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

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# **Luxembourg Income Study Working Paper Series**

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**Party to Inequality: Right Party Power  
and Income Inequality in Affluent Western Democracies**

**David Brady and Kevin T. Leicht**

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**PARTY TO INEQUALITY: RIGHT PARTY POWER AND INCOME INEQUALITY IN  
AFFLUENT WESTERN DEMOCRACIES\***

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# **PARTY TO INEQUALITY: RIGHT PARTY POWER AND INCOME INEQUALITY IN AFFLUENT WESTERN DEMOCRACIES**

## **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.

## **PARTY TO INEQUALITY: RIGHT PARTY POWER AND INCOME INEQUALITY IN AFFLUENT WESTERN DEMOCRACIES**

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 and Scruggs 2004; Campbell and Pedersen 2001; Lo and Schwartz 1998; Piven and 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 and Bluestone 1988). In the 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 I). 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.

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.

## **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.<sup>1</sup> 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.

### ***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 and Nielsen 1999; Lenski 1984; Nielsen and 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 et al. 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 and Harrison 2000; Galbraith and 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

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<sup>1</sup> 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 (Simpson 1993). 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).

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 and Smeeding 1997).

Alderson and Nielsen's (2002) recent study 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 and 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.<sup>2</sup>

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 (Mahler et al. 1999; Mahler 2004). Demographic variables assessing the percent of a population vulnerable to life cycle risks have been highlighted. For example, single parenthood, population growth, and the proportion of elderly and child populations contribute to increased inequality (Gustafsson and Johansson 1999; Nielsen and Alderson 1997; O'Rand and Henretta 1999). Though Alderson and Nielsen (2002) found that female labor force participation has a small positive effect on inequality – a result they acknowledge could be due to their lack of control for single parenthood – others conclude female labor force participation reduces inequality (Cancian et al. 1993; Nielsen and Alderson 1997).<sup>3</sup> While Alderson and Nielsen (2002) found that

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<sup>2</sup> 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.

<sup>3</sup> Alderson and Nielsen's (2002: 1281-1282) write: "[T]his finding is open to alternative interpretations. For instance, data limitations preclude us from controlling for changes in household structure. Perhaps the effect of female labor force participation has been confounded by its association with the growth of female-headed households." Also not

manufacturing employment was insignificant in their final models, many show that manufacturing reduces inequality and deindustrialization increases it (Chevan and Stokes 2000; Gustafsson and Johansson 1999; Harrison and Bluestone 1988; Nielsen and Alderson 1997). Overall, the society-developmental tradition focuses on the Kuznets Curve and the Great U-turn and unites economic and demographic sources into one model of inequality.

### ***Leftist Politics***

The second approach disputes that inequality is the inevitable result of economic and demographic developments. Instead, contested political struggle, state policies and institutional arrangements regulate the distribution of economic resources and shape inequality. While inequality might be a “natural” consequence of capitalism, the collective organization of the working class and leftist/social democratic parties in government can institutionalize a more egalitarian distribution (Sassoon 1996; Stephens 1979; Wright 2000). As Korpi (1983a: 187) explained, “The variations in the difference between the two basic types of power resources – control over the means of production and the organization of wage-earners into unions and political parties – are thus assumed to be of major importance for the distributive processes in capitalist democracies and for their final result; the extent of inequality.”

Those “power resources” occupy positions of decision- or policy-making authority, mobilize to pressure power-holders, and ultimately influence distributional outcomes like income inequality (Bradley et al. 2003; Hewitt 1977; Hicks and Swank 1984; Mahler 2004; Korpi and Palme 1998), poverty (Brady 2003; Moller et al. 2003), and wages (Western and Healy 1999). Such collective political actors define the social rights of citizenship to ensure economic security and egalitarianism (Castles 1982; Esping-Anderson 1990; Huber and Stephens 2001). Also, Leftist politics organize labor relations and labor markets to compress the earnings distribution and institutionalize equality

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controlling for single parenthood, Gustafsson and Johansson (1999) found female labor force participation was positive but insignificant.



(Moene and Wallerstein 1995; Rueda and Pontusson 2000). Several scholars have shown that unionization and corporatism raise worker earnings and, as a result, reduce inequality (Freeman 1993, 1999; Freeman and Medoff 1984; Kalleberg et al. 1981; Leicht et al. 1993; Soskice 1990; Wallace et al. 1999; Western and Healy 1999). In fact, Wallerstein (1999) concludes that labor market institutions, especially labor market centralization as well as unions, are the most important predictors of earnings inequality in affluent democracies.

Research on leftist politics as a source of equality calls attention to the political factors that shape inequality regardless of economic and demographic developments.<sup>4</sup> Despite these contributions, one crucial limitation marks past research. Overwhelmingly, past studies have concentrated on leftist politics and neglected rightist politics in the study of inequality.

### ***Cumulative Right Party Power***

Certainly, writings on rising inequality implicate the electoral success of right parties and their policies that favor free markets, free trade, and business interests (Krugman 1994, 2003; Micklethwait and Woolridge 2004; Piven and Cloward 1982; Phillips 1990, 1995). Moreover, some contend that the political power of managers, capitalists and others associated with the right increases inequality (Gordon 1996; Harrison and Bluestone 1988; Wright 2000). A few studies suggestively link conservative regimes, right parties and inequality (Castles 1982; Castles and McKinlay 1979; Lo and Schwartz 1998; Mahler 1999; Muller 1989; Navarro and Shi 2001; Weede 1990). By contrast, Wallerstein (1999) finds that conservative parties in government do not

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<sup>4</sup> We appreciate that society-developmental scholars often include political causes. Alderson and Nielsen (2002) found that union density and wage coordination significantly reduce inequality. Yet, these “institutional factors” are outside their “core model,” and agricultural employment is their main cause. In their study, the sum of the absolute values of the standardized coefficients of agricultural employment, globalization and female labor force participation (1.327) is about twice as large as the sum of union density, wage coordination and decommodification (.749). While Lenski (1984: 327) acknowledges the role of politics, he places technology and human nature as the fundamental causes of inequality and posits the economy as exogenous to the polity. In contrast, political accounts view the economy and polity as endogenous to each other and technology as secondary.

influence earnings inequality in affluent democracies. Still, systematic research on right party power as a source of income inequality has been lacking.

Researchers' concentration on the left and neglect of the right may have actually obscured our understanding of how left politics shape inequality. We do not know if the established effects of left politics are net of right party power or how the effects of the left compare with the effects of the right. The observed effects of the left could be spurious; due to the absence of the right rather than the actual presence of the left. Evaluating the effects of the right is critical for understanding the entire spectrum of political influences on inequality.<sup>5</sup>

Our study is guided by the general hypothesis that right party power increases inequality in affluent Western democracies.<sup>6</sup> Right parties must be in power and controlling government to have these effects. This power accumulates over time as one election is unlikely to reverse an institutionalized history of egalitarianism or free markets (Esping-Andersen 1990; Korpi 1983b). Thus, it is the long-term partisan control of government that shapes inequality (Huber and Stephens 2001; Pierson 2004). Right party power is not simply the reverse of left party power and right parties do not only undo what the left has developed. Our contention is that the right has increased inequality independently of the left's ability to reduce it. More specifically, we offer a theoretical model of how and why cumulative right party power should increase income inequality. In Figure 1, we present a conceptual diagram of the causal pathways between cumulative right party power

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<sup>5</sup> As we explain below, we can easily include both left and right party power variables in the same model. Because there is tremendous cross-national and historical variation in the power of other parties and the particular combinations of historical left and right party power, the bivariate correlation between our left and right party indicators is only -.25.

<sup>6</sup> Though we refer to right party *power*, our evidence does not allow us to distinguish precisely between conceptions of power. Our reference to power merely reflects our emphasis on the relations between groups that shape inequality (Knoke et al. 1996; Tilly 1998). In terms of social exchange theory, power could mean the coercive and mutually dependent relationship of the collective political actor of right parties over other parties, other collective political actors (e.g. business and unions), the state and the public. In terms of Weberian rational-legal authority, right party power could refer to legitimate authority of office-holders who control the legislature.

and greater income inequality.<sup>7</sup> We expect that cumulative right party power influences inequality through three principal mechanisms: *legislative action*, *administrative office-holding*, and *ideological influence* (Aldrich 1995).

[FIGURE 1 ABOUT HERE]

First, cumulative right party power results in *legislative action* that increases inequality. Mainly this occurs by initiating less progressive taxation, welfare retrenchment and a reduced state. One of the enduring findings from welfare state research is that the development and subsequent variation in welfare states are due to a constellation of leftist politics (Allen and Campbell 1994; Esping-Andersen 1990; Hicks 1999; Huber and Stephens 2001). In contrast, right parties have ushered in less progressive taxation, reductions in welfare transfers to the poor and the vulnerable, and the privatization of welfare programs (Allan and Scruggs 2004; Amenta 1998; Blyth 2002; Brady et al. 2005; Campbell and Pedersen 2001; Castles 2004; Hacker 2002; King and Wood 1999; Korpi and Palme 2003; Lo and Schwartz 1999; Zylan and Soule 2000). We expect that these legislative actions to retrench welfare and privatize programs should increase inequality.

In this sense, we follow research on leftist politics and inequality that contends that the welfare state reduces inequality (Block and Manza 1997; Brady 2003; Esping-Andersen 1999; Moller et al. 2003; Page and Shapiro 2000). For example, Bradley and colleagues (2003) find that welfare generosity has a negative effect on inequality. In contrast, society-developmental accounts often present the state as weakly influential. For example, Alderson and Nielsen (2002) find that decommodification's significant negative effect on inequality is less than one-fourth as large as agricultural employment's positive effect. Gustafsson and Johansson (1999) find that while public

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<sup>7</sup> Of course, the arrows in this figure are probabilistic and not deterministic. For example, we theorize that administrative office-holding by the right increases the probability of opportunities for elite and business accumulation and that increases the probability that the top-half gets richer. Of course, we appreciate that right party power is not the only influence on inequality. Though not in the figure, we fully appreciate economic or demographic factors affect inequality separate from right party power.

consumption reduces income inequality, social security transfers are insignificant. Nonetheless, we expect right parties to increase inequality through legislative action supporting a smaller state, less progressive taxation and welfare retrenchment.

Second, the *administrative office-holding* that occurs when right parties control government should increase inequality. In affluent democracies, the market is governed by rules and procedures established by administrative regulations – much of which involve what Fligstein (2001) calls governance structures, property rights and the rules of exchange. When right parties control government, the property rights of business and the elite garner greater protection and the governance structures and rules of exchange facilitate profits and wealth accumulation. As Figure 1 displays, this can also occur through legislative action. For example, right parties have deregulated banking and credit and loosened accounting rules so that consumers can be charged higher interest rates and managerial and executive compensation can be elevated (Hall 1992; Krugman 1994, 2003). Such opportunities for elite and business accumulation not only lead to the top-half of the income distribution getting richer, they also enhance the political mobilization of business.<sup>8</sup>

Administrative office-holding by right parties also leads to the deregulation and underenforcement of worker protections. When right parties control government, administrative officials often do not enforce the legal protections of workers (e.g. existing overtime pay rules, minimum wage laws, and the right to collectively bargain and organize unions) (Clawson and Clawson 1999; Voss and Fantasia 2004). Hence, the legislative action of previous leftist governments becomes less relevant due to the administrative neglect of rightist governments. Right

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<sup>8</sup> Sassoon (1996: 692) explains how right party power facilitated opportunities for elite and business accumulation in the U.K.: “In May 1979, when Margaret Thatcher entered Downing Street, most Conservatives were as unaware as the rest of the population that she was to preside over the most radical administration in twentieth-century Britain. Most governments water down their ideology as they accede to power. The new Conservative administration, though it quickly abandoned its original strict monetarism, fortified its own wine as it went along. In the course of the succeeding ten years, it made the unions weaker and local government ineffectual; it deregulated the labour market; reduced income tax to levels unimaginable in the 1970s; sold most of the state sector to private owners; and introduced a semblance of market criteria into the allocation of resources within the as yet unsaleable public sector, including education and health. The result was a net distribution of resources from the poorest to the richest, achieved with minimal social strife.”

party governments often revise and abolish regulations that protect workers (Freeman and Medoff 1984; Howell 1995; King and Wood 1999). In the context of right party control of government, it is more difficult for workers to form unions and recruit union members (Farber and Western 2002; Brady 2007). For example, Brady and Wallace (2000) show that the partisan composition of state governments has a substantial effect on U.S. unionization. The result of this weakened labor mobilization is that workers in the bottom-half of the distribution earn less and inequality increases.

