HOW ECONOMIC PARADIGMS SHAPE INCOME GROWTH FOR THE RICH AND THE REST IN LIBERAL MARKET ECONOMIES

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‘We must’, said British politician Margaret Thatcher, in a press conference during her victorious 1979 election campaign, ‘increase the slice of the cake before we can decide how that extra shall be sliced up’ (Thatcher 1979a). Two months later, she said ‘in Britain, we spent too much time dividing up the cake’ (Thatcher 1979b). This ‘cake’ (or sometimes ‘pie’) has been commonly used as a metaphor by the advocates of neoliberalism (or at least ‘free markets’) to argue that neoliberal policies have promoted economic growth and made everyone better off. The implication is that giving the rich a bigger slice of the cake is not a problem if the cake is bigger anyway.

An opposing view is that the core value of neoliberalism, individualism (Bloom and Rhodes 2018), is antithetical to ‘universalistic, affectively-led forms of solidarity’ and therefore has adverse effects on the social production and reproduction necessary to long-term capitalist production (Lynch and Kalaitzake 2020). Other critics have argued that, because neoliberalism has increased inequality, the resulting tendency to underconsumption leads to a crisis of capitalist accumulation (Clarke 1991) and slows economic growth (Kotz 2008).

Yet, if lower rates of economic growth were a consequence of neoliberalism – if the cake got smaller – would it not be irrational for capital to support neoliberalism? Or is it the case that capital maintains its

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support of neoliberalism because it actually enhances growth of the incomes of the rich, even while slowing income growth for the rest?

Trying to cast further light on these unresolved questions, this article analyses new data about what has actually happened to inequality and income growth in five industrialised countries – the USA, Canada, the UK, Australia and New Zealand. We divide the population of each into three unequally sized groups – the richest one percent, the next richest four percent and the 95% majority. We compare two time periods, 1952-1980 and 1981-2016. The former was a period during which Keynesian economic views constituted the dominant macroeconomic policy paradigm (the 'Keynesian era', for short), whereas neoliberal views have generally held sway in the latter period (the 'neoliberal era', for short). We use a relatively new international database on incomes to see what happened to income growth for the three different groups. We investigate whether the average annual real income growth of each group before neoliberalism was lower or higher than that during the neoliberal era. Thus, the focus is both on income growth and inequality. As the dynamics of capitalism create constant technological change and productivity growth, growth in real incomes is the norm, but the issue is: in which period do incomes rise more – and for whom?

The answers to these questions have implications for democratic processes because the neoliberal project has dominated public policy in many countries over the past three decades, allegedly because its efficiency gains are in the interests of most people. Indeed, both its proponents and critics recognise that neoliberalism affects both income distribution and the dynamics of capitalism that shape economic growth. The question is therefore an empirical one: how do these effects actually play out in practice? There are enormous political economic implications, including for the relationship of neoliberalism to democracy (Phelan and Dawes 2018; Robinson 2014; DuRand 2019). This matter was considered at length in the previous issue of this journal and, while we do not canvass it in detail here, we touch upon the implications of the empirical evidence in the concluding section of this article.

Background

In 2016, a short but significant contribution to understanding the link between inequality and public policy was made by global inequality researcher Branko Milanovic (2016). He examined the range of plausible intra-national income distributions, based on (and hence defined as) those that had existed to date in different countries and periods. He concluded that the rich have an incentive to prioritise policies that change the distribution of income in their favour, as plausible changes to patterns of income distribution could deliver substantial gains for them. By comparison, middle income earners would tend to prioritise policies that promote economic growth, as most plausible income distributions make little difference to them. But what if the rich not only had their way in public policy, but the distributional policies that benefited them also impeded economic growth? One example of how this might work could be: cuts in tax on the rich (something observed in most liberal market economies) ultimately lead to the imposition of restrictive fiscal policy, which then slows down economic growth because it restrains the productive capacity of the economy through limiting demand. In this scenario, the rich may be better off, but the rest of society are worse off.

Neoliberalism is a term used, often pejoratively, to describe a set of *public policy* settings, in place since roughly 1980, that prioritise participants in private markets over individual workers or citizens. It commonly features policies for privatisation of public services or assets, deregulation of product or labour markets, and the running of public sector agencies along 'corporate' lines. While outwardly promoting 'free market' solutions to economic problems in any circumstance, this depiction is contested, as sometimes the policies that promote the interests of capital run against market philosophies (Bloom and Rhodes 2018, 19). Although a dominant philosophy amongst policy makers, neoliberalism (once referred to in Australia as 'economic rationalism' [Pusey 2003]) has never attained widespread acceptance in the community at large (Pusey and Turnbull 2005; Wilson, Meagher, and Breusch 2005; Murray and Peetz 2010; Peetz 2018a).

