Organized Combat or Triumph of Ideas?: The Politics of Inequality and the Winner-Take-All Economy in the UK

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1. Introduction

Jacob Hacker and Paul Pierson's work on inequality and American politics[1] has brought much needed attention to the ways in which changes to the income distribution, and especially the growth of top incomes, are undermining democracy. For Hacker and Pierson, the increasing capture of the gains from productivity growth by top earners is facilitated by a corresponding capture of political power by the same group, a development they call 'winner-take-all politics'. Winner-take-all (WTA) politics involves 'organized combat' around policy decisions that influence the distribution of income. The increasing resources available to the richest group of citizens have given them a major organizational advantage over everyone else, which they use to shape policy changes ('enactment'), or more often, block policy responses ('drift'), so that income gains accrue largely to them. These income gains, in turn, strengthen the organizational advantages of the super-wealthy, entrenching WTA politics. This political explanation of top income growth, they argue, is more consistent with the evidence than standard economic accounts based on globalization and technological change, or conventional political science accounts focusing on the electoral choices of the median voter.

In this article we draw on the WTA account of American politics to examine the politics of rising inequality and top income growth in the UK. The UK has, like the US, seen a dramatic growth in income inequality, and in particular the share of income taken by the top fraction of the population, over the past three decades. Neither economic forces such as globalization and skill-biased technological change, nor domestic political factors such as median voter preferences, can plausibly explain why the UK has seen a much greater increase in inequality than other comparable European countries. Although Hacker and Pierson restrict their attention to the US case and do not make any comparative claims, there is no a priori reason why the WTA thesis should not be relevant to other democracies. The UK, as a case where wealthy groups have also benefited disproportionately from economic growth, yet which is very different from the United States in important ways, can provide further insights into the nature of WTA politics.

The UK case is far from being a simple replication of the American experience. 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, in which centralized executive power is the main driver of policy. Although we find some evidence of increased political influence for wealthy groups in UK politics through lobbying and financing of political campaigns, we suggest that this influence is less decisive than in the US. A more compelling explanation is that the Thatcherite reforms of the 1980s entrenched the structural power of wealthy groups whilst weakening organized labour, ensuring that an ever growing share of economic resources flowed to the top. The income share of top earners continued to rise even after the Labour party won power in 1997 and established a more redistributive approach, and was only curbed by the effects of the global financial crisis. This suggests that the WTA income distribution in Britain had more to do with the structural features of the British economy than the ability of wealthy groups to lobby for policy favours.

The spectacular growth of top incomes despite changes of government could of course be consistent with the kind of 'organized combat' Hacker and Pierson observe in the US. But we argue that the distinct constitutional arrangements, party organizations, interest group patterns and electoral preferences in the US and the UK mean that the opportunities for such combat differ too much between the cases to account for such a similar outcome. Instead, our explanation focuses on the common factors between the two cases: the transformative exercise of political power by ideologically motivated political leaders, and a rapid growth of the financial sector resulting from the application of neoliberal ideas to financial markets. The neoliberal revolution in the 1980s led by Reagan and Thatcher was more than simply an exercise in organizational combat by wealthy elites, although their political projects certainly enjoyed strong backing from some wealthy groups. A key aspect of the project was to reduce the power resources available to organized labour and to reduce the size of the welfare state, aims which had some appeal to sections of the middle class, as well as elite groups. Once those aims had been achieved and the trade union movement sidelined, the Winner-Take-All economy and the dominant ideas underpinning it entrenched themselves and faced only sporadic challenges. The financialization of the economy, a direct result of the application of neoliberal thinking to the financial sector, labour market and welfare state, generated not only an accelerated growth of top incomes, but also increasing structural constraints on governments' ability to affect distributive outcomes. However, the effects of these political changes on the income distribution, whilst for the most part predictable, were often indirect and slow-acting, implying that the beneficiaries of the upward flow of economic power were mostly not instrumental in bringing them about.

Our analysis shows that Hacker and Pierson's WTA thesis can indeed travel and inform comparative analysis, but this comparison suggests that their emphasis on elite pressures, organized lobbying and the power of drift may distract from other factors which are common to the US and the UK, and indeed other similar countries, and which better explain the concentration of income gains at the very top across the English-speaking advanced democracies. 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, and they have largely been able to get their own way without having to engage in 'organized combat' in the way described by Hacker and Pierson in their analysis of US politics. Moreover, electorates have a greater degree of complicity in the emergence of WTA politics than Hacker and Pierson imply. Even if the gains largely flowed to narrow elites, many middle to high income voters, and even some low income voters, either actively supported or at least failed to oppose the key ideas underpinning the liberalizing drive of the 1980s and 1990s. Even progressive politicians, genuinely committed to a more egalitarian society, accepted or even celebrated some of the policy ideas that drove the WTA income distribution. What emerges from the UK case, therefore, is a more nuanced account of how elites can manipulate democracy to capture disproportionate rewards, one which shows that the ability to mobilize broad support for political and economic ideas is central to this process.

The article proceeds as follows. First, we outline the policy shifts in the UK that affected the income distribution under the Conservative governments of the 1980s, emphasizing how an ideologically driven programme of liberalizing reforms changed the structure of the British economy. We then show that the trends towards increasing financialization and growing gains at the top continued under the Labour governments of 1997-2010. Labour embraced deregulated financial markets, in part because of electoral constraints on the prospects of a more interventionist approach to the economy, in part because key Labour leaders became convinced that financialization was a positive force for prosperity. The Labour government became dependent on credit-fuelled growth driven by financial sector expansion, suggesting that finance capital's structural power is decisive. This is confirmed by the resilience of the finance sector after the meltdown of 2008, and the inability of elected politicians to significantly challenge the now weakened banks. Rather than the 'politics of organized combat', the rapid growth of finance, and the political and broader cultural and intellectual clout of the market liberal ideas associated with it, were decisive in the UK's WTA politics.

2. The Thatcher Revolution and the Political Roots of Rising Inequality

The British case is not only one of the clearest examples of winner-take-all income growth, but it is exceptional for the speed and depth of its institutional transformation since the 1970s[2]. In the space of a decade, the UK had dismantled or hollowed out many of the institutions of the post-war welfare state that had underpinned equality and security for the workforce, whilst opening up opportunities for huge gains at the top of the income distribution. In 1979, Britain had an income distribution similar to Germany, with a Gini coefficient of 0.28 for post-tax household income (see Figure One). By the mid-1980s, it had reached 0.36, diverging drastically from the rest of Europe, and almost catching up the United States, which had also become significantly more unequal during the 1980s (see Figure One), before plateauing and falling slightly in the 2000s. Although increased poverty was an important part of these trends, inequality was driven to a significant degree by increased incomes at the very top of the distribution, which are not well captured by the Gini coefficient. Figure Two shows that the growth of top one per cent's income share in the UK followed a very similar pattern to the United States, and unlike the Gini cofficient continued to rise right through until the global financial crisis. Figure Three breaks down the evolution of top income shares in the UK, showing that the very top groups were by far the biggest winners in the years preceding the crisis: although the top decile share of income grew from 31 per cent to over 42 per cent between 1979 and 2007[3], most of this growth is accounted for by the gains of the top one per cent, which saw its share grow spectacularly from 6.7 to 15.4 per cent in the same period, although it dropped back to 12.5 per cent in the aftermath of the financial crisis. The top 0.1 per cent, whose share of total income tripled to over 6 per cent by the mid-2000s, took an even more disproportionate share of the gains. The British income distribution, in short, has developed a structure typical of the WTA political economy.

(Figures One, Two and Three About Here)

As in the US case, there is little compelling evidence that this transformation was the result of exogenous social-structural or technological changes alone; after all the US and the UK were subject to much the same trends as other advanced nations which did not experience such great increases in inequality, and theories of skill-biased technological change or increased global competition are difficult to reconcile with the concentration of gains at the very top (Figure Three shows that the bottom half of the top decile saw barely any increase in its income share). Instead, the shifts in the income distribution that took place between in this period can be traced back to the UK Conservative party's rejection of the post-war Keynesian welfare state and its attendant institutions[4], and the decisive implementation of a broad set of policies emphasizing the 'right of management to manage'[5] and '(neglecting) no opportunity to erode union membership'[6]. From 1979 on British government policy prioritized price stability over unemployment, removed regulatory and fiscal burdens on business, undermined trade unions and pared back the welfare state. Not surprisingly, inequality, and top earners' share of the pie, rose rapidly as a result.

