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Article (Accepted version)
(Refereed)

Original citation:

Hopkin, Jonathan and Alexander Shaw, Kate (2016) Organized combat or structural advantage? The politics of inequality and the winner-take-all economy in the United Kingdom. *Politics & Society* , 44 (3). pp. 345-371. ISSN 0032-3292
DOI: [10.1177/0032329216655316](https://doi.org/10.1177/0032329216655316)

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Available in LSE Research Online: September 2016

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Organized Combat or Structural Advantage? The Politics of Inequality and the Winner-Take-All Economy in the United Kingdom

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Abstract

Since 1970 the United Kingdom, like the United States, has developed a “winner-take-all” political economy characterized by widening inequality and spectacular income growth at the top of the distribution. However, Britain’s centralized executive branch and relatively insulated policymaking process are less amenable to the kind of “organized combat” that Hacker and Pierson describe for the United States. Britain’s winner-take-all politics is better explained by the rise of political ideas favoring unfettered markets that, over time, produce a self-perpetuating structural advantage for the richest. That advantage is, in turn, justified and sustained by reference to the same ideas. Inequality growth in the United Kingdom has been primarily driven by the financialization of the economy that begun under the Thatcher government and continued under New Labour. The survival of pro-finance policies through the financial crisis provides further evidence that lobbying by a weakened City of London was less decisive in shaping policy than the financial sector’s continuing structural advantage and the tenacity of its supporting political consensus.

Keywords

winner-take-all politics, inequality, political economy, organized combat, structural advantage, financialization

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Jacob Hacker and Paul Pierson's work on inequality and American politics¹ has brought much needed attention to the ways in which changes to the income distribution, and especially the growth of top incomes, are fundamentally political phenomena. For Hacker and Pierson, the defining feature of America's political economy since the 1970s has been the near total capture of the gains from productivity growth by top earners. Those gains have been facilitated by a corresponding capture of political power, in which "organized combat" around policy by "resourceful private interests"² skews the distribution of income in favor of the very richest, a development Hacker and Pierson evocatively call "winner-take-all" politics. This political explanation of top income growth, they argue, is more consistent with the evidence than standard economic accounts based on globalization and technological change, or by conventional political science accounts focusing on the electoral choices of the median voter.

In this article we aim to critique and revise the winner-take-all (WTA) framework by comparing Hacker and Pierson's account of the US case to the politics of rising inequality and top income growth in the United Kingdom. Britain, like the United States, has become a clear example of a WTA economy. Indeed, between the late 1970s and early 1990s, Britain underwent the most spectacular inequality growth of any advanced economy, putting it at odds with most of its European neighbors and ahead of even the United States.³ However, the UK case is far from being a simple replication of the American experience. Although we find some evidence of increased political influence for wealthy groups in UK politics through lobbying and financing of political campaigns, we suggest that Britain's politically insulated executive branch operates in a different legislative climate in which the lobbying victories of private interests are a much less decisive feature of the political economy. Although Hacker and Pierson do not make any claims

for their theory outside the United States, a comparative analysis of these two cases calls into question their emphasis on the role of organized interests in top income growth. Either Britain must have arrived at its WTA economy by a different route from America, or something other than organized combat must be producing WTA outcomes in both cases. Our analysis of the parallel transformation in Britain's income distribution, in which organized interests do not appear so important, suggests an alternative route for wealthy elites to prosper in a WTA economy. In this alternative route, organized combat and lobbying are less decisive than the deployment of political ideas favoring unfettered markets, which over time produce a self-perpetuating structural advantage for the richest—an advantage that is, in turn, justified by the same ideas. The successful prosecution of neoliberal reform in both the United Kingdom and the United States created the conditions for capital and wealthy elites to capture ever larger shares of income irrespective of their lobbying efforts.

What emerges from the UK case, in our view, is a more nuanced account of how elites can manipulate democracy to capture disproportionate rewards, in which the political success of high earners derives not only from elites' capacity to organize, but from the structural power of finance and ideational dominance of market liberalism.⁴ The transformation of Britain's political economy in the 1980s was driven primarily by the rise of the financial services industry, accompanied by the weakening of egalitarian counterweights in the trade unions and welfare institutions. We argue that the financialization of the British economy was, at its inception, an ideologically motivated project driven not by wealthy lobbyists but by policy elites. It cannot be convincingly explained in terms of domestic organized combat, not least because Britain's incumbent financial elite at the time was less a beneficiary than a casualty of the changes. The Thatcher years left both a structural and an ideational legacy in which finance, and its supporting

political consensus, became embedded at the heart of British politics to the extent that relatively little overt lobbying has been necessary for WTA outcomes to be maintained. The Labour government of the late 1990s and early 2000s presided over a period of post-Thatcherite policy drift, supported by an ideational framework in which the structural power of finance was understood as a general good, rather than a minority success story, even as top-income inequality continued to rise.

The article proceeds as follows. First, we describe the emergence of WTA outcomes in the United Kingdom in the 1980s and consider how far the British case resembles Hacker and Pierson's conception of WTA politics. To that end, we outline the policy shifts in the United Kingdom that affected the income distribution under the Conservative governments of the 1980s and assess the evidence for organized combat as the key causal mechanism in that period. Next, we show that the trends toward increasing financialization and growing gains at the top continued under the Labour governments of 1997–2010 and consider the implications of those trends for a WTA account of British politics in the period, including after the meltdown of 2008. Finally, we consider whether a structural-ideational explanation of WTA outcomes might shed new light on the comparative politics of inequality beyond the British case.

Thatcher, Reagan and the Political Roots of Rising Inequality

Aside from the United States, the British case is probably the clearest example of WTA income growth among the affluent democracies. In 1979, Britain had an income distribution similar to Germany's, with a Gini coefficient of 0.28 for post-tax household income (see Figure 1). By the mid-1980s, it had reached 0.36, diverging drastically from the rest of Europe, and almost catching up the United States, before plateauing and falling slightly in the 2000s. Although

increased poverty was an important part of these trends, inequality was driven to a significant degree by increased incomes at the very top of the distribution, which are not well captured by the Gini coefficient. Figure 2 shows that the growth of the top 1 percent's income share in the United Kingdom followed a very similar pattern to the United States, and although the United Kingdom's Gini coefficient stabilized after 1990, the top 1 percent's income share continued to rise until the global financial crisis, lending weight to Hacker and Pierson's contention that the real action is happening at the top of the distribution. Figure 3 breaks down the evolution of top income shares in the United Kingdom, showing that the very top groups were by far the biggest winners in the years preceding the crisis: although the top decile share of income grew from 31 percent to over 42 percent between 1979 and 2007,⁵ most of this growth is accounted for by the gains of the top 1 percent, which saw its share grow spectacularly from 6.7 to 15.4 percent in the same period, although it dropped back to 12.5 percent in the aftermath of the financial crisis. The top 0.1 percent, whose share of total income tripled to over 6 percent by the mid-2000s, took an even more disproportionate share of the gains. In contrast, the gains for those just outside the top 1 percent were far more modest. The British income distribution, in short, has developed a structure typical of the WTA political economy, and is perhaps the most similar case to the United States in terms of the rapid redistribution of income upward over the past thirty-five years.