There is a substantial body of research claiming that neoliberalism has increased inequality in a range of areas and facilitated acceptance of inequality (Alvaredo *et al.* 2018; Galvin 2020; Mays 2020; Bettache, Chiu, and Beattie 2020). Indeed, the current inequalities are increasingly in the news. Consider, for example, the stark contrast between Australian mining magnate Andrew Forrest's personal wealth of $8 billion, or the amassed $1 trillion wealth of the twelve American tech billionaires, and the fate of the 8,500 Qantas workers losing their jobs in 2020 during the COVID-19 pandemic. An Oxfam report identified 2153 billionaires as having more wealth than 4.6 billion people who constitute 60 percent of the global population (Oxfam 2020).

Tightly intertwined with neoliberalism has been the financialisation of capitalist economies. This concept refers to a ‘process whereby financial markets, financial institutions, and financial elites gain greater influence over economic policy and economic outcomes’ (Palley 2007). Its implications extend beyond the depictions of financiers as ‘noncompetitive and clubbish’ rent seekers (Zingales 2015). Households have become increasingly indebted (Kotz 2008). Large corporations have acquired financial capacities that have changed the financial sector, allowing the emergence of a (hardly regulated) banking sector and a shift to investment banking/fee generating business. The behaviour of non-financial businesses has also changed, becoming orientated to shareholder value rather than long-term growth (Lapavitsas 2011; Carroll and Sapinski 2016; Stockhammer 2012). Elsewhere, we have shown how, for Australia since the 1980s, financialisation has been associated with a shift in the economic surplus from labour and capital in other industries to finance capital (Peetz 2018b). In this article, we do not seek to disentangle the separate effects of financialisation and neoliberalism. Rather, we treat financialisation as a market process that has been facilitated or even caused by the shift in economic policies between the Keynesian and neoliberal eras. We compare the patterns of growth in incomes during these two periods, rather than seeking to dissect what part of the outcomes under neoliberalism is attributable to financialisation and what part to some other aspect of neoliberalism, such as changes in tax rates, health policy or education policy, all of which may play some role in explaining developments.

Methodology

Data for this article come from the World Inequality Database (WID) (at *https://wid.world).* This is the more extensive and sophisticated successor to the World Top Income Database (Alvaredo *et al.* 2013), used by researchers such as Saez, Atkinson, and Piketty (2014) to undertake their path-breaking research into inequality. This database enables comparisons to be made between the income levels of various decile or percentile groups within a country, albeit with some variations in data availability between countries. It allows us to look at not only changes in the distribution of income but, more importantly, at the distribution of changes in rates of real income growth between different groups in the population.

A major advantage of this database over previous ways of seeing inequality is that WID makes use of administrative data (such as tax returns) in combination with national accounts. Earlier estimates of income distributions relied on sample surveys which suffered from incomplete coverage, the imprecision of top-end truncated grouped data and no auditing of truth. Severe under-reporting of the incomes of the rich was a pervasive feature. It is likely that incomes of very high income-earners are still underestimated in the WID databases, but by not as much. Their growth may also be underestimated if the use of tax 'shelters' has increased in recent years, which appears to have happened in several countries (Alvaredo *et al.* 2018). As argued by the WID researchers, 'surveys provide useful information and cover many countries, but they do not inform adequately on income and wealth levels of the richest individuals'. Yet this is a group in which we have a particular interest.

The starting point is national accounts data from the relevant countries, and so the collation of real (as opposed to nominal) income data is undertaken by each nation's statistical agencies. Full details of the methodology of the WID are on its website (*https://wid.world/methodology*). Previous studies have analysed growth pathways or quantified distributional patterns, but using WID enables us to quantify the combined effects of two simultaneous forces (affecting distribution and productive capacity) in ways that previous studies did not allow.

In the analysis here, the main comparisons are between those in three unequally sized and mutually exclusive groups that, together, cover the population: the top one percent, the bottom 95 percent, and those on incomes between the 95th and 99th percentiles. These three groups can be conceived of, respectively, as the 'highest income', 'middle and lower income', and 'intermediate-high income' groups. Estimates for the first and last categories above directly appear in the database (as 'p99p100' and 'p95p99'), and those for the other category ('p0p95') are easily calculated by subtracting the estimated total incomes of the 'p99p100' and 'p95p99' groups from the total income of the whole population ('p0p100'). No imputation is necessary, as the database contains information on real incomes for the above groups as described.

Our core interest is in the differing experiences of the highest income group (p99p100) and the great majority that makes up the lowest 95 percent (p0p95). We want to investigate 'the rich' and 'the rest'. For that reason, we do not break down the latter group into deciles or quintiles; we are not concerned with the nuance of differences in outcomes between the third and fourth quintiles, but with differences between outcomes for the highest income group and the rest. The 'intermediate-high income group' (p95p99) lies between the other two. In many earlier studies it would have simply been part of the top 5 percent or the top 10 percent, but our study separates this group out because, as we shall see, its experiences are very different to those of either of the other two groups. It is a high-income group but its members have not enjoyed the same rewards from the effects of neoliberalism as have the top 1 percent. Separating the two groups is therefore important for highlighting the concentration of the income gains at the very top.

