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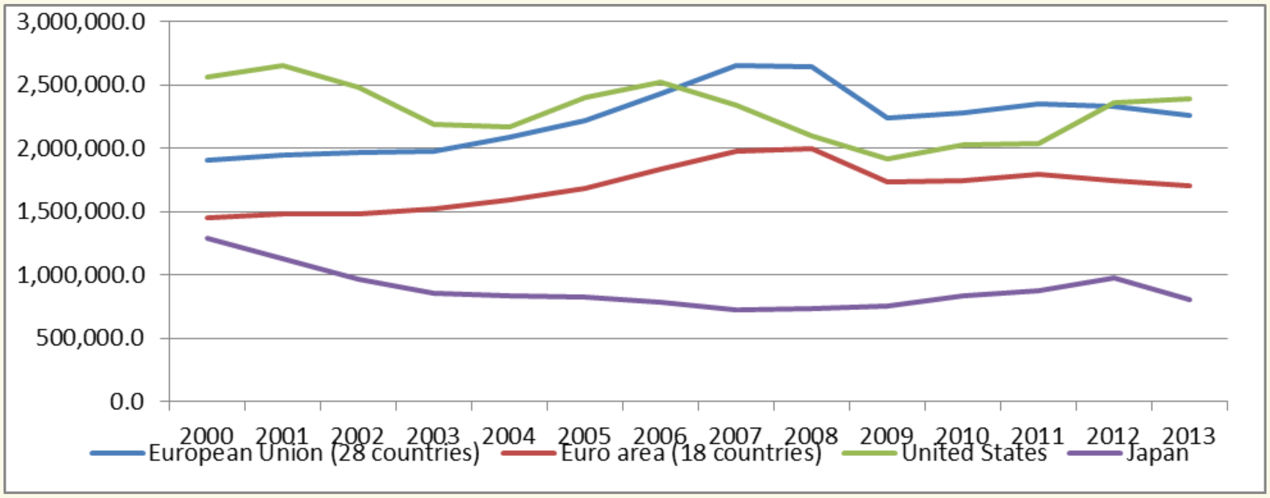
Will Juncker's Investment Plan Work?

The launch of a new €315 ($390) billion investment plan by the European Commission under the leadership of its new president, Jean-Claude Juncker, has stirred new controversy over the proper mix of fiscal and monetary policy needed to revitalize the struggling EU economy. With the aim of giving a stimulative boost to short-term economic growth and job creation, the plan focuses on infrastructure investment and thus promises a second-round and longer-run effect of increased macroeconomic productivity. But as often is the case, the devil is in the details. With only €21 billion of public funding, €16 billion from repositioning existing EU allocations combined with €5 billion from the European Investment Bank (EIB), the scheme will depend almost entirely on leveraging these basic insurance guarantee funds with massive private sector investment sources.

When one looks at the track record over the past ten years of investment in the EU economy, the changes are dramatic. Overall investment in the EU and the Euro area peaked in 2007-08 and following the significant drop in 2009 has remained stagnant.[1]

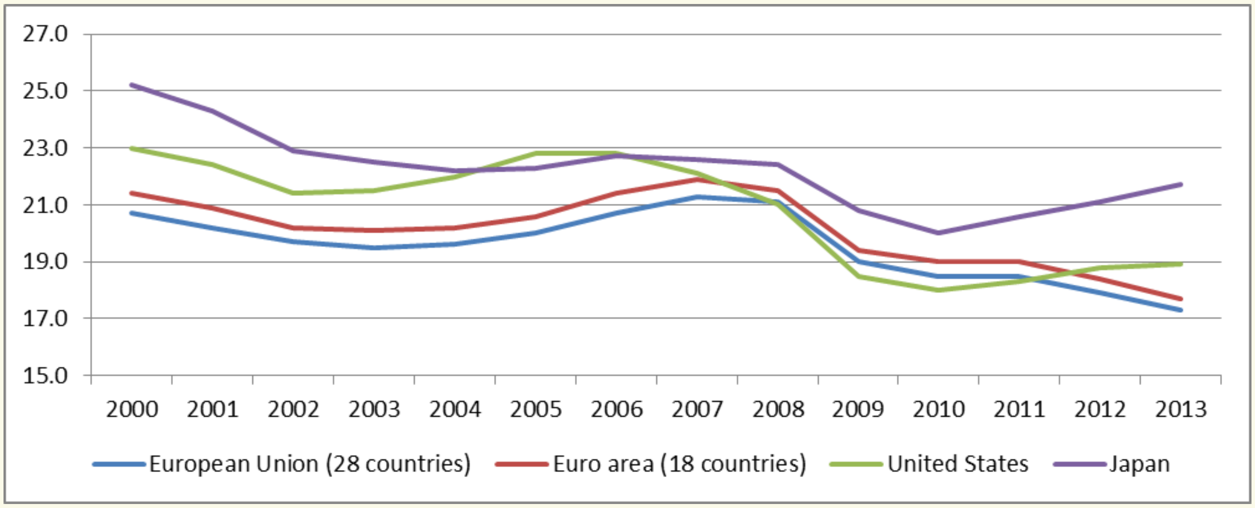


Gross Fixed Capital Formation (millions of Euros) source: Eurostat

The economic recovery of the United States has produced a rebound in investment as well and at the end of 2013 gross fixed capital formation stood only 5% below its 2006 peak, or a difference of around €135 billion. However the gap between gross fixed capital formation in the EU28 (Euro area) in 2013 stood some 14.4% (14.9%) below its level of five years earlier or a gap of approximately €380 (€300) billion. But the target size of the Juncker investment plan would not close this gap significantly on a continuing basis. The plan spreads the €315 of new infrastructure investment over a three year period so at most it would cover only about a quarter of the EU28 total investment gap for that 3-year period. While this would go a long way toward improving public-sector investment, and would represent on an annual basis a 40% shift upward in the public sector investment level, it would make little contribution to covering the much larger private-sector investment gap. The actual timing of the construction

[1] The drop in 2009 for the EU as a whole was approximately 15.3% and for the Euro area it was around 13.1%. For the United States the drop over the three-year period between 2006 and 2009 was significantly higher at 24%.

expenditures related to the projects is unlikely to be realized within the 3-year window outlined for financing arrangements so the initial macroeconomic stimulus will trail off into the medium to long-term.



Gross Fixed Capital Formation (percentage of GDP) source: Eurostat

While the EU and the Euro area have seen a continuing decline in investment since 2007 as a proportion of GDP, both the United States and Japan have restored an upward trend since 2010 in the percentage of GDP devoted to investment. At the end of 2013 the investment rate in the EU (Euro area) stood at only 17.3% (17.7%) of GDP compared to 21.3% (21.9%) at the relative peak in 2007. But a decomposition of this drop in investment share would show that public investment holds only around an 11.5% share of total investment. Thus, of the overall 4-percentage-point decline in investment's share of GDP, only ½ of 1 percentage point could be attributed to the decline in public investment. These differences are attributed to both relatively more severe fiscal constraints within the EU as opposed to the United States and Japan as well as the ECB's ineffective monetary policies having failed to produce an increase in bank lending. Rebuilding balance sheets both within the public and private sectors have taken precedence. This is not surprising given the excesses with regard to unproductive investments in the run-up to the financial crisis. This may lead to the judgment that returning to levels of investment seen in 2007 would likely prove to be wasteful and inefficient. However, without renewed growth, private sector investment is likely to be subdued for an extended period into the future.

Others have pointed out that the nature of and need for significant public infrastructure investment has been dampened. It is not uniformly the case across the EU that public infrastructure has been neglected. In fact several peripheral Euro area countries saw significant improvements in transportation and telecommunications sectors in the run-up to the recession and now have underutilized capacities in those sectors. Recent demographic trends also point to a significant change in investment priorities. As the growth rate of the prime working-age population declines, the equilibrium growth rate of the economy shifts downward. And therefore a lower investment rate is necessary to maintain a given capital-output ratio. As noted by Daniel Gros:[2]

[2] See "Investment as the Key to Recovery in the Euro Area?" Centre for European Policy Studies, Policy Brief, No. 326, 18 November 2014, p. 5.

> The numbers are stark for the Euro area. Its working-age population growth (aged 20-59) is projected to fall on average by a 1.1% per annum with a peak of 2.6% for Spain. Moreover, if total factor productivity (TFP) falls the overall fall in potential growth could be much more than one full percentage point. TFP growth has fallen considerably in the Euro area and is now even negative.....
> The higher investment rate in the United States is justified by its much higher growth rate (both because of demographics and productivity growth). Higher investment in Europe would only lead to even higher capital-output ratios and imply lower returns to capital (with, in the end, more non-performing loans in the banking sector).

The outlook for private sector investment growth in the EU is not encouraging. What about the need for and efficiency of increasing public sector investment? The Juncker plan is primarily an attempt to intervene in the financing arrangements for public sector investment. The plan does not involve direct subsidization but rather envisions redirecting existing EU funds to the EIB where a small additional contribution, also from existing funding, will be used to back guarantees and incremental loan subsidies to lenders of funds to SMEs. In effect the EIB is offering small subsidies and loss sharing to lenders in exchange for letting the EIB pick the projects. These marginal changes should be expected to produce marginal effects in the normal credit markets in which many national development banks are already offering similar incentives. What additional expertise or efficiencies the EIB can be expected to bring to bear on SME financing is therefore difficult to understand.

In fact as the details of the plan spill out it is clear that many politicians are bothered as well. As reported in the ***European Voice***:[3]

> The fund is also coming under attack for the role that the EIB will play in overseeing the funding process. The EIB, which will house and manage the fund, has stressed that projects will not be chosen based on political or diplomatic calculations, but purely on whether they are economically viable and have a reasonable prospect of starting in 2015-17.
>
> Some observers are now openly questioning whether the EIB's involvement in the fund, and possible oversight of projects, could undermine the stimulatory effects of the spending. One major area of concern is whether the EIB, which will manage and house the fund, will be reluctant to take on riskier projects.

