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

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Abstract

Rising inequalities have been explained with reference to organized groups and the lobbying of the financial sector. This article argues that the image of politics as organized combat is contradicted by empirical evidence on lobbying in the United States and does not travel well to Europe. The power of finance does not operate through organized political influence. Rather, politics in the interest of capital unfolds as a structural feature of advanced economies over time. Tellingly, at the height of the financial crisis, one of the most promising strategies of institutions seeking government support was not organizing for combat, but collective inaction. The challenge is thus explaining how the power of finance built up and plays out in creating inequalities. A more structural, less agency-focused perspective highlights how the rise of finance was supported by actors that few would accuse of being finance-friendly, such as the European center-left parties and consumers. Re-conceptualizing the power of finance has important implications for political solutions to rising inequalities.

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1. Introduction

With the publications of Piketty's (2014) *Capital in the Twenty-First Century* and Hacker and Pierson's (2011) *Winner-Take-All Politics*, the politics of inequality have again become central in the social science research agenda. While some may have brushed off the insights of Hacker and Pierson's work as relevant to the United States (US) only, Piketty's research sheds doubts on such a perspective and urges us to provide comparative answers to the trends he has documented across advanced industrial societies. The financialization of advanced economies seems to play a crucial role across countries, as the contributions to this special issue demonstrate. Indeed finance is front and center in Hacker and Pierson's analysis of "politics as organized combat" of groups trying to influence policies behind the "electoral spectacle".

There is much to commend in Hacker and Pierson's analysis of a growing bias in US politics in favor of the wealthiest parts of society. However, the image of politics as organized combat and their insistence on interest group pressure draws our attention into the wrong direction. First, there is increasing evidence that organized groups are less pivotal in US politics than is generally assumed. Moreover, the insights on group politics do not travel well to Europe. Despite fundamentally different forms of political organization, many of the policies that are likely to be at the origin of rising inequalities change in similar directions in Europe, supported by political actors that few would accuse of being finance-friendly, such as the European center-left parties. The challenge is thus explaining how the power of finance built up and plays out in creating inequalities across countries and this requires a somewhat more structural, less agency-focused perspective.

In this contribution, I propose to conceptualize the political influence and power of finance not through combat, but through impersonal structures unfolding over time. At the height of the crisis, one of the most promising strategies of financial institutions seeking government support was not concerted action, but collective inaction. Hacker and Pierson document several of the mechanisms of such impersonal power structures in their own writings (Hacker, Pierson, and Thelen 2012; Hacker and Pierson 2002, 2010a; Pierson 2013). I follow their lead in rethinking structural power, which

ultimately pleads for a revision of the somewhat superficial image of politics as organized combat that many readers retain from *Winner-Take-All-Politics*.

The following article is structured in three parts. I begin by returning to the original notion of politics as organized combat, discuss how it is being used by the authors and indicate how this influences our perception of the politics of inequality. A second part sheds doubt on this notion, first, by documenting the decline of organized groups in US politics and the limits of lobbying in Washington D.C. highlighted in recent research. Second, I show how very different sets of actors have supported similar policies in Europe, despite being quite removed from finance. Third, a brief discussion of comparative bank bailouts illustrates how disorganization is in fact a source of strength for certain economic actors, in particular financial institutions in the midst of the recent crisis. In the third part, I propose to re-conceptualize the rise of finance in terms of structural power, relying on agency-less mechanisms ranging from policy drift to decentralized system dynamics. A conclusion discusses the political implications of such a perspective for those trying to reduce rising inequalities.

2. Politics as Organized Combat

For Hacker and Pierson (2011), the crux of the political accounts of American politics is their focus on campaigns and election outcomes. By concentrating on whether the administration and Congress moves left or right, such accounts fail to analyze "what the government was actually doing," (p. 96) and therefore lead to false conclusions. As Hacker and Pierson document, an important shift towards policies traditionally attributed to the right happened under Democratic president Jimmy Carter in 1977 and 1978. During this period of unified Democratic control of both houses of Congress, where electoral analysis would have assumed a shift sharply leftward, many liberal policy initiatives were defeated. As the authors summarize, "the precursors of the Reagan revolution were already visible," (p. 99). The gap between election results, party color and actual policy content demonstrates that one needs to move beyond analyzing voter preferences and start asking questions about the evolution of public policies to grasp the most significant political dynamics. In a later article, Hacker and Pierson (2014) lament that political science equally fails to adequately analyze these evolutions

due to the excessive focus of mainstream theory on vote choice, campaigns and election, reflected in the "Master Theory" developed by Anthony Downs (1957).

To move beyond "the electoral spectacle", Hacker and Pierson (2010b, 2011) propose to conceive of "politics as organized combat". Rather than studying only episodes of political competition over offices, they urge us to understand politics as sustained contest over enduring stakes, *in fine* the capacity to make policies. Holding office is therefore just a means to an end. For societal actors, "gaining and using control over political authority requires organization," (Hacker and Pierson 2010b, 172). "The main competitors [in the political arena], the ones in the ring from start to finish wielding their weapons and enduring each other's blows, are organized groups," not voters, according to Hacker and Pierson (2011, 102). They underline that influencing policy over time necessitates exceptional resources in order to overcome collective action problems and coordinate with others, develop expertise, focus sustained attention and operate across interlinked domains. It is therefore paramount to understand, how groups mobilize to influence government action over time.