Third, cumulative right party power in government carries *ideological influence* that contributes to inequality. Controlling government influences the discourse of policy debates and provides opportunities to normatively legitimate free markets and capitalism (Kjaer and Pedersen 2001; Knoke et al. 1996). Right parties also collaborate with business and elites in policy formation networks involving think tanks, advocacy groups and foundations that influence policy debates, shape public opinion and monopolize expertise in the media (Domhoff 1998; Jenkins and Eckert 1988; Perrucci and Wysong 1999). By legitimating free markets and capitalism, right parties may influence power relations and shape the demands of collective actors (Campbell 2001; Piven and Cloward 1997; Tilly 1998). Right parties construct Keynesianism and social democracy as in crisis and frame egalitarianism as detrimental to competitiveness and efficiency (Blyth 2002; Hall 1992; Hay 2001; Huber and Stephens 2001). This framing creates an environment where working class organizations are stigmatized and claims of class conflict and pressures for egalitarianism are stripped of legitimacy.<sup>9</sup> In this way, right parties have a less visible, but powerful, means to undermine working class mobilization. The end result will be to reduce the earnings of the bottom-half and widen inequality.

In the event our study reveals significant effects of right party power on inequality, four additional issues warrant analytical scrutiny. First, it would be valuable to ascertain how much of

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<sup>9</sup> Though admittedly more speculative, it is plausible that right parties may contribute to the cultural legitimacy of earnings inequality and extremely high compensation for managers and corporate executives (Krugman 2003).

the effects of right party power are channeled through the welfare state. Brady (2003) has shown that leftist politics partly channel through and partly combine with the welfare state to reduce poverty (Bradley et al. 2003; Korpi 1983a; Moller et al. 2003). Since we expect right parties to increase inequality through legislative action, we recognize that the effects of right parties may be due to variation in state size. Specifying this mediating mechanism would illustrate how cumulative right party power increases inequality partly by legislative action. Given the conflicting accounts on the impact of the welfare state on inequality, the state warrants scrutiny as a related and distinct source of inequality.

Second, there may be temporal variation in the effects of right party power and left parties as well. As we show in Figure 1, we expect that the enhanced political mobilization of business and undermined working class mobilization will act in concert with the ideological influence of right party power to change the political terrain of subsequent elections. If business is politically mobilized to support right parties and unions are undermined in supporting left parties, right parties may experience a sustained electoral advantage in subsequent elections. As a result, right party power will accumulate and the processes generating inequality will be pushed further. This could force left parties to shift right in campaigns and governance. There is some recent evidence that left parties have become less effective at promoting egalitarianism while right parties have had a greater influence on inequality (Allan and Scruggs 2004). After the wave of right electoral victories in the early 1980s and early 1990s, left parties have moved to the center (Kitschelt 1999), have been forced to govern under fiscal austerity (Hall 1992; King and Wood 1999), and have been less assertive in promoting egalitarianism (Blyth 2002; Sassoon 1996). As Sassoon (1996: 692) writes,

“By the end of the 1980s, all parties of the Left – there were hardly any exceptions – went through the most dramatic programmatic reappraisal in the entire history of the movement.”<sup>10</sup>

Third, analyzing labor market inequality can help clarify the intervening mechanisms in our theoretical model. Scholars have enhanced the study of inequality by breaking it into the components before and after state taxes and transfers (Bradley et al. 2003). Our theoretical model conjectures that right party power affects the earnings of workers and the profits of business and elites, so part of right party power’s effects occurs before taxes and transfers. If right parties influence labor market inequality, this would provide evidence for and illustrate some of the non-welfare state mechanisms transforming right party power into greater income inequality.

Fourth, we need to untangle whether the U.S. case is the main reason for any association between right party power and income inequality. Historically, the U.S. has had extremely strong right parties and the highest levels of inequality among affluent Western democracies. The U.S. has consistently had one of the more stridently free market orientations with the least generous and privatized welfare state (Hacker 2002; Page and Shapiro 2000). The U.S. also has uniquely high levels of single parenthood. Exceptional American characteristics like these may underlie cross-national patterns in inequality. Indeed, Micklethwait and Woolridge (2004) go so far as to argue that right parties are the foundation of American exceptionalism. To better understand the influence of right party power on inequality, it is essential to scrutinize whether any relationship holds outside the U.S. and after controlling for the idiosyncracies of the U.S.

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<sup>10</sup> Blair’s New Labor in Britain, Schroeder’s Social Democrats in Germany, Clinton’s Democratic Leadership Council in the U.S., and even the Swedish SAP (Blyth 2002) fit this pattern. Sassoon (1996: 448) shows this occurred throughout Western Europe: “When growth came to an end, the new political climate made these anti-welfare state views more popular. By the early 1990s, they were so dominant that they were openly advocated even within the socialist parties.” One reason is that under right party control in the 1980s, budget deficits expanded substantially. Faced with the need to balance the budget in this already more economically insecure era, leftist governments were forced to cut welfare spending (Krugman 2004; Sassoon 1996). Equally important, rightist governments ushered in an ideological consensus of monetarism and neoliberalism that subsequent leftist governments have not dismantled (Hall 1992; King and Wood 1999; Sassoon 1996).

We have outlined a model with theoretical mechanisms linking cumulative right party control of government with rising inequality. Our analysis is designed to evaluate whether right party power influenced cross-national and historical variation in income inequality in 16 affluent western democracies over the period of the “Great U-Turn” from 1969-2000. Our analysis cannot test every specific mechanism of how and why right parties increase inequality, but we can provide several pieces of evidence to support our theoretical model. Further, our analysis allows us to identify avenues for further investigation.

## **MODELS, DATA AND MEASURES**

Our study evaluates the sources of inequality using very similar methods as recent studies of inequality (Alderson and Nielsen 1999, 2002; Nielsen and Alderson 1997; Gustafsson and Johansson 1999). We utilize an unbalanced panel research design of 16 affluent Western democracies from 1969 to 2000 where the unit of analysis is a country-year. Because of limited observations for our dependent variables (see below), cases are unevenly distributed across 16 countries (N’s) and 32 years (T’s). Due to unobserved time-invariant cross-national heterogeneity, ordinary least squares (OLS) regression is inappropriate (Hsiao 2003). Using STATA, we analyzed models with several different techniques.

For theoretical and methodological reasons, we present random effects (RE) models (Alderson and Nielsen 2002). First, RE models better facilitate estimating the effects of the independent variables on the dependent variables when both cross-national and historical variation are essential (Beck 2001; Beck and Katz 1996; Greene 1990: 495; Hsiao 2003).<sup>11</sup> We seek to

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<sup>11</sup> Fixed effects (FE) models explain historical variation within nations while removing the variation between nations. FE models perform OLS after including nation-specific constants and subtracting all variables from their nation-specific means. Between-effects (BE) models explain the between nation variation while removing the variation within nations. BE models pool each variable’s value by country to calculate nation-specific means, and then estimate the variation across those nation-specific means. The RE model is the matrix weighted average of the within- (FE) and between-nations (BE) estimators (Greene 1990: 488; Hsiao 2003). RE models include a country-specific error term in addition



understand why some nations have more or less inequality, and why inequality increases or decreases over time. In fact, the standard deviations between nations are more than two times larger than within nations for our measures of income inequality. Further, the number of countries (16 N's) far exceeds the average number of time points (5.3 T's). As a result, the cross-national (between-) variation arguably is more important than the historical (within-) variation, and models should allow the independent variables to explain both types of variation. Second, statistical tests accept RE models.<sup>12</sup> Third, according to the econometric literature, in small and unbalanced samples with more N's than T's, RE models perform better than the alternatives (Bhargava and Sargan 1983; Greene 1990: 493, 495; Hsiao 2003).<sup>13</sup> Fourth, we replicate our models using fixed effects (FE) and the results are consistent (see Table 6). Fifth, we address one source of stable cross-national heterogeneity by identifying the observed U.S. cases instead of correcting for unobserved heterogeneity with FE models (see Table 8). Sixth, analyzing the distinctiveness of the U.S. cases actually prevents the use of FE models because this dummy variable does not vary over time (Beck 2001: 285; Beck and Katz 2001: 492).

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to the general error term and, subtract a smaller portion of the nation-specific means. Cross-national differences in inequality and politics are not constant over time, but relative stability exists in the cross-national ranking of nations for these variables – hence, FE models effectively mask this crucial variation (Beck and Katz 2001: 492). As Beck and Katz (2001: 487) explain, “Fixed effects are problematic in the presence of [the] temporally stable regressors.” Further, trends in inequality are essential as well, and unfortunately, BE models mask this essential within-nation variation.

<sup>12</sup> Recently, methodologists have shown that the Bayesian Information Criterion (BIC') can be used to select between these techniques (Beck and Katz 2001: 492; Teachman et al. 2001). BIC' very strongly prefers RE over FE models. Also, Hausman's (1978) Chi-Square test accepts RE and does not require FE models.

<sup>13</sup> FE models consume a degree of freedom for every N. In this analysis, with 85 cases and 16 N's (average of 5.3 T's), FE models produce inefficient estimates (Beck and Katz 2001; Hsiao 2003: 42; Greene 1990). Nickell (1981) also shows that FE models may produce biased estimates when N far exceeds T. Population average (PA) models may be problematic in small samples since they are a maximum likelihood estimator (MLE), which is designed for much larger samples. Another alternative is to use techniques with heteroscedasticity consistent standard errors, for example OLS or RE with robust clustered errors. Importantly, however, Long and Ervin (2000) convincingly demonstrate that the popular Huber-White-Sandwich estimator (HC0) produces incorrect inferences in samples with less than 250 cases. The alternative HC3, which works well even in samples as small as 25, does not allow for the clustering of errors within countries – the principal reason for using HC0 with this kind of data. Finally, Beck (2001) emphasizes that OLS with panel corrected standard errors (PCSE) should not be used when there are less than 10 or 15 T's. Importantly, Beck (2001) draws a sharp distinction between time-series-cross-section data with more T's than N's, and panel data with more N's than T's. Beck (p. 274) explains, “Panel methods [e.g. RE] are designed for and work well with very small T's (three, or perhaps even two).”

With significance levels and basic fit, the Bayesian Information Criterion Prime (BIC') assists model selection. Unless fit is substantially better, BIC' selects the more parsimonious model (Raftery 1995). Specifically, the greater negative value of BIC' is preferred, and positive values indicate a model is less preferred than a model with no independent variables.<sup>14</sup>

### ***Dependent Variables***

Our study uses the official Luxembourg Income Study (LIS) estimates of income inequality (from November 2004). Our sample includes an average of 5.3 observations for 16 countries for a total of 85 observations. The LIS estimates are based upon nationally representative individual-level data sets. To cross-nationally and historically harmonize the data, the LIS staff calculates a comprehensive definition of household income after taxes and transfers, adjusts for household size, and weights the samples for population estimates (see [www.lisproject.org](http://www.lisproject.org)). Like Alderson and Nielsen (2002) and the overwhelming majority of inequality research, we analyze levels of inequality. For most of our analyses, we focus on income inequality after taxes and transfers because this reflects the ultimate distribution of income after the influence of markets and the state. In supplementary analyses, we examine labor market inequality before taxes and transfers (see Table 5 and details below).

The LIS provides several measures of income inequality, and we analyze three: the Gini coefficient (henceforth “Gini”), the ratio of the 90<sup>th</sup> percentile of the income distribution to the 10<sup>th</sup> percentile, and the ratio of the 90<sup>th</sup> percentile to the 50<sup>th</sup> percentile. For presentation purposes, we multiplied all three by 100. The Gini (because it is a measure of the area between the Lorenz curve and perfect equality) is more sensitive to changes in the middle of the income distribution than the top or bottom. The Gini is the most widely used measures of inequality (Alderson and Nielsen

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<sup>14</sup> A BIC' difference of 0-2 offers weak evidence for model selection, 2-6 offers positive evidence, 6-10 offers strong evidence, and greater than 10 offers very strong evidence. Of course, we consider BIC' in tandem with the significance and size of coefficients and do not rely on BIC' alone.

1999, 2002). The 90/50 ratio measures the gap between the affluent and the middle class, a source of much recent policy discussion in Western democracies, especially the United States (Phillips 1993; Skocpol 2000). The 90/10 ratio measures the divergence between high and low incomes without the complications of dealing with the tails of the income distribution. Collectively, these three dependent variables provide a fairly comprehensive assessment of inequality.<sup>15</sup>

These three measures assess different conceptions of inequality, and as we show below, actually have slightly different causes. Each reflects different outcomes of leftist and rightist political actors seeking to alter the landscape of inequality. The left traditionally produces a safety net of universal welfare services, social insurance and income transfers that mainly benefit the bottom half of the income distribution, lessen the gap between the affluent and the poor, and are paid for by taxing high incomes. Unions seek to tax profits, redistribute to the working class, most of who are not at the bottom of the distribution, and protect the security of the middle and working class. Accordingly, unionization and left parties may affect different dimensions of income inequality. Unions should improve the incomes of those in the middle third relative to those at the top (the Gini). Left parties should improve the incomes of the poor relative to the affluent (the 90/10 ratio). By contrast, right parties usually receive disproportionate support from the affluent, and most of their program shifts distribution processes toward markets and away from states. The accumulation of the top third of the income distribution is facilitated, and at the same time, the middle third of the income distribution is made less secure. In turn, right party power should be most consequential to the affluent, and this should bear on the gap between the top and middle of the distribution (90/50 ratio) and overall inequality (the Gini).

