No. 38

Determinants of Income Composition Inequality

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May 2021

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May 27, 2021

Abstract

This paper examines the political determinants of income composition inequality in 32 advanced and emerging economies between 2006 and 2018. Income composition inequality is defined as the extent to which the income composition in capital and labor income is unevenly distributed across the income distribution. High levels of income composition inequality are associated with class-fragmented societies, whereas low levels are typical of multiple-sources-of-income societies. We find that a higher seat share of left parties in the governing coalition and higher globalization, as measured by trade, capital openness, and FDI inflows, are linked to lower income composition inequality. Higher economic development and a higher capital income share are, instead, related to higher inequality in income composition. We discuss the mechanisms behind these relationships and check the robustness of our findings. To our knowledge, this is one of the first studies looking into the causes of the dynamics of this dimension of economic inequality.

Disclaimer: This paper is based on data from Eurostat, EU Statistics on Income and Living Conditions [2004 - 2018]. The responsibility for all conclusions drawn from the data lies entirely with the authors.

*We would like to thank Drothee Bohle, Evelyne Huber, Janet Gornick, Branko Milanovic, Salvatore Morelli, Thomas Oatley, John Stephens, David Weisstanner as well as all participants at the SASE Conference 2020, the CUNY Postdoctoral Seminar, and the EUI Political Economy Working Group for their helpful comments and suggestions. The usual disclaimer applies.

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1 Introduction

The last four decades have brought about a steep rise in economic inequality in advanced capitalist democracies (Piketty 2014, OECD 2015). In 2015, the GINI coefficient, a standard measure of income dispersion, reached an average of 0.315 across the Organisation for Economic Cooperation and Development (OECD), 3 points higher than it had been in the mid-1980s. The richest 10% of the population earned 9.6 times more than the poorest 10% (OECD 2015 and 2018). Although in the postwar period economic growth had helped narrow the gap between the top and the bottom of the income distribution (OECD 2015), this no longer seems to be the case. The household income of the wealthiest decile grew faster than that of the poorest 10% in most OECD countries between 1975 and 2016. Even though average real disposable household income rose by 1.6% across the area, most economic gains accrued to the top 1% while the bottom 40% benefited little from economic prosperity.¹ Instead, its income stagnated, contributing to exacerbating economic polarization.

These dynamics are accompanied by other trends that suggest a fundamental shift in the balance of power between capital and labor. Although labor compensation and corporate profits both rose in absolute terms in industrial democracies over the last three decades, the former grew much more slowly than the latter (Sung et al. 2019). Indeed, mean compensation increased by 25% between 1981 and 2012, from \$502 to approximately \$630 billion. In contrast, mean corporate profits rose by 95%, from \$158 to \$309 billion (Sung et al. 2019). Consequently, the share of national income going to labor declined from 64 to 59% of global GDP between 1975 and 2012 (Karabarbounis and Neiman 2014).² This fall occurred across diverse sectors in both advanced and emerging

¹Similarly, the top 1% share of pretax income rose from 8% to 11% across Europe between 1980 and 2017 (Blanchet et al., 2019).

²Karabarbounis and Neiman’s work (2014) focuses on 59 advanced and emerging economies. See Stockhammer (2013) and Kristal (2010) for a discussion of the dynamics of the labor share in OECD countries.

markets. The Great Recession (2007 - 2009) does not seem to have disrupted this trend (Cohen 2018, Sung et al. 2019)

At the same time, although it is no longer confined to an aristocratic caste that lives off of property and investment, capital income remains highly concentrated (Goldstein and Tian 2020). Despite the deepening of financial markets, the development of the real estate sector, and the introduction of new financial instruments, capital income inequality continues to be exceptionally high. Indeed, it greatly exceeds inequality in labor income, hovering above 0.85 GINI points in most industrial democracies (Milanovic 2019). While recent Gallup polls suggest that 55% of Americans invest in the stock market, the Federal Reserve calculates that approximately 88.3% of corporate equities and mutual funds shares were held by the richest 10% in 2020 (FRED 2020, Gallup 2019). Wolff (2017) estimates that the top 1 percent of wealth holders in the United States owned 55% of financial securities, 65% of financial trusts, and 63% of business equity in 2013. Similarly, Goldstein and Tian (2020) find that the “petit rentier” class across Europe remains relatively small, barely reaching 15% in most countries. Thus, whereas access to capital has broadened (Piketty 2014, Fligstein and Goldstein 2015), capital ownership continues to be dominated by a small wealthy elite.

This elite, however, is very different from the one that presided over previous eras of capitalist development. While in the past the very rich used to derive their income exclusively from property and stocks, today they fund a significant part of their consumption and wealth through salaried work (Milanovic 2019, Berman and Milanovic 2020). Berman and Milanovic (2020) estimate that the share of people who have both high labor income and high capital income has risen in recent decades. While in the 1980 only 15% of people in the top decile of capital income in the United States were also in the top decile of labor income, today this number approaches 30%. Indeed, as the expanding class of top executives illustrates, it is no longer rare for high earners to

receive both generous salaries and considerable dividends, capital gains, stock options, or rents (Godechot 2020).

How do we make sense of these trends? What factors explain the co-evolution of labor and capital income inequality? While existing research has focused on a variety of measures capturing dynamics pertaining to different income definitions and different points of the income distribution, less is known about the distribution of income composition per se. Different income groups - the wealthy, the middle class, and the poor - frequently own different income sources. They also depend on these sources to a different degree. Capital income, for example, makes up a much larger share of the rich's portfolio. In contrast, wages are much more important to the poor, whose access to capital - be it in the form of stocks, capital gains, or rent - remains more constrained. This difference in the relative weight of capital and labor income in individual portfolios implies that the composition of income sources varies across the income distribution. Income composition inequality (ICI) captures this variation.

As Milanovic (2017 and 2019) and Ranaldi (2021) show, ICI fluctuates through time and space. In previous centuries, the affluent commanded capital income while the poor only relied on their wages. Today, rich capitalists also earn high salaries, while an increasing fraction of the middle classes also draw on capital income (Iacono and Ranaldi 2020). ICI's behavior thus reveals important information about the nature of capitalist organization (Milanovic 2019, Ranaldi and Milanovic 2020). Indeed, more than any other dimension of socio-economic inequality, income composition inequality reflects the changing balance of power between capital and labor and the evolving conflict that pits these two classes against each other.

We seek to contribute to this growing literature by exploring the determinants of ICI in 32 advanced and emerging European economies between 2004 and 2018. Using high-quality individual-level data from the European Union Statistics on Income and

Living Conditions (EU-SILC) database, we begin by calculating the level of income composition inequality over time and across space. This allows us to establish to what an extent contemporary capitalist systems have moved closer to or farther away from a model where the rich only rely on capital income while the poor only depend on labor income. This question is especially important in light of the Great Recession, which curtailed access to credit and induced considerable wealth destruction among the lower and the middle classes (Balestra and Tonkin 2018). We show that ICI has increased noticeably in many countries over the last twenty years. Nevertheless, this trend has not been uniform: the rise has not occurred everywhere, has varied in speed and magnitude, and has witnessed noticeable reversals in Iceland, Malta, Luxembourg, and Norway.

Our subsequent analysis centers on the determinants of these trends. In particular, building on existing work on income inequality, we highlight the role of partisanship. We find that more powerful left parties are associated with falling income composition inequality. Surprisingly, this is not only due to dynamics pertaining to labor income. Rather, stronger representation of left parties in governing coalitions leads to higher prevalence of capital ownership. The proportion of capital owners among the three bottom quintiles rises under left parties, implying that capital income flows toward the bottom of the income distribution.

To our knowledge, this is one of the first studies that simultaneously looks into the dynamics of both the functional and the personal income distributions. As such, it adopts a holistic view that conceives of inequality multidimensionally, focusing on capital and labor income and exploring their composition across the income spectrum. Understanding the behavior and drivers of this composition is exceptionally important as it might help shed light on changing patterns in voting behavior, attitudes toward inequality, preferences for redistribution, class conflict, and party system reconfiguration. It can also help identify specific policy instruments that address the widening gap between the

rich and the poor, the declining political weight of labor, and the inequitable growth of the past four decades.

The paper is structured as follows. We begin by introducing the concept of income composition inequality and by briefly summarizing the nascent literature on the topic. Drawing on insights from the existing scholarship on socio-economic inequality, we proceed to theorize about the factors that might meaningfully drive ICI. The next section discusses trends in income composition inequality across our sample of 32 European countries. We then present the results from our statistical analysis. Our findings remain remarkably robust to changes in measurement, estimation technique, and model specification. The conclusion offers reflections about avenues for future research.

2 Literature

Income composition inequality has recently attracted considerable attention. The nascent literature has largely focused on identifying temporal and spatial trends. Iacono and Ranaldi (2020), for example, show that income composition inequality in Italy fell between 1989 and 2016. This decrease was mainly driven by a shift in accumulation patterns, whereby labor income accrued at the top while capital income, predominantly in the form of imputed rents from real estate, moved toward the middle and the lower classes. In contrast, Iacono and Palagi (2020) record a rise in income composition inequality in Nordic countries following the implementation of dual income taxation reforms (DITRs) in the early 1990s. DITRs lowered the marginal tax rates on capital income, leading to higher concentration at the top. Existing work has thus implied that ICI depends on entitlement rules, or the norms “stating who has the right to receive a given type of income” (Brandolini 1992), but has so far not explored the effect of politics systematically.

While research on income composition is yet to meaningfully incorporate politics, existing scholarship on other dimensions of inequality has established the influence of political and social factors. Adopting a long-term perspective, Bengtsson et al. (2020) show that the introduction of universal suffrage, the abolition of colonialist structures, and the adoption of redistributive policies were associated with a decreasing proportion of total income derived from capital. In contrast, the erosion of trade unionism in the second half of the twentieth century resulted in a rise in the capital income share (Sung et al. 2019). This is consistent with work on labor compensation, which conclusively attributes the marked fall in the labor income share since the 1980s to the pronounced decline in workers’ bargaining power (Stockhammer 2013, Bengtsson 2014, Kristal 2010, Dunhaupt 2013). Having experienced a considerable weakening partly as a consequence of globalization and labor market deregulation (Blanchard and Giavazzi 2003), labor unions lost their ability to effectively protect workers’ interests.

This decline has been concomitant to a noticeable rise in the market power of corporations (Barkai 2016). Existing work has documented the emergence of “superstar firms”, which results in higher markups and corporate profitability (Fahri and Guorio 2018; De Loecker and Eeckhout 2018). Indeed, Autor et al. (2020) report intensifying sales concentration across advanced democracies, reflecting both the natural growth of large firms and the increased specialization of leading firms in core competencies. This trend further tilts the balance of power vis-a-vis labor in favor of business (Philippon 2019), enhancing its political weight and magnifying its voice at the negotiation table (Hacker and Pierson 2010). Monopolistic market structures are thus associated with lower employment levels and reduced rent-sharing, which, collectively, diminish labor compensation.

These structural changes are complemented and at least partly induced by the processes of globalization and financialization. The political decision to open the economy

to trade and capital has exposed domestic labor to intensifying competition from abroad, further eroding its share in total income (Bengtsson 2014, Fichtenbaum 2011, Guscina 2006, Harrison 2002). By giving investors an exit option, capital mobility has propelled governments to cut spending and worker protections in an attempt to attract foreign direct investment (Appel and Orenstein 2016, Mosley 2003, Kristal 2010, Jayadev 2007, Stockhammer 2013, Lindblom 1977, Campello 2014). Financialization, on the other hand, has greatly loosened the link between production and the generation of surplus, excluding production workers from revenue-generating and compensation-setting processes and boosting executive remuneration at the expense of wages, especially in environments characterized by weak labor (Lin and Tomaskovic-Devey 2013, Huber et al. 2020). By prioritizing profit maximization and placing shareholders above any other constituency, financialization incentivizes downsizing, promotes layoffs and subcontracting, accelerates the substitution of labor with technology, and leads to wage stagnation (Fligstein and Shin 2007, Dunhaupt 2014, Godechot 2020, Tomaskovic-Devey and Lin 2011).

Exposed to different pressures, national governments thus face shrinking room for maneuver. While in the postwar period left-wing parties were associated with lower disposable income inequality due to their commitment to redistribution, partisan differences play a less influential role in explaining patterns in economic inequality and welfare state reconfiguration today (Huber and Stephens 2010, Garrett 1998). Indeed, recent research indicates that internal transformations and external constraints have induced traditional political parties to converge on certain dimensions of their socio-economic program (Keller and Kelly 2015, Hutter and Kriesi 2019, Beramendi et al. 2015). In some contexts, such as the former postcommunist world, this has resulted in the obliteration of meaningful partisan conflict on the first (economic) dimension of politics (Appel and Orenstein 2018, Berman and Snegovaya 2019). In others, it has led to the emergence

of new political actors following the delegitimization of formerly popular structures.