In developing this argument, Hacker and Pierson (e.g. 2010b, 172) rely on classical interest group theory, which views lobbying as an exchange, which can ultimately produce capture (Becker 1983; Stigler 1971) and bias policy in favor of the special interests that wield most resources and have the most intense preferences (Olson 1965). These groups lobby politicians of all political leanings and the exertion of this pressure explain policy evolution even when no particular influence appears visible. This happens, first, because organized groups have the capacity to shape the policy agenda, by keeping contested issues off the table and encouraging symbolic actions instead of substantial ones (see Kingdon 2003). This is particularly effective, when public salience is low (see Culpepper 2011). Second, organized groups can prevent policies they consider harmful to be updated to stay relevant over time. Although this does not appear to require political action, such policy drift results from group pressuring policy-makers to "simply sit on their hands," (Hacker and Pierson 2010b, 173). This invisible type of power has been labeled as the "second face of power" by Lukes (1974) and is based on what Bachrach and Baratz (1963) have termed "non-

decisions". Organized groups are thus pivotal in Hacker and Pierson's account, even when the general public or a superficial observer cannot detect their intervention.

Hacker and Pierson are right to insist on the peripheral importance of campaigning and elections and to urge us to study policy evolution in order to understand shifting political dynamics over time. In doing so, they have made a major contribution to increasing our awareness of the politics of inequality in the United States and beyond: they help us focus on what is actually produced. There is certainly a lot of evidence that lobbying, broadly defined, plays a major role in US politics and should be a necessary part of any analysis of policy conflict. And yet, identifying such activities is insufficient for demonstrating their causal influence. Moreover, we now have increasing scientific evidence that organized groups are less central than Hacker and Pierson suggest. The causal story provided in their account is thus too simple, and not in line with empirical studies of lobbying influence in the US. In addition, it does not travel well to Europe. Let me turn to evidence that sheds doubts on a neat account of policy evolution based on lobbying only.

3. Limits

The following section discusses three developments that are puzzling in light of Hacker and Pierson's analysis: (1) the decline of organized groups in US politics, (2) similar evolutions in Europe in the absence of a US-style system of interest intermediation and (3) the extensive benefits special interests can obtain have without exerting pressure or organizing policy drift, as will be shown by discussing the recent bank bailout in the US and Europe.

The decline of organized groups

Speaking of the decline of organized groups may seem striking given that the number of lobbyists in Washington D.C. and the amount of resources spent on campaign finance and lobbying have exploded over time (Kuhner 2014; Lessig 2011). But it is important to distinguish the omnipresence of private money in US politics from the organization of interest groups, and from their potential influence over policies. To be sure, financial resources are essential for gaining access to US politics, which necessarily creates

important biases in favor of those that are most well endowed. However, this should not lead us to simply assume that those interests are necessarily well coordinated. In fact, coordination, which is the central feature of organized groups, has been in sharp decline in US politics.

To begin with, centrally organized groups, as they exist in other countries, have always been more fragmented in the United States, even on the business side. One will search in vain for a comprehensive capitalist organization able or willing to act as a counterpart to the American labor association AFL-CIO. Rather, following Gourevitch's (1986) analysis of the politics of economic crises, analysts in political economy have focused on the fluid coalitions that form on individual stakes (e.g. Rogowski 1989). But even the cohesion of these coalitions is questionable. In a recent book, Mizruchi (2013) provides a detailed historical account the fracturing of the American corporate elite. He shows that corporate leaders were most organized and influential in the 1960s and 1970s, represented through organizations such as the Business Roundtable and the Committee for Economic Development. Under considerable political pressure corporate leaders contributed to the post-war consensus marked by moderation, but also encouraged tax cuts and deregulation (see also Waterhouse 2013). The prize of their success was the breaking apart of business coordination. With a weakening of the labor movement and the transformation of corporate governance towards shareholder value, corporate leaders retreated from political coalitions and focused on individual benefits only.

This trend was further accelerated by the decline of commercial banks, whose boardrooms had been the meeting place for the leaders of the corporate community. With the rise of alternative sources of funding, banks lost their centrality in the American corporate network, which experienced a sharp drop in cohesion (Davis and Mizruchi 1999). Between the early 1980s and the mid-1990s, the number of directors sitting on several boards at the same time (so-called "interlocks"), declined by 15-20% (see also Barnes and Ritter 2001), between 2000 and 2010, it dropped by more than 30% (Chu and Davis 2013). The "inner circle" identified by Useem (1986) in the 1980s dissolved in the two following decades. During the 1990s and 2000s, when business leaders rose to celebrity status in the media and were known by most average

Americans, they spent less and less time meeting each other and coordinating political strategies.