The history of Thatcherism is well known. What concerns us here is to establish whether the Thatcherite push towards an increasingly WTA economy can be characterized as a case of WTA politics. Although specific policies introduced by the Thatcher administration had the effect of pushing up top incomes, it is less clear that they were the consequence of the kind of 'organized combat' that Hacker and Pierson describe. The Thatcher reforms were a coherent programme of liberalization of the British economy which had the more or less explicit aim of weakening, even destroying, egalitarian institutions. It had the strong support of important sectors of the business community and wealth holders, but also considerable support outside those groups. Some Conservative policies enjoyed massive popular support and approval in 1979, such as restrictive trade union legislation and opposition to nationalization[7]. Moreover, unlike in the United States, where average incomes failed to rise much in real terms after the early 1970s, the UK did see an improvement in its economic performance by the late 1980s, and particularly in the 1990s and early 2000s[8]. In short, a broad political coalition supported the key features of the Thatcherite project, and even though its benefits disproportionately accrued to a relatively small group at the top and inequality increased significantly, average living standards did ultimately rise more quickly than they had in the 1970s.

This project had a good deal in common with the policies promoted by the Reagan administration in the US at exactly the same time, and shared the same intellectual foundations. But the execution of the project differed markedly. Unlike the American political system, replete with veto points and opportunities for obstructionism, the UK's 'Westminster model' concentrated huge power in the hands of the executive, which with a supportive parliamentary majority (a common feature of post-war British politics until 2010) could pass sweeping legislative changes with few constraints[10]. The Thatcher government exploited these opportunities to the full, so there was little need for pro-market policies to be introduced by stealth through processes of 'drift'. In contrast to the gradual erosion of union rights in the US, described mostly as a process of drift by Hacker and Pierson[11], Thatcher adopted a strategy of open confrontation. A succession of legislative measures severely weakened the role of trade unions in the workplace by removing union legal immunities, requiring full membership ballots before strike action, banning secondary actions, and imposing tight restrictions on picketing[12]. These measures were backstopped by aggressive use of policing to ensure that unions complied with this restrictive legal environment, most notably in the year-long miners' strike in 1984-5.

The destruction of the unions is a key factor in rising inequality in the UK and US[13] and has also been identified as a possible explanation for the rising share of executive pay in total income[14]. Other Thatcherite policies also had identifiable effects on the income distribution consistent with the emergence of a WTA economy. The broad pattern of tax policy after 1979 was to reduce the progressivity of the tax regime, with a marked flattening of the income tax schedule[15]. The top rate of income tax was cut from 75 per cent to 60 per cent in 1984, and then down to 40 per cent in 1988, contributing to the inversion of the secular trend towards top income share decline[16]. Policy shifts in the area of labour and product market regulation and wage bargaining in the same period tended to encourage wage dispersion, depressing earnings for low-skilled workers and enhancing the bargaining power of employees at the top end of the distribution[17]. A raft of privatizations led to rapid growth of managerial rewards and mass layoffs at formally state-owned companies[18]. Although rising unemployment meant that welfare spending rapidly increased, the Thatcher government cut some programmes, and restricted eligibility and froze the levels of benefits on others, leading to a significant lowering of replacement rates[19].

The clear connection between Thatcher's liberalizing agenda and the increase in inequality in the UK during the 1980s shows that the emergence of a WTA economy in Britain can be seen as a consequence of concerted political action, much like the Reagan presidency in the US in the same period. But unlike the account of political change presented by Hacker and Pierson, much of the action was in policy choices that were widely debated and central to electoral competition, and implemented in full view by a government which enjoyed a comfortable parliamentary majority throughout the period. Enactments, often aggressive and ideological, prevailed over 'quiet politics' and drift as a tool for reforming the political economy. Neither was this programme lacking in an electoral mandate: large majorities of British voters favoured curbs on trade union power, cuts in personal tax rates and restrictions on welfare spending. Moreover, the policy changes introduced were not always favourable to the elite interests that provided political support to Thatcherism. The next section considers financial market reform, one of the key sources of the emergence of a WTA economy in Britain, as an example of this.

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

Britain's dramatic increase in income inequality through the 1980s can be seen as the result of a policy agenda that had the predictable effect of depressing incomes at the bottom of the distribution and increasing them at the top. But the changing role of the financial sector in the economy had a less direct but equally consequential impact, especially at the higher end of the distribution. The rapid growth in the financial sector's share of economic activity, and the even more rapid growth in compensation at the top of the financial system, play a key role in Hacker and Pierson's account of WTA politics in the US. In the UK, too, there is evidence that increasing inequality between the very top of the income distribution and the rest is in part the consequence of developments in the financial system. The importance of finance to top income growth emerges clearly from the income data. Individuals working in the financial and real estate sectors – the two big growth areas of post-1979 Britain – accounted for 68.7 per cent of the top 0.1 per cent of earners, 46.5 per cent of the top 1-0.1 per cent, but just 28.7 per cent of the top 10-1 per cent income groups in 2008[20]. In short, the really big 'winners' were concentrated in these industries.

Financialization was directly connected to the Thatcherite policy agenda. One of the first measures of the Thatcher government elected in 1979 was to remove capital controls, enhancing the attractiveness of the City of London as a destination for global investors. The so-called 'Big Bang' reforms of 1986, which liberalized securities trading, and various banking acts removing restrictions on the supply of credit, generated new markets for financial services and expanded profit-making opportunities for banks, hedge funds and private equity funds amongst others. The 1986 Financial Services Act abolished the historic distinction between brokers and 'jobbers' (who actually made the trades on the stock exchange floor) and opened up the City to overseas banks and new forms of financial innovation[21]. The Thatcherite programme of privatization of publically owned industry provided further stimulation to City activity and the legal services associated with it. This led to a rapid growth in the size of the financial and business services sector relative to the size of the UK economy. This was aided by a monetary policy focused on reducing inflation, which enhanced the attractiveness of London as a financial centre whilst accelerating the decline of British manufacturing through high real interest rates and a strong pound.

Financial liberalization was a crucial step in the development of a WTA economy in Britain. But financial liberalization, although it produced 'winners', is not a clear example of 'organized combat': the thinking behind the liberalization of the finance was in part driven by an ideologically informed response to the changes in international financial markets, and particularly bond markets, and a belief that shaking up the financial system would improve the productivity of British industry by encouraging an efficient allocation of capital. Policy change was driven by government rather than industry, with the Department of Trade and Industry and the Bank of England taking a leading role in dismantling the existing system of 'club regulation', considered a drag on the competitiveness of the City[22]. Rather than a WTA-style lobbying operation by wealthy interests, financial reform in Britain was part of the Thatcher government's drive to modernize the economy and enhance the City of London's ability to compete with rival financial centres such as New York[23]. In fact British financial institutions, the likely suspects in any WTA explanation based on self-serving wealthy elites, were amongst the principal casualties of the reforms, being largely driven out of the market by new players from the United States, France, Germany and Switzerland. If British finance had been behind the Big Bang, it would have effectively decreed its own demise.

These reforms, together with a favourable global environment, led the financial industry to grow. Manufacturing industry failed to keep up with the pace of expansion of finance, and as domestic consumers increasingly drove economic growth, and consumption became more closely tied to credit conditions, a new economic model began to emerge in which the interests of the financial services industry became very closely aligned with the political needs of the government[24].But there is no clear evidence that the outcome of soaring top incomes in the financial and real estate sectors was sought or even expected by the political leaders responsible for the liberalization reforms, nor that organized interests in the British financial sector were actively involved in pushing for reform in expectation of the outsized gains that resulted. Financial liberalization and the vast rewards it generated for the top earners in the financial industry were perfectly consistent with the Thatcher government's emphasis on removing barriers to market competition and enhancing incentives for profit-making; there is little need to appeal to the dynamics of 'organized combat' to explain those policy choices. Certainly, part of the rationale for financial liberalization was that British banks would have opportunities to grow in scale by moving out of classic retail banking and getting involved in brokerage, mergers and acquisitions and becoming 'American-style' investment banks[25]. But at the same time this led to them being increasingly exposed to competition from American and other overseas financial institutions, competition which ultimately wiped out many British-owned City institutions.

The Big Bang reforms clearly damaged the interests of part of the existing City elite that had long enjoyed a degree of protectionism and self-regulation. Not only did the removal of restrictive practices lead to City firms being taken over by international banks, but the process of 'deregulation' also involved extensive 'reregulation' which brought a major intrusion of outside forces into the affairs of the financial sector[26]. The insulation of the City from political pressures and the self-regulatory capacity of the close-knit British financial elite meant that until the 1980s the sector had no substantial lobbying presence, relying on the Bank of England to defend its interests in regard to government policy[27]. But as self-regulation began to break down, the increasing diversity and fragmentation of the financial community hindered the development of an effective lobbying organization capable of representing the whole sector. As the Big Bang took effect, British financial firms were in no position to block change even if they had wanted to.

