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Distributional Implications of the Welfare State

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This paper is concerned with the effect of the welfare state in redistributing income away from or towards different types of household. As is well-known, OECD countries differ greatly in how much income is redistributed through the welfare state and in priorities for government spending. This paper investigates whether there is a systematic relationship between the amount of government expenditure on the welfare state and the distributional implications of the welfare state for OECD countries. (A longer and more detailed version of this paper is available from the author on request).

Most previous analysis has been concerned with the effect of the welfare state in redistributing income from high income households to low income households. By contrast, the investigation in this paper examines the effect of the welfare state in redistributing incomes between households at particular stages of life. The interest is not with how the welfare state affects households with unusually high or low incomes but with how it affects families with children or the retired in general.

There are a number of reasons for taking this approach. First, the data are of considerable interest in their own right. Not only do the data enable a more complete understanding of the distributional implications of the welfare state but they enable us to understand the extent to which the welfare states of different countries subsidise some types of households (such as single person households and sole parents) and tax other types of household (such as two parent families with children). These taxes and benefits through their effect on incentives, have implications for family formation and stability, welfare dependency and fertility. Secondly, despite the fact that it is less frequently undertaken, investigating the effect of the welfare state on population groups as a whole is in some respects easier than studying the effect of the welfare state in redistributing income from households with high current income to households with low current income. In particular, the incomes of households with unusually high or low incomes tend to be inaccurately reported in household surveys (for further discussion on this point see, for example, Behrendt, 2000; and Saunders and Tsumori, 2002). Households in general often fail to report in surveys income from social security benefits or from transactions that are not disclosed to the tax and social security authorities. These sources of income are likely to be particularly important for many low income families.

This paper therefore investigates, using data from household surveys, the effect of the welfare state in redistributing income between different types of households.

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Data

Household surveys have increasingly been undertaken in OECD countries in recent years. Although these surveys have weaknesses, they provide the best available basis for studying the distributional impact of the welfare state in different countries. One potential source of difficulty is differences between countries in the definition of income and demographic characteristics of the population. These differences make accurate comparisons very difficult. Fortunately, however, a great deal of effort has been made in recent years to standardise income surveys. In particular, the Luxembourg Income Study has endeavoured to make standardised data widely available to researchers, and it is the basis of the present study. The widespread use of these data make it likely that remaining instances of non-comparability of data will be identified by researchers and acted upon by the originators of the data. The final report of the Canberra Group (2001) provides a useful discussion of the problems of income surveys and possible remedies.[1] An account of the development and current status of the Luxembourg Income Study can be found in Smeeding (2002). Despite the efforts made to standardise the data, some problems of compatibility remain. These issues are discussed in the longer version of the paper and are mentioned below to the extent that they are relevant to the findings presented in this summary paper.

The variables of most interest to this study are measures of income and household composition. Data on income derived from market sources are available from the Luxembourg Income Study. The information on government benefits that is available from the Luxembourg Income Study is in practice limited to cash benefits. Information on government non-cash benefits (for example, in health and education) is unfortunately not available from this source. Moreover, the available information on taxes is limited to direct taxes that are paid by individuals. The income variables that are available to investigate the distributional effects of the welfare state are therefore market income (that is, non-government income) and disposable income (market income plus government benefits minus direct taxes). The differences between the amount of disposable income and market income received by a household provides a measure of the redistributive effect of the welfare state. Although this measure is less comprehensive than a measure that also includes non-cash benefits and indirect taxes, it takes account of those aspects of the welfare state that are most likely to vary between countries. Although there are important differences between countries in government spending on welfare services as a share of GDP, spending on cash benefits is the most important source of variation between countries in government spending on the welfare state.

The demographic variables considered in this study are the age of household members and household composition. Under household composition, households are first classified into single unit households and multi-unit households (the term unit is used here to refer to the nuclear family of adults and children, and

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[1] I am grateful to a referee for providing this reference.

abbreviations of it such as single person households, single parent households and households comprising a couple without children). These groups of households are then further subdivided depending on the number of adults in the household and whether or not dependent children are present. Results are first presented in this paper for a simple classification of households that does not take into account the age of the head of the household, then by the age of the household head and then finally for a complex household classification that takes account both of age and household structure.

In this paper, welfare states are ranked from small to large according to the proportion that benefits provide of total household income. This provides a method of ranking welfare states that is consistent with the data available from the Luxembourg Income Study but does not take account of spending on health and education. As will be argued below, both the total amount of redistribution and priorities for spending differ between countries. These differences are important in understanding the redistributional effects of different types of welfare state.