The limited influence of organized groups is also confirmed by Smith's (2000) extensive policy-focused study of the lobbying efforts of U.S. Chamber of Commerce, arguably one of the most visible business associations throughout the decades. Examining well over two-thousand issues that the Chamber of Commerce took a stance on, he shows that they actually lose their battles unless they have public opinion on their side. Due to the high political salience of issues that American business is willing to work on collectively, politicians have an electoral incentive to resist the united corporate front and become more responsive to electoral constituencies. As we know from Culpepper (2011), corporate interests are most effectively defended in "quiet politics". The active coordination of business interests thus faces a paradox: comprehensive organization and coordination requires stakes that are of relevance to all different types of business actors, but these are precisely the types of issues that will diminish the influence corporate groups can have.

Does this mean that business simply retreats from large encompassing associations, but continues to wage their battles through smaller issue specific interest groups or even individually? Although this is certainly the case, we have reasons to doubt even the effectiveness of such specific efforts. To be sure, business groups and individual corporations lobbying in Washington D.C. outnumber so-called citizen groups (Brasher 2014). Their omnipresence, superior resources and the impressive anecdotal evidence of business success on specific issues have led the public and researchers to assume that money is directly related to lobbying success. And yet, Grossman (2012) finds advocacy groups are more often associated with policy change than business groups (see also Berry 1999). Measured by historians that have established positive group influence over individual policy cases, he also documents that identified interest group influence is in slight decline – although it remains in a relatively continuous range of 60%-40%. Although some portion of this trend may be linked to the particular form of measurement, it is striking "that reported interest group influence failed to increase during the numerical explosion of group mobilization in the 1970s, " (Grossmann 2012, 180).

In a recent study Baumgartner et al. (2009) have used a painstakingly constructed random sample of lobbying issues and participants and come to surprising and similar results. Most importantly, the relationship between money and policy change is close to zero (see also Ansolabehere, de Figueiredo, and Snyder 2003). This has several reasons. First, citizen groups are more likely to be cited as central players, despite being outnumbered. Second, influencing policy change necessitates overcoming a massive status quo bias in American politics. This in turn requires the successful construction of advocacy coalitions from within and outside the government that most often span the business and non-for-profit sector. In many cases, and this is the third point, these heterogeneous coalitions can be found on both sides of a policy issue. As Baumgartner et al. document for nearly one-hundred randomly chosen cases, rich interest groups do not just ally with the rich and poor groups with the poor: they mix. The recurrence of such alliances thus tempers the effect of money on interest group success.

Martin Gilens (2012) recent study of the relationship between wealth and political influence provides further interesting results. In an equally impressive research design he uses survey data on policy preferences in 1779 issues (support vs. oppose) and compares these with actual policy change four years later, asking whether average citizens, economic elites, or organized groups are most likely to see their wishes translated into decisions. The sobering and most fundamental finding is that average citizen preferences have little or no effect on policy outcomes and their preferences only correlates very modestly with interest groups, even those classified as “mass-based”. Put differently, the average America is not well represented through organized groups and does not shape policy dynamics through electoral mechanism or public opinion pressure. Echoing Hacker and Pierson, the study confirms that American politics do not function as proposed by theories of majoritarian electoral democracy (Gilens and Page 2014).

More importantly for our discussion, however, the category that appears to have the largest impact on policy outcomes are not groups, but affluent citizens. These economic elites, measured as respondents with income levels at the 90th percentile, have a separate effect on policy change that is almost twice as large as business groups, whose

effect is in turn twice as large as mass-based groups (Gilens and Page 2014, 575, table 4). Moreover, the association between affluent citizen preferences and business group preferences is surprisingly low (Gilens and Page 2014, 15). Similarly to Baumgartner et al., Gilens' data shows that the success of an average business group is roughly equal to an average mass-based group. At the aggregate level, however, the numerical advantage of business groups in Washington creates a greater correlation between business group preferences and policy change. What is more, and in line with popular sentiment, a combination of preferences from economic elites and business groups increases the likelihood of policy change substantially.

In sum, we are thus facing a puzzle. Affluence and influence work in tandem in American politics, but this is *not* due to the superiority of organized groups. It is certainly an advantage to be rich in Washington, but the coordination of business interests has been in rapid decline over the past two decades and wealthy groups often face equally wealthy opponents. Overall, the most significant impact seems to come from the preferences of affluent citizens, not groups. In a nutshell, American politics work in the interest of capital, but our understanding of the mechanisms of this influence is patchy at best.

Moving to Europe

Comparing US politics with European trends provides additional reasons to doubt that interest group activities can explain policy shifts in favor of capital interests. A central feature of the politics of inequality in Hacker and Pierson's account is the convergence of political parties on policies that affect pre-tax-and-transfer income (see also Piketty 2014, 427–79). They explain this convergence with the rise and number of business groups, the role of campaign finance that these groups can provide to both Republicans and Democrats, and the decline of middle-class organizations focused on economic issues, such as trade unions (Hacker and Pierson 2010b, 168–82). When looking at different countries in Europe, we can see that middle-class economic organizations remain more firmly established in many cases and that campaign funding is mostly public in Europe, which takes away one of the main channels of influence featured in the analysis of American politics. Still, despite these apparent differences in political

structures, European parties have *also* converged on economic and monetary policies, in ways largely comparable to the United States.

