

# LECTURE 13: WINNER TAKE ALL POLITICS: EXPLAINING THE RISE IN INEQUALITY

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# Introduction

- Last week we noted that the rise in income inequality in the USA is associated with the labour incomes of the top 1 percent.
- But what caused this explosion in wage inequality?
- Economic explanations emphasize apolitical processes of change: education, skills and technology. These certainly matter in the long run. But most economic accounts cannot explain:
  1. The extreme concentration of income gains at the *very top* of the economic ladder.
  2. The role of *government policy* in creating a winner take-all pattern.
  3. The change in the collective and *organizational landscape* of politics.

# Winner take all

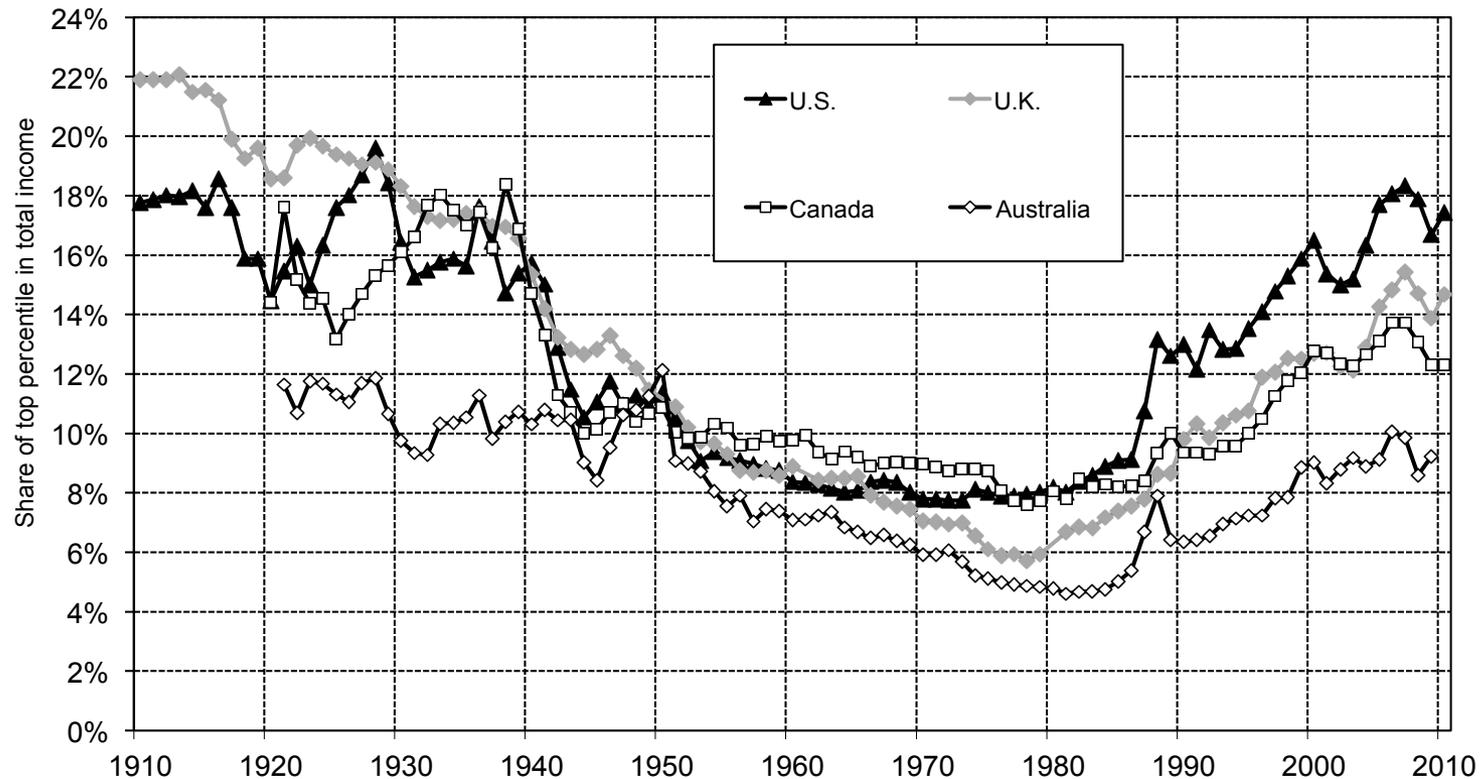
- Political scientists tend to emphasize the role of the 'median' voter in shaping electoral politics and the process of policymaking.
- If this is the case, why then don't the poor soak the rich?
- For Hacker & Pierson the 'winner takes-all inequality' is rooted in how four different institutions shape outcomes:
  - Financial markets,
  - Corporate governance,
  - Workplace relations,
  - Taxation.