Our focus is on five countries – the USA, Canada, Australia, New Zealand and the United Kingdom – that are Anglophone countries with liberal market economies. They most embody the fruits of the neoliberal project (Hall and Soskice 2001). We also refer to a sixth such country, Ireland, although the information in the WID for it does not cover a long enough period for its full inclusion here. The data for each of these countries in the WID varies both in terms of exactly what they cover and the period covered. Our aim is to look at the roughly three decades before and after the introduction of neoliberalism. As the WID does not have the relevant data for each year for each country, we only included the five Anglophone liberal market economies where there was a long enough period of time before and after the introduction of neoliberalism to wash out 'noise' from the data (Silver 2012). We defined that period as a minimum of 15 years in each direction.

Defining the commencement of neoliberalism is no easy task, as it is not marked by a single event or a single policy measure. Indeed, each country has experienced its own variant of neoliberalism. Although some date its beginning to the imposition of the Pinochet government in Chile in 1973 (Connell 2010; Connell and Dados 2014), amongst industrialised nations, and especially in the Anglophone world, it is typically associated with the Thatcher and Reagan administrations. These governments were elected in the UK in 1979 and in the USA in 1980, respectively. Australians, however, may date neoliberalism to the deregulation of financial markets and foreign exchange in December 1983 (Humphrys 2019), or the response to the currency crisis of mid-1985, and even then it was constrained (Peetz and Bailey 2011). New Zealanders may attribute it to

Roger Douglas becoming the Finance Minister in 1984, commencing one of the largest privatisation programs (relative to the economy's overall modest size) in the industrialised world (Readron and Gray 2007). In light of these histories, the general benchmark date we use to separate the 'Keynesian period' and the 'period of neoliberalism' is 1980, but we also conduct a sensitivity analysis of the effects of using 1984 as the cut off, as well as, in the UK, 1979, Mrs. Thatcher's election year.

The main data item we use is referred to as average 'pre-tax national income' in WID. This is the benchmark distributional income concept in that database. It includes social insurance benefits (and removes corresponding contributions) but excludes other forms of redistribution (such as income tax and social assistance benefits). In some countries, however, we must use average 'fiscal income', which is close to the concept of taxable income (aside from the removal of basic deductions or taxable minimums). In the UK, we have to use both series. In all cases below, we identify which indicator we use and the periods covered; and the numbers we cite are the per capita averages of real incomes in the relevant income groups (for example, average real income in the highest percentile group).

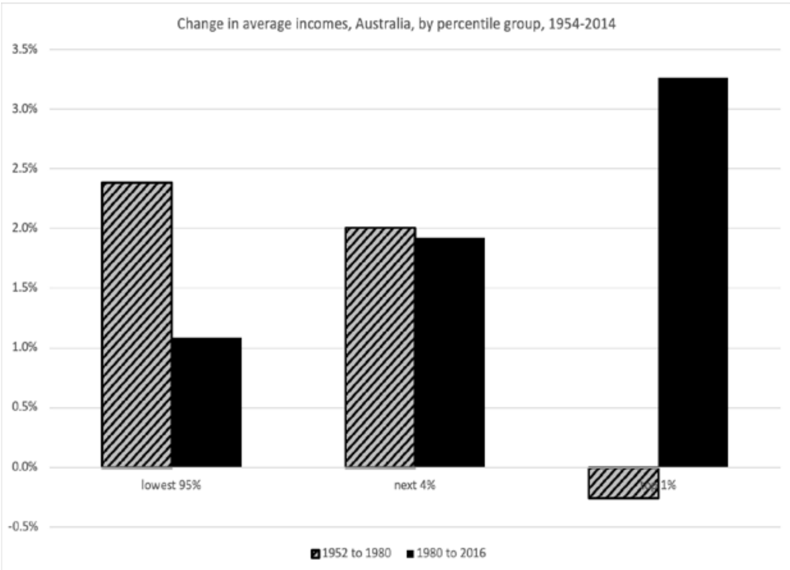
Results: Country-by-country

We consider *Australia* first. As shown in Figure 1, pre-tax income growth amongst middle- and lower income groups in this country was greater than it was for the highest income groups during the 1953-1980 period. The average annual real income growth within the bottom 95 percent of the population was 2.4 percent, compared to 2.0 percent per annum in the group comprising the 95th to 99th percentiles, while it was stagnant (at minus 0.3 percent per annum) amongst the top one percent. After 1980, the rankings reversed. For the top one percent, real income growth turned strongly positive, at 3.3 percent per annum. For the lower 95 percent – that is, the great majority of the population – real income growth more than halved, to 1.1 percent per annum. For the 'intermediate-high income' group, real income growth remained little changed at 1.9 percent per annum.