To be sure, trade unions are under pressure in all advanced industrialized societies and their density is generally in decline in recent decades (Ebbinghaus and Visser 2000; Gumbrell-McCormick and Hyman 2013). Still, variation across countries exists and both union density and coverage bargaining coverage in Europe is substantially higher than in the US. Hacker and Pierson (2011, 58) underline this point, arguing that unionization divided in half in the US, while it only dropped by a third in the European Union. What is more, in Canada, the rate of unionization was nearly identical to the US, but remained at 25-30%, while it is barely above 10% in the US. In Europe, it is in fact more helpful to distinguish between different countries, since Scandinavian countries still have a rate of unionization of around 70% of the workforce, while others, such as the UK or Ireland are at 27% and 37% percent respectively. At the bottom, French union density is well below the US, at 8% (Gumbrell-McCormick and Hyman 2013, 4–5). And yet, in terms of income inequality dynamics, France is closer to Sweden than to the UK, which evolves in ways that make it comparable to the US (Piketty 2014, 500–510). As we know from the comparative political economy and industrial relations' literature, what matters are not just pure union numbers, but the role that unions play in the institutional set-up of a country and the ties they have with political parties. Overall, it is fair to say that on many of those counts, unions continue to be more present in European politics than in the US (e.g. Frege and Kelly 2004; Hassel 2014).

In addition, the central mechanisms through which business groups are assumed to wage their battles in Washington – financial contributions – are regulated quite differently throughout Europe. Most importantly, public funding of both campaigns and party activities plays a substantial role in Europe.[1] This rise of public party funding was pioneered in Northern European countries in the 1960s, but spread steadily and is today widely adopted through liberal democracies (Ewing and Issacharoff 2006, 4–5). According to Koß (2010), the emergence of public funding regimes is linked to party politics, where coalitional dynamics and discourse of political corruption affects

[1] Public funding for electoral candidates exist in several US states and for presidential elections since 1976. However, the great majority of funding comes from private sources. For an overview of US regulation and spending limits of public funding, see www.fec.gov/pages/brochures/pubfund.shtml.

whether sufficient support across the party spectrum can be gathered to introduce public subsidies. He distinguishes between party systems with substantial state funding (Germany and Sweden) and those where proposals to introduce public funding where unsuccessful (the United Kingdom and France). However, France did succeed introducing state funding in 1988 and has considerably extended it by 1995. This is significantly later than in Germany (1959) and Sweden (1965), but documents the general trend of convergence towards public party funding regimes. Only the United Kingdom still relies mainly on private funding, despite a modest "policy development fund" introduced in 2000. This makes it an exception in Europe, together with Switzerland and Luxemburg, while elsewhere public funding is the norm today. In addition, public support for parties and candidates often goes beyond direct funding and can include allocation of free air time for advertisement, free space for billboards (e.g. Germany, Spain), free use of halls in public buildings (e.g. UK, Spain) or free mailing services (e.g. UK). The normative concern with private funding is indeed that this resource dependence will create unequal access for different stakeholders and favor business groups. More generally, it is linked to potential corruption. Empirically, Koß (2010, 103–27) documents that conservative parties in Germany were eager to move towards public funding in order to free themselves from business influence. This illustrates that we should thus expect organized business influence over European governments to decrease in the 1960s and 1970s in most of Europe, and in France in the 1990s. If party financing was a major instrument to shape policy, politics in the interest of capital should be in decline after the introduction of public subsidies.

And yet, the evolution of policies across Europe looks somewhat similar to the US from a bird's eye perspective. Broadly speaking, policy reforms that undermines the post-war social democratic compromises have risen sharply since the 1980s, which simultaneous developments on several fronts. Social protection regimes have been under considerable pressure to adopt more market-oriented principles in order to continue functioning, as Pierson and other have documented (Palier 2010; Pierson 1994, 1996; for an overview, see Starke 2006). Economic activity in many domains was deregulated (i.e. direct state intervention decreased and was replaced by regulatory oversight) and formerly state-run companies where privatized, in particular in infrastructure services (e.g. Levi-Faur 2006; Thatcher 2007). Corporate governance reforms and financial deregulation

allowed the expansion and international of financial markets (e.g. Busch 2009; Gourevitch and Shinn 2005; Roe 2003).