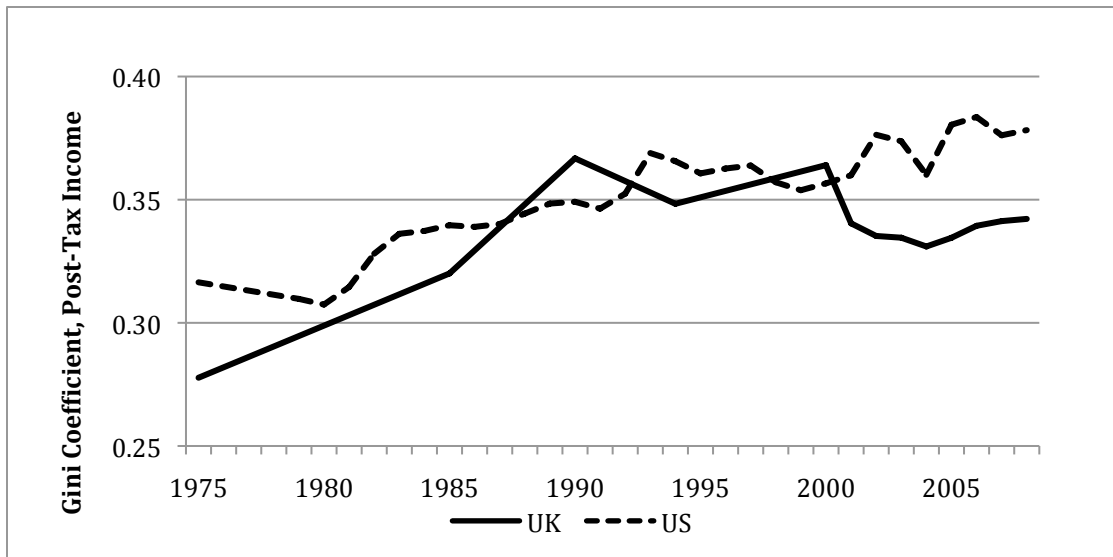


Figure 1. Income Inequality (Gini Coefficient) 1975–2010, United States and United Kingdom.
Source: OECD Income distribution and poverty database
(<https://stats.oecd.org/Index.aspx?DataSetCode=IDD>).

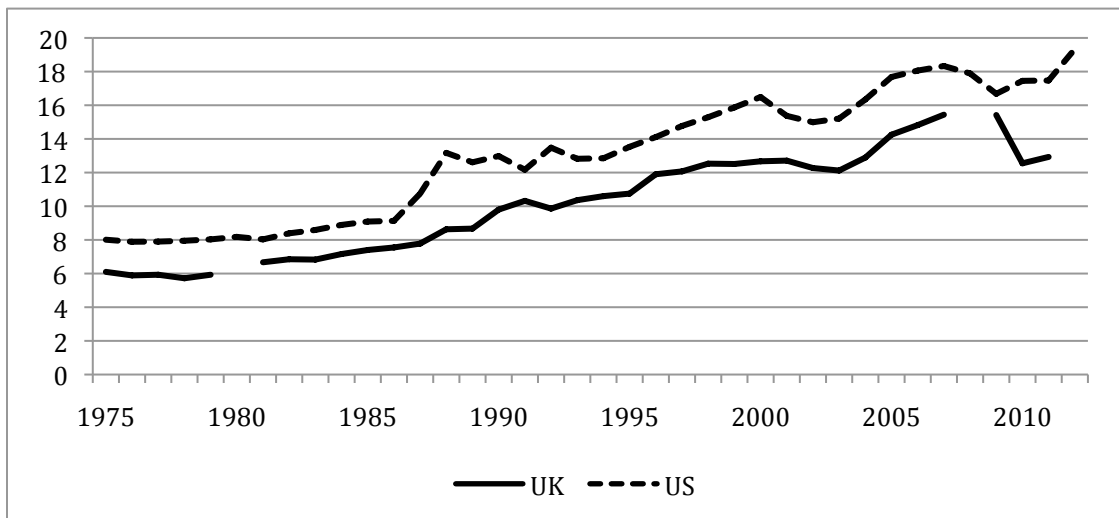


Figure 2. US and UK Top 1 Percent Income Share, 1979–2010.
Note: UK data up to 1989 are for top 1 percent income share, married couples and single adults. After 1990, data are for top 1 percent income share, adults.
Source: World Top Incomes Database.
<http://www.wid.world/#Database>:

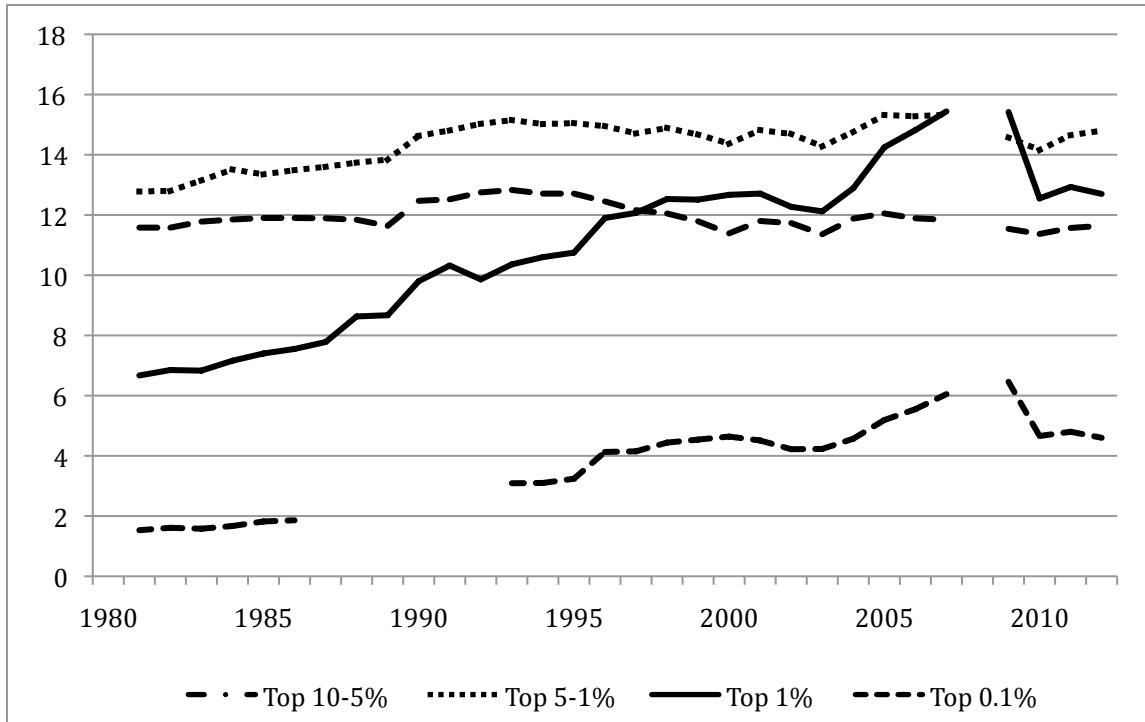


Figure 3. UK Top Income Shares, 1979–2010.

Source: World Top Incomes Database.

As in the US case, there is little compelling evidence that this transformation was the result of exogenous social-structural or technological changes alone; after all the United States and the United Kingdom were subject to much the same trends as other advanced nations that did not experience such great increases in inequality, and theories of skill-biased technological change or increased global competition are difficult to reconcile with the concentration of gains at the very top (Figure 3 shows that the bottom half of the top decile saw no increase in its income share).

