On the Comparative Political Economy of Top Incomes: Phases of inequality in Portugal vs the USA, Germany and Sweden[1]

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"The history of the distribution of wealth has always been deeply political, and it cannot be reduced to purely economic mechanisms." Thomas Piketty (2014)

Abstract

Owing to a growing economic literature, we now have comparable Distributional National Accounts for income inequalities at the top, covering all EU and English-Speaking countries, since 1980 (Blanchet et al., 2019; Alvaredo et al., 2016). This article is a first attempt to explore the insights the CPE scholarship has to offer to explain income inequality, contrasting its theoretical body with the economic literature on top incomes. It also constitutes a preliminary investigation on the substantive explanations for top income inequalities in Portugal, framed within distinct political economy cycles (Reis, 2018): democracy and employment (1975-1983), European integration and liberalization (1984-1993), monetary integration and external debt (1993-2001), pre-crisis instability within the EMU (2001-2007), global financial crisis and adjustment programme (2008-2014). This comparative political economy analysis focuses on both market and disposable income inequalities, contrasting the idiosyncratic realities across three other Varieties of Capitalism (Hall and Soskice, 2001): the USA (LME), Germany (Continental CME) and Sweden (Nordic CME).

1. Introduction

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What was for decades absent from mainstream economic theory is now at the forefront of both academic and public debates. Income inequality has been broadly rising across and within nation states. On top of common political economy processes such as globalization, financialization and decreasing labour bargaining power, different national institutional forms and public policies shape the diversity of top income shares.

This article attempts to bridge two growing but separate scholarships: Comparative Political Economy (CPE) and the economic literature on top incomes. For this, it begins by briefly summarizing the different approaches within CPE, reflecting upon their insights about income inequality. Secondly, it frames the developments within the top incomes literature and its main findings, focusing on Portugal, Germany, Sweden and the US. Thirdly, the challenges for understanding the substantive causes for such wide diversity of top income shares are presented. Finally, the article presents a preliminary investigation of top income inequality in Portugal, throughout distinct political economy cycles, synthetically contrasting the developments across the chosen varieties of capitalism.

2. Comparative Political Economy approaches

There is an interesting debate within the vivid Comparative Political Economy scholarship, which is advancing the knowledge about the differences among countries and their substantive reasons. Acknowledging that the overview that follows is by no means exhaustive, it represents an effort to present the main approaches within CPE and critically reflect upon their contributions to the understanding of income inequality.

2.1 Varieties of Capitalism: another supply-side

The Varieties of Capitalism (VoC) literature, arguably the most influential within CPE, focuses on the institutional foundations of firm competitiveness and labour supply quality (Amable et al., 2019). It was originally developed by contrasting the Liberal Market Economy (LME) of the US with the Coordinated Market Economy (CME) of Germany (Hall and Soskice, 2001). Building a supply-side theory alternative to the hegemonic and generalist neoclassical paradigm, the set of complementary national institutions – industrial relations, skill regimes, corporate governance, financial system and welfare states – is put at the center of the explanation for the dichotomous production regimes and comparative advantages between LME and CME. In short, the LME excel from a highly flexible labour market combined with a weak welfare state to incentivize quick employment reactivations, which are facilitated by an education system focused on general skills. On the other hand, in CME, wide coordination between trade unions and large industries (collective bargaining), together with higher labour market regulation, promotes the mutual investment in industry/firm-specific skills and competitiveness through quality. In addition, the dual educational system initially builds the ground for the formation of a diversified quality production in Germany (Streeck, 1991). Thus, the theory posits that LME prompt radical innovation (e.g. in biotechnology and ICT), boosted by a financial system operating through the stock market, whereas incremental innovation (e.g. in manufacturing) takes place in CME, financed through more patient capital invested by the banks in long-run projects.

The VoC literature has been criticized for its functionalism about rigid and complementary institutional arrangements (Thelen, 2010), for only focusing on the supply-side and institutional equilibria (Nölke, 2016), and for being too narrowly focused on the US and the German cases, leaving out a myriad of countries which are labelled by residual (Mixed ME of southern Europe), or by affiliation (Dependent ME of eastern Europe) (Nölke and Vliegenthart, 2009). Moreover, it aggregates diverse realities within each ideal type – e.g. Nordic countries have a much lower level of income inequality than Continental Europe: both CME (Atkinson et al., 2011). Besides its inadequacy for the study of institutional change, it arguably sets aside the redistributive role of the state (Hall and Soskice, 2001: 156) – a fundamental ingredient for understating income inequality. Contrasting with the VoC theory, not only Germany as seen its inequality increase over the last decades, especially at the top, but also it does not illuminate the reasons behind the differences among MME nor the DME upsurge in inequality. Nevertheless, this scholarship has had the capacity to reform itself by incorporating criticism.

In what concerns income inequality, the original theory offers some interesting insights. Simply put, it posits that "most inequalities result from particular welfare production regimes (i.e. combinations of product market strategies, skill profiles, and the political-institutional framework that supports them)." (Hall and Soskice, 2001: 156). The most consistent argument is based on the explanatory power of two factors: the skill system (general vs specific) and the wage-bargaining level (industry coordinated or not).

"By themselves this pair of dichotomous variables account for nearly 70 per cent of the [OECD] cross-national variance in income inequality." (Hall and Soskice, 2001: 177). Furthermore, this literature as the merit of pointing to some fundamental political and institutional explanations for inequality – e.g. Rueda and Pontusson (2000) stressed that "the effects of government partisanship are contingent on institutional context [and that] [u]nion density emerges [...] as the single most important factor". We have, nonetheless, to keep in mind that these arguments mainly refer to wage/earnings inequality, at best income gini inequality, and not necessarily apply to top income shares. As demonstrated by Alvaredo et al. (2017), the gini coefficient of a distribution might be constant and hide an increase in top income shares alongside an enhancement of incomes at the bottom – i.e. a middle-class squeeze. Moreover, one might argue that the supply-side bias of the VoC leads to the usual neoclassical explanation for market inequalities, with the additional prediction that the CME's institutions ensure a more egalitarian net distribution.

> The conventional wisdom of the CPE literature holds that market forces, associated with technological change and globalization, have been a source of rising earnings inequality in OECD countries, but institutional arrangements characteristic of coordinated market economies have muted or deflected these pressures. (Baccaro and Pontusson, 2016: 179)

2.1.1 Models of Capitalism: dominant social bloc and cluster analysis

Roughly at the same time, another strand of CPE research emerged, through Amable (2003), also emphasizing the role of institutional complementarities, here formed by the social dominant bloc.[3] Institutional change depends on the political balance between social groups with different vested interests, taking into account the complementarities of institutions. Thus, the dominant social bloc establishes a specific hierarchy of (external and internal) institutions which, in turn, is path dependent and may result in distinct sub-optimal equilibria. The identification of these diverse Models of Capitalism is based on the (empirical) clustering of five institutional domains: product market, financial system, labour market, welfare state and educational system. Based on several indications for

[3] "Institutions are the expression of a compromise and both influence and result from the formation of a stable socio-political bloc" (Amable, 2003).

each domain, the results highlight five models of capitalism, which broadly resonate the VoC: market-based (the LME, English-speaking countries), the CME are separated into social-democratic (Scandinavian) capitalism and Continental European countries, Mediterranean economies and Asian capitalism.

Despite similar aggregation issues to the VoC, the empirical approach of this framework arguably seems to be better equipped for the study of institutional change. Based on a myriad of indicators for those five domains, Antonelli et al. (2019) evidence the changes in clusters and underlying countries between 1995 and the more diversified 2010, and the differences compared to those identified in 1990 by Amable (2003). The authors find that the model of capitalism conditions the level of disposable income (gini) inequality. The Western European model (Portugal, France, Spain, Ireland and the Netherlands) is the closest to the most unequal Anglo-Saxon model, while not only the Scandinavian model but also the Ex-Socialist European countries are significantly more egalitarian. Yet, the incorporation of all those institutional indicators still fails to distinguish very different top 10% shares (e.g. much lower in the Netherlands than in Southern Europe or the diversity within Eastern Europe – see figures in the annex). Furthermore, it does not shed light into the causes for the substantial inequality increase in Germany (which does not change clusters between 1995 and 2010 despite its top 10% presently resembling the Portuguese case) – see figure 2.