In a survey of five domains – infrastructure services, firm subsidies, labor markets, pension and health regimes, and capital relations – in eighteen countries, Höpner et al. (2011, 2014) ask whether countries converge in the manner in which governments reform public policies to replace direct state intervention with policies based on market principles. By analyzing trends across countries and domains cumulatively, the authors attempt to move beyond the sterile debate in comparative public policy that concludes that some convergence has happened, but important differences remain, depending on what element of public policy one looks at. Their data provides an interesting picture that confirms, first, that a general liberalization trend is visible in all advanced industrialized economies between 1985 and 2002. To be sure, the United States has started off with the most liberal regime in 1985 and remains in the leading position, closely followed by other Anglo-Saxon countries such as Australia and the United Kingdom. France, Italy and Norway have traditionally sported a high level of state intervention and continue to occupy this position comparatively, but their absolute levels have drastically fallen. Sweden or the Netherlands, which had been part of this group in 1985 have undergone massive liberalization and are now somewhere in the middle rank of all eighteen countries (Höpner et al. 2011, 18, table 1). Second, the cumulative change accelerates most rapidly until the late 1990s and then appears to slow down. Third, there is considerably variation across domains: while pensions and unemployment insurance is on average even marked by more state intervention, all other domains are clearly liberalized, in particular infrastructure services, firm subsides and financial markets. Fourth, Höpner et al. distinguish between regulatory liberalization and liberalization that affects monetary transfers from the state, which they call redistributive liberalization. They then distinguish comparatively, which countries have liberalized most with respect to others. On both dimensions, the liberalization leaders are Sweden and the Netherlands, while the Anglo-Saxon countries and Japan have actually been comparatively less radical in liberalization on both dimensions. Italy, Denmark and Germany distinguish themselves through comparatively high regulatory liberalization, while France, Canada and New Zealand have advanced on only distributive liberalization (to a degree comparable with the Netherlands).

This overview gives us a first glance of trends in Europe, but it is insufficient for analyzing the effects of the policy changes on economic equality. Certainly, the general lessons of the globalization literature is likely to hold: liberalization, understood as the the reduction of domestic state intervention, tends to favor those that are mobile, who can move more easily to the most advantageous regime. This can explain differences within labor categories, but highlights also the structural advantage for mobile capital over labor. But it would be a mistake to conclude that liberalization inevitably leads to greater inequality in Europe. This point is very effectively made by Kathleen Thelen (2014), in an analysis that resembles in parts Hacker and Pierson's analysis of drift. Studying the politics of liberalization and their effects on inequality, she shows that inequality increases in countries such as Germany even in the absence of liberalization. In coordinated market capitalism, the successful defense of traditional institutions can lay the foundations of rising inequality due to labor market dualization and declining coverage of negotiated bargaining between employer associations and trade unions. Similarly, she argues, some forms of labor market liberalization are compatible with high levels of social solidarity.

Understanding the precise effects of policy change of inequalities requires thus looking at the details of reform in individual policy domains, as has been done in the other contributions to the special issue. The overall picture that emerges goes in the same direction. Svallfors (this issue) and Anderson and Hassel (this issue) find increasing inequality in Sweden and Germany, mostly driven by labor market dualization since the 1990s. Cioffi and Dubin (this issue) argue that inequality in Southern Europe increases as a result of reduced employment and labor market regulation, which coincided with a favorable regime for capital in banking and finance. For the UK, Jonathan Hopkin points economic deregulation and financial market liberalization as reasons for rising British inequality. We can thus reject the hypothesis that followed from the analysis of party funding. Politics in interest of capital have gained momentum in the 1980s and 1990s in Europe, despite the inverse trend in private party funding possibilities.

What is more, like in the US, many of the policies in the center of these accounts have actually been advocated by parties on the center-left rather than the right and a

considerable literature tries to come to terms with this paradox. Unlike Hacker and Pierson, who attribute the Democrats' shift to the right to the power of organized groups, the analysis of the European cases points to a variety of factors. Cioffi and Höpner (2006) show that financial market capitalism was enabled in Germany, France, Italy and the United States through corporate governance reforms driven by the center-left parties, who faced conservative parties eager to maintain traditional state capitalism, banking institutions, family-based capitalism or managerialism. They show that reforms were driven in all four countries by international pressures and left party alignments with minority shareholders, who were insufficiently protected against major economic actors and banks. As one would generally assume, center-right parties were more closely aligned with banks and major business associations, who all had an interest in preserving their dominance through the status quo. Financial market reform was thus introduced to constrain the traditional economic elites from the left. The redistributive consequences of financial market capitalism with respect to labor did not enter the party political discussion as much as Cioffi and Höpner would have expected, and they simply conclude that their strategy was incoherent from a theoretical perspective. With respect to organized business influence, we nonetheless find the rather traditional fault lines: banking elites and managers were opposed to reform and found themselves represented – unsuccessfully – by center-right parties. Put differently, we see similar policy results in Europe and the US expanding financial market capitalism, but party colour did play an important role, with substantial differences between the left and the right – even if the result is somewhat paradoxical.

With regard to social protection systems, there is evidence from Europe that recent dynamics are also not due to business capture, successfully pressuring policy-makers to "sit on their hands" (Hacker and Pierson 2010b, 173). In a comparative analysis of pension reforms in Germany, France and Switzerland, Häusermann (2010) shows that governments actively adapt their existing pension regimes to new demographic and economic pressures. These reforms, which included both cutbacks and expansion of coverage to certain categories, can only be understood by the cross-class alignments. In particular, she shows that labor as a category has become very heterogeneous, with great divisions according to skill-level, gender, mobility and cultural preferences. It is thus flawed to assume that left parties will have a simple position in favor of an

industrial labor class, as previously assumed. Politics that may seem like they are in contradiction with traditional left positions do not signal that left parties have abandoned labor. Rather, labor and more generally the constituency of left parties have been profoundly transformed in post-industrial societies. Häusermann's work thus urges us to understand the transformation of party constituencies before judging whether party elites have abandoned their base in favor of organized groups.