One popular alternative to the LIS data is the Deininger and Squires' (DS, 1996) World Bank dataset (Alderson and Nielsen 2002). We chose the LIS data because we are persuaded by

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<sup>15</sup> These three are highly, but somewhat unevenly correlated. The correlations between the gini and the 90/10 ratio is .92; between the gini and the 90/50 ratio is .96; and between the 90/50 and 90/10 ratios is .86.

Atkinson and Brandolini's (2001) critique of the DS data (also Moran 2003). Those authors show that the DS data: mistakenly cites the source of estimates (e.g. claiming the LIS as the source for country-years when the LIS does not actually have data); mixes inequality estimates from household, family and individual units of analysis; combines estimates based on gross (pretax and pretransfer) income with estimates based on net disposable (posttax and posttransfer) income; lumps together differing sources of estimates without standardization; offers "a bewildering variety of estimates" for country-years (e.g. about 15 figures for Sweden in 1981); and reports estimates that significantly depart from the LIS estimates for the same country-year. While the World Bank dataset is larger, the LIS data are much higher quality.<sup>16</sup> Since the LIS also advantageously provides multiple inequality measures, the LIS data are the better choice for our study.

### ***Baseline Variables***

The independent variables we use to predict income inequality include measures of the Great U-Turn and globalization, demography, labor markets, and politics. Our goal with these variables is to specify a reasonable parsimonious baseline model. All independent variables are lagged one year, except our control for single parenthood (see below). Descriptive statistics and sources are presented in Appendix I. We include a correlation matrix in Appendix II. Data for many of the variables are proximately from Huber et al. (2004).

Reflecting the Kuznets curve and the Great U-turn, we include gross domestic product (GDP) per capita and GDP per capita squared in real purchasing power parity dollars. While the Kuznets Curve was developed to explain income inequality across a broad spectrum of nations at various stages of development, the Great U-Turn suggests that inequality rises again at high levels

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<sup>16</sup> Atkinson and Brandolini (2001: 777-779) conclude, "Users could be seriously misled if they simply download the DS 'accept' series. The inequality pictures look different. Moreover, if the user goes on to utilize the variables in econometric work, then it may make a significant difference to empirical findings. . .The conclusions do not appear to be robust: the choice of data matters. The choice of data may equally affect the conclusions drawn about trends in income inequality over time." Also, they write (p.790): "If users wish to use a secondary data-set, and not go back to micro-data, then we believe that they would be ill-advised to limit themselves to the variables labeled "accept" in the DS data-set."

of development in contrast to Kuznets' prediction that inequality declines (Harrison and Bluestone 1988).<sup>17</sup> Following Reuveny and Li (2003), we measure globalization with trade openness and net foreign direct investment (FDI). Trade openness is measured as the sum of exports and imports as percent of GDP. Net FDI is measured as inward FDI minus outward FDI over GDP. According to Reuveny and Li, trade openness should decrease inequality and net FDI should increase it.

We control for four demographic variables. Population growth rate is the annual rate of change in raw population.<sup>18</sup> The percentage of the population elderly is measured as the percent of the population over 65 years old and the percentage of the population children is measured as the percent of the population under 15 years old. We control for changing family structure with the percentage of children in single mother families. The LIS staff provides estimates of this variable. Prior research suggests that all four are positively associated with inequality.

Finally, our models control for three salient characteristics of labor markets. First, we control for agricultural employment as a percent of the labor force. Second, we include manufacturing employment as a percent of the labor force. Third, we control for female labor force participation measured as the percentage of women aged 15 to 64 that are participating in the labor force. According to previous studies, agricultural employment should increase inequality while manufacturing employment should decrease inequality. The relationship between female labor force participation and inequality remains uncertain.

### ***Political Variables***

Our measure of cumulative right party power is a modification of what Huber and Stephens (2001) call “Cabinet” variables. This variable gauges the long-term control of government by

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<sup>17</sup> We experimented with a third order polynomial of GDP per capita. If all three terms are included with no controls, none is significant and the three are not jointly significant with a Wald test for each of the three dependent variables. If all three are added to our final models, none is significant, the three are not jointly significant, and the key right party coefficient is robust (for all three dependent variables).

<sup>18</sup> Alderson and Nielsen (2002) divide this into the natural rate of population increase and net migration (one of their measures of globalization). In analyses available upon request, we did so as well. Because we found that neither of those two would be significant in any model, we combined them as Alderson and Nielsen (1999) did earlier.

tabulating right seats as a proportion of seats held by all government parties in each year and then summing these proportions for all years since 1946. Our measure sums parties labeled as “right” parties, “right, Christian” parties, and “right, Catholic” parties in the Huber et al (2004) data.<sup>19</sup> In Table 7 below, we present analyses of other measures of right parties and combinations of right with center or right/center parties. Since our theory holds that it is cumulative right party power that matters for inequality, we use that measure in our main analyses. Also, the presented measure fits the data best. We expect cumulative right party power to have positive effects on inequality.<sup>20</sup>

We also analyze three measures of leftist politics. We include the traditional measure of cumulative left party power (“left cabinet”). Cumulative right party power is not simply the obverse of cumulative left party power – given the role of centrist and other parties, the correlation between the two is only -.25. Next, we measure union density as employed union members as a percent of total civilian employees. Wage coordination is an index of bargaining centralization scored 1 to 5 with 5 being the most centralized. Finally, government expenditures are the total

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<sup>19</sup> We recognize reasonable debate can occur about the coding of parties. We use Huber et al’s coding since it is perhaps the most established. Most parties that readers would define as “right” are coded as “right” (e.g. U.S. Republicans, U.K. Tories, etc.). The most controversial cases might be the coding of Italian Christian Democrats (ICD) as centrist and German Christian Democrats (GCD) as rightist. Allan and Scruggs (2004) justify this since there are parties to the right of the ICD in the Italian parliament – for example, the Northern League – and no party is to the right of the GCD in the German parliament. We acknowledge these party measures do not assess the “intensity” of rightness – all rightist parties are coded equally. Though the Left cabinet variable is more conventional, the Right cabinet variable is perhaps even less questionable. Huber et al. code only true Leftist parties as Leftist, and do not consider Left-center parties as Leftist parties – regardless of whether there are parties further left in a country’s parliament. As a result, the U.S. and Canada are coded as zero for every year for Leftist parties. Though we build on Huber et al.’s measures, our cumulative right party power is quite distinct from their more widely used Christian Democrat cabinet variable. The bivariate correlation is -.13 in the 85 country-years in our sample. While cumulative right party power is strongly and positively correlated with the three dependent variables (see Appendix II), Christian Democrat Cabinet is more weakly and negatively correlated with the gini (-.20), 90/10 ratio (-.26), and 90/50 ratio (-.19).

<sup>20</sup> It is traditional to examine the effects of politics on inequality, but we acknowledge that reverse causality is possible – political parties usually seek to produce enduring economic and political legacies that ensure their continued access to power and electoral advantage (Phillips 1993; Huber and Stephens 2001). Certainly, the causal influence of inequality on partisan outcomes warrants further research. However, we suggest that three of our analytical choices should partially alleviate this concern. First, our measure of right party power is cumulative, summing all years of right party control of government since 1946. Because this measure reflects historical and recent party influence on present inequality, the time order makes reverse causality unlikely. Second, we lag all independent variables one year also for time order purposes. It is much less likely that the dependent variables at time *t* causally affect the independent variable in the previous year (*t*-1). Third, in sensitivity analyses (see Table 6), we estimate FE models where the likelihood of reverse causality is substantially reduced (Winship and Morgan 1999). The effects of cumulative right party power are robust under FE estimation.

current disbursements for general government (including central, state, and local) as a percent of GDP. There are many legitimate measures of state capacity, so we experimented with social security transfers, government revenue, and others (see Table 7). Government expenditures had the largest, most significant effects, so we decided to proceed with this measure. Given past findings, we expect cumulative left party power, union density and wage coordination to have negative effects on inequality. Scholars have shown that left political institutions channel through or combine with the state's negative effects on income inequality (Brady 2003). Therefore, the expected negative effect of government expenditures serves as a potential mediating mechanism through which political variables – including right party power – can influence inequality.

In later analyses we include temporal interactions between the post-1989 period and our measures of cumulative right and left party power. We suspect that the effects of the right have increased in recent years and the effects of the left have decreased. We also include a U.S. dummy variable to control for the distinctiveness of U.S. politics and inequality.

## RESULTS

For descriptive purposes, we present the values for the main independent variable, cumulative right party power, and the income inequality dependent variables for the most recent LIS data in the 16 affluent Western democracies. As Table 1 shows, there is a strong positive correlation between cumulative right party power and the three inequality indices – though the association varies across the indices. Australia, the U.K., and the U.S., have high levels of cumulative right party power and high levels of inequality.<sup>21</sup> Countries like Belgium, Denmark, Finland, Norway and Sweden have low cumulative right party power and low inequality. Of

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<sup>21</sup> In 1999, the U.K. had a greater 90/50 ratio than the U.S. In the LIS, this was the first (and only) time an affluent democracy besides the U.S. was highest in any inequality index. While the U.K. also became the first to surge past the U.S. rate of children in single mother families, right party power likely was a major influence (see footnote 9).

course, the correlation is not perfect and some countries deviate from this pattern. Italy has the lowest level of cumulative right party power and relatively high inequality. France and Germany have relatively high cumulative right party power and moderate inequality. Still, this table suggests an important cross-national relationship that warrants examination.

[TABLE 1 ABOUT HERE]

The historical inequality trends of several countries provide further evidence of this relationship. Inequality rose steadily in the 1980s when the right parties in Australia held a substantial share of the cabinet. In Finland 1987-2000, right parties held between a quarter and half of the cabinet. This was the first time since the 1960s that right parties had any share of the cabinet and the gini rose from .209 to .247. In 1992 and 1993, the right held about half of the cabinet in Sweden (the first time since 1980 the right held any share) and inequality rose throughout the 1990s. Prior to Thatcher, the gini was quite stable in the U.K. from 26.7 in 1969, to 26.8 in 1974, and 27.0 in 1979; and the 90/50 ratio actually declined from 184 to 176 to 180. After Thatcher took power in 1979, the gini increased to 34.5 and the 90/50 ratio increased to 215 in 1999. From 1974 to 1979, all three inequality measures declined in the U.S. (gini: 31.8-30.1, 90/10: 492-467, 90/50: 190-186). After Reagan's election in 1980, inequality rose dramatically until 1997 (gini: 37.2, 90/10: 557, 90/50: 214) before declining in 2000.<sup>22</sup>

To examine the relationship between right parties and income inequality, we proceed in five stages. First, we specify a parsimonious baseline model. Second, we add cumulative right party power to those models, and then include government expenditures. Third, we compare the temporal stability of the right and left party effects. Fourth, we conduct supplementary analyses on labor

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<sup>22</sup> If one substitutes the (lower quality) gini from the U.S. census webpage, inequality did increase before Reagan. The gini rose from .401 (1972) to .406 (1981). But, this was tiny compared to the rise after Reagan took office. The gini rose to .454 (1993) and .466 (2001). In the ten years prior to Reagan, the gini rose 1.25% and in the twelve years of Reagan and Bush I, it rose 11.8%. We acknowledge that right parties are not the *only* cause of rising inequality. Certainly, other society-developmental and leftist politics factors contributed to rising inequality prior to the 1980s. Right parties have contributed alongside those factors before and after Reagan and Thatcher.



market inequality. Finally, we conduct sensitivity analyses with various specifications and operationalizations and test our models in the non-U.S. affluent Western democracies.

### ***Baseline Models***

In Table 2, we first include control variables predicting inequality: the Great U-Turn, globalization, demography, the labor market and leftist politics. The first model shows that net FDI, population growth and wage coordination do not affect any of the three inequality measures. By contrast, the other independent variables significantly affect at least one of the inequality measures.

[TABLE 2 ABOUT HERE]

In the second models, we specify a more parsimonious model after considering five issues. First, we sought to remove the three independent variables that were not significant for at least one dependent variable. Second, we checked to be certain that collinearity was not a problem for those insignificant variables.<sup>23</sup> Third, we tested the joint significance of the insignificant coefficients with a Wald Chi Square test to be certain that they did not significantly affect the dependent variables as a group.<sup>24</sup> Fourth, the BIC' statistic prefers the parsimonious second model over the first model. Fifth, we estimated alternative specifications with combinations of all independent variables to be sure our main conclusions were robust (see Table 7). We concluded that the second models are reasonable parsimonious baseline models and we build from these for the remaining analyses.

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<sup>23</sup> We tested for collinearity by estimating RE models of each independent variable on all other independent variables (along with considering the bivariate correlations). Like variance inflation factors, the fit of each RE model shows how much an independent variable's variation is accounted for by other independent variables. Population growth rate did have a high overall  $R^2$  because of the impact of the GDP variables. Nevertheless, if we remove the GDP variables, population growth rate would never be significant for any of the dependent variables. As a result, we felt it was safe to remove it. We also note that the % population elderly and % population children are highly correlated ( $r=-.77$ ). However, both remain robustly significant throughout the analysis and are significant if either is removed from the models. So, collinearity does not appear to be a problem for those variables.