It is clear that a tradeoff exists between the costs of the risk-sharing subsidies and the leverage factor for the base allocation. If the EIB chooses projects with risk profiles similar to normally financed infrastructure projects, it can claim to have relatively lower-cost subsidy packages required for a given degree of external financing, resulting in a higher leverage ratio. But this is not really a net stimulus as the underlying financing arrangements simply mirror to a significant degree the terms of funding which could have been obtained directly via private-market financing. In effect the public sector funding mechanism is crowding out private financing. It is difficult to see where the added benefit arises. If no net additional spending is to come online, if project evaluation is based on economic efficiency criteria, and under current conditions where private lending rates are at historic lows, what really changes in the market for financing

[3] See "Juncker's €315 Fund Exposes Divisions" in ***European Voice***, 11-17 December 2014, Vol. 20, No. 44, p. 2.

public infrastructure? But that is unlikely to reign in the illusionary process of expanding what is perceived as useful public investment. As the ***European Voice*** reports:[4]

> A wide selection of projects likely to be competing for investment was presented on Tuesday (9 December) by a task-force composed of the EIB, the Council, and the European Commission.
>
> The shopping-list of investment projects submitted by member states includes some 3,000 projects ranging from extending fibre-optic connections to a French village, to building motorways in Bulgaria. In all they are worth a total of €1.5 trillion.

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Introduction to Symposium on "Capital, Inequality and Winner-Take-All Politics in Europe"

Inequalities in income and wealth have risen in virtually all of the rich democracies over the last 35 years. While the rate and timing of the increase, and the part of the income distribution most affected, have varied across countries, there is now widespread agreement on the fundamental fact of increasing inequality. Any good political explanation for rising inequality must explain the common trend, as well as divergent details.

Piketty's (2014) *Capital in the Twenty-First Century* offers one explanation for the common trend: the rise in inequality is baked into the structure of capitalist economies through a "fundamental force of divergence" (p. 351) that derives from the difference between the rate of interest on capital (r) and the growth rate of the economy (g). In economies in which the capital-output ratio is high, the real interest rate on capital will tend to exceed the growth rate of the economy (r>g). When this is the case, as the present-day highly developed economies, inequality will thus tend to increase because income from capital, which is unequally distributed to begin with, grows faster than national outputs and income. We are not alone in noting that Piketty's theory, while compelling in its simplicity and astonishing in its impact, gives short shrift to the political institutions that might alter the distribution of capital, the return on capital, and/or the relationship between r and g (see e.g. Acemoglu and Robinson 2014). Furthermore, Piketty's empirical work, by focusing on the share of national income held by the top 1%,

[4] Ibid, p. 3.

directs attention away from changes in other parts of the income distribution that are relevant both for people's lives and for developing a political explanation for rising inequality.

Another, more political, explanation for rising inequality focuses on the control of the wealthy elite over policy-making. Hacker and Pierson (2010, 2011), in their work on "Winner-Take-All Politics" (WTAP) in the United States, argue that members of the top 1% of the income and wealth distribution have consolidated their control over the policy process since the 1970s. As a result they have been able to both further concentrate earnings and capital in their own hands, and sharpen the inequality between r and g -- both of which lead to the sharp increase in inequality in income and wealth in the US. But Hacker and Pierson are quite specific about the kind of politics that has allowed the top 1% to turn the policy process to their advantage in the US. They argue that politics of inequality are "quiet politics," taking place outside of the limelight of electoral competition and even mainstream business-labor confrontations. The top 1% increase their share of the national economic output because they are able to exercise control over policy decisions – for example, international trade agreements and financial regulation -- that most ordinary citizens may not even realize are (nominally) in the hands of government.

Hacker and Pierson's object is to explain why the rise in top income shares in the US is so much greater than in any other country. With this *explanandum*, they set firm scope conditions for their argument. We believe, however, that the US is not so much *sui generis* as a case with some extreme values on dependent variables of interest to scholars of political economy. Hence, we think it worth examining whether the political mechanisms that Hacker and Pierson argue are at work in the US could also be responsible for increasing inequality in European countries.

To test the hypothesis that WTAP is in fact responsible for widening inequality in countries beyond the US, we use case-based analysis to examine whether (a) the extent of WTAP is correlated with increases in inequality in particular parts of the income distribution (Mill's method of concomitant variation); (b) WTAP mechanisms produced the inequality outcomes (causal process tracing); and/or (c) if WTAP were not happening, inequality would be lower (counterfactual analysis).

The brief essays in this symposium examine some of the political and policy developments that are responsible for creating changing patterns of distribution within a variety of European countries (the UK, Sweden, Germany and Spain) and at the European level. Taken together, these essays present evidence that many of the processes of WTAP described by Hacker and Pierson are also at work in Europe – particularly but not only in the low-visibility realms of European-level policy. However, these essays also show that income inequality in many countries grows as a result of the structural power of capital. This structural power took root well before the current financial crisis, and operates through existing rules and institutions (e.g. the rule of law, media, party systems, New Public Management programs) to constrain policy in ways that systematically reward the holders of concentrated capital and constrain labor's share of national income.

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The Eurozone's 'Winner-Take-All' Political Economy: Institutional Choices, Policy Drift, and Diverging Patterns of Inequality

The Eurozone has been experiencing two types of widening inequality over the past six years. First, there has been widening domestic inequality at the level of the European nation state, with a steep overall rise in inequality in Northern Europe since the early 1990s, though a noticeable reversal occurred since the 2008 global financial crisis (GFC); and a somewhat distinct trend in Southern Europe, with inequality only starting to rise after 2008, having seen a noticeable fall in inequality during the two decades prior to 2008.[5] Second, since the GFC, there has been a widening gap between North and South at the supranational level, i.e. within the Eurozone, with the North – especially Germany – being the big 'winners' of the crisis – measured in higher incomes per capita, lower inequality, and increased employment levels – and the South being the main 'losers' of the crisis – as observed in falling living standards, rising inequality, and steep rises in unemployment (Matthijs 2014b). While average real household incomes for the whole OECD population rose by 1.7 percent annually between the mid-1980s and late 2000s, the top decile of the income distribution saw its average household income grow by 2.0 percent year-on-year, while the bottom decile only saw an increase of 1.4 percent year-on-year (OECD 2011b). These averages mask significant national differences though. The bottom 10 percent of households in the North of Europe all saw their incomes grow significantly less than the top 10 percent, while the reverse was true for the European periphery (OECD 2011a: 23). Upon closer inspection of the national inequality data provided by

[5] Though, admittedly, the countries of Southern Europe started out with much higher levels than Northern Europe in the late 1980s.

Eurostat, however, which uses the GINI coefficient rather than income growth per decile, there appears to be an even more sinister inequality puzzle within the context of the Eurozone (see table 1). Rather than an overall increase in income inequality, the peculiar pattern within the Eurozone has been a tale of two very different 'Europes.'

During the period starting with the establishment of the European Central Bank (ECB) in 1998 and the onset of the global financial crisis in 2008, the Northern Eurozone's Coordinated Market Economies (CMEs) of Germany, Finland, the Netherlands, and Luxembourg saw rising income inequality. The Southern and peripheral Mixed Market Economies (MMEs), including Ireland, Spain, Greece, Italy, and Portugal actually saw falling (or constant) levels of income inequality (Hancké et al, 2008; Eurostat 2014). Between 2008 and 2012, on the other hand, the situation went into reverse. The core Eurozone members saw their levels of income inequality fall, with the exception of Luxembourg, which experienced a small increase of just over one percent. The periphery countries, with the exception of Portugal and Ireland, all recorded increases in their GINI coefficients since the crisis.

Table 1: Selected Eurozone Countries' Change in Income Inequality (GINI Coefficient)[6]

		% Change (1998-2008)	**% Change (2008-2012)**
"NORTH"	Germany	+20.80	–6.29
(Core)	Finland	+19.55	–1.52
	Netherlands	+10.40	–7.97
	Luxembourg	+6.54	+1.08
"SOUTH"	Ireland	–12.06	0.00
(Periphery)	Spain	–6.18	+9.72
	Greece	–4.57	+2.69
	Italy	0.00	+2.90
	Portugal	–3.24	–3.63

In other words, after a period of broad convergence between North and South – both in GDP per capita and in overall levels of inequality – the onset of the GFC has triggered a significant regression back to the levels of the early 1990s. The logical question to ask is: what can explain these diverging tendencies in income per capita and the reversal of the converging trend in national levels of inequality since 2008?

Explaining Divergent Trends in Eurozone Inequality

In the early 1990s, as capital flows from North to South started to accelerate, the core countries realized that the only realistic way to compete in a currency union with the lower wage periphery members was to restrain growth in their overall wages and prices (Johnston and Hancké 2009, Hancké 2013). Due to the euro's institutional design, Northern countries saw their best option as pursuing broadly 'deflationary' policies, or austerity, which would lead to lower

[6] Eurostat (2014).

wages, higher profits, and therefore higher return on capital. Not surprisingly, the outcome during 'normal' times in the North was widening income inequality. The periphery, on the other hand, initially saw falling interest rates, thanks to the capital inflows from the North, where returns were lower due to the diminishing returns of a much higher capital stock. Lower interest rates fueled investment and consumption, and allowed the periphery to pursue 'inflationary' policies by discretion during normal economic times, resulting in higher wages (Hancké 2013).

The combination of higher wages and lower returns to capital in the periphery during a period of boom in the business cycle logically led to falling levels of inequality in the periphery. Higher rates of growth in the South and lower rates of growth in the North had the overall effect of broad convergence in absolute levels of GDP per capita. Applying Piketty (2014) his basic framework, we observe r>g in the core during boom times, leading to increasing levels of inequality, and g>r in the periphery, leading to falling levels of inequality.