Even if there is scant evidence to suggest that 'organized combat' on behalf of City-based lobby groups drove the liberalization of the City, the reforms contributed to the emergence of a WTA economy in the UK by encouraging the growth of the finance sector at the expense of other sectors. The 1980s saw a decline in manufacturing industry, a sector which had strong unions and collective wage bargaining, and strong growth in financial services, where rewards tended to be concentrated at the top and the workforce was largely not unionized. The main employers' association in the UK, the Confederation for British Industry (CBI), which although mostly supportive of the Conservative party was skeptical about (at times even hostile towards) many aspects of Thatcher's radical reformism and reluctant to abandon post-war corporatism[28], became less influential as this structural change progressed. Groups more closely associated with the City, such as the Institute of Directors (IoD), and neoliberal think tanks (often financed by wealthy individuals), such as the Adam Smith Institute, the Centre for Policy Studies or the Institute of Economic Affairs, became more influential[29]. Liberalizing reforms therefore changed the nature of the political coalition supporting the Conservative party, and helped embed neoliberal thinking in the party and in the government machinery.

This account points towards the WTA economy resulting from a model of policy-making which is less about 'quiet politics' and aggressive lobbying, than about strong governments following ideologically motivated programmes, with some degree of electoral support. The rest of the article addresses why the trend towards concentrated income gains at the top persisted after the opposition Labour party, with similarly strong parliamentary and popular support yet very different political priorities, came to power. In the following sections we will argue that organized combat by economic 'winners' is not an adequate explanation, and that instead the combination of the structural power of finance, the persistence of neoliberal ideas and the electoral constraints on alternative economic strategies offer a more compelling account.

4. New Labour's Redistributive Strategy: Poverty Reduction in a Winner-Take-All Economy

Although the main legislative impetus behind financialization came in the 1980s, the bulk of the expansion of the UK finance sector actually occurred under the Labour governments of Tony Blair and Gordon Brown. Financial services grew from just over 5 per cent to over 10 per cent of gross value added between 1999 and 2009[30]. Nor was the distribution of income gains any more even in this period: as Figure 3 shows, top income growth continued under Labour, although the effects of the financial crisis reversed a small part of the gains by the end of Labour's term of office in 2010. Remarkably, the concentration of income gains at the top, begun under Thatcher, persisted despite the defeat of the Conservative party and the election of a government which drew a significant part of its political support from the trade union movement and lower income voters.

(Figure Four About Here)

Labour, with its decisive parliamentary majority, did in fact follow quite different distributive policies to the Conservatives, reflecting its different electoral support and ideological traditions. In the Thatcher-Major period, the income distribution changed in a consistent and linear fashion: each fractile of the income distribution enjoyed greater income gains than the one below, with the greatest gains enjoyed at the top (see Figure Four). In the Labour period, in contrast, income gains were more evenly distributed amongst the middle 80 per cent, with a slight downward trend for higher incomes. But if we include the highest and lowest income groups, we see that income growth was non-monotonic: there was negative income growth at the very bottom percentiles, but income growth peaked at around the 25th percentile, troughed again around the 75th percentile, and then turned upwards very sharply beyond the 90th percentile[31]. In other words, Labour's policies did redistribute from the top half to the bottom half of the income scale, but the tails of the distribution followed opposite dynamics, and in particular, the top five per cent enjoyed spectacularly higher growth than all the other groups, doing even better relative to the rest than they had under the Conservative governments[32].

The net effect of these changes was that overall inequality as measured by the Gini coefficient only began to narrow once the financial crisis had depressed top incomes. Labour's entire redistributive strategy had largely spared top earners, lifting the incomes of the bottom half on earners largely at the expense of those between the 60th and the 90th percentile of the distribution, who enjoyed the lowest gains as Figure 4 indicates. This is not to say that there was no fiscal redistribution: most top earners did face a higher tax burden as a result of measures such as the extension of the National Insurance ceiling into the higher tax brackets (which effectively increased the marginal rate of tax for the top 10 per cent or so of earners) and fiscal drag. But this fiscal burden was more than compensated by rapid pre-tax income growth amongst the highest 5-10 per cent of taxpayers, and to some extent by the ability of some of the very highest earners to manage their compensation in the most tax-efficient way.

So the Labour government not only did not challenge the continued concentration of income growth at the very top of the distribution; it allowed, even encouraged, it to accelerate. The climate for WTA income growth was set by Peter Mandelson's famous claim that Labour was 'intensely relaxed about people getting filthy rich, as long as they pay their taxes'[33]. Instead Labour's focus was on increasing living standards for their core electorate in the bottom 60 per cent of the income hierarchy, and in particular those just below the median. The approach to redistribution implemented by Gordon Brown's Treasury has been described as 'non strict prioritarianism'[34] in which help for the poorest was pragmatically detached from the fortunes of the richest, and the virtues of compassionate social policy are espoused alongside praise for enterprise and aspiration, with the relationship between the two largely elided. In policy terms, this meant finding ways to install a floor at the bottom of the income distribution and boost average earners without undermining incentives at the top of the distribution, as is indicated by Labour's commitment not to increase income tax rates, even for the highest earners.

The decision to focus on combating poverty rather than inequality allowed Blair and Brown to reconcile the competing interests of Labour's electoral base, (consumers and producers of welfare services in particular) and the booming City of London. The revenue used to pay for Labour's expansion of redistribution and public services was in significant degree generated by high earners, and in particular by the rapid growth of taxable financial activity relating to share trading, house purchases and the disposal of capital gains. Labour's attempts to correct inequality were, in practice, financially contingent on booming inequality at the top, and therefore in part self-defeating. Why did Labour follow this strategy, rather than addressing the structural features of the WTA economy? To answer this question, we need to examine the electoral constraints facing Labour after 1979.

5. The Politics of Electoral Spectacle?: Voter Preferences and Labour's Taxing Problem

Labour's hamstrung approach to redistribution begs the question of why the party felt it was unable to address inequality through more traditional progressive policies, using taxation and government programmes to close the growing gap between rich and poor. Hacker and Pierson's account of WTA politics suggests that in the US top income shares were unaffected by the partisan complexion of government, suggesting that what they call the 'politics of electoral spectacle' has little incidence on the policy decisions affecting wealthy elites. Yet mainstream electoral studies in the UK emphasize the difficulties Labour faced in winning over middle income voters, and suggest a close connection between voter preferences and parties' policy choices.

The consensus in British electoral studies is that the rise of Thatcherism, and subsequently of a more market friendly 'New' Labour party under Tony Blair, reflected a shift in voter behaviour away from class voting[35], towards 'issue' or 'valence' voting[36]. On this view, Labour's electoral failure between the late 1970s and the early 1990s was a result of its inability to offer policies attractive to a changing electorate. The British Election Study (BES) team's analysis of the 1979 election emphasized that 'the Conservatives had more support than Labour on almost all the issues that involved a choice between policy alternatives'[37], and that 'Labour lost … for the most obvious and proper of reasons – its objectives and policies. Labour lost the political argument'[38]. Labour's failures in the 1980s were the result of its electoral reliance on a shrinking working-class base, whilst its victory in the late 1990s reflected Tony Blair's success in winning support across social classes: in 1997, Labour grew its vote most amongst traditionally Conservative-supporting social groups[39]. This suggests that the need to win voters back from the right drove Labour's decision not to roll back Thatcherite measures that increased inequality.

Although such an analysis can be contested[40], it was certainly believed by key Labour strategists in the late 1980s and early 1990s and can explain their reluctance to challenge the WTA economy. The kinds of redistributive policies and market controls necessary to rein in excesses at the top were perceived by Labour leaders to be unpopular with key target voters: middle income voters in marginal districts, mostly in Southern and Central England, who had supported the Thatcher revolution in the 1980s[41]. Labour 'modernizers' argued that preservation of the main aspects of the Thatcher legacy, such as low tax rates for high earners and the dominant position of the City of London, was a pre-requisite for winning power[42]. On this view, the persistence of WTA politics under Labour is the result of the electoral constraints the party faced: redistributing wealth was simply not electorally viable.