Methodology

The main purpose of this paper is to assess the net distributive impact of the welfare state taking into account both taxes and benefits. To do this it is necessary to develop a measure of the *net* redistributive impact of the welfare state that is both easy to interpret and fairly robust, given the great diversity that exists between countries in welfare states.

The measure used in this paper is the percentage share of market or disposable income that is received by a particular group. These shares add up to 100 per cent for the population as a whole. The net redistributive impact of the welfare state can be assessed by comparing the share of disposable income received by a group with the share of market income that is received by the same group. If the share of disposable income is greater than the share of market income that is received by the group, then the welfare state redistributes towards the group. But the welfare state redistributes away from the group if the difference between these two shares is negative. These differences sum to zero for the whole population. It should be noted that there is no particular reason to expect that the amount of government benefits received by households in a country will equal the amount of direct taxes paid by households. The total amount of disposable income received by households will typically differ from the total amount of market income. Moreover, the extent of this discrepancy will vary between countries. The percentage shares approach seems to be the best way of dealing with these discrepancies.

These percentage shares measures are fairly easy to calculate and to understand. Since many errors will affect both numerator and denominator proportionately, the percentage shares may not be too greatly affected by differences between countries in the methods used to collect and report data. Moreover, the percentage shares can readily be decomposed to show results for sub-groups within the population.

As is emphasised in the rest of this paper, the differences between the share of disposable income that is received by a group and the share of market income received by the same group depends on the overall amount of redistribution that occurs in a country as well as on the structure of the taxation and social security system.

By comparing disposable to market income, this study emphasises the initial effects of benefits and taxes on the distribution of income in different countries. This procedure does not take into account behavioural responses to taxes and benefits that are likely to reduce, but not eliminate, the initial effects. For example, people are likely to respond to governments making higher benefits available by working less. Although the increased leisure is valuable in its own right, this response will reduce the gain in income as a result of the higher benefit. Since these behavioural responses depend on the initial effects, the initial effects are worth studying in their own right. (Of course, the market incomes reported in this study are influenced by the disincentive effects of taxation and the welfare state. However, the main measure of the redistribution impact used here is the differences between disposable and market income.)

Results

Results are presented in this paper in a number of ways:

- First, for groups defined according to the simple household composition variable that does not take account of age of head of household;
- Next, for groups defined according to the age of the head of the household; and
- Finally, for groups defined according to the complex household classification variable that incorporates information on the age of the household head.[2]

Simple household classification

Results for groups defined according to the simple household classification variable are presented in Table 1. Countries are ordered in the table according to the importance of benefits as a source of income. The countries in which benefits are least important are placed at the top of the table while those in which benefits are most important are placed at the bottom of the table. The label (such as USA 97) refers to the relevant country and the year of the survey from which results have been obtained.

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[2] A referee has commented that one should think of the groups identified here not so much as different groups of people but as the *same* people at different stages of life. For example, today's parents can expect to enjoy the favourable treatment enjoyed by today's retired when they grow older. It is uncertain whether this assumption is warranted. For example, the literature on generation accounting (see Ablett and Tseggai-Bocurezion 2000 for an Australian study) emphasises that the treatment of different generations by taxation and social welfare arrangements can vary substantially.

Table 1: Differences Between Percentage Share of Disposable and Market Income for Demographic Groups in OECD Countries

(percentage points)

	Sole Occupant	*Single Person with Children*	*Couple only*	*Couple with Children*	*Multi-unit Households*
USA 97	1.35	0.81	0.35	-2.41	-0.09
Australia 94	1.42	0.99	0.57	-2.61	-0.37
Switzerland 92	2.95	0.37	0.68	-3.02	-0.97
Canada 97	1.97	0.73	0.87	-2.93	-0.65
UK 95	2.53	2.37	-1.19	-3.25	-0.46
Ireland 87	1.83	0.59	0.85	-2.20	-1.07
Finland 95	1.78	1.00	-1.39	-1.18	-0.20
Germany 94	4.55	0.59	2.53	-5.21	-2.46
Norway 95	2.99	1.52	1.40	-3.61	-2.31
Netherlands 94	3.77	1.12	-1.04	-3.69	-0.15
Denmark 97	4.92	0.64	-0.17	-3.37	-2.02
Spain 90[a]	2.26	0.13	4.39	-6.67	-0.13
Belgium 97	4.30	0.42	4.48	-6.23	-2.96
Italy 95[a]	3.54	-0.05	4.21	-7.07	-0.62
Sweden 95	4.90	1.93	-2.18	-4.65	-0.01
France 94	3.31	0.10	6.10	-7.79	-1.72
Average[b]	3.02	0.83	1.28	-4.12	-1.01

Notes: a Data on taxation are not available for these countries. The differences shown in the tables are therefore the differences between the percentage share of gross income (including benefits) and market income for the relevant groups.

b Unweighted arithmetic average for all countries shown in the table.

