

# Unequal Equilibrium: The Political Economy of Inequality in Britain, 1997-2016

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University College London

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# Inequality as Political-Economic Equilibrium

The UK since the 1990s: high levels of economic inequality, relatively depoliticized

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- ▶ Partly: real political constraints (especially electoral systems and geography)
  - ▶ Partly: public opinion endogenous to elite action and rhetoric
- low-inequality-fighting equilibrium

Where do elite action and rhetoric come from?

- ▶ Good, but imperfect interpretation of real constraints:
  - ▶ (Over-) reaction to imperfect information on public opinion
  - ▶ Prevailing economic ideas (efficiency > distribution)
  - ▶ Lens of personal identity and experience: not many politicians with 'inequality priority' backgrounds.

# Outline

Theory: Institutions, Ideas and Feedback Loops

New Labour, 1997-2008

Coalition and Conservative Government, 2009-2016

Conclusions



# Institutions: Electoral Systems and Electoral Geography

Single-member district plurality electoral systems. . .

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- ▶ risk averse middle class demands moderation
- ▶ left parties avoid supply of anti-inequality arguments
- ▶ not credible, right parties disproportionately successful.  
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→ Structural dampeners on the mobilizing capacity of inequality

# Preferences: Ideas & Identities

- ▶ Descriptive representation: decline of class diversity in elected office
  - ▶ Socialisation, 'dynamic' incentives (Adolph, Alexiadou)
  - ▶ 'Gut' solutions (Carnes 2013)
  - ▶ Increasing professionalisation of elected office:
    - ▶ Greater salience of office-seeking motives (O'Grady 2019)

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  - ▶ Increasing professionalisation of elected office:
    - ▶ Greater salience of office-seeking motives (O'Grady 2019)
- ▶ Economic expertise:
  - ▶ neoclassical synthesis: not perfect markets, but greater emphasis on efficiency than distribution
  - ▶ contestation: fiscal multipliers and growth more than distributive implications
  - ▶ e.g. population vs. economists: 67% vs 39% think CEOs are overpaid (Sapienza & Zingales 2016)

# Feedback Effects: Voter Support and Voter Preferences

Voter preferences are shaped by the policy and rhetorical environment

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  - ▶ Translating preferences to political contestation requires mobilization
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Feedback from austerity (and beyond):

- ▶ Political attention remains on inequality at the bottom (levelling up)
- ▶ Unclear salience (and popularity) of fiscal redistribution in UK inequality narrative
- ▶ Increasing salience of geographic inequality (rising more than inter-household inequality).



# New Labour's Policy Shifts

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**Overall:** No reductions in rewards at the top, family incomes supported at the bottom - with (then) unconventional policies

# The 1992 Election Campaign



Thursday, April 9, 1992 25p Today's 17c Pages 40 and 41 Actual daily rate for February 1.833471

**PHOTO FINISH**

**BY THE SELECTION**  
The Sun's special  
election coverage  
will continue until  
the day after the  
polls on Wednesday  
April 16. The Sun  
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election page in  
each issue. The Sun  
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election.

**Continued on Page Two**

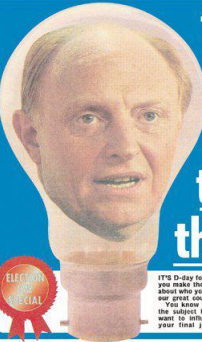
  



**TENNIS  
CHAMP  
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## If Kinnock wins today will the last person to leave Britain please turn out the lights