<sup>24</sup> The probabilities of the Wald tests were .46 for the gini, .66 for the 90/10 ratio and .18 for the 90/50 ratio. So, the test failed to reject the hypothesis that these variables were jointly equal to zero.

Table 2 contains several important findings. Even with the other variables in the model, GDP per capita and its square continue to significantly influence inequality.<sup>25</sup> Trade openness reduces the 90/10 ratio but is insignificant for the two other inequality measures. By contrast, net FDI does not significantly affect any of the inequality measures. Hence, this study provides only marginal support for the claim that trade openness reduces income inequality, and no support for the claim that globalization increases inequality.<sup>26</sup> The demographic variables percent population elderly and percent population children are significantly positive, while children in single mother families is significantly positive in the second 90/10 ratio model and both 90/50 ratio models. Agricultural and manufacturing employment are significant in the second model for the Gini and both 90/50 ratio models, but insignificant for the 90/10 ratio. Female labor force participation negatively affects all three inequality measures, though the effect is not significant in the second 90/50 ratio model. This result highlights the importance of controlling for single motherhood in models including female labor force participation.

Our analysis provides some interesting findings regarding leftist politics. Cumulative left party power or union density or both are significant for each dependent variable. While union density significantly reduces the Gini, left party power is only nearly significantly negative. While left party power significantly reduces the 90/10 ratio, union density is nearly significantly negative. Both left party power and union density significantly reduce the 90/50 ratio. Left parties appear to more greatly affect the top and bottom of the income distribution, while unions have greater

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<sup>25</sup> While GDP per capita and its square are insignificant for the gini, a Wald test reveals that they are jointly significant for the gini and the 90/10 ratio, but not the 90/50 ratio. While the GDP coefficients do not show a Great U-Turn for the gini and 90/10 ratio, if one excludes the other independent variables, a Great U-Turn pattern exists for the gini and 90/50 ratio but not the 90/10 ratio. These findings hold even if one transforms GDP per capita (median differenced and logged) and GDP per capita squared (logged) as Alderson and Nielsen (2002) did.

<sup>26</sup> Our findings contradict Reuveny and Li's (2003) specific finding that net FDI increases inequality, and do not support Alderson and Nielsen's general conclusion that globalization has moderate positive effects on inequality. Our results are consistent with Mahler's (2004 and Mahler et al. 1999) conclusion that globalization is not very influential. Importantly, Mahler and his colleagues also used the much higher quality LIS data, while Alderson and Nielsen and Reuveny and Li use the DS data.

influence on the middle. Both of these two leftist politics measures contribute to reduced inequality, though they vary in their influence for the different dependent variables.<sup>27</sup>

As a measure of leftist politics, however, wage coordination has no significant effect on any of the dependent variables. This is surprising since others have found significant negative effects (Alderson and Nielsen 2002; Brady 2003; Wallerstein 1999). After considering many specifications, we concluded that any effects of wage coordination on income inequality are mediated through cumulative left party power, union density and/or manufacturing employment.<sup>28</sup> Notably, Alderson and Nielsen (2002) and Brady (2003) did not control for cumulative left party power when finding significant effects for wage coordination. Our results are consistent with Bradley and his colleagues (2003) finding that bargaining centralization does not affect the reduction in income inequality among adults (also based on the LIS data). Hence, our models suggest that cumulative left party power and union density are the most important leftist political variables predicting income inequality.

### ***Right Party Power and Government Expenditures Models***

In Table 3, we take the second models from Table 2 and add cumulative right party power and government expenditures. We present the unstandardized coefficients, the standardized coefficients in bold and italics, and the t-scores. In the first models, we introduce cumulative right party power, and in the second models, we add government expenditures.

[TABLE 3 ABOUT HERE]

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<sup>27</sup> Appendix II shows that these two have a bivariate correlation of .66. However, an RE model of cumulative left party power (on all independent variables in the second models) has an overall  $R^2$  of only .13. An RE model of union density has an overall  $R^2$  of .39. Hence, collinearity is probably not a problem.

<sup>28</sup> Wage coordination does not significantly affect any of the three inequality measures if added to the second parsimonious models, or if GDP per capita and its square are dropped. If cumulative Left party power and union density are both removed from the second models, wage coordination is significant ( $t=-1.9$ ,  $-1.9$  and  $-2.5$  in Table 2). Also, if manufacturing employment is removed from the second models, wage coordination would have a significant effect ( $t=-1.7$ ,  $-1.7$  and  $-2.2$ ). Hence, it appears that wage coordination's effects are mediated by left party power, union density, and/or manufacturing employment. Though very highly correlated, the wage coordination measure is different from Wallerstein's (1999) labor market centralization measure. And, of course, earnings inequality (Wallerstein), income poverty (Brady 2003) and income inequality are different phenomena.

Table 3 reveals a crucial influence on inequality in affluent Western democracies: right parties. Cumulative right party power significantly increases the Gini and the 90/50 ratio and nearly significantly increases the 90/10 ratio. The standardized coefficients reveal that the magnitude of its effect rivals traditional predictors of income inequality. In the first models, a standard deviation increase in right party power results in a .36 standard deviation increase in the Gini and a .4 standard deviation increase in the 90/50 ratio. Though only approaching significance, a standard deviation increase in right party power suggests a .2 standard deviation increase in the 90/10 ratio. For the Gini, the right party variable has a larger effect than all other independent variables except GDP per capita, the percent of the population elderly and female labor force participation. For the 90/50 ratio, right party power has the largest effect of any variable. Right party power has its most powerful effects on the 90/50 ratio, followed by the Gini and the 90/10 ratio.

Including right parties enhances our understanding of leftist politics as well. Unlike in Table 2, union density does not have a significant effect for the Gini and the 90/50 ratio and cumulative left party power does not significantly affect the 90/50 ratio. As in Table 2's second model, left party power does not affect the Gini and union density does not affect the 90/10 ratio. Hence, one may report overconfident results for leftist political variables if cumulative right party power is not included in the model. The effect of union density, in particular, is entirely moderated by right party power. The effects of cumulative right party power are larger than the effects of cumulative left party power and union density for the Gini but not the 90/10 ratio. For the 90/10 ratio, the left can reduce inequality more than the right can increase it, while for the Gini and 90/50 ratio, the right has stronger effects.<sup>29</sup> The right appears to matter most for the middle and upper half of the distribution, while the left has greater influence on the bottom and the poor.

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<sup>29</sup> Since union density is in the models, the effect of leftist power might be "divided" between that variable and left party power. In order to compare strictly the right versus the left, it might be more reasonable to drop the union density variable. In results available upon request, the effect of right party power is still larger and more significant than left

In the second models, we add government expenditures, which significantly reduce the Gini and 90/10 ratio, but not the 90/50 ratio. Importantly, the inclusion of government expenditures modestly attenuates the effect of cumulative right party power. Since the right party effect is now smaller, part of its influence is channeled through the state by reducing government expenditures. Because right party power continues to significantly increase the Gini in the second model, the total effect of right party power combines a direct effect with an indirect effect through government expenditures. About 12 percent of the effect of right party power on the Gini is channeled through government expenditures. The right party variable remains near significant for the 90/10 ratio but the coefficient is about 28 percent smaller – which suggests that some of its effect is mediated by government expenditures. Government expenditures do not significantly affect the 90/50 ratio and the coefficient for cumulative right party power barely changes, so all of the right party power effect is direct and none of it is mediated by government expenditures.

The effect of government expenditures on the Gini is smaller than the direct effects of right parties, while the effect of government expenditures is larger for the 90/10 ratio. A standard deviation change in government expenditures and cumulative right party power changes the Gini by .22 and .31 standard deviations respectively. A standard deviation change in government expenditures lowers the 90/10 ratio by .2 standard deviations and the direct effect of right party power is smaller and remains near significant. For a standard deviation increase in right party power, the 90/50 ratio is expected to increase by .39 standard deviations. BIC' very strongly prefers the second models over the first models and over the models in Table 2. This suggests that cumulative right party power and government expenditures are important components of a comprehensive explanation of income inequality.

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party power for the gini and 90/50 ratio, but not the 90/10 ratio. Left party power and union density are jointly significant with the Wald test for both 90/10 ratio models and the second 90/50 ratio model ( $p < .05$ ), but are not significant in the other models (reflecting the significance of left party coefficient).

One way to interpret the effects of cumulative right party power on inequality is to counterfactually simulate inequality as if alternative electoral outcomes had occurred. For example, we can estimate what would have happened if close U.S. Presidential elections had turned out differently: if Republicans had lost the close victory of 1968, or if Republicans had won the close losses of 1948, 1960, 1976 and 1992. Because right party power accumulates over time, the outcomes of presidential elections have both immediate and lasting consequences. If the Republicans had lost in 1968, the Gini would have been modestly lower. In 2000, the Gini would have been .363 instead of its actual value of .368. If the Republicans had won the close losses, the Gini would have been considerably higher: .384 in 2000. We appreciate that right party power only had a near significant effect on the 90/10 ratio. However, using that estimate, the 90/10 ratio in 2000 would have been slightly higher (5.61 vs. 5.45) if Republicans had won the close losses and slightly lower (5.40) if Republicans had lost the close win. Right party power has its largest effect on the 90/50 ratio. If Republicans had won the close losses, the 90/50 ratio would have been 2.214 in 2000 instead of 2.1. If the Democrats had won the 1968 election, the 90/50 ratio would have been 2.07. Ultimately, counterfactuals of these close elections suggest that U.S. inequality could have been substantially higher or moderately lower from 1974-2000. The Great U-Turn of increasing inequality would still have occurred, but could have been quite different.

While the effects of right party power and government expenditures are comparable to many established causes of inequality, these second models provide a more rigorous evaluation of the baseline variables. The GDP variables are smaller and now insignificant for the 90/10 ratio. Trade openness is larger and more significant for each dependent variable, though only significant for the 90/10 ratio. The percent of the population elderly has slightly larger, more significant effects, while the percent population children is smaller and less significant. Children in single mother families now significantly affect the 90/10 ratio, while it remains insignificant for the other dependent

variables. Agricultural employment has a smaller effect, and is now insignificant for the Gini as well as the 90/10 ratio. This finding contrasts with Alderson and Nielsen's (2002) conclusion that agricultural employment was the most powerful source of income inequality.<sup>30</sup> Manufacturing employment has much larger and more significant effects, while female labor force participation has slightly larger, more significant effects. Left party power has larger and more significant effects, while union density remains insignificant with some fluctuation.

Ultimately, our analysis offers novel conclusions about the major sources of inequality. In order of magnitude, the following variables influence the Gini: female labor force participation, percent population elderly, manufacturing employment, cumulative right party power, and government expenditures. In order of magnitude, the following shape the 90/10 ratio: female labor force participation, cumulative left party power, percent population elderly, trade openness and percent population children, manufacturing employment, children in single mother families, and government expenditures. In order of magnitude, the following influence the 90/50 ratio: percent population elderly, female labor force participation, cumulative right party power, manufacturing employment, and cumulative left party power.

### ***Temporal Interactions of Right and Left Party Power***

Table 3 demonstrated that right and left party power are consequential for income inequality in affluent democracies. However, the question remains whether these effects changed over time. As mentioned above, we suspect these effects might have changed in the 1990s since the election of rightist governments in the 1980s forced leftist parties to shift right and allowed right parties to more effectively push through social change. Table 4 tests the temporal stability of the effects of

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<sup>30</sup> Alderson and Nielsen (2002) omit GDP and GDP squared in the models that provide their results about agricultural employment. Also, past findings have been based solely on the gini and neglected the 90/10 and 90/50 ratios. Nevertheless, dropping the GDP variables, agricultural employment would have t-scores of .44, -.01, and 2.05 in the second models. Like agricultural employment, only minor differences would occur for the other independent variables. Since we seek to provide the best possible control variable model, we chose to retain the GDP variables.

right and left party power. We create interaction terms of the two party variables and the post-1989 period.<sup>31</sup> We report a model including the two party variables and a dummy for the post-1989 period as main effects, and interactions between the two party variables and the post-1989 period. The coefficients for the other variables (Table 3's second models) are available upon request.