Table 2: Economic Policy Incentive Structure in a Currency Union

		Phase in the Currency Union's Overall Business Cycle	
		Upturn/Boom	**Downturn/Recession**
Member State "Position" in the Currency Union	**"Core CMEs"** (e.g. Germany)	**'Deflationary Policy'** *(By institutional design)* w · , r · r > g **Domestic Inequality ·**	**'Inflationary Policy'** *(By choice/discretion)* w · , r · g > r **Domestic Inequality ·**
	"Periphery MMEs" (e.g. Spain)	**'Inflationary Policy'** *(By choice/discretion)* w · , r · g > r **Domestic Inequality ·**	**'Deflationary Policy'** *(By institutional design)* w · , r · r > g **Domestic Inequality ·**

The story is reversed during downturns or recessions, however. The MMEs of the periphery now have no choice but to follow broadly deflationary policies – by institutional design as we have seen earlier. This lowers wages and increases returns to capital through higher interest rates on the countries' sovereign bonds. Spending cuts and tax increases mainly hurt wage earners and workers who rely on government services much more than wealthier capital owners. In addition, structural reforms initially have the effect of increasing the level of unemployment, especially for the young and the least skilled workers who tend to be concentrated at the bottom of the income distribution. The outcome of these policies is to make the recession worse, as 'r' shoots up and 'g' turns negative, resulting in higher levels of inequality.

The core of a currency union during a downturn has more discretion, thanks to falling interest rates due to capital flight to safety from the South, which gives them a little more room to maneuver. This can result in 'r' being slightly lower than 'g' and therefore result in lower inequality. The CMEs of the core can choose to let their automatic stabilizers kick in, and even enact some stimulus and mildly inflationary policies, which will have the effect of increasing wages. Of course, they do not have to follow this path, but at least both firms and governments have the agency to do so if that is what they choose. The main point is that falling rates of return to capital and relatively higher wages in the core during downturns in the currency union can actually lead to falling levels of inequality.

Figure 1: Real Wage Growth in CMEs vs. MMEs (1998-2013)[7]

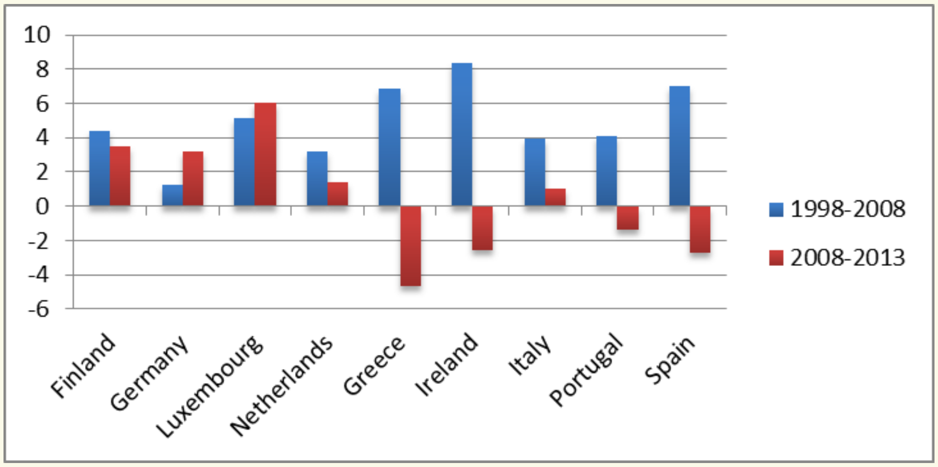


Figure 1 shows real wage growth between 1998 and 2013 for both Northern CMEs and Southern MMEs. It is immediately clear that real wages in the South rose much faster than in the North during the upturn of the business cycle, while most of the periphery saw real wage cuts during the bust. Hancké (2013) has argued that it was much easier for CMEs during the boom to keep wages in check, while MMEs lacked the central wage bargaining mechanisms CMEs had, leading to much faster wage growth in the South's public and sheltered sectors, though not in their manufacturing sectors, where wages were kept in check by international competition (Hopkin 2015).

The evolution in the cost of capital in the Eurozone is well known by now, and does not need to be repeated here. The cost of capital in the periphery was much higher in the South compared to the North in the 1990s, saw broad convergence after the introduction of the euro, and has seen a wide divergence again since 2010. Starting with widening yield spreads between MMEs and CMEs, plus a monetary transmission mechanism that has been broken since 2010, the real cost of capital in the North is again much lower than in the South (Matthijs 2014a).

Figure 2 shows more evidence of the 'Piketty effect.' Germany saw an average growth rate of just 1 percent during the decade prior to the euro crisis, well below its average real interest rate (or return to capital) which was above 2.5 percent (g < r), while since 2010, Germany has seen an average growth rate of just over 2 percent with a very low real interest rate of just 0.25

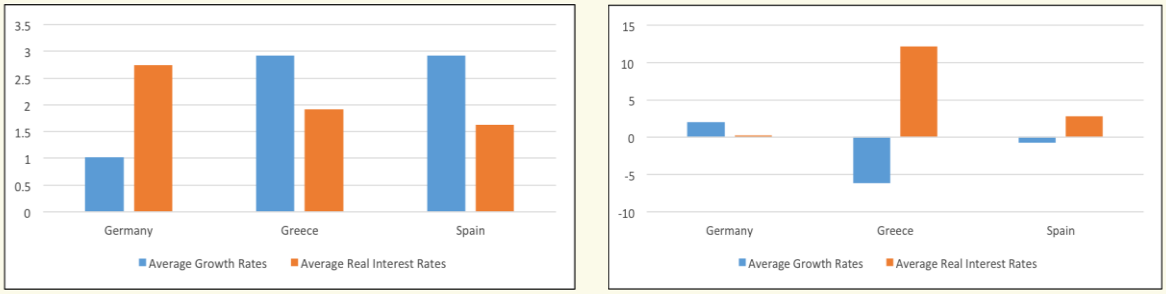
[7] Measured as (Nominal Wage Growth – Labor Productivity Growth) (period average). Source: European Commission (2014): *Ameco Database*.

percent (g > r). The exact reverse was true for Greece and Spain. Both periphery countries experienced faster growth rates of close to 3 percent during the boom, with interest rates between 1.5 and 2 percent (g > r). Since the crisis, both countries have seen negative growth rates, and much higher real interest rates (r > g).

Figure 2: Growth Rate (*g*) versus Return to Capital (*r*) in Germany, Spain, and Greece (1998-2013)[8]

(a) g (blue) vs. r (orange) (1998-2009)

(b) g (blue) vs. r (orange) (2010-2013)



Europe's Inequality Dynamics through the Lens of 'Winner-Take-All' Politics

The economic policies that were implemented throughout the late 1990s and 2000s were the result of certain choices that were made during the early 1990s, and have been reinforced since then. Those choices at the time were deeply political and would have serious distributive consequences over time. Three of the processes Hacker and Pierson (2010a: 169) identified are particularly relevant in the case of the Eurozone, as they either led to the introduction of those particular policies or helped in sustaining them, even as macroeconomic conditions took a dramatic turn for the worse.

First, government economic policy – both at the national level and at the EU level – played a central role in driving the curious inequality patterns across Europe. Not only did the single mandate of the ECB, with an exclusive monetary policy focus on low inflation, have a bias in favor of capital owners and creditors, the same was true for fiscal policy, which due to the rules of the Stability and Growth Pact also had a consistently deflationary bias. Once the Troika was put in charge of implementing long-term structural reforms in the periphery, both labor market and financial policies likewise systematically favored capital over labor (Cioffi and Dubin, 2014). The EU policy response to the crisis – combining austerity with structural reform in the South – meant that the burden of adjustment mainly fell on the periphery.

Second, the onset of the euro crisis signaled the decline of the importance of national elections, especially in the periphery, as observed in the rise of protest parties on both left and right, and the end of long-standing and relatively stable patterns of political competition between center-left and center-right (Hopkin 2015). Most dramatically in Italy and Greece, unelected

[8] European Commission (2014), IMF (2014), OECD (2014), and own calculations.

technocrats Mario Monti and Lucas Papademos were put in charge of implementing austerity cuts and structural reforms the Troika had demanded in return for direct financial support (in the case of Greece), and tacit support by the ECB (in the case of Italy). Even in France, where François Hollande ousted Nicolas Sarkozy on the promise to reinstate broadly inflationary policies to stimulate growth, it became clear after a couple of months that new president would have to continue on the austere path of his predecessor.

Finally, while the power of financial interests and big business lobbies in Brussels is a topic that thus far has been under researched, there is some preliminary evidence that points to its growing power. While the U.S. context of direct elections combined with private campaign finance is much more likely to lead to 'winner-take-all' outcomes biased in favor of wealthier business interests, compared to the EU. Mahoney shows how the lack of those institutional characteristics in Brussels often leads "to much more balanced policy compromises with more advocates achieving some of their policy goals" (Mahoney 2007: 35). There are however strong reasons to believe that the financial industry in the EU has gained in influence since 2007, at the expense of organized labor. Not only has the financial lobby gained in clout since the GFC, they also occupy a privileged position in many of the EU's official advisory boards (Wolf et al 2014).

Some of the 'winner-take-all' dynamics that Hacker and Pierson observe in the United States also seem to be present at the EU level. Since the crisis, EU policies have not only been characterized by drift – i.e. instituting the same austerity policies of the 1990s boom during conditions of recession between 2010 and 2013 – but EU politics has also slowly moved away from 'electoral spectacle' to 'organized combat,' pitting capital against labor, and debtors against creditors.

The irony is that the creation of the euro in 1991 at Maastricht was meant to further unite Europe by bringing about economic convergence, thereby preserving the European social model. The first decade of the euro seemed to deliver the goods. However, with the onset of the euro crisis, the Eurozone has experienced renewed economic divergence, questioning not only the sustainability of the European social model, but also the future viability of Economic and Monetary Union itself (Matthijs and Blyth 2015).

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Thatcher, Blair and the Rise of Winner-Take-All Politics in the UK

The UK has, like the US, seen a dramatic growth in income inequality, and in particular the share of income going to top earners, over the past three decades. Policy under successive governments has favoured the wealthy, and particularly high earners in the financial industry. Just as in the US, UK policymaking is increasingly insulated from electoral pressures, and the preferences of elite groups have become the key driver of policy.