We seek to contribute to this debate by examining how political forces shape the evolution of income composition inequality.

3 Theoretical Framework

Why would politics matter for income composition inequality? As previously discussed, political factors have implications for labor compensation, capital accumulation, and their dispersion across the population. National governments' policy decisions affect both aggregate and individual-level capital and labor income shares. Consequently, whether designed to do so or not, a variety of policies can increase or decrease ICI. The actors behind these decisions therefore shape its trajectory.

At a general level, we thus expect partisanship to influence income composition inequality. Existing scholarship has shown that different political parties have different bases. While left parties have historically represented the lower classes, right parties have traditionally catered to the interests of upperclass constituencies (Lindh and McCall 2020). These different orientations imply different distributional goals and divergent views about the role of government in economic life (Korpi 1983, Stephens 1979). Left-wing formations generally espouse a more egalitarian agenda that favors higher redistribution and lower income differentials (Huber and Stephens 2010 and 2012). This programmatic commitment extends beyond the realm of the welfare state to market conditioning strategies, such as empowering worker organizations, updating wage legislation, adjusting employment regulations, limiting monopoly power, and broadening access to additional income streams, to promote inclusive growth (Kelly 2009, Morgan and Kelly 2013, and Rajan 2011). Right parties, in contrast, often advocate for more limited intervention in economic life, placing emphasis on deregulation and competition.

Such policy priorities have repercussions for ICI.

The direction of this effect varies depending on the specific policy instrument. Reforms that incentivize and diversify participation in capital markets can lower ICI. Policies that allow labor income to accrue at the bottom, on the other hand, can increase ICI. The impact of partisanship on income composition inequality will therefore be contingent on the particular reforms governments pursue in office. While recognizing this, we nevertheless expect left party control to reduce ICI. Echoing Morgan and Kelly (2013), we argue that “the logic of [P]ower [R]esource Theory developed to explain differences in redistribution is likely to extend to” income composition inequality.

What specific policies are most likely to shape income composition inequality? Four broad types of legislation are particularly relevant: taxation, redistribution, wage regulation, and broadening access to capital. The first two fall in the realm of the welfare state, while the remaining two pertain to labor compensation and capital ownership. As Iacono and Palagi (2020) show, tax reforms can affect accumulation patterns at the very top. Lower top marginal tax rates facilitate the concentration of capital income. Apart from leaving a higher proportion of capital income in the hands of those who hold more of it, they have the potential to enhance the attractiveness of capital assets. Since higher earners are better positioned to take advantage of existing opportunities (Fagereng et al 2020) due to their better financial situation and higher liquidity, tax reforms favoring capital income can result in a more inequitable distribution of income composition. Because left parties are generally associated with progressive stances on corporate and personal taxation (Basinger and Hallerberg 2004, Garrett 1998, Inclan, Quinn, and Shapiro 2001), greater representation of left parties in national legislatures should translate into lower income composition inequality.

Redistributive policies can also have implications for income composition inequality. Although they vary in terms of their generosity, progressivity, coverage, and eligibil-

ity criteria, most welfare states are generally oriented toward low- and middle-income households. Benefits typically target vulnerable groups facing heightened risk. Even when they extend to middle class beneficiaries, social programs do not necessarily cover the rich. Consequently, the lower and the middle classes derive a higher fraction of their income from transfers and benefits. Higher social spending can therefore increase the concentration of labor income at the bottom of the distribution, resulting in higher income composition inequality. The left's gradual abandonment of its historical commitment to a more generous welfare state might thus have helped alleviate ICI.

Some forms of wage legislation can have a similar effect. Reforms designed to raise the minimum wage and limit remuneration among the very rich can increase ICI. These measures direct a higher proportion of national labor income toward the poor, which has the potential to induce concentration of labor income at the bottom. Nevertheless, these measures can also broaden capital income ownership or at least reduce its accumulation at the top. A higher minimum wage could potentially allow lower-income workers to diversify their income streams. Similarly, while a cap on executive compensation limits the rich's access to labor income, which could contribute to a more unequal distribution of income composition, it can also decrease the prevalence of remuneration packages including equity and stock options, ameliorating capital income concentration at the top. The impact of wage reforms - and the left parties that typically embrace them - is thus likely to have an ambiguous impact on the level of compositional inequality in society.

Lastly, policies designed to broaden access to capital, such as introducing mandatory private pillars in pension systems, incentivizing homeownership, and changing regulations on capital assets, naturally limit the concentration of capital income among the rich. Although they can increase the share of capital income in national income, these policies also promote a more equitable distribution of capital income. Democratizing access to capital gives the middle and the lower classes the chance to diversify their

portfolios. Instead of only earning wages and collecting benefits, they also hold capital assets, such as dividends, capital gains, or property. This moves societies away from a capitalist structure characterized by two opposing social classes that exclusively control two different types of income. Since left-wing parties are more concerned about rising capital income concentration, their prevalence in national parliaments should lower income composition inequality.

The reforms that national governments pursue in a variety of policy domains thus affect ICI. Such policy action, however, is not always imperative. Policymakers sometimes do not need to implement any reforms in order to shape macroeconomic outcomes. Under certain circumstances, independent agents' responses to a changing political landscape can induce a shift in income composition inequality without a change in policy. Possible examples would be investors abstaining from participating in additional ventures in anticipation of unfavorable economic conditions or citizens deciding against the purchase of new property due to heightened uncertainty.

A rich literature has shown that such behavioral responses are more likely under left parties. Left parties' agenda is often perceived as hostile to the interests of higher-income groups, whose assets are subject to higher taxation in environments characterized by higher redistribution. If the better off expect lower returns to their investment under left-wing governments, they might limit their participation in stock markets, desist from buying property, and decide against expanding their portfolios. This might be especially likely in the period after the Great Recession, when rapidly deteriorating economic conditions and heightened economic vulnerability propelled political elites on the left to politicize economic inequality. In such circumstances, wealthier individuals might be reluctant to undertake investment. At the aggregate level, this decision might reduce the capital income share or result in a more equitable - or at least no more inequitable - distribution of capital income.

Such behavioral effects are not necessarily limited to the top of the income distribution. Depending on resource availability, low- and middle-class individuals might also alter their behavior in response to legislators that they view as more sympathetic to their interests. Left governments' rhetoric, which targets the middle and the working classes and emphasizes equality and fairness, might inspire greater confidence in the less well-off. They might therefore be more willing to consider investing in assets and structures that they might otherwise view as unsafe. Such participation in capital markets can lead to lower income composition inequality by broadening access to capital income.

As a result, changes in partisan power can produce systematic variation in ICI. These changes do not necessarily need to lead to policy change in order to affect compositional inequality. Furthermore, government action needs not be intentional. In other words, cabinets can shape ICI without meaning to. Their legislation in other policy areas can have the unintended consequence of influencing income composition inequality even when policymakers do not set out to do so. We test this expectation with the analysis below.

4 Empirical Strategy

4.1 Data and Measures

Our dependent variable is income composition inequality. ICI links the functional and the personal income distributions (Ranaldi 2021). While the former captures how total output is split between capital and labor, the latter reflects how total income is distributed across the population. Although existing research has previously discussed the relationship between these two distributions (Atkinson and Bourguignon 2000, Atkinson 2007, Atkinson and Lakner 2017), scholars have so far not converged on a statistical measure of its strength. Ranaldi's *income-factor concentration index* (IFC) (2021) is

therefore the first operationalization of this association.

The IFC index is a non-rank based measure of the association between total income and a given income source. Constructed through specific concentration curves for capital and labor income, it ranges between -1 and 1 .³ A value of 1 indicates that capital income is concentrated at the top of the *total* income distribution while labor income is concentrated at the bottom. A value of 0 suggests that all individuals have the same share of capital and labor income. Lastly, an IFC of -1 corresponds to a scenario in which the poor only get capital income while the wealthy only earn labor income.

To better illustrate the concept, imagine an economy comprised of two individuals. One of them, *Person A*, earns \$1,000 per month. The other, *Person B*, makes \$10,000. A and B can receive capital (K) and labor (L) income. A situation of perfect income composition equality - an $IFC = 0$ - would imply that A and B derive an equal proportion of their income from K and L. Thus, A makes \$200, or 20%, from K and \$800, or 80%, from L, while B makes \$2,000 from K and \$8,000 from L.⁴ In contrast, perfect inequality - an IFC of 1 - would mean that A earns 100% of her income, or \$1,000, from wages, working as a janitor in New York, while B makes 100% of her income, or \$10,000, from holding government bonds, owning company shares, and renting her second apartment, without working. A scenario of an IFC of -1 is more difficult to imagine; in this case, A would receive \$1,000 from renting a room in her home in New York, altogether abstaining from employment, while B would earn \$10,000 being a CEO of a small company, without realizing any capital income.

We compute the IFC index using the European Union Statistics on Income and Living Conditions (EU-SILC) database. EU-SILC provides detailed information on different income categories for representative national samples of between 7,000 and 19,000 individuals. It covers 32 countries between 2004 and 2018. Originally collected by na-

³For a detailed mathematical description, see Appendix A.

⁴We assume the the population's capital and labor income shares equal 20%, and 80%, respectively.

tional statistical agencies, these data are subsequently harmonized and released by Eurostat, which ensures a level of consistency across time and space. All income categories thus refer to the same concept for all country-years in our analysis. We define capital as interests, dividends, profits from capital investments in unincorporated businesses (*hy090g*), income from property or land rentals (*hy040g*), and pensions received from individual private plans (*py080g*). Labor income covers gross employee cash or near cash income (*py010g*), company car (*py021g*), regular inter-household cash transfers received (*hy080g*), cash benefits or losses from self-employment (*py050g*), and government transfers.⁵ We decide to include transfers in our definition of labor income for three reasons. First, it allows us to meaningfully analyze the impact of state-sponsored redistribution on ICI. As Parolin and Gornick (2020) have recently shown, transfers powerfully shape inclusive growth in developed economies. They therefore provide a more complete picture of wellbeing. Second, opting for a welfare concept that covers all sources of income at the disposal of individuals helps us to identify the groups that truly benefit from capital income. Third, receipt of government benefits is often conditional on past employment, creating a strong link between individuals' work histories and access to the welfare state. Given that income definitions adopted by existing research vary considerably (United Nations Development Programme 2019), we consider this choice acceptable. In robustness checks (see the Appendix), we show that our results remain largely the same when we remove government transfers from our analysis. We drop negative capital and labor income values and restrict our sample to the working-age population (18-65). We allocate household-level income, such as rent, to the individual level by equally splitting it across all members of the same household. To account for inter-household dynamics, which might affect labor decisions and access to capital, we work with the equalized 'total household gross income' variable (*hy010*).

⁵Unemployment (*py090g*), old-age (*py100g*), survivor's (*py110g*), sickness (*py120g*) and disability benefits (*py130g*), social exclusion not elsewhere classified (*hy060g*), and education-related (*py140g*) and family/children-related allowances (*hy050g*).

Figure 1 below shows the evolution of income composition inequality between 2005 and 2018 in the 32 economies in our sample. We notice considerable variation across time and space. The IFC index is generally positive, fluctuating between -0.25 and 0.8 . The only time it falls under 0 is in Romania around the mid-2010s. It assumes particularly high values - around 0.6 and 0.8 - in Czechia, Denmark, Estonia, Finland, Hungary, Lithuania, and Latvia. This implies that capital income tends to be more concentrated at the top of the income distribution while labor income is generally prevalent at the bottom. In contrast, income composition inequality remains relatively low (hovering under or around 0.4) in Austria, Belgium, Germany, Croatia, Ireland, Italy, Slovakia, and the United Kingdom, suggesting a more equitable distribution of income sources. These estimates are in line with Ranaldi and Milanovic (2020), who use data from the Luxembourg Income Study and adopt different income definitions excluding government transfers. Temporally, the IFC index registers a noticeable increase after the Great Recession, confirming Balestra and Tonkin (2018)'s finding that the economic crisis induced substantial wealth destruction among the lower and the middle classes (Balestra and Tonkin 2018). Nevertheless, this trend is not generalized, as income composition inequality declines in Malta and Slovakia in the 2010s.

