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Party to inequality: Right party power and income inequality in affluent Western democracies ☆

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Abstract

Much social science suggests that income inequality is a product of economic and demographic factors and recent work highlights the influence of Leftist politics in affluent Western democracies. But, prior research has neglected rightist politics. We examine the impact of cumulative right party power on three measures of income inequality in an unbalanced panel of 16 affluent Western democracies from 1969 to 2000. We find that cumulative right party power significantly increases inequality with effects comparable to other established causes. Left party power has less influence than the right on the Gini coefficient and the 90/50 ratio but a larger influence on the 90/10 ratio. Union density is insignificant after controlling for right party power. Right party power partly channels through and partly combines with government expenditures to affect inequality. Temporal interactions show that right parties became more influential after 1989 while left parties became less effective. Supplementary analyses suggest that a component of right party power's effects occurs through labor market inequality prior to taxes and transfers. Sensitivity analyses reveal that the results are robust to a wide variety of alternative specifications and operationalizations and do not depend on the inclusion of the U.S. in the sample. Our results inform debates about the sources of inequality and related sociological theories regarding class, politics, the state and the economy.

Keywords: Inequality; Political parties; Institutions; Great U-Turn; Political power

Beginning with the Thatcher and Reagan administrations in the U.K. and U.S., right parties have ushered in a profound transformation in affluent Western democracies. Right parties have reduced taxes for corporations and the wealthy, deregulated markets, cut government spending, restructured social policies, weakened the legal rights of unions, and collaborated with business to alter the political–economic landscape. By the late 1990s, right parties had led an electoral realignment in the U.S., and gained substantial political power in many other countries. Despite the central role right parties have played in a host of social changes, social scientists have only begun to document and explain the consequences of right party power (Allan & Scruggs, 2004; Campbell & Pedersen, 2001; Lo & Schwartz, 1998; Piven & Cloward, 1997).

At the same time, we have witnessed a dramatic rise in income inequality. The long-term decline in inequality that accompanied industrialization has stopped, and inequality has risen substantially in many affluent Western democracies (Harrison & Bluestone, 1988). In the

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past few decades, for example, the Gini coefficient rose by more than 10% in Australia, Belgium, Finland, and Italy, and by more than 20% in Austria, Sweden, the United Kingdom and the United States (source in Appendix A). Despite these tremendous increases in within-nation inequality, the enormous cross-national differences between low, moderate and high inequality societies remain. As a result, cross-national and historical variation in income inequality remains a critical sociological concern (Kenworthy, 2004).

Clearly, right parties and inequality are both salient aspects of the political economies of affluent Western democracies. To our knowledge, however, no study has analyzed the relationship between these two. Analysts have identified a host of causal sources of income inequality, including Leftist politics. Yet the stratification consequences of the ascendance of the right have been neglected. We address this absence in the literature by examining the influence of cumulative right party power on the cross-national and historical variation in income inequality in 16 affluent Western democracies from 1969 to 2000. Our study offers an analysis of the impact of right parties and demonstrates the fundamental role politics play in shaping income inequality.

1. Theoretical background

Social science explanations of macro-level variation in intra-national inequality can be divided into two major approaches: society-developmental and Leftist politics.[1] Our study builds on these two so we first review recent contributions in the study of income inequality. We go beyond these approaches by offering a theory of how and why cumulative right political party power increases inequality in affluent Western democracies.

1.1. Society-developmental

The first approach follows Kuznets' (1953) theory that inequality follows an inverted-U shape with economic development, rising in initial stages of industrialization and declining with subsequent development (Alderson & Nielsen, 1999; Lenski, 1984; Nielsen & Alderson, 1997). This approach focused on the dualism between agricultural and non-agricultural sectors as development progresses, and changes in the family and population that result from the related demographic transition (Crenshaw, Christenson, & Ray Oakey, 2000). Harrison and Bluestone (1988) demonstrate that in the latest stages of advanced capitalism, inequality rises again, demonstrating a Great U-turn with deindustrialization and globalization (Bluestone & Harrison, 2000; Galbraith & Berner, 2001).

This tradition implicitly suggests that inequality patterns almost inevitably follow a set of economic and demographic antecedents. If a country experiences deindustrialization or rising single parenthood, inequality mechanically rises. Hence, inequality is a product of how the population is distributed across labor market sectors or vulnerable family arrangements. Scholars in this tradition concentrate on empirically assessing the relative contributions of various economic and demographic determinants of inequality (Gottschalk & Smeeding, 1997).[2]

Alderson and Nielsen's (2002) recent article in the *American Journal of Sociology* is a state-of-the-art example of the society-developmental tradition. These authors build from their model of inequality across all countries (a synthesis of Kuznets and Lenski, see Alderson & Nielsen, 1999) to construct a model for affluent democracies. Their study contributes to a wave of research on how globalization affects inequality. At the same time, they conclude that inequality in affluent democracies continues to be caused mainly by agricultural employment.[3]

Many have contributed to our understanding of which society-developmental sources are most important. Reuveny and Li (2003) show foreign direct investment inflows increase inequality while trade openness actually decreases it, though many are skeptical about globalization's influence (Burtless, 1995; Mahler, 2004; Mahler, Jesuit, & Roscoe, 1999). Demographic variables assessing the percent of a population vulnerable to life cycle risks have been highlighted. For

[1] We recognize that these two broad approaches are not entirely mutually exclusive or competitive. This division is a heuristic and we merely suggest that explanations of inequality tend to focus on one of these two sets of causes. Scholars often emphasize the primacy of particular causes as an advocate for one of these approaches. However, as we discuss below, analysts commonly incorporate causes from both explanations (Alderson and Nielsen, 2002; Bluestone and Harrison, 2000; Lenski, 1984).

[2] Our literature review draws on research on income and earnings inequality, and research on the U.S. and across affluent democracies. At the same time, it is important to keep in mind that earnings and income inequality are different dependent variables and the causes of inequality in the U.S. do not necessarily extrapolate to comparisons of affluent democracies. For example, Eckstein and Nagypal (2004) show that U.S. earnings inequality began to rise in 1974, but in the LIS data we analyze below, all three measures of U.S. household income inequality declined 1974–1979.

[3] The standardized coefficient for the effect of agricultural employment on the Gini is .88, while three globalization variables collectively amount to .383, and female labor force participation is .064.