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MAX PLANCK INSTITUTE FOR THE STUDY OF SOCIETIES



# THE POLITICS OF INEQUALITY

Seminar on The Political Economy of Inequality – University of Cologne

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## Who am I?

- Background in **Political Science and International Relations (European Affairs)**
  - role of power, ideas and institutions in shaping economic policy and outcomes;
  - crises and conflicts in European monetary integration €
- Currently writing my **PhD dissertation** on the Politics of Fiscal Policy in Germany and Italy in the last decade;
  - Developments since the mid-2010s to the period after the pandemic and the return of inflation;
  - What kind of coalitions of economic and political actors supported austerity and not? with which kind of ideas? did these change?
  - **Focus: the role of political parties in shaping and blocking these transformations**
- What am I doing in Cologne and at the MPIfG?
  - Visiting Researcher in the same Research Group of Joshua;
  - (Qualitative) Fieldwork in Germany: Interviews (economic and political actors, economists, etc), document analysis, process-tracing

# TODAY'S QUESTIONS

**What are the effects on Inequality on Politics?** How does inequality outcomes affect political processes?

- How does inequality shape political preferences of voters and workers?
- How do political parties, institutions, policies react to increasing inequality?
- What are its effects on political participation, representation, and policymaking?

Inequality → Politics

**But also, how does Politics affect Inequality?** What is the role of political processes, developments and decisions in shaping inequality outcomes?

- Can, and if yes how, with which kind of policies, can parties and political actors mitigate inequality?
- *Do politics and policies actually create and exacerbate inequality?*
- Is inequality a market-driven, a structural, phenomenon.. ***Or is it, in an important part, a political outcome?***

Politics → Inequality

# SOME STARTING POINTS AND IMPORTANT ASPECTS

- **Inequality is NOT an entirely inescapable structural outcome**
  - Variation in the level and shape of inequality among countries, even comparatively similar ones
  - Even in the presence of a common trend, how to account for the –also- political origins of these global trends:  
neoliberalism, globalization/liberalization, European Integration;
    - it is also **importantly a political outcome**
- **Difference between distributional and re-distributional (inequality) outcomes**
  - Usually it is assumed that government can act only upon the second ones, through tax and transfers (welfare state)
  - While **distributional** ('market') outcomes are supposedly beyond the scope of politics, but shaped by technology, demography, structural transformations;
  - ... but is it true? See the readings!
- **Important to look at both the demand- (voters, preferences, elections) and supply- (parties, policymakers) side of politics!**

Growing inequality is interrelated, shaped and contributes to shape transformations in both sides!

Different actors, processes, mechanisms must be considered

## Pre-distribution and Re-distribution: what is the difference?

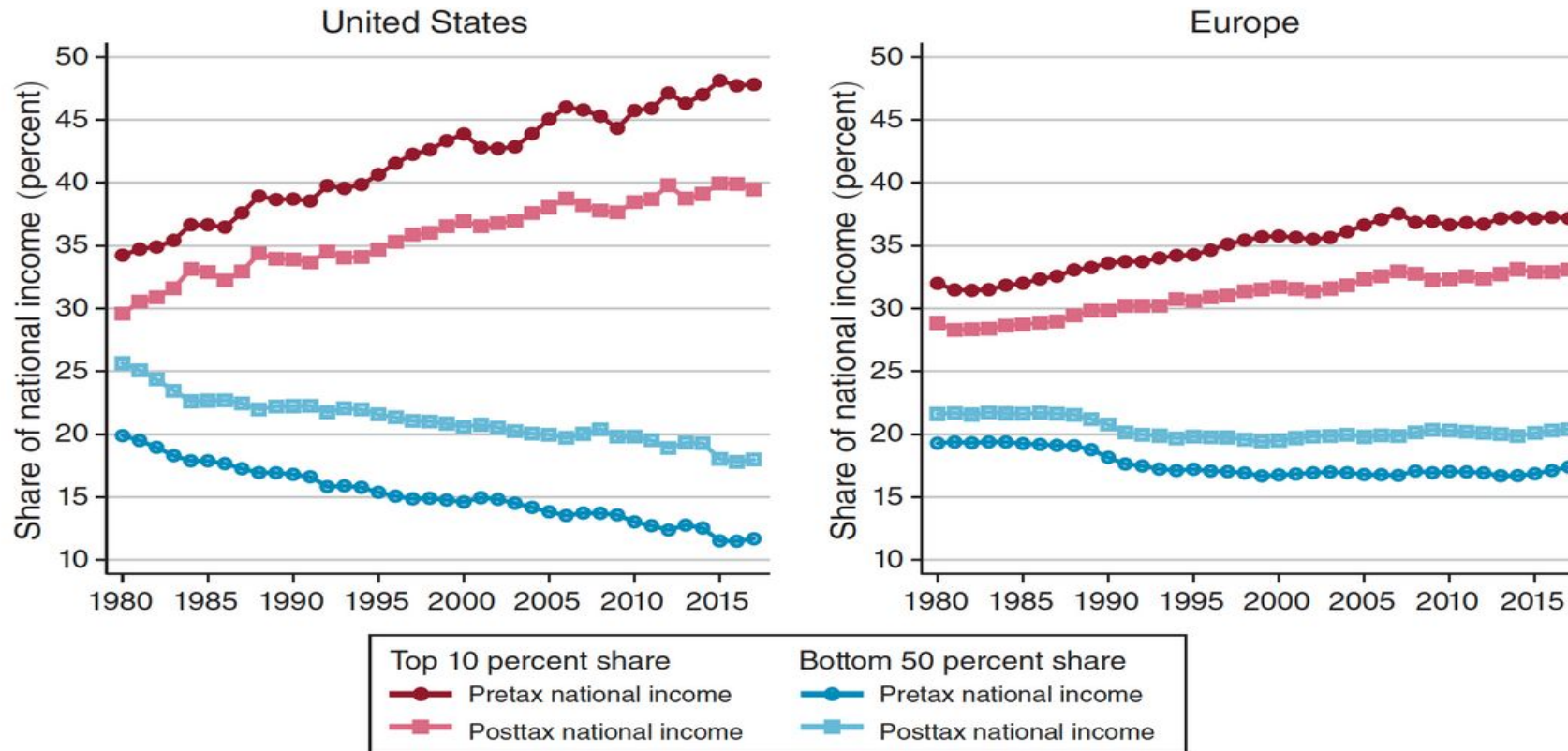


Figure 8 from Blanchet et al. (2022)

Blanchet, Chancel, Gethin (2022) 'Why Is Europe More Equal than the United States?', *American Economic Journal: Applied Economics*

# The median voter theory and redistribution

- Spatial and unimodal representation of political competition: parties who want to win elections should align their preferences with those of the median voter (Downs, 1957)
- Different income groups will have different redistributive preferences (Meltzer and Richard, 1981)
- Median income  $<$  Mean income, preference for more government spending
- Politicians will act accordingly (1970s)

## However:

- Robin hood paradox: Why do Scandinavian countries redistribute more than US?
- Wealthier individual might be more influential
- Ideological/Cultural factors
- Is redistribution the only thing that voters care about?