Since the IFC index is a summary measure that reflects dynamics in both capital and labor income, it might be difficult to trace which of the two is responsible for changes in overall income composition inequality. A falling IFC might be due to a more equitable distribution of either capital or labor income (or both). To gain greater analytical leverage, we use two additional dependent variables. MU_P and MU_W are the areas under the concentration curves for capital and labor income, respectively. To facilitate interpretation, we calculate the two variables by subtracting them from 1. Higher values suggest that capital or labor income flows toward those at the top of the total income distribution. In other words, that economic gains accrue to the affluent. Analyzed to-

gether, the IFC index, MU_P , and MU_W not only allow us to assess the distributional consequences of different variables, but also enable us to identify the precise channels through which income composition inequality changes.

Figure A1 in the appendix reveals how MU_P and MU_W evolve over time. The area under the concentration curve for capital income is usually bigger than the area under the curve for capital income. This suggests that a higher proportion of labor income goes to the middle and the lower classes. Capital income, on the other hand, is relatively more concentrated among the affluent. The short vertical distance between the two plots in Belgium, Croatia, Malta, Portugal, Slovakia, Spain, and the United Kingdom implies that capital income is more evenly distributed there, or that labor income inequality is high. While MU_P and MU_W both exhibit a degree of stability between 2005 and 2018, fluctuations are common. Interestingly, many of the economies in our analysis witness a rise in MU_P , suggesting that capital income has become more concentrated among the

rich in the aftermath of the Great Recession. In contrast, labor income appears to have changed less after 2010.

Our main independent variable captures patterns in partisanship. *Left parties* is the seat share of social democratic and other left parties in government as a percent of the total parliamentary seat share of all governing parties (Armingeon et al. 2020). It reflects the relative power position of the Left within the ruling coalition. All entries follow Schmidt’s party classification (1996) and draw on widely used databases such as the European Journal of Political Research, the Parliaments and Governments, and the Parline databases. A detailed list of all left-wing parties in our analysis is included in the Appendix. Two other variables consider other political dynamics. *Veto points* - an additive index of presidentialism, bicameralism, federalism, proportionalism, referenda, and judicial review – sheds light on the ease with which policymakers can implement legislation that shapes the income distribution. Research has shown that multiple veto points promote policy drift by obstructing reforms and forcing consensus-seeking (Immergut 1992, Huber and Stephens 2006, Enns et al. 2014). Lastly, *electoral democracy* (Varieties of Democracy 2020) accounts for the presence of electoral competition, universal suffrage, a free civil society, clean elections, freedom of expression, and independent media. Because we are focusing on European countries in the 21st century, variation on this indicator is more limited and we do not expect it to matter as much for income composition inequality.

Consistent with existing scholarship on income inequality, we include a set of covariates that control for a range of economic, social, and demographic factors. *GDP per capita* and *GDP per capita growth* capture the effect of development and economic growth. *Trade*, *foreign direct investment inflows*, and *capital account openness* reflect the impact of globalization. *Stock market capitalization* assesses whether the development of the stock market democratizes access to capital or exacerbates concentration at the top.

Industrial employment, the *unemployment rate*, and the *female labor force participation rate* illuminate the implications of deindustrialization, economic precariousness, and the incorporation of women into labor markets. *Tertiary educational attainment* considers the effect of higher education and the transition to the knowledge-based economy. The variable is highly correlated - at 0.70 - with the proportion of the labor force in knowledge-intensive services. It can thus be seen as a proxy for the changing economic structure of advanced capitalist democracies. Finally, a dummy for the period after 2008 marks the *Great Recession*.

A set of robustness checks adds the *capital income share*, the *labor income GINI coefficient*, *total social expenditure*, the *top tax rate*, the *corporate tax rate*, and an index of *financial deregulation*. If capital income increases but remains highly concentrated, it is associated with rising income composition inequality. A less equitably distributed labor income can have a similar impact. Taxes, social spending, and deregulatory dynamics capture specific policy instruments governments have at their disposal to shape income inequality. These variables pose the risk of multicollinearity, but we include them in our additional analyses to check the stability of our results and the specific mechanisms that link politics to economic outcomes.

4.2 Method

Cross-sectional time-series analysis poses several estimation challenges that make the standard application of Ordinary Least Square (OLS) regression inappropriate (Hicks 1994). Pooled data produce temporally autoregressive and cross-sectionally correlated error terms, which result in biased and inconsistent parameter estimates (Huber, Huo, and Stephens 2017). To address this problem, we resort to two estimation techniques. First, Prais Winsten regressions (PWRs) allow us to focus on the factors that drive variation across both space and time. They account for temporal and spatial trends by

combining panel-corrected standard errors with ar(1) corrections (Beck and Katz 1995 and 2011). Second, fixed effects models (FEMs) zoom in on temporal variation within panels. The country dummies that they introduce control for all time-invariant differences across cases while allowing unobserved country characteristics to freely correlate with time-varying covariates (Bollen and Brand 2010). We also add year dummies and an interaction term between our geographic and temporal identifiers to control for common shocks and additional time-variant country-specific dynamics. Estimating both sets of models - PWRs and FEMs - enables us to uncover the causes of changes in income composition inequality both over time and across European industrial democracies.

We expect these changes to be gradual, with causal impacts crystallizing over longer periods of time. We therefore measure our dependent variable as a level (Pierson 2003). Such dynamics make error correction models, which model the outcome of interest as a first difference, inappropriate. To check the robustness of our findings, we run detrended and stripped-form models, estimate random effects models and within-between mixed-effects models. Our substantive findings remain largely unchanged.

5 Results

Table 1 reports the results from our analysis of the determinants of income composition inequality. Models 1 through 3 are Prais Winsten regressions while models 4 through 6 are fixed effects models. Models 1 and 4 present the main specification. Models 2, 3, 5, and 6 add the labor income GINI coefficient and the capital income share to account for broader inequality dynamics. All coefficients have been standardized to reflect one-standard-deviation changes.

Consistent with the Power Resource Theory, partisanship is negatively signed and statistically significant in all models. A higher seat share of *left parties* in the governing

coalition is associated with lower income composition inequality. This effect is not negligible in size – a standard-deviation increase in left power translates into a 2-point, or a 0.112 standard-deviation, decrease in the IFC index. We can thus infer that left governments, whether intentionally or not, broaden access to capital or succeed in reducing capital or labor income concentration while in office. Broadly, the negative coefficient is consistent with the established finding that left parties have a programmatic commitment to lower economic inequality.

Veto points also returns a statistically significant coefficient in the Prais Winsten regressions. A higher number of actors involved in the policy-making process and greater checks on the executive translate into lower income composition inequality. This suggests that reforms addressing income composition inequality are easier in political systems with many invested players. Such systems might facilitate the representation of multiple interests, obstructing concentration. The fact that the variable is insignificant in the fixed effects models implies that this effect is driven by spatial variation. The last political control, *electoral democracy*, fails to reach statistical significance.

Moving on to the economic variables, *GDP per capita* is linked to higher income composition inequality over time. Consistent with the predictions of traditional models of economic growth and income inequality (Alesina and Rodrik 1994), economic development might lead to a greater concentration of capital income. This is particularly true during the period of our analysis. The Great Recession was especially destructive for those below the top 10%, as it increased the rate of foreclosures, decreased the value of existing portfolios, and limited access to capital (Balestra and Tonkin 2018). This implies that as countries returned to their pre-crisis level of output, capital income might have become even more concentrated among the rich. The positive and statistically significant coefficient attached to *GDP growth* in the Prais Winsten regressions corroborates this logic.

In contrast, higher *trade*, *capital openness*, and *FDI inflows* are connected to falling ICI. This effect seems to reflect spatial rather than temporal variation, given the insignificant coefficients yielded by the fixed effects models. More open economies thus saw a reduction in income composition inequality. This might be because trade in the aftermath of the European Sovereign Debt crisis boosted capital incomes at the bottom or labor incomes at the top. Furthermore, existing scholarship has shown that capital movement and internal imbalances within the European Union have contributed to housing and constructions bubbles in the Southern periphery (Jacoby 2020). Regardless of its ultimate destination, foreign capital might have created economic conditions that raised dependence on rental and property income across the income distribution, as more people have gained access to real estate. This could have resulted in a more equitable distribution of capital income.

Three additional variables come out as statistically significant. *Unemployment* and *female labor force participation* appear to drive income composition inequality across space. Higher unemployment is associated with lower ICI. This might be because a greater number of jobless workers leads to more poor people with no labor income. In contrast, higher female labor force participation is related to higher ICI, suggesting that differential pay patterns between men and women exacerbate capital and labor income inequality. Lastly, a higher proportion of the labor force with *university education* is correlated with lower income composition inequality over time. Two mechanisms might be at play here. First, as the number of college graduates rises, the share of individuals with high labor incomes may increase, reducing the concentration of labor income at the bottom of the distribution. Second, more educated people are more likely to diversify their income streams, broadening access to capital income. Thus, as the share of working-age adults with a university degree increases, income composition inequality is likely to fall.

Table 1: Determinants of Income Composition Inequality

	Model 1 b/se	Model 2 b/se	Model 3 b/se	Model 4 b/se	Model 5 b/se	Model 6 b/se
Left seats	-0.155*** (0.05)	-0.155*** (0.05)	-0.097* (0.05)	-0.136*** (0.05)	-0.141*** (0.05)	-0.085** (0.04)
Veto points	-0.186** (0.08)	-0.181** (0.08)	-0.147** (0.06)	1.398 (1.50)	1.413 (1.50)	-0.615 (1.34)
Democracy	0.053 (0.14)	0.036 (0.15)	0.078 (0.13)	0.180 (0.16)	0.196 (0.16)	0.243* (0.14)
GDP per capita	-0.102 (0.18)	-0.005 (0.21)	-0.336** (0.16)	1.282** (0.49)	1.398*** (0.49)	0.652 (0.44)
GDP growth	0.086** (0.03)	0.084** (0.03)	0.097*** (0.03)	-0.041 (0.06)	-0.041 (0.06)	-0.029 (0.06)
Unemployment	-0.310*** (0.08)	-0.303*** (0.08)	-0.321*** (0.08)	-0.019 (0.12)	0.032 (0.12)	-0.178* (0.10)
Trade	-0.158* (0.09)	-0.148* (0.09)	-0.011 (0.07)	-0.097 (0.39)	-0.037 (0.38)	0.215 (0.34)
FDI inflows	-0.047* (0.03)	-0.047* (0.03)	-0.061** (0.03)	-0.078 (0.05)	-0.076 (0.05)	-0.073* (0.04)
Capital openness	-0.137* (0.07)	-0.141* (0.07)	-0.064 (0.07)	-0.072 (0.13)	-0.037 (0.13)	0.064 (0.11)
Union density	-0.071 (0.07)	-0.059 (0.07)	-0.176*** (0.07)	0.547 (0.42)	0.538 (0.41)	0.857** (0.36)
Female labor force	0.406*** (0.07)	0.411*** (0.07)	0.432*** (0.06)	-0.286 (0.25)	-0.330 (0.25)	-0.419* (0.22)
Industrial employment	0.053 (0.11)	0.070 (0.12)	0.069 (0.11)	-0.295 (0.32)	-0.099 (0.33)	-0.476* (0.28)
Educational attainment	0.078 (0.10)	0.056 (0.10)	0.037 (0.10)	-0.720** (0.35)	-0.768** (0.35)	-0.490 (0.30)
Stock market capitalization	0.029 (0.07)	0.023 (0.07)	-0.065 (0.07)	0.139 (0.14)	0.113 (0.14)	-0.072 (0.13)
Crisis	0.025 (0.04)	0.028 (0.04)	0.020 (0.03)	0.204 (0.19)	0.272 (0.19)	0.156 (0.17)
GINI		0.082 (0.09)			0.248* (0.14)	
Capital income share			0.456*** (0.06)			0.594*** (0.07)
Constant	-0.005 (0.03)	-0.006 (0.03)	-0.015 (0.03)	-0.105 (0.06)	-0.115* (0.06)	-0.026 (0.06)
R-squared	0.277	0.279	0.388	0.206	0.218	0.399
N	265	265	265	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Lastly, the two controls that we add as robustness checks come out as significant predictors of income composition inequality. First, a higher capital share is associated with higher ICI. As Piketty (2014) and Milanovic (2019) point out, capital income is very inequitably distributed. When a higher fraction of total income is derived from capital, ICI rises. With that said, we recall that, while this latter relationship is about the absolute levels of these two inequality dimensions - capital share and ICI -, we theoretically interpret the IFC as a measure of the *dynamic* link between the functional and personal distributions of income. In other words, as discussed in the previous section, under a high level of ICI, and all else equal, an increase in the capital share of income drives income inequality up. Second, larger income differences, as captured by the GINI coefficient, lead to higher ICI. This is in line with Ranaldi and Milanovic (2020), who find that income inequality and compositional inequality are positively related in Latin America, Eastern Europe and Scandinavia.