[TABLE 4 ABOUT HERE]

The fit of the models suggests that the post-1989 period was unique since BIC' very strongly prefers these models over the second models in Table 3. The three interactions between cumulative right party power and the post-1989 period are significantly positive. In addition to the main positive effect of right party power, right party power further increased the Gini and 90/50 ratio after 1989. Though the main effect of cumulative right party power is insignificant, right party power significantly increased the 90/10 ratio after 1989. Left parties, in contrast, have become modestly less effective at reducing inequality after 1989. In Table 4, the main negative effect for cumulative left party power is larger and more significant than in Table 3. In the pre-1989 period cumulative left party power is much more influential. Nevertheless, the interaction with the post-1989 period is nearly significantly positive for the Gini and significantly positive for the 90/50 ratio. Thus, the slope for the left party effect is less steeply negative after 1989. The effect of right party power is larger than left party power in this later period. Overall, right party power became more influential after 1989, while left party power became modestly less so.<sup>32</sup>

### ***Supplementary Analyses of Labor Market Inequality***

In our theoretical model above, we expected that some of the effect of right party power on inequality to operate in the labor market prior to taxes and transfers. Though we view income inequality after taxes and transfers as the central dependent variable, we examine labor market

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<sup>31</sup> Though we experimented with interactions with other time periods, we felt this was the best approach given our theory and since it almost evenly splits our sample with 44 of the 85 observations after 1989.

<sup>32</sup> There is one important caveat. Since the cumulative variables cannot decline, and inequality increases through the period, it may be difficult for the interaction of cumulative left and post-1989 to have a significant negative effect.



inequality in Table 5. We measure labor market inequality with Mahler and Jesuit's (2005) strategy of measuring all sources of income before taxes and transfers for households headed by 25-59 year olds.<sup>33</sup> We conducted original LIS analyses and use the same three measures of inequality. Unfortunately, because of data limitations with some of the LIS surveys, we only have observations for 81 country-years.<sup>34</sup> Because simulating income before taxes and transfers always involves strong (maybe even deeply problematic [Bergh 2005]) assumptions and because of limitations with income data before taxes and transfers, these analyses should be read with caution. In Table 5, we simply replicate the first and second models of Table 3, but for labor market inequality. We attempted a variety of alternative specifications and the effects of cumulative right party power were robust (available upon request). Table 5 shows that right party power has a significant positive effect in all six models. Hence, it is clear that at least some of the influence of right parties on inequality occurs in the labor market before taxes and transfers.

[TABLE 5 ABOUT HERE]

### *Sensitivity Analyses*

To be certain our results were robust, we conducted a variety of sensitivity analyses in Tables 6-8, while confining our presentation to income inequality after taxes and transfers. Though we prefer RE models, Table 6 presents FE models. Our findings are robust under FE estimation. Cumulative right party power has a significant positive effect for all three dependent variables. Union density has a significant negative effect for all three dependent variables (left party power was insignificant and not retained), while government expenditures only significantly reduces the 90/10 ratio. We followed the same strategies to specify these models (preliminary models are available upon request). Of course, since FE estimation disposes of all between-country variation

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<sup>33</sup> We thank Mahler and Jesuit for sharing their LIS programs. They subtract the LIS variables social transfers (soctrans) from gross income (gi), and code and clean the data consistent with the official LIS estimates (top- and bottom-coding, equivalence scale, dropping negative values, etc.).

<sup>34</sup> All of the results from Table 3 are robust if we confine our analyses to this subsample of 81 (not all 85) cases.

and only models within-country variation, some of the controls are not consistent with the RE results. If we retain all controls from Table 3 in FE estimation, cumulative right party power remains significantly negative. BIC' very strongly prefers the RE models in Table 3 over the FE models in Table 6 (even though the FE models have fewer variables).

[TABLE 6 ABOUT HERE]

In Table 7, we show the right party coefficients, t-scores and significance levels with alternative model specifications and measures. These sensitivity analyses demonstrate that, for the most part, the effects of right party power are robust. The first row contains the results from the second model of Table 3. In rows 2-3, we show that the results would have been comparable if we had substituted either government revenue or social security transfers for government expenditures. In rows 4-6, we present the effects of cumulative right party power in equations with slightly different control variables. If we include all controls from the first model of Table 2, right party power has significant positive effects for all three dependent variables. If we omit most controls – any that could be influenced by right party power – right party power would have much larger and more significant effects. If we kept most controls but omitted GDP per capita and its square (i.e. like Alderson and Nielsen 2002), right party power would significantly increase the Gini and 90/50 ratio, but would be less significant for the 90/10 ratio.

[TABLE 7 ABOUT HERE]

If a time trend was added (row 7), right party power would have slightly weaker effects, but would remain significant for the Gini and 90/50 ratio.<sup>35</sup> Row 8 shows that cumulative right party power would have significant effects for all three dependent variables in an OLS model of the most

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<sup>35</sup> The time trend was coded 1969=0, 1970=1, 1971=2...2000=31. While we could include this year variable in the main models, we chose not to do so for five reasons. First, year is never significant for any of the three dependent variables. Second, the cumulative right party variable remains significant for the gini and 90/50 ratio. Third, the GDP variables effectively control for time, so the year variable may be redundant. Fourth, the bivariate correlation between year and inequality is only weakly positive (gini=.19, 90/10 ratio=.12, 90/50 ratio=.15). Fifth, any such historical variation is smaller than the cross-national variation. The standard deviations between nations are more than two times larger than the standard deviations within nations for the three inequality indices.

recent cross-national sample. Thus, right party power also explains the contemporaneous cross-national variation. The remaining rows examine alternative measures of right parties. If either the Italian Christian Democrats are coded as rightist instead of centrist or the German Christian Democrats are coded as centrist instead of rightist, the effect of cumulative right party power is significant and increases for all three dependent variables (see footnote 21). Finally, the last four rows show that with alternative measures of current right parties, the coefficients are less significant than cumulative right party power. As our theory posited, the long-term cumulative control of government is most influential for inequality rather than current control or parliamentary seats. Also, it is right parties not the combination of center and right that influence inequality.

In Table 8, we examine if the effects of cumulative right party power depend on and/or extend beyond the U.S. Historically, the U.S. has had a very strong right party tradition and maintained the highest levels of inequality among affluent Western democracies. Possibly, the significant effects of right party power depend upon the U.S. cases. In the first models, we include a dummy variable for the U.S. cases. In the second models, we drop the U.S. cases.<sup>36</sup>

[TABLE 8 ABOUT HERE]

After including an indicator of the U.S. cases in the first model, right party power significantly increases all three measures of inequality. For the Gini and 90/50 ratio, right party power has comparable effects to the models in table 3 without the U.S. dummy. Unlike in Table 3, right party power now has a significant effect on the 90/10 ratio. Controlling for the U.S. dummy

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<sup>36</sup> In analyses available upon request, we reestimated the second models in Table 3 while dropping one of the fifteen other countries at a time. For the gini and 90/50 ratio, the cumulative right party power coefficient remained significantly positive in 27 of 30 models and was nearly significantly positive in the other three (Norway and the U.K. for the gini, and Norway for the 90/50 ratio). If we justifiably modify the controls (dropping variables significant in broader sample but insignificant in these sub-samples), the right party power coefficient is significant in those three models as well. The right party coefficient was only near significant in the 90/10 ratio models in Table 3 ( $t \sim 1.6$ ). In these sensitivity analyses, the effect had a very similar t-score in two models, was actually more significant in seven models, but was less significant in six models. In analyses available upon request, we replicated Table 7 while controlling for or dropping both the U.S. and the U.K. The results were robust. Across what would be Table 7, the t-scores for the right party coefficient are 2.16, 3.24, 2.59, 1.57, 2.70, and 4.31.

provides even more evidence that right parties significantly increase inequality. The U.S. dummy is significantly negative for the Gini and significantly positive for the 90/10 ratio. After modeling these variables, the U.S. is expected to have a smaller Gini and the 90/50 ratio is not significantly different. But, these variables do not fully account for the particularly high 90/10 ratio in the U.S. BIC' very strongly prefers the Gini and 90/50 ratios models with the U.S. dummy variable to Table 3's second models. By contrast, BIC' positively prefers the second model in Table 3 over the first 90/10 ratio model in Table 8.

The second models in Table 8 show that right party power still significantly increases the Gini and 90/50 ratio after dropping the U.S. cases. Thus, right party power significantly increases the Gini and 90/50 ratio in the 17 non-U.S. affluent Western democracies as well. After dropping the U.S. cases, right party power remains only near significant for the 90/10 ratio. BIC' very strongly prefers the second models in Table 8 over the second models in Table 3 (including the U.S. cases) for the Gini and 90/50 ratio, but the opposite is true for the 90/10 ratio.

Interesting findings emerge with the other independent variables in Table 8 as well. Government expenditures continues to significantly affect the Gini and 90/10 ratio and continues to be insignificant for the 90/50 ratio after including a dummy for the U.S. cases or excluding the U.S. cases from the sample. Cumulative left party power has a significant negative effect in every model of Table 8, while union density now has an oddly significant positive effect for the Gini. It is important to note that the standardized coefficient of left party power would be larger than the standardized coefficient for cumulative right party power in all models of Table 8. This is one qualification of our conclusion that the right is more powerful than the left for the Gini and 90/50 ratio. In general, the effects of other variables are more significant and larger in Table 8.

## DISCUSSION

Right parties are a fundamental cause of income inequality in affluent Western democracies. Cumulative right party power significantly increases the Gini and 90/50 ratio and nearly significantly increases the 90/10 ratio. The effects of right party power are substantial – comparable to or greater than other established sources of inequality. Cumulative left party power has smaller effects for the Gini and 90/50 ratio, but has a larger effect for the 90/10 ratio. Union density is insignificant after controlling for right parties. The effects of right party power are partly channeled through, but mostly combine with government expenditures. After 1989, right parties became more consequential while the effects of left parties weakened. We also show that at least some of the effects of right party power on inequality occur in the labor market before taxes and transfers. The effects of right parties are not simply due to the differences between the U.S. and other countries. Generally, right parties increase inequality overall and by expanding the gap between the middle of the income distribution and the affluent. Left parties reduce inequality mainly by constraining the gap between the affluent and the poor.

Ultimately, right parties played a crucial role in the Great U-Turn of increasing inequality and were a critical source of the vast cross-national differences in inequality. Our study shows that right parties do not simply undo what the left has done. Rather, right parties have implemented a neoliberal agenda that results in greater inequality independently of what the left might do to reduce it. Since right parties became more effective at raising inequality after 1990 and left parties became less effective at reducing it, it is unlikely that the left can simply return egalitarianism with an electoral victory or two. The ascendance of right parties over the past few decades has deeply transformed the political economies of affluent Western democracies.

Beyond highlighting right parties, our study contributes to understanding other sources of inequality. Interestingly, the causes of inequality vary across the inequality measures. As a result,

it is valuable to analyze multiple measures. We cannot confirm past findings for net FDI, population growth rate, and wage coordination. Equally important, our final models (second models in Table 3) suggest a reconsideration of which causes are paramount. Because they were unable to control for single parenthood, Alderson and Nielsen (2002) found that female labor force participation had a small positive effect on inequality and Gustafsson and Johansson (1999) found it was positive and insignificant. Our models, including a single motherhood variable, shows that female labor force participation has a large negative effect – indeed, it has the largest effect of any variable for the Gini and 90/10 ratio and the second largest effect for the 90/50 ratio. Percent population elderly, a variable omitted from Alderson and Nielsen (2002) and insignificant in Gustafsson and Johansson (1999), has the largest effect on the 90/50 ratio, the second largest effect for the Gini, and the third largest effect for the 90/10 ratio. Among established causes, manufacturing employment has a moderate effect on all three dependent variables while trade openness, percent population children and children in single mother families only affect the 90/10 ratio. While Alderson and Nielsen (2002) found it was the most important cause of the Gini, agricultural employment only affects the 90/50 ratio and has the smallest significant effect.<sup>37</sup>

The findings for women in the labor force, population aging and deindustrialization show that society-developmental factors clearly contribute to explaining inequality. At the same time, cumulative right and left party power are essential causes as well. While there has been some controversy over the role of the state, we show that one general measure, government expenditures, significantly reduces the Gini and 90/10 ratio. Plausibly, more sophisticated measures of welfare generosity or tax progressivity would reveal even more powerful effects. Hence, politics should be central to any causal model of income inequality in affluent Western democracies. The power

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<sup>37</sup> Some differences with Alderson and Nielsen (2002) are due to our use of the LIS and their use of the DS data. The LIS is of a higher quality and advantageously has multiple measures, but the DS data is larger. Slightly more than half of our cases are after 1990, while their analysis ends in 1992. Undoubtedly, the difference in time periods is salient.

relations among collective political actors and how those power relations shape the state definitely influence the distribution of economic resources (Tilly 1998).

Our theory of how and why right parties increase inequality emphasized legislative action, administrative office-holding, and ideological influence (Aldrich 1995). All three probably contribute and reflect the causal pathways between right party power and inequality. In terms of legislative action, we show that some of the effect of right parties operates through the size of the state. When government expenditures is added to the second model of Table 3, the coefficient for right party power modestly declines. Thus, some of the effect of right party power is channeled through the causal pathway of reduced government expenditures. In terms of administrative office holding, we show that a portion of right party power's effects occurs in the labor market before taxes and transfers. Also, since the presence of right party power in the models attenuates the effect of union density, right parties may blunt the effectiveness of unions.<sup>38</sup> While we cannot directly measure administrative office holding, this substantiates our theoretical model about how the bottom half earns less and the top half gets richer. In terms of ideological influence, we provide evidence that one of the causal pathways involves altering the political terrain of the next election. We show that left party power became less effective in the 1990s, while right party power became more consequential. This substantiates our theoretical model about how the left is forced to shift right and right parties have become increasingly effective in pushing neoliberalism.