# The dimensions of party competition

- the ‘Classic’ Left-right dimension: Redistribution, state intervention in the economy, economic regulation
- **GAL-TAN dimension: Green, Alternative, Liberal vs. Traditional, Authoritarian, Nationalistic** (Hooghe, Marks and Wilson, 2002);

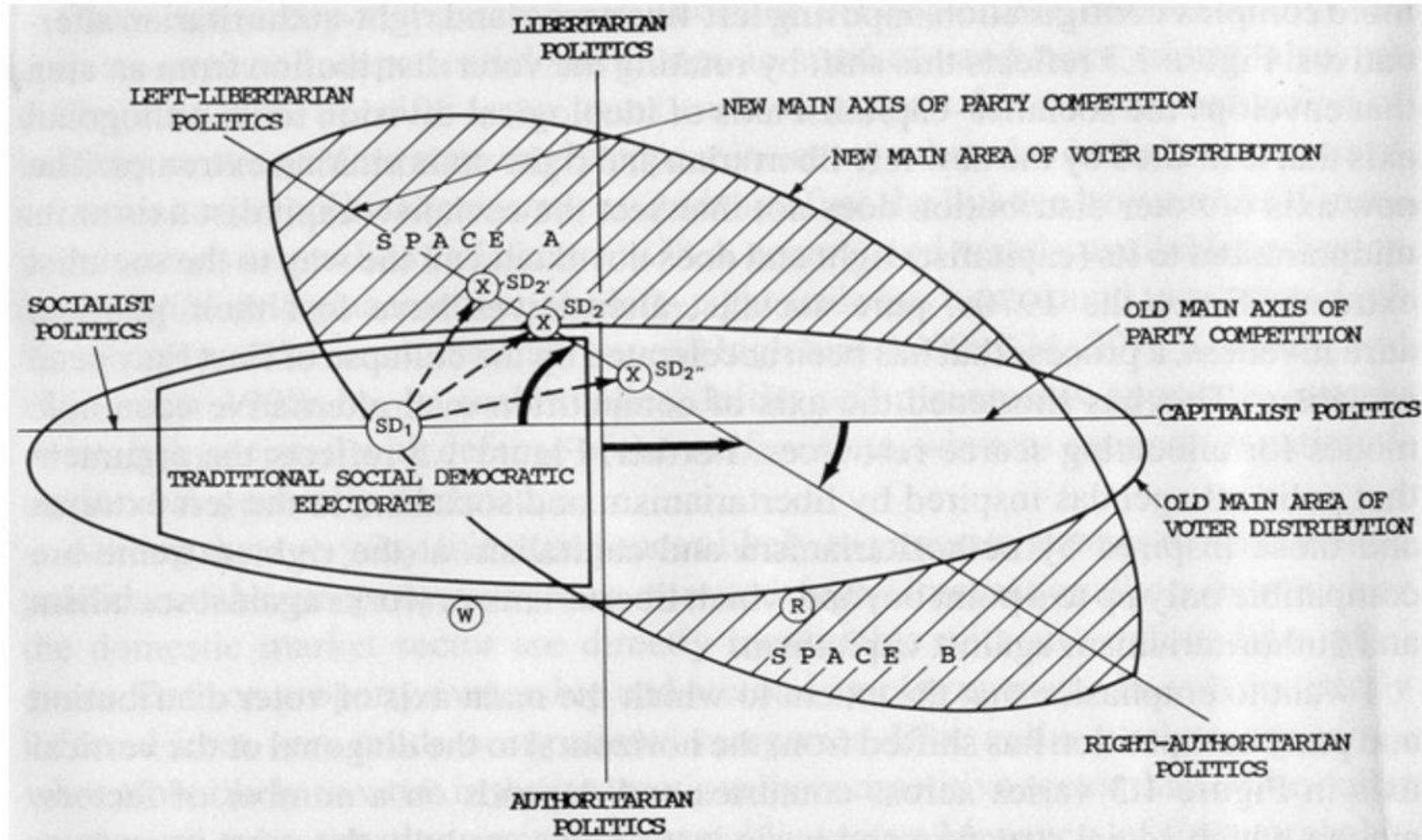
or also materialist vs. post-materialist dimension (Inglehart, 1989)

- **Examples of “Non-economic issues”:** Environmental protection, civil rights, multiculturalism
- issues of community/identity, nationalism, nativism;
- gender and cultural roles, feminism, socio-identitarian issues;
- and immigration? is it non-economic or..?

➤ (!) Trump’s victory and the working class vote.. how do we explain it? (see also Rathgeb, 2024)



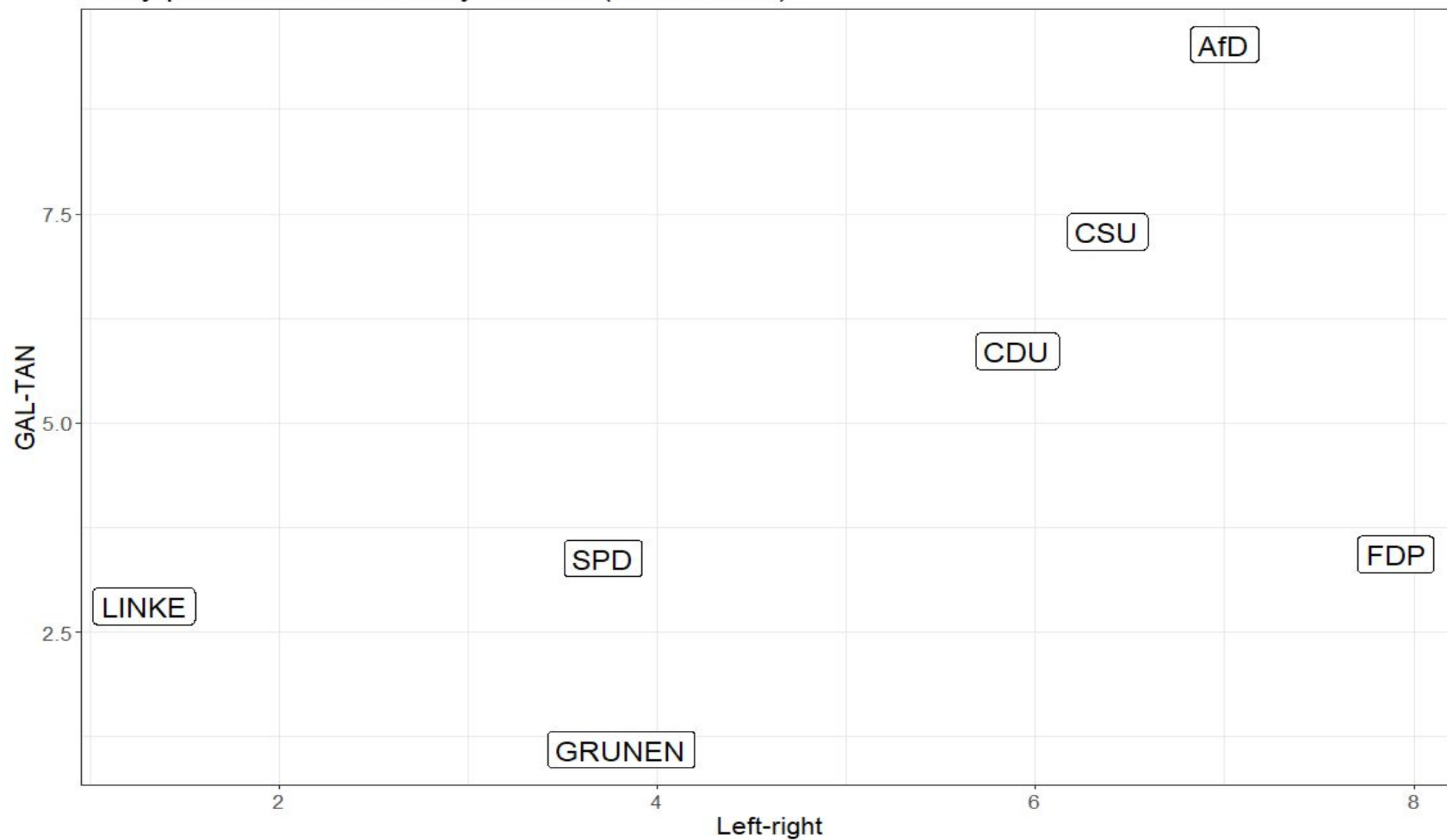
**Figure 1: Competitive space for social democracy**