2.2 Growth Regimes and Models: the demand-side

Recently, there have been some signs of a paradigm shift in CPE towards a focus on Growth Regimes (Nölke, 2016; Kohler and Stockhammer, 2020). Baccaro and Pontusson (2016) started this line of research by studying the substantial diversity in demand-regimes among four industrialized economies, during the decade preceding the GFC (1994-2007). Based on the relative growth contributions of the macro components of aggregate demand, the authors found that the UK was consumption-led, fuelled by credit and rising wages from buoyant household demand, and a negative contribution from net exports.[4] At the other extreme was Germany with its export-led growth, grounded on the VoC's argument of institutionalized wage moderation within a fixed-exchange rate

[4] Thus incurring in current account (CA) deficits. However, these deficits are continuously financed through the supply of financial instruments, produced in London, which the rest of the world wants to hold, relaxing the CA constraint to growth.

regime. Without the capacity to manage price competitiveness through exchange rate policy, Germany pursued a strategy of coordinated wage compression, which undermines private consumption. Hence, a trade-off between these growth regimes is closely tight to the real exchange rate overappreciation, in the former, versus underappreciation, in the latter (Baccaro and Pontusson, 2016). Notwithstanding the trade-off, Sweden was able to achieve a mix between both, arguably through the investment in higher-valued and knowledge-intensive sectors which diversified the Swedish tradables and enabled a lower price-sensitivity of their exports. Finally, Italy's growth was deficient for not being able to consolidate neither of the growth regimes.

Baccaro and Pontusson build the theory of growth regimes on Post-Keynesian macroeconomics, mainly its New Kaleckian framework, which posits that full-employment can be achieved through public spending, lower interest rates boosting private investment, and redistribution of income to the poor (which have higher marginal propensity to consume). This "critical comparative capitalism" approach (Nölke, 2016) to encompass the missing macroeconomics of modern Political Economy (Blyth and Matthijs, 2017) is different from the one adopted by some of the VoC scholars.[5] Yet, despite the attempt to emphasize the distributional implications between export-led and consumption-led regimes, the analysis only addresses wage inequality, measured by top (p90/p50) and bottom (p50/p10) half percentile ratios. It is important to note that these measures might be independent of top income shares – e.g. the p90/p10 ratio might be constant after a doubling of the top 10% if only the individuals above the poorest within that group (>p90) see their incomes rise. Furthermore, the paper focuses on wage inequality before taxes and transfers and completely ignores the role of fiscal policy – a critique already pointed out by Hope and Soskice (2016).

More importantly, their main argument about the growth regime's inequality implications is not robust outside CME. While a higher private consumption contribution in Nordic countries, when compared to Continental CME, might be explained by more egalitarian income distributions, the most consumption-led nations (i.e. LME) are also the most unequal (Hope and Soskice, 2016). In other words, one cannot say that export-led

[5] Responding to this proposed approach, the authors of VoC submit the that New-Keynesian three-equation model is better suited for the study of the economy (Hope and Soskice, 2016). While post-Keynesian macroeconomics stresses the importance of functional income distribution, although not addressing top income inequality, these VoC scholars discard distributional issues and focus on aggregate macroeconomics, in line with neoclassical economics.

regimes are associated with higher inequality. Here, I argue that the distinction between domestic demand regimes and debt-led models within a consumption-led regime, inspired by Kohler and Stockhammer (2020), might be necessary. If private consumption booms primarily due to rising wages, as in Sweden, inequality is lower, while if it is mainly financed by credit, as in LME, inequality will be high due to: (i) wider inequalities between wages from the financial sector and the rest of the workers, and/or (ii) by the hypothesis that higher funds in financial markets might be associated with higher inequality to the extent that they disproportionately rise the forms of capital income.[6]

Most of the VoC, growth regimes and models of capitalism literatures analyse the varieties of macroeconomic performance between countries and enlighten the substantive reasons for comparative advantages and their stability. However, it can be argued that, until very recently, these literatures have been less concerned with distributional outcomes and thus offer limited insights to understand the evolution of personal income (beyond earnings) inequality, especially at the top.

3. Top incomes (s)peak up during neoliberal capitalism

Recovering the pioneering of work of Kuznets (1953), a group of economists shifted the focus of inequality to the very top of the distributions, at the beginning of the twenty-first century. The top incomes literature started with the study of the elites in France (Piketty, 2003) and the US (Piketty and Saez, 2003), using historical tabulated data from tax records. After a decade of contributions, replicating the methodology for most Continental Europe and English-Speaking countries (Atkinson and Piketty, 2007), as well as for other advanced and developing economies (Piketty and Atkinson, 2010), these leading economists started to consolidate a new line of inequality research which not only studies the measurement, but also the causes and consequences of long-run top income shares (Atkinson et al., 2011). Here a fundamental analytical distinction is made between the mechanisms that influence labour income (e.g. labour market institutions, demand and supply of skills, etc.) as opposed to those that apply to capital income (e.g. estate taxation, credit constraints, capital destruction, etc.). Similarly, the top decile is usually

[6] Looking at figures 4 and 5 in Baccaro and Pontusson (2016), Sweden experienced a lower increase in household debt (and most likely departures from lower levels) than the UK, while the latter experienced slower real wage upgrades than Sweden (and possibly departures from lower wage levels, particularly if one excludes the UK's financial sector).

decomposed between the rich top percentile (p99-p100), or even the ultra-rich (p99.9-p100), and the upper middle class (p90-p99).

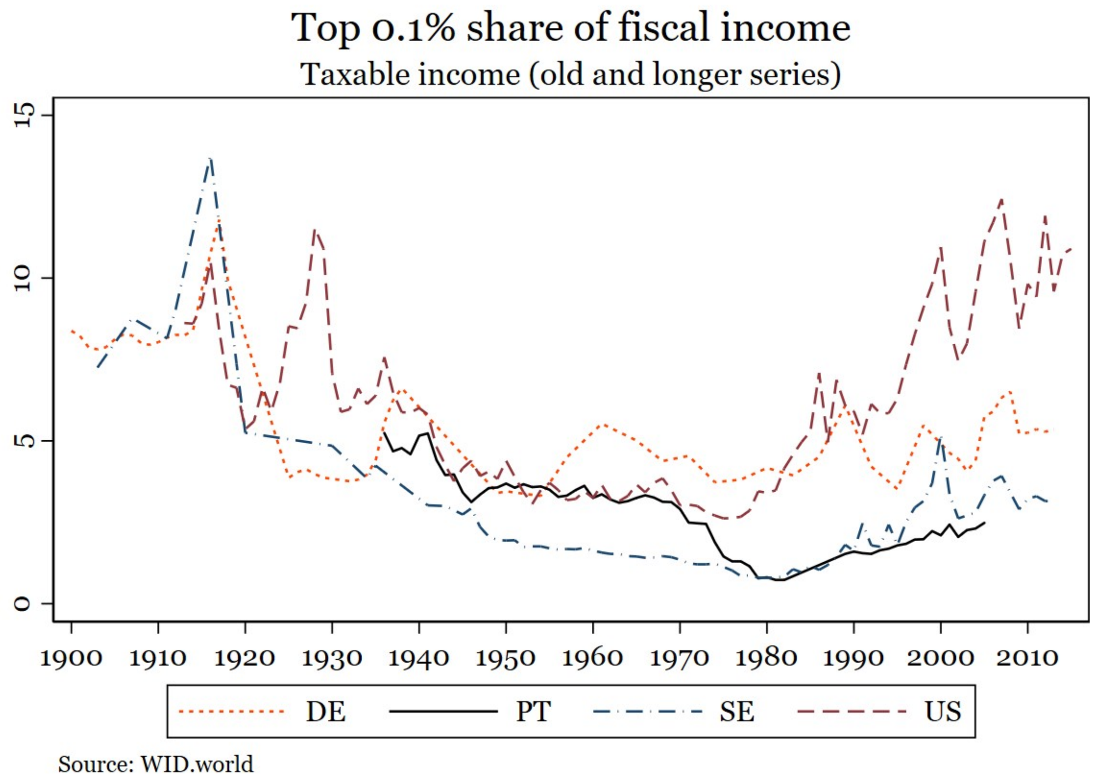


Figure 1: Top 0.1% shares of fiscal income. Figure displays the historical evolution of the richest ten percent within the top one percent, for four countries. Note that all the series include capital gains (except for Portugal due to lack of data), which significantly increase top shares (Roine and Waldenström, 2008). The choice of this capitalist elite is motivated by the limited number of taxpayers in Portugal which does not allow the estimation of top 1% before 1970 (Guilera, 2010). See figures in the annex for the top 10% and 1%.