Source: Luxembourg Income Study

It will be seen from the table that the welfare state redistributes towards households that are sole occupants, sole parents and (in most countries) couples. The welfare state redistributes away from couples with children and multi-unit households to benefit the groups noted above. (Children are defined in the Luxembourg Income Study to be persons under 18 years.) In the statistically average OECD country, about three percentage points of income is redistributed towards sole occupants and about one percentage point to sole parents and couples. About four percentage points is redistributed away from families with children and about one percentage point of income is redistributed away from multi-unit households. Of course, no actual country is exactly the same as this statistical average.

The amount of redistribution away from couples with children and multi-unit households, and towards sole occupants, sole parents and couples, tends to be greater in large than in small welfare states. There are, however, important differences between countries. For example, the Scandinavian countries redistribute particularly large amounts to households that are sole occupants or sole parents. The Scandinavian countries, however, redistribute a lesser amount of income away from families with children than the large welfare states of western and southern European countries that particularly emphasise redistribution to couple households without children.

Age of household head

Table 2 shows that, in all countries considered here, the welfare state redistributes income from households aged 25 to 54 years to households aged over 65 years. The extent of redistribution away from younger households is greatest in those countries with the greatest amount of redistribution to the elderly. There is more redistribution from younger households towards the elderly in large than in small welfare states. The priorities for social expenditure that are adopted in different countries are also important.

The largest amount of redistribution from younger households to the elderly occurs in the western and southern European countries that place an unusually heavy emphasis on pensions for the elderly.

Households with heads aged 55 to 64 years are net contributors to the welfare state in some countries (especially Norway and Sweden) and net beneficiaries in others (especially Belgium, France and Italy). As noted above, households where the head is aged over 65 years are net beneficiaries of the welfare state in all countries and especially so in western and southern European countries.

Table 2: Differences between Percentage Share of Market and Disposable Income for Age Groups in OECD Countries

(percentage points)

	Age of Household Head					
	Under 25 years	*25 – 34 years*	*35 – 44 years*	*45 – 54 years*	*55 – 64 years*	*Over 65 years*
USA 97	0.13	-0.84	-1.96	-2.42	-0.72	5.82
Australia 94	0.26	-1.36	-2.21	-2.40	0.48	5.22
Switzerland 92	-0.23	-1.34	-2.40	-2.52	-0.55	7.03
Canada 97	0.13	-1.12	-2.64	-2.70	-0.25	6.57
UK 95	0.59	-1.68	-2.50	-3.42	0.12	6.88
Ireland 87	-0.06	-2.08	-1.46	-1.29	-0.83	5.72
Finland 95	1.22	0.70	-0.98	-3.09	-0.61	2.75
Germany 94	-0.04	-3.53	-4.06	-6.00	-0.78	14.43
Norway 95	0.32	-1.32	-2.95	-4.16	-1.00	9.10
Netherlands 94	0.33	-3.18	-2.25	-2.51	1.07	6.84
Denmark 97	0.20	-1.33	-2.44	-4.19	-0.36	8.13
Spain 90[a]	-0.12	-2.57	-4.54	-3.92	0.47	10.69
Belgium 97	0.01	-4.02	-5.42	-6.81	2.38	13.85
Italy 95[a]	-0.08	-2.61	-5.25	-5.26	2.13	11.08
Sweden 95	0.52	-0.92	-2.87	-6.53	-1.96	11.75
France 94	0.07	-3.94	-5.99	-7.50	2.24	15.11
Average[b]	0.20	-1.95	-3.14	-4.05	0.11	8.81

Notes: a Data on taxation are not available for these countries. The differences shown in the tables are therefore the differences between the percentage share of gross income (including benefits) and market income for the relevant groups.

b Unweighted arithmetic average for all countries shown in the table.