*Source: Kitschelt (1994: 32)*



Party positions in Germany in 2019 (CHES data)



## But is the classic Left-Right economic axis still working? Structural, occupational and Labor Market transformations

- *... affects the economic and political preferences of diverse workers and occupational groups (Demand-side)*
  - The social class composition of advanced economies becomes more complex, fragmented, and sophisticated;
  - Divergent preferences for redistribution, economic policies, labor market reforms;
  - And the political behavior (e.g. VOTING) of these groups;

Methods: Surveys, electoral data, experiments etc. seeking the micro-foundations of voting and political behavior

- *... and changes the trade-offs and programmatic response of parties and governments (Supply-side)*
  - In particular, Left Parties struggle to represent and satisfy conflicting demands of the working class;
  - Birth of new kind of parties, radical Left, Green Left, centrist Left (i.e. Third Way)
  - But also right-wing (both mainstream and Radical Right / Populist) parties adapt their rhetoric / policies to attract working class voters

Methods: comparative case studies or quantitative analysis of programs, manifestos, policy proposals;

# LET'S START FROM THE READINGS – STYLIZED FACTS

(VERY!) Different assumptions, questions, Weltanschauung + different methods! = Different conclusions

- **How Labor Market Inequality Transforms Mass Politics** Silja Häusermann, Achim Kemmerling and David Rueda
  - ❖ European Scholars, dealing with European countries, but also wider 'Advanced economies'
  - ❖ Great attention to labor market developments, occupational transformations
  - ❖ AND political behavior, preferences, micro-level attitudes + party programmes/manifestos
  - ❖ Focus on: Inequality in the labor market!
- **Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States** by Jacob S. Hacker and Paul Pierson
  - ❖ American Scholars, focusing on the US (at least in this article)
  - ❖ Greater attention on political Institutions (government, Congress, but also administration, welfare..), and their historical development
  - ❖ And a policy-oriented approach, i.e. looking at policy developments and processes
  - ❖ Focus on: Top Incomes inequality!

## How Labor Market Inequality Transforms Mass Politics

### Häusermann, Kemmerling and Rueda

- Regarding the nexus between Inequality and Politics: *the “electoralist approach”*
- **Some core assumptions:**
  - Structural socio-economic transformations have reshaped labor markets and economic relations:
    - Technological and demographic changes;
    - **Diversification and fragmentation of the ‘working class’**
      - Labor market status (insiders vs outsiders)
      - Employment security, long-term, stable vs precarious, temporary, flexible contracts and jobs
      - Etc.
- *Deindustrialization* and growing importance of services; the **old industrial-manufacturing working-class is shrinking everywhere**, together with the relative importance of industry;
- **This approach takes seriously occupational and labor market transformations**

# How Labor Market Inequality Transforms Mass Politics

*“the “electoralist approach”*

*Voters, parties, and elections are key!*

*But how?*

- Socio-economic transformations change the occupational and labor market composition of the electorate;
- this changes the electoral pressures and preferences, and the conflicts, for redistribution and policies in general;
- Parties react by shifting their programmatic response trying to assemble electoral coalitions;
- And they enact policies accordingly;

**Partisan politics matter** in the sense that different parties/coalitions will respond to different group of voters and enact relatedly different policies, thus shaping/affecting inequality (**mainly through redistribution and social policies**)

- ★ We could see it as a more sophisticated and updated version of ‘power resources’ theories coupled with a theory of socio-economic voting;

# How Labor Market Inequality Transforms Mass Politics

*“the “electoralist approach”*

*Voters, parties, and elections are key!*

- What is then the main line of conflict in policy in modern advanced democratic politics? (Beramendi et al, 2015)

—> Labor Market inequalities will shape a central trade-off between..

*Consumptionist vs investment policies*

## 1. Consumptionist

- ❖ “classic” redistribution, mainly catered to LM insiders; (employment protection and benefits)
- ❖ pensions, transfers;
- ❖ status- and consumption- preserving;
- ❖ maintain the domestic aggregate demand (through consumption);

## 2. Investment

- ❖ Social policies for the “new risks”, for LM outsiders; (unemployment benefits)
- ❖ Mainly “Social Investment policies” (Hemerijck, 2017);
- ❖ Active Labor Market Policies, training and re-skilling;
- ❖ increase the supply-side and specifically labor productivity;

# How Labor Market Inequality Transforms Mass Politics

*“the “electoralist approach”*

*Voters, parties, and elections are key!*

*Other important aspects and assumptions:*

- The influence of organized groups, like corporations, business and employers associations, is at best secondary or completely absent;
- Strong focus on social and labor market policies, and in general redistribution policies, and **neglect of other policies, both macroeconomic (fiscal, monetary)** and supply-side (corporate governance rules, financial regulation, industrial policy etc.)
- Distributional inequality is not something governments and parties can do much about it; “mainstream” economic assumptions and overall the approach is not engaging with economic debates and theories;
- The main inequality they are interested in is labor market inequalities (between workers), not top incomes inequality (between the super rich and the rest) or wage-profit inequality (between classes)



## Winner-Take-All Politics

Jacob S. Hacker and Paul Pierson

- Regarding the nexus between Inequality and Politics: *The “organized groups” approach*

“Politics as an organized combat” – Organized groups, business power, and their direct nexus with politicians are key!

### Assumptions and key aspects:

- **the asymmetry of power** between businesses, the wealthy, and their organizations on the one hand, and labor organizations, the lower and middle classes on the other has dramatically shifted in favor of the former since the 70s;
- this calls for a more serious consideration of the **direct influence of organized interests (of the rich and powerful) on policy-making outcomes**;
- **transformations of the political system and the structure of organized interests (macro and meso)** is more important than transformations in the labor markets and occupational structure (micro and meso)
- **Political inequality and economic inequality feeds into each other, the winner takes it all!**
- Inequality is particularly dramatic in terms of **top incomes** and among classes.

# Winner-Take-All Politics - Jacob S. Hacker and Paul Pierson

*The “organized groups” approach*

What is the inequality that “really” matters?