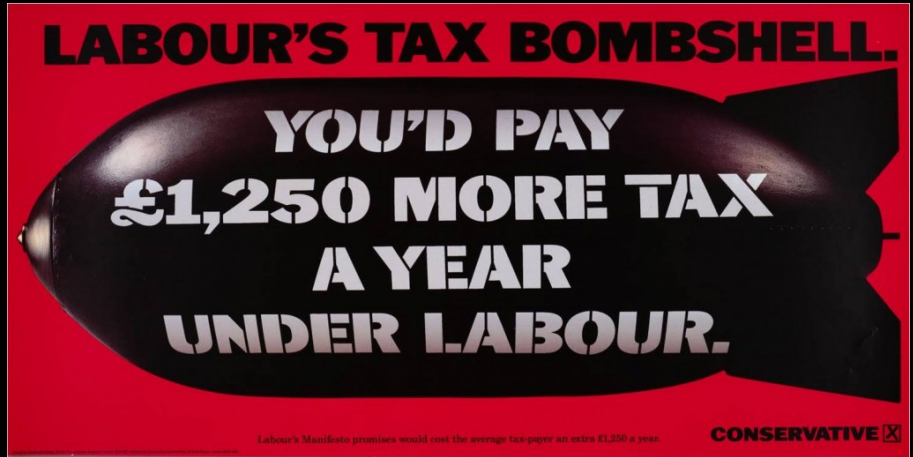




**IT'S D-day folks – the day you make the big decision about who you want to run our great country. You know our views on the subject but we don't want to influence you in your final judgment on who will be Prime Minister. But if it's a bald bloke with wavy red hair and two K's in his surnames, we'll see you at the airport!**

— Goodnight and thank you for everything.


# The 1992 Election Campaign



**LABOUR'S TAX BOMBSHELL.**

**YOU'D PAY  
£1,250 MORE TAX  
A YEAR  
UNDER LABOUR.**

Labour's Manifesto promises would cost the average tax-payer an extra £1,250 a year.

**CONSERVATIVE** 

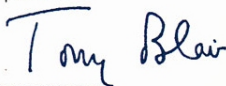
The image is a political advertisement for the Conservative Party. It features a large black bomb shape centered on a red background. The text on the bomb reads: 'LABOUR'S TAX BOMBSHELL.' at the top, followed by 'YOU'D PAY £1,250 MORE TAX A YEAR UNDER LABOUR.' in large, bold, white letters. At the bottom of the bomb, there is a small line of text: 'Labour's Manifesto promises would cost the average tax-payer an extra £1,250 a year.' To the right of the bomb, the word 'CONSERVATIVE' is written in bold black letters, followed by the Conservative Party logo, a white 'C' inside a black square.

# 1997: Income Tax Rises Ruled Out

Keep this card and see that we keep our promises  
Labour's election pledges are:

- **cut class sizes to 30 or under for 5, 6 and 7 year-olds**  
by using money from the assisted places scheme
- **fast-track punishment for persistent young offenders**  
by halving the time from arrest to sentencing
- **cut NHS waiting lists by treating an extra 100,000 patients**  
as a first step by releasing £100 million saved from NHS red tape
- **get 250,000 under-25 year-olds off benefit and into work**  
by using money from a windfall levy on the privatised utilities
- **no rise in income tax rates**, cut VAT on heating to 5% and  
inflation and interest rates as low as possible

To join phone **0990 300 900**



M/034/97 Published by the Labour Party, John Smith House, 150 Watworth Road, London SE17 1JT.  
Designed by GIANT. Printed by HH Associates, Royal Crest House, 22-26 Upper Mulgrave Road, Cheam, Surrey SM2 7AZ.

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*Tony Blair*

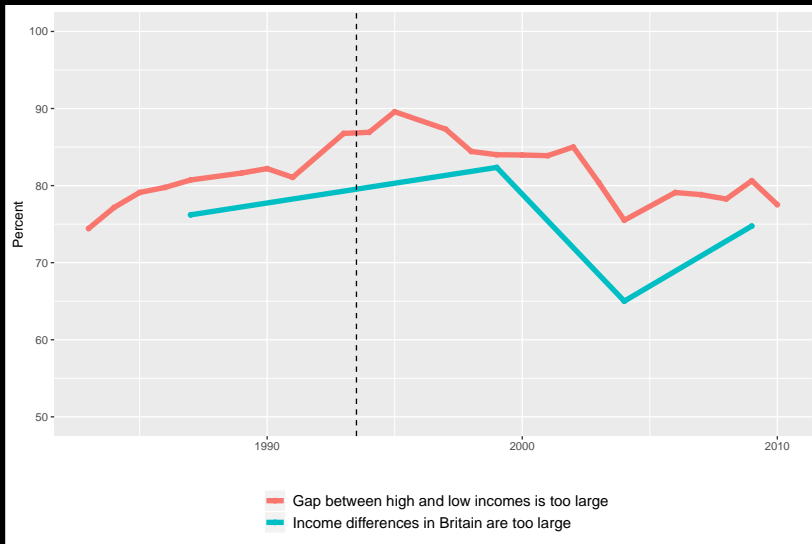
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“Taxation became a fetish for us. We were certain that we had lost elections in the past partly because of tax, and we were determined not to let it happen again this time”

