

POLITICAL CHOICE AND INCOME  
INEQUALITY IN THE UNITED STATES

Nathan J. Kelly

A dissertation submitted to the faculty of the University of North Carolina at Chapel Hill in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the Department of Political Science.

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Approved By:

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Advisor: Professor James Stimson

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Reader: Professor David Lowery

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Reader: Professor Michael MacKuen

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Reader: Professor George Rabinowitz

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Reader: Professor John Stephens

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ABSTRACT  
NATHAN J. KELLY: Political Choice and Income  
Inequality in the United States  
(Under the direction of James Stimson)

This dissertation seeks to explain changes in income inequality since 1947 in the United States. The emphasis is on how government influences the distribution of income. The theoretical foundation of this work is a combination of the power resources theory of the welfare state and the macro politics model of the U.S. governing system. By bringing these two theories together, one of which has its roots in comparative political theory and the other of which developed in the American context, I am able to provide a more comprehensive understanding of how political choices influence distributional outcomes in the United States. Using time series data from 1947-2000 the dissertation argues that government uses at least two major mechanisms to influence distributional outcomes – explicit redistribution and the manipulation of economic opportunity. The quantitative analysis supports the conclusion that explicit redistribution, which is the most commonly considered government influence on income inequality, is only a part of the picture. In fact, governmental manipulation of economic opportunity appears to be at least as important. Most importantly, this analysis shows that distributional outcomes are responsive to ideological changes in public policy. This finding provides broad support for the macro politics model of the U.S. governing system. The overarching conclusion when this study is situated in the context of previous work, is that changes in public opinion can produce systematic changes in income inequality.

To my parents, for their support and encouragement  
throughout my life.

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## *1. Inequality and Political Conflict*

Throughout the centuries, from the time of the Egyptian pharos to the British empire to modern United States, government has had the power of the sword and the power of the purse. These rather basic powers, to the extent that they are wielded, give governments the ability to coerce their citizens. Government makes the rules in society, and it takes action to enforce these rules. Government can give and take freedom, wage war with its enemies, provide security for its citizens, and generally determine what can and cannot be done. Without government, people would be free to act as they please, but government has the power of authoritative enforcement.

Politics, on the other hand, is the process by which government action is determined. Government has coercive power, but politics determines whose values government will authoritatively enforce. Politics establishes whether and how government will fight war, protect property rights, place limits on expression, build roads, and regulate businesses. It is difficult, in fact, to overestimate the practical importance of politics in a society.

To summarize politics in a single phrase, it answers the following question: “Who gets what?” (Lasswell 1958) Depending on how “who” and “what” are defined, this question can be applied to nearly every facet of life, and many historical political struggles in the United States and around the world can be framed with reference to this fundamental question of politics. The 1950s in Argentina were rocked by the question of whether the working class or ruling elite would get dominant power. The U.S. Civil War resulted from many political questions that could not be resolved peacefully. To name two, do sub-national

governments get to make their own rules and do whites get to own black slaves? Later, the civil rights struggle was about whether people of color would get the same rights as whites. The question in Nazi Germany was even more stark – would disliked minorities get to live?

There is also no shortage of “who gets what?” political issues at the beginning of the 21<sup>st</sup> century. Iran struggles with whether citizens get unrestricted choices in legislative elections. France grapples with whether Muslims get to openly display religious symbols. Indigenous people in Ecuador are fighting to get equal representation in government. The debate in the United States continues regarding whether those opposing abortion get to have their preferences enforced by the state. And increasingly common in U.S. politics is the question of whether all citizens will get access to health care. Nearly every political question can be framed as “who gets what?”

### **1.1. Income Inequality – A Fundamental Political Issue**

In this dissertation I focus on the “who gets what?” question as it applies to material well-being – which citizens get the money in the United States? Specifically, I examine the distribution of income. The precise values and fundamental questions at stake in the political issues mentioned above vary. Some are about voting rights, some are about freedom of religion, and some are about public provision of services. But all of them have at least one component in common. Namely, there are economic consequences for how the question is answered. This is not to say that economics is at the heart of all issues. There is a fundamental question of the definition of humanity when debating the existence of slavery. But make no mistake, the elimination of slavery in the United States (and the continuing battle for political equality) was hugely significant for the material well-being of African Americans. “Who gets what?” is the most fundamental question of political contestation, and income inequality provides one of the most straightforward empirical answers to it.

### **1.1.1. Ideology and Inequality in Modern American Politics**

If income inequality provides an empirical answer to a fundamental question of politics, then political disagreements about it should be readily apparent. In fact, the analysis presented in this dissertation is rooted in the idea that there is disagreement in the United States about income inequality. However, politicians and other public figures in the United States seem to avoid explicit discussion of their preferences about income inequality. Does this mean that income inequality is not an important political issue in the United States? I think not. The reticence of public figures to openly discuss and debate income inequality speaks volumes about the U.S. political system and about American values, but it does not eliminate that fact that many political debates have a distributional component. The political rhetoric that seemingly avoids distributional issues cannot eliminate the underlying ideological debate.

But what is the nature of ideological differences concerning income inequality? In order to develop hypotheses about the connection between politics and distributional outcomes, it is absolutely essential to understand how inequality maps onto ideology. The two dominant ideologies in the modern United States are liberalism and conservatism. These two ideologies define two ends of a single ideological continuum, and preferences on most domestic political issues in the United States can be arrayed on this continuum (MacDonald and Rabinowitz 1987; Poole and Rosenthal 1997; Stimson 1999). In other words, political preferences can be logically organized such that liberal (or conservative) preferences on one issue fit together reasonably with liberal (or conservative) preferences on other issues.

Classical liberalism was rooted in the idea of increasing freedom for individuals in society. While modern liberalism still has the goal of increasing freedom, the means to achieving this goal are dramatically different than liberalism's early roots in the thought of

John Locke and Adam Smith. In its classic form, liberalism stressed freedom of markets, freedom of contracts, and limited government. Liberal thinkers such as John Stewart Mill began to remake liberalism during the mid-19<sup>th</sup> century. Largely as a result of the industrial revolution and the societal changes it brought about, liberals began to see the *laissez-faire* market organization championed by classical liberalism as a threat to rather than promoter of individual freedom. For example, the growth and power of corporations showed that unrestrained freedom of contracts can create situations in which one party to a contract is at a great disadvantage because of unequal bargaining power. Further iterations in the core components of liberalism occurred in response to the high levels of poverty and inequality prevalent during the Great Depression. Modern liberalism, then, argues that government should intervene to protect individuals from the inequities of the market system.

