth to carry out huge bailouts for the financial industry), which will also affect the inequality. Infrastructure is proof the state's responsibility. Not only is infrastructure construction not perfect, but follow-up development cannot also be done; so tackling this problem requires the support of systematic industrialization policies and household agricultural modernization.

China has taken a series of measures in these directions. From 2000, China have invested more than 10 trillion yuan to in the infrastructure, which is why China have lower the bottom 10% income share comparing with the other countries.

4.3 History and Culture

History and culture are also important reasons for the inequality. We take three different types of welfare states as examples. The United States does not have the burden of a feudal tradition, so from the beginning of the country, it was a pluralistic society, embracing people from different races, ethnicities and religions. In pre-industrial times, religious belief was dominated by Puritanism, which advocated self-cultivation, abstinence, honesty and harmony. At the beginning of the age of industrialization, social Darwinism and laissez-faire prevailed. Later on in industrial society, individualism and liberalism are regarded as the incentive for American social development. As a result, American social policy has not changed significantly from industrial society times.

As a single-nationality country, Sweden has no disputes of race and religion, and has formed a historical tradition of cooperation and compromise in a long-term peaceful environment. Centuries-old democratic spirit, the concept of universal equality and fair distribution is universal in the Swedish society, and social solidarity, security and justice are the basic criteria of policy support provided by the state for its citizens. The state has the responsibility to guarantee a basic income and livelihood for all its citizens.

Germany has a long religious tradition. Catholicism and Protestantism advocate the idea of social relief, which has a great influence on German society. German intellectuals generally have the historical tradition to pay attention to society, criticize social reality, which urges social policy in Germany to emphasize on social insurance and efficiency.

5. THE IMPLEMENTATION POLICIES TO ERADICATE INEQUALITY IN THESE COUNTRIES

From the historical trend of income inequality changes in developed countries, the most developed countries have experienced a sharp expansion of the income inequality after an initial shrinking, and countries such as the United States advocating liberal market economies have expanded significantly after the income inequality has narrowed. Germany have not significantly expanded again. The policy of narrowing the income inequality in the above-mentioned countries is worthy of reference.

5.1 The United States

American social policy was established mainly to the tackle the problem of mass unemployment during the Great Depression, and then became a long-term system of the mixed economy of American capitalism. Over the next 40 years after the Great Depression, with the rapid growth of the postwar economy, American social policy developed rapidly. After the 1970s, American social policy went into the reform period (Zhou 2012, 27-32). At the same time, the Gini coefficient in the United States breached 40 after 1970, but social stability was unaffected. The stability has been maintained until now, aided mainly by the fact

of American military and financial hegemony thanks to which the US can obtain most of the world's resources at low cost by printing US dollars. However, there is no denying that the social security system of the United States has played a certain role.

5.2 Germany

After the Great Depression in 1930s, Germany's social policy entered a period of rapid development and transformation after the Second World War (Zhou 2012, 27-32). After 1990, Germany began to reduce the social security expenditure of the government, notably the reduction of subsidies in medical security and unemployment relief, which damaged the interests of the middle and lower class. After 1998, the German government embarked on a "third way" in social security to improve the employment rate and reform pension institutions. They actively opened up areas of employment and established labor unions of workers, management and the government to create more jobs. The government gradually raised social security fees, gradually reduced the pension replacement rate, and encouraged individuals to make "retirement savings" through tax incentives and other measures (Sun 2014, 94-97).

5.3 Sweden

Social policy in Sweden was basically formed from the mid-19th century to the 1920s, developed further before World War II, and set up in a welfare state in the 1970s (Zhou 2012, 27-32). Facing the severe economic situation in the 1990s, the Sweden government carried out a series of welfare institutional reforms. Firstly, they increased the individuals covered by social security, cut social benefits moderately, reduced the allowance of sick leave and unemployment, increased waiting periods, reduced the duration of entitlement, and linked individual benefits to social contributions. Secondly, welfare management was decentralized, giving local governments more autonomy and responsibility. Thirdly, government promoted "positive welfare", linking welfare with employment, established "social investment countries" that promote lifelong education and employment training, and reduced the marginal tax rates to stimulate people's enthusiasm for work.

6. THINKING ON TACKLING THE INCOME INEQUALITY

To sum up, we can draw the following conclusions. First of all, from the history, it is not difficult to see that since 1979, influenced by neoliberal economics, these countries have implemented more or less De-welfare policies aimed at reducing the burden on government of social policies, resulting in the rebound of inequality in almost all countries. Secondly, the proportion of public wealth shows a significant shrinking in those countries which adopted radical neoliberal policies, and governments do not have enough financial resources redistribution mechanisms to deal with inequality. Thirdly, from the perspective of culture and history, the income inequality has increased rapidly in countries where liberalism and individualism are prevalent. In contrast, countries that focus on justice and equality have relatively few inequality problems.