Despite the evidence to substantiate our theoretical model, we appreciate that more research is needed on the causal processes linking right party power to greater income inequality. It would be valuable to know exactly which aspects of the control of government are paramount for increasing inequality. For example, it could be that right parties affect inequality by controlling

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<sup>38</sup> This finding reflects the reality that where right parties are strong (and inequality high), unions are weaker, and vice versa. Analyses of the relationship between cumulative right party power and union density are available upon request. As many have shown (Brady and Wallace 2000), right parties clearly undermine unions. That being said, we found no evidence that there was high collinearity between cumulative right party power and union density.

finance ministries. Since many right parties were in coalition with other parties, how the cabinet portfolio was divided may be salient. Our theoretical account implicitly suggests that right party power reflects the *class interests* of the elite and business and the *ideology* of free markets, neoliberalism, monetarism and post-Keynesianism. Thus, we contribute to the view that politics reflects a confluence of interests and ideas (Aminzade 1993; Campbell and Pedersen 2001; Hall 1992). It would be valuable to compare the role of each in research on how right parties have ushered in social change in recent history.

Beyond parties and inequality, our study contributes to longstanding sociological debates on class politics, power resources theory, institutional perspectives of the economy, and statist and market-based social orders. First, our study challenges claims of the decline of class politics. In recent years, lively debates have occurred in response to the claim that class politics have declined in advanced capitalist democracies (Clark and Lipset 2001; Evans 1999; Manza and Brooks 1999). One problematic tendency of the whole debate is how much it has concentrated solely on working class politics, and in the process neglected the politics of the wealthy, upper class, business and managers. In a recent article, Hechter (2004) focuses exclusively on working class voting, labor unions, strikes, and leftist parties.<sup>39</sup> This neglects that in the past half century, managers and the self-employed have become dramatically more likely to vote Republican in the U.S., class continues to have tremendous influence on who shows up to vote (Manza and Brooks 1999), and income has been remarkably stable as a predictor of voting Republican (Brooks and Brady 1999). Just like the working class, managers, the self-employed, the wealthy, business and elites have social class. But, their politics are often ignored when claims of declining class politics are made.

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<sup>39</sup> Even for class voting, Hechter selectively cites supportive evidence while giving scant attention to disconfirming evidence. Also, he defends the measurement of “traditional class voting” even though the field prefers a relational (“total”) class voting measure. While the working class has become a swing voter in the U.S., relational class voting is not in decline in the U.S. or other advanced capitalist democracies (Evans 1999; Manza and Brooks 1999).



Along with problematically concentrating on the working class, the disproportionate focus on voting results in a neglect of other forms of political participation. Oddly, while class politics are allegedly in decline, capitalists overwhelmingly financially support U.S. Republican candidates (Burris 2001).<sup>40</sup> The political activism of business and elites in funding and leading rightist policy formation networks is certainly class politics as well (Domhoff 1998). Especially recently but also for several decades, right parties are a formal vehicle for business and elites to exert their influence on policymaking.<sup>41</sup> One cannot conclude that class politics have declined solely by observing that the working class is less likely to vote for leftist parties. Consistent with our conclusion that the left has become less effective at reducing inequality and the right has become more effective at increasing it, the left and working class have become less organized and the right, business, and elites have become more organized. Our study illustrates how class politics remain salient, but we are highlighting the class politics of the right, business and elite and less workers and the left.<sup>42</sup> By underlining this complex relationship between right parties, elites and business; multiple causal pathways between right parties and inequality; temporal contingency (e.g. the right's greater influence in the 1990s); political opportunity structures (e.g. the weakening of labor unions under

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<sup>40</sup> Burris's study is with 1980 data. Following the loss of incumbency advantages when Democrats lost control of Congress, capitalist contributions may have become even more pro-Republican in recent decades. Though Burris found that only 62.5% of the contributions from corporate political action committees went to Republicans (due to the interest in buying influence with bipartisan incumbents), one might suspect this number has been higher in recent years (Domhoff 1998). While Burstein (2003: 22) argues that within the U.S. Congress, "Party and ideology matter far more than campaign contributions and lobbying;" we suggest that the effect of right parties on inequality reflects the complementarity and convergence (rather than the competition) of these social forces.

<sup>41</sup> Since Mills (2000), one criticism of elite theories of politics has been that elites lack consensus and coordination (Mizuchi 2004). Our argument that right parties reflect elite and business interests and market ideology partially responds to this critique. As Aldrich (1995) explains, parties exist for the very purpose of uniting, coordinating and centralizing diverse factions. Where right parties have had the most electoral success (e.g. the U.S.), we suggest this may be because the elite and business are more united, coordinated, and centralized.

<sup>42</sup> This claim may be controversial given recent work by political scientists showing that business often politically mobilizes for welfare state expansion (Swank and Martin 2001). However, the prevailing view is that business supports the welfare state only within social corporatist organization, when cooperative, coordinated and cohesive, and in cross-class alliances. Contrasting Sweden and the U.S. for example, Swenson (2002: 143-144) writes, "In the 1930s, of course, anything like Sweden's cross-class political concord was practically unimaginable in the United States. The dominance of unilateral, anti-union segmentalism across most of the manufacturing economy made sure of it. . . Anti-unionism became a dominant though not all-vanquishing factor inside and outside the Republican Party. . . In short, multi-employer collective bargaining in the United States and Sweden evolved as an entirely different species, in an entirely different market environment, with entirely different political implications."

right governments); and the role of non-class (society-developmental) factors, we hope to illustrate what Aminzade (1993) calls “non-reductionist class analysis.”

Second, our study contributes to thinking about power resources theory. We suggest a few revisions, however. In its classic formulations, power resources theory held that market-driven inequalities and class exploitation were almost the default nature of advanced capitalism (Korpi 1983a; Stephens 1979). It was considered a constant that capitalists are more powerful than labor (Korpi 1983b). A deviation from this natural state of inequality was only possible if the left and working class mobilized to install egalitarianism through a generous welfare state. Power resources theory might contend that inequality has risen in affluent democracies because the left is weaker and capitalism is regressing to its natural state of class exploitation (Korpi 2003; Korpi and Palme 2003). In contrast, our study suggests that capitalist power, and the right parties that are its vehicle, are more productively understood as a mobilized resource. Rather than a constant of capitalism, capitalist and right party power is variable (Mizruchi 1992). Right parties have become more consequential for inequality, and this is not solely because the left has become less effective. While Korpi (1983a: 187) recognized “the two basic types of power resources – control over the means of production and the organization of wage earners into unions and political parties,” we highlight the organization and political mobilization of business and the elite. Finally, some power resources accounts gave the impression that social democracies were on a path to socialism (Stephens 1979), and that parties would become less relevant after welfare states are institutionalized (Huber and Stephens 2001). As the widespread resurgence of right parties and inequality in affluent democracies attests, parties continue to matter a great deal and that path is much less clear than it was in the late 1970s and early 1980s.

Third, our study supports institutional perspectives on the economy. One of the core precepts of economic sociology is that states and as a result politics guide markets (Campbell and

Pederson 2001; Fligstein 2001). This study supports this contention since we ultimately conclude that party and class politics and state capacity fundamentally shape income inequality. We acknowledge that society-developmental factors like demography and labor markets are quite important as well. Yet, our work confirms the sociological predisposition that market phenomena cannot be sensibly understood in isolation from political phenomena. The distinction between markets and politics is in many ways artificial – no component of contemporary economies is free of political influence. Political actors who favor free markets do not simply “let markets do their job.” They actively influence how markets work through their institutional choices of whom to tax and what to regulate. As we show, the distribution of economic resources in society is an embedded product of social relations between collective political actors. Income inequality is the result of social, and not only economic, causes.

Finally, we contribute to enduring concerns about the equity and efficacy of statist and market-based social orders. We have argued that right parties implemented neoliberalism, monetarism, privatization and free markets, and in this sense, many affluent Western democracies have become substantially more market-based. This transformation may undermine democracy. If we are correct, and right parties reflect and channel the interests and ideology of the elite and business, the ascendance of right party power may be a manifestation of a greater concentration of political power among elites and business. As Mills (2000) argued in *The Power Elite*, such concentration poses a serious challenge to democracy (see footnote 43). Unfortunately, however, Mizruchi (2004: 604) writes, “Few sociologists any longer write about the role of economic elites.” We suggest that the political mobilization of elites and business, how it may be manifested in right parties, and its implications for democracy warrant greater contemporary attention. Moreover, one of the emerging concerns with the dramatically rising inequality in countries like the U.S. is that this uneven distribution of economic resources results in an unbalanced distribution of political

power. Hence, rising inequality may by itself also have corrosive effects on democracy. For at least the past 25 years, statist perspectives have been on the defensive and the left seems unable to counter the compelling ideological appeals of free market liberalism. As Giddens (1994) argues, the left may be able to reconstitute itself by refocusing on the preservation of democracy and community in an era where those two are threatened by the destructive forces of neoliberalism, free markets and inequality. The salient question is not only between statist and market-based social orders, but who will be able to participate in the decisions that govern markets and states.

Tremendous comparative historical variation in income inequality exists in affluent Western democracies. Our study shows that this comparative historical variation is not simply the function or unavoidable by-product of economic and demographic developments. Rather, inequality results from the power relations between political parties, other collective actors and the state. Fischer and colleagues (1996) have provocatively argued that inequality occurs “by design” – as a result of the politics and collective decisions of societies. The power of right parties is a consequence of their electoral success with voters. As a result, when citizens vote for different political parties, citizens contribute to designing the level of inequality in their society.

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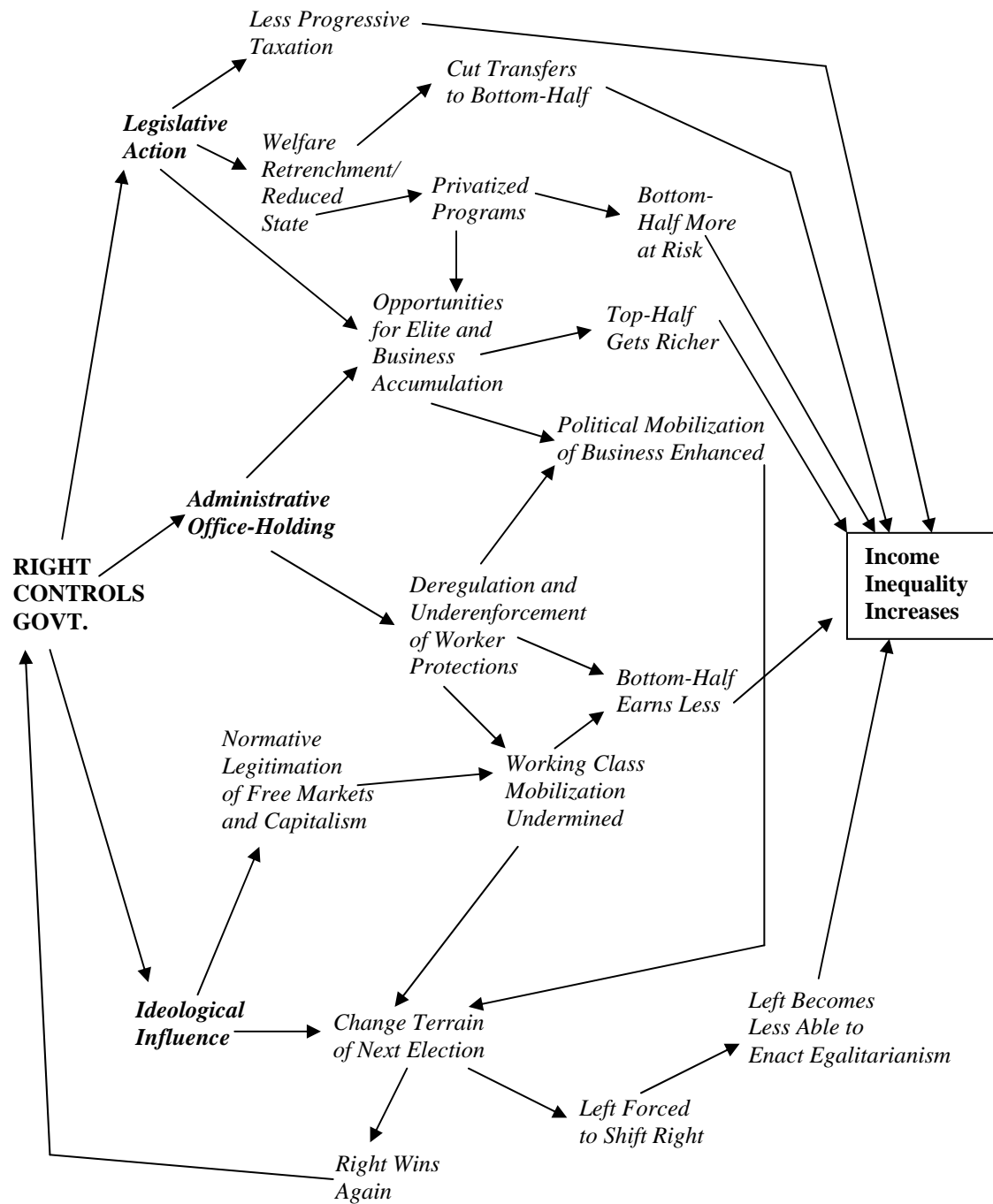
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**Figure 1.** Conceptual Diagram of Causal Pathways Between Right Party Power and Greater Income Inequality



**Table 1.** Descriptive Patterns in Cumulative Right Party Power and Income Inequality Across 16 Affluent Western Democracies in Most Recent Luxembourg Income Study Data.