Modern liberalism has become not just tolerant of government economic intervention in cases of obvious inequalities, but convinced that government should intervene to improve a variety of social conditions. The basic argument of modern liberals in the United States is that government should be used as a tool to increase freedom in society and to promote the general economic welfare of its citizens. In the realm of income inequality, liberals would argue that increasing freedom requires that incomes be distributed more equally than the distribution that would be produced in a *laissez-faire* system. In other words, the freedom of those at the bottom of the income distribution is limited by their economic circumstances. In order to correct this, the scales of income inequality must be balanced. This means placing some restrictions on the freedoms of citizens with higher income levels, but the liberal belief is that increased freedoms provided to the poor through equalizing incomes will outweigh the restrictions on the freedoms of those with more money. So, the liberal concern with

economic equality is tenuously rooted in classical liberalism, with modern iterations of the philosophy placing increasing emphasis on distributional outcomes in large part because of the economic situation prevalent during the Great Depression.

Conservatism in the United States defines the opposite pole of the ideological spectrum in the modern United States. This political philosophy is rooted in the belief that inherited patterns of morality and institutions should be venerated and remain unchanged in the absence of overwhelming evidence that changes will improve upon the status quo. Classical conservatives agreed with classical liberals that the free market was the best way to organize an economy, and modern conservatives maintain a stronger preference for the free market than modern liberals. Conservatives believe the main function of government is to protect property and maintain order and that it should not conduct regulatory activity that would hinder the free and unrestricted acquisition of property. On the other hand, government's role should be to encourage respect for traditional moral values.

Specific to the realm of income inequality, conservatives recognize a certain degree of inequality as naturally occurring. For example, individuals are not equally intelligent or risk accepting – two characteristics the market rewards economically. Based on this, it is only natural that income inequality exists. Furthermore, inequality is not an inherent problem that government should take action to correct. In fact, taking action to reduce income inequality could have detrimental effects for society as a whole. For without differential rewards, there would be little incentive for economic progress and innovation, which would in turn lead to stagnant growth and overall lower levels of economic well-being. One way to characterize the conservative argument is that some individuals in society must be worse off than others

in order for society as a whole to be better off. Overall, the key argument of conservatives on income inequality is that inequality is not, in itself, bad.

In sum, liberals and conservatives have divergent political philosophies that lead to different preferences about inequality and, especially, what government's role in influencing this outcome should be. Liberals view income inequality as a societal problem that government should take action to fix while conservatives do not agree. In saying this, I do not mean to support the American stereotype of the bleeding-heart liberal versus the cold-hearted conservative. While those on the left favor greater government intervention to equalize economic outcomes and are in general more concerned about income inequality, this does not necessarily mean that their preferences are rooted in a selfless concern for the less-fortunate. By the same token, the opposition to government programs equalizing economic outcomes by those on the right does not necessarily lead to the conclusion that they are selfish actors seeking economic gain only for themselves.<sup>1</sup>

In addition, inequality is a *relative* as opposed to *absolute* outcome. While conservatives are not as concerned as liberals about the relative outcome of inequality, conservatives might be just as concerned as liberals about the absolute level of economic well-being of the poorest Americans. In fact, conservatives would likely argue that income inequality is the wrong outcome to examine. Rather, the effect of government action on poverty should be of central concern. Poverty would be another outcome worthy of analysis, but it is less clear to me that there are differences between liberals and conservatives with regard to poverty as opposed to inequality. It seems clear that both liberals and conservatives

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<sup>1</sup> Supporting private charity as opposed to government programs does not evidence a lack of concern but a difference of opinion about how to operationalize that concern.

want economic growth and low levels of poverty but maintain clashing perspectives on income inequality.

The difference between liberals and conservatives with regard to inequality is relative in another sense as well. While I have painted ideological preferences regarding inequality in stark terms, it is obvious that liberals are not in favor of complete equality, and conservatives do not favor a backwards society a few individuals have great wealth with everyone else living in squalor. The fight is not about inequality in a pure sense, but about where to draw the line. The difference between liberals and conservatives is in determining the level of inequality that is so unacceptable that it becomes appropriate or even imperative that government take action to level the scales of income. This level is lower for liberals than for conservatives.

It is important to realize, however, that this dissertation is not about which ideology is normatively preferable but about whether the side that wins in political contests determines the degree of income inequality in the United States. I recognize, of course, that income inequality is a highly emotional issue. My characterization of the liberal and conservative position on this issue is likely to anger some, and this is unavoidable. Opinions about income inequality run very deep, but my goal here is not to argue that inequality is good or bad or should be lower or higher in the contemporary United States. The normative virtues of liberalism and conservatism in the United States are a worthy topic of discussion and every individual should wrestle with which philosophy he or she favors, and I hope that this dissertation provides useful information to those seeking a better empirical grasp of inequality in the United States and government actions that influence it.

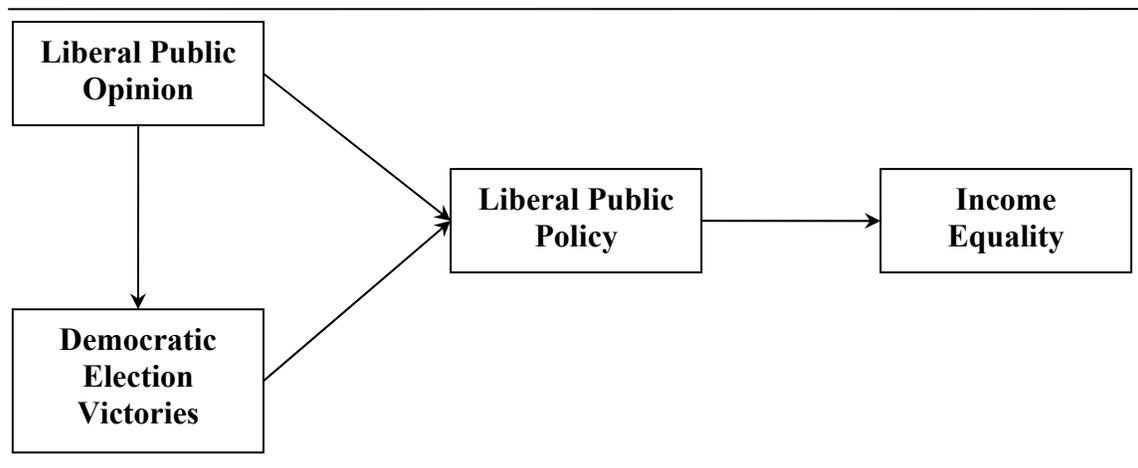
## **1.2. Inequality and Democratic Politics in the United States**

Inequality is a fundamental source of political dispute, so political processes should influence distributional outcomes. Of course the political processes that are used to settle contentious disputes vary depending on the kind of political system operative in a society. In a monarchy, the final arbiter of politics is the king or queen. In Saudi Arabia, for example, the royal family has paramount decision-making power regarding which Saudis get what and how they will get it. Other kinds of political systems involve increasing numbers of people in decision-making, with democracy being the most inclusive system of all – allowing all citizens to have a say about how government will function and how society will be organized. In a democracy, citizens get a say in who gets what. Since ideas about income inequality provide one key distinction between the two dominant political ideologies in the United States, which side wins in democratic political contests should influence the distribution of income.