The results so far suggest that governments can shape income composition inequality. The negative coefficient returned by partisanship poses questions about the specific channels through which policymakers can affect the degree of polarization between capital and labor income holders. In an attempt to begin to answer these questions, we run a set of models that account for *total social expenditures*, *the corporate tax rate on distributed profits*, *the top marginal tax rate*, and *financial reform*. These variables reveal whether fiscal and financial policy matter for ICI. Furthermore, if the left-wing seat share comes out as insignificant, we could argue that leftist parties influence income composition inequality through these policy instruments.

Like before, the first four models in table 2 are Prais Winsten regressions while the last four are fixed effects models.⁶ Two of our policy variables appear to drive cross-

⁶The models are run against the full specification, but we only show the relevant coefficients to save space. The full output is in the appendix.

sectional variation. Higher *top tax rates* and *distributed profits tax rates* are correlated with lower ICI. This suggests that taxing income progressively and levying higher taxes on dividends might prevent accumulation at the top of the income distribution. Similarly, two policies appear to matter over time. More generous *total social expenditure* is associated with rising income composition inequality. This is not surprising. In most European countries, benefits and transfers generally prioritize lower and middle-class citizens. Higher spending on such programs would thus induce a higher concentration of labor income at the bottom. In contrast, higher *corporate taxes* are related to lower ICI. This suggests that taxing corporations might disincentivize capital ownership, lowering compositional inequality. *Marginal top tax rates* and *financial deregulation* return insignificant coefficients in the fixed effects models, implying that they do not systematically shape income composition inequality. It is important to note, however, that these two variables do not exhibit much variation over time and that our sample size decreases by 6 countries in the last model as financial regulation data are not available for many post-communist economies. Our results do not change when we drop partisanship to address concerns about multicollinearity. Interestingly, *left parties* retains its statistical significance. Its effect does not decrease in size, which indicates that partisan dynamics shape ICI through mechanisms that do not always pertain to fiscal and financial sector policy.

What explains our results? How do politics affect ICI? While interesting on their own, our findings do not reveal the exact ways in which partisanship shapes our outcome of interest. To further examine this effect, we explore the behavior of the areas under the concentration curves for labor and capital income. As explained in the technical appendix, the numerator of the IFC index is the difference between these two areas. Looking into their determinants thus sheds light on the specific dynamics behind income composition inequality.⁷ In particular, it allows us to check whether our IVs are

⁷It is important to note that the denominator of the IFC index does not explain much of the overall

associated with a more equitable distribution of capital or labor income across the total income distribution.

Table 3 below (full output in the appendix) re-runs our models replacing ICI with MU_P and MU_W . The first two models focus on capital income while the second two look into labor income. Like before, we report standardized coefficients from Prais Winsten regressions and fixed effects models. The results confirm the statistical significance of the covariates that emerged as meaningful predictors of income composition inequality. Indeed, left-wing parties, FDI inflows, and institutional constraints also shape patterns in the distribution of capital and labor income.

Several interesting findings stand out. Looking at labor income dynamics, higher GDP per capita is correlated with labor income gains for the less affluent. (A positive coefficient implies that a variable is linked to a more inequitable distribution of capital or labor income.) This suggests that the economic recovery of the 2010s has benefited workers beyond the highest earners. Higher unemployment is also associated with labor income flowing toward the middle and the lower classes – this might be because of unemployment benefits, which are included in our definition of labor income. A larger industrial sector and higher capital openness also allow labor income to accrue to the bottom of the distribution.

Interestingly, partisanship and union density return positively signed coefficients in the fixed effects models. Greater influence of left-wing parties in the governing coalition and stronger unions lead to lower labor income gains for the bottom of the total income distribution. Although somewhat counterintuitive, this result is not entirely surprising. Recent research has shown that, since the 1980s, partisan differences have become (at least somewhat) less powerful at explaining welfare state developments (Huber and Stephens 2001). While secular right governments have been found to provide favorable conditions for the concentration of income at the very top (Huber, Huo and Stephens 2019).

Table 2: Government Policy and Income Composition Inequality

	Prais b/se	Prais b/se	Prais b/se	Prais b/se	FEM b/se	FEM b/se	FEM b/se	FEM b/se
Left seats	-0.154*** (0.05)	-0.137*** (0.05)	-0.132*** (0.04)	-0.156*** (0.05)	-0.158*** (0.05)	-0.139*** (0.05)	-0.126*** (0.05)	-0.132*** (0.05)
Social expenditures	-0.041 (0.09)				0.637*** (0.23)			
Top tax rate		-0.255* (0.13)				0.060 (0.15)		
Distributed profits tax rate			-0.295*** (0.11)				-0.253* (0.15)	
Financial reform				-0.054 (0.09)				-0.013 (0.13)
Constant	-0.009 (0.03)	0.044 (0.05)	-0.000 (0.05)	0.044 (0.05)	-0.125* (0.06)	-0.014 (0.09)	-0.022 (0.09)	-0.029 (0.10)
R-squared	0.278	0.317	0.341	0.271	0.233	0.172	0.185	0.175
N	265	231	231	223	265	231	231	223

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

2019), left cabinets have struggled to constrain wage dispersion, especially in environments where labor unions are weak. They might thus choose to strategically focus on capital income dynamics to compensate for their decreasing ability to affect labor income. The positive coefficient attached to union density in the third model indicates that cross-national differences in union strength still explain labor income inequality dynamics, although unions seem to have lost their ability to ameliorate pay differences over time.

Table 3: Determinants of MU_P and MU_W

	PWR MU_P b/se	FEM MU_P b/se	PWR MU_W b/se	FEM MU_W b/se
Left seats	-0.143** (0.06)	-0.129*** (0.05)	0.020 (0.03)	0.038* (0.02)
Union density	-0.101 (0.08)	0.519 (0.42)	-0.176*** (0.07)	0.110 (0.20)
GDP per capita	-0.435** (0.20)	0.974* (0.50)	-1.146*** (0.11)	-0.571** (0.23)
Unemployment	-0.300*** (0.08)	-0.065 (0.12)	-0.110* (0.06)	-0.221*** (0.06)
Industrial employment	-0.021 (0.11)	-0.495 (0.32)	-0.210** (0.09)	-0.796*** (0.15)
R-squared	0.266	0.180	0.383	0.378
N	265	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Looking into capital income, higher GDP per capita is tied to a higher concentration among the rich over time (in the fixed-effect model). The economic recovery after the European Sovereign Debt crisis appears to have exacerbated disparities. Cross-sectionally, though, wealthier countries tend to have more equitably distributed capital income. Faster growing economies, however, see greater accumulation among the rich. Over time, higher educational attainment at the national level ensures that the middle classes and the poor also gain access to capital.

Intriguingly, capital income flows to the bottom of the income distribution under

leftist governments. This suggests that left-wing parties constrain the concentration of capital income at the very top. This could occur through policies that promote home ownership among the non-rich, encourage participation in the stock market or boost enrolment in private pension plans. Such an effect is important to note as the literature on partisan influences has mainly focused on left parties' efforts to keep wage dispersion low.

How exactly does this impact crystallize? To further explore how left parties shape the capital income distribution, we calculate the proportion of respondents with positive capital income. To identify the precise types of capital assets people own, we also look at the three components of capital income - dividends, rental income, and private pensions. Table 4 below shows four reduced-form fixed-effects models which look into the determinants of capital ownership. Because some of the variables included in our main specification are less relevant here, we drop them from this analysis.

Table 4: Determinants of Capital Ownership

	Capital Inc	Pensions	Rents	Dividends
Left seats	0.031** (0.01)	-0.034 (0.03)	0.047** (0.02)	0.031** (0.01)
Union density	-0.266** (0.13)	0.395 (0.25)	0.739*** (0.20)	-0.301** (0.13)
Democracy	-0.078 (0.05)	0.406*** (0.10)	0.034 (0.08)	-0.080 (0.05)
GDP per capita	0.722*** (0.15)	-0.293 (0.29)	-0.024 (0.23)	0.697*** (0.15)
Unemployment	0.072** (0.03)	-0.095* (0.06)	-0.064 (0.04)	0.073** (0.03)
Capital openness	-0.067 (0.04)	0.073 (0.08)	-0.117* (0.06)	-0.059 (0.04)
Stock market capitalization	-0.150*** (0.05)	-0.154* (0.09)	-0.052 (0.07)	-0.150*** (0.05)
Crisis	0.019 (0.04)	0.315*** (0.08)	0.304*** (0.06)	0.011 (0.04)
Constant	0.015 (0.01)	-0.035 (0.03)	-0.022 (0.02)	0.017 (0.01)
R-squared	0.385	0.179	0.229	0.377
N	266	266	266	266

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Left parties are associated with a higher proportion of individuals holding capital income, rental income, and capital gains. Although the size of this effect is small, it is not negligible. Additional analyses presented in the appendix indicate that capital income ownership rises among the bottom three quintiles - those situated below the 40% most affluent people. This suggests that the lower and the middle classes acquire more capital income when left parties are in power. As previously discussed, this might be due to the policies that the former pursue while in office or to any behavioral changes that their presence induces.

Most of these results are robust to detrending, different model specifications, and diverse estimation techniques. They remain largely unchanged when we estimate Driskoll-Kraay standard errors, between-within mixed models, and random effects models. This inspires further confidence in our conclusions.

6 Conclusion

This paper explores the determinants of income composition inequality. As previously argued, ICI illuminates the nature of modern capitalist economies. Low levels of income composition inequality are associated with economic systems where individuals earn multiple sources of income. Indeed, people work, invest, own property, and participate in a continuum of economic activities that make markets much more fluid. In contrast, high levels of income composition inequality are linked to the existence of different, strictly separate interest groups: the rich who predominantly earn capital income and the poor who mainly rely on labor income. Reminiscent of the social structures prevalent during the Industrial Revolution, these societies are much less homogeneous

and much more prone to conflict.

Although these polar scenarios are useful insofar as they bind the spectrum of possible varieties of economic systems along a distributional axis, real economies tend to occupy intermediate positions between the two extremes. Moreover, their position changes over time. We register a trend toward higher income composition inequality in many post-industrial democracies. This suggests that modern politico-economic developments continue to pit capital and labor against each other. Nevertheless, European countries have moved away from the early capitalist model of complete separation between capital and labor income holders. Indeed, the distance between the rich capitalists and the poor laborers has shrunk.

The patterns that we unveil reveal that different economic, social, and political forces can drive income composition inequality up or down. Drawing on a new methodology to measure ICI, we strive to identify these forces in 32 European countries before and after the 2008 financial crisis. Our results confirm that stronger left parties accelerate the transition into a multiple-sources-of-income economy. Left governments promote a more equitable distribution of capital income. Absent policy action, normal economic dynamics exacerbate concentration trends.

These findings indicate that political parties on the left broaden access to capital income, especially among the poorest three quintiles. While in office, they facilitate its flow toward the bottom of the total income distribution. Although we attempt to identify the precise policy instruments through which this occurs, we haven't been able to find conclusive answers to how this is accomplished. The effect that we register might be due entirely to behavioral responses that do not require any policy intervention. Indeed, the rich might abstain from undertaking investments if they perceive the government to be hostile to their interests. Similarly, those with more limited income might feel reassured to participate in the capital and the real estate market. In any case, we show

that, however weakened or constrained in the present day, left parties have the potential to alleviate income composition inequality.

Our findings have implications for a variety of other political and social phenomena. First, they suggest that, rather than working to reduce differences in remuneration, modern left-wing parties might have redirected their focus to other sources of income that can help address stagnating wages. This implies that social-democratic parties might be less likely to intervene to reduce labor market income differentials if they believe they can compensate through action on the capital income front. Second, the electorate in a multiple-sources-of-income society might behave differently from voters in classical capitalist systems. Its stakes in real estate and capital markets might make it more conservative on economic issues. Indeed, access to capital income might turn the middle and the lower classes against redistribution and in favor of economic liberalization. Such attitudinal shifts might bring about even deeper party system reconfigurations in advanced capitalist democracies, forcing political parties to rethink the programmatic agendas and types of linkages they have relied on to connect to voters.

Ultimately, our work shows that, although modern economies have moved away from the social realities and structures of the classical capitalism of the 18th century, present-day dynamics are not so different. They raise questions about the particular policy instruments that contemporary political actors can use to mitigate tensions and resolve the growing distance between the rich and the poor. More broadly, they shed light on the types of conflicts that will dominate the political arena in the coming years.