Philip Gould, 1998

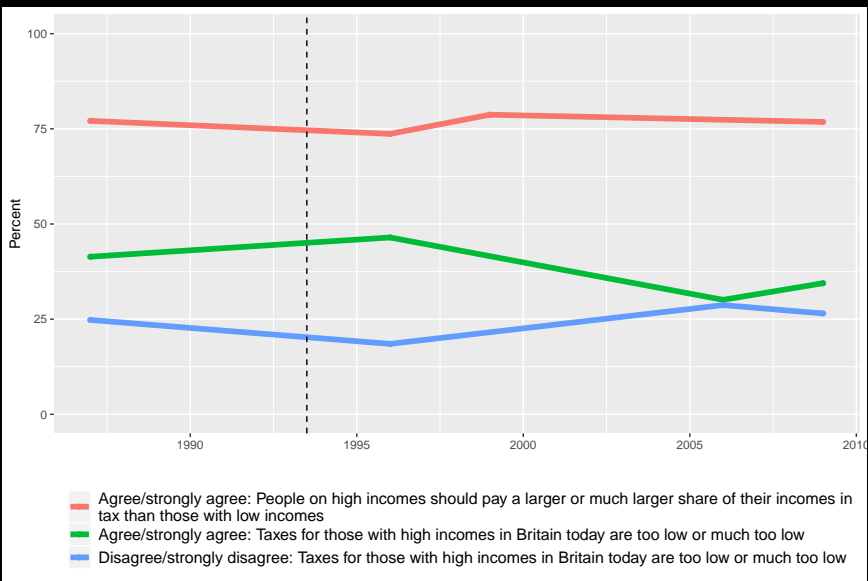
# Public Opinion on Inequality

(Percent agreeing or strongly agreeing)