However, alongside this strong evidence for the emergence of Winner-Take-All (WTA) politics in the UK, there are important differences between the British and American cases. We find Hacker and Pierson's emphasis on 'organized combat' - the ability of wealthy lobby groups to exploit opportunities for policy drift, largely outside the public gaze - to be less helpful in understanding the British case. A Winner-Take-All political economy has certainly emerged in Britain, but its beneficiaries – an increasingly international group of financial institutions and wealthy individuals - were not decisively present at its inception.

Instead, WTA politics in the UK is the result of a seismic shift in power relations resulting from the successful prosecution of an ideological project, backed by a broad constituency of pro-market forces. The policies implemented in the 1980s created a new super-wealthy elite, which has been able to consolidate and extend its advantages in a WTA political economy. This WTA economy has reshaped the terms of political competition in the UK, marginalizing egalitarian forces to such an extent that top earners have little need to invest in expensive lobbying operations or political contributions. We submit that this is a challenge to the applicability of Hacker and Pierson's argument, which implies a rather more direct relationship between material power resources and specific policy changes, to the UK case.

The Thatcher Revolution and the Political Roots of Rising Inequality

The British case is exceptional for the rapid rise of inequality since the 1970s. The top decile share of income grew from 31 per cent to over 42 per cent between 1979 and 2007, and most of this growth went to the top one per cent, which saw its share grow spectacularly to over 15 per cent. These shifts in the income distribution can be traced back to specific policy measures: regressive taxation, cuts to welfare and labour market regulation all pushed overall inequality upwards. But the Thatcher period also hastened the emergence of a WTA economy by encouraging the dramatic growth of the finance sector.

Financial liberalization led to a spectacular rise in earnings at the top, but it was not in itself the result of lobbying by wealthy interests. In fact the so-called 'Big Bang' reforms of 1986, which liberalized the financial sector, created a new set of 'winners' in the economy who had played little part in shaping government policy towards the sector. Rather than 'organized combat' by wealthy interests, financial reform in Britain was part of the Thatcher government's drive to modernize the sector and enhance the City's ability to compete with rival financial centres. British financial institutions were in fact the principal casualties of the reforms, being largely driven out of the market by new players from overseas.

The growth of the financial industry on the tails of these reforms generated a rapid expansion of credit and a housing-led consumer boom. The emergence of a credit-driven economy under the Conservatives survived Thatcher's departure and Labour's election victory in 1997. Labour had long had a difficult relationship with the City of London, and financial instability had played a major role in discrediting the party during its period in office in the 1970s. But remarkably, Labour's return to government saw the financial system double in size, from just over 5 per cent to over 10 per cent of share of gross value added between 1999 and 2009. Why did Labour make its peace with the City and embrace the Winner-Take-All economy?

Riding the Financial Boom… and Bust: Labour's Faustian Pact

Labour in government not only failed to redress the balance between top earners and the rest, but allowed top incomes to rise far faster than average. This happened despite the face that Labour's core electorate was located in the bottom half of the income distribution, and most British voters, according to polling data, supported the principle of redistribution from rich to poor. But there is little evidence that wealthy groups controlled policy in this period through the same kinds of 'organized combat' observed in the US. The Labour Party is far more financially independent of wealthy interests than the US Democrats, receiving almost half of its funding from affiliated trade unions, and corporate lobbying is much less systematic in the UK.

The continued good fortune of high earners under Labour has more to do with the party's acquiescence in, and ultimately encouragement of, the financialization of the UK economy. This reflected the centrist political strategy adopted by Tony Blair after 1994, designed to reassure financial markets, the right-wing media, and tax-averse middle class voters. The strategy was so successful that Labour won three successive elections in the 1990s and 2000s. But this turn to the right was not a response to any rightward movement in electoral preferences; Labour was actually already positioned in line with median voter preferences on most of the key electoral issues, such as unemployment, healthcare and education, and welfare. Blair's strategy was based on a belief that it was impossible to win elections and govern effectively without the support of the financial sector.

Labour sought to head off business opposition to their policies by signing up to the economic orthodoxy of the time – fiscal rules, tight money, financial deregulation and flexible labour markets. The word 'equality' effectively disappeared, to be replaced largely by a concern for 'poverty' and 'social exclusion'. Labour's electoral and governing strategy ruled out any significant redistribution from the 'winners' to the rest, in order to secure peace with a hostile press and suspicious financial markets. In this way Labour could gain credibility in the financial markets and reassure voters that the party could run the economy competently. The growing profitability of the financial sector turned it into a major source of tax revenue, financing greater government spending without higher personal taxation. Labour's limited attempts to correct inequality were, in practice, financially contingent on booming inequality at the top. Financial liberalization proved a useful solution to the dilemma of meeting social policy priorities whilst reassuring investors and middle income voters.

A Crucial Case: The Financial Crisis that Went to Waste

WTA politics in Britain was driven less by 'organized combat' and more by the finance sector's increasing dominance of the UK economy and the constraints this imposed on elected politicians. But the financial crisis of 2008 brought about an unexpected and rapid shift in the balance of power between the state and finance. The dramatic unravelling of the credit-fuelled growth model left the UK's financial system facing collapse and calling on government to bail it out.

The decision to rescue the banks with a combination of state ownership, government guarantees and recapitalization, extended deposit insurance and monetary easing, is in a sense the least puzzling feature of the crisis response. Faced with an unexpected crisis of unprecedented proportions, few policy-makers anywhere in the world seriously contemplated allowing systemic financial institutions to fail. The British response to bank failures was to commit the enormous sum of £500 billion to the financial sector.

However, the Labour government led by Blair's successor Gordon Brown was unable to capitalize on this moment of relative strength to fundamentally recalibrate the relationship between government and finance in the UK. Instead it adopted a set of crisis measures that more or less protected the WTA economy. Moreover, when the immediate crisis had passed, Labour failed to produce a convincing diagnosis of the crisis which could challenge the now ailing City, instead remaining trapped within a pro-finance paradigm. This cannot be credibly explained as a manifestation of the politics of 'organized combat' – the banking community was in no position to bully government in defence of its interests.

Instead Labour's failure to exploit the crisis can best be seen as the ultimate consequence of its strategy to ward off the power of wealthy elites by renouncing any direct control over the financial sector and thus gaining political credibility as a custodian of financial stability. Gordon Brown opted for a policy response that revived, rather than reformed, the Anglo growth model. Having spent 13 years in office cheering on the growth of the financial sector, Labour had failed to develop any policy tools to exercise real control over the financial sector's activities. The inevitable downturn in the economy resulting from the financial crash destroyed Labour's credibility anyway, and the party polled less than 30 per cent of the vote in the 2010 election, its second worst performance since the 1920s.

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

To conclude, WTA politics in Britain presents many of the key features of the variant of elite, pro-wealthy politics that Hacker and Pierson insightfully portrayed in the United States. However in the British case, rather than the relentless 'organized combat' characteristic of the US, policymakers have been constrained by broader structural features of the political economy, in which the super-wealthy hold such blackmail power that they often barely need to flex their political muscles. The expansion of finance at the expense of other sectors made the UK economy heavily reliant on investor and consumer confidence for growth. Elected politicians became increasingly constrained in their policy choices by the requirements of the City of London, which meant an implicit veto on redistribution and an economic policy mix based on low taxes, light-touch regulation and, after the crisis, huge public subsidies to banks which continued to deliver extraordinary rewards to their highest earners. But this scenario was itself an indirect and possibly unintended consequence of the Thatcher reforms in the 1980s, which were motivated by an ideological drive to dismantle barriers to competition, and were certainly not a lobbying operation by British bankers, who largely lost out as a result. This suggests that Hacker and Pierson's WTA thesis could benefit from a greater focus on the broader structural constraints on redistribution and equality resulting from the pro-market transformation of the US, and the UK, from the 1970s on.

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Winner Take All Politics in Europe? The Political Economy of Rising Inequality in Germany and Sweden

Explaining changing patterns of inequality is now a central concern in the comparative political economy literature. Income inequality has risen in most affluent democracies since the 1970s, often driven by surges in top incomes. According to Hacker and Pierson (2010), rising American inequality is the result of a "winner-take-all" politics in which interest groups engaging in "politics as organized combat" lobby elected politicians for policies that increase market income accruing to high income groups. It is not the electorate's demand for inequality-increasing policies at the ballot box that is driving winner-take-all inequality, but rather low visibility lobbying in four areas of socio-economic decision-making have been particularly important in driving the surge in inequality.

Does the "winner-take-all" thesis hold for other affluent democracies? We explore this question through a comparison of two cases of "regulated capitalism," Sweden and Germany. Both countries have experienced significant increases in income inequality since 1980, and their labor markets have begun to display signs of dualism. However, the pattern of rising inequality in both countries is fundamentally different from developments in the United States. Top incomes in Germany and Sweden have increased only moderately. Instead, the real story concerns the erosion of incomes at the bottom of the income distribution in Germany. And in Sweden, the key development is the growing, albeit relatively modest, divide between the middle of the income distribution and those at the top.

In contrast to the WTAP perspective, we argue that electoral politics is an important driver of the changing distribution of income. Social democratic parties in Sweden and Germany initiated reforms designed to adjust key socioeconomic institutions to changing economic and demographic conditions. In both countries, social democrats advocated, or acquiesced to, reforms that liberalized key welfare state institutions, reformed labor markets, and reduced income and corporate taxes. Socio-economic liberalization was part of a conscious electoral strategy to modernize the welfare state and labor markets and win middle class voters. German social democrats hoped to widen their electoral appeal beyond their traditional working class constituencies, while Swedish social democrats hope to reconstitute the blue-collar/white collar electoral coalition that kept them in government from 1956 to 1976 and 1982-1991 (Esping-Andersen, 1985). Our account of rising inequality in Northern European story is thus the mirror image of the processes Hacker and Pierson identify in US

The political economy of social inequality

Our explanation of rising inequality in Germany and Sweden emphasizes the visible politics of electoral contestation. Unlike the United States, the policy changes in Germany and Sweden that are driving increased inequality have been electorally salient and often hotly contested. What is more, social democratic parties in both countries have orchestrated or accepted many of the policy changes that reduce the reservation wage, stabilize or reduce non-wage labor costs, and cut taxes on higher incoeme groups. As Kitschelt anticipated: If the center-left does not embrace liberalization and modernization, it would not be able to attract the majority of the votes and would not be able to enter any kind of coalition of the left. If they were however willing to embrace liberalization and therefore be attractive for the middle-classes, they would run the risk to be punished by their core constituencies in subsequent elections (Kitschelt 1999, 322 ff.).

