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Winner-Take-All Politics in Europe? European Inequality in Comparative Perspective*

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Abstract

In this introduction to the special issue "The New Politics of Inequality in Europe," recent literature on income inequality in the advanced democracies is summarized. It is argued that dominant accounts are too heavily focused on the United States, whereas the experience of Western European countries has been neglected. Although income inequality has risen nearly everywhere in the rich industrial democracies since the end of the 1970s, it has done so from different starting points, at different rates, and for reasons connected to different mechanisms and different parts of the distribution. Extending the analysis to Western Europe enables us to understand these variations more fully.

Keywords

income inequality, Europe, winner-take-all politics, Jacob Hacker, capitalism, concentration of wealth

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*This special issue of *Politics & Society* titled "The New Politics of Inequality in Europe" features an introduction and four papers that form part of a project coordinated by Jonathan Hopkin and Julia Lynch. The papers have been presented at several meetings including the 20th Conference of Europeanists in Washington, DC, March 2014; the American Political Science Association annual meeting in Washington, DC, September 2014; and the European Union Studies Association meeting in Boston, March 2015.

Inequalities in income and wealth have risen in virtually all the rich democracies over the last thirty-five years. The average Gini coefficient for the OECD countries was 0.29 in 1985 and rose to 0.32 by the late 2000s, with inequality growing during this period in seventeen out of twenty-two OECD countries.[1] Top earners, in particular, made spectacular gains in some countries in the 1990s and 2000s, leading to growing interest and concern about the concentration of income and wealth at the very top. Adding to these medium-term and relatively slow-moving trends, the financial crisis of 2007–8 and the subsequent slump has sharpened the debate about how to respond to increasing inequality. Across the rich democracies, governments bailed out insolvent financial institutions that were run by some of the biggest winners in the income distribution. The resulting public debt problems have led to cuts, sometimes drastic, in programs that favor lower-income groups, while capital holders have escaped the worse consequences of the financial collapse.

Developments before and after the crisis have thus crystallized a broad shift in the political economies of the rich capitalist democracies, toward a more unequal distribution of resources and a rising share of income for the wealthiest. This shift was for some time relatively neglected by scholars, but has now moved to center stage with landmark studies such as Thomas Piketty's *Capital in the Twenty-First Century* and Jacob Hacker and Paul Pierson's *Winner Take All Politics*.[2] Their research draws on new data about historic income shares made available at the World Wealth and Income Database.[3] By paying less attention to standard overall measures of inequality such as the Gini coefficient, and focusing instead on the income shares of the top tenth, hundredth, and thousandth highest earners, this research presents evidence that the wealthiest are increasing their share of income at the expense of the rest, particularly in the United States.[4] The concept of the "one percent"—the one-hundredth highest earners in society—has been popularized by the Occupy Movement in the United States, and American political science has begun to pay great interest in the increasing clout of the wealthy in US politics.[5]

This renewed scholarly interest in inequality and the political consequences of rising top income shares has been slower to take off in Europe. As a result the experience of the United States has come to define the problem, not only because of its size and importance, and the size and importance of its social science research community, but also because of its status as an outlier at the extreme end of the inequality spectrum. The debate has thus been skewed in the direction of overemphasizing the peculiar features of the United States, which, as well as having the highest inequality of any major democracy, has a quite distinctive political system. Rising top incomes are not solely a US phenomenon and cannot adequately be understood in terms of the peculiarities of American politics. By comparing the US case with other countries where we can observe the effects of a range of explanatory variables on the distribution of income, we can improve our understanding of both the American case and the other advanced democracies. A comparative approach allows us to ask whether the same factors leading to a winner-take-all income distribution in the United States cause similar outcomes in other contexts, or indeed whether other variables not considered by the US literature can enhance our understanding of winner-take-all politics and of income inequality more generally.

This special issue is therefore premised on the idea that the debate needs to move beyond the US-centric nature of much contemporary analysis of inequality in political science and economics and to adopt a comparative perspective. The obvious place to look for such a perspective is Europe. The following pages outline the reasons for focusing on Europe, and preview the insights that such a comparison can generate into the broader problem of inequality in the advanced democracies.

Inequality in Europe and America: Different Worlds?

