New Ways of Analysing the Vicious Cycle of Wealth Disparities and Political Power

by Enrico Borghetto

In contemporary democratic societies, the nexus between wealth inequality and the disproportionate influence of rich private actors on the decision-making process is a growing concern. The fact that wealth can be leveraged to accumulate and wield disproportionate power has been a longstanding subject of discussion among democratic theorists. Yet, periods of economic upheaval, financial crises, or significant shifts in wealth distribution tend to rekindle such debates. This is precisely what is happening nowadays, with reputable sources pointing out that the concentration of income and wealth at the top has reached its highest point in the last 80 years. And the COVID-19 crisis has exacerbated this situation.[1]

If most agree that discussing the relationship between power and wealth has never been more essential if we care for the sustainability of the very fabric of our democratic systems, it is often difficult to disentangle their causal connection. The influence of wealth on power often operates indirectly. Wealth can contribute to political influence, for example, through campaign contributions, lobbying, or philanthropy.[2] However, it may not

1 According to the 2022 World Inequality Report, in 2021, the income and wealth disparities globally and in Europe are staggering. The average income of the richest 10% is 31 times higher than that of the poorest 50%. In terms of wealth distribution, the bottom 50% of the world owns only 2% of the total wealth, while the top 10% possesses 76%. In Europe, the income and wealth distributions are slightly less extreme: on average, the top 10% takes 36% of the total national income and captures 58% of total household wealth.

2 For a literature review, see e.g. Beckert, J. (2022). Durable Wealth: Institutions, Mechanisms, and Practices of Wealth Perpetuation. Annual Review of Sociology, 48(1), 233–255. https://doi.org/10.1146/annurev-soc-030320-115024

always result in a straightforward and linear relationship, and the influence of wealth may be mediated by other factors such as public opinion, political institutions, or cultural values.

Evidence of rising disparities in political representation between rich and poor

Despite these challenges, scientific research continues to explore the relationship between wealth inequality and power. For instance, in a 2021 study, Derek Epp and I examined the intricate connection between economic inequality, legislative agendas, and political power.[3] While conventional wisdom indicates that the economically powerful can influence politics in their favour by shaping the content of proposed laws or not enforcing them once they are enacted, our research helps elucidate an underexplored stage of the policy-making process. We suggest that the impact of inequality may be already evident when looking at what issues are kept off the legislative agenda. We build on the concept of the "second face" of power and point to the role of economic elites in preventing certain issues, especially those related to wealth redistribution, from gaining legislative attention. In other words, our focus is on non-decision-making, where elites strategically keep issues off the agenda to protect the status quo. To test our hypothesis, we analysed data on legislative activity surrounding different policy areas across different democratic systems (US and Europe) and spanning multiple decades. Our findings reveal a negative correlation between higher economic inequality and legislative attention to policies likely to generate downward wealth redistribution. The data suggests that, rather than directly influencing policy outcomes, economic elites may work as agents of inaction, strategically keeping certain issues off the legislative agenda. Our research underscores the importance of considering not only policy enactments but also the broader agenda-setting landscape in understanding the impact of economic stratification on democratic politics.

Analysing intra-party politics and discourses about tax increases

While addressing the influence of rich private actors on democratic decision-making is a complex challenge, various remedies can be considered to break the vicious cycle of wealth and power. Arguably, all are contingent upon the specific context in which they are applied. For instance, implementing regulations on campaign contributions (setting ceilings and asking for the full disclosure of the sources) stands out as particularly relevant in the United States. On the other side of the Atlantic, the "Qatargate" scandal has catalysed increased attention to lobbying transparency and regulation within the European Union. Finally, a policy that would go a long way toward mitigating the widening wealth gap in both regions is adopting more progressive taxation.