The most fundamental question of this dissertation is whether income inequality is systematically influenced by decisions made in the democratic governing system of the United States. The basic logic of my theoretical argument is fairly simple. First, income inequality is a fundamental target of political contestation. It defines, in one important respect, who gets what in a society. Second, the United States has a democratic system of government. Questions at the heart of political contestation are fundamentally supposed to be answered by citizens. Based on these two foundational facts, I conclude that changes in the preferences and values of citizens should, through democratic politics, influence income inequality in the United States.

Of course this basic level of theory is drastically simplified. The translation of citizen preferences into economic and social outcomes is a complicated and messy process. I will

discuss two issues in particular that complicate this process – the conversion of citizen preferences into public policy and the connection of public policy to the economic outcome of income inequality (Figure 1.1). The U.S., of course, is actually a democratic republic, meaning that the voice of the people in political decision-making is channeled through the representative institutions of government like Congress and the president. Citizens do not have direct control over what government does. The idea is that popular elections will give citizens some measure of control over the general direction of government policy, but elected representatives make the actual decisions that determine which policies government will pursue. So, for the preferences of citizens to influence distributional outcomes, public opinion must first influence public policy. Whether or not the institutions of U.S. democracy allow for an effective translation of citizen preferences into policy decisions has been an ongoing question in political science.



*Figure 1.1. Theoretical Model of American Politics and Income Distribution*

### **1.2.1. Translating Citizen Preferences to Public Policy**

Underlying democracy is a picture of the ideal citizen – an informed individual with reasoned preferences about public policy and social outcomes. The ideal citizen maintains

political preferences with an ordered and stable structure. Preferences on different issues are organized in such a way that opinion on one matter of policy can be logically reconciled with opinion on other matters of policy. This stable opinion structure is, of course, an ideology. Political preferences that are structured around an ideology facilitate communication of citizen preferences through voting. If opinion on different kinds of government action are organized in a sensible way and elections present a choice between policy alternatives that represent different directions on the ideological spectrum, then voting can provide a meaningful degree of citizen control over government policy. Based on the earlier discussion of ideology in the United States, then, voting would provide information to policy makers regarding public preferences on income inequality.

#### *1.2.1.1. Debunking and Rehabilitating the Ideal American Voter*

A great deal of research in political science has reached pessimistic conclusions about the ability of citizens to control public policy in the United States. The empirical debunking of the democratic ideal in American politics is rooted in the individual voting behavior tradition. Beginning with the Columbia studies of the 1940s and continuing with the publication of *The American Voter* (Campbell et al. 1960), a venerated line of research in political science raised a variety of problems regarding the translation of citizen preferences into public policy. The problem is that the ideal citizen discussed above is extremely hard to find. Individual citizens in the United States are not particularly informed about contemporary policy issues, do not appear to care all that much about who wins election contests, and do not organize their political ideas around an ideology in such a way that policy preferences can be communicated effectively through voting at the polls. Since elections are the only formal mechanism for control of public policy by citizens, these

consistently confirmed findings about the individual voter in the United States are troubling indeed.

A new and different research paradigm in political science began to take shape in the late 1980s through the 1990s (Erikson, MacKuen, and Stimson 2002; Page and Shapiro 1992; Stimson 1999; Stimson, MacKuen, and Erikson 1995; Wlezien 1995). This new research moved the emphasis from the micro-level individual voter to the macro-level collective citizenry. Research in this macro tradition, while not questioning the view of the individual voter developed in the previous four decades, does raise problems with the system-level conclusions that micro studies suggest. The micro tradition essentially concludes that meaningful democratic control of public policy is impossible, but the macro tradition questions whether the aggregation of mostly uninformed, uninterested, and non-ideological *voters* produces an uninformed, uninterested, and non-ideological *electorate*. According to macro analysis, the problem with drawing inferences about the political system based on the typical voter described in micro analyses is that atypically informed citizens drive the overall tendency of aggregate public opinion.

The theoretical argument of the macro paradigm is as follows. Democracy has both an individual and a collective component. Democratic theory in part calls on government to be responsive to the preferences of individual citizens, but the translation of collective preferences into collective outcomes is more central to democracy. Research at the individual level clearly shows that most people are not enlightened in the sense of caring deeply about political issues and fitting preferences in one arena together with preferences in another. In other words, individual preferences are noisy and contain a minimal, if any, policy signal. However, one must be mindful of the fact that government responsiveness to citizen

preferences is an *aggregate* phenomenon, and it is important to note that there are some citizens that go against the norm, having large amounts of political interest and information and adopting their political preferences around logical ideologies.

When uninformed citizens change their preferences, they do so in an essentially random way because there is no underlying organizational principle for these citizens' preferences. However, highly informed and ideological citizens make predictable and consistent changes in their issue preferences across a variety of policy domains. Therefore, any change in aggregate public opinion that is observed from one time to the next cannot be driven by uninformed citizens because their opinion changes are random, with one person's random change canceling out another's random change. Instead, aggregate opinion change is driven by the highly informed and, thus, carries a meaningful policy signal that can be communicated through elections. This is why aggregate preferences on a wide array of domestic policy issues in the United States move together over time in sensible and predictable ways.

In sum, quantitative analyses of the individual voter in the United States debunked democratic theory's view of the enlightened *citizen*, but the new conceptualization and measurement of public opinion developed in the macro paradigm rescued democratic theory's view of the enlightened *citizenry*. The macro conception of public opinion forcefully demonstrates that it is theoretically possible for the U.S. electorate to send meaningful policy messages to government officials. At the aggregate level, public opinion sends an ideologically directed signal about preferred public policies. When attitudes on one political issue move toward the ideological left, attitudes on other issues generally follow a similar path (Stimson 1999). But does government respond to changes in public opinion?

### *1.2.1.2. The Macro Politics Model*

Since what government does is defined by public policy decisions, the question is whether public opinion influences the direction of public policy. This is a question that has been empirically tested in the context of the macro politics model (Erikson et al. 2002). The macro politics model examines relationships between various parts of the U.S. governing system at the aggregate level, such as public opinion, presidential approval, partisanship, elections, and public policy. The argument is that the parts of the system behave in orderly and predictable ways. Citizens make choices between competing policy alternatives presented by political parties, the preferred alternatives are enacted, and citizens then judge the quality of the outcomes produced by the enacted policies. Tests of this model show that liberal shifts in public opinion produce liberal shifts in policy because policymakers respond to changes in public opinion and, if they do not, are replaced through popular elections.

So, the macro politics model demonstrates that, at the aggregate level, changes in public opinion produce changes in public policy. This evidence is used to support the conclusion that the U.S. governing system provides a large measure of democratic control over government – that the U.S. governing system fosters democratic representation. While this is probably a correct conclusion, it is important to remember that democratic control of government is viewed as a normative goal because of the influence and power that government wields over society. So, democratic theory is really about more than determining what government does. It is about the influence that government has on society. Ideally, it is this influence on society that citizens are able to control through public policy.