# Worlds of welfare capitalism

- Piketty also acknowledges the role of institutions (chapter 9) in shaping the cross-national variation in patterns of income inequality.
- In the end, he gives priority to the role of different *ideas of fair compensation* in the USA.
  - But it is important to note that the explosion in wage inequalities is predominately an Anglo-Saxon phenomenon. In particular, it is a UK and US phenomenon. Why?

# Liberal market economies

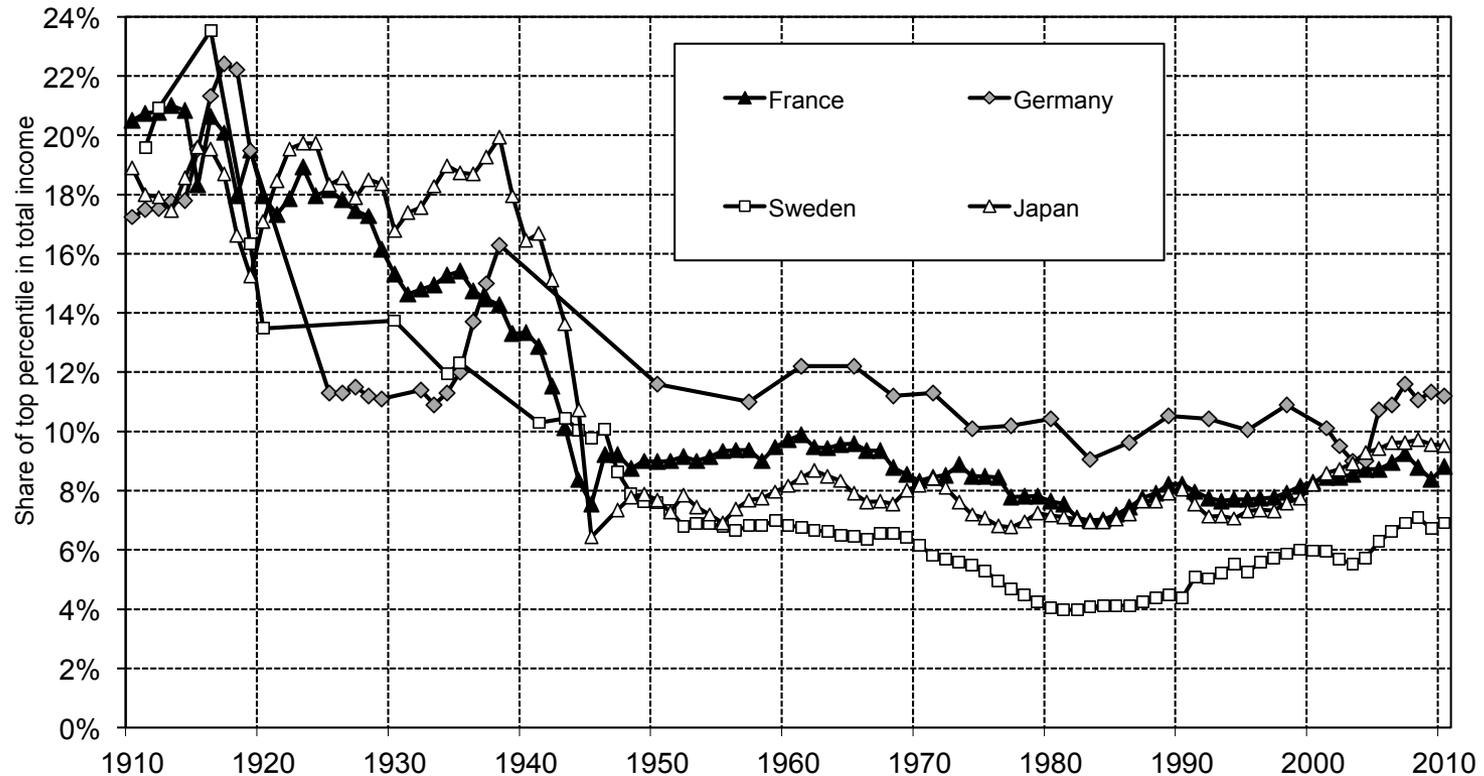
Figure 9.2. Income inequality in Anglo-saxon countries, 1910-2010