Judging from the experiences and lessons learned from the above-mentioned developed countries in coping with income inequality, China can borrow some best practices from these countries in reducing the income inequality as follows: first, the role of the government cannot

be ignored. The main goal of welfare policies is to upgrade social security, to improve welfare and to expand coverage by the welfare institution. Second, we should restore the progressive tax rate structure of the individual income tax, and marginal tax rates should increase based on the amount of taxable income, while amplifying the base, inheritance and gifts tax should be levied on the progressive tax of capital gains in lifetime. A reformed education policy should increase the equality of educational opportunities; child welfare should be paid to all children at national standards. The interests of the bottom income groups should be protected by looking for ways to improve the status of laborers. Third, the government should set a clear target for preventing and reducing unemployment. (Atkinson 2015, 237-239) Fourth, with reference to the management of public wealth, more policy support should be provided to strengthen, optimize and enlarge state-owned enterprises, and the national public wealth survey and registration system should be implemented to accumulate the net assets of the country, and so on.

7. CONCLUSION

In order to realize the goal of the common wealth, it is important to find ways to reduce the problem of inequality, for example, the non-marketization, the non-hierarchy and the state responsibility of social democratic regimes, etc. Referring to the situation of a lot of peasants in China and the poor people mainly lying in poorly rural areas, China must have own patterns to reduce the inequality, one is the strategy of "Targeted Poverty Alleviation" for peasants; the other one is to consolidate the economic foundation of socialist public ownership with Chinese characteristics, to strengthen the state-owned enterprises' investment in rural infrastructure, to improve the rural education and the health care and to prevent poverty-reduced farmers from returning to poverty.

References

- [1] Atkinson, A. 2015, *Inequality: What Can Be Done?* Massachusetts: Harvard University Press, pp 237–239.
- [2] Cheng, E., and W. Liu. 2012. "A Theoretical and Empirical Interpretation of the Idea of Common Prosperity in Socialism." [In Chinese.] *Study on Marxism*, no 6: 41–47.
- [3] Esping-Andersen, G. 2010. *The Three Worlds of Welfare Capitalism*. [In Chinese.] Princeton: Princeton University Press: pp45–51.
- [4] Gao J., and R. Chen. 2020. "Sweden's Wealth and Income Inequality: Expanding Tendency and Cause analysis." [In Chinese.] *Contemporary World and Socialism*, no 4: 131–139.
- [5] Guo, W. 2009. "Research and Enlightenment of Singapore's Social Security System." [In Chinese.] *Contemporary World and Socialism*, no. 5: 76–81.
- [6] Jiang, L. 2010. "Theoretical Interpretation, Development Track and Experience of Three Models of Western Welfare Countries." [In Chinese.] *Learning and Practice*, no. 7: 104–109.
- [7] Liu, W. 2018. "GDP and Development View: Changes in Development View from the Perspective of GDP since Reform and Opening." [In Chinese.] *Economic Science*, no. 2: 5–15.
- [8] NBSC (National Bureau of Statistics of China). *China Statistics Yearbook 2014, 2016, 2018, and 2019*. <http://data.stats.gov.cn/index.htm>.
- [9] Sun, T. 2014. "The Types, Effects and Enlightenments of Welfare State Reform." [In

Chinese.] *Journal of the Party School of CPC Jinan Municipal Committee*, no 4: 94–97.

[10] Sun, Z. 2013. “Study on Japan’s Gini Coefficient and Redistribution System.” [In Chinese.] *Contemporary Economy of Japan*, no. 2: 22–34.

[11] (UNDP) United Nation Development Programme. “*Human Development Report (HDR)*.” http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update_cn.pdf, <https://www.wider.unu.edu>.

[12] WID (World Inequality Database). <https://wid.world/>.

[13] WIID4 (World Income Inequality Database). <https://www.wider.unu.edu/project/government-revenue-dataset>.

[14] WIL (World Inequality Lab). *World Inequality Report 2018*. <https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf>.

[15] Yu, B. 2012. “What Kind of Welfare State is France?” [In Chinese.] *Study France*, no. 4: 1–6.

[16] Zhou, Y. 2012. “Use of Social Policies to Control Income Gap in Western Countries and Its Implications for China: On the Basis of the Kuznets’ Curve.” [In Chinese.] *Journal of Shandong University (Philosophy and Social Sciences)*, no. 7: 27–32.