Lately, scholars devoted increasing attention to the apparent contradiction between the expected desire for higher taxes on the rich among the bottom 90% of the population, especially when economic inequality is increasing, and the observed trend of declining progressivity in taxation systems in developed economies.[4] Three sets of explanations were provided: first, the influence of business interests might lead politicians to be unresponsive to the majority's interest in higher taxes for the rich; second, the structure of global tax competition creates a barrier to imposing higher taxes on the wealthy, who are often seen as a mobile segment able to relocate to jurisdictions with lower tax rates; third, the political demand from the bottom 90% may be more ambiguous than expected, influenced by factors such as perceptions of the rich as deserving, the belief in the trickle-down effect of low taxes, or even potential tax illiteracy among voters.

3 Epp, D. A., & Borghetto, E. (2021). Legislative agendas during periods of inequality: Evidence from Europe and the United States. Journal of European Public Policy, 28(4), 532–550. https://doi.org/10.1080/13501763.2020.1734060

4 Scheve, K., & Stasavage, D. (2016). Taxing the Rich: A History of Fiscal Fairness in the United States and Europe. Princeton University Press. https://doi.org/10.1515/9781400880379

All of these factors, in particular the last one, were also invoked to account for the inadequate mobilisation of left parties around the issue of redistributive taxation.[5] While undertaking campaigns focused on taxing the affluent minority could prove a promising electoral strategy, leveraging public aversion to inequality, evidence suggests that left parties have often refrained from actively promoting progressive tax proposals. So far, only a few works tried to explore the reasons behind this lack of policy responsiveness from the "supply side" of electoral politics. Overall, their analyses of political discourses, especially among left-wing politicians, reveal that tax increases tend to be viewed as a topic that may negatively impact electoral prospects and where the left suffers from a competence gap. We think that this is a promising line of research because it focuses on politicians' beliefs about the electoral consequences of putting taxation on the political agenda, thus providing a micro-foundation to the trends found by the above-cited agenda-setting quantitative research.

Safeguard democracy from the disproportionate influence of rich private actors

In conclusion, the intersection of wealth inequality and democratic decision-making is a pressing issue that demands careful consideration and decisive action. From lobbying to campaign financing and media ownership, the influence of affluent individuals and corporations can skew the democratic process, jeopardising the principles of representation and inclusivity. Ultimately, the health of a democracy rests on its ability to withstand the corrosive effects of wealth disparity and to provide a level playing field for all citizens. For this reason, comprehensive reforms are necessary to safeguard democracy from the disproportionate influence of rich private actors. These include transparent and inclusive lobbying practices, equitable campaign financing mechanisms, and measures to ensure greater income redistribution. While certain politicians may contend that the structural challenges and perceived lack of political viability hinder the feasibility of certain remedies, this article pointed to a line of research challenging the notion of inevitability associated with these arguments. The contribution of these works is to cast light on the complex power dynamics that help keep some of these solutions off the political agenda. Some adopt a macro perspective, showing how a discernible trend of increasing inequality across developed economies is accompanied by waning attention on policies that facilitate downward wealth redistribution. Concurrently, others scrutinise the role of political agency, investigating micro-level factors like why left-leaning politicians frequently abstain from actively championing redistributive taxation in their campaigns. By addressing the intricate links between wealth and influence, these works can promote a new understanding of the deep causes of inequality and its perpetuation.

5 Elsässer, L., Fastenrath, F., & Rehm, M. (2023). Making the rich pay? Social democracy and wealth taxation in Europe in the aftermath of the great financial crisis. European Political Science Review, 15(2), 194–213. https://doi.org/10.1017/S1755773922000510. Fastenrath, F., Marx, P., Truger, A., & Vitt, H. (2022). Why is it so difficult to tax the rich? Evidence from German policy-makers. Journal of European Public Policy, 29(5), 767–786. https://doi.org/10.1080/13501763.2021.1992484

Publisher
Friedrich-Ebert-Stiftung e. V.
Godesberger Allee 149
53175 Bonn
Germany
E-Mail: info@fes.de

Issuing Department:
FES Democracy of the Future, Vienna
FES EU Office Brussels
FES Regional Office of Rhineland-Palatinate/Saarland, Mainz

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Design/Typesetting: pertext, Berlin

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ISBN 978-3-98628-519-7