

# LECTURE 23: THE COMPARATIVE POLITICS OF INEQUALITY

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# Introduction

- Break into small groups of 4-5 and discuss the following question:
  - Inequality in the 21<sup>st</sup> century: why are some countries more unequal and less redistributive than others?

# Piketty – main points

- **Wealth** (everything that can be sold on a market, net of debt). Valued at market prices (which fluctuate)
- **Wealth/income ratios** ( $\beta$ ). These fell over the period 1910-1950. They have since increased, especially in Europe.
- **Income share of wealth owners** has consequently increased.
- **Concentration of wealth**. Big decrease from 1914-1950. Becoming more concentrated again.
- **Return to 19<sup>th</sup> century patrimonial society**. In low growth economies the wealthy elite live off inheritance, saving more.
- **Labour income**. This is a bigger source of income inequality in the USA. This is related to the rise of super managers and executive pay.

# Problems of causality - wealth

- Why has  $\beta$  increased?
- H1: low growth and **over-accumulation** of capital (volume effect)
  - $R > G$  means that the wealthy can enjoy high levels of consumption whilst accumulating wealth (high savings). Return to 19<sup>th</sup> century.
- H2: Higher **asset prices** (price effect)
  - Housing now constitutes 60% of national wealth in Europe. This is based on capital gains not real investment.
  - Piketty has under-estimated the importance of housing-wealth.
  - Wealth inequalities are increasing related to housing.

# Problems of causality - wages

- Why has labour income inequality increased (USA)?
- H1: lower taxes on the rich incentivise super-executives to bargain for higher pay (Piketty).
- H2: weaker organized labour and different egalitarian norms as to what constitutes fair pay.
- To explain the dynamics in the middle of the distribution we need to analyze **comparative political institutions**.
  - Housing and labour market politics missing in Piketty.

# R>G is a story about the rich...

- R>G focuses on the wealthy and top incomes.
- It does not tell us much about **rising poverty** and the changing nature of working class politics. Nor does it tell us much about the **home-owning** middle classes.
- There has been a very rapid rise in low income households (measured in terms of **market income**).
  - From 1945-1980, capital was tamed by democracy.
  - From 1980 to present, democracy has been tamed by capital.

# Piketty needs an institutional analysis...

- The post 1970 shift from the 'Keynesianism' to the 'Neoliberalism' requires a comparative **political** analysis.
  - **Globalization** has affected OECD countries differently. Not all countries have experienced US-style inequalities.
    - Role of ideas, interests and institutions.
- **Comparative** political economists focus on *institutions*:
  - Technology regimes
  - Capital market regimes
  - Labour market regimes
  - *Electoral politics*
- **Ask yourself:** how have these changed over time?

# Keynesian social state

- **Technology regime:** Fordist mode of production. Huge demand semi-skilled labour. Full employment.
- **Labour market:** strong trade unions, broad collective bargaining coverage, wage compression among low to middle income earners, focus on vocational training.
  - The labour market led to low levels of market income inequality.
- **Electoral politics:** in majoritarian systems (UK, USA) democratic politics reinforced market egalitarianism.
  - The median voter supported strong redistributive policies. Governments have to capture the median voter to win elections.

# Neoliberal regulatory state

- **Technology regime:** ICT revolution. Global supply chains. Capital liberalization. Knowledge based economy.
- **Labour market:** massive decline in unionization and collective bargaining coverage, growing skills differentials, wage divergence. Rising poverty.
  - Labour markets are no longer egalitarian. More fiscal pressure on the state to compensate for rising market income inequality.
- **Electoral politics:** much higher fragmentation of the electorate and re-emergence of identity politics?

# Comparative politics .....

- In majoritarian electoral systems (UK, USA) political parties now compete for a very **different median voter**.
  - The asset-owning (housing) middle class are less supportive of redistributive public policies (particularly higher taxes).
- In proportional electoral systems (IE, NL, DL) the median voter has also shifted. But it's harder to ignore the poor.
- To explain why some countries are more unequal than others requires explaining the variation in median income **voting preferences**. Lower market income inequalities lead to more cohesive redistributive coalitions (and higher taxes).
  - Put simply: Nordic countries are less *class divided* societies whereby egalitarian labour markets and the welfare state reinforce each other.

# Discussion

- How do these electoral dynamics play out in the new **politics of austerity** in the aftermath of the crisis?
- Who are the **winners and losers** of globalization?
- What is the interaction between socio-economic and socio-cultural **cleavages among the electorate**?
  - Demand: preferences and attitudes
  - Supply: new political parties
- Task for next 7 days: read the Financial Times every day. Identify and make a note of articles that relate to what we have discussed in this lecture.