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Appendix A Income-Factor Concentration Index

In order to measure income composition inequality, Ranaldi (2020) develops the income-factor concentration (IFC) index. The IFC index measures the concentration of a given income source, such as capital or labor income, across the total income distribution. The IFC index is constructed by means of specific concentration curves for income source, constructed as follows. Denote by Π , W and Y the capital, labor and total income in the economy, and by Π_i , W_i and Y_i the capital, labor and total income of individual i $\forall i$. Consider the following decomposition of individual i 's *relative* income:

$$y_i = \frac{Y_i}{Y} = \alpha_i \pi + \beta_i w, \quad (1)$$

where $\alpha_i = \frac{\Pi_i}{\Pi}$ and $\beta_i = \frac{W_i}{W}$ are the *relative* shares of capital and labor income of individual i , such that $\sum_{i=1}^n \alpha_i = \sum_{i=1}^n \beta_i = 1$, whilst $\pi = \frac{\Pi}{Y}$ and $w = \frac{W}{Y}$ are the capital and labor shares of income, respectively. Assume that $y_i \leq y_{i+1} \forall i = 1, \dots, n-1$ and $y_0 = 0$, so that individuals are indexed by their income ranking. We can define $p = \frac{i}{n}$ as the proportion of the population with income less than or equal to y_p . Let $\mathcal{L}(\mathbf{y}, p) = \sum_{j=1}^i y_j$, with $i = 1, \dots, n$, be the Lorenz curve for income corresponding to the distribution $\mathbf{y}$. We can define the concentration curve for capital income, $\mathcal{L}(\boldsymbol{\pi}, p)$, corresponding to the distribution $\boldsymbol{\pi}$, as follows:

$$\mathcal{L}(\boldsymbol{\pi}, p) = \pi \sum_{j=1}^i \alpha_j \quad \forall i = 1, \dots, n. \quad (2)$$

Similarly, the concentration curve for labor, $\mathcal{L}(\mathbf{w}, p)$, corresponding to the distribution $\mathbf{w}$, is:

$$\mathcal{L}(\mathbf{w}, p) = w \sum_{j=1}^i \beta_j \quad \forall i = 1, \dots, n. \quad (3)$$

These two curves describe the cumulative distribution of capital and labor income across the population with individuals being indexed by their income ranking. The area of these curves can be seen as a rough measure of income-factor concentration: the higher the area, the more concentrated at the bottom (of the total income distribution) the given income source. Conversely, the lower the area, the more concentrated at the top the given income source.

In the remainder of this section, we will focus on the concentration curve for capital income only. In fact, given the interdependence between these two curves (i.e., when one source is concentrated at the top the other is concentrated at the bottom), a single curve is sufficient to analyze the joint distribution of capital and labor income.

To precisely assess the degree of concentration of capital and labor incomes across the income distribution (and, hence, of income composition inequality), two additional curves need to be defined: the zero-, and maximum-concentration curves. These two curves represent the benchmarks of minimal, and maximal inequality in income composition.

The zero-concentration curve for capital income, $\mathcal{L}^e(\pi, p)$, is defined as follows:

$$\mathcal{L}^e(\pi, p) = \pi \sum_{j=1}^i y_j \quad \forall i = 1, \dots, n. \quad (4)$$

This curve is the Lorenz curve for total income, multiplied by the capital share π . It describes a distribution of income sources where the composition of capital and labor income is the same for all individuals. Notice that this curve is function of both the Lorenz curve for income and the capital share. Therefore, differently from the egalitarian line used to construct the Gini coefficient, which is the same for all populations, this curve is specific to each population.

The maximum-concentration curve for capital income, $\mathcal{L}^{max}(\pi, p)$, can have two shapes, depending on whether the concentration curve for capital income lies below, or above

the zero-concentration curve. In the former case, it can be defined as follows:

$$\mathcal{L}^{max}(\pi, p) = \mathcal{L}^m(\pi, p) = \begin{cases} 0 & \text{for } p \leq p'' \\ \mathcal{L}(\mathbf{y}, p) - z_- & \text{for } p > p'', \end{cases} \quad (5)$$

whilst in the latter case, as follows:

$$\mathcal{L}^{max}(\pi, p) = \mathcal{L}^M(\pi, p) = \begin{cases} \mathcal{L}(\mathbf{y}, p) & \text{for } p \leq p' \\ z & \text{for } p > p', \end{cases} \quad (6)$$

with p' s.t. $\mathcal{L}(\mathbf{y}, p') = \pi$, p'' s.t. $\mathcal{L}(\mathbf{y}, p'') = 1 - \pi$. In the first case, the maximum-concentration curve equals zero up to a given income percentile p'' , and then takes the shape of the Lorenz curve. In the second case, the maximum-concentration curve takes the shape of the Lorenz curve up to a given income percentile p' , and then it remains constant. The choice of the percentiles p' and p'' depends on the shape of the Lorenz curve and on the capital share.⁸

To construct the IFC index, we proceed as follows. Let us denote by $\mathcal{A}$ the area between the zero-concentration curve and the concentration curve for capital income, and by $\mathcal{B}$ the area between the zero-concentration curve and the appropriate maximum-concentration curve. We define the income-factor concentration index, $\mathcal{I}_f$, as follows:

$$\mathcal{I}_f = \frac{\mathcal{A}}{\mathcal{B}}. \quad (7)$$

Furthermore, it can be shown that:

$$\frac{\partial G}{\partial \pi} \approx \mathcal{A}, \quad (8)$$

hence that the IFC index is a measure of the link between the functional and personal distribution of income.

⁸For further details on the choice of the two percentiles, please see the related methodological paper.

Appendix B Left Parties

Our indicator of left partisanship comes from Armingeon et al's Comparative Political Data Set (2020). We use *govleft2*. Armingeon et al. (2020) code the following parties as belonging to the political left:

Austria: Socialist Party (Sozialdemokratische Partei Österreichs, SPÖ).

Belgium: Socialist Party Different (Socialistische Partij Anders, SP.a/SPIRIT) (until 2001: Flemish Socialist Party, in 2003 and 2007: electoral coalition with SPIRIT), Francophone Socialist Party (Parti Socialiste, PS), AGALEV (Greens, francophone), ECOLO (Greens, flemish).

Bulgaria: Bulgarian Socialist Party (Bulgarska Socialističeska Partija, BSP), Coalition for Bulgaria (Koalitsiya za Bulgaria, KB), Alternative for Bulgarian Revival/Renaissance (Alternativa za balgarsko vazrazhdane, ABV).

Switzerland: Social Democrats (Sozialdemokratische Partei der Schweiz Parti Socialiste Suiss/, SPS/ PSS).

Cyprus: Social Democrats Movement (Kinima Socialdemokraten, KISOS), former EDEK (United Democratic Union of Cyprus, The Socialist Party), Progressive Party of the Working People, The Communist Party, (Anorthotiko Komma tou Ergazomenou Laou, AKEL).

Czechia: Czechoslovak Party of Social Democracy (Ceská strana sociálne demokratická CSSD), Green Party (SZ).

Germany: Social Democrats (Sozialdemokratische Partei Deutschlands, SPD), Greens (Bündnis 90/Die Grünen).

Denmark: Social Democrats (Socialdemokratiet, SD), Left Socialist Party (LSP), Socialist People's Party (Socialistisk Folkeparti, SF).

Estonia: Social Democratic Party (SDE) [Formerly: Moderates (Mõõdukad) [merger of People's Party (Estonian Social Democratic Party + Rural Centre Party) with Mod-

erates; from 1999 known as the People's Party Moderates (Rahvaerakond Mõõdukad)],
KMU - Estonian Coalition Party (Eesti Koonderakond, EK) and Rural Union (Eesti
Maaliit, EM)- [formed from Estonian Coalition Party (KE or KMU-K), Estonian Rural
Union (EM or KMU-M), Estonian Country People's Party (EME), Estonian Pensioners'
and Families' League (EPPL) and Farmers' Assembly (PK)].

Greece: Pan-Hellenic Social Movement (Panellinio Sosialistiko Kinima, PASOK),
Communist Party (Kommunistiko Komma Elladas, KKE), Democratic Left (Dimokratiki
Aristera, DIMAR), Coalition of the Radical Left (SYRIZA; former Coalition of Left and
Progress).

Spain: Socialist Party (Partido Socialista Obrero Español, PSOE).

Finland: Social Democrats (Suomen Sosialidemokraattinen Puolue, SDP), Finnish
People's Democratic Union (SKDL), Social Democratic League (TPSL), Left-Wing Al-
liance (Vasemmistoliitto, VAS), Green League (Vihreä Liitto, VIHR).

France: Socialist Party (Parti Socialiste, PS), Communist Party (Parti Communiste
Français, PCF), Greens (Les Verts), Movement for Citizens (Mouvement des Citoyens,
MDC), Generation Ecology (Génération Écologie, GE), Left Radicals (Parti Radical de
Gauche, PRG (since 1998)) (former: Mouvement des radicaux de gauche, MRG (until
1996) and Parti Radical Socialiste, PRS (until 1998)).

Croatia: Social Democratic Party of Croatia (Socijaldemokratska Partija Hrvatska,
SDP).

Hungary: Hungarian Socialist Party (Magyar Szocialista Párt, MSzP), Independent
Smallholders Party (Független Kisgazdapárt, FKGP).

Ireland: Labour Party (LAB), Democratic Left (DL), Green Party (GP).

Iceland: Social Democratic Party (SDP) (Althýduflokkur), People's Alliance (PA,
USP) (Althýdubandalag), Social Democratic Alliance (SDA) (Samfylkingin), Left-Greens
(LG) (Vinstri græn).

Italy: Socialist Party of Proletarian Unity (PSIU), Communist Party (Partito dei Comunisti Italiani, PDCI), Socialist Party (Partito Socialista Italiano, PSI), United Socialist Party (PSU), Social Democratic Party (Socialisti Democratici Italiani, PSDI), Greens (Verdi), Party of the Democratic Left (Democratici di Sinistra, PDS), (in 2006, the DS ran together with Daisy (Margherita) in the Olive Tree Coalition (Ulivo)), The Democrats (I Democratici, DEM), Di Pietro List (Lista di Pietro/Italia dei Valori, IdV), Socialists and Radicals (former Rose in the Fist, Rosa nel Pugno, RnP), Democratic Party (Partito Democratico, PD).

Lithuania: Lithuanian Democratic Labour Party (Lietuvos Demokratine Darbo Partija, LDDP), Lithuanian Farmers and Greens Union (Lietuvos valstiečių sąjunga LVŽS) [former Lithuanian Peasants People Union (Lietuvos valstiečių liaudininkų sąjunga, LPPU), Union of Farmers and New Democratic Party (Valstiečių ir naujosios Demokratijos partijų sąjunga, VNDPS)], Lithuanian Social-Democratic Party (Lietuvos Socialdemokratinė Partija, LSDP), Social-Democratic Coalition of Algirdas Brazauskas [comprised of Lithuanian Democratic Labour Party; Lithuanian Social Democratic Party; Union of Lithuanian Russians; Party of New Democracy], For a Working Lithuania (LSDP and NU), Labour Party (DP), Civic Democratic Party (CDP).

Luxembourg: Socialist Workers' Party (Parti Ouvrier socialiste luxembourgeois/Letzemburger Sozialistisch Arbechterpartei, POSL/LSAP), The Greens (Déi Gréng, GLEI-GAP).

Latvia: Democratic Centre Party (since 1995, Democratic Party "Master" (DPS Saimnieks), Latvian Social-Democratic Alliance (Latvijas Sociāldemokrātu Apvienība, LSDA), New Party (Jauna partija, JP), Latvia's Unity Party (Latvijas Vienības Partija, LVP), Latvian Farmers' Union (Latvijas Zemnieku Savienība, LZS).

Malta: Socialist Workers' Party (Parti Ouvrier socialiste luxembourgeois/Letzemburger Sozialistisch Arbechterpartei, POSL/LSAP), The Greens (Déi Gréng, GLEI-GAP).

Netherlands: Labour Party (Partij van der Arbeid, PvdA), Political Party of the

Radicals (PPR).

Norway: Labour Party (Det Norske Arbeiderparti DNA, AP), Socialist Left Party (Sosialistisk Venstreparti, SV).

Poland: Alliance of the Democratic Left (Sojusz Lewicy Demokratycznej, SLD) [formed of Social Democracy of the Republic of Poland; All-Polish Accord of Trade Unions; Polish Socialist Party], Labour Union (Unia Pracy, UP), Polish Peasant Party (Polskie Stronnictwo Ludowe, PSL), Self Defence of Polish Republic (Samoobrona Rzeczypospolitej Polskiej, SRP), Polish Social Democracy (Socjaldemokracja Polska, SdPL).