The share of top percentile in total income rose since the 1970s in all Anglo-saxon countries, but with different magnitudes. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

# Western Europe

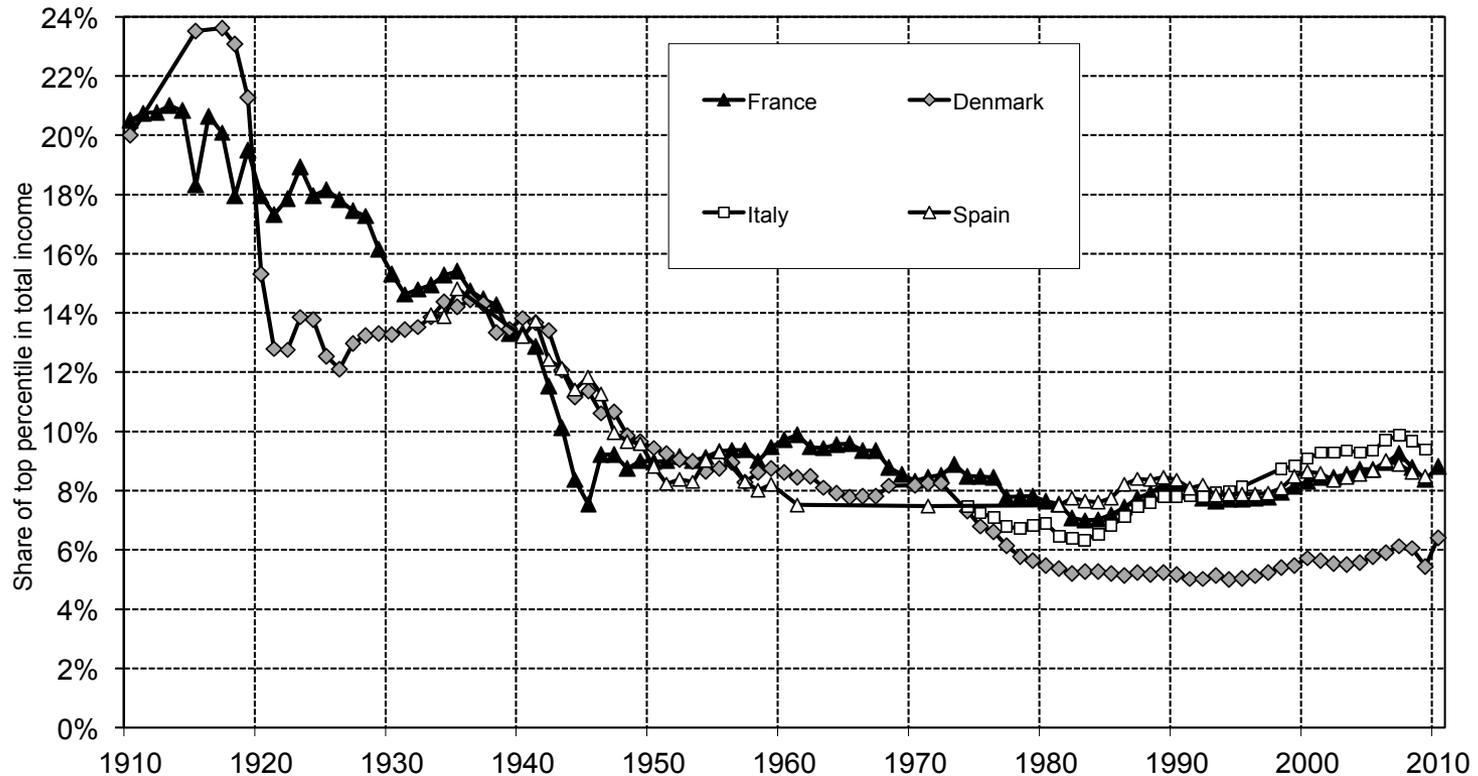
Figure 9.3. Income inequality: Continental Europe and Japan, 1910-2010