Our claim is that the nature of political institutions with proportional representation electoral rules makes it more unlikely for politicians to actively pursue "***winner-take-all***" policies because of the threat of electoral backlash. Electoral rules and electoral competition are therefore important factors shaping the politics of social inequality. However, the accommodating policies towards "***winner takes more***" in Europe is not just an attempt to woo the middle classes and the median voter with liberalizing policies. Center-left governments were economically pressed to adopt reforms against their political orientation.

The Rise of Inequality

While almost all advanced industrialized countries have seen a rise in inequality over the last two decades, the pattern varies across countries. France and Belgium, for instance, have seen little change in income inequality (OECD 2011, 24). Sweden and Germany were fairly equal societies three decades ago, but inequality has increased in both countries, especially Sweden. Today, Sweden and Germany are cases of rising income and wealth shares for the top 10%, with relative stability around the middle, and decreases at the bottom of the income distribution.

In addition to the increases in top incomes, inequality more generally has increased in both Germany and Sweden. Wage formation and the capacity of taxes and transfers in both countries show a decreasing capacity to mitigate inequality. In particular, top tax rates were cut while benefit levels were slashed. This is less true for Sweden than Germany (Table 1). While market incomes in Sweden diverged almost as much as in Germany, redistribution through the tax and benefit structures have remained strong.

Table 1. Inequality before and after taxes in selected OECD countries

	Gini Market (GM)		Gini Disposable Income (GD)		Redistribution (GM-GD)	
	1980s	2000s	1980s	2000s	1980s	2000s
Germany* (1981-2004)	0,30	0,39	0,23	0,28	0,07	0,11
Sweden (1981-2005)	0,30	0,37	0,19	0,22	0,12	0,15
United Kingdom (1979-2004)	0,33	0,45	0,26	0,35	0,08	0,11
United States (1979-2004)	0,37	0,45	0,30	0,37	0,07	0,08

*Western Germany (Figures for Germany do not vary significantly). Source: OECD (2011, p. 270).

A study based on data of the German Socio-Economic Panel (SOEP) illustrates the decreasing effectiveness of redistribution through taxes and transfers in Germany (Schmid and Stein 2013). It shows an increased Gini-Coefficient for Net Equivalized Incomes (after taxes and transfers) from 1998 onwards and the according decline in redistribution during the same period (ibid, p. 32). Between 1991 and 2010, only the highest income decile experienced a net increase. The lowest two deciles experienced the greatest decreases in income.

Data for Sweden shows that top incomes (D90) have experienced much higher net income gains in the period 1991-2012 than all other decile groups. The results are sensitive to the time period under consideration: the top decile's gains are less impressive in the period 1999-2012. In contrast to Germany, the lower five decile groups have not experienced negative income growth.

What drives "winner takes more policies"?

The politics leading towards "***winner takes more policies***" in Europe are situated in an economic environment of intense global pressure. Both countries have had exceptional experiences during the 1990s of economic challenges. In Germany, the effects of reunification, the decline of competitiveness of German industry and entry in EMU have posed strong challenges to policy-makers. During the recession of 1991/92 about half a million jobs were lost and companies were forced to restructure. Unemployment rose, employment rates declined further, tax revenues decreased. When in early 2000s the new economy collapsed, unemployment rocketed and Germany violated the SGP repeatedly, there was intense notion of crisis in the country.

Similarly Sweden faced a major economic crisis during the early 1990s. Between 1990 and 1993, Sweden went from budget surplus to recording a deficit of 12.3 % of gross domestic product (GDP). During the same period, open unemployment climbed from 1.7 % to 8.2 %. The Swedish government responded to the crisis by supply side measures, welfare and tax cuts (Anderson 2001).

Policy-makers turned towards liberalizing and inequality enhancing policies in order to activate the labour market, broaden the tax base and stimulate investments for growth. Supply policies were employed partly to attract the median voter as the center left was keen to modernize its working class image. Supply side policies were both administrative as well as economically the only viable policy agenda on offer and became the dominant and still unchallenged policy framework for advanced industrialized countries (Hassel and Schelkle 2012).

In both countries, center-left governments were severely punished at the polls for liberalizing policies. While the demise of the center-left might be here to stay, its punishment for neglecting social inequality when pursuing supply side policies could be a warning for centrist parties not to do the same.

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Finance, Labor, and the Eurozone's Winner-Take-All Economy: Some Reflections on Law and Regulation in Eurozone Crisis

The Eurozone in crisis has come to embody a new and notably pathological variant of "winner-take-all" politics. Our reading of Jacob Hacker and Paul Pierson's work on the increasingly extreme concentration of wealth and income at the very top of American society leads us to identify two broad areas where the foundations of the winner-take-all economy can be found: finance and labor relations, along with their related domains of law and regulation.[9] The shifting power relations triggered by the rise of finance and financialization, on the one hand, and the weakening and erosion of unions and organized labor relations, on the other, were the structural drivers of the winner-take-all economy in the United States. These dynamics are now increasingly evident throughout much of the Eurozone. Together, they have produced a fundamental re-allocation of political economic power even more rapidly and dramatically than in the U.S., one that threatens to lock in place dynamics driving increasing inequality.

Leading politicians and policy makers at the national and EU levels have overwhelmingly rejected the possibility of national exit from or total abandonment of the Euro, as well as the fundamental reform of Eurozone monetary and fiscal policy capacities to allow for EU-wide stimulus spending. With these structural features of the Eurozone effectively locked in, thus precluding either recovery through stimulated growth or currency devaluation, "internal devaluation" through contractionary fiscal and wage policies were the only alternative left to the peripheral countries. Ironically, and perhaps perversely, the severe and protracted financial crisis in the Eurozone has served to strengthen and entrench financial sector interests and their political allies, while weakening those of labor. Likewise, the crisis in the EU has further empowered the wealthier core countries, and above all Germany, vis-à-vis the substantially poorer and less competitive periphery.

The global financial crisis (initially an American export) trigged a banking crisis that spread to sovereigns faced with potentially massive bank bailout costs, which then reinforced a second-order and deeper crisis as banks were threatened with huge losses on sovereign bond holdings. Stabilization and preservation of the European financial system, and the national banking systems that comprise it, have been the primary imperative of all political and policy responses to the crisis. Labor market liberalization and the weakening of unions came as a later phase of the broader and longer-term EU project of reforming the governance, law, and governments of the Eurozone in response to the protracted debt crisis. The two areas of policy are, however,

[9] Jacob S. Hacker and Paul Pierson, *Winner-Take-All Politics: How Washington Made the Rich Richer and Turned Its Back on the Middle Class* (New York: Simon & Schuster, 2010).

inextricably linked in that labor and employment law reform was viewed—at least by many Periphery elites and their allies within the Troika—as essential for longer-term, ongoing adjustment that would fuel corporate profits and enable debt repayments that would channel resources back into the banking system. The sovereign debt and bank bailouts form one part of an economic and policy loop; labor market and employment law reforms closed that loop in order to facilitate the flow of capital for the benefit of banks and banking systems in parlous condition.

Very different and often divergent uses—and abuses—of law by EU and, for example, Spanish authorities in the domains of banking and labor relations policy, respectively, reflect a new winner-take-all politics, along with its winners and losers. In the domain of banking and finance, existing regulatory provisions have been consistently relaxed, unenforced, or eliminated with the effect of obscuring the dire state of too-big-to-fail financial institutions. Regulatory forbearance by banking and securities regulators at the member-state and EU levels, including the exercise of European Central Bank (ECB) banking oversight, protected banks and the banking system as a whole from destabilizing disclosures and allowed temporizing "extend and pretend" strategies to avoid the realization of losses and immediate threats of insolvency. The ECB has ventured to the edge of its legal mandate under European treaties in conducting financial operations to shore up teetering sovereign finances and banking systems, and in September 2012 arguably went well beyond it in vowing to engage in "outright monetary transactions" (OMT) involving acquisition of sovereign bonds in order to preserve the Euro.

In the field of labor relations, by contrast, state power has been mobilized to radically reform employment and labor market regulation through formal legal change. Here, we see far-reaching revision of long-established legal arrangements to impose liberalization on labor markets historically characterized by organized labor relations and widespread collective bargaining. At the same time, here too we see regulatory forbearance, as authorities overlook employer abuses and limit reporting data that would make evident the full redistributional consequences of the legal changes pursued. The role of law in the Eurozone crisis illuminates the contradictory and disturbing state of legalism and the rule of law in the constitution of the emerging winner-take-all EU political economic order.

Examination of banking and labor relations policies reveals the extent to which the Eurozone crisis has transformed the political and juridical character of governance. Looking not only at the substance of policies adopted at the EU and national levels in response to the crisis, but also the *form* different policies have taken (i.e., whether policies have been implemented through formal legal means, or through the circumvention or suspension of formal legal rules), law and legal change are: (1) evidence of which economic and political constituencies are winning and losing battles over policy and power, (2) evidence of the increasing centralization and discretionary character of power and authority in Eurozone governance, and (3) constitutive of a new and still emerging political economic order in Europe at both the EU and national levels with pronounced winner-take-all characteristics.