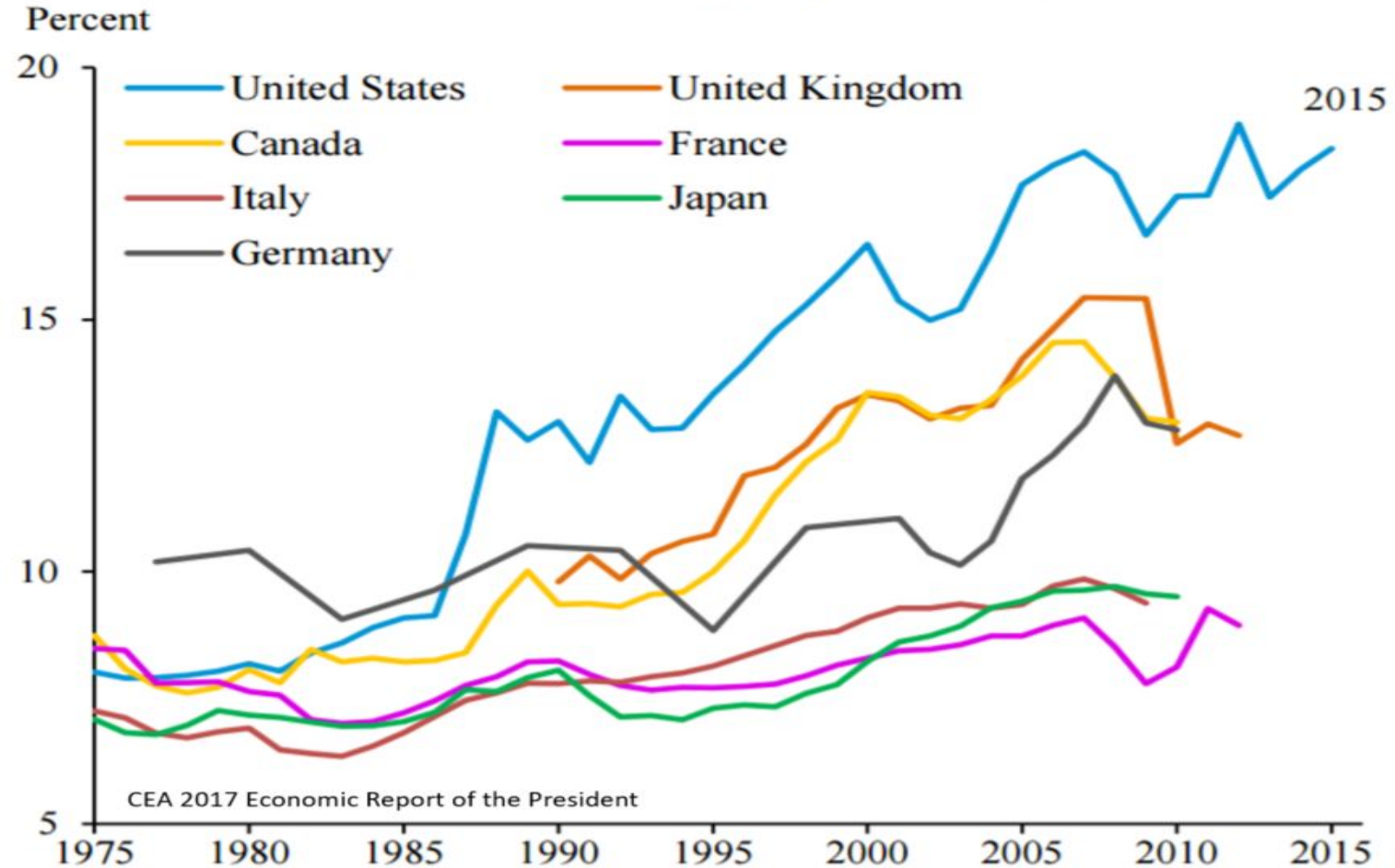
*Top Incomes Inequality - Top 1%; Top 0,1%*

Why?

- Income inequality  $\leftrightarrow$  political inequality
- The super rich become the super powerful
- the winner takes it all

Difference among countries (US!!) but trend is common, see also Germany and Italy

**Share of Income Earned by Top 1 Percent, 1975–2015**



# Winner-Take-All Politics - Jacob S. Hacker and Paul Pierson

## *The “organized groups” approach*

The demand and supply side of their argument and the refusal of the electoralist approach:

### Demand side:

- Decline of the mass party organization, and also non-party grassroots organizations of the working class or of the mid-lower classes in general;
- Extreme polarization, but also depoliticization of many economic issues (Christian Right, Neocons, Trump)
- Decline of Labor Unions in the workplace (distribution) and political (representation / influence) capacities; ... while at the same time business and employers became as powerful, organized, and influential as ever;
  - Electoral politics becomes an “*Electoral Spectacle*”, no important lasting impact on policies

### Supply side:

- Parties became cartels, marketing and consensus-building machines, with ever-increasing financing needs;
- Needs that only wealthy individuals, business associations and so on could satisfy;
- Policy is set between parties and politicians, administrators, and organized interests in Washington

# Winner-Take-All Politics - Jacob S. Hacker and Paul Pierson

*The “organized groups” approach*

How do organized groups influence economic policy and inequality outcomes?

- Important and consequential policy decisions happen in a **“Quiet Politics”** environment (Culpepper, 2011), far from democratic scrutiny, “noisy” parliamentary and public debates, or election campaigns.
  - Lobbying, direct connections and financing single key politicians;
  - blocking and sabotaging progressive reforms;
- Not just *policy “enactments”* but also **“Policy drift”**. What is policy drift?
  - *“the transformation of a policy’s outcomes due to the failure to update its rules or structures to reflect changing socioeconomic circumstances”*
  - Based on conceptions of gradual, creeping, endogenous but transformative changes in institutional analysis (Streeck & Thelen 2005)
  - An example known: LM institutions remain formally the same (no big reforms), but their economic outcomes vary dramatically (Baccaro & Howell 2017)

# Feedback, questions and discussions over the readings

- Divergences and incompatibilities;
- Limitations of each approach, where does it apply better, and for which kind of questions?
- What is missing or unconvincing?
- Are the two approaches as opposite ends of a continuum?

**Which approach do you find more convincing to explain the politics of inequality in your country?**

# Alternative approaches?

	Organized Groups / economic actors	Parties
Agency	<p><b>Politics as an organized combat</b></p> <p>Hacker and Pierson 2010, Culpepper 2011</p>	<p><b>Politics as a political agency game</b></p> <p>Bremer 2023</p>
Structure	<p><b>Politics as a struggle between economic sectors and producers</b></p> <p>Gourevitch 1986, Baccaro et al, 2022</p>	<p><b>Politics as a partisan and electoral competition</b></p> <p>Häusermann et al, 2019; Beramendi et al, 2015</p>

# Politics as a struggle between economic sectors and producers

## Other organized groups approaches (growth models, producer groups)

- From seminal contributions of Gourevitch's *"Politics in Hard Times"* (1986) to Baccaro, Blyth and Pontusson (2022) *Growth Model Politics theory*

### 1. Dominant coalitions and material interests; long lineage in CPE and IPE

- **Sectors, business power + Cartelized parties** (Mair and Katz)
  - Organized groups more important than parties, even more stronger than in Hacker Pierson;
  - Powerful economic-sectoral groups influence policies and inequality outcomes by mean of their economic, structural, power

### 2. Greater attention to **the structure of the economy** and **macroeconomic considerations**

- Macroeconomic, functionalist logic coupled with power resources (classes + sectors)

### 3. Connected to theories of **Corporatism, and its influence on politics** (influence of organized groups + coordination of business and labor in the IR arena and in Policy-making)

- **Conception of inequalities and their functional-macroeconomic role/logic :**

- Dualization and wage compression to foster export competitiveness, while maintaining core unions on board (DE)
- Flexibility and inequality to increase profits and economic dynamicity (US)
- But consumption levels kept up by credit and debt, Private Keynesianism (Crouch, 2009)