This picture is very much at odds with the standard model of redistributive politics proposed by Meltzer and Richard, in which as inequality grows, support for redistribution among median voters is expected to increase[43]. Indeed, some survey evidence suggests, in support of the Meltzer/Richard model, that the average British voter supported progressive redistributive policies in principle[44]. Even in areas where Conservative policies met clear majority support and approval in 1979, such as restrictive trade union legislation and opposition to nationalization, the public showed little interest in further measures once initial reforms had been implemented. Many signature Thatcherite policies were opposed by large majorities of survey respondents, leading Ivor Crewe to conclude that 'the public has not been converted to economic Thatcherism'[45].The same data sources show that British voters have consistently supported the principle of redistribution and greater government spending (see Figure Five), at least when responding to opinion surveys. This suggested some potential for more redistributive policies: fully 85% of respondents in the 1997 British Social Attitudes survey felt that the income gap was too wide[46].

(Figure Five About Here)

Yet other data suggested that many voters were reluctant to translate this broad sympathy with redistribution into a vote for Labour. Survey evidence also showed that Labour was electorally vulnerable to the perception that '(its) failures in the past had been due to its lack of realism and effectiveness in managing the economy or achieving its own goals'[47]. Even in 1983, when the Labour vote collapsed and the Conservatives won re-election with an enhanced majority, voters were still largely sympathetic to the party's positions on unemployment and public spending[48], but the perception that it was too extreme on other issues, and its reputation for incompetence[49], cancelled this out. Tax, in particular, was a problem for Labour. In 1992, fully 57 per cent of voters positioned themselves 'to the right of Labour' on tax and spending, whereas only 27 per cent positioned themselves the same as Labour, and a paltry 20 per cent to its left. The Conservatives exploited this vulnerability to the full during the 1992 election, warning of 'Labour's Tax Bombshell' and trapping Labour Chancellor John Smith over his plans for modest tax rises for middle class voters[50]. The 1992 failure showed that for all Labour's popularity on key issues such as public services and welfare, fears of tax rises were a major electoral threat to the party, a threat its leadership was aware of: one internal party document stated that 'the public, and especially target voters, believe that Labour will increase taxation for everyone. Fear of taxes is the single most important reason for not voting Labour'[51]. Ordinary voters may have approved of redistribution as an idea, but too many were unwilling to support higher taxes.

The New Labour strategy adopted by Tony Blair and Gordon Brown after the 1992 defeat sought to ensure electoral victory by avoiding commitments to overt redistribution through the tax system altogether. As a result, the party's manifesto for the 1997 election, which it won, promised that a Labour government would not raise either the basic or the top rate of income tax[52]. Further, Labour discourse on equality and redistribution was maintained within very narrow confines. The word 'equality' was studiously avoided in both the manifesto and in Labour's campaigning communications[53], to be replaced largely by a concern for 'poverty' and 'social exclusion'. Redistribution from rich to poor was off the agenda: instead, Peter Mandelson talked of a 'redistributive levelling up in British society'[54], whilst Brown felt the need to state that 'Labour is not against wealth. Nor will we seek to penalize it … our aim is not increased opportunities to tax'[55].

Survey data suggests this strategy was electorally successful: by 1997, the BES survey showed that on the issue of taxation 34 per cent of voters located themselves in the same position as Labour, with almost equal numbers to the left (31) and right (34), showing Tony Blair's success in neutralizing the issue. Voter support for Labour's policies on taxes and spending grew strongly in the 1990s, at the same time as the party's stated position on the issue became more conservative, with commitments to a ceiling on income tax (including the top rate) and draconian restrictions on public sector spending[56]. However, it would be naïve to regard these developments as a simple case of democracy at work: Blair's New Labour project also enjoyed some support from previously hostile elements of the press, which helped defuse tax and other sensitive issues. Winning this backing of the tabloid press involved secretive contacts with press barons, notably Rupert Murdoch, which to some extent tied Labour's hands on policy[57]. Fear of the tabloid press became a dominant feature of the Labour governments after 1997, conditioning policy choices and Labour discourse to an almost paralysing extent. The overbearing role of Blair's communications advisor Alastair Campbell, whose writ extended to close monitoring of all sensitive ministerial initiatives, reflected this. The tabloids' role as intermediaries between Labour and centrist voters proved a greater constraint on policy than lobbyists or party donors; indeed Campbell himself regarded the impact of Labour's tax proposals on journalists' own personal finances as a significant constraint on the party's choices[58].

Labour's redistribution dilemma points towards a more nuanced account of electoral constraints than the one proferred by the WTA thesis, or indeed by mainstream political economy models such as Meltzer/Richard[59]. Voters may have craved greater equality, and a majority could well have been beneficiaries of more redistributive policies, yet they also feared higher taxes, a fear stoked by the Conservative-supporting media. The conclusion drawn by key Labour strategists was that whatever voters might say in some surveys, progressive taxation was politically high risk. This meant that a key tool for dealing with the rising inequality of the WTA economy was inaccessible: top earners, however much they were paid, would not be taxed at higher than the 40 per cent rate which kicked in for earnings around a third higher than the average full-time wage.

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

The decision to rule out redistribution through tax increases meant that Labour was severely constrained in its ability to follow through on its main policy commitments, which required increases in public spending to deal with the poor state of public services and social policy priorities such as child poverty. Instead, the party's strategy revolved around leveraging economic growth to pay for social policies without bearing down on the median voter's tax bill.

This presented two challenges. First, for the economy to grow sufficiently to both finance greater public spending and facilitate the re-election of a Labour government, the party would have to address the fears of the British business community to ensure continued investment. This is the classic 'structural dependence of the state on capital' dilemma familiar to left parties throughout the history of democracy[60]. The second was to convince the electorate that a Labour government could secure economic growth and rising living standards; in other words, to convince voters that the business community would not respond to a Labour government by disinvesting and undermining the economy[61]. Labour's leadership was aware that a lack of trust in the party's ability to maintain macroeconomic stability was both a barrier to re-election and an impediment to being able to govern[62].

Its response was to recast the party's relationship with the UK's business and financial elites, heading off their likely opposition to Labour policies in order to win credibility amongst voters, and also enable the party to achieve its objectives once in government. In policy terms, the party adopted a conservative fiscal stance, promising 'we will not spend, nor will we promise to spend, more than the country can afford'[63], an approach described by Neil Kinnock's economic advisor John Eatwell as 'part of the business of building up Labour's credibility'[64]. These policy changes were accompanied by a charm offensive directed at reassuring, and even winning the support of, industry and finance. Labour leaders met with key figures in business and the City to persuade them of their newfound commitment to sound money and fiscal responsibility (the so-called 'prawn cocktail offensive'), and used an increasingly pro-market language to describe their policy plans[65].

This strategy was successful in easing the suspicions of the City, and the party won the endorsement of the *Financial Times* for the 1992 election. After the failure to win in 1992, Tony Blair's election as leader led to a ratcheting up the neoliberal rhetoric. Blair and his closest allies were convinced that Labour had lost touch with centrist voters and winning elections would require not simply a moderation of party policy, but an explicit rejection of the party's socialist past and its related ideological principles. He rebranded the party as 'New Labour' and set about winning support from the Conservative-supporting press. Overcoming

Labour's trust deficit and the suspicions of sectors of the business community required a sea-change in Labour's ideological positioning and discourse: as Tony Blair's internal leadership campaign manifesto stated, 'to win the trust of the British people… we must change the tide of ideas'[66].

Tony Blair's own reasoning was that Labour had to rebuild trust in its economic competence by showing that Labour could 'run the market economy better than the Conservatives', and illustrated the point by supporting the Conservative government's tightening of monetary policy in September 1994, claiming in a radio interview that 'inflation is the symptom not the disease'[67]. Peter Mandelson, another key Blair ally, subsequently explained the strategy in the following terms: 'the old dichotomy between "cruel but efficient" Tories and "caring but incompetent" Labour has been destroyed… the dropping of policy and ideological baggage pre-1997 was vital to this'[68]. This thinking recognized that Labour was already aligned with the median voter on issues of social policy, but had been unable to convince voters that it was able to deliver the desired social outcomes without threatening the economy or raising tax on average earners.