As compared to Anglo-saxon countries, the share of top percentile barely increased since the 1970s in Continental Europe and Japan. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

# Southern/Northern Europe

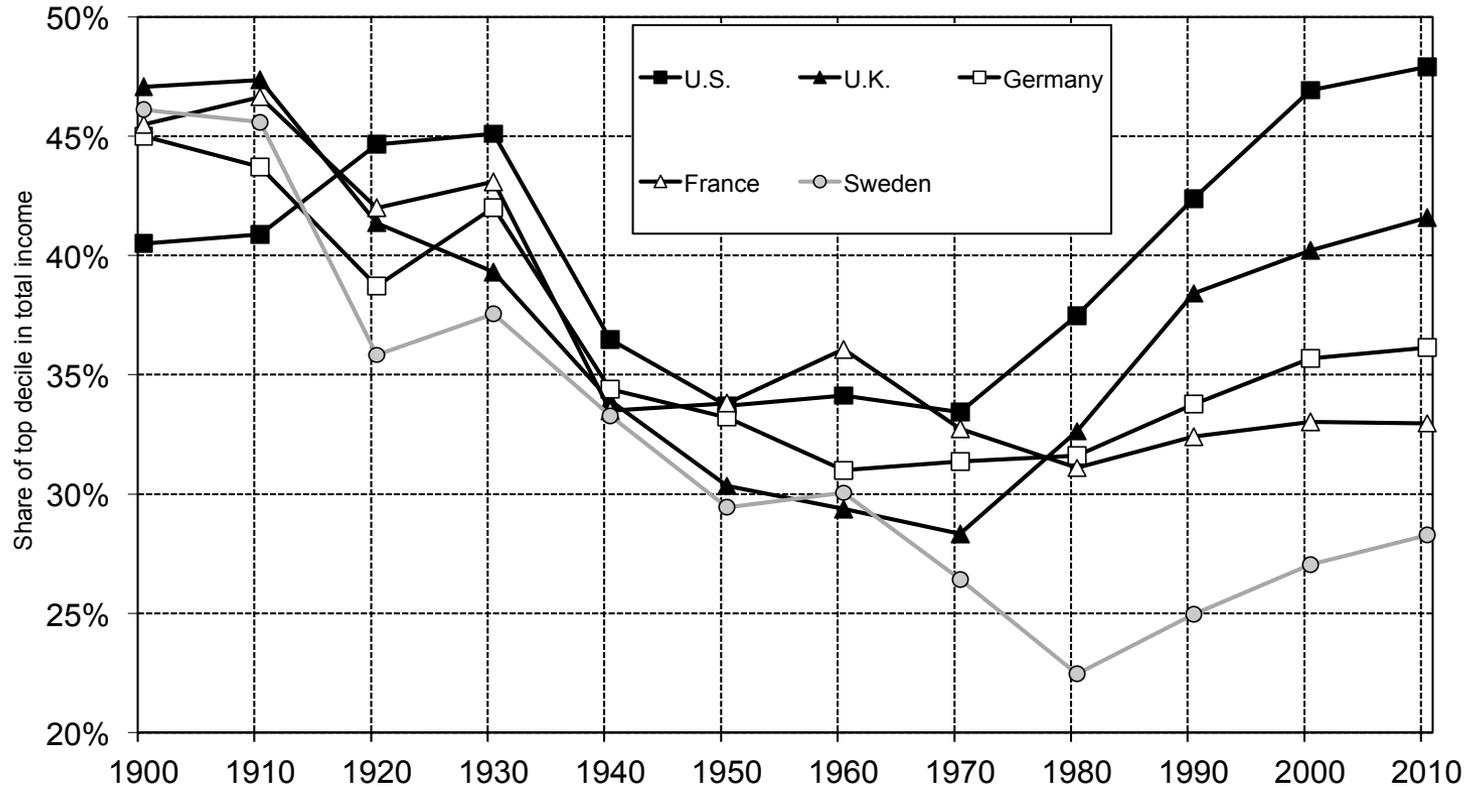
Figure 9.4. Income inequality: Northern and Southern Europe, 1910-2010