What marks the United Kingdom and the United States out from most similar democracies is that these shifts in the income distribution can be accounted for by a very similar trajectory of policy and institutional changes in the two countries. Ronald Reagan’s program of tax cuts, welfare retrenchment, and curbs on unions came out of the same copybook as Margaret Thatcher’s far-reaching reforms of Britain’s postwar model of welfare capitalism.⁶

The similarity of these political projects strikes us as a more plausible explanation of the parallel rise in top incomes than the “organized combat” identified by Hacker and Pierson. In their account, WTA transformations are seen to occur on two dimensions that might usefully be disentangled more clearly than in their original article. First, broad changes in the organizational landscape, from the decline of trade unions to the rise of the lobbying industry, make WTA politics possible. These organizational shifts have the consequence of facilitating access to politics by the wealthiest, while removing egalitarian counterweights and sharpening the middle classes’ collective action problem by dismantling the channels through which their interests had been represented. Second, the beneficiaries of WTA policies become politically organized, acting to shape policy through organized combat on particular agendas (primarily through lobbying and campaign finance). It is useful to distinguish *change in the organizational balance of power*, which shapes the possibilities for political influence by different groups, from *organized combat*, which implies direct interference in specific policy decisions. In the British case the former is far more prevalent than the latter.

There is little doubt that the 1980s ushered in significant changes in the organizational balance of power in Britain, alongside a market liberal policy mix. The Thatcher reforms were a coherent program of liberalization of the British economy with the more or less explicit aim of weakening, even destroying, egalitarian institutions.⁷ It had the strong support of important sectors of the business community and wealth holders, but also some support outside those groups, from voters who favored restrictive trade union legislation and the privatization of public housing,⁸ and beneficiaries of rising living standards in the upper half of the income distribution.⁹

This project had a good deal in common with the policies promoted by the Reagan administration in the United States at exactly the same time, and shared the same intellectual

foundations, but the execution of the project differed markedly. Unlike the American political system, replete with veto points and opportunities for obstructionism, the “Westminster model” concentrated huge power in the hands of the executive that, with a supportive parliamentary majority (a common feature of postwar British politics until 2010), could pass sweeping legislative changes with few constraints.¹⁰ In contrast to the gradual erosion of union rights in the United States, described as mostly a process of drift by Hacker and Pierson,¹¹ Thatcher adopted a strategy of open confrontation. A succession of legislative measures severely weakened the role of trade unions in the workplace by removing union legal immunities, requiring full membership ballots before strike action, banning secondary actions, and imposing tight restrictions on picketing.¹² These measures were backstopped by aggressive use of policing to ensure that unions complied with this restrictive legal environment, most notably in the year-long miners’ strike in 1984–85.

The destruction of the unions is a key factor in rising inequality in the United Kingdom and United States¹³ and has also been identified as a possible explanation for the rising share of executive pay in total income.¹⁴ Other Thatcherite policies also had identifiable effects on the income distribution consistent with the emergence of a WTA economy. The broad pattern of tax policy after 1979 was to reduce the progressivity of the tax regime, with a marked flattening of the income tax schedule.¹⁵ Policy shifts in the area of labor and product market regulation and wage bargaining in the same period tended to encourage wage dispersion, depressing earnings for low-skilled workers and enhancing the bargaining power of employees at the top end of the distribution.¹⁶ A raft of privatizations led to rapid growth of managerial rewards and mass layoffs at formally state-owned companies.¹⁷ Although rising unemployment meant that welfare

spending rapidly increased, the Thatcher government cut some program, and restricted eligibility and froze the levels of benefits on others, leading to a significant lowering of replacement rates.

Although there is strong evidence that rising inequality during the Thatcher years was associated with a set of policy choices that weakened redistributive institutions, those choices are best understood as the consistent pursuit of a broad market liberal agenda, rather than the product of organized lobbying by the beneficiaries of these policies. Indeed, the policy changes introduced were not always favorable to the elite interests that provided political support to Thatcherism. The next section considers financial market reform, one of the key sources of the emergence of a WTA economy in Britain, as an example of how policy was driven by ideology and economic constraints rather than organized pressure.

Building a Winner-Take-All Economy: The Big Bang and the Financial Services Boom

The rapid growth in the financial sector's share of economic activity, and the even more rapid growth in compensation at the top of the financial system, play a key role in Hacker and Pierson's account of WTA politics in the United States. In the United Kingdom, too, there is evidence that increasing inequality between the very top of the income distribution and the rest is in part the consequence of developments in the financial system and the consequent shift in the role of the financial sector in the British economy. The importance of finance to top income growth emerges clearly from the income data. Individuals working in the financial and real estate sectors—the two big growth areas of post-1979 Britain—accounted for 68.7 percent of the top 0.1 percent of earners, 46.5 percent of the top 1–0.1 percent, but just 28.7 percent of the top 10–1

percent income groups in 2008.¹⁸ In short, the really big “winners” were concentrated in those industries.

Financialization was directly connected to the Thatcherite policy agenda. One of the first measures of the Thatcher government elected in 1979 was to remove capital controls, enhancing the attractiveness of the City of London as a destination for global investors. The so-called Big Bang reforms of 1986, which liberalized securities trading, and various banking acts removing restrictions on the supply of credit, generated new markets for financial services, and expanded profit-making opportunities for banks, hedge funds, and private equity funds among others. The 1986 Financial Services Act abolished the historic distinction between brokers and jobbers (who actually made the trades on the stock exchange floor) and opened up the City to overseas banks and new forms of financial innovation.¹⁹ The Thatcherite program of privatization of publically owned industry provided further stimulation to City activity and the legal services associated with it. This led to a rapid growth in the size of the financial and business services sector relative to the size of the UK economy, up from 13 percent of GVA in 1978 to 22 percent in 1990.²⁰ This increase was further aided by a monetary policy focused on reducing inflation, which enhanced the attractiveness of London as a financial center while accelerating the decline of British manufacturing through high real interest rates and a strong pound.

Financial liberalization was a crucial step in the development of a WTA economy in Britain. But Britain’s financial liberalization, although it produced winners, is not a clear example of organized combat by these same winners. Rather, the thinking behind the liberalization of the finance was driven by an ideologically informed response to the changes in international financial markets, and particularly bond markets, and a belief that shaking up the financial system would improve the productivity of British industry by encouraging an efficient

allocation of capital. Policy change was driven by government rather than industry, with the Department of Trade and Industry and the Bank of England taking a leading role in dismantling the existing system of “club regulation,” considered a drag on the competitiveness of the City.²¹ Rather than a WTA-style lobbying operation by wealthy interests, financial reform in Britain was part of the Thatcher government’s drive to modernize the economy and enhance the City of London’s ability to compete with rival financial centers such as New York.²² Addressing an audience of City grandees in 1985, Conservative chancellor Nigel Lawson emphasized the extent to which government was prepared to drive through reform, saying that “we in Britain— *and this is as true of the Government as it is of the financial markets themselves*—have been in the vanguard of [the] process of evolution [emphasis added].”²³

In fact, the Big Bang reforms clearly damaged the interests of part of the existing City elite that had long enjoyed a degree of protectionism and self-regulation. Not only did the removal of restrictive practices lead to City firms’ being taken over by international banks, but the process of “deregulation” also involved extensive “reregulation” that brought a major intrusion of outside forces into the affairs of the financial sector.²⁴ The insulation of the City from political pressures and the self-regulatory capacity of the close-knit British financial elite meant that until the 1980s the sector had no substantial lobbying presence, relying on the Bank of England to defend its interests in regard to government policy.²⁵ As self-regulation began to break down, the increasing diversity and fragmentation of the financial community hindered the development of an effective lobbying organization capable of representing the whole sector. When the Big Bang took effect, British financial firms were in no position to block change even if they had wanted to.