As figure 1 shows, one of the main findings from the top incomes scholarship is that top shares sharply declined around both World Wars, even in countries where there was no capital destruction (e.g. Portugal during WWII). Although only declaring war to Germany in the last year of the First World War, the richest Americans experience a severe drop in their shares caused by the fall in capital incomes. This elite quickly recovered during the interwar period up until the Great Crash of 1929. It is interesting to realize that the two years where the top 1% reached close to a quarter (and the top 10% almost half) of US income coincide with the two largest global financial crisis (see last figures in the annex). In the post-war decades, top shares continued a downward trend, in almost all advanced economies, when most countries implemented high income and estate tax progressivity, trade unions had a fundamental role, financial activities were heavily segmented and regulated, and Keynesianism was the hegemonic ideology: the Golden Age of Capitalism (Kotz, 2015). Note that top shares did not decline were these policies were more weakly put in practice, such as the estate tax and overall progressivity in Germany (Atkinson and Piketty, 2007).[7] Here the Nazi regime (which banned trade unions) allowed a rapid recovery of top incomes after a huge drop during the interwar period caused by the Revolution of 1918, hyperinflation and the social policies of the Weimar Republic (Bartels, 2017). As a consequence, the "super-rich Germans were richer than super-rich Americans until the late 1980s." (Atkinson and Piketty, 2007: 383). In Sweden, the 80 years long decline of top shares pre-dates the development of its welfare state (Roine and Waldenström, 2008). Moreover, the inclusion of capital gains drastically changes the Swedish trends, particularly in the post-1980 period where booming asset prices, in the context of deregulated financial markets, boosted top income shares (Roine and Waldenström, 2012).

Indeed, one of its major conclusions is that the inclusion of capital gains severely alters the level and evolution of top incomes (Atkinson et al., 2011). Identified as the main limitation of these old series based on fiscal income (Atkinson et al., 2011: 35), one should read the lower inequality levels of Portugal with caution. Nonetheless, a consistent finding is that top shares broadly increased since 1980, particularly in Anglo-Saxon countries.

Owing to this growing literature, we now have comparable long-run series for different, but 100% macro-consistent, definitions of national income, covering most countries, at the World Inequality Database.[8] The first steps towards these Distributional National Accounts (DINA) were based on fiscal income – i.e. reported in tax returns and, thus, varying according to the legislation – (Piketty, 2003; Piketty and Saez, 2003) which later developed into the all-encompassing and comparable concepts of pre-tax and post-

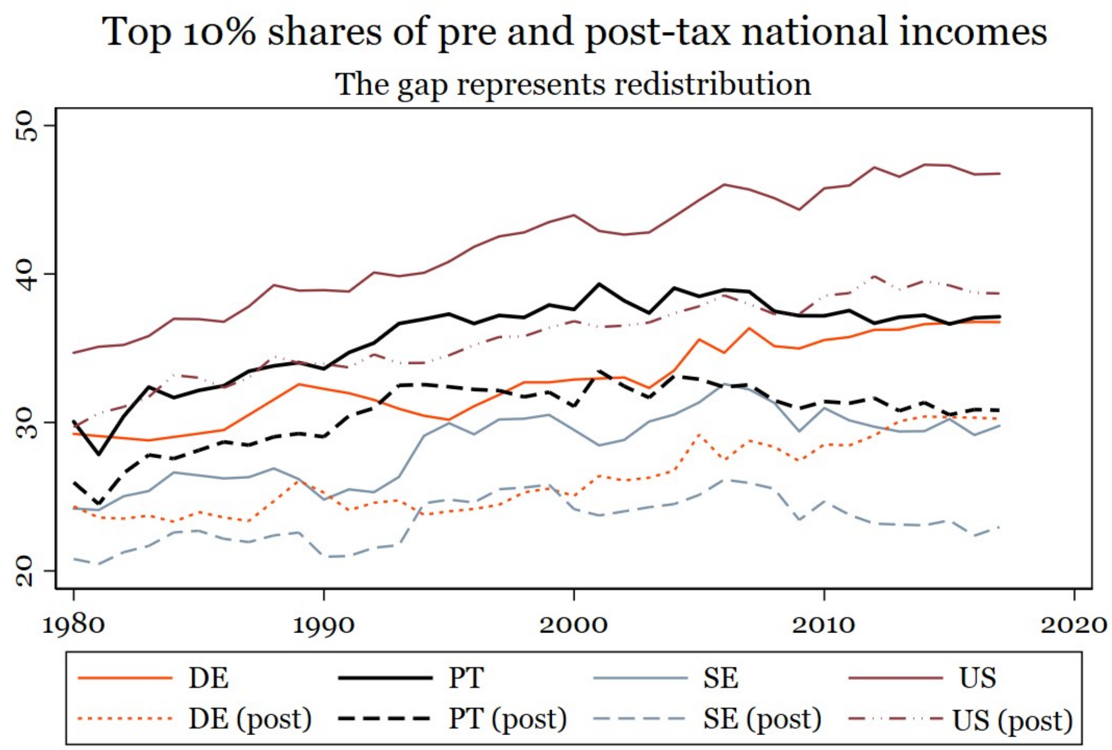
[7] Top marginal statutory tax rates on income where around 80% to 90% in the US, during the 1950s and 1960s, whereas in Germany there were only slightly above 50% (Piketty and Goldhammer, 2014: fig. 14.1).

[8] According to the UN System of National Accounts (NA), national income is equal to GDP minus consumption of fixed capital (depreciation) plus net foreign income. Pre-tax national income total is equal to the NA national income aggregate, but is distributed among all percentiles. Post-tax national income series capture income inequality after the tax-benefit system and the level of public goods, since it includes these in-kind benefits and other public spending, using several imputation techniques on microdata to allocate them among individuals. Thus, both totals of pre-tax and post-tax are equal to national income aggregates, but have significantly different distributions (Alvaredo et al., 2016).

tax national income (Alvaredo et al., 2016).[9] The top 10% shares of these national incomes, i.e. both before and after the tax-benefit system, as well as in-kind benefits and other public spending, for the four VoC analysed in this article can be seen in figure 2.

3.1 What explains the diversity of top incomes?

The explanations for the diversity in levels and evolutions of top incomes are still open research questions. A recent state of the art paper published by the Socio-Economic Review (Hager, 2018) demonstrates this reality and offers a comprehensive overview of the most useful theories and empirical findings. The mainstream explanation in economics points to a miss-match between the supply and demand of skills, in a constant race between education and technological levels (Goldin and Katz, 2009). In short, when technology improves faster than education there will be a supply shortage of highly-skilled workers who see their earnings increase relative to other workers. While the skill-biased technological change (SBTC) argument (Tinbergen, 1975), in the context of globalization, provide powerful economic explanations, the significant varieties of top incomes (first figures in the annex) demonstrate that this story of markets is insufficient.



Source: WID.world, (equal-split adults)

[9] "They can be used to analyse the redistributive impact of government taxes, transfers, and spending on a fully comprehensive basis." (Alvaredo et al., 2016).