Source: Luxembourg Income Study

Table 3 Difference Between Share of Market and Disposable Income for Demographic Groups in OECD Countries (percentage points)

	Sole Occupants			*Couples without Children Head:*			*Couples with Children Head:*				*Sole Parent Family Parent:*		*Other Family Households*			
	under 35 years	*35 – 64 years*	*65 and over*	*under 35 years*	*35 – 64 years*	*65 and over*	*under 25 years*	*25 – 34 years*	*35 – 44 years*	*45 and over*	*under 35 years*	*35 and over*	*Single No Children*	*Single with Children*	*Married no Children*	*Married with Children*
USA 97	-0.22	-0.53	2.1	-0.52	-1.83	2.7	0.04	-0.32	-1.34	-0.80	0.39	0.43	0.24	0.49	-0.40	-0.43
Australia 94	-0.28	-0.27	1.97	-0.83	-0.88	2.28	0.09	-0.41	-1.58	-0.72	0.55	0.44	0.15	0.42	-0.59	-0.34
Switzerland 92	-0.47	-0.16	3.70	-0.68	-1.98	3.24	-0.01	-0.47	-2.16	-0.83	0.13	0.26	0.09	-0.02	-0.45	-0.20
Canada 97	-0.26	-0.34	2.57	-0.62	-1.47	2.95	0.03	-0.40	-1.81	-0.74	0.45	0.28	0.35	0.27	-0.62	-0.66
UK 95	-0.57	0.21	2.89	-1.69	-2.51	3.00	0.07	-0.64	-1.97	-0.71	1.53	0.84	0.74	0.34	-1.01	-0.53
Ireland 87	-0.21	-0.03	2.06	-0.85	-0.16	1.85	0.27	-0.98	-1.39	-0.10	0.33	0.26	0.31	0.53	-1.34	-0.58
Finland 95	0.46	-0.22	1.59	0.15	-2.32	0.71	0.09	0.53	-0.87	-1.00	0.61	0.43	0.67	0.16	-0.57	-0.41
Germany 94	-1.05	-0.97	6.57	-2.01	-2.27	6.81	0.02	-0.88	-2.41	-1.95	0.34	0.25	0.31	0.03	-1.39	-1.41
Norway 95	-0.80	-0.50	4.3	-0.75	-2.00	4.16	0.04	-0.63	-2.16	-0.85	1.13	0.39	0.25	0.16	-1.67	-1.04
Netherlands 94	-0.26	0.47	3.55	-2.24	-1.68	2.88	0.04	-0.81	-2.14	-0.78	0.35	0.78	0.57	0.13	-0.66	-0.21
Denmark 97	-0.34	0.30	5.0	-0.89	-2.62	3.23	0.06	-0.57	-1.91	-1.13	0.40	0.25	0	0.05	-1.16	-0.66
Spain 90[(a)]	-0.11	0.33	2.04	-0.53	0.10	4.83	-0.05	-1.90	-3.96	-0.77	0.03	0.10	1.48	0.35	0.54	-2.50
Belgium 97	-0.60	-0.53	5.51	-2.05	-1.03	7.55	0.02	-1.88	-3.89	-1.04	0.17	0.24	0.67	0.23	-2.07	-1.27
Italy 95[(a)]	-0.23	0.09	3.67	-0.85	0.33	4.72	0	-1.64	-4.10	-1.33	0	-0.05	1.28	0.05	0.37	-2.33
Sweden 95	-0.47	-1.1	6.46	-0.96	-6.45	5.24	0.07	0.03	-2.38	-2.37	0.94	0.99	-0.01	0	0	0
France 94	-0.96	-0.99	5.28	-1.29	-0.93	8.36	0.01	-1.92	-4.01	-1.97	0.14	-0.05	0.82	0.16	-1.35	-1.3
Average[(b)]	-0.40	-0.27	3.70	-1.04	-1.73	4.03	0.05	-0.81	-2.38	-1.07	0.47	0.37	0.50	0.21	-0.77	-0.87

Notes: a Data on taxation are not available for these countries. The differences shown in the tables are therefore the differences between the percentage share of gross income (including benefits) and market income for the relevant groups.

b Unweighted arithmetic average for all countries shown in the table.

Source: Luxembourg Income Study

Complex household composition

Table 3 provides information on the net redistributive impact of the welfare state in OECD countries for groups defined according to both the type of household and (for single family households) the age of the head of the household.

It can be seen from the table that, in most countries, the welfare state redistributes away from:

- Sole occupants under the age of 65 years;
- Couples without children where the head is aged under 65 years;
- Couples with children where the head is aged 25 years and over;
- Couples with children and other adults;
- Couples with other adults (but not dependent children).