### **1.2.2. Linking Public Policy and Distributional Outcomes**

This dissertation is rooted in the macro politics model of the U.S. governing system. Aggregate public opinion influences the course of public policy in the United States, and this

previous finding is an important underpinning of my work. But the macro politics model only implies or assumes that changes in public policy produce changes in societal outcomes. In the realm of income inequality, a leftward shift in policy should produce quite different distributional consequences than a move to the right according to the macro politics model. However, this implication has not been rigorously tested, and it is an important implication. If citizens exert influence over public policy, but public policy does not influence important societal outcomes, then the importance of the kind of representation for which the macro politics model finds support is minimized. It is wonderful that citizens influence public policy but this fact matters little if public policy does not exert systematic influence on societal outcomes over which there is political contestation. In this work I extend the macro politics model by examining whether income inequality in the United States has been systematically and predictably influenced by the ideological direction of public policy during the post World War II era.

#### *1.2.2.1. Symbolic Politics as a Competing View of the U.S. Governing System*

I seek to extend the logic of the macro politics model to policy consequences by hypothesizing that public policy will be an important determinant of distributional outcomes in the United States. According to my extension of the macro politics model of American politics, when the policy outputs of the national government change, societal outcomes should change in a way that is consistent with the ideological direction of the policy change. The greater (or less) income equality favored by liberals (or conservatives) should be achieved when policy moves to the left (or right) if the macro politics model is meaningful in the context of policy impact. The symbolic politics view of the U.S. governing system, however, raises doubts about whether policies of the left will produce systematically

different distributional outcomes than policies of the right (Edelman 1964, 1971).<sup>2</sup> This theory argues that most political action is at least partially symbolic. Symbolic political action can frustrate a key prediction of the macro politics model, that citizens can control societal outcomes through government policy, in two ways. First, the theory of symbolic politics argues that citizens in the United States are not particularly informed about politics and the choices they make have little influence on the policies enacted by government. While empirical analyses of the macro politics model clearly demonstrate that the ideological content of policy is influenced by public opinion, symbolic politics theory raises the additional question of whether this really matters.

Symbolic politics theory suggests that the choices citizens make, even in a democratic society, are between artificial alternatives. Choices between policy alternatives might be made, but these alternatives are never designed to produce real societal change according to this theory. Proponents of symbolic politics argue that the ideological content of policy is meaningless for real outcomes because policymakers of every ideological and partisan stripe are really out for the same goal – to maintain the current power structure. This is not to say that government policy is unimportant in the symbolic politics model. In fact, the main normative concern this theory raises is that government action influences the lives of citizens but the symbolic nature of policy renders citizen control over *outcomes* influenced by government impossible. Contrary to the macro politics model, then, symbolic politics raises fundamental questions about the meaningfulness of political choices made in the U.S. governing system.

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<sup>2</sup> Edelman's argument is actually a more general argument about the lack of substantive difference between competing politicians in the United States. I apply the argument to distributional outcomes, but the argument applies to any societal outcome over which there is political dispute.

Which of these theories is correct is an empirical question that I will be addressing in this dissertation. The macro politics model suggests a systematic link between public policy and societal outcomes while symbolic politics theory does not. In support of the symbolic politics model, Edelman (1964) provides several examples of policies that have not produced their advertised goals, particularly from the realm of regulatory policy. For example, the Federal Trade Commission often takes action against small firms for deceptive advertising while in large part ignoring many of the behaviors it was supposedly created to eliminate such as monopolistic activity and interlocking directorates in larger corporations. Edelman also argues that the Federal Communications Commission is unable to insure that radio and television stations act in the public interest in their programming decisions.

Unlike the macro politics model, symbolic politics theory paints a bleak picture of politics in the United States. In the symbolic politics view of politics, elites are apt to engage in intentional deception and manipulation to maintain their control over society. However, the policy analyses that Edelman uses as evidence for symbolic politics are not extremely rigorous. Policy impact has also been explored outside the context of the symbolic politics model in more careful policy analyses that seek to understand the effects of previously enacted policies and to predict the potential consequences of new policy proposals. While these analyses do not assume that policymakers are deceiving citizens by intentionally producing symbolic legislation, they do provide many examples of policies that have failed to produce their advertised goals. In the language of these studies, policies are designed to produce an impact that is consistent with citizens' desires or policymakers' ideologically or otherwise motivated goals. However, policies often do not have their intended effects

because of problems with implementation or the complexities of the behaviors that the policies are designed to influence.

#### *1.2.2.2. Implementation as a Hurdle to the Policy-Outcome Linkage*

Studies of policy implementation have made it clear that passing legislation to produce a particular outcome or fix an identified problem in society does not naturally and consistently produce the desired results. Implementation refers to the translation of policies enacted in legislation to their tangible effect on society. Problems with implementation can be classified in two broad categories. First, legislation is sometimes passed to produce a certain outcome but the budgetary authority for effective implementation of the legislation is not fully given. The creation of a program like AFDC while failing to fully fund it is an implementation failure of this sort (Keiser and Soss 1998; Lipsky 1984). A lack of budget authority to implement a piece of legislation could, of course, also be construed as an example of symbolic politics.

A second way that implementation of legislation fails is because of a lack of effective oversight of the bureaucracy. Bureaucrats in the executive branch are usually charged with running the programs that the legislature creates. Sometimes these bureaucrats have a different view of how a program should be run than the legislators who created the program. In these cases the bureaucracy pursues its own goals if the legislature cannot conduct effective oversight. While there are certainly cases of successful policy implementation, the overriding message of the literature is that implementation is no simple task and that it is successful only in limited circumstances (Hill and Weissert 1995; Pressman and Wildavsky 1973; Sharkansky 1967).

### *1.2.2.3. Behavior Complexity and Failed Policies*

Public policies can also fail to produce their intended outcomes because of the complexities of influencing human behavior, which is the most basic goal of most policies. Robert Jervis (1997a, 1997b) discusses in great detail how societal outcomes are the result of complex and interconnected processes and the implications of this fact for policy effectiveness. It is fairly obvious that the outcomes policies are designed to influence are the product of multiple factors. Policymakers cannot just snap their fingers to make an outcome occur. In order to influence most outcomes, several conditions must be changed to produce the desired result. To borrow one of Jervis' examples, if the government wanted to create a shift from automobile and plane travel to rail transportation; large public investments and changes in tax law, subsidy policies, and private attitudes would be needed.

In fact, there is no shortage of examples of policies that have failed to achieve their goals because of the complex determinants of societal outcomes. A series of studies have demonstrated that mandatory seat belt laws and other mandated safety features in automobiles do not necessarily increase traffic safety because passengers and non-occupants are placed in greater danger by more risky driving behavior (Asch et al. 1991; Calkins and Zloptroper 2001; Chirinko and Harper 1993; Garbacz 1990, 1992a, 1992b; Lave and Weber 1971; Merrell, Poitras, and Sutter 1999; Maguire, Faulkner, and Mathers 1996; Keeler 1994; Leege and Park 1994; Garber and Graham 1990; Peltzman 1975). Similarly, road projects designed to decrease traffic congestion can be ineffective because new road construction often leads to more miles traveled by drivers (Cervero 2003; Downs 1962, 1992; Fulton et al. 2000; Goodwin 1996; Hansen and Huang 1997; Hartgen and Curley 1999; Hartgen and Kim 1998).