A 1.3 percentage point drop in real income growth (from 2.4 to 1.1 percent) for the lower 95 percent might not sound like much, but it compounds over time. Had the rates of income growth for the 95% group during the

Keynesian era continued for the years after 1980, by 2016, the average incomes in that group would have been 58 percent higher (that is, AUD $39,000 higher) than they actually were.

Figure 1: Change in average incomes, Australia, by percentile groups, 1952-1980 and 1980-2016

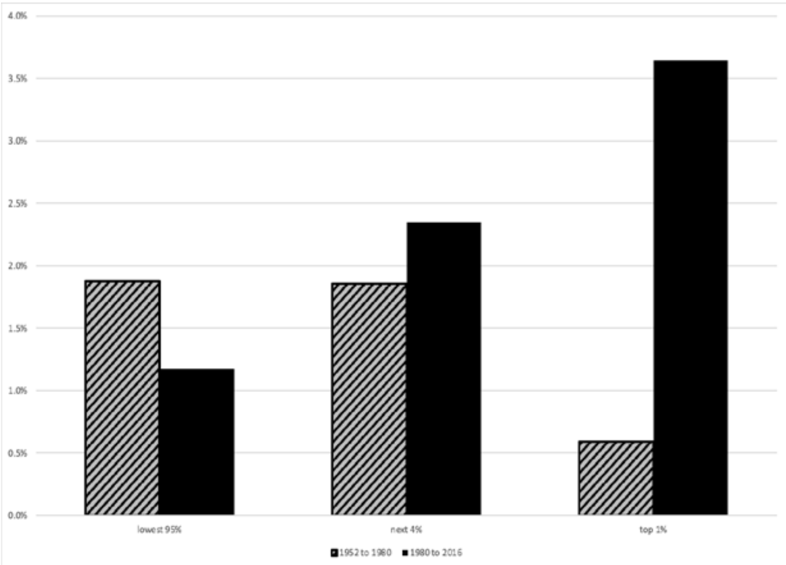


Source: Calculated from World Inequality Database

The sensitivity of the results to changes in the cut-off date are shown in the top part of the table in the Appendix to this article. Changing the cut-off date from 1980 to 1984 changes the numbers but not the rankings or the story. For the bottom 95 percent, annual real income growth, previously dropping from 2.4 to 1.1 percent in the two periods when 1980 is the cut-off, now drops from 2.2 to 1.3 percent when 1984 is the cut-off. For the top one percent, annual real income growth numbers shift from -0.3 and +3.3 percent respectively to -0.3 and +4.0 in the two periods. The 'intermediate-high income' group shifts from a very small decline in growth (2.0 and 1.9 percent in the two periods) to a very small increase (1.8 and 2.3).

The picture that emerges is that, regardless of the precise cut-off date, income growth for the top one percent was restrained during the Keynesian era, whereas income growth for the top one percent greatly increased during the neoliberal era. However, between the two periods, income growth for most people has slowed.

Figure 2: Change in average incomes, USA, by percentile groups, 1952-1980 and 1980-2016



Source: Calculated from World Inequality Database

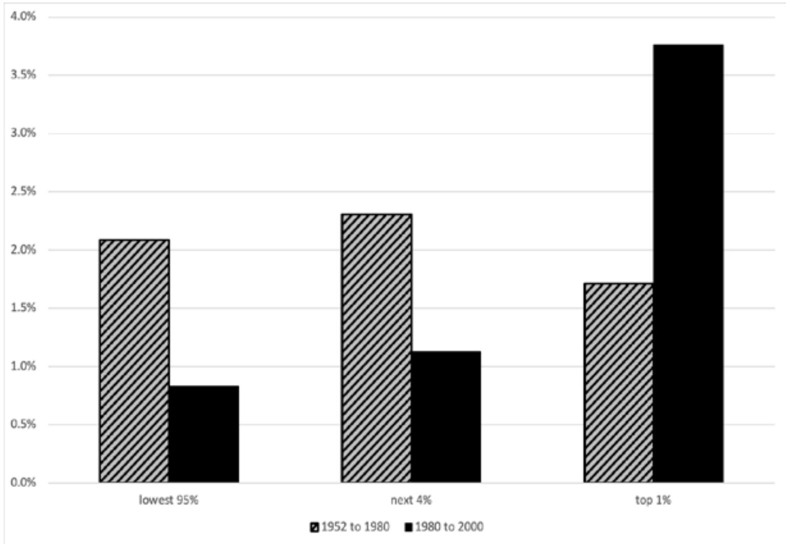
The *USA* followed a broadly similar pattern. As shown in Figure 2, between 1952 and 1980 (the Keynesian period), average annual real growth in pre-tax income amongst middle and low-income earners was 1.9 percent, similar to the 1.9 percent per annum in the 'intermediate-high income' 95 to 99 percentile group, and above the just 0.6 percent per annum amongst the top one percent. After 1980, in the neoliberal period to 2016, average real income growth in the lower 95 percent fell from 1.9 to 1.2 percent (similar to the Australian rate). In the top one percent, however, growth rose six-fold to 3.6 percent, now triple the rate amongst the lower 95 percent. For the 'intermediate-high income' 95th to 99th percentile group, it rose slightly to 2.3 percent.