Portugal: Socialist Party (Partido Socialista Português, PSP), Communist Party (PCP).

Romania: National Salvation Front = Democratic National Salvation Front = Party of Social Democracy from Romania (Partidul Democratiei Sociale din Romania PDSR) = Social Democratic Party (Partidul Social Democrat PSD), Ecological Movement from Romania (Mișcarea Ecologistă din România), National Salvation Front - Democratic Party = Democratic Party (Partidul Democrat PD), Democratic Agrarian Party from Romania (Partidul Democrat Agrar din România), National Union for Romania's Progress (Uniunea Nationala pentru Progresul Romaniei, UNPR).

Sweden: Social Democrats (Socialdemokraterna, S), Green Party (Miljöpartiet de gröna, MP).

Slovenia: Social Democrats (Socialni demokrati, SD) (until 2008: United List of Social Democrats (Združena Lista Socialnih Demokratov, ZLSD)), Social Democratic Party of Slovenia (Socialdemokratska Stranka Slovenije, SDS), Greens of Slovenia (Zeleni Slovenije, ZS), Slovenian People's Party (Slovenska Ljudska Stranka, SLS), Coalition of the Slovenian People's Party and the Slovenian Christian Democrats (SLS/SKD), Democratic Party of Pensioners (DeSUS), Social Democrats (Socialni demokrati, SD), Positive Slovenia (Pozitivna Slovenija, PS).

Slovakia: Party of the Democratic Left (Strana Demokratickej Ľavice, SDL') since 1996 Association of Slovak Workers (Združenie Robotníkov Slovenska, ZRS), Direction – Social Democracy (Smer-SD, S).

United : Labour Party (LAB).

Appendix C Additional Figures

Concentration Curves for Capital and Labor Income
(2004 - 2018)

Appendix D Full Tables

The tables below present the full output of the models included in Tables 2 and 3 in the main body of the paper.

Table 5: Determinants of MU_P and MU_W

	PWR MU_P	FEM MU_P	PWR MU_W	FEM MU_W
	b/se	b/se	b/se	b/se
Left seats	-0.143** (0.06)	-0.129*** (0.05)	0.020 (0.03)	0.038* (0.02)
Veto points	-0.210*** (0.08)	1.229 (1.51)	-0.030 (0.05)	-0.797 (0.71)
Democracy	0.121 (0.14)	0.148 (0.16)	0.203*** (0.07)	-0.045 (0.08)
Union density	-0.101 (0.08)	0.519 (0.42)	-0.176*** (0.07)	0.110 (0.20)
GDP per capita	-0.435** (0.20)	0.974* (0.50)	-1.146*** (0.11)	-0.571** (0.23)
GDP growth	0.089*** (0.03)	-0.036 (0.06)	0.028 (0.02)	0.005 (0.03)
Unemployment	-0.300*** (0.08)	-0.065 (0.12)	-0.110* (0.06)	-0.221*** (0.06)
Trade	-0.182* (0.10)	-0.031 (0.39)	-0.049 (0.08)	-0.246 (0.18)
FDI inflows	-0.044 (0.03)	-0.079 (0.05)	0.021 (0.02)	-0.001 (0.02)
Capital openness	-0.114 (0.08)	-0.112 (0.13)	0.060 (0.05)	-0.114* (0.06)
Female labor force	0.364*** (0.07)	-0.232 (0.25)	-0.037 (0.07)	0.135 (0.12)
Industrial employment	-0.021 (0.11)	-0.495 (0.32)	-0.210** (0.09)	-0.796*** (0.15)
Educational attainment	0.118 (0.11)	-0.649* (0.35)	0.189 (0.12)	0.252 (0.16)
Stock market capitalization	0.081	0.183	0.027	0.025

	(0.07)	(0.14)	(0.05)	(0.07)
Crisis	0.020	0.124	-0.015	-0.258***
	(0.04)	(0.19)	(0.03)	(0.09)
R-squared	0.266	0.180	0.383	0.378
N	265	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 6: Government Policy and Income Composition Inequality

	Prais b/se	Prais b/se	Prais b/se	Prais b/se	FEM b/se	FEM b/se	FEM b/se	FEM b/se
Left seats	-0.154*** (0.05)	-0.137*** (0.05)	-0.132*** (0.04)	-0.156*** (0.05)	-0.158*** (0.05)	-0.139*** (0.05)	-0.126*** (0.05)	-0.132*** (0.05)
Social expenditures	-0.041 (0.09)				0.637*** (0.23)			
Top tax rate		-0.255* (0.13)				0.060 (0.15)		
Distributed profits tax rate			-0.295*** (0.11)				-0.253* (0.15)	
Financial reform				-0.054 (0.09)				-0.013 (0.13)
Veto points	-0.176** (0.07)	-0.054 (0.10)	-0.063 (0.08)	-0.124 (0.08)	0.903 (1.49)	1.984 (1.55)	1.729 (1.53)	2.268 (1.55)
Democracy	0.063 (0.14)	0.001 (0.14)	0.003 (0.14)	-0.038 (0.15)	0.153 (0.16)	0.030 (0.18)	0.035 (0.18)	-0.003 (0.18)
GDP per capita	-0.077 (0.20)	-0.318 (0.22)	-0.196 (0.20)	-0.320 (0.21)	1.384*** (0.49)	0.727 (0.57)	0.768 (0.55)	0.041 (0.65)
GDP growth	0.082** (0.03)	0.042 (0.04)	0.056 (0.04)	0.038 (0.04)	0.027 (0.07)	-0.042 (0.07)	-0.035 (0.07)	-0.039 (0.07)
Unemployment	-0.299*** (0.09)	-0.343*** (0.09)	-0.297*** (0.08)	-0.324*** (0.08)	-0.057 (0.12)	-0.130 (0.13)	-0.112 (0.13)	-0.224 (0.14)
Trade	-0.165* (0.09)	-0.293** (0.13)	-0.483*** (0.15)	-0.242* (0.12)	-0.268 (0.18)	-0.199 (0.19)	-0.119 (0.14)	-0.180 (0.18)

FDI inflows	(0.09) -0.047*	(0.14) 0.266	(0.17) 0.294	(0.13) 0.272	(0.38) -0.099**	(0.44) 0.429**	(0.44) 0.421**	(0.46) 0.458**
Capital openness	(0.03) -0.128	(0.21) -0.094	(0.21) -0.056	(0.21) -0.098	(0.05) -0.118	(0.21) -0.173	(0.20) -0.127	(0.20) -0.077
Union density	(0.08) -0.062	(0.08) 0.081	(0.09) 0.000	(0.10) 0.011	(0.13) 0.084	(0.15) 0.520	(0.15) 0.521	(0.23) 0.253
Female labor force	(0.07) 0.412***	(0.08) 0.405***	(0.07) 0.439***	(0.07) 0.406***	(0.44) -0.210	(0.57) 0.015	(0.57) 0.046	(0.61) 0.057
Industrial employment	(0.08) 0.044	(0.09) -0.037	(0.10) 0.140	(0.08) 0.085	(0.25) -0.061	(0.37) -0.142	(0.35) -0.109	(0.35) -0.206
Educational attainment	(0.11) 0.057	(0.13) 0.165	(0.11) 0.210**	(0.11) 0.152	(0.32) -0.797**	(0.35) -0.447	(0.35) -0.380	(0.35) -0.484
Stock market capitalization	(0.11) 0.028	(0.10) -0.011	(0.09) -0.031	(0.11) 0.042	(0.34) 0.193	(0.37) 0.094	(0.37) 0.029	(0.37) 0.085
Crisis	(0.07) 0.029	(0.07) -0.009	(0.07) -0.019	(0.06) -0.003	(0.14) 0.115	(0.16) 0.201	(0.15) 0.106	(0.15) 0.248
Constant	(0.04) -0.009	(0.04) 0.044	(0.04) -0.000	(0.04) 0.044	(0.19) -0.125*	(0.21) -0.014	(0.21) -0.022	(0.20) -0.029
	(0.03) 0.278	(0.05) 0.317	(0.05) 0.341	(0.05) 0.271	(0.06) 0.233	(0.09) 0.172	(0.09) 0.185	(0.10) 0.175
R-squared	0.278	0.317	0.341	0.271	0.233	0.172	0.185	0.175
N	265	231	231	223	265	231	231	223

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Appendix E Different Populations and Income Definitions

In this section, we estimate the IFC index using a different population and two different definitions of capital and labor income.

E.1 Entire population

The second definition of capital and labor income is identical to the one used in main analysis. We, however, focus on the entire population without excluding people under 18 and over 65. Thus,

Capital Income (2) = income from rental of a property or land (*hy040g*) + interest, dividends, profit from capital investments in unincorporated business (*hy090g*) + pensions received from individual private plans (*py080g*)

Labor income (2) = gross employee cash or near cash income (*py010g*) + Company car (*py021g*) + Unemployment benefits (*py090g*) + Old-age benefits (*py100g*) + Survivor' benefits (*py110g*) + Sickness benefits (*py120g*) + Disability benefits (*py130g*) + Education-related allowances (*py140g*) + Family/children related allowances (*hy050g*) + Social exclusion not elsewhere classified (*hy060g*) + Regular inter-household cash transfers received (*hy080g*) cash benefits or losses from self-employment (*py050g*)

Negative capital and labor incomes are excluded and all the population is considered. To allocate household-related income sources such as rental income or dividends at the individual level, we equally split them across household members.

Table 7: Determinants of ICI: Second Definition

	Model 1 PW	Model 2 PW	Model 3 PW	Model 1 FE	Model 2 FE	Model 3 FE
	b/se	b/se	b/se	b/se	b/se	b/se
Left seats	-0.164*** (0.05)	-0.165*** (0.05)	-0.113** (0.05)	-0.138*** (0.05)	-0.143*** (0.05)	-0.091** (0.04)
Veto points	-0.147** (0.07)	-0.145** (0.07)	-0.122* (0.06)	2.332 (1.49)	2.368 (1.48)	0.046 (1.35)
Union density	-0.098 (0.07)	-0.087 (0.07)	-0.178** (0.07)	0.516 (0.41)	0.514 (0.41)	0.833** (0.37)
Democracy	0.146 (0.13)	0.137 (0.14)	0.179 (0.13)	0.169 (0.16)	0.181 (0.16)	0.231 (0.14)
GDP per capita	-0.176 (0.19)	-0.109 (0.22)	-0.432** (0.18)	1.340*** (0.49)	1.442*** (0.49)	0.765* (0.44)
GDP growth	0.099*** (0.03)	0.097*** (0.03)	0.107*** (0.03)	-0.028 (0.06)	-0.033 (0.06)	-0.024 (0.06)
Unemployment	-0.257*** (0.09)	-0.247*** (0.09)	-0.269*** (0.08)	0.033 (0.12)	0.116 (0.12)	-0.110 (0.10)

Trade	-0.159*	-0.152*	-0.012	-0.329	-0.213	0.011
	(0.09)	(0.08)	(0.07)	(0.38)	(0.38)	(0.34)
FDI inflows	-0.039	-0.039	-0.051*	-0.096*	-0.091*	-0.088**
	(0.03)	(0.03)	(0.03)	(0.05)	(0.05)	(0.04)
Capital openness	-0.121*	-0.125*	-0.042	-0.105	-0.056	0.055
	(0.07)	(0.07)	(0.07)	(0.13)	(0.13)	(0.12)
Female labor force	0.407***	0.414***	0.427***	-0.191	-0.230	-0.350
	(0.07)	(0.08)	(0.07)	(0.25)	(0.24)	(0.22)
Industrial employment	0.042	0.052	0.073	-0.215	-0.004	-0.374
	(0.12)	(0.12)	(0.12)	(0.31)	(0.32)	(0.28)
Educational attainment	-0.017	-0.036	-0.045	-0.729**	-0.739**	-0.502
	(0.10)	(0.10)	(0.11)	(0.34)	(0.34)	(0.30)
Stock market capitalization	-0.020	-0.024	-0.114	0.106	0.085	-0.097
	(0.07)	(0.07)	(0.07)	(0.14)	(0.14)	(0.13)
Crisis	0.039	0.041	0.028	0.248	0.295	0.176
	(0.04)	(0.04)	(0.04)	(0.19)	(0.19)	(0.17)
GINI		0.056			0.336**	
		(0.09)			(0.14)	
Capital income share			0.463***			0.609***
			(0.07)			(0.08)
Constant	-0.038	-0.039	-0.045*	-0.167***	-0.173***	-0.080
	(0.03)	(0.03)	(0.03)	(0.06)	(0.06)	(0.06)
R-squared	0.261	0.263	0.349	0.208	0.228	0.385
N	265	265	265	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

E.2 Third definition

The third definition of capital and labor income adopted is the following:

Capital Income (3) = income from rental of a property or land (*hy040g*) + interest, dividends, profit from capital investments in unincorporated business (*hy090g*) + pensions received from individual private plans (*py080g*)

Labor income (3) = employee cash or near cash income (*py010g*) + cash benefits or losses from self-employment (*py050g*)

Negative capital and labor incomes are excluded and only the working age population (18-65) is considered. To allocate household-related income sources such as rental income or dividends at the individual level, we equally split them across the household members.

