



# Towards an Improved Measure of Income Inequality.

## The Impact of Public Services on Income Distribution – An International Comparison

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**Abstract:** The main objective of this doctoral thesis is to examine how public services impact on inequality in income distribution in fourteen European countries. In other words, it investigates how adding the *monetary value* (equalling to cost of production) of public childcare, non-tertiary and tertiary education, health care and elderly care services to a household's disposable income alters income distribution and how efficiently public services work in the mechanism of redistribution. Moreover, it studies how the public spending on these services is distributed across income classes and household types.

Many previous studies have already hinted that the omission of services from welfare state research may contribute to a biased and deficient understanding of social policies. Besides, the inclusion of these categories of social spending is likely to influence not only *countries* but also *income classes* and *household types* in distinct ways – making this study all the more significant.

While previous studies may have incorporated health care and non-tertiary education within the concept of income, this thesis presents the first attempt to include childcare and elderly care services in research on income distribution, as well as a more thorough analysis of higher education. Likewise, the use of a wider comparative perspective to examine income inequality in social-democratic, conservative, Mediterranean, post-communist, and liberal welfare states contributes to the existing literature on European social policies.

The results of this thesis illustrate that in-kind benefits can function as a redistributive tool in European welfare states. Firstly, the quintile share ratio decreased on average by a third when moving from disposable income to final income (excluding higher education that is more pro-rich). Secondly, however, the variation both between countries and services is considerable, and thus different in-kind transfers should be analysed separately: the greatest impact on inequality is achieved through non-tertiary education and health care (17 and 16 per cent reduction respectively), while the inclusion of childcare and elderly care reduced inequality by 4 and 6 per cent on average. In the social-democratic cluster, elderly care contributed much more efficiently on equal distribution of resources than elsewhere. Thirdly, we observe a pattern of redistribution towards the poor, even within subgroups. Fourthly, the clustering of countries did not show a coherent pattern and it is especially hard to fit childcare to the traditional welfare state regime typology. Finally, we see that it is not only the level of public spending, or the comprehensiveness of coverage, that influence the received results in one direction or the other, but also the socio-demographic structure of society and the equality of access to services.

In conclusion, further research should be conducted on the regional variations of the quality and quantity of services provided. Likewise, more effort should be devoted to studying the inequality of access to different services (as undertaken here with higher education). In the context of economic crisis and concern about the sustainability of public provision of services, this thesis aims at providing important evidence about egalitarian consequences of potential political reforms in the public services sector. Whilst not the *raison d'être* of services, redistributive effects *should* be considered when adjusting social policies to face the challenges of modern societies.



**Jaap Dronkers (formerly EUI/Univ. Maastricht) (Supervisor), Sven Steinmo (EUI), Maria Vaalavuo (candidate), Markus Jääntti (Univ. Stockholm), Beatrijs Cantillon (Univ. Antwerp)**

**Bio** Maria Vaalavuo graduated with a Master's Degree in Social Policy from the University of Turku, Finland, in 2006. During her studies she spent the academic year 2004-05 at the Institut d'Etudes Politiques d'Aix-en-Provence, France. In 2007, she embarked on her doctoral studies at the European University Institute where she conducted her research on income inequality under the supervision of Jaap Dronkers. Maria was a visiting researcher in Multidisciplinary Programme on Social Policy and Inequality at Kennedy School of Governance at Harvard University for the spring semester of 2010. During her PhD, she also participated in an OECD project on poverty and public services. Maria's research interests include inequality, poverty, comparative social policy, social dimensions of environmental crises and gender reconstruction.