Again, changing the cut-off date to 1984 makes little difference, as shown by the data in the Appendix. It slightly increases the drop in the lower 95 percent (Keynesian era growth shifts from 1.9 to 2.0 percent, and the neoliberal era growth shifts from 1.2 to 1.1). It slightly reduces the increase for the top one percent (Keynesian era growth shifts from 0.6 to 1.2 percent, neoliberal growth from 3.6 to 3.0). It also evens out the pattern for the 'intermediate-high income' group (it becomes 2.1 percent per annum in both periods). These are quite minor effects.

For *Canada*, data on pre-tax national income was only available in the WID to 2000, so Figure 3 covers the period until then. For the lower 95 percent, real income growth more than halved from 2.1 percent per annum in the Keynesian period to 0.8 percent in the neoliberal period. For the top one percent, real income growth more than doubled from 1.7 percent per annum in the Keynesian period to 3.8 percent in the neoliberal period. For the 'intermediate-high income' group, real income growth also halved, from 2.3 percent to 1.1 percent per annum between the two periods.

Changing the cut-off to 1984 did not materially alter the rankings for the lower 95 percent or the top one percent, but it smoothed out the movement for the 'intermediate-high income' group. As in Australia, using the rather shorter time period for the neoliberal era ameliorates the decline for the middle and lower income earners (it becomes 0.8 percentage points instead of 1.3) and increases the improvement for very high-income earners (up from 2.0 to 3.5 percentage points). However, with a 1984 cut-off, annual real income growth for the 95th to 99th percentile group remains at 1.8 percent in both periods.

Figure 3: Change in average incomes, Canada, by percentile groups, 1952-1980 and 1980-2000

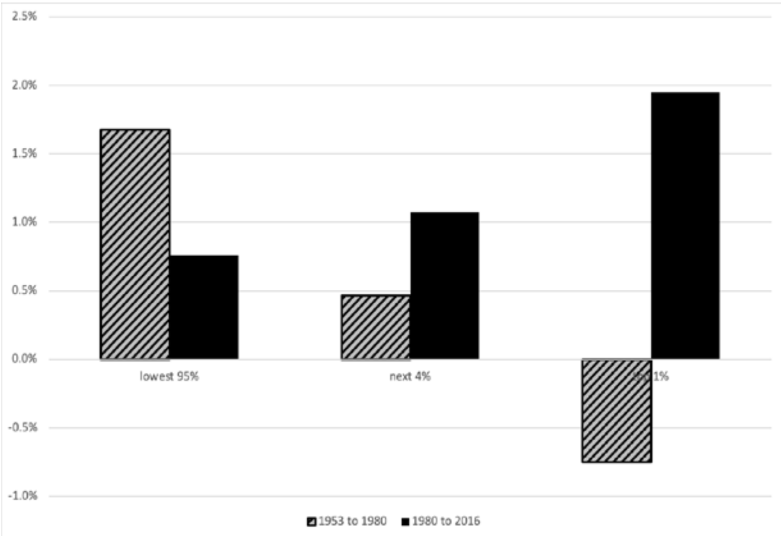


Source: Calculated from World Inequality Database

Regarding *New Zealand,* only fiscal income data is available for the long period on either side of the cut-off date. The overall picture, as shown in Figure 4, is similar to the other countries but with slightly lower average income growth in both periods. For the bulk of middle and lower-income earners, annual real income growth halved between the two time periods, from 1.7 percent in the 1953-1980 period to 0.8 percent in the 1980-2016 period. However, the top one percent of households experienced a major improvement in their circumstances: turning around from negative 0.8 percent annual real income growth in the Keynesian period to plus 1.9 percent annual growth in the neoliberal period. For those in the ‘intermediate-high income’ group, real annual income growth increased from 0.5 to 1.0 percent.

Changing the cut-off date to 1984 (thereby aligning it more closely with the ascension of Roger Douglas and the impact of his ‘Rogernomics’ on economic policy) again changed the numbers but not the rankings nor the core story. By that definition, middle and lower-income earners experienced growth of 1.4 percent in the Keynesian period but only 0.9 percent in the neoliberal period, while the very high-income group went from 0.8 percent annual decline under Keynesianism to 2.3 percent annual growth under neoliberalism. The ‘intermediate-high income’ earners had a big improvement in fortunes, up from 0.2 percent growth in the Keynesian period to 1.4 percent in the neoliberal period, though this was again well below the growth enjoyed by the top one percent.

