

## Abstract

**Title:** The Impact of Income Inequality on Social Welfare Spending in Taiwan—  
County-level Analysis

**School:** Graduate Institute of Public Finance, National Chengchi University

**Advisor:** Jr-Tsung Huang, Ph.D.

**Author:** Chih-Ling Chen

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Theoretical arguments on the impact of income inequality on social welfare spending are inconclusive. The political economy literature says that income inequality has a positive impact on social welfare spending because of the median voter preferences. However, several literatures argue that the income inequality has a negative impact on social welfare spending due to capital market imperfections. This study examines this issue empirically by using county-and-city panel data of 16 counties and 7 cities of Taiwan from 1994 to 2006. The dependent variable is defined as the social welfare spending in percent of total local expenditure, and the income inequality is measured by regional Gini index. The study adopts two-stage least squares model (2SLS). The model in the first stage is a modification of Huang and Liu (2005). And the Gini index predicted by the first stage is used as the key independent variable in the second stage model. The 2SLS model in this study supports the capital market imperfections hypothesis. That is, more unequal societies might spend less on social spending