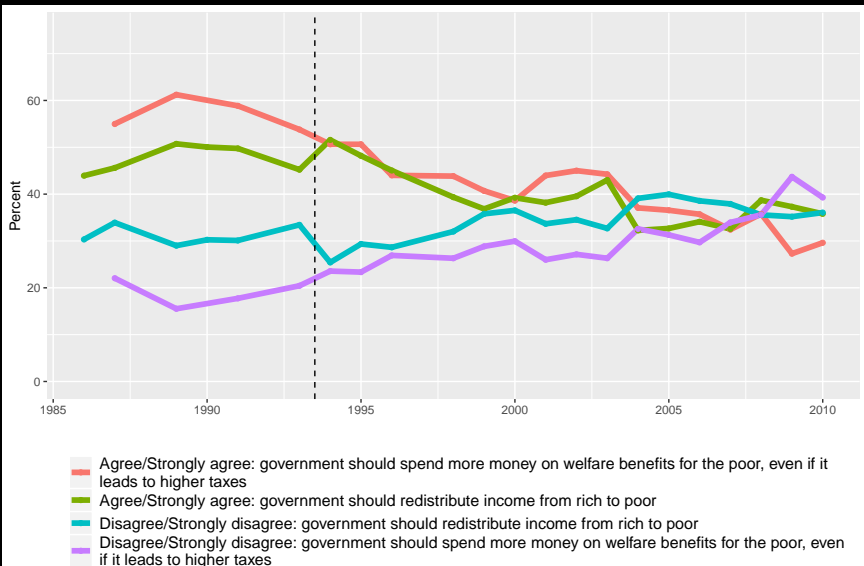




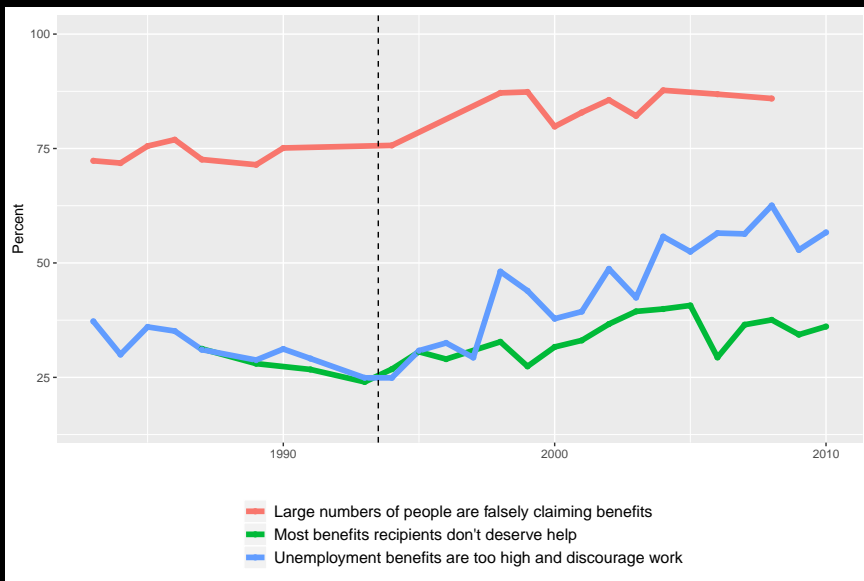
# Public Opinion on Taxing the Rich



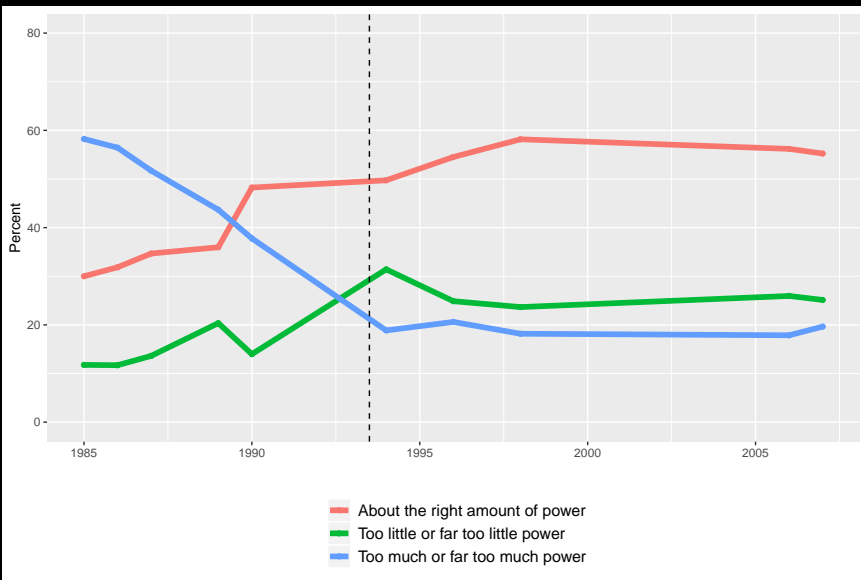
# Public Opinion on Redistribution and Welfare Spending



# Public Opinion on the Welfare System and its Users



# Public Opinion on Trade Unions



# Explaining Labour's Shift

Policy shifts (mostly) went against the national median voter. What else can explain them?