Piketty's *Capital* and Hacker and Pierson's *Winner-Take-All Politics* investigate the same problem—the rising share of income allocated to the very wealthiest—in very different ways and draw very different conclusions. Piketty sees inequality as the mechanical result of forces for divergence inherent to capitalism, which can be expressed by a series of "fundamental laws" (most famously, $r > g$) that lead the share of capital to tend to rise, all else equal.[6] Hacker and Pierson, on the other hand, argue that inequality is the consequence of political action—"organized combat"—by wealthy groups, who gain a rising share of output by capturing the political system.[7] Both agree, however, that the spectacular growth of top incomes in the United States is exceptional amongst the advanced democracies.

But while the United States is clearly the most extreme example, in Europe we also see evidence of rising inequality and increasing incomes for the wealthiest, suggesting that there is some kind of general trend. However the picture is far from uniform[8] (see also Matthijs in this issue). For example, while the United Kingdom, Germany, and Sweden have experienced steady growth in income inequality since the 1970s, in Southern Europe and Ireland inequality actually decreased substantially until the onset of the global financial crisis.[9] Moreover, different initial levels mean that even with increasing inequality over time in most countries, levels of inequality in the present period still vary substantially, with Gini coefficients ranging from a high of around 0.35 in the United Kingdom to a low of around 0.25 in Denmark and Norway. A focus on the concentration of income at the very top of the distribution offers a similarly mixed picture:[10] Figure 1 shows a distinct upward trend in the top 1 percent share in most countries since the 1970s, but the US pattern, wherein higher shares at the top drive the inequality trend,[11] is not consistently present in Europe. The United Kingdom and Ireland have high income shares for the top percentile and high overall inequality, but on the whole income is far less concentrated at the top than in the United States, even in countries with high Gini coefficients such as Italy, Spain or Portugal.

It becomes clear that Hacker and Pierson had good reason to limit their winner-take-all thesis of inequality growth to the United States: in most of Europe, the relationship is nowhere near as clear as it is in the United States. Yet the United States is far from unique in experiencing growing inequality and rising shares for the wealthiest. Moreover there is sufficient variation across the European cases to suggest that a simple theory based on capitalism's inherent tendency to favor wealth holders cannot account for the outcome either. In short, we need to adopt a political economy approach, moving beyond the structuralist logic of Piketty's *Capital*, and extending the insights

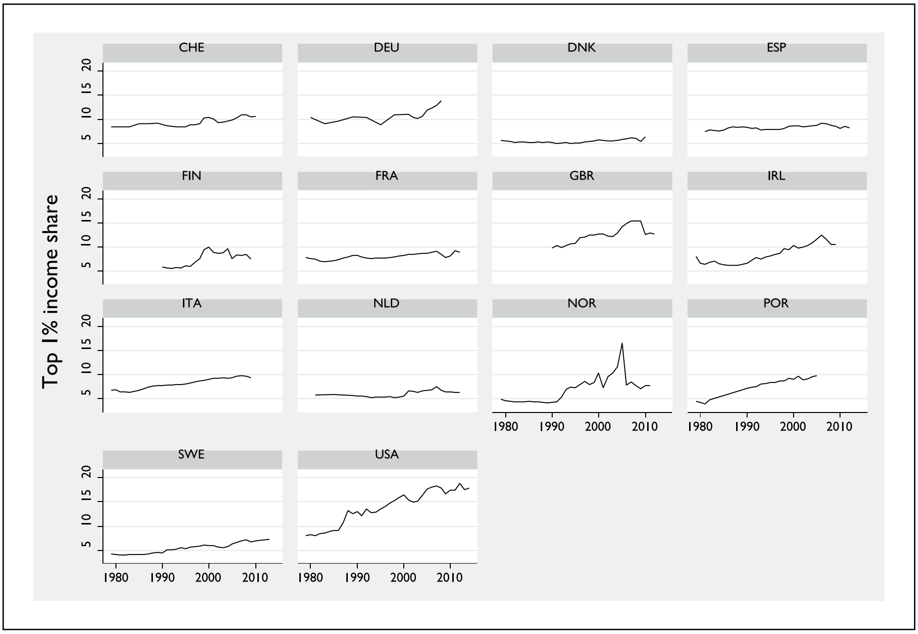

Figure 1. Share of Total Income Earned by Top 1 Percent of Earners, 1979–2012.
Source: World Wealth and Income Database, Paris School of Economics.

of Hacker and Pierson beyond the US case in order to understand the conditions under which winner-take-all dynamics emerge. In the next section we highlight some of the insights presented in this special issue which can help us to understand and explain these developments.