Table 8: Determinants of ICI: Third Definition

	M1 PW b/se	M2 PW b/se	M3 PW b/se	M1 FE b/se	M2 FE b/se	M3 FE b/se
Left seats	-0.148*** (0.05)	-0.146*** (0.05)	-0.087** (0.04)	-0.147*** (0.04)	-0.151*** (0.04)	-0.092** (0.04)
Veto points	-0.292*** (0.08)	-0.278*** (0.08)	-0.247*** (0.06)	1.646 (1.41)	1.579 (1.42)	-0.444 (1.19)
Union density	0.036 (0.07)	0.010 (0.08)	-0.068 (0.06)	0.265 (0.39)	0.257 (0.39)	0.595* (0.33)
Democracy	-0.098 (0.11)	-0.089 (0.12)	-0.077 (0.10)	0.144 (0.15)	0.142 (0.15)	0.198 (0.13)
GDP per capita	0.178 (0.20)	0.105 (0.24)	-0.093 (0.17)	1.696*** (0.46)	1.761*** (0.48)	1.021*** (0.39)
GDP growth	0.026 (0.04)	0.029 (0.04)	0.043 (0.03)	-0.082 (0.06)	-0.082 (0.06)	-0.069 (0.05)
Unemployment	-0.260*** (0.08)	-0.247*** (0.08)	-0.286*** (0.07)	-0.032 (0.11)	-0.045 (0.11)	-0.218** (0.09)
Trade	-0.110 (0.10)	-0.111 (0.10)	0.056 (0.08)	0.186 (0.36)	0.181 (0.36)	0.539* (0.30)
FDI inflows	-0.019 (0.02)	-0.021 (0.02)	-0.032* (0.02)	-0.006 (0.05)	-0.004 (0.05)	0.005 (0.04)
Capital openness	-0.169** (0.07)	-0.163** (0.07)	-0.097 (0.07)	-0.061 (0.12)	-0.060 (0.12)	0.081 (0.10)
Female labor force	0.444*** (0.09)	0.421*** (0.09)	0.486*** (0.08)	-0.017 (0.23)	-0.017 (0.23)	-0.177 (0.19)
Industrial employment	0.099 (0.11)	0.077 (0.12)	0.117 (0.10)	-0.246 (0.30)	-0.212 (0.30)	-0.424* (0.25)
Educational attainment	0.145 (0.11)	0.146 (0.11)	0.083 (0.11)	-0.503 (0.32)	-0.548 (0.33)	-0.298 (0.27)
Stock market capitalization	0.081 (0.07)	0.071 (0.07)	-0.014 (0.06)	0.129 (0.13)	0.131 (0.14)	-0.065 (0.11)
Crisis	-0.026	-0.030	-0.028	-0.069	-0.034	-0.095

	(0.05)	(0.05)	(0.04)	(0.18)	(0.19)	(0.15)
GINI		-0.088			0.105	
		(0.12)			(0.18)	
Capital income share			0.506***			0.633***
			(0.06)			(0.07)
Constant	0.017	0.017	0.008	-0.102*	-0.101*	-0.016
	(0.04)	(0.03)	(0.03)	(0.06)	(0.06)	(0.05)
R-squared	0.319	0.328	0.487	0.244	0.245	0.477
N	265	265	265	265	265	265
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$						

Table 9: Determinants of MU_P and MU_W : Third Definition

	FEM MU_P b/se	Prais MU_P b/se	FEM MU_W b/se	Prais MU_W b/se
Left seats	-0.130*** (0.05)	-0.152*** (0.05)	0.053*** (0.02)	0.035* (0.02)
Veto points	1.802 (1.59)	-0.270*** (0.09)	0.132 (0.51)	0.156*** (0.03)
Union density	0.339 (0.44)	-0.098 (0.08)	0.126 (0.14)	-0.328*** (0.04)
Democracy	0.196 (0.17)	0.003 (0.14)	0.026 (0.05)	0.130*** (0.04)
GDP per capita	1.130** (0.52)	-0.345* (0.21)	-0.621*** (0.17)	-0.818*** (0.07)
GDP growth	-0.065 (0.07)	0.050 (0.04)	0.011 (0.02)	0.024* (0.01)
Unemployment	0.015 (0.12)	-0.223*** (0.09)	0.124*** (0.04)	0.121*** (0.04)
Trade	0.004 (0.41)	-0.148 (0.11)	-0.053 (0.13)	0.004 (0.06)
FDI inflows	-0.053 (0.05)	-0.046* (0.03)	-0.013 (0.02)	-0.000 (0.02)
Capital openness	-0.093 (0.14)	-0.141* (0.08)	-0.008 (0.04)	0.074*** (0.02)
Female labor force participation	-0.214 (0.26)	0.316*** (0.09)	-0.024 (0.08)	-0.288*** (0.05)
Industrial employment	-0.635* (0.33)	-0.092 (0.12)	-0.331*** (0.11)	-0.277*** (0.04)
Educational attainment	-0.344 (0.37)	0.159 (0.12)	0.438*** (0.12)	0.008 (0.07)
Stock market capitalization	0.156 (0.15)	0.055 (0.08)	-0.061 (0.05)	-0.106*** (0.04)
Crisis	-0.127 (0.20)	-0.018 (0.05)	-0.290*** (0.06)	-0.030 (0.03)
Constant	-0.101 (0.07)	0.017 (0.04)	-0.005 (0.02)	-0.006 (0.02)
R-squared	0.150	0.225	0.624	0.663
N	265	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 10: Determinants of ICI: Third Definition, Government Policy

M4 PW	M5 PW	M6 PW	M7 PW	M4 FE	M5 FE	M6 FE	M7 FE	b/se
Left seats	-0.148*** (0.05)	-0.127*** (0.04)	-0.129*** (0.04)	-0.147*** (0.04)	-0.180*** (0.04)	-0.147*** (0.05)	-0.128*** (0.05)	-0.135*** (0.04)
Veto points	-0.290*** (0.08)	-0.163* (0.10)	-0.188** (0.08)	-0.210*** (0.08)	0.907 (1.36)	2.015 (1.48)	2.062 (1.47)	2.237 (1.42)
Union density	0.037 (0.07)	0.171** (0.08)	0.093 (0.07)	0.142** (0.06)	-0.426 (0.40)	0.819 (0.54)	0.797 (0.54)	0.430 (0.55)
Democracy	-0.097 (0.11)	-0.083 (0.13)	-0.097 (0.13)	-0.101 (0.14)	0.103 (0.15)	0.006 (0.17)	0.027 (0.17)	0.013 (0.16)
GDP per capita	0.181 (0.22)	0.081 (0.25)	0.166 (0.25)	0.058 (0.23)	1.849*** (0.44)	1.818*** (0.55)	1.682*** (0.53)	0.802 (0.59)
GDP growth	0.026 (0.04)	0.012 (0.04)	0.022 (0.04)	0.001 (0.04)	0.020 (0.06)	-0.065 (0.07)	-0.052 (0.07)	-0.056 (0.07)
Unemployment	-0.258*** (0.09)	-0.265*** (0.09)	-0.228*** (0.09)	-0.229*** (0.07)	-0.090 (0.11)	-0.039 (0.13)	-0.048 (0.12)	-0.152 (0.12)
Trade	-0.111 (0.10)	-0.303** (0.14)	-0.426*** (0.15)	-0.262** (0.13)	-0.070 (0.35)	0.139 (0.42)	0.170 (0.42)	0.033 (0.42)
FDI inflows	-0.019 (0.02)	0.270 (0.18)	0.285 (0.18)	0.302* (0.18)	-0.036 (0.04)	0.485** (0.20)	0.494** (0.20)	0.549*** (0.19)
Capital openness	-0.167* (0.09)	-0.141 (0.09)	-0.126 (0.09)	-0.113 (0.09)	-0.129 (0.12)	-0.200 (0.14)	-0.132 (0.14)	0.062 (0.21)
Female labor force	0.445*** (0.10)	0.478*** (0.09)	0.510*** (0.10)	0.451*** (0.07)	0.097 (0.22)	-0.095 (0.35)	0.044 (0.33)	-0.029 (0.32)
Industrial employment	0.098 (0.11)	0.046 (0.13)	0.198* (0.10)	0.152 (0.11)	0.103 (0.29)	-0.180 (0.34)	-0.150 (0.34)	-0.281 (0.32)
Educational attainment	0.142 (0.13)	0.205* (0.12)	0.236** (0.11)	0.159 (0.11)	-0.617** (0.31)	-0.461 (0.36)	-0.404 (0.36)	-0.501 (0.34)
Stock market capitalization (0.07)	0.081 (0.09)	0.028 (0.08)	0.023 (0.07)	0.091 (0.13)	0.210 (0.15)	0.120 (0.14)	0.009 (0.13)	0.072 (0.13)
Social expenditures	-0.005 (0.10)				0.950*** (0.21)			
Crisis	-0.025	-0.048	-0.050	-0.041	-0.201	0.016	-0.053	0.087

Top tax rate	(0.05)	(0.05)	(0.05)	(0.04)	(0.17)	(0.20)	(0.21)	(0.19)
		-0.238*				0.210		
		(0.14)				(0.14)		
Distributed profits tax rate			-0.205**				-0.231	
			(0.08)				(0.14)	
Financial reform				-0.057				-0.117
				(0.08)				(0.12)
Constant	0.017	0.029	0.002	0.018	-0.132**	-0.052	-0.062	-0.084
	(0.04)	(0.05)	(0.05)	(0.05)	(0.06)	(0.09)	(0.09)	(0.09)
R-squared	0.319	0.368	0.383	0.369	0.310	0.277	0.278	0.259
N	265	231	231	223	265	231	231	223

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 11: Capital Ownership: Third Definition (FEMs)

	Capital	Inc	Pensions	Rents	Dividends
	b/se	b/se	b/se	b/se	b/se
GDP per capita	0.747*** (0.16)	-0.295 (0.31)	-0.206 (0.24)	0.732*** (0.16)	
Unemployment	0.096*** (0.03)	-0.099 (0.07)	-0.010 (0.05)	0.095*** (0.03)	
Capital openness	-0.057 (0.04)	0.071 (0.09)	-0.070 (0.07)	-0.052 (0.04)	
Union density	-0.219 (0.14)	0.430 (0.28)	0.839*** (0.21)	-0.257* (0.14)	
Democracy	-0.080 (0.06)	0.407*** (0.11)	0.032 (0.08)	-0.082 (0.06)	
Left seats	0.038** (0.02)	-0.042 (0.03)	0.078*** (0.02)	0.036** (0.02)	
Stock market capitalization	-0.161*** (0.05)	-0.161* (0.10)	-0.089 (0.07)	-0.159*** (0.05)	
Crisis	0.020 (0.04)	0.332*** (0.09)	0.324*** (0.07)	0.011 (0.04)	
Constant	0.002 (0.02)	-0.041 (0.03)	-0.029 (0.02)	0.005 (0.02)	
R-squared	0.403	0.190	0.288	0.394	
N	248	248	248	248	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

E.3 Fourth definition

The fourth definition of capital and labor income defines

Capital Income (4) = income from rental of a property or land (*hy040g*) + interest, dividends, profit from capital investments in unincorporated business (*hy090g*) + pensions received from individual private plans (*py080g*)

Labor income (4) = employee cash or near cash income (*py010g*) + cash benefits or losses from self-employment (*py050g*)

Negative capital and labor incomes are excluded and the entire population is considered. To allocate household-related income sources such as rental income or dividends at the individual level, we equally split them across the household members.