<i>Country</i>	<i>Year</i>	<i>Cumulative Right Party Power</i>	<i>Gini Coefficient</i>	<i>90/10 Ratio</i>	<i>90/50 Ratio</i>
Australia	1994	30.25	.311	4.33	1.95
Austria	1997	19.85	.266	3.37	1.78
Belgium	1997	6.97	.250	3.19	1.70
Canada	2000	15.74	.302	3.95	1.88
Denmark	1992	9.20	.236	2.85	1.55
Finland	2000	5.86	.247	2.90	1.64
France	1994	25.97	.288	3.54	1.91
Germany	2000	29.81	.264	3.29	1.77
Ireland	1996	12.79	.325	4.33	2.01
Italy	2000	1.39	.333	4.48	1.99
Netherlands	1999	12.11	.248	2.98	1.67
Norway	2000	6.36	.251	2.80	1.59
Sweden	2000	2.77	.252	2.96	1.68
Switzerland	1992	22.29	.307	3.62	1.88
U.K.	1999	35.17	.345	4.58	2.15
United States	2000	28.00	.368	5.45	2.10
Correlation with Cumulative Right Party Power (N=85)			.47	.42	.50

**Table 2.** Baseline Random Effects Models of Income Inequality in 16 Affluent Western Democracies, 1969-2000 (N=85).

	<i>Gini</i>		<i>90/10 Ratio</i>		<i>90/50 Ratio</i>	
GDP Per Capita	.001 (1.07)	.001 (1.06)	.022** (2.05)	.021** (2.08)	-.001 (-.53)	-.002 (-.70)
GDP Per Capita <sup>2</sup>	-3.9 E-9 (-.35)	-1.7 E-9 (-.16)	-3.7 E-7* (-1.72)	-3.1 E-7 (-1.51)	4.0 E-8 (.80)	-5.0 E-8 (1.08)
Trade Openness	-.015 (-.74)	-.021 (-1.17)	-.608* (-1.68)	-.748** (-2.55)	-.051 (-.71)	-.067 (-.92)
Net FDI	.107 (1.09)		1.352 (.70)		.678 (1.49)	
Population Growth Rate	.454 (.57)		6.760 (.44)		2.389 (.66)	
% Population Elderly	.986*** (3.55)	.935*** (3.49)	13.895*** (2.61)	13.118*** (2.59)	3.772*** (3.16)	3.465*** (2.99)
% Population Children	.439** (2.40)	.459*** (2.61)	10.096*** (2.87)	10.561*** (3.16)	1.090 (1.36)	1.283* (1.68)
% Children with Single Mothers	.074 (.72)	.108 (1.11)	1.688 (.88)	2.980* (1.69)	.966** (2.29)	1.002** (2.44)
Agricultural Employment	.377 (1.58)	.413* (1.88)	3.715 (.90)	3.946 (1.13)	1.474* (1.83)	1.702* (1.95)
Manufacturing Employment	-.119 (-1.28)	-.135* (-1.69)	-1.820 (-1.08)	-2.214 (-1.63)	-.643* (-1.80)	-.812** (-2.48)
Female Labor Force Participation	-.145** (-2.42)	-.155*** (-2.68)	-1.900* (-1.71)	-2.217** (-2.20)	-.407* (-1.70)	-.391 (-1.63)
Cumulative Left Party Power	-.099 (-1.60)	-.083 (-1.44)	-2.574** (-2.35)	-2.774*** (-2.92)	-.697*** (-3.09)	-.548** (-2.36)
Union Density	-.100** (-2.11)	-.104** (-2.34)	-1.119 (-1.35)	-.929 (-1.32)	-.426*** (-2.60)	-.519*** (-2.94)
Wage Coordination	-.178 (-.72)		-3.518 (-.73)		-1.139 (-1.04)	
Constant	10.211 (.96)	11.086 (1.09)	-82.459 (-.40)	-57.446 (-.29)	170.282*** (3.53)	173.875*** (3.88)
BIC'	-22.775	-32.353	-45.551	-66.256	-32.065	-34.660
R <sup>2</sup> Within	.562	.546	.375	.340	.518	.500
R <sup>2</sup> Between	.654	.639	.736	.771	.721	.672
R <sup>2</sup> Overall	.632	.615	.719	.742	.670	.626

\*\*\* p<.01      \*\* p<.05      \* p<.10

Notes: The dependent variables are multiplied by 100. The numbers in parentheses are t-scores. The independent variables are lagged one year, except for % Children in Single Mother Families.

**Table 3.** Random Effects Models of Income Inequality on Cumulative Right Party Power, Government Expenditures and Baseline Variables in 16 Affluent Western Democracies, 1969-2000 (N=85).

	<i>Gini</i>		<i>90/10 Ratio</i>		<i>90/50 Ratio</i>	
GDP Per Capita	.001 <b>.595</b> (1.28)	.0001 <b>.049</b> (.09)	.023** <b>1.025</b> (2.28)	.010 <b>.453</b> (.87)	-.001 <b>-.201</b> (-.44)	-.002 <b>-.441</b> (-.83)
GDP Per Capita <sup>2</sup>	-4.5 E-9 <b>-.167</b> (-.44)	6.0 E-9 <b>.222</b> (.54)	-3.5 E-7* <b>-.657</b> (-1.73)	-8.7 E-8 <b>-.163</b> (-.38)	3.4 E-8 <b>.296</b> (.78)	5.7 E-8 <b>.494</b> (1.15)
Trade Openness	-.019 <b>-.133</b> (-1.05)	-.024 <b>-.167</b> (-1.51)	-.734** <b>-.261</b> (-2.49)	-.793*** <b>-.282</b> (-3.57)	-.057 <b>-.094</b> (-.79)	-.082 <b>-.134</b> (-1.34)
% Population Elderly	.825*** <b>.429</b> (3.08)	.868*** <b>.451</b> (3.39)	12.305** <b>.326</b> (2.45)	15.522*** <b>.411</b> (3.28)	3.003*** <b>.366</b> (2.65)	3.340*** <b>.407</b> (3.04)
% Population Children	.414** <b>.300</b> (2.39)	.269 <b>.195</b> (1.44)	10.183*** <b>.376</b> (3.07)	7.621** <b>.282</b> (2.06)	1.121 <b>.191</b> (1.52)	.719 <b>.122</b> (.87)
% Children with Single Mothers	.012 <b>.014</b> (.11)	.035 <b>.040</b> (.36)	1.685 <b>.098</b> (.89)	4.469*** <b>.260</b> (2.64)	.523 <b>.140</b> (1.20)	.647 <b>.173</b> (1.59)
Agricultural Employment	.426* <b>.248</b> (1.95)	.264 <b>.154</b> (1.32)	4.395 <b>.130</b> (1.25)	3.288 <b>.098</b> (1.19)	1.814** <b>.248</b> (2.10)	1.583** <b>.216</b> (2.09)
Manufacturing Employment	-.115 <b>-.165</b> (-1.45)	-.227*** <b>-.325</b> (-2.64)	-2.246* <b>-.164</b> (-1.65)	-3.736** <b>-.272</b> (-2.56)	-.769** <b>-.258</b> (-2.39)	-1.009*** <b>-.338</b> (-2.85)
Female Labor Force Participation	-.187*** <b>-.463</b> (-3.17)	-.187*** <b>-.463</b> (-3.43)	-2.670** <b>-.336</b> (-2.55)	-3.759*** <b>-.473</b> (-4.08)	-.552** <b>-.320</b> (-2.27)	-.684*** <b>-.396</b> (-3.05)
Cumulative Right Party Power	.153** <b>.357</b> (2.11)	.134** <b>.313</b> (2.19)	1.791 <b>.213</b> (1.62)	1.293 <b>.154</b> (1.60)	.724** <b>.397</b> (2.59)	.710*** <b>.389</b> (3.12)
Government Expenditures		-.115** <b>-.218</b> (-2.09)		-2.035* <b>-.197</b> (-1.90)		-.234 <b>-.104</b> (-.97)

**Table 3**  
**Continued...**

Cumulative Left Party Power	-.038 <b>-.104</b> (-.63)	-.069 <b>-.189</b> (-1.33)	-2.420** <b>-.336</b> (-2.50)	-3.252*** <b>-.452</b> (-4.09)	-.367 <b>-.235</b> (-1.55)	-.521** <b>-.333</b> (-2.56)
Union Density	-.059 <b>-.219</b> (-1.17)	-.026 <b>-.098</b> (-.60)	-.330 <b>-.062</b> (-.41)	.637 <b>.120</b> (1.02)	-.291 <b>-.253</b> (-1.46)	-.141 <b>-.123</b> (-.83)
Constant	10.412 (1.05)	29.305** (2.18)	-70.918 (-.36)	241.649 (.90)	169.062*** (3.95)	209.735*** (3.52)
BIC'	-24.909	-44.836	-52.359	-75.816	-36.954	-50.542
R <sup>2</sup> Within	.565	.572	.362	.325	.517	.495
R <sup>2</sup> Between	.704	.784	.787	.875	.780	.838
R <sup>2</sup> Overall	.660	.744	.753	.822	.704	.761

\*\*\* p<.01      \*\* p<.05      \* p<.10 (two-tailed tests)

Notes: The dependent variables are multiplied by 100. For each independent variable, the unstandardized coefficient, **the standardized coefficient**, and t-score in parentheses are displayed. The independent variables are lagged one year, except for % Children in Single Mother Families.

**Table 4.** Random Effects Models of Temporal Interactions of Cumulative Right and Left Party Power and 1990s Period in 16 Affluent Western Democracies (N=85).

	<i>Gini</i>	<i>90/10 Ratio</i>	<i>90/50 Ratio</i>
Cumulative Right Party Power	.072* (1.80)	.017 (.02)	.364** (2.26)
Cumulative Right Party Power * Post-1989 Period	.122** (2.53)	2.510*** (2.80)	.729*** (3.76)
Cumulative Left Party Power	-.257*** (-4.55)	-4.058*** (-3.87)	-1.204*** (-5.29)
Cumulative Left Party Power * Post-1989 Period	.065 (1.41)	.117 (.14)	.362* (1.94)
Post-1989 Period	-1.602 (-1.33)	-23.296 (-1.04)	-10.620** (-2.19)
BIC'	-84.422	-94.176	-94.473
R <sup>2</sup> Within	.498	.327	.495
R <sup>2</sup> Between	.913	.944	.946
R <sup>2</sup> Overall	.840	.857	.857
BIC' for Second Model in Table 3	-44.836	-75.816	-50.542

\*\*\* p<.01      \*\* p<.05      \* p<.10 (two-tailed tests)

Notes: The dependent variables are multiplied by 100. The numbers in parentheses are t-scores. The independent variables from the second model in Table 3 are included but not shown. The cumulative left and right party power variables are lagged one year.

**Table 5.** Random Effects Models of Labor Market Inequality on Cumulative Right Party Power with First and Second Models of Table 3 in 16 Affluent Western Democracies (N=81).

	<i>Gini</i>		<i>90/10 Ratio</i>		<i>90/50 Ratio</i>	
Cumulative Right Party Power	.230*** (3.26)	.305*** (7.66)	395.396*** (2.99)	418.413*** (3.00)	.993*** (3.26)	1.031*** (3.30)
BIC'	-33.304	-60.589	-19.723	-16.567	-55.604	-53.526
R <sup>2</sup> Within	.738	.631	.298	.300	.718	.719
R <sup>2</sup> Between	.634	.940	.702	.712	.771	.785
R <sup>2</sup> Overall	.654	.766	.591	.597	.738	.745

\*\*\* p<.01      \*\* p<.05      \* p<.10 (two-tailed tests)

Notes: The dependent variables are multiplied by 100. Labor market inequality is measured as gross income minus state social transfers for households headed by 25-59 year olds. The unstandardized coefficient and t-score in parentheses are displayed. The independent variables from the first and second models in Table 3 are included but not shown. Independent variables are lagged one year.



**Table 6.** Fixed Effects Models of Income Inequality on Cumulative Right Party Power, Government Expenditures and Baseline Variables in 16 Affluent Western Democracies, 1969-2000 (N=85).