The bailout policies restructuring the Eurozone financial system and national-level labor market liberalization fit together at the intersection of two political logics at two levels of analysis. The first logic is the bailout of sovereign debtors and the cycling of resources back into the major banks of the core EU countries through debt repayment/refinancing. This is largely, if not entirely, an EU-level process, and legal reforms are consistent with the logic of that financial architecture even as the role of the ECB in this process strains the legal bounds of its mandate. The second logic is that of partisan politics at the national level. Here, conservative parties and anti-labor constituencies have taken advantage of the crisis and the political disarray it has caused to ram through fundamental changes in the structure and substance of labor law, permanently weakening organized labor and thereby erode a key historical constituency of the center-left/left electoral base. As expected, we see labor reforms that *jointly* satisfy the political and policy imperatives at both levels; but the first logic of the bailout of core country banks and financial restructuring is primary, with labor reforms subordinate to the priorities of maintaining the stability and liberal market character of Eurozone finance (and the political economic power of the core countries).

The differential treatment of domestic labor relations and Eurozone financial markets fits within a unified and coherent, if grim, political economic logic. On the financial side, regulatory forbearance and relaxation, particularly with respect to accounting and disclosure rules, combined with quasi-fiscal monetary support for banks, prevented not only sovereign defaults, but also the collapse of the European banking system and thus of the Euro. However, propping up the banking system largely preserved the status quo ante, both confirming and entrenching the privileged position of finance within the Eurozone. In the absence of EU-wide fiscal stimulus, the ECB was able to stabilize the financial system (for the moment), but not cure its underlying disease of bad debt and downwardly spiraling demand. Internal devaluation remained the only available means of economic adjustment—even though this entailed deflation and collapsing employment, wages, and living standards across the fiscally troubled peripheral debtor states.

Labor law reform in Spain advanced EU-imposed austerity in the service of preserving the Euro, the banking system, and the vast, regressive risk and loss shifting project of internal devaluation. Labor relations and employment law reform facilitated internal devaluation by diminishing legal obstacles and costs associated with slashing wages and jobs. This legal attack on organized labor and increasingly disorganized workers took place within a policy space in which the political interests of Spain's conservative PP overlapped with the economic interests of the EU political and financial elites. The politics and policy ushered in by the crisis have disproportionately shifted economic risk and the costs of adjustment away from finance capital and firms, and onto workers and households.

The constellation of austerity, bank bailouts (even if disguised as sovereign debt rescues), and neo-liberal labor relations reforms has corroded both the idealistic vision of a "Social Europe" and, ironically, the financial integration of the Eurozone, giving way to the repatriation of capital and the reconcentration of debt at the national level. Most, and soon perhaps all, of the Continent is economically decaying in an interminable grinding depression. Under these dire economic conditions, the term "winner-take-all" may be inapposite. It is increasingly likely that there will be no winners. Before us lies the prospect of nothing but losers distinguished only by the extent to which they bear the costs of austerity, the fundamental structural flaws of the Euro, and the increasingly neo-liberal character of governance within the ever-closer union of the EU.

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Politics as Organized Combat – New Players and New Rules of the Game in Sweden

In this paper, Hacker and Pierson's picture of politics as organized combat is used as a starting-point in order to depict political-organizational changes in a substantively different polity and society from the one they target. Sweden is the example for a number of reasons: it is the country the author happens to know best; it is often used as an opposite to the US among the rich capitalist countries; but it has experienced a number of rather encompassing recent policy changes which have not received the attention they deserve. Once widely seen as the paradigmatic case of organized capitalism, and the more or less permanent stronghold for social democracy, Sweden has recently experienced such far-ranging transformations of organized politics and policy-making that earlier characterizations have to be questioned.

The depth of these changes seems largely to have been underestimated by both foreign and domestic observers, perhaps because their attention has been almost exclusively focused on the party-political and electoral arena. But as this paper aims to show, under the electoral surface broader and stronger political and social currents have been in operation. These forces seem to lead the way towards a new political power order in Sweden, whose broad contours can be discerned but whose specific content has yet to be decided.

There are a number of points that has recently changed Swedish organized politics in rather fundamental ways, including changes in the policy-formation framework, the social bases of politics and elections, and the organizational forms of politics and policies.

Formal corporatist arrangements have been largely dismantled. The unilateral withdrawal by the employers from all corporatist state agency boards in 1991 led to the exclusion of the trade unions as well. Peak-level wage bargaining between the employers' central federation and the peak-level blue-collar union LO had already come to an end in the 1980s. The end of corporatism – with its formal and highly visible form of extra-parliamentary political decision-making – has paved the way for more informal and network-based forms of political influence and communication, but we still know very little about how they work and with what effects.

Key aspects of the policy framework have changed fundamentally, through the introduction of new monetary policy rules and new forms of "self-binding" in the economic as well as the social sphere. There is now an independent central bank, a floating exchange rate, a set of fiscal policy rules that are oriented toward medium- and long-term goals, an independent fiscal policy council, and an independent government audit office. The pension system includes an automated "break" governed by an algorithm. All these institutional changes have fundamentally altered the scope of economic and social policy making, making it more circumscribed. It has also entailed moving key decisions to unelected bodies with little transparency.

There have been fundamental changes in the structure of economic and social inequality. Income inequality has increased dramatically, unemployment has risen, atypical employment has become more common, the proportion of the population born outside of Sweden has increased, average educational attainment has increased; in short, social inequalities have evolved fundamentally. The composition of the electorate is therefore radically different from the composition of the electorate in the 1980s, and electoral mobility has transformed the political landscape. Electoral participation declined from the high levels of the 1970s and 1980s.

Political parties have become significantly weaker as arenas for the formation of politics and policies. This shows most clearly in the substantial decline in the number of party members and their decreasing similarity with average citizens. But it is also reflected in declining party identification in the electorate and a decline in the long-term policy formation capacity of parties. Party politics has become more reactive, responding to policy alternatives and solutions that are often formulated in places and arenas other than the parties themselves. There are now eight parties in parliament instead of five, including a party of the radical right, and the Social Democrats are no longer the clearly dominant party.

"Bloc politics" has been strengthened, where a united four-party right-of-center coalition has stood against a more loosely coupled "red-green" alternative for the last three elections. At the same time, policy distances between parties have declined. Blue-collar trade unions have been substantially weakened. This is clear in terms of both policy influence and declining memberships. This decline is to some extent reflective of increased unemployment and more precarious employment relations, and of structural shifts in the labour market, with declining numbers of workers and rising numbers of white-collar employees. But it is also a policy effect, through which differentiated and increased fees to the unemployment insurance have led many younger workers to leave or never enter the union. Important groups on the labour market, including substantial parts of workers within the service sector, are not unionised at all. This decline in the power of the blue-collar unions has not been experienced by the white-collar unions. Their position has rather strengthened in recent years, and the same goes for the unions that mainly organize academically educated groups.

The rise of the "policy professionals"

Policy professionals are people who are employed in order to affect politics and policies rather than elected to office. They include groups such as political advisors, political secretaries, trade union and business associations experts, lobbyists, think-tank employees, etc. They have expanded dramatically in numbers and one may suspect influence over the last couple of decades. It is clear that the Public Relations bureaus, which played virtually no role in Swedish politics prior to the mid-1990s, now act as a sort of political capital exchanges, where skills acquired in political life may be exchanged for monetary rewards in the form of high salaries or dividends. They also act as resource bases and facilitators for clients who can afford their fees and benefit from their political skills and information. The work of policy professionals is a form of low-visibility politics. It is conducted under the radar of both media and much of political science research.

Swedish politics is to an increasing extent a multi-level game. There is increasing impact of international agreements, which are most clearly expressed in and through the European Union.

Sweden has delegated significant powers to the EU, and is bound to comply with its quasi-federal legal system. The EU policy-making processes are very arcane and complex, which gives skilled insiders an enormous advantage in affecting decisions and outcomes. This insider advantage also raises the interest of lobbying firms and interest organizations in having a presence in the EU arena and in other multilateral settings, in order to affect policy decisions before they are then re-imported into Sweden as laws or recommendations. The effect of the judicializing of politics – that has been an important aspect of European integration – has been more dramatic in Sweden than in many other places.

Swedish social service provision has gone through a process of privatization, and steering of the public sector has moved towards more market-based varieties, in different forms of "New Public Management." While virtually all education, care and welfare service provision is still publicly *funded* in Sweden, the actual *delivery* of these services has changed quite dramatically since the 1990s. By now, a substantial proportion of such care and services are provided by non-public actors. Most of it comes from for-profit companies, in most cases large shareholding or private equity companies.

Politics has become mediatized in a quite dramatic fashion. Current politics are conducted on a 24/7 media cycle. Almost constant media attention has become a condition for political survival in a process where the packaging and media dissemination of policies and politics occupy center ground. Styles of political leadership are adopted to changes in the media discourse and political responsibilities are increasingly negotiated in the media.

These changes are to a large extent shared with many other advanced democratic capitalist societies – but there is reason to believe they have in many respects had more dramatic consequences in Sweden than elsewhere. What all these developments in Sweden amount to is a very different form of elite-driven politics and policy-making than the old corporatist structures. An amorphous but still highly elite-driven process has emerged, in which financial resources have become even more important, even in Sweden.

In the paper, some of the implications of this new political power order are discussed, such as the *changing actor constellation* in politics, the *decreased visibility* of politics, and the *relations between economic and political power*, including the *feedback loops between inequality, participation, power resources and public policies*. The current result of the developments of this new power order is sharply increased inequality: in incomes, in participation, in opportunities to affect political decisions and outcomes.

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Cornelia Woll (Professor, Sciences Po Paris; email: cornelia.woll@sciencespo.fr)

Politics in the Interest of Capital: A Not-So-Organized Combat

There is much to commend in Hacker and Pierson's (2011) analysis of a growing bias in US politics in favor of the wealthiest parts of society. However, the image of "politics as organized combat" draws our attention into the wrong direction. There is increasing evidence that organized groups are less pivotal in US politics than is generally assumed. Moreover, the insights on group politics do not travel well to Europe, where we find fundamentally different forms of political organization. Explaining rising inequalities in Europe requires understanding the structural features of finance capitalism rather than just political interactions.

Politics as Organized Combat?