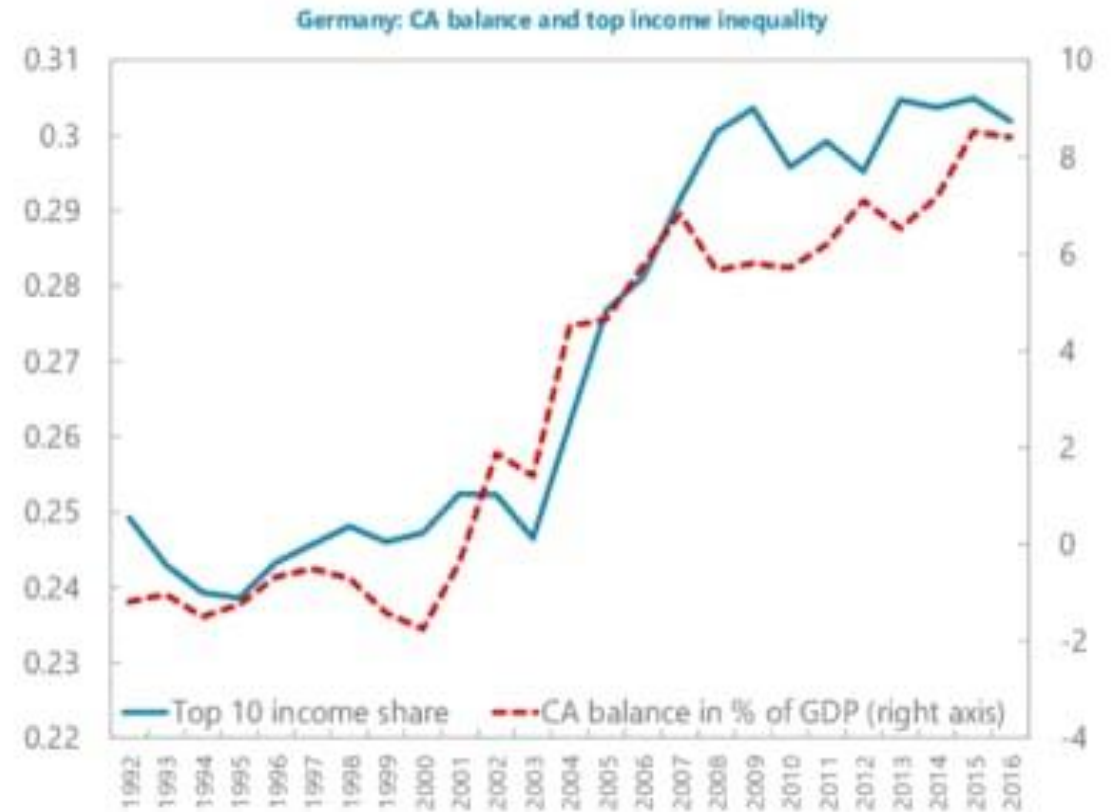


# Politics as a struggle between economic sectors and producers

## Germany: Growth led by Exports, Savings, and Inequality



Sources: Federal Statistics Office, Haver Analytics and IMF staff calculations.



Sources: World Inequality Database and Haver.

# Politics as a political elite agency game

- Approaches centered on **parties as – relatively - autonomous elites**; (Bremer, 2023; Mudge, 2018, Beretta, forthcoming)
  - ❑ **Great importance of Agency and Ideas**, affinity with Constructivist and Discursive approaches in Political Science;
  - ❑ **Party-Politics**: Parties and elections are important, but differently from the electoralist approach..
- Parties are not just vote-seeker and transmission belts of electoral pressures and voters preferences, but they elaborate programmes and policies autonomously (*Supply-side of (partisan) politics more important than demand side*)
  - Electoral constraints are interpretable and partially shapeable by political parties,
    - Influencing voters orientation through framing, political discourse, cuing
    - Responsiveness to voters varies across time (election periods / later); responsibility vs responsiveness; crisis periods etc.
  - The ideas, orientation, and leadership of parties matter
    - Austerity applied and justified from the Left
    - Third Way (Blair, Schroeder, Prodi)
- **Inter-party and intra-party dynamics** and divisions, and coalitions among parties shape economic outcomes

# Alternative approaches - What are the Key Actors in the Politics of Inequality?

	Organized Groups / economic actors	Parties
Agency	<p><b>ELITE CORPORATE-STATE NEXUS</b> Wealthy individuals, CEOs, business associations;</p> <p>Political elite, individual party members in key Committees and executive positions;</p>	<p><b>PARTIES AS ELITES</b> Party leaders and important members</p> <p>Political and economic experts, ideologues, ambitious members</p>
Structure	<p><b>ECONOMIC SECTORS AND IMPORTANT PRODUCERS</b> the financial sector and its representatives in US;</p> <p>Manufacturing and Automotive sectors and corporations in DE;</p>	<p><b>PARTIES AND VOTERS</b> Parties as representative of voters</p> <p>Electors, workers, and occupational classes</p>

# Alternative approaches - Mechanisms

## How do these actors shape/affect inequality?

	Organized Groups / economic actors	Parties
Agency	<p>Power and quite Politics</p> <p>Government Capture by organized, powerful groups</p> <p>Policy Drift</p>	<p>Power dynamics between Parties</p> <p>Economic Ideas, leadership, elite strategies</p> <p>Electoral constraints</p>
Structure	<p>Dominant Coalitions/Alliances of Sectoral and macroeconomic interests (pro-exports, pro-finance, etc)</p> <p>Political Responsiveness to key economic sectors</p> <p>Inequality can have a 'structural' logic</p>	<p>Occupational and LM structured preferences over different social and redistributive policies</p> <p>Electoral alliances</p> <p>Political responsiveness to voters</p>

# POLICIES FROM GOVERNMENT AND PARTIES

If politics shape inequality,  
who and how does it, concretely? what kind of policies?

# POLICIES FROM GOVERNMENT AND PARTIES

First distinction: **active policy enactments and policy drift**

**Active policies:**

## ■ **Taxation:**

- Income taxation and progressivity (top incomes, managers);
- Corporate taxation;
- Consumption taxation (VAT) and other regressive taxations;

## ■ **Spending, beyond insider vs outsiders:**

- Unemployment benefits, ALMPs, training programmes;
- Transfers and redistribution; pensions;
- Public employment and public wages;
- Regional inequalities! (structural funds, etc);

- **Minimum Wages and LM re-regulations**
- **Corporate governance and regulation**

# POLICIES FROM GOVERNMENT AND PARTIES

**Policy drift and non-enactment** (Hacker & Pierson, 2010; Streeck & Thelen, 2005)

- Non-updating taxation and other policies (i.e. taxation of managers' compensation and income gains)
- Decision to not-intervene; non-regulation of emerging markets, products, and practices:
  - *e.g. financial sector and transactions; non-regulation of financial derivatives pre-GFC*
- Subtle forms of 'effective' de-regulation and neoliberalization, although maintaining many of the formal aspects intact:
  - *neoliberalization of industrial relations though maintaining the empty shell of regulated or even corporatist institutions* (Baccaro & Howell, 2011)



# POLICIES FROM GOVERNMENT AND PARTIES

## Fiscal policy is fundamental!

- the stringency of the trade-offs, shaped by how much fiscal space “exists”, is not given; **it's also a political decision and construction**;
- fiscal policy and austerity has **enormous consequences on inequality** (and on growth, investments, etc)
- **attempts to depoliticize and limit fiscal policy**;

### 1. **Austerity after the Euro Crisis (especially in Southern Europe)** (Moschella, 2017)

- pressures to consolidate after the sovereign debt crisis;
- financial markets + high interest rates on their debts + International and European institutions
- steep rise of inequality in SE after the Crisis, declining wage share;

### 2. **Austerity in the UK and US**

Austerity for the poor, tax cuts for the rich;

### 3. **Countries under no particular pressure to consolidate, but that devised strict fiscal rules and created their own self-made budget crisis...**

**...Does this sound familiar?**



# POLICIES FROM GOVERNMENT AND PARTIES

**The German *Schuldenbremse* - Debt Brake, adopted in the Constitution 2009**

→ limits federal structural deficit to 0.35% GDP (bar exemptions)