In sum, the general trend of policy evolutions in Europe are rather comparable to the US: financial markets have been facilitated on many fronts and social protection systems are less universal today and more oriented towards market principles, albeit with considerable variations across countries. Like in the US, support for these changes came from both the left and the right. However, the mechanisms cited in the analysis of US politics are unlikely candidates for comprehensive explanations in Europe. First, intermediary institutions such as trade unions maintain a political role in most of Europe and the countries where there are weakest – France for example – are not those where business groups are most influential. Second, the role of private funding in politics is strikingly different in all countries but the UK. Moreover, if private funding was a transmission mechanism for political preferences, business interests should have seen their influence decline with the introduction of public funding between the 1960s and 1980s. This is not in line with the policy evolution that needs explaining. Third, comparative public policy analyses urge us to find more multivariate responses than just the rise of organized interests. International pressures and demographic changes are often cited as triggers for reform, and most analysts do find an important impact of party competition and alignments in Europe. However, the constituency bases of the various parties appear to be transforming profoundly and we need to account for these changes before assuming that party elites have abandoned voters.

Disorganization in finance

Of course, there are good reasons to think that party elites may be increasingly removed from voters (e.g. Katz and Mair 1995; Mair 2013). But much of the literature on this question points to internal party dynamics and external pressures such as European integration, rather than capture through organized interests. In his recent book, Streeck (2014) points most vigorously to the demise of democratic politics due the structural

impact of financialization, which impose a straightjacket on debt-dependent politicians of all colors. He even refers to financial markets as the "second constituency" in competition with, and mostly dominant over, traditional electoral constituencies. Indeed, finance appears to be pivotal in explaining the politics of inequality. But again, even the financial sector's great strength does not fit the image of "politics as organized combat" (cf. Hacker and Pierson 2011, 274–5). The section will argue that the financial industry is very far from acting as a coherent organized group.

This last point is important, because many recent accounts of the financial crisis in the US reflect Hacker and Pierson's perspective and point to the undue political influence of the financial industry in the building up of the crisis (e.g. Johnson and Kwak 2010). Still, describing their political strategies as "organized combat" is misleading, because a substantial part of their political success depends neither on organization, nor combat.

In a recent book (Woll 2014b), I have documented the collective action of the financial sector by comparing the national bailout plans that were devised in the US and five European countries in the fall of 2008. As extraordinarily costly and highly redistributive public policies, bank bailouts are commonly assumed to result from pressure exerted by financial institutions upon their government (e.g. Reinhart 2011). Although banks individually certainly try everything the can to obtain a government bailout when they are on the verge of collapsing, this is by no means a collective enterprise. On the contrary, it is most often the government that urges financial institutions to organize politically and contribute to formulating a government response that can help stabilize the financial sector. Obtaining a collective private sector response that could serve as a blueprint for a national bailout plan was an objective in the United States, Germany, France and Denmark. This requires coordination among individual institutions in order to determine the height of involvement and the price they are willing to pay for government intervention. For the government, the advantage of collective action by the industry is that it can shoulder part of the expenditures of a bailout plan. But only in France and Denmark did the financial sector actually end up working together on a crisis response. In the United States and Germany, individual institutions engaged in some weak compromises – for instance when the major US investment banks all accepted to participate in the first Toxic Asset Relief Plan

recapitalization – but they quickly fell apart. Even in times of crisis, when financial institutions were collectively facing the threat of a collapsing economy, differences between institutions create important disincentives for coordination and political organization (see also Culpepper and Reinke 2014). In addition, due to the massive consequences of their individual collapse for the respective economies, financial institutions can hope for government intervention even if they do not coordinate to facilitate a response. Since coordination implies compromising with the government, financial institutions end up exerting more power through inaction than they would through organized combat.

The political action of the financial industry during the management of the crisis might diverge from their behavior during the decade prior, which can give us cues about the building up of the crisis. But even then, we have reasons to doubt that the coherence of the financial sector is greater than the coherence of business interests in general, as discussed above. Finance is composed of a multitude of sectors, institutions of very different size and a myriad of stakeholders with often opposed interests (Woll 2014a). The likeliness that different parts of the financial industry will lobby on opposite side of most policy issues is relatively high. We can thus conclude that finance is not really different in terms of interest group organization from other business interests. It is unlikely that the financial industry has been able to expand its activities and obtain an increasing part of the country's wealth merely by sending lobbysts to Washington D.C..

In essence, we are facing a puzzle. Finance has clearly established itself as a central element in the politics of advanced industrial societies and this has important redistributive consequences, in particular for pre-tax and pre-transfer income. But the image of organized combat is in appropriate. Even if it is substantial, the lobbying of the financial industry is unlikely to explain the success of policies in favor of capital interests in Washington D.C. and in Europe. Even drift cannot account for all of the observed phenomenon: in the case of bank bailouts, massive policies were created that favored capital interests *in the absence* of organized collective action. What then drives these policy decisions, both across countries and over time?