As compared to Anglo-saxon countries, the top percentile income share barely increased in Northern and Southern Europe since the 1970s. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c)

# Top decile share

Figure 9.7. The top decile income share: Europe and the U.S., 1900-2010

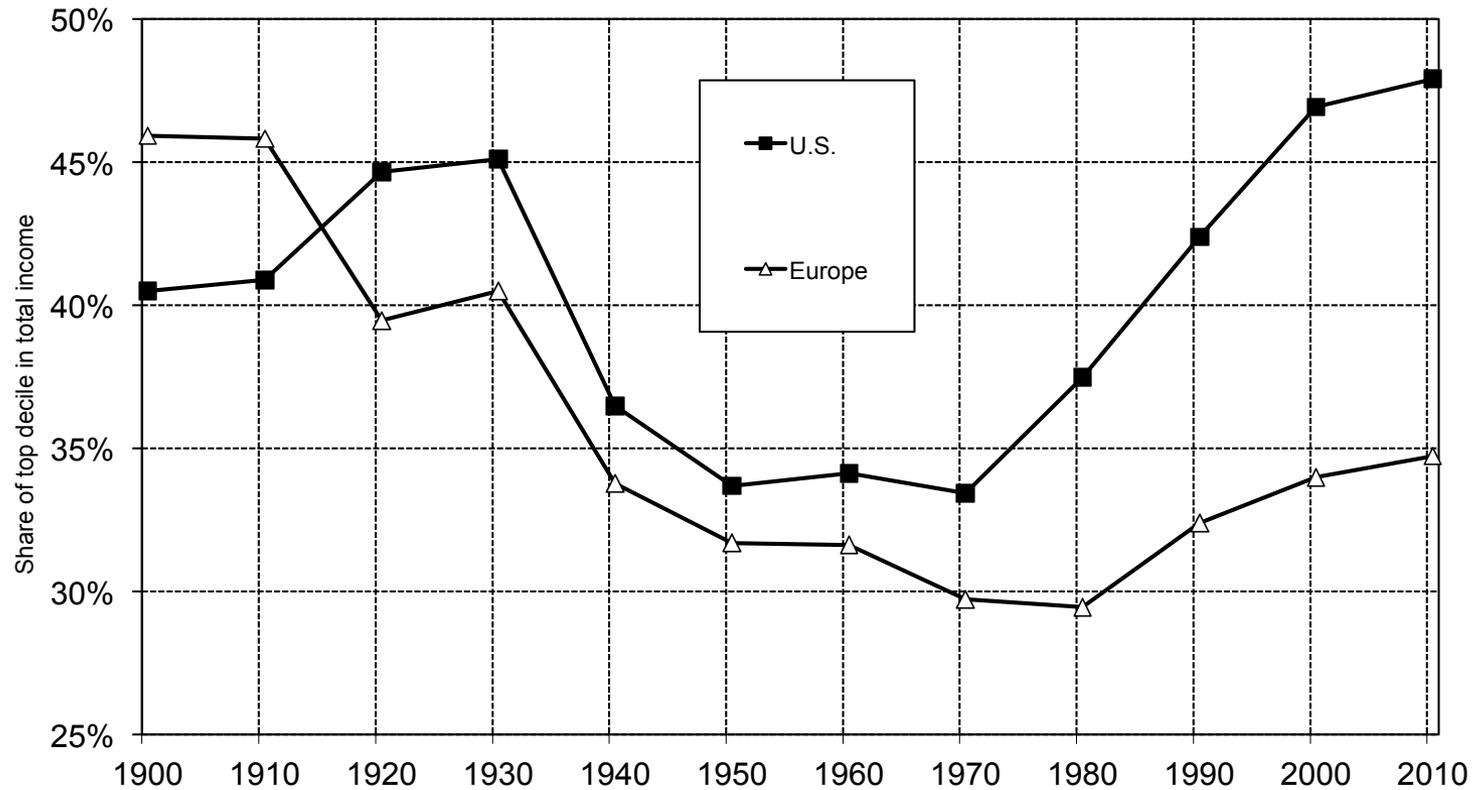


In the 1950s-1970s, the top decile income share was about 30-35% of total income in Europe as in the U.S.

Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

# Top decile share

Figure 9.8. Income inequality: Europe vs. the United States, 1900-2010



The top decile income share was higher in Europe than in the U.S. in 1900-1910; it is a lot higher in the U.S. in 2000-2010. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

# Winner take all

- There are 3 important characteristics of the US winner-takes all phenomenon (income gains going to the top 1%).
  1. **Gains have been highly concentrated.** The top percentile in the US have seen their share of the income rise from 9 to 23.5 percent.
  2. **Gains have been sustained regardless of government.** Hacker & Pierson (2010) shows that the concentration began with Reagan and continued under every subsequent administration.
  3. **Gains have not resulted in a trickle down effect.** Wages at the bottom and middle have stagnated.

# Winner take all

- Between 1979 and 2005 the average incomes of the poorest fifth of US households increased by 6%.
- The middle classes saw their incomes rise by 21%.
- The after-tax income of the top 1% rose by 230%.
- Can the distribution of educational and skills gains cannot explain this outcome?
  - The macroeconomist, Gregory Mankiw, argues that these variations are market-driven. But are they?

# Compatibility with democracy

- If voters do not run the show, who does? To answer this question requires going beyond the voter-politician relationship and analyzing politics as a form of *organized combat*.
- This perspective gives priority to **interest groups** over electoral politics:
  1. Governments do not simply redistribute what markets produce; they actively structure markets in ways that shape economic outcomes. This varies cross-nationally.
  2. The transformation of policy occurs through *drift*. Policymakers do don't policies because of entrenched interests and political vetoes in the decision-making process. Lobbying results in non-decisions.
  3. What governments actually do is a long hard battle between competing organized interests. 'Elections are a side spectacle'.

# Politics as organized combat

- Organized interests build coalitions of interest within and between political parties in government. They are the crucial actors in the struggle over competing economic choices.
- The implication of this analysis is that political parties have become responsive to the concerns of interest groups and less the preference of the median voter.
  - Drift is the cheapest way to abandon the median voter.
- Another crucial empirical finding is that voter participation is generally lower when economic inequality is higher (Solt et al 2009).
  - Does low voter turnout increase inequality or is the causal mechanism the other way around?
- But by far the most important process of institutional change from the 1970's onwards is the rapid rise in *corporate-business lobbying* and the decline and weakness of *organized labour*.

# Declining mass membership

- In the US, Hacker and Pierson (2010) suggests that change in the four policy arenas has contributed toward winner takes-all inequality:
  1. **Taxes.** Most of these tax cuts for super-high incomes were the outcome of successful lobbying by anti-tax groups and free market think tanks like the Cato Institute.
  2. **Industrial relations.** Private sector unionization had virtually collapsed in the US. Public policies were never updated and governments actively avoided intervening to stem the decline.
  3. **Corporate governance** and executive compensation. Total compensation for the top three executives in the US has skyrocketed since the 1980's. No-intervention from government to stem the rising power of managerialism.
  4. **Financial de-regulation.** The rise of finance is virtually synonymous with the rise of winner takes-all. In 2005, five hedge fund managers made \$500m. FIRE (finance, insurance and real estate) became a huge part of the lobbying and campaign finance world, and actively shaped policies of financial regulation.

# Conclusion

- Explaining winner takes-all politics requires a perspective that sees modern capitalism and electoral democracies as deeply interconnected.
- Governments actively shape and influence markets through a range of public policies. But economic interests actively shape how political authority is exercised.
- Economists generally explain rising wage inequalities as the outcome of market and technological forces. political science explanations give priority to the median voter.
- I have suggested it is more related to how organized corporate-financial interests are capable of shaping public policies to advance their own economic interests.
- This is 'quiet politics' and cannot be observed in electoral behavior.
  - In the Irish case - think about the role of the IFSC Clearing House Group in shaping the Irish governments policy on whether or not to accept a coordinated financial transaction tax in Europe.