Patterns of Income Inequality in the Capitalist Core:
The Role of Values and Institutions and Lessons for the Global South

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Income inequality is a growing phenomenon in many of the world's most affluent democratic countries. However, cross-national data on income distribution reveal substantial variation in the degree of income inequality among advanced industrial democracies (Bradley et al. 2003; Kenworthy and Pontusson 2005; Iversen and Soskice 2006). This paper explains why the gap between the rich and the poor is growing in some democracies and not (or not as much) in others. The central argument of the paper is that political institutions are powerful forces in shaping macroeconomic outcomes and explaining cross-national patterns of income inequality, but their decisive impact cannot be fully understood in isolation from the ideational or value context within which they are embedded. Departing from conventional strategies of comparative political economy that explain the rise in inequality in terms of the erosion of the welfare state, the decline of Left-Labor power or the forces of globalization, this study precedes from a normatively grounded theoretical perspective which conceives of income distribution as inseparable from both the concerns of social justice and democratic theory as well as empirical political economic analysis. Arguing that the values citizens hold with regard to distributive justice and the legitimate roles of markets versus states should matter when seeking to understand why some democratic societies are more or less equal than others, the paper then addresses empirically 'how' such cultural norms shape macroeconomic outcomes. The 'how' part of the equation is answered by embracing the "institutions matters" thesis produced by the past two decades of comparative scholarship. However, the authors qualify the explanatory weight of institutions by exploring their interaction with the prevailing societal values and norms about distributive justice. This approach breaks conceptual ground in comparative political economy by identifying the causal nexus of ideational and institutional forces likely to sustain the varieties of capitalist democracies and the varying degrees of equity or inequity that they engender.

Employing time-series, cross-section regression analysis of income inequality in the OECD countries over a twenty year period (1980-2000), we illustrate how broad configurations of political institutions—particularly consensus versus majoritarian institutions—systematically channel societal values (based on responses to national surveys), producing different patterns of income inequality. The argument is then tested on a smaller sample of middle-income countries from Latin America, the Iberian Peninsula, and Asia for which comparable data is available. The data come from various sources, including the UN-WIDER project, the International Social Survey Program, the World Values Survey Program, and the World Bank's Database of Political Institutions.

In an era of widespread speculation about increasing political and economic homogenization, it is more important than ever to analyze and explain the differences that exist among nations. The need is all the more urgent as many countries face important decisions about which institutions to adopt as they transition to or seek to solidify political democracy and market economies. Our findings are therefore of potential policy relevance to both the worlds of the North and the South.