British financial institutions, the likely suspects in any WTA explanation based on self-serving wealthy elites, were therefore among the principal casualties of the reforms, being largely driven out of the market by new players from the United States, France, Germany, and Switzerland. If British finance had been behind the Big Bang, it would have effectively decreed its own demise. Although it is possible that the key actors simply miscalculated, we contend that the explanatory power of the “organized combat” framework relies on the assumption that wealthy elites secure policy advantages for themselves, and is fatally weakened if these same elites are seen to acquiesce in measures that run contrary to their material interests.

Financial liberalization and the vast rewards it generated for the top earners in the financial industry were however perfectly consistent with the Thatcher government’s emphasis on removing barriers to market competition and enhancing incentives for profit making; there is little need to appeal to the dynamics of organized combat to explain those policy choices. Certainly, part of the rationale for financial liberalization was that British banks would have opportunities to grow in scale by moving out of classic retail banking and getting involved in brokerage, mergers and acquisitions, and becoming “American-style” investment banks.²⁶ But at the same time that led to their being increasingly exposed to competition from American and other overseas financial institutions, competition that ultimately wiped out many British-owned City institutions.

Of course, that competitive pressure was also part of the reason for the government’s keenness to institute the reforms of the City, since the rapid financialization of the US economy in the 1980s, resulting from liberalizing reforms pushed by the Reagan Administration, also constituted a threat to London’s position as a financial center, which depended in part on regulatory arbitrage.²⁷ As the United States deregulated, US banks were increasingly able to

engage in activities at home that they could previously carry out only in London. From the early 1980s on, the City was pushed toward a more permissive regulatory environment in order to prevent the migration of financial activity to Wall Street, a constraint faced by both Conservative and Labour governments.

Even if there is scant evidence to suggest that organized combat on behalf of City-based lobby groups drove the liberalization of the City, there is good evidence that it drove changes in the relative strength of organized groups in the UK political economy, as the “big bang” reforms encouraged the growth of the finance sector at the expense of other sectors, empowering groups more favorable to market liberalism and weakening social forces committed to managed capitalism. The 1980s saw a decline in manufacturing industry, a sector that had strong unions and collective wage bargaining, and strong growth in financial services, where rewards tended to be concentrated at the top and the workforce was largely not unionized. As finance expanded, and credit-fueled domestic consumption rather than industrial output increasingly drove economic growth, a new economic model began to emerge in which the interests of the financial services industry became very closely aligned with the political needs of the government.²⁸ Liberalizing reforms therefore changed the nature of the political coalition supporting the Conservative party, and helped embed neoliberal thinking in the party and in the government machinery.

This shift did alter the nature of pressure politics in the United Kingdom. The main employers’ association in the United Kingdom, the Confederation for British Industry, which although mostly supportive of the Conservative party was skeptical about (at times even hostile toward) many aspects of Thatcher’s radical reformism and reluctant to abandon postwar corporatism,²⁹ became less influential as this structural change progressed. Groups more closely

associated with the City, such as the Institute of Directors, and neoliberal think tanks (often financed by wealthy individuals), such as the Adam Smith Institute, the Center for Policy Studies, or the Institute of Economic Affairs, became more influential.³⁰ As the City grew, the funding stream for these think tanks grew too.

However our account of the Thatcher reforms sees these developments as more a consequence than a cause of the WTA economy. Policy change was driven by a strong government following an ideologically motivated program in the clear light of day, rather than by aggressive lobbying. However the election of Labour government in the late 1990s with a strong parliamentary majority, and representing the groups most harmed by the Thatcher reforms, poses its own puzzle. If policy stems from ideological commitments and broad social coalitions, why did why the trend toward concentrated income gains at the top persist after 1997? Does the failure of Labour to change the distribution confirm the importance of organized combat?

New Labour's Economic Strategy: Poverty Reduction in a Winner-Take-All Economy

Although the main legislative impetus behind financialization came in the 1980s, the bulk of the expansion of the UK finance sector actually occurred under the Labour governments of Tony Blair and Gordon Brown. Financial services grew further, from just over 25 percent to over 30 percent of gross value added, between 2000 and 2007;³¹ in the ten years before the banking crisis, growth in the financial services industry was twice that in the economy at large.³² Nor was the distribution of income gains any more even in this period: as Figure 3 shows, top income

growth continued under Labour, even though the Blair government drew a significant part of its political support from the trade union movement and lower income voters (although the effects of the financial crisis reversed a small part of the gains by the end of Labour's term of office in 2010). As in the Thatcher era, the relationship between financialization and inequality was the outcome of concerted political choices. This section considers the impact of Labour's stance on redistribution and financial service regulation on the shape of British inequality.

Labour, with its decisive parliamentary majority, did in fact follow quite different distributive policies to the Conservatives, reflecting its different electoral support and ideological traditions. In the Thatcher-Major period, the income distribution changed in a consistent and linear fashion: each quantile of the income distribution enjoyed greater income gains than the one below, with the greatest gains enjoyed at the top (see Figure 4). In the Labour period, in contrast, income gains were more evenly distributed among the middle, but income growth was nonmonotonic: there was negative income growth at the very bottom percentiles, but income growth then turned upward very sharply beyond the ninetieth percentile.³³ In other words, Labour's policies did redistribute from the top half to the bottom half of the income scale, but the top 5 percent enjoyed spectacularly higher growth than all the other groups, doing even better relative to the rest than they had under the Conservative governments.³⁴ The net effect of these changes was that overall inequality as measured by the Gini coefficient began to narrow only once the financial crisis had depressed top incomes.

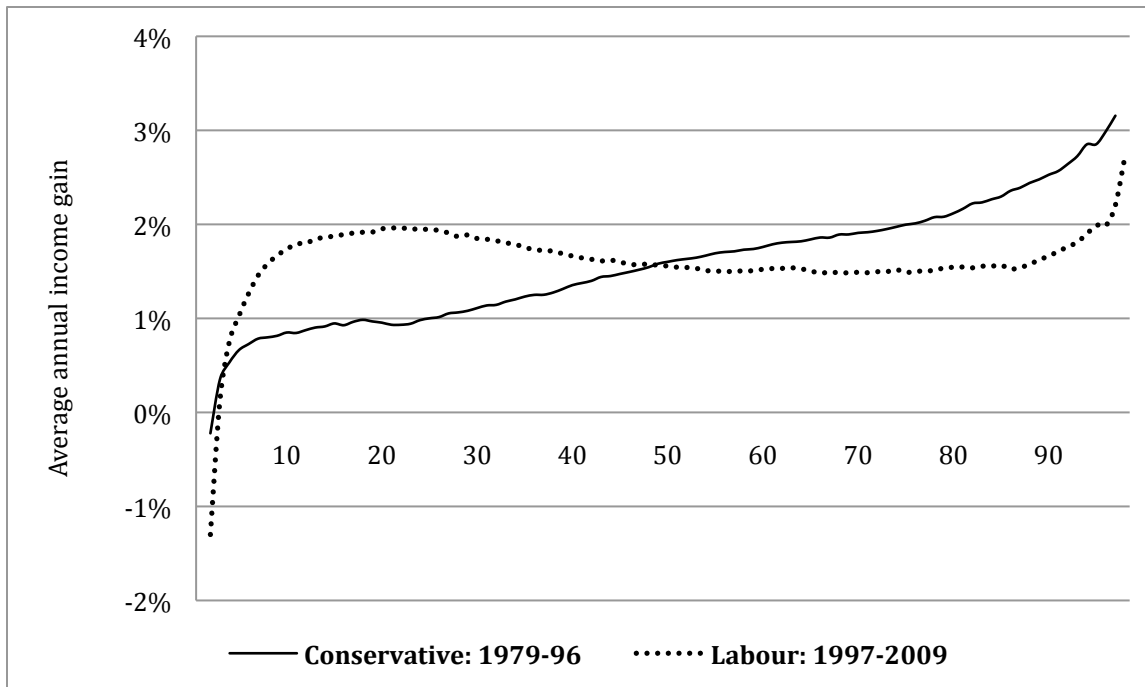


Figure 4. Income Gains by Percentile in Income Distribution during Conservative and Labour Periods of Government (1979–2009).