The changes in Labour's political discourse pushed through by Tony Blair, and Labour's economy spokesman Gordon Brown, are well documented[69]. For our purposes the key point is that under Blair and Brown, neoliberal ideas about economic management and income distribution became entrenched in the party's policy proposals, language and way of thinking. By signing up to the economic orthodoxy of the time – fiscal rules, tight money, financial deregulation and flexible labour markets – Labour could gain credibility in the financial markets and reassure markets and voters that the party could run the economy competently[70]. On tax and spending, Brown insisted that 'we will only spend what we can afford to spend', committing Labour to only borrow for investment, to maintain a low debt-to-GDP ratio, and to adopt a binding inflation target[71]. Fiscally 'prudent' rhetoric was designed to assure both investors and voters that a Labour election victory would not threaten economic stability. Labour strategists, as well as noting the public's aversion to tax rises and their suspicion of Labour's economic competence, also understood that voters, many of whom had variable rate home loans, were concerned about the impact a Labour government could have on interest rates[72].

Labour's commitments to strict fiscal rules and orthodox monetary policy (ultimately outsourced to the Bank of England in 1997) were a mechanism to ward off damaging challenges to the government's credibility on inflation and deficits[73]. But by the time Labour had won power in 1997, its attitude to the financial sector had moved way beyond a pre-emptive commitment to economic orthodoxy to ward off the destabilizing threats that had derailed Labour governments in the past. This is reflected in Labour's regulatory strategy for finance. The regulatory apparatus established by the first Blair government revolved around the independent central bank and a new single regulator (the Financial Services Authority) responsible for'(sustaining) confidence in the UK financial sector and markets"[74] - in other words for underpinning the success of the City rather than policing it. Once in government, Labour's hands-off approach to finance had evolved into something more like active industrial policy for the banks, culminating in 2006 when Brown and his deputy Ed Balls established a 'High Level Group' on City competitiveness, bringing together top policymakers and bank executives to work through the finer details of the regulatory agenda in closed meetings at Number 11 Downing Street. The agendas for these meetings suggest a preoccupation with the threat of new regulation from the EU, with the High Level Group allowing banking and the British government to operate in partnership to block or moderate policy enactments in Brussels[75]. Even before the financial crisis and subsequent bank bailouts, government's role had gone from passive enabler to active facilitator, with Balls asking the British Bankers Association in 2006 'what more can I do – can we do together – to support and enhance the critical role that the banking industry plays in our economy?'[76].

There are many examples from this period of government policy either actively regulating, or selectively choosing not to intervene, in ways which favoured the interests of top City earners. Changes to the tax treatment of capital gains fall into the former category, with Gordon Brown reducing capital gains tax from the 40 per cent rate inherited from the previous government down to 10 per cent in 2002, and applying the same rate to carried interest, which boosted the rapidly growing private equity finance sector[77]. Labour missed no opportunity to congratulate the banks for 'their drive, global competitiveness and innovation'[78], and promised a 'risk based approach [to] financial regulation that is both a light touch and a limited touch'. The new regulatory architecture set up by Labour in the late 1990s also lacked resources, with considerably lower expenditure than for example in the US, and far fewer regulatory staff[79]. As a result, little action was taken whilst the financial sector leveraged up and accumulated increasing degrees of risk through the late 1990s and early to mid-2000s. The banks themselves, naturally, were happy to be regulated less and made this point forcefully during consultations on the legislative framework in which the new structure would operate[80]. But there is no evidence that the Labour government had any inclination to regulate the sector more heavily, as long as it appeared to be successful.

The Financial Services Authority's lax approach to regulation was not, therefore, determined by industry lobbying, but mostly responded to the prevailing policy bias of the times. As Adair Turner of the Financial Services Authority put it, 'the idea that greater market liquidity is in almost all cases beneficial, that financial innovation was to be encouraged, … and that regulatory interventions can only be justified if specific market imperfections can be identified, formed key elements in our institutional DNA in the years preceding the crisis'[81]. These ideas were also strongly present in international institutions such as the IMF and OECD, and the UK was not alone in taking this view. However, lacking a strong tradition of state regulation of finance, the UK was particularly vulnerable to this regulatory omission at precisely the time when the City was expanding most rapidly. For Turner, 'the FSA as an institution was largely the inheritor of a 50-year long giant intellectual mistake'[82].

The intellectual mistake was compounded by the apparent success of the policies it inspired during the key years of New Labour government. As the credit boom took hold in the early 2000s, Labour was able to boast that its fiscal and monetary policy had, as predicted, delivered stable growth and generated the resources to increase public spending. New Labour's mildly redistributive fiscal and welfare reforms appeared to help the poor without visibly taking from rich. But this kind of redistribution depended on boom conditions in the financial economy, aligning government interests with those of a significant proportion of the highest earners. In this context, government action to put a brake on rising inequality in the top half of the distribution became politically unattractive.

A good deal of the expansion of public spending under Labour was paid for not by (politically sensitive) headline tax changes, but by exploiting buoyant tax receipts from the very sectors that were generating underlying structural inequalities. The financial sector was, by 2007, contributing around 13.9 per cent of all tax revenues[83] not because it was heavily or progressively taxed compared with other kinds of economic activity, but because the size of the sector within the wider economy, and the high salaries earned in finance relative to other industries, made it an increasingly important source of income and corporate tax and stamp duties (transfer taxes) on securities transactions. Similarly, the boom in the residential property market was providing a buoyant income stream as stamp duty receipts swelled alongside house prices; progressive spending decisions were thus being financed by increases in asset prices whose implications for equality in Britain would far outstrip the impact of redistributive policy.

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

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

Our account so far has emphasized the role of electoral pressures, financial markets and the power of neoliberal ideas in creating and maintaining a WTA economy in the UK. We have argued, in contrast, that 'organized combat' is less decisive in this outcome. Here we briefly assess the evidence for the rival explanation that wealthy interests actively intervened in the policy process in the UK to secure an advantageous distribution of income.

We lack the kind of comparative measures of lobbying and political finance that would allow us to establish the relative importance of lobbying in the policy process across cases, and the difficulties of identifying causal connections between political pressure and policy outcomes are well understood in the literature[84]. Our explanatory strategy here rests on showing that the evidence for 'organized combat' is not strong enough to challenge the empirically grounded account we have presented so far. There is certainly some anecdotal evidence that lobby groups and wealthy political donors have increased in importance in the UK, but it appears that the role of big money in politics remains relatively marginal compared to the US[85].

There are two important differences that make a standard WTA explanation of Labour's inability to reverse the UK's growing inequality less compelling. First, unlike in the US where divided government provides organized groups with a multiplicity of veto points through which influence can be exercised and favourable policy 'drift' secured, the UK has an extremely centralized political system which concentrates substantial decision-making authority around the executive, and in particular the Prime Minister[86]. If anything, this centralization of power around the Prime Minister's office was accentuated under Tony Blair, with a rapid growth in staffing at Number 10 Downing Street and tight control over ministerial initiatives by the Prime Minister and his closest advisors (including his influential press secretary Alastair Campbell)[87]. Effective unicameralism and high levels of party discipline in parliamentary votes make the UK an unfavourable context for organized groups to subvert government policy strategies through behind-the-scenes lobbying.

The second difference is that the Labour Party is far more financially independent of wealthy interests than the US Democrats. Founded initially as the political arm of the British trade union movement, Labour still in 1997 received almost half of its funding from affiliated trade unions. Although the number of individual donations from wealthy individuals increased under Tony Blair, who wished to enhance the party's autonomy from the unions, the majority of party income still came from union contributions (60 per cent in 2008) [88]. Apart from a brief period at the height of the Blair government's popularity when individual donations amounted to 45 per cent of Labour's income (in 2001, as opposed to 75 per cent for the Conservative party[89]), Labour has been far less dependent than the US Democrats on tapping financial contributions from businesses and wealthy individuals. Individual candidates are largely dependent on the organizational support of their parties in getting elected, and are therefore less vulnerable to the pressures of wealthy donors and lobbyists.

Few of Labour's leading elected representatives have any kind of business background or independent wealth, although under Blair some leading business figures were brought into government (via their nomination to the House of Lords), and a systematic attempt was made during the Blair years to generate private donations for the party, coordinated by Lord Levy[90]. But by 2005, despite the growth in top incomes under the Blair government, the Conservative had regained a significant funding advantage over Labour from private sector sources[91]. The 'golden rule' thesis of financial contributions explaining parties' policy preferences[92] fails to explain why Labour was mostly financed by the trade unions, yet followed policies that did little to enhance the role of trade unions in the UK policy process.