Hacker and Pierson's work rightly reminds us that we need to study what government actually produces. They document that both Democrats and Republicans have contributed to rising inequality in the US and explain this phenomenon with the rise of interest groups pressuring the government to regulate in the favor of business interests and finance, either with new laws, or by failing to update others that would have had redistributive consequences – thus creating "policy drift".

The decline of organized groups

To be sure, financial resources are essential for gaining access to US politics. However, coordination, which is the central feature of organized groups, has been in sharp decline in US politics. Mizruchi (2013) provides a detailed historical account the fracturing of the American corporate elite. After a height of coordination among corporate leaders in the 1960s and 1970s, central business associations began to lose influence and had increasing difficulties to develop common positions. The so-called "inner circle" dissolved in the two following decades. Smith's (2000) extensive policy-focused study of the lobbying efforts of U.S. Chamber of Commerce confirms that business actually loses its battles unless it has public opinion on its side. This is not just true for large organizations, but also smaller ones. Grossman (2012) finds advocacy groups are more often associated with policy change than business groups. Baumgartner et al. (2009) find that the relationship between money and policy change is close to zero. Certainly, business groups outnumber mass-based groups, but rich interest groups do not just ally with the rich and poor groups with the poor: they mix. The recurrence of such alliances thus tempers the effect of money on interest group success. Gilens (2012) recent study indicates that the category that appears to have the largest impact on policy outcomes are not groups, but affluent citizens. Moreover, the association between affluent citizen preferences and business group preferences is surprisingly low. In line with popular sentiment, a combination of preferences from economic elites and business groups increases the likelihood of policy change substantially. In sum, we are thus facing a puzzle. Affluence and influence work in tandem in American politics, but this is *not* due to the superiority of organized groups.

Moving to Europe

Comparing US politics with European trends provides additional reasons to doubt that interest group activities can explain policy shifts in favor of capital interests. First of all, trade unions are more firmly established in most European countries. Second, the role of private funding in politics is reduced by substantial public funds available to political parties, introduced in the 1960s and 1970s (Koß 2010). Still, despite these apparent differences in political structures, European parties have *also* converged on economic and monetary policies, in ways largely comparable to the United States. In a survey of five policy domains in eighteen countries, Höpner et al. (2014) have documented that a liberalization trend is visible in all advanced industrialized economies between 1985 and 2002. Höpner et al. distinguish between regulatory liberalization and redistributive liberalization. Sweden and Denmark have liberalized most radically on both dimensions. Italy, Denmark and Germany distinguish themselves through comparatively high regulatory liberalization, while France, Canada and New Zealand have advanced on only distributive liberalization. Even if liberalization is not always an indicator of rising inequality (Thelen 2014), the policies identified in case studies of individual countries tend to transform most profoundly in the 1990s and 2000s (see other contributions to this issue). What is more, like in the US, many of the policies in the center of these accounts have actually been advocated by parties on the center-left rather than the right and a considerable literature tries to come to terms with this paradox (e.g. Cioffi and Höpner 2006; Häusermann 2010). However, unlike Hacker and Pierson, these studies highlight external pressures and the re-composition of the constituency bases of traditional left parties.

Disorganization in finance

Of course, there are good reasons to think that party elites may be increasingly removed from voters, but this is not necessarily due to capture. In his recent book, Streeck (2014) refers to finance as the "second constituency" in competition with voters. Most analysts agree that finance is pivotal in explaining the politics of inequality. But again, even the financial sector's great strength does not fit the image of "politics as organized combat". In a recent comparative study (Woll 2014), I have argued that the financial industry has obtained some of the most advantageous bank bailout plans when they have refused to organize collectively to negotiate with their governments. Due to the massive consequences of their individual collapse for the respective economies, financial institutions can hope for government intervention even if they do not coordinate to facilitate a response. Coordination is indeed difficult to achieve for the financial industry, which is composed of a multitude of sectors, institutions of very different size and a myriad of stakeholders with often opposed interests. The likeliness that different parts of the financial industry will lobby on opposite side of most policy issues is relatively high. We can thus conclude that finance is not really different in terms of interest group organization from other business interests. How then has finance established itself as a central element in the politics of advanced industrial societies, without actively coordinated organized combat?

Structural power

What makes finance special is not how the industry organizes for combat, it is their structural power. The structural features of financial capitalism weight heavily on politics and are a more likely candidate for explaining rising inequalities across advanced industrialized countries. Power has been defined as "the production, in and through social relations, of effects on actors that shape their capacity to control their fate," (Barnett and Duvall 2005, 45). Structural power operates through existing institutional arrangements that allow certain actors to control the range of choices available to others without apparently exerting pressure.

Hacker and Pierson have written about structural power, but their effort to explain political choices lead them to an agency-focused perspective that ends up downplaying several important aspects of structural power in their recent book. In particular, they do not acknowledge sufficiently how structural power creates a cumulative advantage across policy domains and by redistributing political authority in ones favor. The first *horizontal* dimension of cumulative bias is linked to the insights of the complementary literature in comparative capitalisms. Reforming a policy domain upon with other issues depend in order to function properly creates spill-over effects that may or may not be conscious decisions. The second *vertical* dimension of cumulative bias happens through critical junctures, which redistribute political authority, for example through the creation of independent agencies or supranational integration. Once new arrangements are in place, they operate as a guideline for political decisions and can create rather striking system dynamics, such as the bias towards the reductions of boundaries upheld through court rulings (Scharpf 2012). A one time victory over European integration thus creates a systematic bias in favor of mobile factors that is likely to affect a great number of policy domains, even if no interest group ever exerts any pressure on politicians to address these directly.

Conclusion

Hacker and Pierson have rightly reminded us to focus on policy-production, but the search for specific agents that are universally responsible for the overall policy orientation is misleading. A more structural understanding of the power of finance helps to see that agency is in fact fragmented and shared between political, economic and societal actors. Rather than trying to understand their individual decisions at any one point in time, we should focus on the structural features and the particular institutional arrangements that shape the individual players' capacity for action. This implies that the politics of inequality are not just a domestic phenomenon, they also have important international dimensions. Just as state cooperation has allowed markets to expand through trade and investment agreements or coordination on monetary regimes, countries can coordinate to regulate financial capitalism by fixing limitations on business operations, bonus regimes or corporate governance guidelines. The challenge is sizeable, but some of these policy initiative appear to be more promising for reducing inequality in the US and Europe that changed electoral participation or support for trade unionism.

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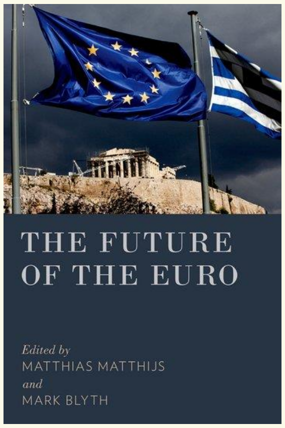
New Books

The Future of the Euro, Oxford University Press (2015)

Editors: Matthias Matthijs & Mark Blyth.

Contributors: Kathleen McNamara, Erik Jones, Nicolas Jabko, Vivien Schmidt, Abraham Newman, Mark Vail, Jonathan Hopkin, Wade Jacoby, Craig Parsons, and Eric Helleiner.



The Future of the Euro is an attempt by political economists to scrutinize the fundamental causes of the euro crisis, determine how it could be fixed, and consider what likely futures lie ahead. To do so the book makes three interrelated arguments that stress the primacy of political over economic factors. First, the "euro problem" is analyzed as the result of the currency's fundamental lack of institutional embeddedness, insofar as its original design omitted three 'forgotten unions' alongside monetary union: a financial and banking union, mutually supporting institutions of economic government, and a political union holding similar legitimacy to the nation-state.

Second, the "euro experience" shows how the unfinished design of the euro led to economic divergence – quietly altering the existing distribution of economic and political power within Europe prior to the crisis – that had determinate consequences for how the EU responded to the crisis. The book highlights how the euro's four most important members – Germany, France, Italy and Spain – each changed because of their adoption of the euro, why the crisis affected them so differently, and how each has struggled to live with the commitments the euro necessitates. Third, the book examines three possible "euro futures:" (1) through the lens of the politics of reluctant leader Germany; (2) by considering the EU's capacity to 'move forward' through crises; (3) from the geopolitical perspective of the international monetary system. The book concludes that any successful long-term solution to the euro's predicament needs to start with the political foundations of markets.

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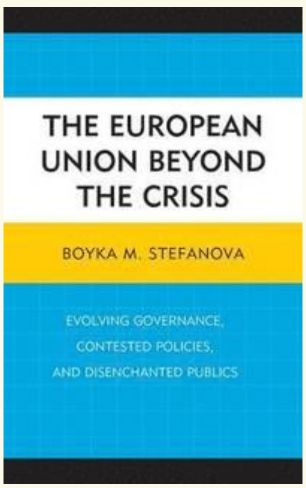
The European Union Beyond The Crisis, Lexington Books (November, 2014)

Editor: Boyka M. Stefanova.

Contributors: Robert Csehi, Jenny Preunkert, Ashley A. C. Hess, Leif Johan Eliasson, Hilary Appel, Carissa T. Block, Jennifer R. Wozniak Boyle, Chris Hasselmann, Alexandra Hennessy, Boyka M. Stefanova, Cristina Ares Castro-Conde, Miguel Glatzer, Zinovia Lialiouti, Giorgos Bithymitris, Simona Guerra, Fabio Serricchio, Borbala Göncz, Evelyn Bytzek.



This volume explores institutional and policy developments in the EU and its member states in a parallel examination of citizens' views of the effectiveness of crisis response reflected in public trust, output legitimacy, and satisfaction with democracy. Our approach to understanding the crisis posits EU-level governance and institutional change, national-level policymaking, and domestic politics as interrelated, interdependent domains of political action and public spheres that collectively shape the political landscape of post-crisis Europe. The volume sheds new light on the relationship among the institutional, policy, and polity consequences of the crisis. The book has two fundamental aims.