The ability of environmental policy to achieve its stated goals has also been questioned. The argument is that environmental policy can induce private land-use decisions that are in direct opposition to stated goals. While one of the stated goals of the Clean Water Act is to protect vulnerable wetlands from depletion, soil conservation and flood control projects funded by the government increase incentives for land-owners to convert wetlands to agricultural use (Stavins and Jaffe 1990). Other studies have suggested that the effectiveness of the Endangered Species Act is limited because it leads land-owners to destroy potential habitats of endangered species before the species takes up residence (Lueck 2000). By destroying potentially suitable habitats of protected species, land-owners can avoid the stringent land-use regulations that would be activated if protected species were found to reside on the land.

Safety and environmental regulation are not the only types of government policy that can suffer from an inability to achieve stated goals. Recent analyses of immigration enforcement during the 1990s have suggested that crackdowns on illegal immigrants from Mexico have had myriad unintended consequences. When border patrols are strengthened illegal immigrants use different routes to gain entry, are more likely to stay in the country illegally once entry is gained, and die more often trying to cross the border (Andreas 2000, 2001; Bean et al. 1994; Cornelius 1998, 2001; Marcelli and Cornelius 2001; Reyes and Johnson 2000). Efforts to improve the quality of representation for minorities through redistricting have, while increasing the proportion of representatives belonging to underrepresented minorities, also had the unexpected effect of making non-minority representatives less concerned about minority issues (Brace, Grofman, and Handley 1987; Overby and Cosgrove 1996). Perhaps the most commonly cited domain of unintended

consequences is in the realm of foreign policy. Governments often provide military aid to those fighting against a common enemy. Sometimes, these “friends” later use the military aid against the state that provided it (such as Iraq, Osama bin Laden, and Noriega).

Finally, examples of government policies that fail to produce their intended consequences are not all recent. Historians have discussed examples of policy failures earlier in the nation’s history. Homestead exemptions, for example, were designed to protect individuals from having their home and essential property seized as payment for a debt. However, these exemptions provided little protection in practice (Goodman 1993). Researchers in different fields affix different terms to this phenomenon. Safety studies call it offsetting behavior; traffic studies call it induced demand; security scholars name it blowback. However, all of the research cited above is describing the same basic problem. Sometimes, people respond to policy changes in ways that are not anticipated, and this makes it difficult for policymakers to produce desired outcomes through policy tools. This, of course, raises doubts about the application of the macro politics model to societal outcomes. It is possible that citizen choices have an influence over the direction of policy, but that the direction of policy does not necessarily correspond to societal outcomes.

In sum, the macro politics and symbolic politics models describe competing visions of the governing system in the United States. The macro politics model describes a system in which citizens can exert control over their society through government. The symbolic politics model, on the other hand, describes representatives in government as uninterested in providing citizens with what they want. Rather, government officials and other policy elites are most interested in manipulating citizens’ desires in a way that maintains the current power structure. We have also seen that even if government officials legitimately desire to

use policy to give citizens the outcomes they desire, it is often difficult to achieve desired outcomes through policy. By analyzing the effect that policy has on societal outcomes, this dissertation addresses alternative models of the U.S. governing system and the effectiveness of government policy in the United States.

#### *1.2.2.4. Micro Versus Macro Public Policy*

Of course I am not the first to attempt to understand the causes of income inequality. In fact, most previous explanations of income inequality in the United States have developed primarily within the disciplines of economics and sociology. Economists traditionally favor labor market explanations of the phenomenon such as the supply or demand of skilled labor and business cycle fluctuations. Sociologists place greater emphasis on demographic factors such as the age distribution in a population, the existence of single-female headed households, or rising female labor force participation. However, the existing literature in economics and sociology is inadequate because it fails to explore the full range of potential explanations. Interdisciplinary inquiry has enhanced the understanding of income inequality, and political scientists have contributed to this endeavor. However, those attempting to synthesize the literature across disciplines have essentially concluded that the complex causal processes underlying the distribution of income are not yet comprehensively understood. Intellectually, this conclusion is not at all satisfying.

One explanation of income inequality that has received especially little systematic attention is the one that is most central to my work – public policy. Given the belief that allocational decisions are central to political contestation, it is somewhat surprising that the effect of policy on income inequality has not been more rigorously examined. The work that has been done in political science has developed primarily in the comparative welfare state

literature (Huber and Stephens 2001). However, scholars of American politics have discounted the applicability of these theories to the U.S. case.

Studies that do examine the consequences of policy are rooted in a traditional view of the policymaking process. The traditional view of policy could appropriately be labeled a “micro perspective” because it focuses on the effects of individual pieces of policy or policy within a narrowly defined domain. In the realm of income inequality, micro policy studies would seek to determine the distributional effects of government action in specific policy areas such as public education, health benefits, public assistance programs, income taxes, payroll taxes, or other forms of taxation. While clearly acknowledging the distributional consequences of individual public policies, these studies have not examined income inequality as an outcome more broadly influenced by ideological conflict in the democratic governing system of the United States. And as the previous section clearly demonstrates, traditional policy analysis often uncovers unexpected or unintended consequences of policy enactments, dampening hopes that an outcome as complex as income inequality could be systematically and predictably influenced by government policy. Simply stated, public policy has not been viewed as a systematic cause of equality and inequality.

In many ways the distinction between individual policies and policy considered as a whole parallels the distinction between micro and macro public opinion. Just as individual-level analyses of public opinion expose citizens with idiosyncratic, uninformed, and unorganized issue preferences; analyses of individual policy enactments expose policy effects that are often idiosyncratic, unintended, and unorganized. I discussed earlier that conceptualizing public opinion at the aggregate rather than individual level brings some order out of the micro-level chaos. And there is some existing evidence that policy is similar to

opinion in terms of aggregate as opposed to micro analysis. For example, Poole and Rosenthal (1997) show that roll-call votes in Congress generally can be organized on a single primary ideological dimension. Furthermore, the basis for much of the quantitative analysis in the macro politics model is aggregate policy – the ideological direction of policymaking activity in the United States. However, studies of policy impact have not benefited from this relatively new conceptualization and approach to public policy.

Given that my research builds so directly on the macro politics model, it should not be surprising that my work diverges from the micro tradition of policy studies by examining policy collectively across issues and policy domains. Borrowing from previous work in an emerging research tradition, I refer to this concept as “macro policy” (Erikson, MacKuen, and Stimson 2002). While the micro perspective on policy sees policy enactments largely as the result of forces that are idiosyncratic to specific proposals, the macro perspective focuses on factors such as ideological and partisan conflict that cut across issues. Macro policy is a systematic and predictable consequence of politics, and the macro perspective provides a framework within which to analyze the consequences of policy for ideological divisive societal outcomes. Given the centrality of distributional consequences to political contestation, assessing the nature of the relationship between macro policy and distributional outcomes provides critical insight into the functioning of the American political system. That is precisely what I do in this dissertation.