There are of course many examples of wealthy interests influencing political decisions in contemporary UK politics and both the lobbying industry and the extent of private donations to political parties have grown over recent decades[93]. The Labour party itself suffered a number of embarrassing scandals in the Blair years as business donors were revealed to have been favoured by policy decisions or nominated for honours and peerages[94]. But before concluding that such examples of 'organized combat' can explain policy choices and distributional dynamics in Britain it is first necessary to consider a simpler and more easily documented explanation: that WTA politics is the result of Britain's main political parties adopting, quite openly, policies that encourage and facilitate the concentration of income gains at the top. The turn to the right in the discourse and formal policy programme of the Labour party in the late 1980s and early 1990s described earlier was in fact a very good predictor of the policies the Labour government subsequently followed, and this shift in Labour strategy during its years in opposition could hardly be adduced to lobbying or party donations. The party's strategy of winning over the business community and downplaying its links to the trade unions was consistent with seeking to raise funds from wealthy supporters, but the growth in donations was more a consequence than a cause of Labour's political shift, coming mostly long after the party had abandoned its opposition to Thatcherism.

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

8. A Crucial Case: The Financial Crisis that Went to Waste

So far we have presented an explanation of WTA politics driven less by organized combat and more by the long-term consequences of Thatcher's neoliberal reforms, and the UK Labour Party's need to bolster their pro-capitalist credentials in order to convince business elites and suspicious voters that they could govern effectively. The financial crisis of 2008 is an important test of our explanation, since it brought about an unexpected and rapid shift in the power resources available to the UK's financial elites. In the autumn of 2008, the dramatic unravelling of the credit-fuelled growth model left the UK's financial sector facing both imminent bankruptcy and a sudden reversal of reputation. The power balance between financial institutions and elected politicians was turned upside down as the bankers called on the government to rescue the entire financial sector from meltdown. Did the finance industry's money and organizational resources condition the government's response?

The Brown government's decision to rescue the banks with a combination of state ownership, government guarantees and recapitalization, extended deposit insurance and monetary easing, is in a sense the least puzzling feature of the crisis response[95]. Faced with an unexpected crisis of unprecedented proportions unleashed by the collapse of Lehman Brothers, few policy-makers anywhere in the world seriously contemplated allowing other systemic financial institutions to fail. The British response to bank failures was to commit the enormous sum of £500 billion to the financial sector, although the effective sum disbursed was much lower. Given that with barely any exceptions (notably Iceland) all advanced democracies, even the most egalitarian such as Denmark, intervened massively to save their financial sectors, the mere fact of a bailout does not constitute sufficient evidence of WTA politics.

Instead we need to consider how the banks were bailed out, whether the measures taken can be considered to be solely in the interests of the financial sector, and whether there is any evidence that organized interests were able to swing policy in a direction beneficial to them. The emerging secondary literature suggests that WTA-style pressures do not provide a plausible account of the bailout organized by the Labour government of Gordon Brown. As Cornelia Woll argues, the UK government took a tougher line on its broken banks than its US counterpart, imposing 'a solution that was much less favourable, in part even against the will of the financial industry'[96]. The Governor of the Bank of England, an institution with deep ties to the financial institutions, was determined to confront the risks of moral hazard inherent in bailouts, an issue of particular concern after the collapse and rescue of Northern Rock in the summer of 2007[97]. The Treasury and the Prime Minister were less concerned with moral hazard and more worried about the risks of financial collapse, but were equally unwilling to allow the banks to dictate terms.

The British response to crisis, after the banks proved incapable of generating a collective response themselves, was to insist on bank recapitalization, with either government or private capital. The banks were 'outraged' at the details of the plan[98], which led to increased government control over the sector and restrictions on executive compensation. Two major banks were effectively nationalized and their leaderships sidelined. As well as imposing harsh terms on the banks for government support, some other measures taken by Gordon Brown's government also marked a shift in attitude towards the wealthy financial elite, most notably the 2009 tax increase for high earners (a 50 per cent rate for earnings about £150,000 p.a.) (although with a notional take of £1-2 billion, this made only a small dent in the incomes of the top hundredth of taxpayers). This measure, although of limited redistributive effect, was clearly a response to the public anger at the failures of highly paid financial institutions and the damage they had wrought on the rest of the economy, once again showing how government relations with the financial industry were mediated by movements in popular opinion[99].

However, the Labour government was unable to capitalize on this moment of relative strength to fundamentally recalibrate the relationship between government and finance in the UK. Although the head of the bankrupt Royal Bank of Scotland, Fred Goodwin, was forced out and subsequently stripped of his knighthood, the financial leadership of the City remained for the most part in place. The government's ownership of fully 83 per cent of the Royal Bank of Scotland and 41 per cent of Lloyds TSB was managed by a limited company, UK Financial Investments (UKFI), which had a minority Treasury representation on the board. UKFI appointed well known City figures to run the bailed out banks, offering competitive bonus packages, despite public outrage. The government-owned banks were formally subject to lending targets to small businesses, which were not met[100]. In the face of heavy political pressure from public opinion to act on the excessive pay awards to leading bankers, Gordon Brown's government ultimately lobbied hard to oppose EU proposals to cap bonuses in the financial sector[101]. Although there were some symbolic changes, in effect the government left the banking system in the hands of the same financial elite that had brought about the disaster.

The 2008 financial crisis could have brought about a consequential change in the balance of power between finance and the government, and indeed between the City and other sectors of the economy. Yet the Brown government, despite being (briefly) relatively free to ignore City preferences, failed to develop a serious critique of the WTA economy. Although government now had ownership over systemic institutions at the heart of the UK financial system, Labour were reluctant to exploit the opportunity to exercise some control over the sector: Alistair Darling announced that the banks 'will be run on an arms' length basis away from government', and that 'Ministers will not be taking day to day decisions'[102]. Predictably, mass outrage soon resulted when the largely state-owned banks used part of the bailout funds to pay bonuses to their highest paid employees[103]. The government fell back on its previous approach that bank remuneration was a matter for the bank boards themselves, despite now being a major bank shareholder itself[104].

After the immediate problem of bank rescue had been resolved, the Brown government moved to respond to the evident failure of the existing system of financial regulation. The Prime Minister commissioned an independent review of the corporate governance of UK banks and other financial institutions[105] under Sir David Walker, a banking insider who had worked for Lloyds Bank and Morgan Stanley, and subsequently (2012) became chairman of Barclays. The review produced a series of recommendations on a range of areas, but no binding rules were established[106]. The review had little impact given the short time interval between its publication and the 2010 general election in which Brown's Labour party was defeated. The only legislation of any import passed by Labour after the banking collapse had little effect on the overall regulatory structure. The 2009 Banking Act did little more than consolidate some of the emergency provisions established after the Northern Rock crisis of 2007, whilst the Financial Services Act of 2010 made small changes to supervision[107].

Overall, Labour made no major departure from its strategy of light-touch regulation: In mid-2009 a fault line opened up between the Treasury and the Bank of England, with the Bank governor Mervyn King implicitly criticizing Labour's Chancellor of the Exchequer Alistair Darling for persisting with the hands-off approach he inherited from Gordon Brown[108]. Moreover, when the immediate crisis had passed, Labour failed to produce a convincing diagnosis of the crisis which could challenge the now convalescent City, instead remaining trapped within a neoliberal paradigm. With only a little more than a year before the end of the legislature, the government's main priorities were to counteract the massive contractionary effect of the financial crisis on the British economy and attempt to revive growth in time for the forthcoming election. The banks' need to repair their bloated balance sheets precluded continuing the high rate of credit creation which had generated growth before the crisis, and regulation to restrain reckless lending would have a further contractionary effect. Labour remained a prisoner of the need to stimulate the economy through credit growth.

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's government opted for a policy response that sought to revive, rather than reform, 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 any real control over its activities, never mind an alternative policy framework to promote a less credit-dependent growth strategy. The inevitable downturn in the economy resulting from the financial crash destroyed Labour's credibility anyway, and the party polled less than 30 per cent of the vote in the 2010 election, its second worst performance since the 1920s.

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

To conclude, the emergence of a WTA economy in Britain is best understood as the consequence of a process of policy change driven by ideologically motivated political leaders. The WTA economy survived and prospered even after the political defeat of the Conservatives because egalitarian political forces failed to persuade decisive sectors of the electorate of the merits of a more redistributive approach. The enhanced structural power enjoyed by business and financial elites after the Thatcherite reforms, and the intellectual momentum behind market liberal ideas, led Labour to adopt a policy stance which favoured further concentrations of income at the top.

There is little evidence to suggest that these developments were decisively shaped by the elite, pro-wealthy politics that Hacker and Pierson insightfully portrayed in the United States. In the British case, rather than the relentless 'organized combat' characteristic of the 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 therefore 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. 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.