The first is to demonstrate the interconnected nature of European governance, domestic reform, and democratic politics. The unprecedented complexity of the financial, sovereign debt, economic, and social crises in Europe has led to a political crisis that reflects the struggle to effectively address its various causes and effects. The second objective is to present a theoretically informed assessment of the consequences of the European crises for state-society relations and democratic legitimacy. Our analysis of the crisis in a variety of national contexts and European governance highlights the difficulties faced by political decision-makers. We find that the domestic policy process is selectively affected or disconnected from the process of rule-making at the EU level, that public opinion still matters in the process of policy formation and EU crisis response, and that the salience of the EU agenda in the domestic public sphere increasingly depends on the preferences of political actors. Public response to the crisis has become increasingly complex as well, ranging from declining trust in the political institutions, emerging national stereotypes, changing expectations of the EU level of crisis response, growing disconnect between political parties and voters, and evolving intra-regional distinctions across the EU's east-west divide.

External Grants & Fellowships

Guggenheim Foundation Dissertation Fellowships
In addition to the foundation's program of support for postdoctoral research, ten or more dissertation fellowships are awarded each year to graduate students who can complete the writing of a dissertation within the award year.These fellowships of $ 20,000 each are designed to contribute to the support of the doctoral candidate to enable him or her to complete the thesis in a timely manner and are only appropriate for students approaching the final year of their Ph.D. work. **Application deadline: February 1, 2015**. More info: http://www.hfg.org/df/guidelines.htm.

The Harry & Helen Gray/AICGS Reconciliation Fellowship Program
The Harry & Helen Gray Culture and Politics Program is designed to bring two scholars or practitioners working on reconciliation themes concerning Germany and Japan to AICGS for a research stay of six weeks. The fellowship includes a stipend of $4,500, transportation to and from Washington DC, research expenses, and office space at the Institute. The fellowship must be held at Washington, DC. The program will not support research in Europe or Asia. **Application deadline: April 15, 2015**. More info: http://www.aicgs.org/employment/harry-helen-grayaicgs-reconciliation-fellowship-program-2014/.

Humboldt Research Fellowship for Experienced Researchers
Submit an application if you are a researcher from abroad (not from Germany) with above average qualifications, completed your doctorate less than twelve years ago, already have your own research profile and are working at least at the level of Assistant Professor or Junior Research Group Leader or have a record of several years of independent academic work. A Humboldt Research Fellowship for experienced researchers allows you to carry out long-term research (6-18 months) in Germany. Applicants choose their own topic of research and their academic host. The fellowship is flexible and can be divided up into as many as three stays within three years. The fellowship is worth €2,450 per month. **Application deadline: rolling**. More info: http://www.humboldt-foundation.de/web/1710.html.

McCloy Fellowship
The McCloy Fellowships are open to individuals from nonprofits, think tanks, law, journalism, the public sector, and cultural organizations in relatively early stages of their careers. The

fellowship grants these individuals the opportunity to travel overseas to conduct on-site research and interviews and to pursue reports on aspects of the German-American relationship. Research areas may include – but are not limited to – environmental policy, immigration, agriculture, urban development, finance, education, and the arts. The fellowship will provide a stipend in the amount of $200 per night for up to 21 days abroad; transatlantic airfare and pre-approved inter-city travel are also covered. Travel must take place within one calendar year of receipt of the award. **Application deadline: late spring 2015**. More info: http://www.acgusa.org/index.php?section=general-mccloy-fellowships.

ERC Starting Grants
These grants aim to support up-and-coming research leaders who are about to establish a proper research team and to start conducting independent research in Europe. The scheme targets promising researchers who have the proven potential of becoming independent research leaders. Funding per grant: up to € 1.5 million (in some circumstances up to € 2 million). More info: http://erc.europa.eu/starting-grants.

Marie Curie Intra-European Fellowships for Career Development
These fellowships provide support for experienced researchers. Applicants can be of any nationality, but applicant host institutions must be located in an EU member state. Projects shall be for a period of 12-24 months. More info: http://ec.europa.eu/research/mariecurieactions/about-mca/actions/ief/.

The American Institute for Contemporary German Studies (AICGS)
AICGS announces the DAAD-AICGS Research Fellowship Program. The program is designed to bring scholars and specialists working on Germany, Europe, and/or transatlantic relations to AICGS, which is located in Washington, DC, for stays of two months each. **Application deadline: February 28, 2015**. More info: https://www.daad.org/aicgsresearch2.

Fritz Thyssen Foundation Scholarship
The scholarships are intended for junior researchers, generally one to two years after they have received their doctorate. No scholarships are awarded for doctoral dissertations or postdoctoral theses. **Application deadline: mid-February 2015**. More info: http://www.fritz-thyssen-stiftung.de/funding/types-of-support/?L=1

Visiting Scholars Program, Minda de Gunzburg Center for European Studies, Harvard University
Every year, the Center is pleased to host a number of Visiting Scholars from the US and abroad. The Center welcomes applications from post-doctoral social scientists and historians who are working on modern Europe. **Application deadline: 15 January 2015**. More info: **https://ces.fas.harvard.edu/#/visiting_scholars.**

Sofja Kovalevskaja Award

Submit an application if you are a top-rank junior researcher from abroad (outside of Germany) and completed your doctorate with distinction in the last six years, and have published work in prestigious international journals or publishing houses. The award allows you to spend five years building up a working group and working on a high-profile, innovative research project of your own choice at a research institution of your own choice in Germany. Scientists and scholars from all disciplines may apply directly to the Alexander von Humboldt Foundation. The award is valued at up to € 1.65 million. **Application deadline: July 2015**. More info: http://www.humboldt-foundation.de/web/kovalevskaja-award.html.

Jobs

Tenure-track Assistant Professor in European Politics, University of New Hampshire

The Department of Political Science at the University of New Hampshire invites applications for tenure-track assistant professor in the comparative politics of Europe, starting August 2015. Faculty typically teach at all levels, introductory to advanced; have the ability to teach courses on the European Union and preferably in an additional political science subfield (e.g. international relations, public policy, social/political theory, or qualitative/quantitative research methods). More info: https://jobs.usnh.edu.

Lecturer (Assistant Professor) in Politics, University of Glasgow

The School of Social and Political Sciences is seeking to recruit a Lecturer in Politics with a focus on the quantitative analysis of comparative politics. The successful candidate will have research expertise in the broad field of comparative politics and we particularly welcome applicants who can add to our growing research strengths in political behaviour, political communication and/or computational methods (big data). S/he will undertake high-quality research, actively contribute to teaching in Politics at undergraduate and postgraduate levels, and undertake administration as required by the Head of School. More info: http://www.jobs.ac.uk/job/AJZ496/lecturer-in-politics/.

Assistant Professor – Decision Making/Formal Theory, Seton Hall University

The Department of Political Science and Public Affairs at Seton Hall University invites applications for a full-time, tenure-track position at the rank of assistant professor. The successful candidate will begin in August of 2015. Candidates should have a Ph.D. or an anticipated Ph.D. completion by August of 2015 in political science, public administration, or a closely-related field. We seek a talented scholar with expertise in formal theory, broadly defined. The department is particularly interested in applications from scholars who have published research that uses game-theoretic, social choice, or decision-theoretic approaches in the fields of political science or public affairs. The primary teaching responsibilities for the position would be in the department's graduate program in public administration (our MPA program), with secondary teaching responsibilities in the department's undergraduate political science program. Specific course assignments will depend on the candidate's areas of specialization, but all applicants should be prepared to teach the core managerial decision-making class in our MPA program. Candidates who could also teach a core research methods course in the public administration and/or political science programs would fill additional departmental needs. Applicants should submit a letter of interest, a CV, academic transcripts, writing samples, evidence of teaching excellence, and three letters of recommendation to:

Decision Making/Formal Theory Search Committee Chair
c/o Ms. Wigeby Toussaint
Department of Political Science and Public Affairs
Seton Hall University
400 South Orange Avenue
South Orange, NJ 07079

Associate Professor in International Security

The Sam Nunn School of International Affairs at the Georgia Institute of Technology invites applications for a tenure-track position in international security at the rank of Associate Professor to begin Fall 2015. The Nunn School seeks to hire an individual whose demonstrated scholarly research and teaching in the field have a functional concentration broadly related to international security and foreign policy. A focus on emerging security challenges confronting the US with respect to Europe, Eurasia, or Southwest Asia is preferred. Experience in the policy world and willingness to work across disciplines are desired. Ideal candidates also should demonstrate understanding of the nexus of science and technology with international security policy. The Sam Nunn School is multidisciplinary with undergraduate, graduate, and overseas programs, including joint undergraduate degrees with Modern Languages and Economics. The School's programs focus on understanding the global context of advances in science and technology. The School has 21 faculty members; approximately 300 undergraduate majors, 50 Master's and 10 Ph.D. degree students. Georgia Tech enrolls over 21,000 students and is consistently ranked as one of the top public universities in the country. Located in midtown Atlanta, Georgia Tech was recently voted one of the best places to work, and Atlanta is consistently ranked among the top ten places to live for young professionals. A unit of the University System of Georgia, Georgia Tech is an AA/EO employer. Women and minorities are strongly encouraged to apply. To receive full consideration, application materials should be received by February 1, 2015 and should include a letter of interest, curriculum vita, and examples of scholarly work. Applicants should also send a graduate transcript and three current letters of recommendation. Materials should be sent to: Chair of International Security Search Committee, The Sam Nunn School of International Affairs, Georgia Institute of Technology, 781 Marietta Street NW, Atlanta, Georgia 30318 or by email to security@inta.gatech.edu.

Deadline

for submissions to the summer 2015 issue:

- **<u>Tuesday, 05 May 2015</u>**

Please direct all correspondence to the editor:

- Alexandra Hennessy, email: alexandra.hennessy@shu.edu

In particular we are looking for:

- Members' recent or forthcoming publications (since this issue)
- Members' news (since this issue)
- Contributions to the Forum section
- Calls for papers
- Book Reviews
- Notice of forthcoming events