Figure 2: Top 10% shares in four countries. The figure shows the annual dynamics of top 10% shares, both before (solid line) and after (dashed line) total redistribution, in Germany, Portugal, Sweden and the US. The Distributional National Accounts (DINA) methodology captures total national income and ensures comparability across countries including in what concerns total redistribution (Alvaredo et al., 2016).

The interconnections between economic, political and power factors have a pivotal role in this complex and multifaceted endeavour (Hager, 2018). The state of the art literature can be summarized in three fundamental dimensions: Power Resources Theory (PRT), financialization, and government policy.

First, the PRT departures from the structural cleavage between workers against capitalists (Korpi, 1983), focusing on unions and left party strength (Huber et al., 2019; Volscho and Kelly, 2012), labour market (de)regulation (Mergulhão, 2017), unemployment (Flaherty, 2015) and the level of wage bargaining (Scheve and Stasavage, 2009). Huber et al. (2019) interestingly combine insights from the VoC and the PRT literature. Essentially, the complementarities stressed by the VoC are expressed in the cooperation between employees and employers at the input/production level, whereas the PRT's emphasis on class conflict always prevails at the output/distribution level:

> While classic PRT (Stephens, 1979; Korpi, 1983) postulates a contested relationship between labor and employers as a reflection of class struggle, the later Varieties of Capitalism literature (Hall and Soskice, 2001) has sought to emphasize cooperation instead: where unions (and left parties) are strong, they cooperate with employers more. Nevertheless, management-labor cooperation on the input side (such as skill training) does not necessarily imply the lack of continuing fundamental conflict on the output side (such as dividing the firm's surplus). (Huber et al., 2019: 249)

Second, the role of financialization is paramount to explain the variegated rise of top incomes in neoliberalism, with stronger effects in LME-like countries, where the financial system is heavily stock-market based and there's weak collective bargaining (Roberts and Kwon, 2017). From the shift of corporate governance towards shareholder value (Dünhaupt, 2014), the rise of dividends, interests and capital gains (Flaherty, 2015), to the upsurge of the financial sector over the real economy (Godechot, 2016), financialization boosts the elite's surplus, on average. In theory, the liberalization of capital movements at the international level altered power relations in favour of capital against labour – an essentially immobile factor of production – increasing functional income inequality which implies higher top incomes. With a boom of innovative and unregulated financial instruments (e.g. securitizations and over-the-counter derivatives) there was a move from claims on profits to claims on claims (Mazzucato, 2018).Yet, empirically the effects of financialization are more ambiguous due to measurement issues and its variegated nature across economies.[10]

Third, government policy, particularly top marginal tax rates (Piketty and Goldhammer, 2014) counterbalance this rise, even before taxes by discouraging rent extraction at the top (Piketty, 2020). Beyond the redistributive effects of tax-benefit systems, public spending on education and health also influence predistribution by rebalancing labour and capital endowments (Milanovic, 2019).

There have been very few attempts to explain the cross-national variety in levels and evolutions of these top income shares. Huber et al. (2019) develop a very complete investigation of the determinants of top 1% shares in OECD countries, since 1960, based on a exhaustive literature review. Econometrically testing for all the theoretical arguments explained above, as well as for political institutions such as veto points which are neglected by classic PRT (Hager, 2018), the authors conclude that the evolution of top incomes is predominantly a political phenomenon.[11] The most substantive driver is found to be the governing by secular-right parties, while the most equalizing one is trade union strength.

The post-1980 period encompasses wider divergences between political economies, even within broad classifications as English-speaking countries or the VoC's coordinated market economies.[12] It might not be surprising that the present US is more unequal than Portugal even after total redistribution (figure 2). Yet, how can we explain the rise of the German top 10%, which nowadays is able to extract the same market income as in Portugal and the same disposable income as the Swedish elite gets before the state?

[10] On the one hand, Huber et al. (2019) found that both the value added by the financial intermediation sector (% GDP) and the gross operating surplus in finance, insurance and real estate (% total economy) are insignificant. On the other hand, Flaherty (2015) found that the latter, as well as total external assets and liabilities (% GDP), are associated with higher top 1% shares. Nonetheless, both studies conclude that rising stock market capitalization leads to top income inequality, as it is more clearly linked to CEO remuneration, stock-options, capital-gains and dividends.

[11] While top 1% shares are not associated with economic growth, knowledge-intensive production, competitiveness or even wealth accumulation, union density and centralization are found to have the largest equalizing effect beyond other political factors (top marginal tax rates and investment in public tertiary education).

[12] For example, top income inequality is much higher in the US than in the UK or Ireland (top 1% shares of more than 15% vs around 8%, respectively), and much higher in Germany than in the Netherlands (top 1% shares of more than 10% vs 5%, respectively).

While inequality has been rising in most countries, national public policies, power relations and institutional forms substantially shape the diversity of trends and levels of top income shares (Alvaredo et al., 2017). Thus, to understand the diversity of top incomes in neoliberal capitalism, we must conduct country specific research on the decisive historical moments, institutional and structural changes and redistributive policies.

3.2 Portugal's recent history and cycles of inequality

Here follows a preliminary attempt to shed some light into the dynamics of top income inequality in Portugal, since the international neoliberal turn. For this the analysis will distinguish the last 40 years through political economy cycles, inspired by Reis (2018): (i) democracy and employment (1975-1983) (ii) European integration and liberalization (1984-1993), (iii) monetary integration and external debt (1994-2001), (iv) pre-crisis instability within the EMU (2001-2007), (v) global financial crisis (2008-2010) and the adjustment programme (2011-2014).

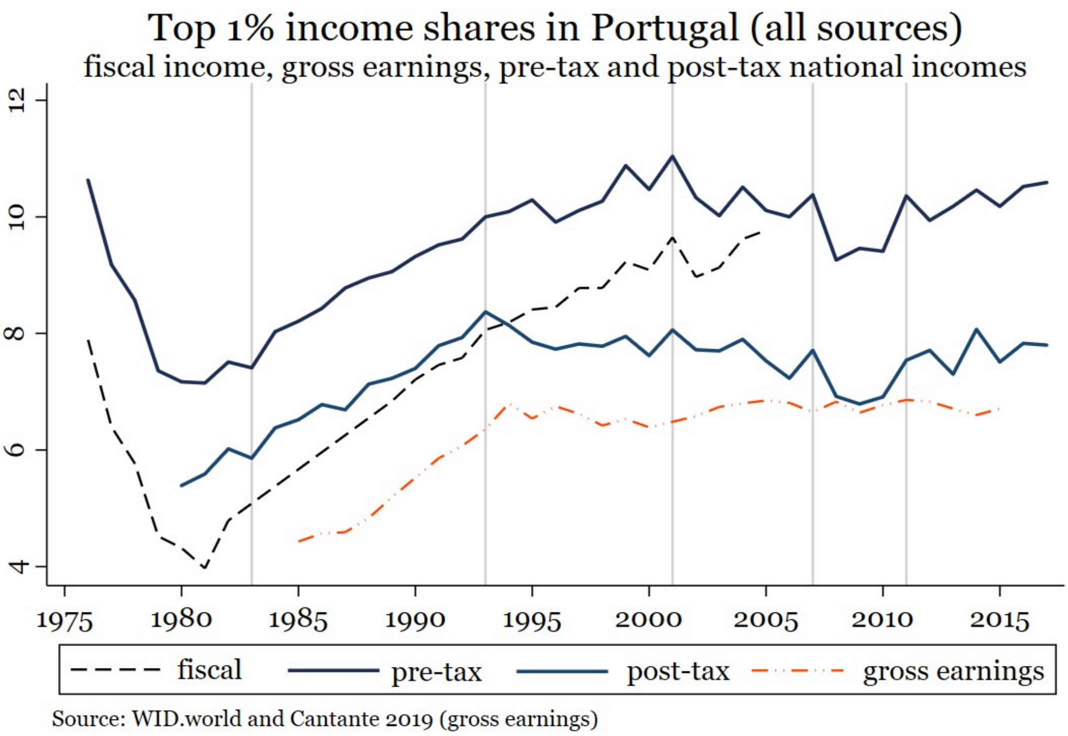


Figure 3: Top 1% shares in Portugal throughout political economy cycles. The figure shows the annual dynamics of top 1% shares of all available series: fiscal income from tax records (Alvaredo, 2010) which are the basis for DINA; pre-tax and post-tax national incomes following the DINA methodology (Alvaredo et al., 2016) (i.e. aggregate of each is equal to national income, but the distributions are very different and represent the impact of the tax-benefit system, in-kind benefits and other public spending) (Blanchet et al.,

2019); and gross earnings from *Quadros de Pessoal* (Cantante, 2019). The cycles are inspired by those proposed by Reis (2018) and mark the following years: 1983, 1993, 2001, 2007 and 2011.