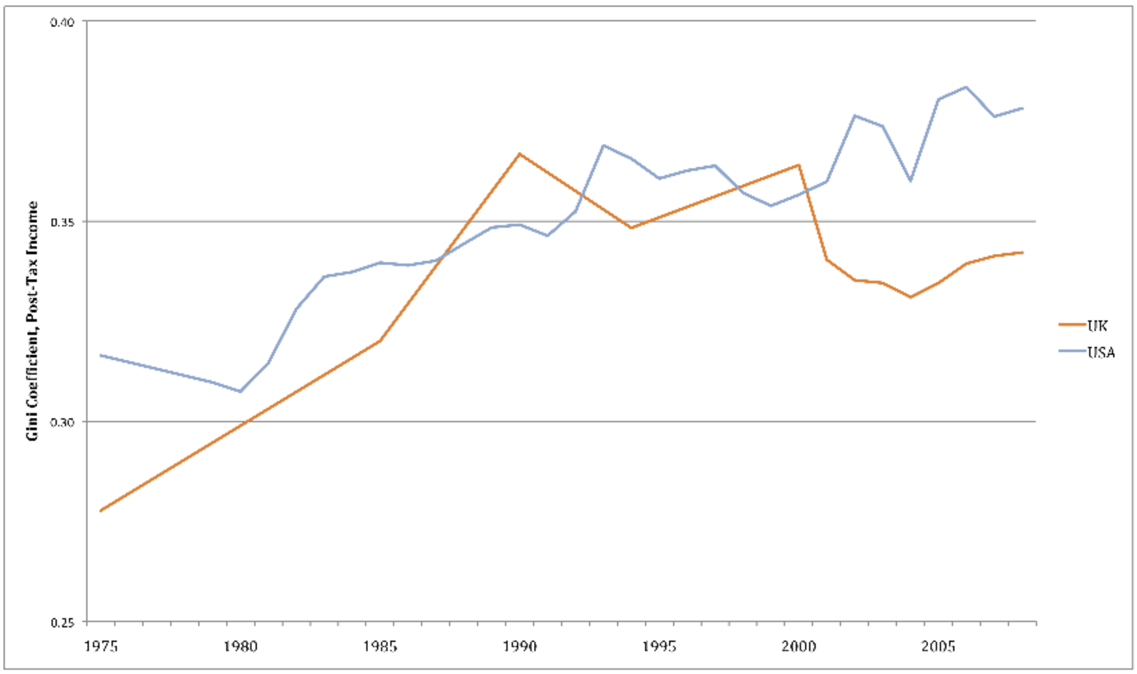
This suggests that Hacker and Pierson's WTA thesis could benefit from a greater focus on the broader structural constraints on redistribution and equality resulting from the pro-market transformation of the US, and the UK, from the 1970s on. Wealthy elites' superior ability to get organized to fight for their interests may explain part of the accelerating gains at the top of the income distribution, but the British case suggests that very often high earners can get their way even without heavy investments in organized combat. WTA income growth in the UK revolved around the expansion of the financial services industry, but this expansion was politically underpinned by the revenues it provided to fiscally constrained governments and the 'wealth effect' of rising asset prices for households further down the income scale. In effect, Labour had to 'feed the beast' of the financial industry in order to free up resources for public sector expansion and limited redistribution, because they were unable to win elections with a classic social democratic programme of greater social spending. Signing up to the pro-finance agenda resolved Labour's political dilemma, for a time, obviating the need for the financial elite to lobby hard to defend its interests.

Britain's WTA economy can therefore be seen as the consequence of the abrupt disruption of Britain's post-war economic and social arrangements, which dismantled some of the key institutions which had secured more egalitarian growth before the 1980s, and shifted the British economy away from sectors with strong labour organization in favour of others where rewards where distributed very unequally. By dismantling institutions that had facilitated collective action by wage-earners and low-income groups whilst encouraging the rapid development of unregulated financial markets, policy systematically favoured the wealthy, whose enhanced exit options increased their bargaining power, at the expense of other groups. These changes were inspired by a broad political and ideological project rather than any specific exercise of interest group power, and entrenched neoliberal thinking in policy and politics, as the financialization of the economy placed increasing obstacles in the way of government action to equalize the distribution of income gains.

It is important to emphasize that our analysis does not exclude the possibility that elite 'organized combat' contributed to these developments, and we note that the absence of clear evidence of pro-wealthy lobbying does not constitute evidence of its absence. Our explanatory strategy rests on the argument that a clear, theoretically consistent and empirically documented account which privileges other factors is more compelling than an alternative explanation which rests on a rather crude assumption that the beneficiaries of policy changes must have been involved in bringing them about. In the case of the US, Hacker and Pierson present substantial evidence that organized groups were instrumental in ensuring that the policy mix favoured top earners. In the UK case, systematic evidence is largely absent, but it is a priority for future research to look for data that might flesh out the WTAP thesis and improve our understanding of elite politics in the UK. Moreover, even if 'organized combat' is not necessarily an adequate explanation for the WTA economy, it can be considered a likely consequence of it. The closed City elite that was swept away by the Big Bang reforms has been replaced by a new elite, and there is emerging evidence that the financial lobby in the UK is becoming increasingly well organized and actively in lobbying to dilute regulatory reform in the aftermath of the financial crisis[109].

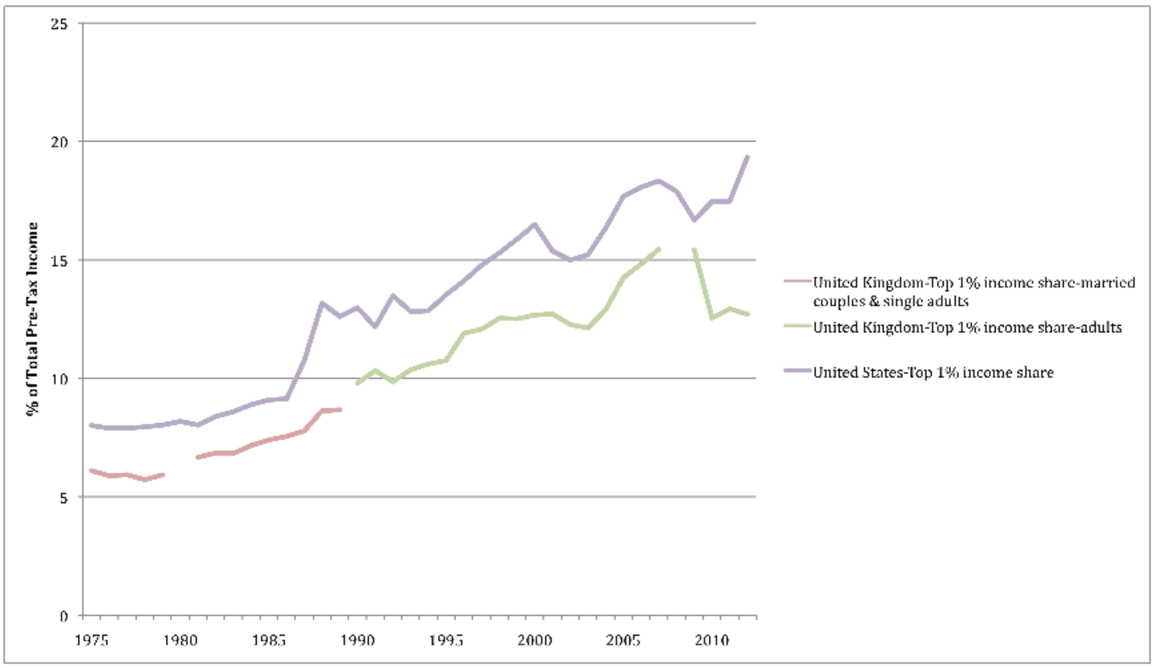
Our account of the British case implies that broader structural features of the political economy that emerged out of the transformation of the 1980s provide a compelling explanation of the growing income share taken by the richest part of the distribution, without the need to invoke 'organized combat'. However this should not be taken to mean that the WTA economy was an inevitable consequence of the political dynamics of a market economy. Instead, the battle of ideas about how the economy should be governed, and the degree to which different ideas can be mobilized to win the support of organized groups and the wider electorate, is fundamental to our account of how a WTA economy emerged in Britain. Organized interests such as financial lobbies, business organizations and indeed trade unions are a component of this account, but so to are political parties and elections, and the ideological and programmatic choices presented to voters. Determining why market liberal ideas defeated more egalitarian alternatives at the polls requires us to look beyond the 'organized combat' around specific policy details and focus on the much wider intellectual, political and electoral combat between competing ideas about the political economy, and its consequences for the distribution of income.