A New Politics of Inequality in Europe? Capital and the Crisis

There is of course a vast literature on the forces determining the distribution of income in the advanced democracies that does a good job of identifying the institutions—such as corporatist labor market institutions,[12] coordinated skills training,[13] and welfare provision[14]—that led to much lower inequality in much of continental Europe and Scandinavia compared to countries such as the United States and the United Kingdom. However conventional accounts of the income distribution in the advanced democracies are not up to the task of understanding today's winner-take-all economy. Understanding rapid rises in inequality in the traditionally egalitarian social market economies, and the growing importance of capital income and compensation for top executives in driving inequality, requires a new approach. This approach will involve much greater attention to the role of financial institutions and wealth holders in the political economy, and the integration of the analysis of financial dynamics with the analysis of political institutions, labor markets, and social policies characteristic of the established scholarship in political economy.

Hacker and Pierson's "Winner-Take-All Politics" thesis revolves around a feedback loop of ever increasing income concentration at the top leading to growing political influence for the super-rich, which in turn generates further top income gains, and so on. The main political force shaping the income distribution, in this rendition, are organized capital holders using their material resources to secure advantage. Much of this "organized combat" takes place outside the public gaze, in committee rooms and congressional corridors, where paid lobbyists and political donors leverage the power of money to influence political decision making (what is sometimes known as "quiet politics").[15] Mass public opinion counts for little, and since backroom deals, rather than elections, secure policy agendas, voting is merely "the politics of electoral spectacle."

Hacker and Pierson make a compelling case for their interpretation of income distribution trends in the United States, but the organized combat they describe is not typical of other advanced democracies. Yet rising top income shares (albeit on a less spectacular scale) are also observed in countries where lobbying and private financing of political campaigns appear to be far less important than in the United States. The US case is indeed exceptional: the richest one per cent of Americans more than doubled their slice of national income over the past three decades. But it is also worth noting that the richest in the United Kingdom and Ireland have also made spectacular gains, with the top one per cent doubling its share in the former, and doing almost as well in the latter. The Anglo countries, whether in Europe or outside, seem to have been subject to some broadly similar forces pushing top incomes ever higher. Well-designed comparative analysis can help us understand better the rise of the winner-take-all economy in the United States and some other countries, but can also reveal why the wealthiest groups have been less well rewarded elsewhere.

As Hopkin and Alexander Shaw argue in their contribution to this special issue, introducing a comparative perspective can help us understand the true causal impact of the factors identified by Hacker and Pierson. In the British case, evidence for winner-take-all style "quiet politics" is thin on the ground, and what emerges instead is a major, broad-reaching political conflict between the forces of the neoliberal right and the labor movement. There is organized combat, but on a macro and very visible scale, between competing organized social groups and ideologies, involving the mobilization of considerable resources. The triumph of Thatcherism in the United Kingdom was an exemplar of noisy, conflictual politics, and although it resulted in a dramatic rise in inequality, and big gains for those at the top, a winner-take-all story along the lines of Hacker and Pierson's account of the United States fails to capture the causes of these changes in the income distribution.

The articles in this special issue instead argue that forms of power beyond narrow and specific acts of "organized combat" need to be brought into the analysis and properly conceptualized. Here there are well-developed scholarly literatures to draw on. Piketty's thesis of progressive capital accumulation nicely dovetails with an older scholarship on structural power,[16] by revealing the ways in which economic elites can enjoy ever greater shares of income without actually having to act. If Piketty is correct, then all that is needed for top income shares to grow at the expense of those lower in the income distribution is the absence of exogenous shocks such as wars, revolutions, or financial collapses. In other versions of the structural power argument, capital holders enjoy substantial blackmail power in relation to political authorities as a result of the ease with which they can withhold their capital and the devastating impact that capital strikes have on wage earners.