(i) Democracy and employment (1975-1983)

Portugal was under the rule of authoritarian regimes for almost half of the twentieth century – military dictatorship *Ditadura Nacional* from 1926 to 1933 and Estado Novo until 1974. This came to an end through the Carnation Revolution on April 25th of 1974, which was followed by substantial structural reforms and social change, under the rule of a revolutionary government (MFA). Contrasting with the Spanish transition to democracy, the Portuguese revolution was not negotiated among the political elites (Fishman, 2010) and, thus, had substantial effects on top shares (Piketty and Atkinson, 2010: 706). The first free, multi-party and universal elections occurred in 1976, after Portugal freed its African and Asian colonies, expropriated lands, and nationalized several sectors of the economy (finance and insurance, communications and heavy industries) representing about a quarter of GNP (Lains et al., 2013: 8). These political economy developments, combined with the strategy of massive wage increases, during a significant enlargement of employment levels, are reflected in the sharp declines of the top 1% and top 10% (figure 3 and in the annex).[13] After the first constitutional governments ruled by the formally socialist party (center-left, with traces of social-democracy), and a few independent prime-ministers, the center-right came into power (*Aliança Democrática*) in the final years of this cycle (198083) and reverted most of the revolutionary policies, with the objective of consolidating a market economy. This consolidation was intensified under the adjustment programme implemented as part of the IMF bailout (1983-85), after a balance of payments crisis partially caused by the international oil crisis.

(ii) European integration and liberalization (1984-1993)

This strategy continued to be pursued by the socialist party which intensified a wide liberalization process towards European integration (e.g. the liberalization of banking started in 1984) (Reis et al., 2013: 22). However, this political economy cycle was marked

[13] Between 1975 and 1983, nominal wages registered annual growth rates always between 10% and 20% (Lains et al., 2013). Moreover, total employment levels grew from less than 3.5 million to more than 4.2 million between 1972 and 1983 (Reis, 2018).

by the governments of Cavaco Silva (center-right) from 1985 and 1995.[14] During this decade, top income inequality substantially increased (2 pp in top 1% and almost 5 pp in top 10%), in a phenomenon which appears to be mainly driven by gross earnings inequality and not by capital income.[15] The increase in trade caused by the accession to the European Economic Community (EEC in 1986) might have increased the demand for and earnings of the scarce relatively high-skilled workers. Indeed, between 1985 and 1995, the proportion of workers with tertiary education doubled and their earnings increased by half, but these still only represented 5% of the workforce in the end (Cantante, 2019). More importantly, the substantial economic growth, in a context of rapid liberalization and privatization, spurred the recovery of shares by the elites – composed of executive directors, directors of sales, finance and insurance (Cantante, 2019: table 7, :136) of these companies. These mechanisms were facilitated by a sharp decline in union density which went from more than 45% to around 25%, according to the OECD Labour Force Statistics. What is more, this cycle also encompasses the fiscal reform of personal income tax (PIT), which implemented the present *Imposto sobre o Rendimento de pessoas Singulares* (IRS) in 1989. As a consequence, the top marginal statutory rate dropped from the 80% of *Imposto Complementar* to the 40% of IRS, which declined total redistribution and might have caused an increase in top market shares.[16] This effect is more visible in top 10% shares likely because this elite, compared with the top 1%, is more affected by PIT progressivity since top marginal rates refer to income declared in scheduled tax records and not to the flat rates applied to different capital incomes (*taxa liberatórias* which vary from 20% and 28%). This increase of top income shares is consistent with the steep (3 pp) upsurge in disposable income gini, between 1989 and 1994 (Rodrigues and Andrade, 2013).

[14] Within just five years (1984 and 1989) the number of banks more than doubled from 16 to 33 (Reis et al., 2013: 22).

[15] As already pointed out by Alvaredo (2010), this is at odds with the decline of the top 5% share of equivalized disposable income (from 15.3% to 15.1%, between 1980 and 1990), calculated by Rodrigues (1994: table 3, :413) based on survey data. It is very unlikely that the random sample, used in household surveys' data, captures the true top 1% and even less likely to register all their forms of capital income. While surveys rely on self-reported data, income tax records administrate all sources of income and capture the universe of taxpayers.

[16] According to the World Inequality Report (Atkinson and Piketty, 2007: fig. 5.2.1), Portugal was the country recording the largest decline of top marginal tax rate since the 1970s. The figure shows the association between reduced top tax rates and higher pre-tax top shares across advanced economies.

(iii) Monetary integration and external debt (1994-2001)

The neoliberal process grown deeper with the deregulation of the financial system (Lei Reguladora do Sistema Financeiro in 1992). The proportion of public banks dropped from 74% to 24%, just between 1990 and 1996, and the share of foreign banks tripled between 1991 and 2000 (Reis et al., 2013: 23). In these years, net external debt over GDP jumped from below zero to almost 40%, while total external assets and liabilities exploded from 128% to more than 300% of GDP (see database of Lane, 2007). This financialization might have increased the amount of capital income in the economy, which is heavily concentrated at the very top of the distribution. With more individuals owning financial and non-financial corporations, the top 1% and top 10% shares of pre-tax income continued to increase, with the former recovering its 1976 level. Contrasting with the previous cycle, this seems to be predominantly caused by higher capital income since earnings inequality dropped (figure 3). During this cycle, real average earnings of workers with tertiary education declined by around 4% (Cantante, 2019: 120). However, the post-tax shares began a downward trend showcasing a stronger welfare state and higher redistribution. One of the major contemporary reforms was that of the Social Security system, which marked the Portuguese convergence trajectory to the European standards of public social spending (doubling from around 10% in 1990 to 20% of GDP in 2003) (Pereirinha and Carolo, 2009: figure 6).

(iv) Pre-crisis instability within the EMU (2001-2007)

This period marks a turning point between an impressive economic performance and near stagnation. Between 1986 and 2000, Portugal experienced the third fastest growth in EU15, whereas from 2000 and 2013 the economy annually grew at a 0.1 percent rate (Mamede et al., 2016). Moreover, the years between the euro's announcement to the financial markets and its circulation (1999 and 2002) were marked by the volatility in economic growth (Reis, 2018) and in top shares. These developments were probably influenced by four fundamental shocks: the acceptance of China into the World Trade Organization (2001), the EU enlargement of several eastern countries (2004) – both severely affecting the competitiveness of the economy–, a massive oil price increase and great real exchange rate appreciation – both also increasing net external debt. By 2007, Portugal had the 6th highest household debt among EU Member States, the 4th largest non-financial corporations' debt (Mamede et al., 2016), and net external debt reached 80% of GDP. To understand how each of these historical and economic developments affect top incomes requires separate in-depth analysis which are out of the scope of this article. Though, we can say that this cycle ends the upward trends of top 1% and top 10% pre-tax shares initiated in the early 1980s. In addition, it is relevant to note that the stock market capitalization doubled from 15% to 30% (Reis et al., 2013: 29), between 1989 and 2007, the year of the US subprime mortgage crash. In terms of labour income, and the top 10%, this cycle also marks the end of increasing inequality (figure in the annex). This is probably related to the end of rising average annual remuneration (between 1995 and 2005) of the most highly paid sectors: in finance and insurance it increased from around 24 to 43.5 thousand (80%); in energy it more than doubled from 10 to 23 thousand (130%), while on average across sectors it went from 9 to 15 thousand (65%).