The welfare state redistributes towards:

- Sole occupants aged 65 years and over;
- Couples without children where the head is aged 65 years and over;
- Sole parent families;
- Sole parents with children and others present in the household; and
- Households made up of single people without children.

The amount of redistribution that occurs in significant — around 9.3 percentage points of income is shifted between the groups noted above in the typical OECD Country.

The table confirms that the amount of redistribution that occurs between demographic groups is greater in large than in small welfare states. There are also some important differences between countries that are worth noting.

These include the following:

- Some large welfare states (such as Germany, Belgium, France and Italy) particularly emphasise redistribution to the elderly. The welfare states of these countries have a particularly large adverse effect on the income of couples with children.
- Other large welfare states (such as the Scandinavian countries) emphasise both benefits paid to families with children and benefits to older households. Despite these differences in emphasis on the benefits side, the high level of taxation in these large welfare states results in a net adverse redistributional impact for couples with children. However, this adverse effect is less than in the first group of countries.
- Although the taxation system in France provides advantages to families (as compared to other taxpayers) these seem in practice to be outweighed by the high level of taxation in that country. The net effect of the welfare state on the incomes of couples with children is strongly negative in France.

- The adverse effect of the welfare state on the incomes of couples with children is significantly less than elsewhere in the small welfare states such as the United States and Australia. These small welfare states redistribute a relatively small amount to the elderly.
- The welfare states of the United Kingdom, the Netherlands and the Scandinavian countries particularly emphasise redistribution to sole parent families.

The strong relationship between the amount of redistribution to the elderly that occurs in a country and the extent of redistribution away from families with children is perhaps the most important result in this paper.

Some Underlying Factors

This completes presentation of the main results in this paper regarding the distributional impact of different types of welfare state. The net redistributive impact of the welfare state is the sum of the separate effects of the benefits and taxation systems. These in turn depends on the demographic structure of the population and the total amount of redistribution that occurs in a country as well as on the structure of the benefits and taxation systems.

Some information about the underlying factors is presented here to enhance understanding of the distributional consequences of the welfare state. In the interests of saving space, only summary results are presented here. Further details, including the presentation of evidence, can be found in the longer version of the paper.

Cash benefits

The percentage share of cash benefits that is paid to single person households, sole parent families and couples where the head is aged over 65 years exceeds the percentage share these groups represent of the population of households. In the average OECD country, these groups comprise 49 per cent of households but receive 62 per cent of benefits. By contrast, couples under 65 years without children, couples with children and multi-unit households that include children comprise 51 per cent of households but receive 38 per cent of benefits.

There are important differences between countries in which groups receive benefits. These reflect differences in demographic structure (which are discussed below) and priorities for social expenditure. As noted earlier, the western and southern European countries pay large amounts of benefits to the elderly while the Scandinavian countries pay large amounts to younger people and families as well as the elderly. The United Kingdom and the Netherlands emphasise the payment of benefits to sole parents.

The United States directs to the elderly a high proportion of the limited amount of cash benefits that is provides. By contrast Australia, another small welfare state, pays a high proportion of benefits to younger people.

Taxation

Single people, sole parents and couples where the household head is aged 65 years and over pay 29 per cent of taxation in the average OECD country but make up, as noted, 49 per cent of households.

Couples aged under 65 years, couples with children and multiple unit households that include children make up 51 per cent of households but pay 71 per cent of taxes. Depending on the precise definition that is used, around 40 to 50 per cent of taxation is the average OECD country is paid by families with children. In general, the taxation burden is largely borne by childless couples under the age of 65 years and couples with children.

There are also important differences between countries. The Scandinavian countries emphasise the taxation of benefits: sole occupants and sole parents pay an unusually high proportion of the tax bill. These groups are less heavily taxed in Australia and Ireland and also (especially for older households) in Germany (for further discussion about the taxation of benefits, see Adema, 2001). The French tax system provides some advantages to families with dependent children but nevertheless the share of taxation paid by this group is fairly high. In general there seems to be less variation between countries in the percentage shares of taxation that is paid by demographic groups than in the share of benefits that is received by them.

Demographic structure

One reason why the shares of benefits and taxes received by population groups differ between countries is differences in the demographic structure of their populations.