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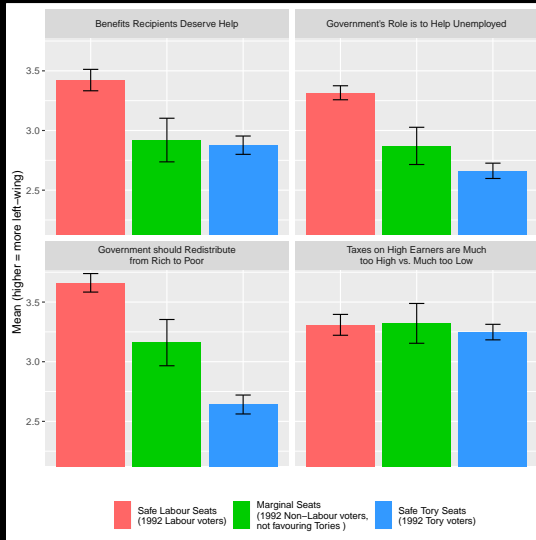
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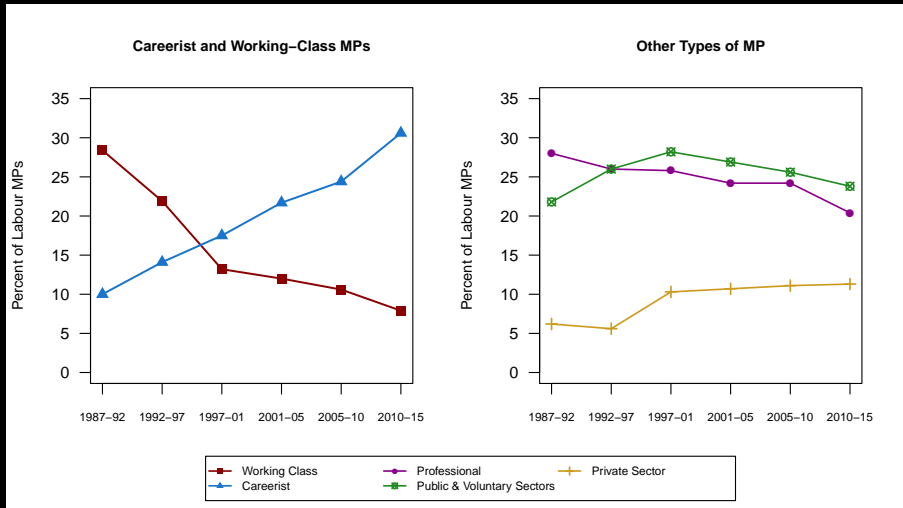
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5. Labour leaders miscalculated (or failed to believe in) their own strength [probably correct]
6. 'Leapfrogging' the median voter as a deliberate strategy of 'conspicuous convergence' [probably correct]

# Public Opinion by Constituency Type, 1996

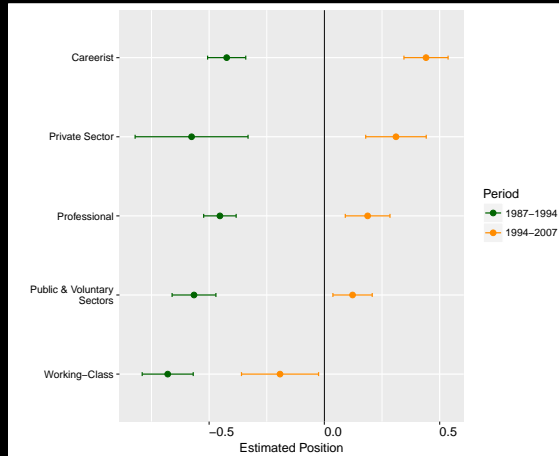


# Changes in Labour MPs' Occupational Backgrounds



O'Grady (2019). "Careerists versus Coal-Miners: Welfare Reforms and the Substantive Representation of Social Groups in the British Labour Party." *Comparative Political Studies* 52 (4), pp. 544-578

# Stance on Welfare (Left-Right), Pre- and Post-1994



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# The Supply of Ideas and Discourse