(v) Global financial crisis (2008-2010) and adjustment programme (2011-2014)

During the years that followed the GFC, the top 1% saw a significant drop in their shares likely caused by the fall of capital income and bankruptcies – note that the share of the top 1% working rich remained fairly stable. However, this elite quickly recovered in 2011 which is in line with the S&P 500 stock market and the measures based on survey microdata (Rodrigues and Andrade, 2020). Another reflection of this dynamic is found in the same u-shaped evolution of property income of households, in the inverse pattern of compensation of employees and the decline of net national income of corporations (Lagoa et al., 2014: fig. 47). This crisis exposed the structural macroeconomic imbalances within the EMU and originated sovereign debt crisis in the peripheral countries. Given the ECB's independence and the unrestricted movement of capital, Portugal was unable to finance its budget and requested financial assistance to the IMF, which imposed the implementation of another adjustment programme (2011-2014). Within four years, the country underwent substantial structural reforms, particularly weakening labour power and the expenditure side of the welfare state.[17] Consequentially, top 1% shares began an upward trend as opposed to the top 10% which continued to decline in line with gross earnings. This is consistent with the approximation of aggregate remunerations to

[17] On top of an historically low union density, collective bargaining was effectively frozen (e.g. by the elimination of the main legal mechanism for its functioning in Portugal: *portarias de extensão*).

aggregate gross operating surplus (Reis, 2018: figure 11), to the extent that the broader elite mainly depends on labour income as opposed to the capitalist top 1%. This recent divergence between both elites might also be related to the contrasting effects from higher PIT progressivity implemented in 2013 (Rodrigues and Andrade, 2020), by the same token explained before. Indeed, higher PIT progressivity is identified has the most substantive policy to compensate for wider market inequality (Rodrigues and Andrade, 2020; Perez and Matsaganis, 2018; Rodrigues et al., 2016), but this might not apply to top 1% shares.[18]

3.3 American extreme inequality

Income inequality in the US is among the very highest of all advanced political economies. With the end of post-war regulated capitalism and the neoliberal turn (Kotz, 2015), income became very concentrated at the very top. During these last decades, the shares of the top 1% and the bottom 50% inverted: the elite's share almost doubled reaching 20% of pre-tax national income today, which was what the poorest half of Americans held in 1980 (figures in the annex). Pre-tax top shares have flourished through the combination of retrenched and weak trade unions, very low levels of coordination and collective bargaining, a dominant shareholder corporate strategy, and heavy and wide financialization processes within the most developed stock market in the world. Despite having very low levels of unemployment, the market incomes of the bottom 50% have stagnated since 1980 (Alvaredo et al., 2017).

Total social spending over GDP has been rising towards the OECD average, driving an increase in redistribution levels, but this is primarily due to employer-related health benefits. The financing of these, in reality, disproportionally increase the total tax rate paid by the bottom 90% of people. Even more worrying is that this compulsory health insurance poll tax is added on top of an extremely regressive total tax system: nowadays the richest 400 Americans pay a lower overall tax rate than everybody else (Saez and Zucman, 2019: fig. 9.1). The present income tax system greatly contrasts with the post-war decades. During Reagan's administration (1981-1989), top marginal tax rates rapidly dropped from 70% to 28%. As a result, the top 1% shares of both pre-tax and post-tax

[18] Note that these survey based measures of inequality might not capture the real top 1% which is estimated through the DINA methodology.

national income rapidly increased and are, by far, the highest among these four countries, and the bottom 50% share the lowest (figures in the annex).

3.4 Germany's inner discoordination

In Germany, the top 10% steadily increased its share since the 1980s partially due to an increasing number of highly qualified and highly paid employees who slowly moved into the top 1%, increasing earnings inequality (Alvaredo et al., 2017). Nonetheless, this richer elite has historically been exclusively composed of business owners who are dependent on capital income – a fact that did not change in this period (Bartels, 2017). Thus, the top 1% is much more volatile to business cycles and declined in three moments: the re-unification in the 1990s (where East Germany's unions fought for wage levelling with the West), the 2001's financial crisis and the Great Recession of 2009 (Alvaredo et al., 2017).

Despite these bumps, both German elites experienced an upward trend roughly since 2000. Since the turn of the millennium, Germany's top shares benefited from stable intra-EU destinations for their exports thanks to the internal exchange rate underappreciation mirrored by the overappreciation of EMU peripheral countries. In addition, the market for its high quality machinery exports greatly expanded with the adhering of China into the WTO, while the EU eastern enlargement allowed for crucial outsourcing of manufacturing production to deepen its global comparative advantage. Since household debt over disposable income actually decreased in Germany (Baccaro and Pontusson, 2016), and since the elite is exclusively composed of business owners, the top 1% seems to be flourishing from these larger profits from trade and less from financial profits. At the same time, structural labour market reforms – (Hartz concept) implemented between 2003 and 2006 – and the mentioned outsourcing to the east, condemned large proportions of the workforce to low and stagnated income jobs. Despite substantial declines in unemployment since the crisis (from 11% in 2005 to 4% in 2017), these developments went in hand with the growth of precarious and low-income jobs in service sectors. Coordinated wage moderation in manufacturing and low employment protection for fixed-term contracts spurred bottom half earnings inequality (Baccaro and Pontusson, 2016). This is perhaps the reason why, roughly since the implementation of the EMU, trade became positively associated with top incomes shares in this highly export-led economy (Bartels, 2017).

As a result of this discoordinated employment system, the top 10% share also increased at the expense of the bottom 50%. While top 1% and top 10% pre-tax shares greatly increased until the GFC, the bottom 50% saw their share decline more rapidly until it reached Portugal's level (figures in the annex). This declining trend started around 1995 when booming GDP per worker (labour productivity) was unmatched by stagnated real wages, which dropped during the Hartz reforms (Macrobond data). Although these top shares' developments occurred both before and after the state, total redistribution decreased substantially. This might be explained by a significant drop in top marginal rates together with a regressive fiscal reform which implemented a dual income tax system for capital incomes after the GFC (*Abgeltungssteuer*) (Bartels, 2017). In addition, having in mind that business owners dominate the German elites, the fall of the corporate tax rate from more than 55% to less than 30%, between 1995 and 2010, might also help to explain their catching up to the LME top shares.

3.5 Sweden's balanced growth?

Contrasting with the German inner discoordination driven by its highly export-dependent growth regime, Sweden was able to accomplish a more balanced growth. Unlike Germany, hourly wages of workers in low-end services, as well as in manufacturing, grew faster than labour productivity between 1994 and 2007 (Baccaro and Pontusson, 2016). This could be explained by the fact that Sweden has had much higher union density throughout these four decades (Visser, 2013), since they are not confined to the manufacturing sector. Therefore, top shares of market income have consistently been the lowest among these four countries. In addition, Sweden's social-democratic welfare system allowed for the expansion of social, health and education services, maintaining full employment through much higher women's participation in these sectors, and thus overall (Esping-Andersen, 1990). This is in clear contrast with the corporatist-conservative German welfare state which is insurance-based and conditional on employment status (Hope and Soskice, 2016). Hence, the social-democratic capitalism of Sweden greatly differs from the German ordoliberalism. While both have recently undertaken fiscal consolidation, it is much more aggressive in Germany and, total social spending has been consistently far higher in Sweden. Consequently, top post-tax shares are the lowest among these four countries.