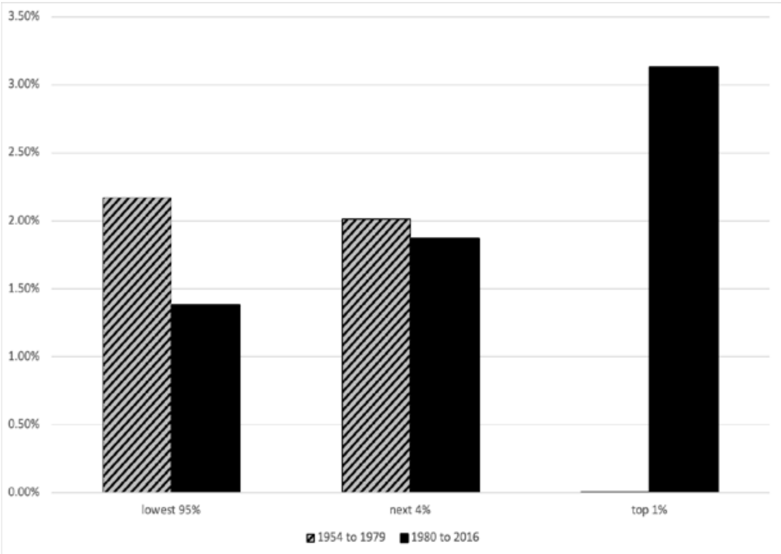
Figure 4: Change in average incomes, New Zealand, by percentile groups, 1953-1980 and 1980-2016



Source: Calculated from World Inequality Database

In the *United Kingdom*, the data is most problematic, in that data on pre-tax income was only available after 1980 but fiscal income data was available for decades before 1990 (but not in 1980). We decided to use those two series as separate sources for the pre- and post-neoliberalism data, as this was cleaner than attempting to splice the series, which would have required discretion about which dates to use. Because fiscal income data are not available for 1980, we use 1979 (the year Ms Thatcher was elected) as the cut-off year. Using this method, real annual income growth for most people falls - from 2.2 percent per annum in the Keynesian period to 1.4 percent in the neoliberal period. In striking contrast, for the top one percent, annual real income growth goes from 0.01 percent to 3.1 percent. For the 'intermediate-high income' group, there is little difference, with growth of 2.0 percent and 1.9 percent in the two periods respectively.

Figure 5: Change in average incomes, United Kingdom, by percentile groups, 1954-1979 and 1980-2016



Source: Calculated from World Inequality Database

For the United Kingdom, unlike the other countries, however, the choice of cut-off makes quite a substantial difference, mainly because of the recession experienced by UK workers during 1980 and 1981. In those first two full years of the Thatcher government, average net national income fell by 3.1 percent and 2.0 percent respectively. While the different cut-off date makes little difference to the outcomes for the top one percent or the 'intermediate-high income' group, switching to a 1984 cut-off (and using the 'fiscal income' measure for the whole pre-1984 period) means that average real income growth for the lower 95 percent becomes 1.4 percent in both the pre- and post-cut-off periods. The implication would be that, taking 1984 as the cut-off date, the top one percent captured almost all the benefits of income growth during the neoliberal era, while other groups' positions were only slightly changed; whereas, when using the 1980 cut-off, the implication is that the top one percent captured all the benefits of income growth but the lower 95 percent group were substantially worse off as a result. It is questionable as to whether, for the UK, the later date would be an appropriate cut-off for determining the start of neoliberalism, given the role the Thatcher government played, from the beginning, in neoliberalism in both the UK and internationally. Nonetheless, the statistical result is presented for completeness.

In the other industrialised Anglophone country, *Ireland*, the only data that are available (on fiscal income) cover the period after 1980; and, consistent with the data for all countries discussed already, they show annual real income growth for the top one percent in the neoliberal period, at 2.5 percent, above the 1.7 percent growth for the lower 95 percent group (with the 'intermediate-high income' group, at 1.9 percent, in between). We cannot tell whether this represented a fall in income, compared to the pre-neoliberal period, for the lower 95 percent, but the difference between that group and the top one percent was smaller here during the neoliberal period than in the other Anglophone countries discussed above. It is likely that the neoliberal agenda was not advanced as aggressively in Ireland as elsewhere. For example, its industrial relations policies in the 1980s were less anti-union and had fewer effects on union density than in the neighbouring UK (Freeman and Pelletier 1990).