## De-emphasised:

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- ▶ Inequalities of wealth
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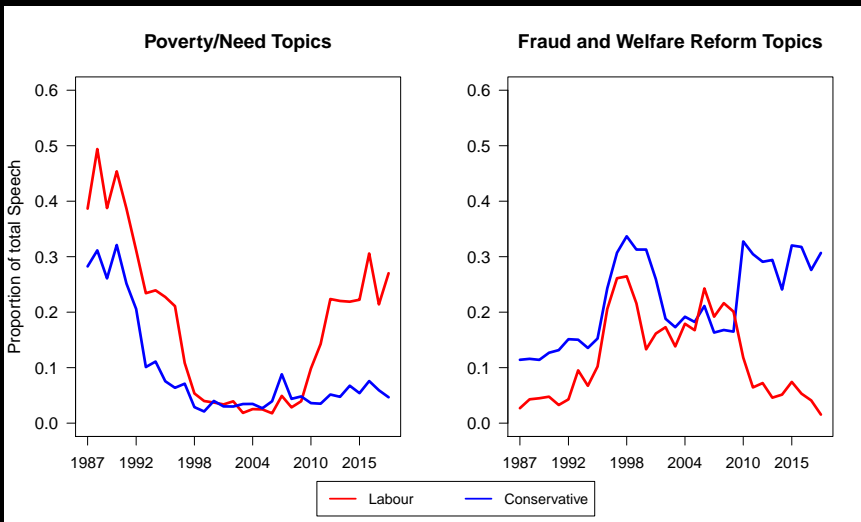
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## Emphasised:

- ▶ Equality of opportunity and meritocracy
- ▶ 'Education, education and education'
- ▶ Poverty reduction [but 'technocratic', 'by stealth']
- ▶ Welfare-to-work, failures of welfare system and its users

# Parliamentary Discourse on the Welfare System, 1987-2018



O’Grady (2021) *The Transformation of British Welfare Provision: Discourse, Public Opinion and Policy feedback*. Forthcoming, Oxford University Press





# The Downside of “Technocratic Redistribution”

“Labour misses the opportunity to consolidate its core vote amongst the very voters who have benefited the most out of this government, because they rarely hear its ministers talking about what Labour has done for them. It is commonplace to come across less well-off families whose weekly budget has been immensely improved by the new system of tax credits, but have no idea that this is not the result of the obscure working of the tax system, but the direct consequence of a deliberate political decision.”

*Robin Cook (2003, p.344), quoted in Sloman (2019)*

# Turnout by Class



## New Labour Period: Summary

1. Policies on inequality were shaped by electoral strategy
2. Labour faced real constraints, but they were looser than the party imagined at the time
3. Changes were helped by a new set of middle-class MPs focused on electoral strategy, and an ideational environment that de-emphasised fighting inequality

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3. Changes were helped by a new set of middle-class MPs focused on electoral strategy, and an ideational environment that de-emphasised fighting inequality
4. Policy choices under new Labour were not simply “the will of the median voter”
5. By 2010, this left:
  - ▶ Public more opposed to redistributive policies
  - ▶ Big class gap in turnout
  - ▶ Shifts of Labour voters to SNP and (eventually) to UKIP
6. Could be characterised as a ‘vicious cycle’ generating a low-inequality-fighting equilibrium



# Changing Dynamics of Inequality?

## Stability



Figure: Disposable and original income inequality since 1977. Source: ONS.

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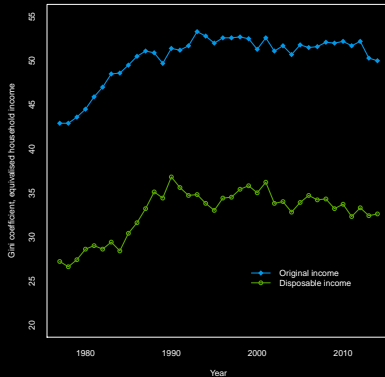


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## Austerity

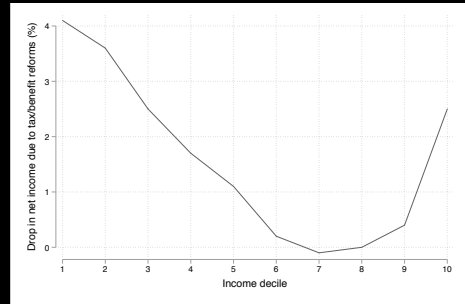


Figure: Incidence of austerity tax/benefit changes by decile. Source: IFS.