Source: Adapted with permission from Robert Joyce and Luke Sibieta, “An Assessment of Labour’s Record on Inequality and Poverty,” *Oxford Review of Economic Policy* 29, no. 4 (2013): 178–202, 185, Fig. 3. Data are for the second to ninety-ninth percentiles in the income distribution; the first percentile is not shown.

Labour’s entire redistributive strategy largely spared top earners, lifting the incomes of the bottom half on earners mainly at the expense of those between the sixtieth and the ninetieth percentiles of the distribution, who made much lower gains. From the start, overt fiscal redistribution from the richest Britons to the rest was firmly off the table: the party’s manifesto for the 1997 election promised that a Labour government would raise neither the basic nor the top rate of income tax.³⁵ Indeed, Labour discourse on equality and redistribution was maintained within very narrow confines. The word “equality” was studiously avoided in both the manifesto and in Labour’s campaigning communications,³⁶ to be replaced largely by a concern for “poverty” and “social exclusion.” Redistribution from rich to poor was not suggested: instead, Peter Mandelson talked of a “redistributive levelling up in British society,”³⁷ while Brown felt

the need to state that “Labour is not against wealth. Nor will we seek to penalize it . . . our aim is not increased opportunities to tax.”³⁸ Instead Labour’s focus was on increasing living standards for their core electorate in the bottom 60 percent of the income hierarchy, and in particular those just below the median.

The decision to rule out redistribution through income tax increases meant that Labour was severely constrained in its ability to follow through on its main policy commitments, which required increases in public spending to deal with the poor state of public services and social policy priorities such as child poverty. Instead, the party’s strategy revolved around leveraging economic growth to pay for social policies without bearing down on the median voter’s tax bill. This presented two challenges. First, for the economy to grow sufficiently both to finance greater public spending and to facilitate the reelection of a Labour government, the party would have to address the fears of the British business community to ensure continued investment. This is the classic “structural dependence of the state on capital” dilemma familiar to left parties throughout the history of democracy.³⁹ The second was to convince the electorate that a Labour government could secure economic growth and rising living standards; in other words, to convince voters that the business community would not respond to a Labour government by disinvesting and undermining the economy.⁴⁰ Labour’s leadership was aware that a lack of trust in the party’s ability to maintain macroeconomic stability was both a barrier to reelection and an impediment to being able to govern.⁴¹

Its response was to recast the party’s relationship with the UK’s business and financial elites, heading off their likely opposition to Labour policies in order to win credibility among voters, and also enable the party to achieve its objectives once in government. By signing up to the economic orthodoxy of the time—fiscal rules, tight money, financial deregulation, and

flexible labor markets—Labour could gain credibility in the financial markets and reassure markets and voters that the party could run the economy competently.⁴² On tax and spending, Brown insisted that “we will only spend what we can afford to spend,” committing Labour to only borrow for investment, to maintain a low debt-to-GDP ratio, and to adopt a binding inflation target.⁴³ Fiscally “prudent” rhetoric was designed to assure both investors and voters that a Labour election victory would not threaten economic stability; any redistributive instincts the government might possess would remain secondary to the maintenance of a macroeconomic settlement reassuring to the markets and unthreatening to the very rich. Once again, the explanation for this positioning can be found in a combination of structural and ideational forces.

Riding the Financial Boom . . . and Bust: Labour’s Faustian Pact

Political science accounts based on conflictual interactions between more-or-less organized interest groups should predict a greater degree of pushback against the liberalizing agenda of the 1980s after the election of a center-left party. The British case displays no such outcome: the New Labour government not only declined to challenge the continued concentration of income growth at the very top of the distribution; it allowed, even encouraged, it to accelerate. It might be supposed that Labour’s decision not to challenge top-income growth was pragmatic rather than purposeful. However, this drastically understates the degree of commitment the Labour government showed to its pro-market positions. Not only was there very little appetite for re-regulating the financial sector or progressively taxing its high earners, the Labour government’s relationship with the City of London went much further than reluctant accommodation of lobbies with superior weapons. New Labour actively embraced an ideology in which the success of

finance was understood to be a generalized good for Britain rather than a minority win, a stance that proactively maintained the climate for WTA income growth. This ideational victory for the 1 percent was encapsulated in Peter Mandelson's famous claim that Labour was "intensely relaxed about people getting filthy rich, as long as they pay their taxes." So long as the economy produced enough tax revenue to pay for some leveling-up at the bottom of the income distribution, the gains of top earners could be dismissed as belonging a peripherally lucky few rather than representing a structural feature of the new political economy. Meanwhile, Labour promised that the policy environment in which finance could prosper, from light-touch regulation to low corporation tax, would be preserved. As Gordon Brown prepared to take over as Prime Minister in 2007 he told a City audience that he would "continue to work with you . . . always recognising your international success is critical to that of Britain's overall and considering together the things that we must do—and, just as important, things we should not do—to maintain our competitiveness,"⁴⁴ making an explicit virtue of Labour's willingness to facilitate pro-finance policy drift.

The changes in Labour's political discourse⁴⁵ pushed through by Tony Blair, and Labour's economy spokesman Gordon Brown, represented a genuine conversion to a set of ideas in which a WTA economy could be considered a success story. This was reflected in Labour's regulatory strategy for finance. The regulatory apparatus established by the first Blair government revolved around the independent central bank and a new single regulator, the Financial Services Authority (FSA), responsible for "(sustaining) confidence in the UK financial sector and markets":⁴⁶ in other words for underpinning the success of the City rather than policing it. Once in government, Labour's hands-off approach to finance had evolved into something more like active industrial policy for the banks, culminating in 2006 when Brown and

his deputy Ed Balls established a High Level Group on City competitiveness, bringing together top policymakers and bank executives to work through the finer details of the regulatory agenda in closed meetings at Number 11 Downing Street. The agendas for these meetings suggest a preoccupation with the threat of new regulation from the EU, with the High Level Group allowing banking and the British government to operate in partnership to block or moderate policy enactments in Brussels.⁴⁷ Even before the financial crisis and subsequent bank bailouts, government's role had gone from passive enabler to active facilitator, with Balls asking the British Bankers Association in 2006, "What more can I do—can we do together—to support and enhance the critical role that the banking industry plays in our economy?"⁴⁸ Lobbying was undoubtedly taking place through these groups, but the government's preexisting and proactive agenda for finance presented the sector with an open goal.

There are many examples from this period of government policy's either acting, or selectively choosing not to intervene, in ways that favored the interests of top City earners. Changes to the tax treatment of capital gains fall into the former category, with Gordon Brown reducing capital gains tax from the 40 percent rate inherited from the previous government down to 10 percent in 2002, and applying the same rate to carried interest, which boosted the rapidly growing private equity finance sector.⁴⁹ Labour missed no opportunity to congratulate the banks for "their drive, global competitiveness and innovation,"⁵⁰ and promised a "risk based approach [to] financial regulation that is both a light touch and a limited touch." The new regulatory architecture set up by Labour in the late 1990s also lacked resources, with considerably lower expenditure than for example in the United States, and far fewer regulatory staff.⁵¹ As a result, little action was taken while the financial sector leveraged up and accumulated increasing degrees of risk through the late 1990s and early to mid-2000s. The banks themselves, naturally,

were happy to be regulated less and made this point forcefully during consultations on the legislative framework in which the new structure would operate.⁵² But there is no evidence that the Labour government had any inclination to regulate the sector more heavily, as long as it appeared to be successful.