Cornelia Woll's contribution to this special issue illustrates how financial instability, by creating the potential for economic disaster if distressed financial institutions are not bailed out, can end up enhancing the structural advantage of the financial sector. Her comparative analysis of bank bailouts shows how the lack of coordination between American financial institutions paradoxically enhanced their bargaining power by making a total financial meltdown even more plausible, prompting policymakers to bail them out with few strings attached. Woll's work shows that capital can exercise political dominance by being *disorganized*, in contrast to Hacker and Pierson's emphasis on organized combat. This strength from disorganization suggests that capital's structural power is the real source of political leverage for the wealthy.

The functioning of modern financial systems and their impact on both inequality and on the performance of the broader economy have been the focus of heightened attention since the global financial crisis of the late 2000s. Financial sector growth in the United Kingdom and the United States has been convincingly identified as a proximate cause of rising inequality and top income growth in particular.[17] But the changing role of finance in the advanced countries raises broader questions. Matthias Matthijs's article in this special issue highlights the sizable and differential effects of European monetary union (EMU), a process of incomplete financial integration, on the income distribution of Eurozone member states. In the initial pre-crisis phase of EMU, inequality was declining in the periphery countries and increasing in the core. The substantial and unregulated shifts of capital around the Eurozone in the first years of EMU led to falling unemployment in the periphery, and boom conditions allowed governments to offer generous social policies that boosted middle and lower incomes. At the same time, these capital shifts were driven in part by the stringent wage and fiscal policies followed in the core countries of Northern Europe, which alongside labor market reforms allowed inequality to drift up there. Matthijs also observes that in the aftermath of the crisis the trend toward economic convergence within EMU swiftly reversed, with the data suggesting a rise in inequality in the distressed debtor countries of the Eurozone periphery and easier social conditions in the core countries.

Matthijs's article shows that EMU was specifically designed to ensure deflationary adjustments in times of crisis, a strategy certain to lead to high unemployment in the weaker economies and likely higher inequality too. Matthijs argues that the structure of EMU derived from political choices favoring capital over labor and creditors over debtors, accentuated by the growing importance of organized financial interests in Brussels. Capital benefited from structural power in the Eurozone crisis leading to greater inequality, but this structural power was clearly derived from political choices to empower capital and, correspondingly, disempower democratically elected authorities at the member-state level.

If Matthijs's analysis provides an account of the structural forces of economic divergence generating inequality in the Eurozone, Cioffi and Dubin's article on Spanish labor market reforms in the aftermath of the crisis provides us with a powerful account of how Europe's financial crisis has led, through a combination of financial distress and supranational pressures meeting domestic politics, to the radical transformation of domestic labor law and relations. Cioffi and Dubin show that Spanish conservatives have pursued a strategic assault on labor and employee rights to secure partisan political advantage by leveraging the pressures exercised on Spain by the creditor countries within the Eurozone and neoliberal policy entrepreneurs in the Troika institutions. While this account of radical liberalizing reforms leading to greater inequality is consistent with existing theories of power resources, policy responses to crisis, and class politics more broadly, Cioffi and Dubin bring to the table the ways in which supranational institutions in Europe create opportunities for "organized combat" through which capital is able to weaken labor.

The articles in this special issue urge us to renew our focus on the ways wealthy elites can exercise power. Such power can take the form of organized combat as Hacker and Pierson describe, but often it takes other forms. Capital holders enjoy structural advantages that give them the edge in political battles; by threatening to withhold investment they can enjoy the kind of economic power that relieves them of the need to participate in political battles at all; and they can exercise ideational power in such a way that organized combat is not necessary to win political battles. This latter point is often neglected, but the existence of winner-take-all patterns of income distribution outside the United States can be more readily explained by the power of neoliberal ideas' promoting finance-friendly reforms than by organized combat, for which there is far less evidence in the European cases.

The special issue therefore suggests a number of avenues worth further exploration as we seek to come to grips with the emerging trends in the income distribution in Europe. For a long period, research on the political economy of European welfare capitalism was preoccupied with how organized labor was able to work for greater equality within a context of mass democratic politics. The organization of welfare states and labor markets is still clearly an important part of the explanation of why some nations have moved less starkly in the direction of winner-take-all politics. Nevertheless, the challenge in the current age, in which labor is consigned to a more marginal political role, is to understand how capital is able to wield political and economic power to maintain an increasingly skewed distribution of rewards and close off alternative economic policies.

Notes

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17. Josh Bivens and Lawrence Mishel, "The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes," *Journal of Economic Perspectives* 27, no. 3 (2013): 57–78.

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