### **1.3. An Outline of the Dissertation**

How unequal is the distribution of income in the United States? What government policies influence income inequality? Do policies produced at the national level systematically exert influence on distributional outcomes? Can citizens influence distributional outcomes? Do the winners and losers in political conflict determine

distributional outcomes in the United States? These are some of the questions I address in this dissertation.

The main body is organized in three chapters, with an additional concluding chapter. Chapter 2 provides an overview of income inequality in the United States based on data from 2000. This chapter introduces some of the major measurement considerations in the assessment of income and income inequality. It also provides information about the absolute levels of inequality in the United States, as well as U.S. inequality compared to other industrialized democracies. As we will see, inequality is substantial in the United States. Through the use of individual-level income data, I will also show how inequality affects various subgroups of the U.S. population. Finally, I hope to provide a concrete perspective on income inequality by examining some of the typical occupations that are represented at various parts of the income distribution.

Chapter 3 begins to examine how government action can influence income inequality. The focus of this chapter is explicit redistribution – taking money from some to give to others. This chapter will explore the degree of progressiveness in U.S. taxes and who benefits from government expenditures. We will see in this chapter that the U.S. tax system is only mildly progressive and that most of the redistributive effect of government comes through expenditures that go disproportionately to those at the lower part of the income distribution. This chapter will also provide an answer to the question of whether public policy produces systematic distributional consequences. Specifically, I will use time-series data from 1947 to 2000 to show that the redistributive effect of government is systematically influenced by shifts in public policy. Movement toward the left produces greater redistribution.

In Chapter 4 I argue that explicit redistribution is only one mechanism through which government can influence inequality. Based on the logic of power resources theory, I argue that government intervention in markets can have distributional consequences and that these distributional consequences should also be influenced by the ideological direction of public policy. Again using time-series data from the post-WWII era in the United States, I show that the inequality that exists before explicit government redistribution is driven by public policy, even with a wide variety of controls for economic and demographic factors. Furthermore, I show that this effect is at least as important as the effect that occurs via redistribution. The final chapter summarizes these results and outlines some broader implications of this research.

## 2. *Inequality and Economic Performance: The U.S. at the End of the 20<sup>th</sup> Century*

The connection between political decisions and distributional outcomes is the main theoretical emphasis of this dissertation. In later chapters I will address how the ideological direction of policy in the United States is connected to distributional outcomes. But first, it is useful to have a general understanding of income inequality in the United States. What is income inequality, what does it mean, what does it look like in the United States, and how has it changed over time? These are the main questions that I set out to answer in this chapter. I begin with a brief description of the income data that will provide the basis for most of the analysis presented in this dissertation. Along the way I will also discuss some issues related to the measurement of income inequality. Then I will examine income data from 2000 to provide a detailed picture of income inequality in the United States. I will show that income inequality in the U.S. is more severe than in other industrialized democracies, and some groups in society are less equal than others. Finally, I will track changes in inequality since 1947 in the United States. In essence, this chapter provides an introduction to income inequality in the United States.

### **2.1. Measuring Income Inequality in the United States**

#### **2.1.1. Income Data in the United States**

Before we can talk about income inequality, we first have to talk about income, for the distribution of income is what defines income inequality. Various governmental organizations gather data on income in the United States. The Internal Revenue Service is

interested in examining the income of taxpayers for the obvious reason of gauging tax compliance. The Bureau of Economic Analysis focuses on the aggregate income of the nation, as one of its missions is to provide estimates of the size of various sectors of the U.S. economy. A variety of other government agencies have collected income data at one time or another for specific purposes. However, the agency that has most consistently gathered information about income in the United States over the longest period of time is the U.S. Census Bureau. In fact, income data from the U.S. Census, though not without shortcomings, is regarded as some of the most reliable in the world. The data that is the basis for most of the analysis in this dissertation comes from the U.S. Census Bureau, so it is useful to provide some discussion of the income data provided by this source.

#### **2.1.2. Sources of U.S. Income Data**

The Current Population Survey (CPS) is a monthly survey of American households that the U.S. Census Bureau conducts on behalf of the Bureau of Labor Statistics. Each month, approximately 50,000 households are sampled for participation in the CPS, and respondents are interviewed in order to obtain information about the employment status, earnings, hours of work, demographics, and educational attainment of all members of the sampled household over the age of 15. While this monthly survey collects information about wages earned by the various members of the household, it does not provide any more detailed information about the income earned within the household. However, on an annual basis, the CPS asks more detailed questions about income and work experience from the previous year in the Annual Demographic Survey, or March CPS.<sup>3</sup>

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<sup>3</sup> Beginning in 2003, the Annual Demographic Survey is called the Annual Social and Economic Supplement (ASES).

Like the other monthly CPS surveys, the Annual Demographic Survey collects information from a sample of more than 50,000 households containing more than 90,000 individuals. However, in addition to the usual information that is collected on a monthly basis, the March CPS asks a variety of other questions. Most relevant for the analysis in this research project is the income data. As far back as 1947, the CPS (it was the April survey in that time) asked respondents about the income earned by members of the family. In the most recent data, however, information about income from over 50 separate sources, including earnings, wages, tips, and government cash benefits, is solicited. This makes the March CPS the most comprehensive source of income data in the United States that is available over a long time span.

As mentioned earlier, the March CPS is not the only source of income data for the United States. The most notable of the other source of income data is the Survey of Income and Program Participation (SIPP). The SIPP also examines individuals in a sizable sample of U.S. households and is also collected by the U.S. Census Bureau. The SIPP improves upon the March CPS in a variety of ways. First, the SIPP collects detailed income data on a monthly basis and interviews the same households over a period of time as part of panel studies. Furthermore, the SIPP collects information on approximately 70 income sources and more comprehensively examines income from governmental sources. The SIPP also gathers data on federal, state, and local income taxes, payroll taxes, and property taxes. The primary drawback of the SIPP is that it has only been conducted since 1983. So, for conducting analysis of short-term dynamics in income and participation in a variety of government programs, the SIPP is clearly superior to the March CPS. However, for examining income over a long period of time, the March CPS is clearly the best data source.

Given that I will eventually examine the dynamics of income inequality in the post-WWII period, I use March CPS data as the primary source of data on U.S. incomes. However, I also incorporate the new and more detailed insights of the SIPP when appropriate. For example, information about taxes that are available only in the SIPP can be used to make inferences about the tax burden of households in the CPS, and the same can be said of income sources not gathered in the CPS. In fact, while CPS data is still the basis for official government income statistics, much of the data reported by the U.S. Census Bureau is improved by utilizing information from SIPP data. This is also my strategy, and I will describe how the SIPP and other income data come into play as necessary. The foundation of my work, however, is the March CPS income data.