Figure One
Income Inequality (Gini Coefficient) 1975-2010, US and UK



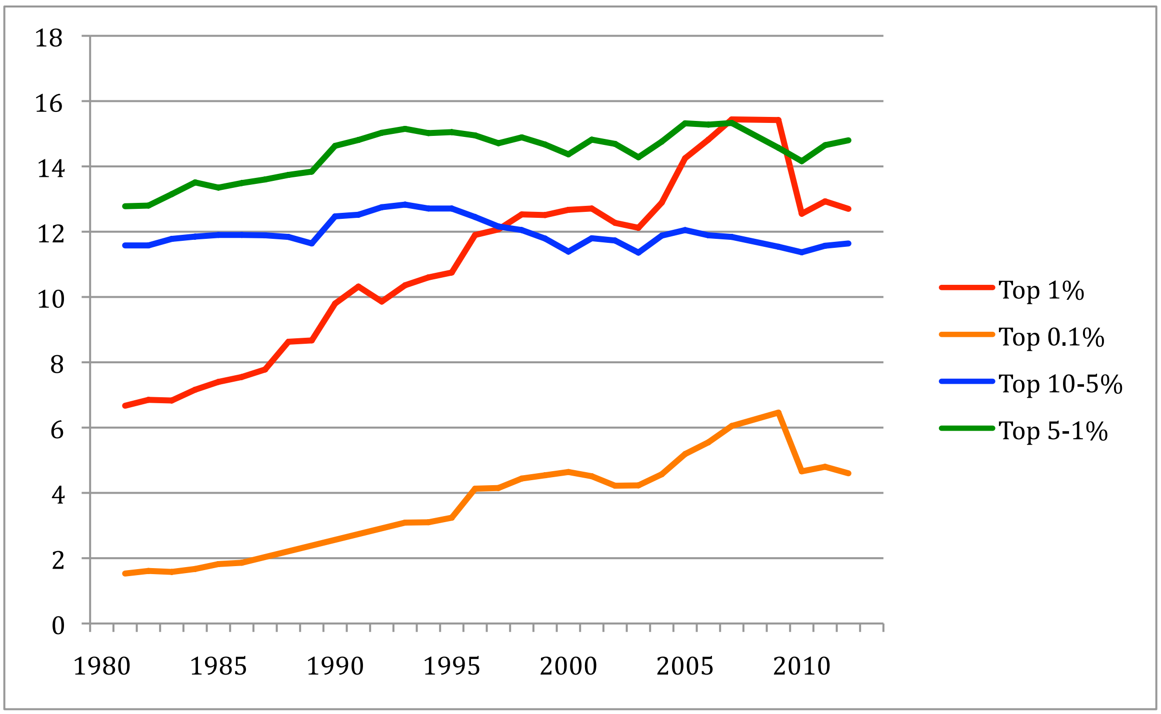
Source: [OECD Income distribution and poverty database (www.oecd.org/els/social/inequality).](http://www.oecd.org/els/social/inequality)

Figure Two
UK and US Top One Per Cent Income Share, 1979-2010



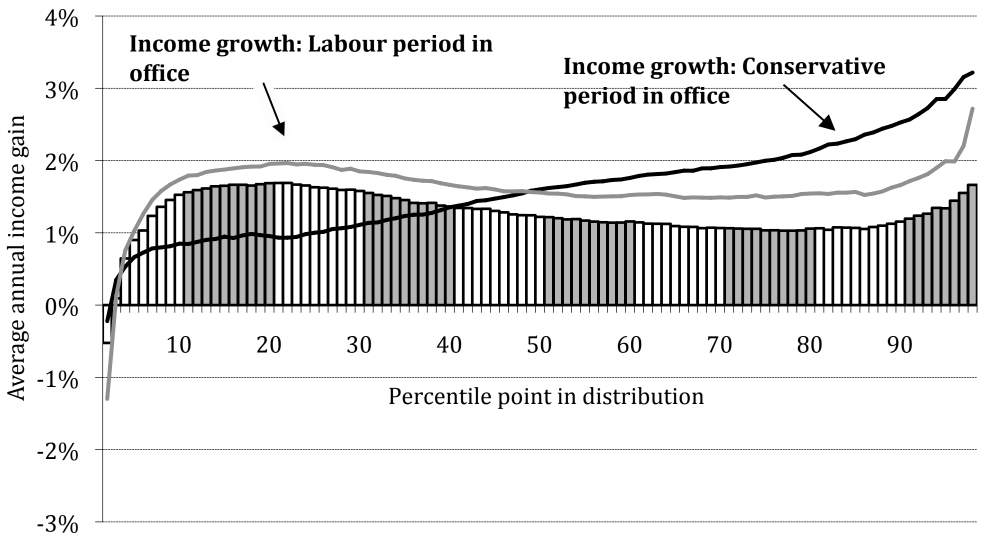
Source: [OECD Income distribution and poverty database (www.oecd.org/els/social/inequality).](http://www.oecd.org/els/social/inequality)

Figure Three
UK Top Income Shares, 1979-2010



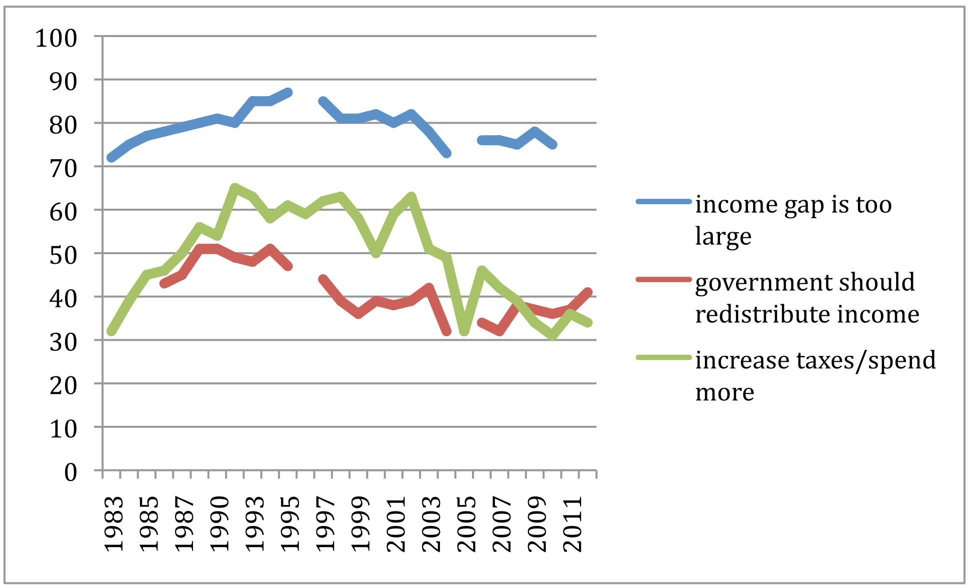
Source: World Top Incomes Database http://topincomes.g-mond.parisschoolofeconomics.eu

Figure Four
Income Gains By Percentile 1996/7-2010/11, and during Conservative (1979-96) and Labour (1997-2009) Periods of Government



Source: Robert Joyce and Luke Sibieta, Institute for Fiscal Studies

Figure Five
Attitudes on Income Redistribution, Taxation and Spending in the UK 1983-2012 (British Social Attitudes)



Source: Park, A., Bryson, C., Clery, E., Curtice, J. and Phillips, M. (eds.) (2013), *British Social Attitudes: the 30th Report*, London: NatCen Social Research, available online at: www.bsa-30.natcen.ac.uk

Notes

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[1] Jacob Hacker and Paul Pierson, 'Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States', *Politics and Society* 38 (2)(2010): 152-204; Jacob Hacker and Paul Pierson, *Winner-Take-All Politics* (New York: Simon and Schuster, 2010).
[2] See for example Andrew Gamble, The Free Economy and the Strong State: The Politics of Thatcherism (Basingstoke: Macmillan, 2nd Edition, 1994); Robert Skidelsky (ed.), Thatcherism (London: Chatto, 1988); Peter Kerr, Postwar British Politics: From Conflict to Consensus (London: Routledge, 2005); Stephen Farrall and Colin Hay (eds*.), The Legacy of Thatcherism: Assessing and Exploring Thatcherite Social and Economic Policies* (Oxford: Oxford University Press, 2014).
[3] See Thomas Piketty, *Capital in the 21st Century* (Cambridge MA: Belknapp/Harvard University Press, 2014), Fig.9.2
[4] Andrew Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism*.
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