***Schwarze Null*, not a rule but it was a political strategy;**

→ even stricter! no new debt; budget surpluses from 2012 to 2018

**Why is it important for the Politics of Inequality?**

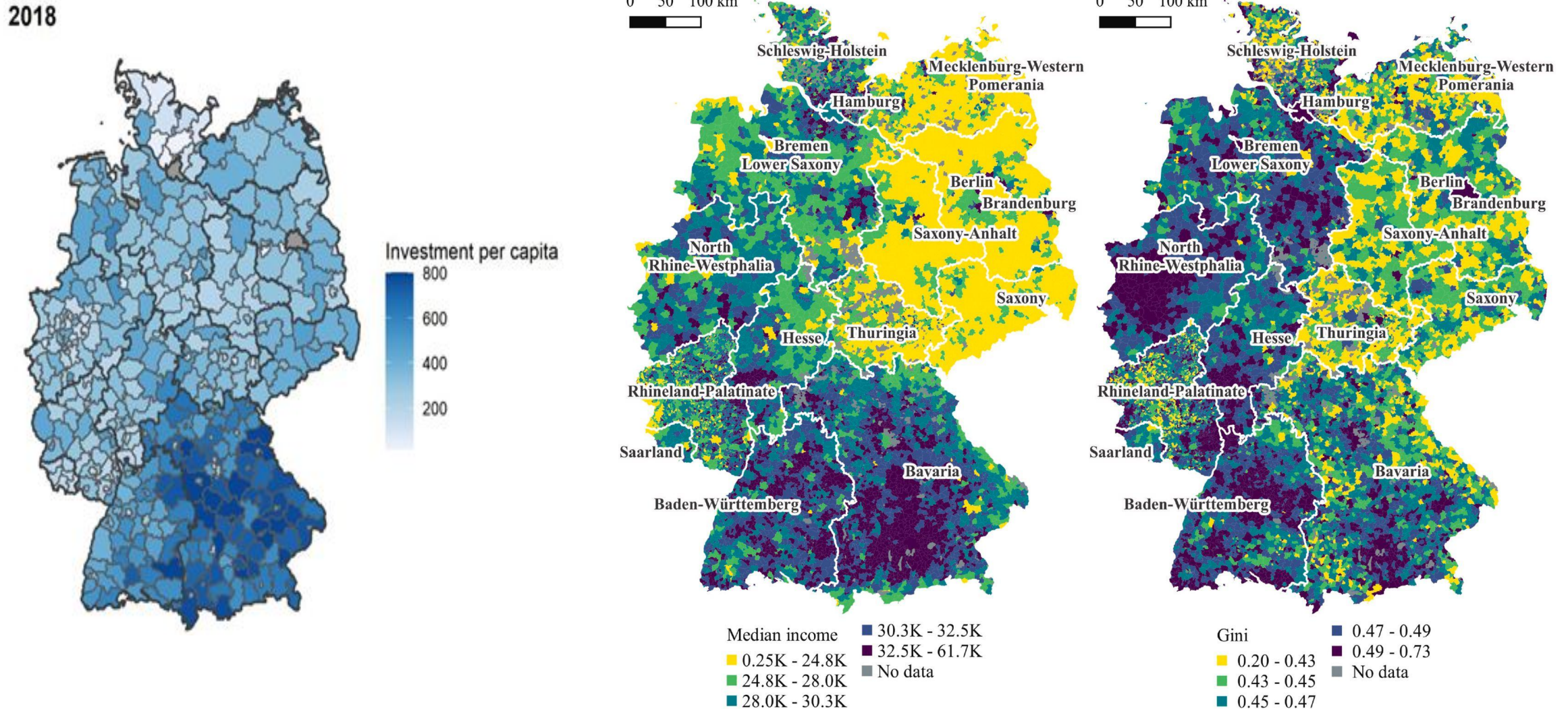
- a bipartisan decision of the CDU and SPD;
- it affects inequality by limiting social spending and investments;
- a possible logic: intergenerational justice / new generations shouldn't be burdened with current spending/debt;

→ ! not just the Federal Level: Länder and Local governments had a even bigger pressure to consolidate; (Bremer, Di Carlo, Wansleben, 2022)

- where most of social spending and investment decisions are delegated;
- *inequality among Regions/States*, because of different fiscal and administrative capacities; different tax revenues; different spending needs;



# Fiscal Policy and Inequality across German Regions



**Figure 1: Gross Public investment per capita at the local (district level);** Source: Björn Bremer, Donato Di Carlo, Leon Wansleben, The constrained politics of local public investment under cooperative federalism, *Socio-Economic Review*, Volume 21, Issue 2, April 2023, Pages 1007–1034, <https://doi.org/10.1093/ser/mwac026>

**Figure 2 and 3: Median Income and Gini Coefficient of German Municipalities;** Source: Garbasevski, et al. Learning income levels and inequality from spatial and sociodemographic data in Germany, *Applied Geography*, Volume 159, 2023, 103058, ISSN 0143-6228, <https://doi.org/10.1016/j.apgeog.2023.103058>.

# POLICIES FROM GOVERNMENT AND PARTIES

**Towards the Conclusions..**

**POLICY CASE STUDIES: (one from the Right, two from the Left)**

**a. Trickle down economics, from Voodoo economics to a zombie economic idea**

Inequality between wage and profits, and top income inequality, serves to stimulate growth and investments

**b. Austerity from the Left**

why Left Parties should embrace Austerity and budget conservatism?