The Scandinavian countries have a high proportion of single person and sole parent households. For example, 46 per cent of households in Denmark are sole occupants, as opposed to 30 per cent in the average OECD country. The English-speaking countries tend to have a relatively high proportion of households that are sole parents or groups of single people who live together. Ireland has a high proportion of households that comprise couples with children aged under 18 years. Spain and Italy have a high proportion of households that comprise couples (with or without children aged under 18 years) and others, including adult children. This group make up 31 per cent of households in Italy but 13 per cent in the average OECD country. Other countries fall within the extremes noted here.

Sources of income

The proportion of government benefits in total household income (both market and benefit income) is 20 per cent in the average OECD country. It varies from 9 per cent in the United States to 32 per cent in France. As might be expected, the share of benefits in total household income is particularly high for older people and sole parents, and particularly low for couples below retirement age and

without children, couples with children and multi-unit households that include couples.

There is substantial variation between countries in the source of income for each demographic group. For example, 56 percent of the income of couples with heads aged over 65 years is provided by benefits in the average OECD country. However, this percentage varies from 37 per cent in the United States to 85 per cent in France.

Similarly, 52 per cent of the income of sole parent families where the parent is aged under 35 years is provided by benefits in the average OECD country. This percentage varies from 31 per cent in the United States to 83 per cent in the United Kingdom. This wide variation between countries shows that there these are, in principle, many possibilities available for providing groups such as sole parents or the elderly with an income. Government benefits are not the only, or even necessarily the most important, source of income for these groups.

There is evidence from these data that people adjust to higher and more generally available benefits by working or saving less than they otherwise would have done. For example, a lesser amount of market income is received by sole parents and older people in countries that provide high benefits to these groups.

Some Qualifications

The results presented above take into account government benefits that are financed through taxation. They exclude, for example, compulsory private expenditures that are required, for example, by Australia's superannuation program. More importantly, perhaps, they exclude the many ways in which people provide for retirement in countries where government programs are not extensive. It does not appear to be true that the aged are poorer in countries where governments provide lower benefits or restrict eligibility for benefits (for evidence on this point, see Börsch-Supan and Reil-Held, 1998; Disney, D'Ercole and Scherer, 1998; Rein and Stapf-Fine, 2001; Disney and Johnson, 2001). Rather, people provide for old age by working longer, saving more or through high rates of home ownership. However, the need for people to undertake such activities reduces their standard of living (or quality of life) during their working lives. The differences between the situation of families in large and small welfare states may therefore be less than the data in tables 1 to 3 would suggest.

There are, however, important differences between government and voluntary arrangements that suggest that the data in the tables tell an important part of the story. (Compulsory private expenditure, such as superannuation in Australia, should be considered to be an example of a government program rather than a voluntary arrangement.) For example, government programs in the larger welfare states over-provide for retirement. These over-generous transfers are reversed to some extent through bequests and gifts from older to younger people (for further discussion on this point, see Börsch-Supan and Reil-Held, 1998:5-6). Since not everyone receives a gift of bequest, a lower level of transfers might be more equitable. In addition, a voluntary transaction will only be entered into if it is to

the advantage of both parties. Families may decide not to increase savings for retirement if immediate expenditure needs have high priority. It is often argued that, left to their own devices, people under-provide for retirement. By contrast, governments can require people to enter into arrangements which they would not have chosen voluntarily. Finally, there is usually a close link in private retirement income programs between the amount of contributions and the amount that is available on retirement. This is usually not the case for government programs which typically involve an element of redistribution. The psychological significance of contributions differs, therefore, between government and private programs.

Conclusions

This paper has examined the distributional effects of the welfare states that exist in OECD countries. In general, the welfare state redistributes away from childless couples under retirement age and couples with children towards single people, sole parents and the elderly. The extent of redistribution away from couples with children is greater in large than in small welfare states. It is greatest in those welfare states that emphasise benefits for the elderly.

Although the welfare state expands opportunities for some groups (including sole parents and the aged), it limits through taxation opportunities for other groups (such as couples with children). The direction of redistribution is not necessarily consistent with differences in need. The aged have low current incomes but would have experienced over their lifetime incomes that are consistent with economic experience of their generation. Couples with children tend to have high current incomes but also high needs[3]. This dual nature of the welfare state in expanding opportunities for some groups but limiting them for others needs to be considered in deciding what type of welfare state a country should have.

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3 Moreover, families that lack substantial assets may find it difficult to borrow against their expected future incomes. The living standards of these families will depend on current income to a greater extent than those of the aged. I am grateful to a referee for pointing this out.

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