### **2.1.3. Money Income as an Income Concept**

The annual demographic survey asks the respondent in each sampled household to report the income from the preceding calendar year that each member of the household over the age of 15 earned in each of the following categories: earnings from an employer, unemployment compensation, workers' compensation, social security, supplemental security income, public assistance, veterans' payments, survivor benefits, disability benefits, pension or retirement income, interest, dividends, rents, royalties, estates, trusts, educational assistance, alimony, child support, financial assistance from outside the household, and other money income that is not otherwise categorized. This would seem to be a fairly comprehensive list, and it provides the basis for the official measure of income that is reported by the U.S. government – money income. However, there are many other sources of income that are not accounted for in money income. The most notable exclusions are non-cash government benefits like Medicare and Medicaid. This is an important exclusion, particularly in the context of my research. However, I will set it aside for now and will revisit

the issue as it becomes more central in later chapters. The income concept on which I will focus in this chapter is money income.

#### **2.1.4. Unit of Analysis**

Focusing on income inequality requires a choice not only of the income concept on which computations of income inequality will be based, but also a decision about the most appropriate unit of analysis. The question is how to define the units for which inequality is measured. More specific to the data at hand, the March CPS samples households (actually dwelling units) and then asks the respondent about the income received by individuals in the household during the last calendar year. So, data at both the individual and household level are available. A further complicating factor arises in distinguishing between families (groups of related individuals living together in the same dwelling unit) and households (groups of either related or unrelated individuals living together). So the question is whether to examine income inequality between individuals, families, or households.

The most obvious reason not to focus on inequality in individual incomes is that the CPS does not attempt to provide a random sample of individuals, but housing units. So, the real choice is between inequality in family income versus household income. Family income data are available since income data were first collected in the United States. Household data, however, has only been collected since 1968 (for 1967 income). Household data is far superior to family income data because family data systematically excludes housing units composed of unrelated individuals. This is particularly important since the proportion of dwelling units comprised of unrelated individuals has risen dramatically over the past several decades. Excluding unrelated individuals can severely underestimate levels of inequality. So, at this point in the analysis, I focus on inequality in household money income.

## 2.1.5. Depicting Inequality of Household Money Income in the United States

### 2.1.5.1. The Lorenz Curve and Gini Coefficient

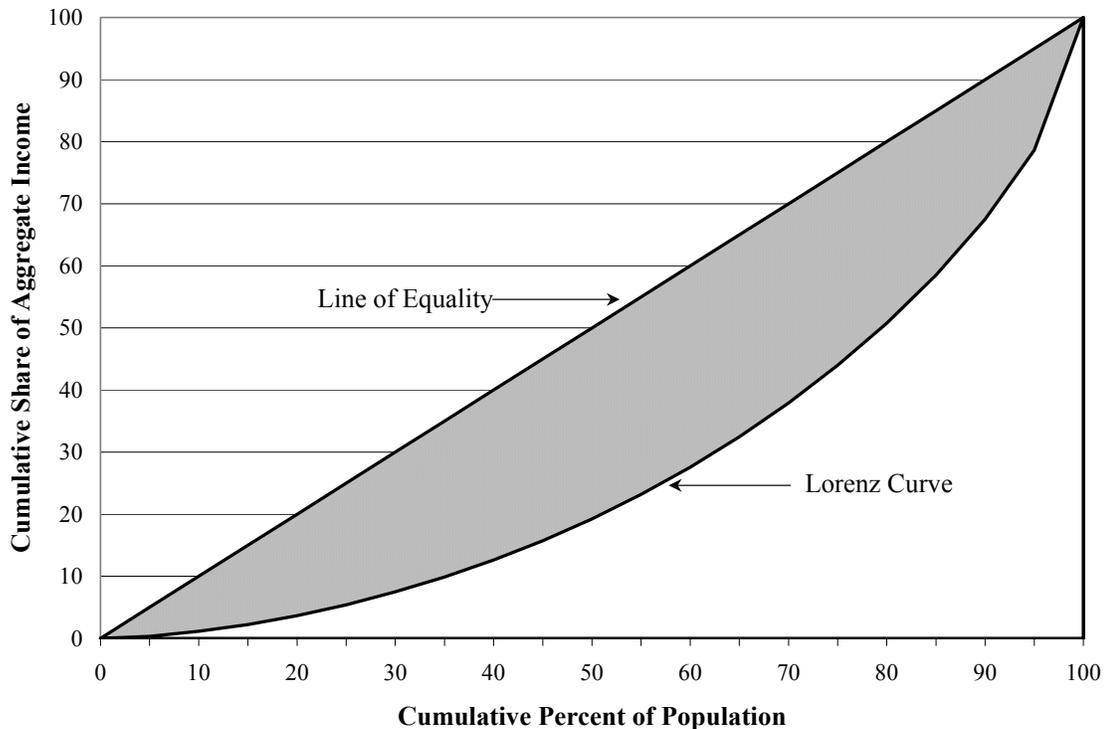


Figure 2.1. Lorenz Curve and Gini Graph: 2000 Household Money Income

A Lorenz curve provides one method of depicting the distribution of income in a society. Figure 2.2 presents a Lorenz curve for household money income in the United States in the year 2000. Constructing such a chart consists of four basic steps. First, households are sorted by money income from lowest to highest. Then the sorted households are grouped into categories that represent some specified proportion of the total population, in this case 20 groups with the poorest 5% of households in the lowest category and the richest 5% in the top category. Third, the share of aggregate income held by each of the 20 groups is calculated and this share is cumulated. Finally, the cumulative share of aggregate income is charted versus the cumulative percentage of the population. So, a Lorenz curve shows the cumulative percent of aggregate income held at various points in the income distribution. In the United

States during 2000, for example, Figure 2.2 indicates that the poorest half of households held less than 20% of the aggregate money income.

Lorenz curves can be used to provide detailed information about the distribution of income in the United States or any other society. While the level of detail provided by a Lorenz curve is useful, it does not provide the most efficient means of comparing income distributions across countries or within the same country using different income concepts. The primary reason for this is that it is difficult to visually detect small (and sometimes even large) differences between income distributions when depicted using Lorenz curves. Since differences in income inequality across countries, over time, and based on varying income definitions are central to the arguments presented in this dissertation, it is not practical to make extensive use of Lorenz curves. Thankfully, summary measures of inequality are available that more efficiently convey information similar to that available in the Lorenz curve.