**c. “The Third Way”:**

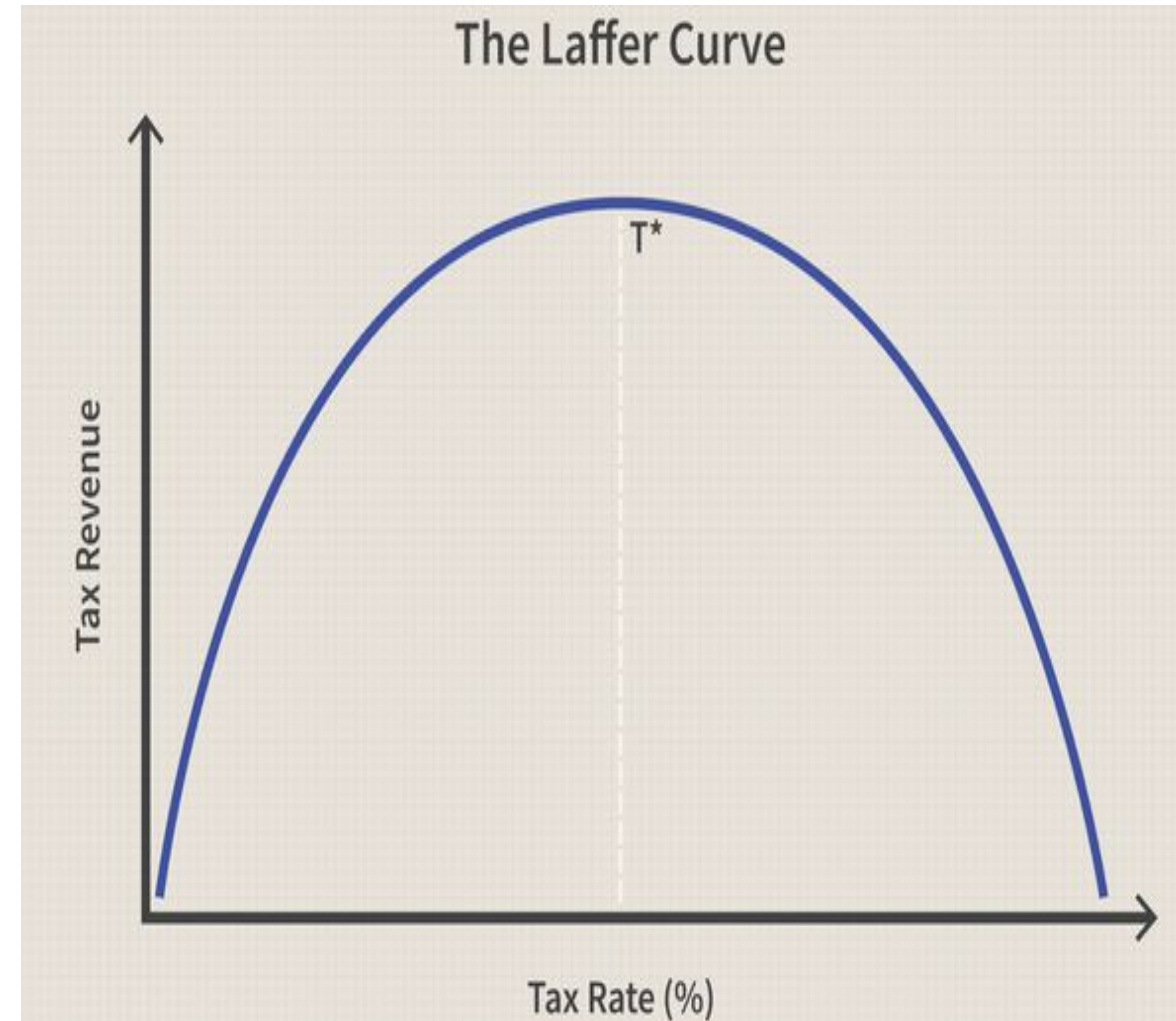
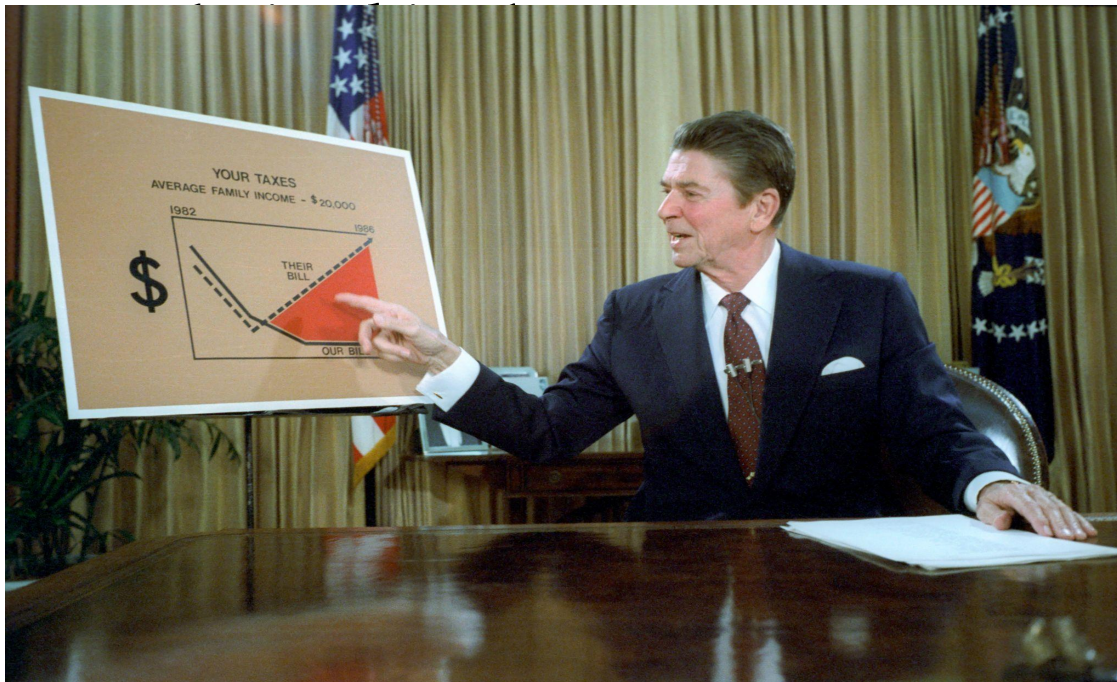
The Left’s embrace of Social Investment, knowledge economy and supply-side Keynesianism:



## a) Trickle-down economics: The theory

In theory, lower taxes for riches should:

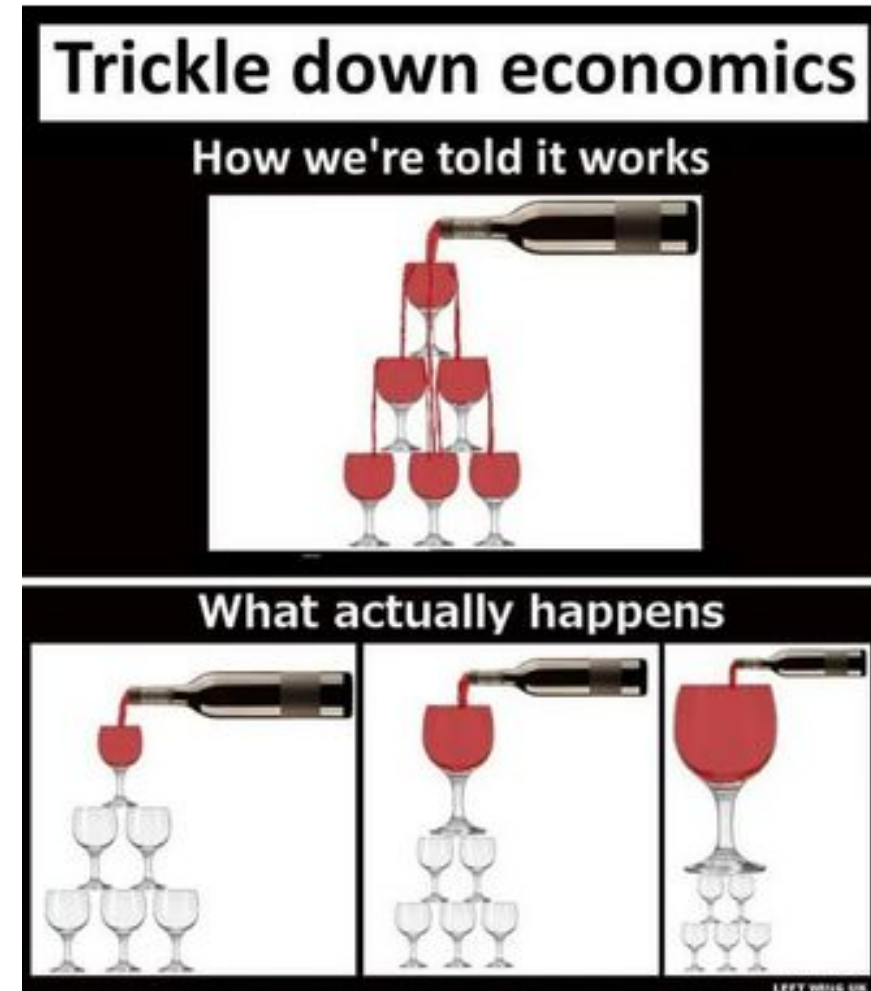
- More investment → More jobs → Higher wages
- Higher spending → Greater demand → Increased tax revenues



# Trickle-down economics: The risks

Hope and Limberg (2022) *'The economic consequences of major tax cuts for the rich', Socio-Economic Review*

- OECD dataset on major tax cuts
- Effect on macroeconomic aggregate data: inequality, unemployment, economic growth
- Higher income inequality in the short and medium-term
- No statistically significant effect on GDP or unemployment





## b) Austerity from the Left

### Why did Left Parties support conservative fiscal policies?

- Parties' ideational/ideological changes about how the economy works;
  - decline of Keynesianism; new economic ideas and programs;
- Organizational transformations, new leaderships;
  - decline of union - working class background;
- Discourse of fiscal responsibility; interpretation of political and electoral constraints;
  - “this is what the electors want” and/or
  - “this is what responsible politicians are expected to do”
  - the Italian “*vincolo esterno*” (lit. external constraint, “Europe is asking us to”)
- Socialdemocratic reactions to EMU integration and globalization;