The FSA's lax approach to regulation was not, therefore, determined by industry lobbying, but mostly responded to the prevailing policy bias of the times. As Adair Turner of the FSA put it, "the idea that greater market liquidity is in almost all cases beneficial, that financial innovation was to be encouraged, . . . and that regulatory interventions can only be justified if specific market imperfections can be identified, formed key elements in our institutional DNA in the years preceding the crisis."⁵³ These ideas were also strongly present in international institutions such as the IMF and OECD, and the United Kingdom was not alone in taking this view. Lacking a strong tradition of state regulation of finance, the United Kingdom was particularly vulnerable to this regulatory omission at precisely the time when the City was expanding most rapidly. For Turner, "the FSA as an institution was largely the inheritor of a 50-year long giant intellectual mistake."⁵⁴

The intellectual mistake was compounded by the apparent success of the policies it inspired; success that was duly priced into the government's spending plans, creating a structural dependence on financial sector growth.⁵⁵ As the credit boom took hold in the early 2000s, Labour was able to boast that its fiscal and monetary policy had, as predicted, delivered stable growth and generated the resources to increase public spending. New Labour's mildly redistributive fiscal and welfare reforms appeared to help the poor without visibly taking from rich. But this kind of redistribution depended on boom conditions in the financial economy, aligning government interests with those of a significant proportion of the highest earners. A good deal of

the expansion of public spending under Labour was paid for not by (politically sensitive) headline tax changes, but by exploiting buoyant tax receipts from the very sectors that were generating underlying structural inequalities. The financial sector was, by 2007, contributing around 13.9 percent of all tax revenues,⁵⁶ not because it was heavily or progressively taxed compared with other kinds of economic activity, but because the size of the sector within the wider economy, and the high salaries earned in finance relative to other industries, made it an increasingly important source of income and corporate tax and stamp duties (transfer taxes) on securities transactions. Similarly, the boom in the residential property market was providing a buoyant income stream as stamp duty receipts swelled alongside house prices; progressive spending decisions were thus being financed by increases in asset prices whose implications for equality in Britain would far outstrip the impact of redistributive policy.

Labour's limited attempts to correct for market distribution were, in practice, financially contingent on booming inequality. But the promise not to increase personal income tax rates gave Labour little leeway in raising funds to finance higher public spending, so financial liberalization proved a useful solution to the dilemma of meeting public demands for government spending while reassuring middle income voters on tax. Moreover, the United Kingdom's strong growth performance from the mid-1990s to the mid-2000s suggested that the WTA economy was successful in generating rising average living standards and the resources to fund sufficient redistribution that this growth could benefit a broad majority of British households. As a result, Labour's leaders saw no good reason to revise their support for financial sector growth, even if it led to an increasingly skewed distribution of pretax income.

A Role for Organized Combat? Lobbies and Political Funding in Britain

Our account so far has emphasized the role of the structural power of capital, in particular the unfettering of financial markets to generate growth, and the power of neoliberal ideas in creating and maintaining a WTA economy in the United Kingdom. We have argued, in contrast, that “organized combat” is less decisive in this outcome. Here we briefly assess the evidence for the rival explanation that wealthy interests actively intervened in the policy process in the United Kingdom to secure an advantageous distribution of income.

We lack the kind of comparative measures of lobbying and political finance that would allow us to establish the relative importance of lobbying in the policy process across cases, and the difficulties of identifying causal connections between political pressure and policy outcomes are well understood in the literature.⁵⁷ Our explanatory strategy here rests on showing that the evidence for organized combat is not strong enough to challenge the empirically grounded account we have presented so far. There is certainly some anecdotal evidence that lobby groups and wealthy political donors have increased in importance in the United Kingdom, but it appears that the role of big money in politics remains relatively marginal compared to the United States.⁵⁸

There are two important differences that make a standard WTA explanation of Labour’s inability to reverse the United Kingdom’s growing inequality less compelling. First, unlike in the United States where divided government provides organized groups with a multiplicity of veto points through which influence can be exercised and favorable policy “drift” secured, the United Kingdom has an extremely centralized political system that concentrates substantial decision-making authority around the executive, and in particular the Prime Minister.⁵⁹ If anything, this

centralization of power around the Prime Minister's office was accentuated under Tony Blair, with a rapid growth in staffing at Number 10 Downing Street and tight control over ministerial initiatives by the Prime Minister and his closest advisers (including his influential press secretary Alastair Campbell).⁶⁰ Effective unicameralism and high levels of party discipline in parliamentary votes make the United Kingdom an unfavorable context for organized groups to subvert government policy strategies through behind-the-scenes lobbying, which must instead hope to influence a small number of key minds at the very top of government. In that context, aggressively organized combat may be less effective than a generalized public relations effort to maintain a favorable ideational climate for financialization. Compared with the organized combat of the Washington lobby, this is a gradualist, uncertain, and highly indirect route to political influence.

The second difference is that the Labour party is far more financially independent of wealthy interests than the US Democratic party. Founded initially as the political arm of the British trade union movement, Labour still in 1997 received almost half of its funding from affiliated trade unions. Although the number of individual donations from wealthy individuals increased under Tony Blair, who wished to enhance the party's autonomy from the unions, the majority of party income still came from union contributions (60 percent in 2008).⁶¹ Apart from a brief period at the height of the Blair government's popularity when individual donations amounted to 45 percent of Labour's income (in 2001, as opposed to 75 percent for the Conservative party),⁶² Labour has been far less dependent than the US Democrats on tapping financial contributions from businesses and wealthy individuals. Individual candidates are largely dependent on the organizational support of their parties in getting elected, and are therefore less vulnerable to the pressures of wealthy donors and lobbyists.

Few of Labour's leading elected representatives had any kind of business background or independent wealth, although under Blair some leading business figures were brought into government (via their nomination to the House of Lords), and a systematic attempt was made during the Blair years to generate private donations for the party, coordinated by Lord Levy.⁶³ But by 2005, despite the growth in top incomes under the Blair government, the Conservatives had regained a significant funding advantage over Labour from private sector sources.⁶⁴ The "golden rule" thesis of financial contributions explaining parties' policy preferences⁶⁵ fails to explain why Labour was financed mostly by the trade unions, yet followed policies that did little to enhance the role of trade unions in the UK policy process.

There are of course many examples of wealthy interests influencing political decisions in contemporary UK politics and both the lobbying industry and the extent of private donations to political parties have grown over recent decades.⁶⁶ The Labour party itself suffered a number of embarrassing scandals in the Blair years as business donors were revealed to have been favored by policy decisions or nominated for honors and peerages.⁶⁷ But before concluding that such examples of organized combat can explain policy choices and distributional dynamics in Britain it is first necessary to consider a simpler and more easily documented explanation: that WTA politics is the result of Britain's main political parties adopting, quite openly, ideas and policies that encourage and facilitate the concentration of income gains at the top. The turn to the right in the discourse and formal policy program of the Labour party in the late 1980s and early 1990s described earlier was in fact a very good predictor of the policies the Labour government subsequently followed, and this shift in Labour strategy during its years in opposition could hardly be adduced to lobbying or party donations. The party's strategy of winning over the business community and downplaying its links to the trade unions was consistent with seeking to

raise funds from wealthy supporters, but the growth in donations was more a consequence than a cause of Labour's political shift, coming mostly long after the party had abandoned its opposition to Thatcherism.