Overall, the results across those liberal market economies for which we have data indicate that the shift from the Keynesian era to the neoliberal period was associated with an increase in real income growth for the top one percent, but a *fall* in real income growth for the majority of the population, that is those people in the bottom 95 percentiles of income. It therefore seems appropriate to conclude that, under neoliberalism, income growth for most people has slowed, while greatly increasing for the highest income recipients. In other words, though neoliberalism was premised on the promise of improved economic prosperity, it has actually delivered reduced economic prosperity for the majority of the population, while the prosperity of the very wealthy has surged. The experiences of people in the 'intermediate-high income' group, between the 95^{th} to 99^{th} percentiles, have been more mixed and varied between countries. That latter variability should be hardly surprising, as each country has had its own variety of neoliberalism, characterised by different clusters of policies introduced at different times.

Despite the differences, the most striking feature of the country-by-country analysis is the overall consistency of the results. On average, the annual real income growth for the majority of the population halved from around two percent per year to around one percent per year between the Keynesian and neoliberal eras. The beneficiaries of the shift to neoliberal policies were the top one percent, who typically saw their annual real income growth rise to around three percent per year, usually more than doubling the rate during the earlier Keynesian period. It is also pertinent to recall that, if the scope for tax evasion has increased (which is highly likely), then the foregoing analysis understates the accelerated income growth at the top end.

Overall economic losses

This is not just a zero-sum game, which is how issues of redistribution are commonly depicted. The losses for the majority outweigh the gains for the minority at the top, so it has become a negative-sum game. The shaded rows in the Appendix to this article show, for each country, what proportion of the losses experienced by those in the lower 95 percent were experienced as gains by the top one percent. That is, we projected what average incomes would have been if Keynesian rates of income growth had continued, and then compared that with actual average incomes in 2016 (or that latest earlier date, if 2016 was not available). We undertook those projections for both the lower 95 percent and the top one percent, and then calculated the ratio between the two. We found that, in almost all cases, the loss of income for all those in the lower 95 percent was greater that the gain in income accruing to the top one percent.

This result is substantially because there are so many people in the majority group, compared to the small minority who benefit, even though the proportionate gain to individuals in that minority is greater than the proportionate loss of people in the majority group. So, it is not just a matter of neoliberalism creating an environment in which the rich can acquire the resources that would otherwise accrue to the middle and the poor. Rather, the implication is that the neoliberal policies lead to the destruction of opportunity for resource creation because they ultimately hamper the ability of the economy to generate productivity growth. As mentioned earlier, the fiscal policy response to tax cuts for the rich is one way that growth may be retarded, but others may include:

- cross-subsidies from productive, renewable energy sectors to fossil fuel-based corporations
- privatisation of technical education that increases returns to capital but hampers skill formation
- subsidisation of private health insurance at the expense of efficient universal health care
- enabling share buy-backs that reduce the investment funds available to corporations
- liberating financiers to develop collateralised debt obligations that absorb financial resources that could otherwise be more productively used.

Some of these factors can be strongly linked to financialisation, others less so.

Not surprisingly, the empirical evidence on the effects of the switch to a neoliberal approach in the Anglophone countries varies between them and also according to the choice of cut-off year. The latter choice had only a small impact on average growth rates but, when compounded over three and a half decades, those small initial differences can end up quite large. We hesitate to claim a precise estimate of the ratio of top income group gains to lower income group losses for each country. However, looking at the five countries for which we have data and taking the preferred 1980 cut-off, the switch to neoliberalism resulted in a median ratio of the gain for the top one percent to the loss for the bottom 95 percent of about a quarter. When we applied the 1984 cut-off, the median was only slightly more. If we want to work out how much of the loss of income growth for the majority is due to redistribution to the rich (the ‘zero-sum game’ component) then it would be equal to the gain for the top one percent. That means that, of the loss of potential income for those in the majority (the lower 95 percent), roughly one-quarter can be attributed to redistribution to the top one percent, and roughly three quarters to non-redistributive effects, that is to the slowing of growth or the loss of productive capacity in the economy.

Conclusions

Another common metaphor publicly used by advocates of neoliberalism is that a ‘rising tide lifts all boats’ (Nugent 2006) — though in private they refer to ‘rising tides lifting yachts’ (Kapur *et al.* 2006). A more accurate metaphor might be of the yachtsmen boosting their speed by discarding fishing gear, which then gets tangled in the propellers of the tinnies behind. The evidence reviewed in this article shows that neoliberal economic regimes have an impact on both distribution (widening inequality) and growth (slowing the rate). Furthermore, it appears that this combination adversely affects all but the highest income earners within a country. As Chang (2012) commented, ‘the rich got the bigger slice of the pie all right, but they have actually reduced the pace at which the pie is growing’. And why should it be any other way? The ideological centrepieces of neoliberalism - individualism and competition - are not about baking a bigger wheat-based product, they are about grabbing the biggest slices.

It is common to see the rise of neoliberalism as associated with the economic crises of the 1970s that created stagflation — simultaneous unemployment and inflation (Centeno and Cohen 2012). The analysis here highlights the importance of the shift to neoliberalism for the rich in reversing the relative losses (and in some places, the stagnation in absolute terms) of income growth they had experienced during the era of the Keynesian compromise. While stagflation might have been used as hook by the rich to persuade policy-makers of the need for change, the effects of this change were to redistribute income and reduce the growth it was meant to boost.