4. Re-conceptualizing power

What makes finance special is not how the industry organizes for combat, it is their structural power. The structural features of financial capitalism weight heavily on politics and are a more likely candidate for explaining rising inequalities across advanced industrialized countries. Hacker and Pierson are keenly aware of the importance of structural power (Hacker and Pierson 2002; Pierson 2013). And yet, their effort to explain political choices lead them to an agency-focused perspective that ends up downplaying several important aspects of structural power in the analysis of *Winner-Take-All Politics*. In the following, I will define structural power and its effects on public policies. I then turn to the cumulative biases created through structural power and discuss how these operate horizontally – across policy domains – and vertically – by changing hierarchies in political authority.

Power has been defined as "the production, in and through social relations, of effects on actors that shape their capacity to control their fate," (Barnett and Duvall 2005, 45).[2] Structural power operates through existing institutional arrangements that put certain actors in privileged positions, allowing them "to change the range of choices open to others without apparently putting pressure directly on them," (Strange 1988, 31). The structural power of business has been analyzed extensively in politics (e.g. Block 1977; Brady 1943; Lindblom 1982) and can easily be extended to finance. Indeed the financial crisis revived the structural power debate (e.g. Bell 2012; Culpepper and Reinke 2014). In accounts that are radically more focused on the structure of finance capitalism, Harvey (2011) and Streeck (2014), for example, point to the dynamics inherent in accumulation regimes and debt-financed government expenditures. For both authors, the rise of finance capitalism is simply incompatible with representative democracy because of the pressures a capitalist economy puts on politicians.

These pressures are familiar to comparative public policy analysts and are cited in many studies. Market opening create pressures on social protection regimes if and when firms can relocate more easily than labor. Investment decisions of a myriad of small private

[2] This definition has the advantage of reflecting a common distinction between "the power over", i.e. domination, and "the power to", i.e. capacity. Conceiving of power as the production of both effects simultaneously highlights that one is always defined in relationship to the other.

firms are sensitive to political signals concerning taxes, regulatory control or other forms of government intervention and can possibly create a race to the bottom of political regimes that are in competition with one another for these investments. An increase of government debt makes it vulnerable to fluctuations in international financial markets and the signaling devices of rating agencies and other performance evaluations. Relying on finance for economic growth makes government dependent upon the health of these institutions, which may also become too interconnected, too big, or too exposed to fail. These dynamics – capital flight, regulatory competition, dependence on international financial market or too-big-to-fail financial institutions – create problem structures that weigh upon politicians independent of their party affiliation. They also shape the discourse of political debates within which policy reforms can take place. It does not matter for our purpose whether these economic constraints are ideational constructs or material realities: what counts is that alternative solutions are most often considered radical, which will lead policy actors of very different colors to organize their debate around these constraints (Gourevitch 2013, 274).

As a consequence, structural advantage creates a cumulative bias. Once markets become integrated, it is difficult to consider policies that are incompatible with previous decisions. Pierson underlines this temporal dimension of power from a historical institutionalist perspective: "political contestation is both a battle to gain control [and] to institutionalize advantage" (Pierson 2013, 6). Through institutional arrangements, politics distribute and generate power in the future. The cumulative bias of structural advantage can work through several mechanisms. Drift, as developed by Hacker and Pierson (2010b, 170) is certainly one of them. Drift occurs when policy makers fail to update public policies to a changing socio-economic context "despite the recognition of alternatives." But this happens not only "due to pressures from intense minority interests or political actors exploiting veto points in the political process." In some cases, the updating of policies may be discarded because it creates tensions with other policies or because the updating would require government resources that are simply unavailable. Put differently, focusing only on the decision of individual agents and potential biases arising from interest group politics obscures the often shared problem

structures that political stakeholders tried to respond to. This in turn is a result of structural arrangements and cumulative dynamics in financial capitalism.

A first *horizontal* dimension of cumulative bias is the effect of a policy decision across domains. In comparative political economy, the literature on the varieties of capitalism has drawn attention to the intricate set-up of socio-economic orders, in particular the importance of institutional complementarities (e.g. Amable 2000; Hall and Gingerich 2009; Hancké, Rhodes, and Thatcher 2007; Höpner 2005). Complementarity is a functional term, highlighting that two elements must be combined to produce an outcome. In a comparative analysis of production regimes, studies have shown that wage coordination requires specific monetary policy institutions, or that skill formation regimes depend on particular corporate governance arrangements. If one of these domains is reformed, the other will stop functioning adequately. This may or may not be a conscious decision. In either case, we can see that small decisions about certain key aspects of institutional arrangements can have repercussions across domains, even if these are never directly targeted politically by any of the stakeholders.