In the absence of clear measures of lobbying impacts that can be used to show that it is linked to policy shifts leading to income concentration at the top, we cannot exclude the possibility that some policy shifts resulted from the organized lobbying of wealthy interests. An explanation based on the resources financial and other elites were able to invest in lobbying and political donations cannot easily be dismissed, since the available evidence suggests that the kinds of organized combat described by Hacker and Pierson for the United States were also present, and increasingly important, in the United Kingdom. But electoral and policy incentives for Labour to adopt a pro-finance and fiscally conservative position from the early 1990s on offers a more plausible explanation of the outcome of continued top income group through the late 1990s and 2000s. Wealthy groups and political donors acquired influence by lobbying and financing political leaders, but the evidence for Labour acquiescing in a WTA economy to gain power and exercise it more effectively is better documented. While lobbying efforts and political donations may have swung some individual policy decisions, the growth of this kind of organized combat is not responsible for the broad shifts in the income distribution over the period studied here.

A Crucial Case: The Financial Crisis that Went to Waste

So far we have presented an explanation of WTA politics driven less by organized combat than by the long-term structural and ideational consequences of Thatcher's neoliberal reforms, and the

Labour party's need to bolster their pro-capitalist credentials. The financial crisis of 2008 is an important test of our explanation, since it brought about an unexpected and rapid shift in the power resources available to the United Kingdom's financial elites. In the autumn of 2008, the dramatic unraveling of the credit-fueled growth model left the United Kingdom's financial sector facing both imminent bankruptcy and a sudden reversal of reputation. The power balance between financial institutions and elected politicians was turned upside down as the bankers called on the government to rescue the entire financial sector from meltdown. Did the finance industry's money and organizational resources condition the government's response? And did the sudden (although temporary) reversal of the power relationship between government and financial institutions lead to a change in government policy toward the industry?

The Brown government's decision to rescue the banks with a combination of state ownership, government guarantees and recapitalization, extended deposit insurance and monetary easing, is in a sense the least puzzling feature of the crisis response.⁶⁸ Faced with an unexpected crisis of unprecedented proportions unleashed by the collapse of Lehman Brothers, few policymakers anywhere in the world seriously contemplated allowing other systemic financial institutions to fail. The British response to bank failures was to commit the enormous sum of £500 billion to the financial sector, although the effective sum disbursed was much lower. Given that with barely any exceptions (notably Iceland) all advanced democracies, even the more egalitarian social democracies such as Denmark, intervened massively to save their financial sectors, the mere fact of a bailout does not constitute sufficient evidence of WTA politics.

Instead we need to consider how the banks were bailed out, whether the measures taken can be considered to be solely in the interests of the financial sector, and whether there is any

evidence that organized interests were able to swing policy in a direction beneficial to them. The emerging literature suggests that WTA-style pressures do not provide a plausible account of the bailout organized by the Labour government of Gordon Brown. As Cornelia Woll argues, the UK government took a tougher line on its broken banks than its US counterpart, imposing “a solution that was much less favorable, in part even against the will of the financial industry.”⁶⁹ The governor of the Bank of England, an institution with deep ties to the financial sector, was determined to confront the risks of moral hazard inherent in bailouts, an issue of particular concern after the collapse and rescue of Northern Rock in the summer of 2007.⁷⁰ The Treasury and the Prime Minister were less concerned with moral hazard and more worried about the risks of financial collapse, but were equally unwilling to allow the banks to dictate terms.

The British response to crisis, after the banks proved incapable of generating a collective response themselves, was to insist on bank recapitalization, with either government or private capital. The banks were “outraged” at the details of the plan,⁷¹ which led to increased government control over the sector and restrictions on executive compensation. Two major banks were effectively nationalized and their leaderships sidelined. As well as imposing harsh terms on the banks for government support, some other measures taken by Gordon Brown’s government also marked a shift in attitude toward the wealthy financial elite, most notably a 2009 income tax increase for high earners that imposed a 50 percent rate for earnings about £150,000. This measure, although of limited redistributive effect, was clearly a response to the public anger at the failures of highly paid financial institutions and the damage they had wrought on the rest of the economy, once again showing how government relations with the financial industry were mediated by movements in popular opinion.⁷²

However, the Labour government failed to capitalize on this moment of relative strength to fundamentally recalibrate the relationship between government and finance in the United Kingdom. Although the head of the bankrupt Royal Bank of Scotland, Fred Goodwin, was forced out and subsequently stripped of his knighthood, the financial leadership of the City remained for the most part in place. The government's ownership of fully 83 percent of the Royal Bank of Scotland and 41 percent of Lloyds TSB was managed by a limited company, UK Financial Investments (UKFI), which had a minority Treasury representation on the board. UKFI appointed well known City figures to run the bailed out banks, offering competitive bonus packages, despite public outrage. The government-owned banks were formally subject to lending targets to small businesses, which were not met.⁷³ In the face of heavy political pressure from public opinion to act on the excessive pay awards to leading bankers, Gordon Brown's government ultimately lobbied hard to oppose EU proposals to cap bonuses in the financial sector.⁷⁴ Although there were some symbolic changes, in effect the government left the banking system in the hands of the same financial elite that had brought about the disaster.

The 2008 financial crisis could have brought about a consequential change in the balance of power between finance and the government, and indeed between the City and other sectors of the economy. Yet the Brown government, despite being (briefly) relatively free to ignore City preferences, failed to develop a serious critique of the WTA economy. Although government now had ownership over systemic institutions at the heart of the UK financial system, Labour were reluctant to exploit the opportunity to exercise some control over the sector: Alistair Darling announced that the banks "will be run on an arms' length basis away from government," and that "ministers will not be taking day to day decisions."⁷⁵ Predictably, mass outrage soon resulted when the largely state-owned banks used part of the bailout funds to pay bonuses to their

highest paid employees.⁷⁶ The government fell back on its previous approach that bank remuneration was a matter for the bank boards themselves, despite now being a major bank shareholder itself.⁷⁷

After the immediate problem of bank rescue had been resolved, the Brown government moved to respond to the evident failure of the existing system of financial regulation. The Prime Minister commissioned an independent review of the corporate governance of UK banks and other financial institutions⁷⁸ under Sir David Walker, a banking insider who had worked for Lloyds Bank and Morgan Stanley, and subsequently (2012) became chairman of Barclays. The review produced a series of recommendations on a range of areas, but no binding rules were established.⁷⁹ The review had little impact given the short time interval between its publication and the 2010 general election in which Brown's Labour party was defeated. The only legislation of any import passed by Labour after the banking collapse had little effect on the overall regulatory structure. The 2009 Banking Act did little more than consolidate some of the emergency provisions established after the Northern Rock crisis of 2007, while the Financial Services Act of 2010 made small changes to supervision.⁸⁰

Overall, Labour made no major departure from its strategy of light-touch regulation: In mid-2009 a fault line opened up between the Treasury and the Bank of England, with the Bank governor Mervyn King implicitly criticizing Labour's chancellor of the exchequer Alistair Darling for persisting with the hands-off approach he inherited from Gordon Brown.⁸¹ Moreover, when the immediate crisis had passed, Labour failed to produce a convincing diagnosis of the crisis that could challenge the now convalescent City, instead remaining trapped within a market liberal paradigm. With only a little more than a year before the end of the legislature, the government's main priorities were to counteract the massive contractionary effect of the

financial crisis on the British economy and attempt to revive growth in time for the forthcoming election. The banks' need to repair their bloated balance sheets precluded continuing the high rate of credit creation that had generated growth before the crisis, and regulation to restrain reckless lending would have a further contractionary effect. Labour remained a prisoner of the need to stimulate the economy through credit growth, once again emphasizing the structural nature of its relationship of weakness toward finance capital.