The Swedish ability to collect high and progressive taxes allows the country to have the largest government spending and total social spending among OECD countries (Roine et al., 2009), at least since the 1980. Indeed, it is one of the few advanced countries that increased top marginal tax rates during the 1970s, having one of the highest in neoliberal capitalism, despite the decrease from more than 80% rate to close to 60% in the late 1980s. This also helped to finance very high levels of education with decades of early and large investments in public tertiary education. As in the US, here the elite seems to be more dependent of financial capital income (particularly capital gains) (Roine and Waldenström, 2012). This is consistent with the increase in household debt over disposable income (Baccaro and Pontusson, 2016), to the extent that every interest paid by debt holders ultimately corresponds to some interest received by asset holders (who tend to also have the highest incomes) – thus increasing top shares. Furthermore, this might also explain why top shares in Sweden (including capital gains) have been much more volatile during neoliberal capitalism. Financialization seems to be impacting the elites in Sweden much more than the business German elites. Top shares in Sweden started an upward trend in the post-1980 period, and appear to only have declined in three moments: during the banking crisis of the early 1990s, the dot-com bubble of 2001 and during the Global Financial Crisis. This is particularly more evident among the rich and the ultra-rich who became even more dependent on financial capital incomes – e.g. the top 0.1% share spikes in the turn of the century, closely following stock market capitalization which boomed from near zero in 1980 to 1.5% of GDP in 2000 (Roine et al., 2009).

4. Final Discussion

According to Amable (2003), in 1990, Portugal's Mediterranean capitalism was characterized by: very low levels of education and training which led to the specialization of low-value added sectors and products; by highly regulated labour and product markets; and a centralized bank-based financial system. Since then, both product and labour markets have been deregulated, particularly during the troika's adjustment programme which dualized even further the latter. During the last two decades of the past century, the rapid liberalization of capital movements and the deregulation of the financial system, coupled with the increased openness towards the European integration and diminished tax progressivity, allowed top shares in Portugal to follow the trend of the US (the most unequal LME). This is consistent with the evolution of other Southern European countries, where both the top 1% and 10% incomes increased in the 1990s (Atkinson et al., 2011). However, this rise was qualitatively distinct from the American elites' evolution which was driven by an intense shareholder corporate strategy, in the context of the most developed stock market in the world.

In the turn of the millennium, it was the German business elites who followed this inequality catching up process. As opposed to rising top labour income inequality in Portugal, German elites seem to be flourishing from higher business profits originated from the competitiveness boost granted by the EMU and by the expanded markets for their manufacturing exports. The wage compression, and rising productivity-wage gap, is required for Germany to sustain its highly export-led growth regime, benefiting the top at the expense of the bottom 50%. Sweden has been able to produce a more balanced growth regime which has been able to sustain their quality exports while not needing to suppress wages so much. Its social-democratic welfare system promotes private consumption by redistributing large amounts of revenue, in the form of public spending, collected through highly progressive taxes. Nonetheless, the examination of shares at the very top, suggest that Swedish elites, as the American ones, became much more dependent on financial capital income in neoliberal capitalism.

Hopefully this article contributed to demonstrate the richness of bridging together the approaches of CPE and the analytical and empirical frameworks of the Top Incomes literature. Recently, there have been some signs of emergence of this potential research line about the Varieties of Top Incomes (Hager, 2018). This first attempt to explain the diversity of top incomes might have put forward some useful arguments to understand the substantive differences in top shares among these four countries. However, there is still much to be understood, particularly among the so-called homogeneous groups like Southern European countries. I believe that the top incomes literature as plenty to gain from the inclusion of some CPE approaches, as well as that the latter could greatly develop the knowledge about capitalism by incorporating these top income shares into their theories.

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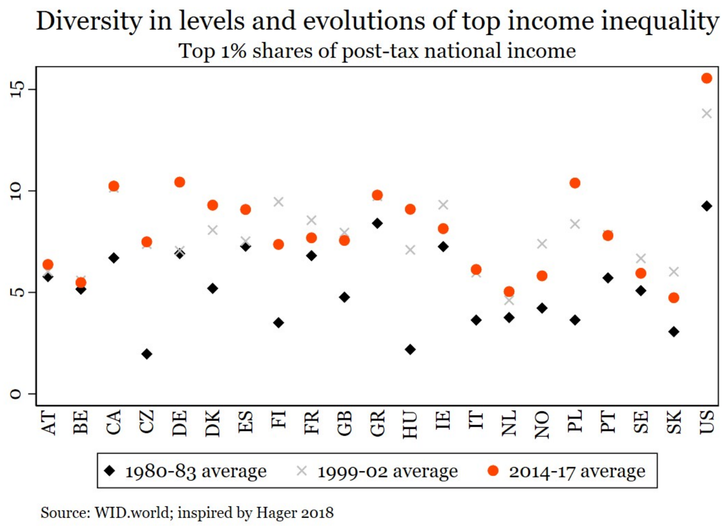
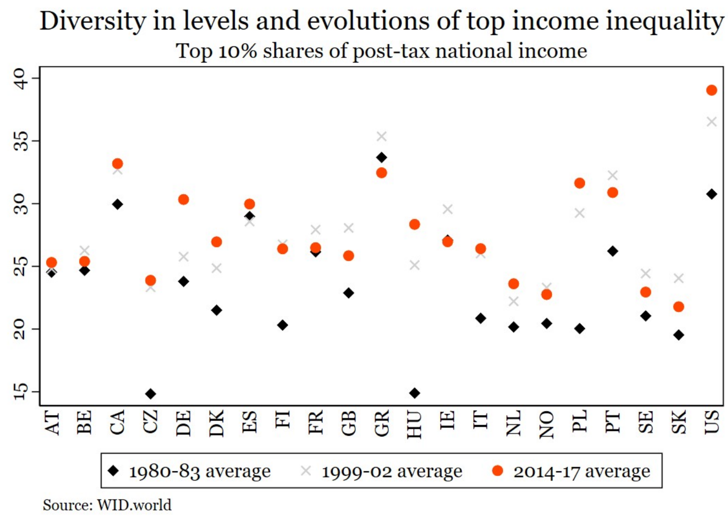
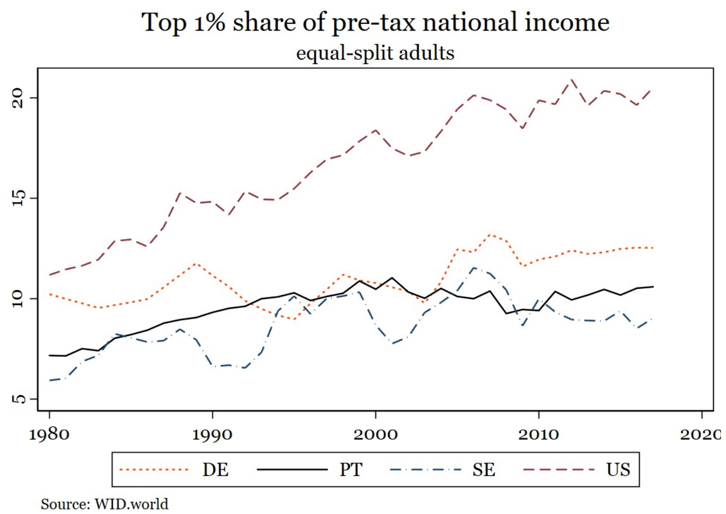
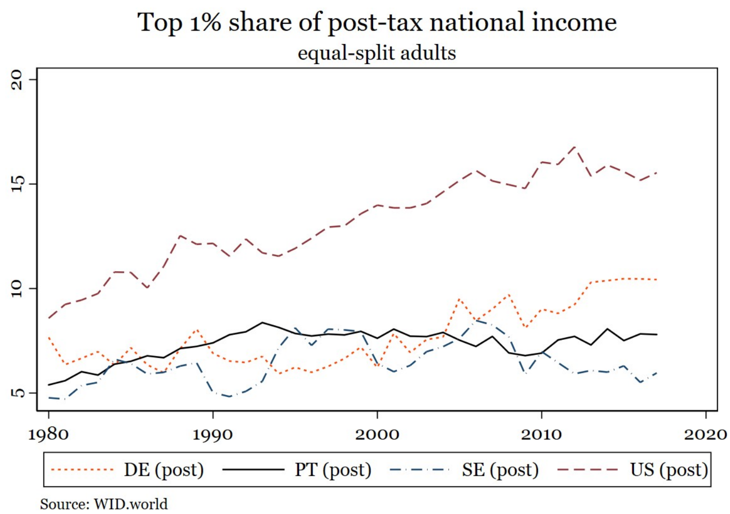
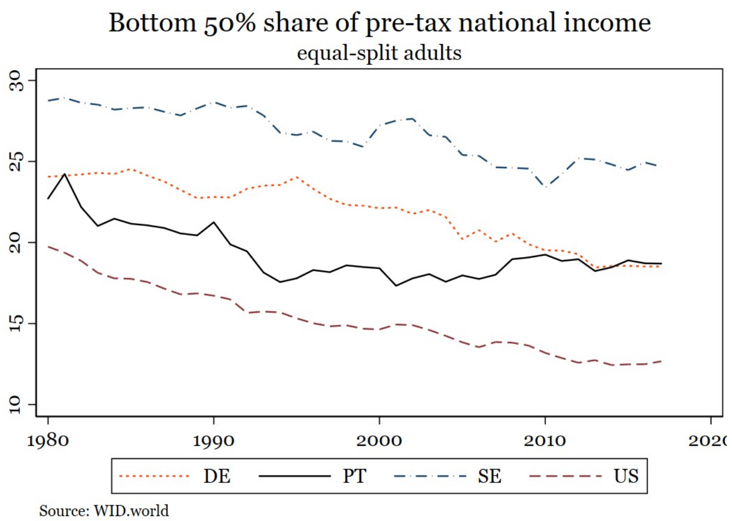
Annex: Top share's diversity in levels and evolutions