	<i>Gini</i>	<i>90/10 Ratio</i>	<i>90/50 Ratio</i>
GDP Per Capita	-1.2 E-4 (-.20)	-.003 (-.23)	-.001 (-.49)
GDP Per Capita <sup>2</sup>	7.1 E-9 (.67)	-1.4 E-8 (-.07)	3.0 E-8 (.65)
% Population Elderly	.857** (2.54)	12.128* (1.94)	2.976* (1.99)
Agricultural Employment	.312 (.76)	.301 (.04)	2.070 (1.13)
Female Labor Force Participation	-.171** (-2.48)	-1.488 (-1.17)	-.477 (-1.56)
Cumulative Right Party Power	.196* (1.92)	3.946** (2.08)	1.181** (2.60)
Government Expenditures	-.071 (-1.27)	-2.230** (-2.16)	.052 (.21)
Union Density	-.148* (-1.93)	-2.750* (-1.94)	-.627* (-1.84)
Constant	29.534*** (3.04)	475.177** (2.68)	174.155*** (4.09)
BIC'	-12.373	12.417	-12.657
R <sup>2</sup> Within	.566	.454	.505
R <sup>2</sup> Between	.480	.278	.515
R <sup>2</sup> Overall	.431	.241	.433
BIC' for Second Model in Table 3	-44.836	-75.816	-50.542

\*\*\* p<.01      \*\* p<.05      \* p<.10 (two-tailed tests)

Notes: The dependent variables are multiplied by 100. For each independent variable, the unstandardized coefficient, and t-score in parentheses are displayed. The independent variables are lagged one year.

**Table 7.** Sensitivity Analyses of the Right Party Coefficients in Models of Income Inequality with Various Alternative Specifications and Operationalizations (N=85).

	<i>Gini</i>	<i>90/10 Ratio</i>	<i>90/50 Ratio</i>
(1) Cumulative Right Party Power in Table 3, Second Model	.134** (2.19)	1.293 (1.60)	.710*** (3.12)
(2) Cumulative Right Party Power with Government Revenue Instead of Government Expenditures	.151** (2.17)	1.025 (1.19)	.710*** (2.73)
(3) Cumulative Right Party Power with Social Security Transfers Instead of Government Expenditures	.152** (2.13)	1.445** (2.56)	.723** (2.52)
(4) Cumulative Right Party Power with All Control Variables from Table 2 Included	.125*** (3.71)	1.178* (1.85)	.684*** (4.81)
(5) Cumulative Right Party Power With Most Control Variables Omitted <sup>a</sup>	.234*** (4.35)	4.019*** (4.05)	1.396*** (6.09)
(6) Cumulative Right Party Power With GDP Per Capita and GDP Per Capita <sup>2</sup> Omitted	.147** (2.24)	1.381 (1.24)	.740*** (3.12)
(7) Cumulative Right Party Cabinet With a Time Trend Control Variable	.107* (1.87)	.836 (.88)	.588** (2.21)
(8) Cumulative Right Party Power in OLS Model of Cross-National Sample <sup>b</sup>	.168* (1.82)	3.232* (2.00)	1.019** (2.70)
(9) Cumulative Right Party Power with Italian Christian Democrats Recoded as Rightist instead of Centrist	.207*** (3.48)	3.231*** (4.28)	1.076*** (4.76)
(10) Cumulative Right Party Power with German Christian Democrats Recoded as Centrist instead of Rightist	.190*** (3.32)	1.701** (1.98)	.758*** (3.70)
(11) Current Right Cabinet (Right as % of Seats Held by All Governing Parties)	.785 (1.52)	16.296 (1.55)	3.822* (1.69)
(12) Current Right Party Seats as % of Parliamentary Seats Needed for Majority (1/2 + 1)	.645 (1.34)	8.622 (.89)	3.342 (1.56)
(13) Current Right Seats as % of Total Seats in Parliament	.027* (1.77)	.611** (2.08)	.106 (1.60)
(14) Cumulative Center and/or Right Party Power Models	.079 (1.12)	1.489 (1.26)	.482* (1.84)

a. The remaining control variables are GDP Per Capita, GDP Per Capita<sup>2</sup>, % Population Elderly, and % Population Children.

b. Using the most recent estimate for each country, the N is 16 (see Table 1). Because of limited degrees of freedom, we only include the cumulative right party variable, GDP Per Capita, GDP Per Capita<sup>2</sup>, % Population Elderly, % Population Children, Manufacturing Employment, and Female Labor Force Participation.

**Table 8.** Random Effects Models of Sensitivity Analyses With and Without the U.S. of Income Inequality in 16 Affluent Western Democracies, 1969-2000.

	<i>Gini</i>		<i>90/10 Ratio</i>		<i>90/50 Ratio</i>	
	<i>With U.S. Dummy</i>	<i>Dropping U.S.</i>	<i>With U.S. Dummy</i>	<i>Dropping U.S.</i>	<i>With U.S. Dummy</i>	<i>Dropping U.S.</i>
GDP Per Capita	-.0002 (-.35)	-.001 (-.73)	.011 (1.00)	.019 (1.39)	-.003 (-1.06)	-.004 (-1.05)
GDP Per Capita <sup>2</sup>	1.6 E-8 (1.22)	2.6 E-8 (1.29)	-1.7 E-7 (-.79)	-3.9 E-7 (-1.26)	7.6 E-8 (1.45)	9.6 E-8 (1.21)
Trade Openness	-.035*** (-3.71)	-.035*** (-3.67)	-.628** (-2.44)	-.628** (-2.46)	-.103** (-1.99)	-.107** (-2.05)
% Population Elderly	1.391*** (6.19)	1.367*** (5.93)	14.300*** (3.02)	13.628*** (2.99)	3.965*** (3.73)	3.778*** (3.50)
% Population Children	.414** (2.15)	.368* (1.81)	5.564 (1.52)	5.973 (1.65)	.629 (.74)	.441 (.49)
% Children with Single Mothers	.369*** (3.78)	.398*** (3.92)	.717 (.36)	1.123 (.56)	1.033** (2.28)	1.211** (2.57)
Agricultural Employment	.315*** (2.77)	.327*** (2.77)	4.020 (1.28)	2.548 (.80)	1.550** (2.47)	1.476** (2.57)
Manufacturing Employment	-.213*** (-3.00)	-.217*** (-2.95)	-4.688*** (-3.06)	-4.608*** (-3.11)	-1.032*** (-3.03)	-1.028*** (-2.98)
Female Labor Force Participation	-.301*** (-6.89)	-.309*** (-6.86)	-3.096*** (-3.26)	-3.270*** (-3.49)	-.898*** (-4.33)	-.961*** (-4.52)
Cumulative Right Party Power	.114*** (3.32)	.114*** (3.11)	2.051** (2.10)	1.488 (1.49)	.697*** (3.60)	.640*** (3.19)
Government Expenditures	-.136*** (-2.61)	-.140*** (-2.61)	-2.239** (-2.13)	-2.684*** (-2.67)	-.309 (-1.28)	-.377 (-1.54)
Cumulative Left Party Power	-.227*** (-6.10)	-.227*** (-5.96)	-1.997** (-2.18)	-1.677* (-1.87)	-.728*** (-3.80)	-.715*** (-3.68)
Union Density	.054** (2.08)	.057** (2.12)	.442 (.63)	.370 (.53)	.011 (.07)	.027 (.19)
U.S. Dummy	-3.413** (-2.33)		94.674** (2.17)		-4.235 (-.49)	
Constant	24.736* (1.79)	30.129* (1.93)	305.551 (1.17)	279.128 (1.04)	220.482*** (3.62)	240.790*** (3.58)
BIC'	-88.770	-67.891	-70.823	-32.507	-77.019	-65.093
R2 Within	.434	.374	.403	.450	.445	.382
R2 Between	.923	.915	.835	.719	.893	.891
R2 Overall	.831	.797	.791	.681	.806	.790
N	85	78	85	78	85	78
BIC' for Second Model in Table 3		-44.836		-75.816		-50.542

\*\*\* p<.01      \*\* p<.05      \* p<.10 (two-tailed tests)

Notes: The dependent variables are multiplied by 100. The numbers in parentheses are t-scores. The independent variables are lagged one year, except for % Children in Single Mother Families.

**Appendix I.** Descriptive Statistics and Sources for Variables (N=85).

	<i>Mean</i>	<i>Standard Deviation</i>	<i>Sources</i>
Gini Coefficient	28.125	4.205	Luxembourg Income Study: <a href="http://www.lisproject.org">www.lisproject.org</a>
90/10 Ratio	366.977	82.592	See Above
90/50 Ratio	182.247	17.943	See Above
GDP Per Capita	19406.180	3750.227	Heston, Summers, and Aten 2002
GDP Per Capita <sup>2</sup>	3.9 E 8	1.55 E 8	See Above
Trade Openness	62.212	29.383	IMF, <i>International Financial Statistics</i>
Net FDI	-.057	2.026	See Above
Population Growth Rate	.535	.442	OECD, <i>Labor Force Statistics</i>
% Population Elderly	13.804	2.185	See Above
% Population Children	20.065	3.051	See Above
% Children in Single Mother Families	11.002	4.798	Luxembourg Income Study
Agricultural Employment	5.184	2.451	OECD, <i>Labor Force Statistics</i>
Manufacturing Employment	28.086	6.013	See Above
Female Labor Force Participation	58.811	10.397	See Above
Cumulative Right Party Power	13.814	9.823	Huber et al. 2004
Government Expenditures	44.545	7.997	OECD, <i>Historical Statistics</i>
Cumulative Left Party Power	12.886	11.471	See Above
Union Density	32.401	15.633	Huber et al. 2004; Ebbinghaus and Visser 2000; OECD, <i>Labor Force Statistics</i>
Wage Coordination	3.118	1.499	Huber et al. 2004
U.S. Dummy	.082	.277	

Note: The dependent variables are multiplied by 100. The independent variables are lagged one year, except for % Children in Single Mother Families.

**Appendix II.** Bivariate Correlation Matrix for Variables (N=85).

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
Gini (1)																						
90/10 Ratio (2)	.931																					
90/50 Ratio (3)	.961	.879																				
GDP Per Capita (4)	.237	.312	.097																			
GDP Per Capita <sup>2</sup> (5)	.279	.351	.141	.989																		
Trade Openness (6)	-.346	-.446	-.293	-.169	-.185																	
Net FDI (7)	.007	.011	-.018	.089	.097	.146																
Population Growth Rate (8)	.270	.407	.199	.405	.417	-.303	.011															
% Pop. Elderly (9)	-.296	-.400	-.308	.121	.082	.104	-.001	-.644														
% Pop. Children (10)	.243	.332	.253	-.323	-.253	-.088	.112	.455	-.767													
% Children in Single Mother Families (11)	.192	.335	.131	.593	.593	-.244	.052	.345	.057	.062												
Agricultural Employment (12)	-.023	-.083	.008	-.444	-.432	.099	.001	-.177	-.225	.263	-.499											
Manufacturing Employment (13)	-.168	-.228	-.119	-.545	-.516	-.243	-.119	-.345	.188	-.057	-.406	.151										
Female Labor Force Participation (14)	-.281	-.173	-.372	.575	.553	-.169	-.008	.178	.322	.204	.676	-.384	-.291									
Cumulative Left Party Power (15)	-.622	-.627	-.646	.039	-.002	.231	.184	-.351	.657	-.362	.205	-.066	.024	.508								
Union Density (16)	-.631	-.550	-.636	-.180	-.208	.206	.154	-.251	.326	-.120	.058	.081	.063	.425	.663							
Wage Coord. (17)	-.568	-.610	-.562	-.275	-.292	.428	-.031	-.379	.338	-.207	-.359	.154	.358	-.101	.495	.394						
Cumulative Right Party Power (18)	.470	.416	.495	.191	.216	-.309	-.157	.305	-.180	.170	.378	-.357	.049	.123	-.249	-.483	-.351					
Government Expenditures (19)	-.566	-.588	-.508	-.134	-.178	.412	.052	-.493	.550	-.495	-.132	-.048	-.140	.118	.527	.521	.272	-.527				
Cumulative Right * Post-1989 (20)	.428	.395	.424	.530	.535	-.044	-.093	.213	.079	-.108	.555	-.377	-.341	.358	-.028	-.310	-.350	.616	-.218			
Cumulative Left * Post-1989 (21)	-.256	-.296	-.304	.306	.261	.183	.297	-.115	.507	-.328	.316	-.158	-.253	.429	.736	.329	.179	-.101	.352	.292		
Post-1989 (22)	.230	.162	.143	.599	.572	.178	.101	.112	.304	-.344	.382	-.236	-.513	.338	.174	-.049	-.113	.088	.120	.696	.628	
U.S. Dummy (23)	.426	.627	.358	.484	.534	-.438	-.001	.386	-.260	.254	.572	-.280	-.151	.163	-.339	-.333	-.311	.277	-.417	.232	-.195	.032