Labour's failure to exploit the crisis can best be seen as the ultimate consequence of its belief in the virtues of unfettered financial markets and its strategy to appease wealthy elites by renouncing any direct control over the financial sector and thus gaining political credibility as a custodian of financial stability. Gordon Brown's government opted for a policy response that sought to revive, rather than reform, the Anglo growth model, even those financial institutions and the wealthy elites that owned most of the assets invested by them were, for a brief period, completely dependent on government aid. Having spent thirteen years in office cheering on the growth of the financial sector, Labour had failed to develop any policy tools to exercise any real control over its activities, never mind an alternative policy framework to promote a less credit-dependent growth strategy. The inevitable downturn in the economy resulting from the financial crash destroyed Labour's credibility anyway, and the party polled less than 30 percent of the vote in the 2010 election, its second worst performance since the 1920s.

Conclusion: The Resilience of the Winner-Take-All Economy

Our account of the rise of Britain's WTA economy resonates with much of what Hacker and Pierson argue for the United States. In Britain as in the United States, burgeoning inequality is primarily a story of runaway income growth for those at the very top of the income distribution.

And as in the United States, those changes can be seen to originate not in the impersonal workings of a globalized economy, but in the political choices of successive governments. However, we find that the British case exposes the limitations of an explanation based primarily on organized combat. That certain groups have an interest in favorable policy outcomes (whether via enactments or drift) does not necessarily mean that they successfully mobilized to secure them. In Britain, with its politically insulated executive and much less professionalized lobbying industry, organized combat is a less convincing explanation of policy shifts that favor wealthy elites.

We suggest that the emergence of a WTA economy in Britain is better understood in terms of the interaction of political ideas and structural economic advantage. The liberalizations of the 1980s were implemented by an ideologically motivated elite that was ahead of the domestic business lobby in its commitment to free markets. The organizational changes instigated in that period fundamentally altered the shape of Britain's political economy, granting a privileged position to the financial services industry, which grew rapidly as a result. WTA politics survived and prospered even after the political defeat of the Conservatives, in part because egalitarian counterweights had been largely removed, leaving the center-left to devise a policy model based on limited redistribution from (some of) the winners that reduced poverty while tolerating inequality. These changes were inspired by a broad political and ideological project rather than by any specific exercise of interest group power, while the financialization of the economy placed increasing obstacles in the way of government action to equalize the distribution of income gains. Under Labour, the furtherance of a WTA economy involved the adoption of a set of market liberal ideas that allowed left politicians to surrender in the face of the structural power of finance, and the consequent growth in inequality, in the British economy.

Those intellectual commitments largely survived the financial crisis of 2008–09, even as the power of the banking sector to lobby should have been at its lowest ebb.

There is little evidence to suggest that these developments were decisively shaped by the elite, pro-wealthy politics that Hacker and Pierson insightfully portrayed in the United States. In the British case, rather than the relentless organized combat characteristic of the United States, policymakers have been constrained by broader structural features of the political economy, in which the super-wealthy hold such blackmail power that they often barely need to flex their political muscles. Politicians respond to those constraints by adopting ideational positions that frame a finance-driven WTA economy as a good thing, and in doing so create a feedback loop that channels further gains to the top of the distribution with relatively little political friction. This suggests that Hacker and Pierson's WTA thesis could benefit from a greater focus on both the broader structural constraints on redistribution and equality resulting from the pro-market transformations of the 1980s, and on the ideas that germinated those transformations and continue to protect their legacy.⁸² Wealthy elites' superior ability to fight for their interests may explain part of the accelerating gains at the top of the income distribution, but the British case suggests that very often high earners can get their way even without heavy investments in organized combat. WTA income growth in the United Kingdom revolved around the expansion of the financial services industry, but this expansion was politically underpinned by the revenues it provided to fiscally constrained governments and the wealth effect of rising asset prices for households further down the income scale. In effect, Labour had to feed the beast of the financial industry in order to free up resources for public sector expansion and limited redistribution, because they were unable to win elections with a classic social democratic program of greater

social spending. Signing up to the pro-finance agenda resolved Labour's political dilemma, for a time, obviating the need for the financial elite to lobby hard to defend its interests.

The primary focus of this article is the comparison between the United Kingdom and United States, as a means by which the causal chains at work in WTA politics can be more clearly discerned. As usual, such comparisons introduce simplification, in particular by treating nations as independent cases in ways that can obscure their interdependence. The financialization of the British economy was influenced in important ways by parallel changes in the United States, via the transmission of neoliberal thinking and through the imperatives of international competition. The well-known links between the Thatcher and Reagan projects provided the intellectual background to financialization, opening up the possibility that Britain's WTA trends were partly the result of lobbying overspill from the other side of the Atlantic. That is, however, beyond the scope of this article (and indeed outside the scope of Hacker and Pierson's original argument). At the same time, the realities of global competition helped to sharpen both governments' incentives to preserve comparative advantage in finance with WTA-friendly policy. Once again, this fact points to the importance of structural advantage, buttressed by a favorable intellectual climate.

It is important to emphasize that our analysis does not exclude the possibility that elite organized combat contributed to these developments, and we note that the absence of clear evidence of pro-wealthy lobbying does not constitute evidence of its absence. Our explanatory strategy rests on the argument that a clear, theoretically consistent and empirically documented account that privileges other factors is more compelling than an alternative explanation that rests on a rather crude assumption that the beneficiaries of policy changes must have been involved in bringing them about. In the case of the United States, Hacker and Pierson present substantial

evidence that organized groups were instrumental in ensuring that the policy mix favored top earners. In the UK case, systematic evidence is largely absent, but it is possible to observe and document the increasing hegemony of market liberal thinking, in particular relating to the finance sector, and the growing dependence of the British economy and Treasury on the continued expansion of the City of London. This ideational and structural power is also present in the United States: the rise of neoliberal ideas and their propagation through well-funded think tanks and an increasingly partisan media are important constraints on policy, and the structural power enjoyed by the American financial industry was eloquently illustrated by the unconditional bailout of failed financial institutions in late 2008. Although there are important differences between the British and the American cases, the most compelling explanation for both in our view is that neoliberals won the battle of economic ideas in both countries, and dismantled institutions that had held at bay the structural power of capital over the postwar period. The result, in both cases, was an explosion of economic gains for the extremely wealthy. The ability of these fortunate people to lobby for ever greater gains did not prove decisive in producing this outcome.

Acknowledgements

The authors would like to thank Julie Lynch, Karen Anderson, Mark Blyth, Brian Burgoon, John Cioffi, Ken Dubin, Nicolas Jabko, Matthias Matthijs, Stefan Svallfors, and Cornelia Woll for all their helpful comments on various previous drafts. We thank Robert Joyce and Luke Sibieta for allowing us to use their data for Figure 4. The usual disclaimer applies.

Declaration of Conflicting Interests

Funding

Kate Alexander Shaw is supported by the Economic and Social Research Council (grant number ES/J00070/1).

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