So, it is not irrational for the rich to support neoliberalism, even though it slows economic growth compared to its predecessor economic policy regime. This is because, quite simply, it increases their income growth, even while slowing it for the rest.

Milanovic’s (2016) interpretation appears accurate, but it invites adaptation. To Milanovic, the rich will favour policies that redistribute towards them, ahead of policies that favour economic growth. The middle will favour policies of economic growth and be indifferent towards distributional policies because they do not affect them much. In reality, however, they are affected. The choice of policy approach not only influences income distribution but also rates of income growth for the middle and lower-income groups. Middle income groups may not see themselves as having a strong interest in distributional policy, but in fact it is strongly in their interests to be concerned.

This analysis my also cast light on the nature of the support given to neoliberal policies by the richest section of society – the group with the most political influence. The neoliberal regime, which generates what economists would consider to be sub-optimal outcomes, is reproduced because it generates benefits for the very rich. These highest income earners promote policies that reduce the progressivity of the tax system and/or increase the surplus generated by labour that can be transformed into profit. They do not, on average, promote growth: rather, put simply, the public policy approach that they support retards growth.

The increasing inequality of income understates the inequality of power. This is because even those with zero power must receive a subsistence wage to enable the reproduction of labour. When wealth and power are more concentrated in a small group, the more likely it is that the rich have a very strong say in policy, and this increases the likelihood that public policy will retard growth. As inequality of income increases, the inequality of power increases as well, probably even more so. If democracy is about equality of agency, such that 'the laws are made by the same people to whom they apply' (Post 2006), then widening inequality of power weakens democracy. As neoliberal policies slow down income growth for the majority of people (even if not in a consistent way), there is also a growing tension between claims about the efficacy of neoliberal policies and people's lived experiences. If this leads to an increasingly widespread perception that government is run by an elite that acts against the interests of the people, then democracy can become dangerous for the beneficiaries of neoliberalism.

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APPENDIX

Sensitivity analysis of indicators and ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles

Country	Indicator	With 1980 cut-off	With 1984 cut-off
Australia	real income growth, Keynesian period, 0-95th percentile	2.4%	2.2%
	real income growth, neoliberal period, 0-95th percentiles	1.1%	1.3%
	difference, 0-95th percentiles	**-1.3%**	**-0.9%**
	real income growth, Keynesian period, 99-100th percentile	-0.3%	-0.3%
	real income growth, neoliberal period, 99-100th percentiles	3.3%	4.0%
	difference, 99-100th percentiles	**3.5%**	**4.3%**
	ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016	14%	23%
USA	real income growth, Keynesian period, 0-95th percentile	1.9%	2.0%
	real income growth, neoliberal period, 0-95th percentiles	1.2%	1.1%
	difference, 0-95th percentiles	**-0.7%**	**-0.9%**
	real income growth, Keynesian period, 99-100th percentile	0.6%	1.2%
	real income growth, neoliberal period, 99-100th percentiles	3.6%	3.0%
	difference, 99-100th percentiles	**3.1%**	**1.7%**

	ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016	47%	33%
Canada	real income growth, Keynesian period, 0-95th percentile	2.1%	1.8%
	real income growth, neoliberal period, 0-95th percentiles	0.8%	1.0%
	difference, 0-95th percentiles	**-1.3%**	**-0.8%**
	real income growth, Keynesian period, 99-100th percentile	1.7%	1.4%
	real income growth, neoliberal period, 99-100th percentiles	3.8%	4.9%
	difference, 99-100th percentiles	**2.0%**	**3.5%**
	ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2000	24%	85%
New Zealand	real income growth, Keynesian period, 0-95th percentile	1.7%	1.4%
	real income growth, neoliberal period, 0-95th percentiles	0.8%	0.9%
	difference, 0-95th percentiles	**-0.9%**	**-0.4%**
	real income growth, Keynesian period, 99-100th percentile	-0.8%	-0.8%
	real income growth, neoliberal period, 99-100th percentiles	1.9%	2.3%
	difference, 99-100th percentiles	**2.7%**	**3.1%**
	ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016	17%	25%
UK	real income growth, Keynesian period, 0-95th percentile	2.2%	1.4%
	real income growth, neoliberal period, 0-95th percentiles	1.4%	1.4%

	difference, 0-95th percentiles	**-0.8%**	**0.1%**
	real income growth, Keynesian period, 99-100th percentile	0.0%	0.3%
	real income growth, neoliberal period, 99-100th percentiles	3.1%	3.2%
	difference, 99-100th percentiles	**3.1%**	**2.9%**
	ratio of income gained by 99-100th percentiles to income lost by 0-95th percentiles in 2016	32%	na

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