Table 12: Determinants of ICI: Fourth Definition

	Model 1 PW	Model 2 PW	Model 3 PW	Model 1 FE	Model 2 FE	Model 3 FE
	b/se	b/se	b/se	b/se	b/se	b/se
Left seats	-0.156*** (0.05)	-0.155*** (0.05)	-0.102** (0.05)	-0.145*** (0.05)	-0.153*** (0.05)	-0.090** (0.04)
Veto points	-0.249*** (0.08)	-0.244*** (0.08)	-0.220*** (0.06)	3.207** (1.50)	3.107** (1.50)	0.577 (1.28)
Union density	-0.041 (0.08)	-0.052 (0.09)	-0.126* (0.07)	0.271 (0.41)	0.265 (0.41)	0.581* (0.35)
Democracy	-0.059 (0.12)	-0.055 (0.13)	-0.025 (0.12)	0.134 (0.16)	0.114 (0.16)	0.191 (0.13)
GDP per capita	0.054 (0.22)	0.023 (0.25)	-0.258 (0.20)	1.789*** (0.49)	1.908*** (0.50)	1.138*** (0.42)
GDP growth	0.030 (0.04)	0.031 (0.04)	0.041 (0.04)	-0.078 (0.06)	-0.080 (0.06)	-0.074 (0.05)
Unemployment	-0.287*** (0.09)	-0.284*** (0.09)	-0.328*** (0.08)	-0.038 (0.12)	-0.055 (0.12)	-0.224** (0.10)
Trade	-0.062 (0.11)	-0.065 (0.11)	0.116 (0.10)	0.123 (0.38)	0.131 (0.38)	0.543* (0.32)
FDI inflows	-0.027 (0.02)	-0.027 (0.02)	-0.037* (0.02)	-0.024 (0.05)	-0.022 (0.05)	-0.012 (0.04)
Capital openness	-0.209*** (0.08)	-0.202*** (0.08)	-0.141* (0.08)	-0.121 (0.13)	-0.127 (0.13)	0.049 (0.11)
Female labor force	0.431*** (0.09)	0.422*** (0.09)	0.465*** (0.09)	0.050 (0.25)	0.059 (0.25)	-0.152 (0.21)
Industrial employment	0.086 (0.12)	0.078 (0.13)	0.104 (0.12)	-0.278 (0.31)	-0.210 (0.32)	-0.445* (0.26)
Educational attainment	0.143 (0.12)	0.144 (0.12)	0.088 (0.13)	-0.505 (0.34)	-0.556 (0.35)	-0.279 (0.29)
Stock market capitalization	0.074 (0.08)	0.068 (0.08)	-0.023 (0.08)	0.113 (0.14)	0.125 (0.14)	-0.065 (0.12)
Crisis	-0.031	-0.031	-0.045	-0.138	-0.111	-0.220

	(0.05)	(0.05)	(0.04)	(0.19)	(0.19)	(0.16)
GINI		-0.035			0.237	
		(0.11)			(0.21)	
Capital income share			0.534***			0.735***
			(0.07)			(0.08)
Constant	0.020	0.019	0.017	-0.161**	-0.151**	-0.055
	(0.04)	(0.04)	(0.03)	(0.06)	(0.06)	(0.05)
R-squared	0.262	0.264	0.384	0.253	0.258	0.478
N	265	265	265	265	265	265
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$						

E.4 Stripped-Form Models

Table 13: Determinants of ICI: Stripped-Form Models

	PW b/se	FEM b/se
Left seats	-0.155*** (0.06)	-0.106** (0.04)
Veto points	-0.305*** (0.07)	2.034 (1.46)
Union density	-0.155** (0.07)	0.446 (0.40)
GDP per capita	-0.052 (0.16)	1.111** (0.47)
Unemployment	-0.301*** (0.09)	-0.017 (0.09)
Trade	-0.262*** (0.08)	-0.406 (0.35)
FDI inflows	-0.119*** (0.04)	-0.109** (0.05)
Capital openness	-0.192** (0.08)	-0.151 (0.13)
Stock market capitalization	0.094 (0.07)	0.194 (0.14)
Crisis	0.013 (0.05)	0.030 (0.14)
Constant	-0.007 (0.04)	-0.114* (0.06)
R-squared	0.158	0.177
N	266	266

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

E.5 Detrended Models

Table 14: Determinants of ICI: Detrended Models

	M1 PW b/se	M2 PW b/se	M3 PW b/se	M1 FE b/se	M2 FE b/se	M3 FE b/se
Left parties seats	-0.074*** (0.03)	-0.074*** (0.03)	-0.047* (0.02)	-0.065*** (0.02)	-0.067*** (0.02)	-0.041** (0.02)
Veto points	-1.638** (0.67)	-1.591** (0.67)	-1.294** (0.55)	12.381 (13.49)	12.430 (13.41)	-5.306 (11.96)
Union density	-0.056 (0.06)	-0.047 (0.06)	-0.139** (0.06)	0.446 (0.34)	0.436 (0.34)	0.712** (0.30)
Electoral democracy	17.122 (38.02)	13.745 (38.73)	23.988 (35.97)	47.337 (42.59)	51.314 (42.42)	64.321* (37.20)
GDP per capita	-4.385 (7.41)	-1.020 (8.16)	-13.994** (6.69)	51.436*** (19.78)	56.156*** (19.85)	25.683 (17.54)
GDP pc growth	0.425*** (0.16)	0.417*** (0.16)	0.473*** (0.15)	-0.200 (0.31)	-0.199 (0.31)	-0.142 (0.27)
Unemployment	-1.136*** (0.32)	-1.108*** (0.32)	-1.211*** (0.29)	-0.075 (0.44)	0.114 (0.45)	-0.676* (0.39)
Trade	-0.044* (0.03)	-0.042* (0.02)	-0.004 (0.02)	-0.027 (0.11)	-0.010 (0.11)	0.061 (0.09)
FDI inflows	-0.020 (0.01)	-0.020* (0.01)	-0.027** (0.01)	-0.035 (0.02)	-0.034 (0.02)	-0.032* (0.02)
Capital openness	-2.856* (1.55)	-2.916* (1.52)	-1.296 (1.44)	-1.465 (2.69)	-0.718 (2.71)	1.356 (2.37)
Female labor force	2.486*** (0.46)	2.513*** (0.46)	2.634*** (0.41)	-1.761 (1.51)	-2.037 (1.51)	-2.545* (1.32)
Industrial employment	0.130 (0.31)	0.170 (0.34)	0.193 (0.31)	-0.859 (0.89)	-0.317 (0.94)	-1.342* (0.78)
Tertiary education	0.122 (0.20)	0.074 (0.20)	0.045 (0.21)	-1.560** (0.77)	-1.656** (0.76)	-1.103 (0.67)
Stock market capitalization	0.015 (0.02)	0.014 (0.02)	-0.021 (0.02)	0.050 (0.05)	0.041 (0.05)	-0.027 (0.05)
Crisis	1.954 (1.29)	2.151 (1.37)	1.103 (1.07)	4.318 (5.37)	4.880 (5.35)	2.249 (4.69)
GINI		20.033 (25.19)			68.331* (37.46)	
Capital income share			392.302*** (52.37)			507.827*** (61.83)
Constant	-2.140 (1.32)	-2.329* (1.41)	-1.333 (1.12)	711.626 (888.81)	540.632 (888.91)	693.590 (775.10)
R-squared	0.274	0.276	0.387	0.203	0.215	0.397
N	265	265	265	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

E.6 Random Effects Models

Table 15: Determinants of ICI: Random Effects Models

	M1 RE b/se	M2 RE b/se	M3 RE b/se
Left seats	-0.150*** (0.04)	-0.151*** (0.04)	-0.089** (0.04)
Veto points	-0.213 (0.17)	-0.201 (0.19)	-0.160 (0.17)
Union density	-0.071 (0.17)	-0.032 (0.18)	-0.087 (0.17)
Democracy	0.005 (0.14)	0.011 (0.14)	0.084 (0.13)
GDP per capita	0.269 (0.27)	0.492 (0.30)	-0.196 (0.26)
GDP growth	-0.003 (0.06)	-0.007 (0.06)	0.029 (0.05)
Unemployment	-0.123 (0.10)	-0.091 (0.10)	-0.204** (0.09)
Trade	-0.166 (0.18)	-0.163 (0.19)	-0.044 (0.17)
FDI inflows	-0.097** (0.04)	-0.096** (0.04)	-0.104*** (0.04)
Capital openness	-0.097 (0.10)	-0.085 (0.10)	0.025 (0.09)
Female labor force	0.243 (0.15)	0.214 (0.16)	0.201 (0.14)
Industrial employment	0.085 (0.19)	0.162 (0.20)	0.094 (0.18)
Educational attainment	-0.224 (0.23)	-0.273 (0.23)	-0.189 (0.21)
Stock market capitalization	0.141 (0.12)	0.127 (0.12)	0.005 (0.11)
Crisis	0.052 (0.13)	0.087 (0.14)	0.111 (0.12)
GINI		0.186 (0.12)	
Capital income share			0.544*** (0.07)
Constant	-0.034 (0.09)	-0.045 (0.09)	-0.043 (0.09)
R-squared	0.288	0.245	0.326
N	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

E.7 Cumulative and average left power

To explore the cumulative and long-term effect of left parties, we calculate a ten-year average (models 1 and 3 below) and a 20-year cumulative measure (models 2 and 4) of left strength. Models 1 and 2 are Prais Winsten regressions. Models 3 and 4 are fixed effects models.

Table 16: Cumulative and average left power

	A PR b/se	C PR b/se	A FE b/se	C FE b/se
Left seats	-0.155*** (0.05)	-0.155*** (0.05)	-0.136*** (0.05)	-0.136*** (0.05)
Veto points	-0.186** (0.08)	-0.186** (0.08)	1.398 (1.50)	1.398 (1.50)
Union density	-0.071 (0.07)	-0.071 (0.07)	0.547 (0.42)	0.547 (0.42)
Democracy	0.053 (0.14)	0.053 (0.14)	0.180 (0.16)	0.180 (0.16)
GDP per capita	-0.102 (0.18)	-0.102 (0.18)	1.282** (0.49)	1.282** (0.49)
GDP growth	0.086** (0.03)	0.086** (0.03)	-0.041 (0.06)	-0.041 (0.06)
Unemployment	-0.310*** (0.08)	-0.310*** (0.08)	-0.019 (0.12)	-0.019 (0.12)
Trade	-0.158* (0.09)	-0.158* (0.09)	-0.097 (0.39)	-0.097 (0.39)
FDI inflows	-0.047* (0.03)	-0.047* (0.03)	-0.078 (0.05)	-0.078 (0.05)
Capital openness	-0.137* (0.07)	-0.137* (0.07)	-0.072 (0.13)	-0.072 (0.13)
Female labor force	0.406*** (0.07)	0.406*** (0.07)	-0.286 (0.25)	-0.286 (0.25)
Industrial employment	0.053 (0.11)	0.053 (0.11)	-0.295 (0.32)	-0.295 (0.32)
Educational attainment	0.078 (0.10)	0.078 (0.10)	-0.720** (0.35)	-0.720** (0.35)
Stock market capitalization	0.029 (0.07)	0.029 (0.07)	0.139 (0.14)	0.139 (0.14)
Crisis	0.025 (0.04)	0.025 (0.04)	0.204 (0.19)	0.204 (0.19)
Constant	-0.005 (0.03)	-0.005 (0.03)	-0.105 (0.06)	-0.105 (0.06)
R-squared	0.277	0.277	0.206	0.206
N	265	265	265	265

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

E.8 Capital Ownership by Quintiles

This section explores the determinants of capital ownership within the five quintiles

Table 17: Capital Ownership by Quintile

Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	
	b/se	b/se	b/se	b/se	b/se
Left seats	0.062*** (0.01)	0.054*** (0.02)	0.032** (0.02)	0.018 (0.02)	-0.002 (0.02)
Union density	-0.330** (0.13)	-0.205 (0.14)	-0.261* (0.14)	-0.272** (0.14)	-0.236* (0.14)
Democracy	-0.072 (0.05)	-0.118** (0.06)	-0.090 (0.06)	-0.089 (0.06)	-0.024 (0.06)
GDP per capita	0.798*** (0.15)	0.814*** (0.16)	0.733*** (0.16)	0.693*** (0.16)	0.527*** (0.16)
Unemployment	0.075** (0.03)	0.093*** (0.03)	0.062* (0.03)	0.077** (0.03)	0.047 (0.03)
Capital openness	-0.117*** (0.04)	-0.090** (0.04)	-0.074 (0.05)	-0.030 (0.04)	-0.032 (0.04)
Stock market capitalization	-0.216*** (0.05)	-0.190*** (0.05)	-0.169*** (0.05)	-0.131*** (0.05)	-0.061 (0.05)
Crisis	-0.091** (0.04)	-0.012 (0.04)	0.030 (0.05)	0.041 (0.04)	0.084* (0.04)
Constant	0.020 (0.01)	0.024 (0.01)	0.017 (0.02)	0.009 (0.01)	0.004 (0.01)
R-squared	0.432	0.365	0.360	0.342	0.343
N	266	266	266	266	266

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$