# Electoral Geography, Geographic Austerity

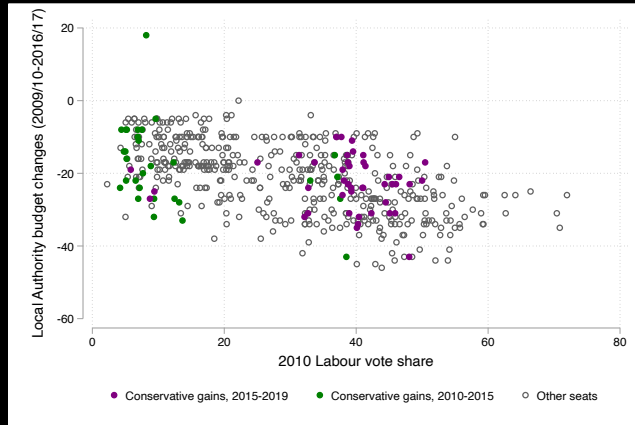


Figure: Constituency vote shares and cuts to local authority budgets between 2009 and 2016. Conservative gains highlighted.

# Economic Ideas: Social Democratic Austerity

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- ▶ Puzzle is the absence of inequality on the political agenda in the aftermath of the financial crisis.

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  - ▶ Puzzle is the absence of inequality on the political agenda in the aftermath of the financial crisis.
  - ▶ Supply-side equalisation policies and social investment require fiscal headroom
    - Labour priority to growth and consolidation rather than distribution.
- Bremer & McDaniel, 2020
- ▶ Absence of prior attention to inequality at the top
    - no ready systemic ideas to divert blame

# Feedback Effects: Voters

- ▶ Labour government associated with greater borrowing, lack of economic competence

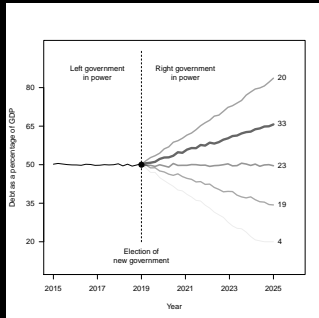


Figure: Voter expectations of borrowing.

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- ▶ But some evidence of ‘thermostatic’ reaction on benefits/cuts

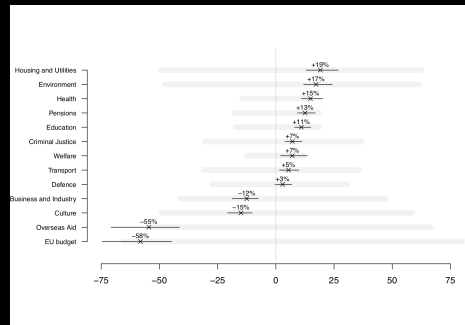
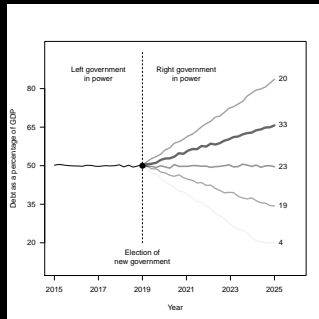


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  - ▶ self-inflicted by depoliticization of inequality
3. Policy choices under austerity were not simply "the will of the median voter"
4. After 2010:
  - ▶ Political contestation on macro-fiscal, rather than distributive question
  - ▶ No rhetorical or intellectual framework for top-end inequality
  - ▶ Shifts of Labour voters to UKIP
5. Could be characterised as a 'vicious cycle' generating a low-inequality-fighting equilibrium





# Conclusions

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Thanks!

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