#### Effects:

- spending cuts, austerity, public wages stagnation;
- alienation of the working class and socialdemocratic decline;

## c) The Third Way

The Left's embrace of Social Investment, the knowledge economy and supply-side Keynesianism:

Not just a blind embrace of Neoliberalism from the Left, but an internal, endogenous ideational and political transformation; (Giddens, 1998)

In theory:

- Traditional fiscal expansion, Keynesian demand policies and leftist policies are outdated and don't work anymore;
- Inequality as an inescapable effect of transition to a more innovative knowledge economy (ICT, services, etc)
- (employment) Flexibility and inequality will bring to greater employability, growth and dynamism;
- Redistribution and ALMPs help to reskill and/or compensate the losers;

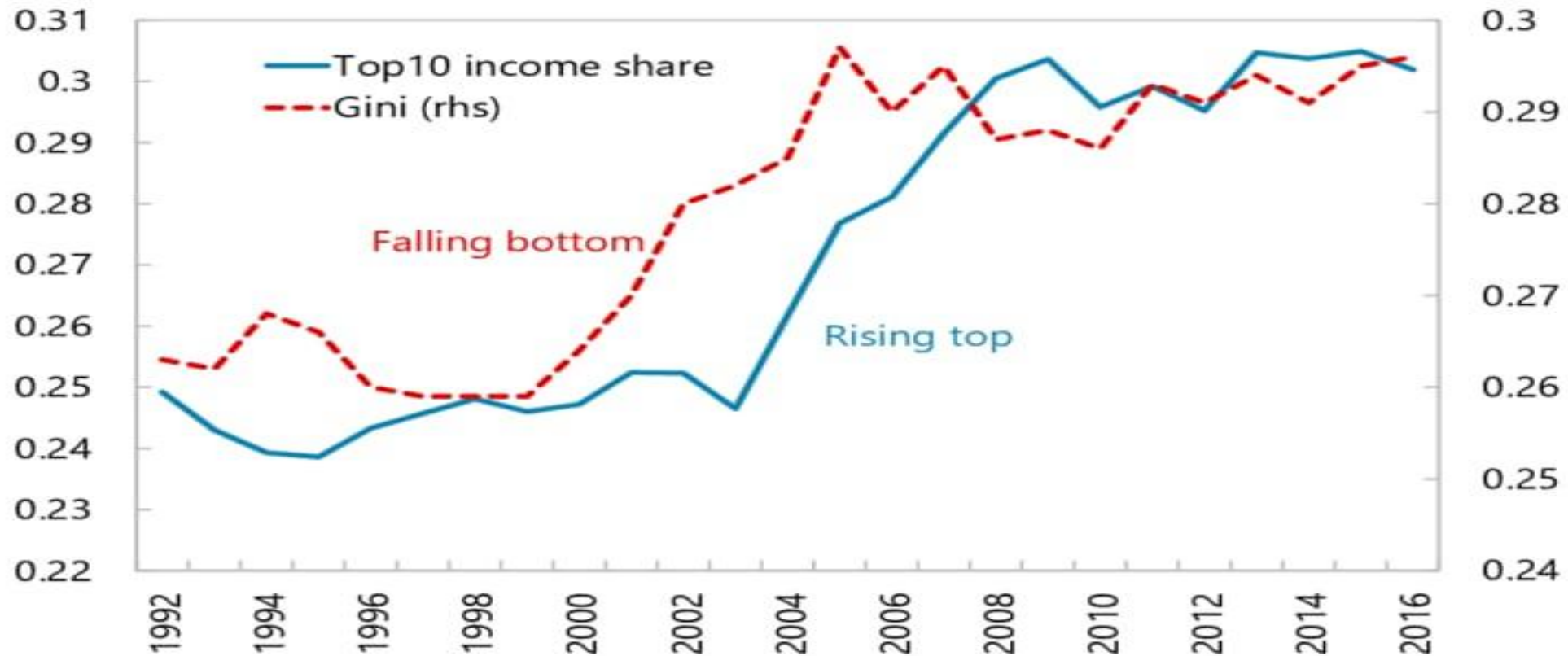
In practice:

- flexibilization and de-regulation of employment relations; reduction of social protection;
- increase in temporary, insecure, low-paid employment (especially in services);
  - Germany's low-wage sector is one of the largest in the world;
  - real wages in Italy are stagnant since the end of the 1990s
- decreasing wage share; (in DE, better from the mid-2010s)



# The Third Way

Inequality in Germany after the Schroder/Hartz Reforms 2002-2005 (Agenda 2010)

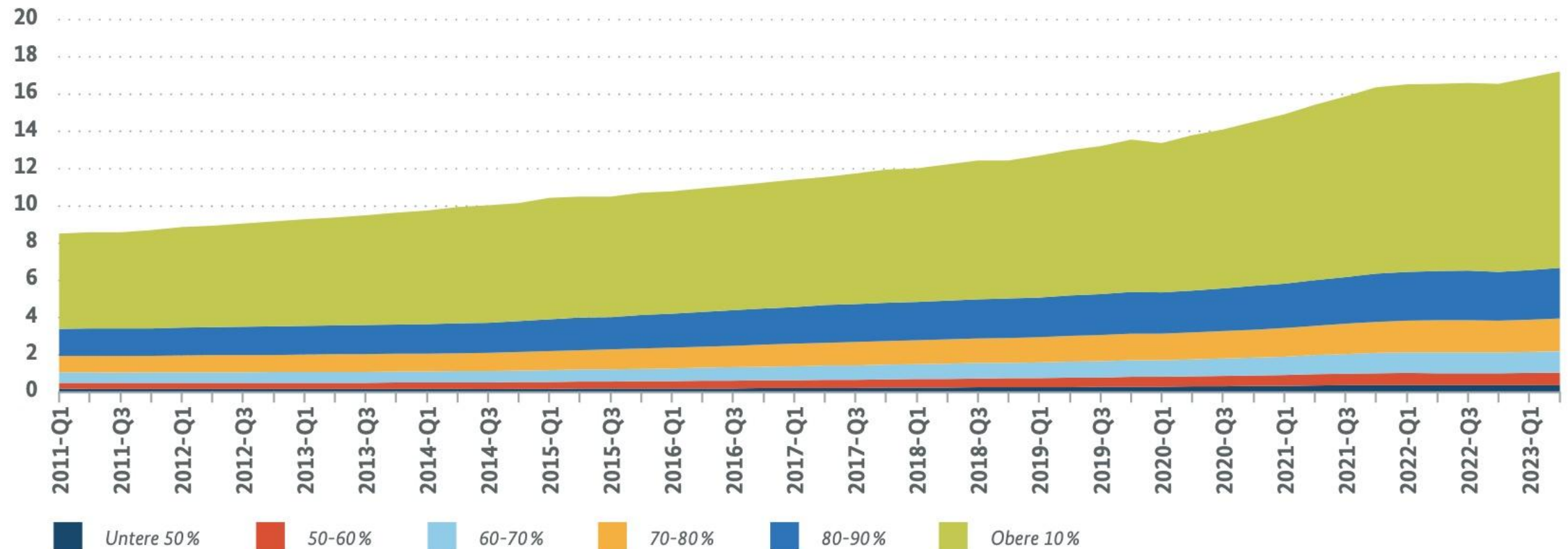


Sources: WID database, OECD.

Note: Top 10 income share measures the share of total after-tax income accruing to the top 10 percent of population as derived from income tax data.

## ABBILDUNG 2: NETTOVERMÖGEN IN DEUTSCHLAND NACH PERZENTILGRUPPEN VON 2011 BIS 2023

Billionen Euro (in laufenden Preisen)



Quelle: Darstellung des BMWK auf Basis der EZB-Daten