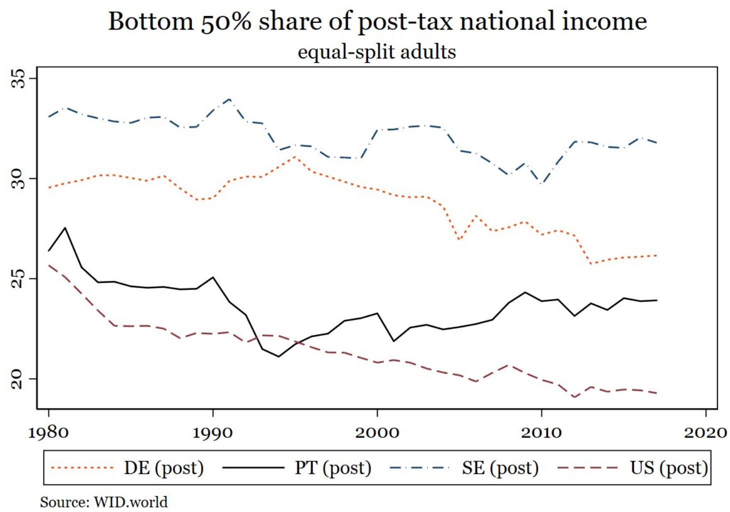






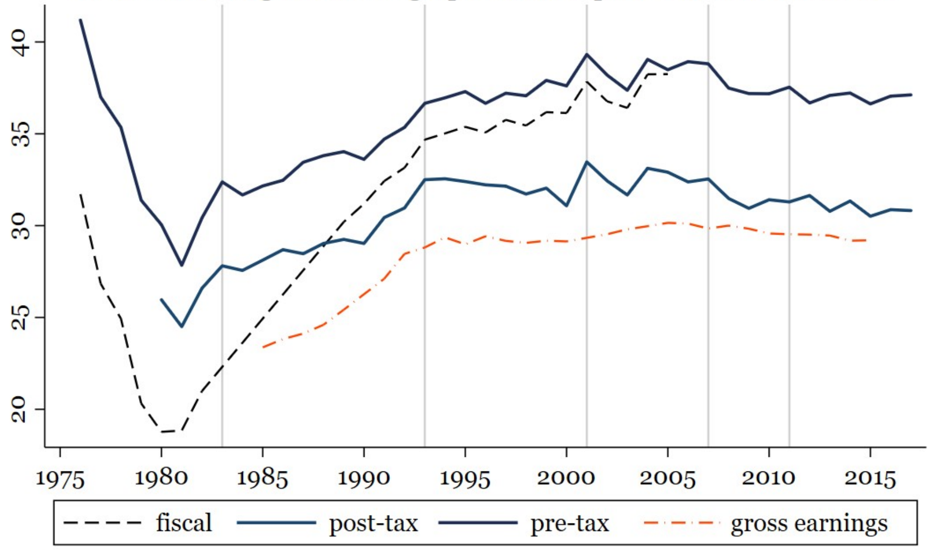






Top 10% shares in Portugal (all sources)

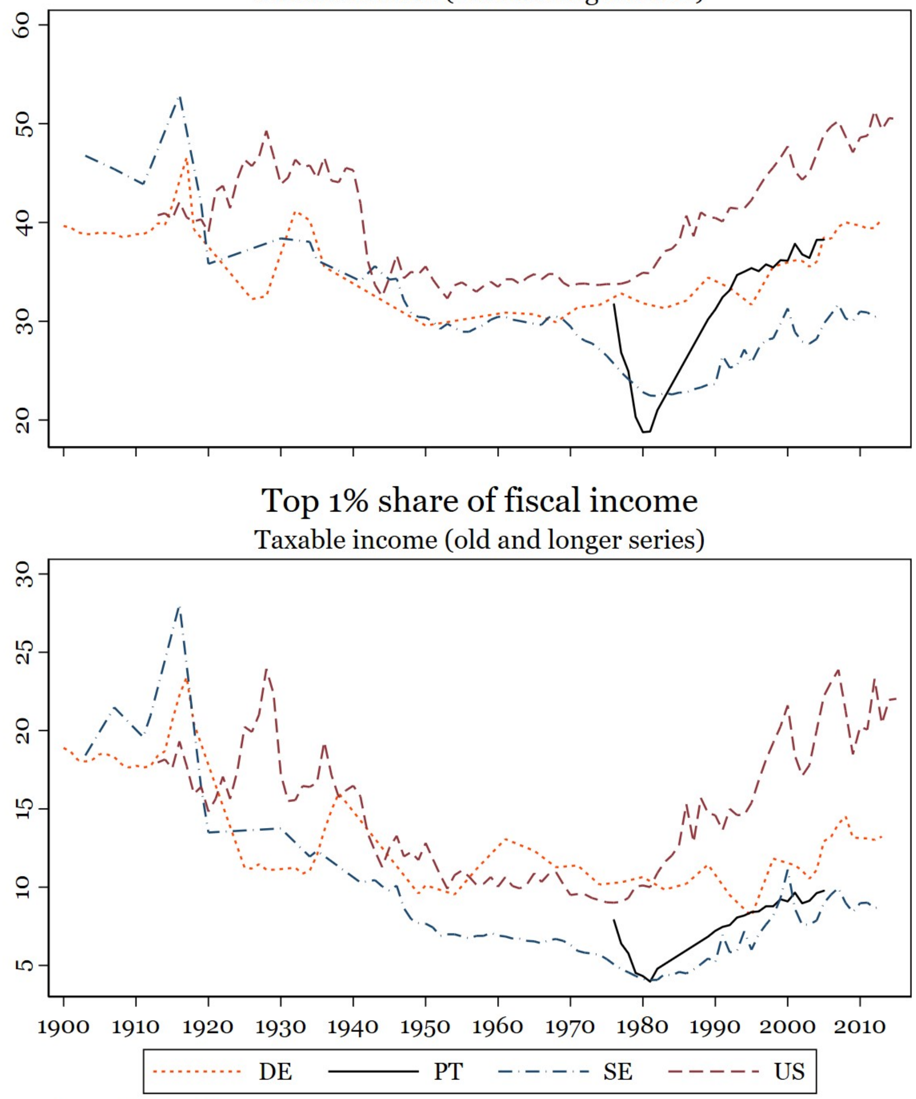
fiscal incomes, gross earnings, pre-tax and post-tax national income



Source: WID.world and Cantante 2019 (gross earnings)

Top 10% share of fiscal income

Taxable income (old and longer series)



Source: WID.world