A second *vertical* dimension of cumulative bias happens through the reallocation of political authority as a result of previous policy decisions. As a large body of historical institutionalist scholarship has highlighted (e.g. Capoccia and Kelemen 2007; Pierson 2013), some policy decisions have important temporal consequences because they reallocate political authority and provide the grounds for policy decisions in the future. Delegation of certain domains to independent regulatory agencies or an independent central bank, or the transfer of competences to supranational institutions such as the European Union are examples of such decisions. Once new arrangements are in place, they operate as a guideline for political decisions and can create rather striking system dynamics. Scharpf (1999, 2012), for example, demonstrates that European integration creates a bias towards the reduction of barriers – negative integration – rather than the creation of new European provisions – positive integration. This bias results from the simple fact that obstacles to free movement can be challenged in the European Court of Justice, and many provisions in national legislation potentially fall in this category. Inversely, replacing such provisions at the supranational agreement requires a political consensus among an ever-growing number of member states and is therefore highly

unrealistic. A one time victory over European integration thus creates a systematic bias in favor of mobile factors that is likely to affect a great number of policy domains, even if no interest group ever exerts any pressure on politicians to address these directly.

In sum, finance benefits from structural power, not superior organizational capacity. The rise of finance and the centrality of economic considerations that continue to favor capital interests, investment and economic growth are the result a series of small, sometimes even insignificant decisions that create self-reinforcing mechanisms over time.[3] Capital has power because it serves as a principle for policy production – sometimes unchallenged, sometimes mitigated. In a way, the politics of inequality do not result from the power of capital interests. Rather, they are the consequence of "an intense activity of enrolling, convincing and enlisting" people and policy-makers to act in a manner that is internally coherent with these principles (Latour 1986, 273).

5. Conclusion

Hacker and Pierson have made an important contribution in re-focusing our attention to the actual consequences of politics: the production of public policies and their effects. However, in trying to argue against analyses of electoral results and party alignments, they have put too much emphasis on pressure groups and anecdotal evidence from US politics. In this article, I have tried to show that conceiving of "politics as organized combat" gives an inaccurate picture of American dynamics and few guidelines for the analysis of European evolutions. This shortcoming is due to the search for specific agents that are universally responsible for the overall policy orientation. A more structural understanding of the power of finance helps to see that agency is in fact fragmented and shared between political, economic and other societal actors. Rather than trying to understand their individual decisions at any one point in time, we should focus on the structural features and the particular institutional arrangements that shape the individual players' capacity for action.

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[3] It may be possible that some critical juncture decisions are in fact "big decisions", even at the outset. But it is insightful to consider that the defense of the free movement principles in the European Union was not perfectly institutionalized through the original treaty provision signed in 1957, but through a now famous footnote in the Cassis de Dijon judgment in 1979.

Re-conceptualizing the power of finance and moving towards a less-agency focused account is important because affects the policy recommendations one may issue at the end of the analysis. Opposing themselves to the globalization literature that points to "the economy" as a culprit for major changes in government, Hacker and Pierson (2011, 290) insist that "it's the politics." Moreover, it's domestic politics that matter most, so "the future is within out control." The political reforms necessary to diminish the advantages of the wealthy should focus on (1) reducing the blockage capacity of entrenched elites, (2) facilitating broader middle and lower class participation and (3) encourage organized economic groups for the defense of these drowned out voices (Hacker and Pierson 2011, 303). More specifically, their hope lies in the reform of filibuster regulation, changes in electoral regulation to increase turnout and a more supportive landscape for trade unionism, however difficult these might be to obtain.

It is possible that all three of these solutions will have an effect for reducing inequalities in America over the long run. As Piketty's (2014) data shows, increasing inequality in the US is much more marked than in Canada or Europe and it would already be an achievement to move closer to these levels. But the comparison with other countries also indicates that the effect of domestic political changes may only affect outcomes at the margins. The trends identified in Europe highlight that we should also ask more fundamental questions about the current institutional arrangements of our capitalist democracies. Politics do matter, but less in the day-to-day decision making equilibrium, than in the features of institutional arrangements. We need to understand which institutional arrangements impose the most important constraints on future public policies, in order to analyze whether and how these can be changed.

The answer to these questions will not be the same across countries. Because of market power, the effects of public debt are not experienced as an external constraint in the United States to the same degree that they are in Greece or Japan (Schwartz 2009). In Europe, an increasing number of voices asks whether a dismantlement of European integration would not help to reestablish representative democracy at the national level (e.g. Höpner 2014; Streeck 2014). Depending on the size of the country in the global economy, the capacity for governments to find solutions within domestic politics are

more or less circumscribed, in ways that are extensively analyzed in the field of international political economy.

Recognizing the interconnectedness of domestic and international politics does not mean that one needs to be fatalistic about the capacity of capitalist societies to reform themselves. However, one is more likely to envision change as a joint endeavor across nations that rely on both domestic reforms and international agreements. Just as cooperation has allowed markets to expand through trade and investment agreements or coordination on monetary regimes, countries can coordinate to regulate financial capitalism by fixing limitations on business operations, bonus regimes or corporate governance guidelines. Whether such international agreements are sufficient to keep finance capitalism at bay is an open question. But I would still guess that the financial industry in the United States is more nervous about the application of a harmonized regime of capital requirements through the Basel III reform than about a possible change in filibuster regulation or the rise of a trade unionism in Washington D.C..

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