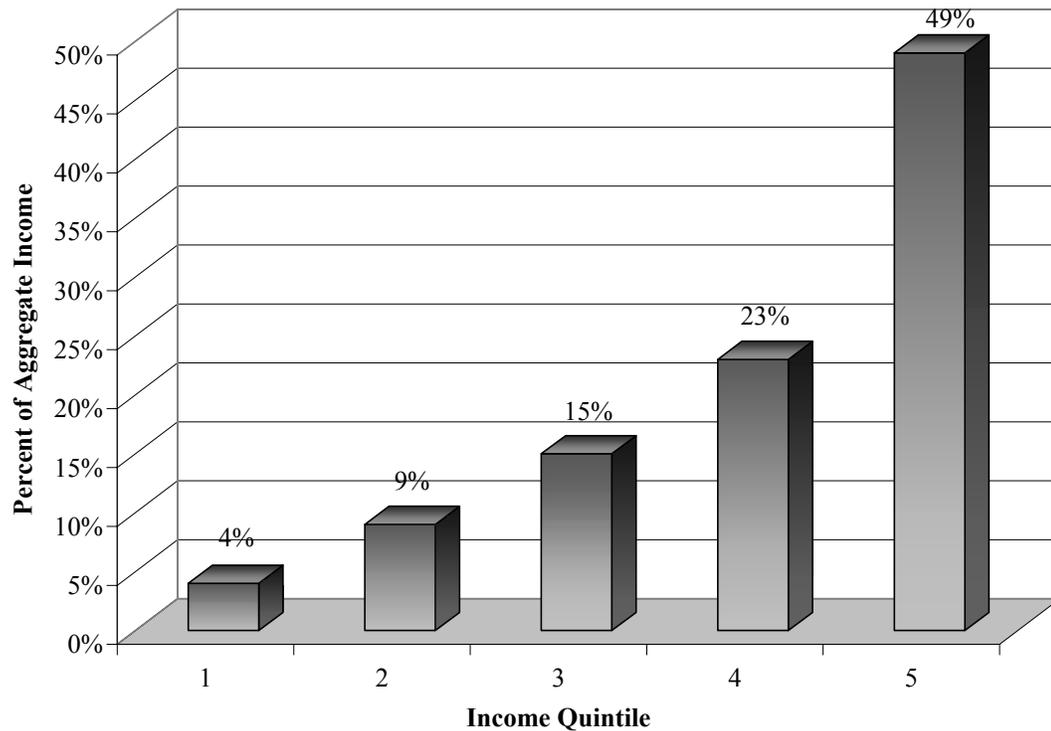
Though I do not rely on it heavily in my own research, the Gini coefficient is probably the most commonly reported summary measure of inequality, and I do report some inequality statistics from researchers and organizations that rely heavily on the Gini. So it is useful to have a basic understanding of its computation and meaning. As many readers already know, the Gini can range from 0 to 1, with 0 indicating perfect equality and 1 indicating perfect inequality, and it is computed based on the same information provided by a Lorenz curve. In essence, the Gini provides a comparison between the observed distribution of income and a hypothetical distribution in which each household held equal amounts of income. A closer examination of Figure 2.2 provides a basic understanding of the Gini coefficient. Recall that the X axis of the chart represents the cumulative percent of the

population and the Y axis represents the cumulative percentage of aggregate income. So, the 45 degree line on the chart represents perfect income equality – the bottom 5% of the population has 5% of the income, the bottom 75% of the population has 75% of the income, and so on. The Lorenz curve, however, represents reality in 2000. The Gini coefficient summarizes this information by reporting the ratio of the shaded area of the chart to the entire area under the 45 degree line of hypothetical perfect equality. In 2000 this (Gini) ratio was .45 for household money income.

While the Gini nicely summarizes a Lorenz curve and provides useful information for comparing different income distributions, it is not without weaknesses. Even though the Gini likely remains the most common summary measure of income inequality reported in quantitative analyses of income inequality, scholars such as Braun (1988), Formby and Seaks (1980), Paglin (1975), and Theil (1967) have outlined some problems with the Gini. Without getting into the technical details, statisticians and econometricians have found that the Gini coefficient exhibits weaknesses when used to compare inequality in different countries or in the same country over time.

A less technical, though equally important problem with the Gini coefficient (and most of the alternatives proposed in the econometric literature) is that its substantive meaning is not readily apparent. For example a Gini of 0 (income equally allocated across units) or 1 (income completely concentrated in one unit) is easily interpretable, but such values never exist in real income data. The substantive interpretation of a Gini of .40 or .50 or .60 is not clear, other than to say that a distribution with a Gini of .40 is more equal than one with a Gini of .60. For this reason, nearly all of the original analysis presented in this dissertation is based on a more substantively meaningful measure of inequality.

2.1.5.2. *Quintile Shares and Aggregate Income Ratios*



*Figure 2.2. Share of Household Money Income Held by Each Quintile in the United States, 2000*

The foundation of the summary measure I use most often in this analysis is income quintile shares. The logic underlying household (or any other unit) quintile shares is similar to the Lorenz curve. First, households are ranked by income from lowest to highest. Then these ranked households are divided into equal groups, each representing 20% of households in the United States. Finally, the income of households within each quintile is summed and the aggregate income of each quintile is compared to the aggregate income of all households in order to compute the share of aggregate income held by each income quintile. Figure 2.3 displays the share of aggregate household money income that was held by each income quintile in the United States during the year 2000.

One of the virtues of using quintile shares to represent the distribution of income in a society is that small differences in income distributions can be readily seen with this method. Similar to the problem with the Lorenz curve, however, quintile share charts like the one in Figure 2.3 are not an efficient way to represent and compare income distributions across multiple societies or income definitions. One way to increase efficiency is simply to switch to a numerical presentation of the quintile shares or to summarize the quintile share information with a single summary statistic. When a single number representing an income distribution is required, I make use of quintile ratios. Quintile ratios present a ratio of the aggregate income of one income quintile (or groups of quintiles) to another quintile (or groups of quintiles). The two quintile ratios I utilize most often is the ratio of the aggregate income of the top quintile to the bottom quintile (T20/B20) and the ratio of the top quintile to the bottom two quintiles (T20/B40). In 2000, these two statistics for household money income were 12.25 and 3.77 respectively.

## **2.2. Exploring Household Money Income Inequality in the United States**

The degree of economic equality that should be present in a society is a legitimate philosophical and normative question, and it is a question that arises often in political debates. But there is an empirical question underlying these debates regarding the degree of economic inequality present in society. In other words, there is an enduring normative question of how balanced the scales of economic equality should be, but there is a second empirical question regarding the amount of balancing needed to achieve the normative goal. My analysis in this chapter focuses on the empirical side of this issue.

The simple data presented thus far regarding the distribution of household money income shows that there is a substantial disparity between the rich and the poor in the United States. The top income quintile had more than 12 times the aggregate income of the bottom

quintile in 2000. But exactly how substantial is it? The gap between the richest and poorest twenty percent U.S. households seems large on its face, but what is an appropriate basis for comparison? It is probably unrealistic to expect the distribution of income to be perfectly equal, with each household earning the same amount of money over the course of a year. Whether or not complete economic equality is desirable is a question that I leave for others, but even if it were desired, it would likely be extremely difficult to achieve.

Complete equality would be represented by a T20/B20 ratio of 1. This would make the ratio observed in 2000 was 11 too high if complete equality were the normative goal. But a ratio of 1 is not realistic. So, if 1 is an unrealistic point of comparison, what would be more realistic? Any absolute comparison point I might suggest would be easily criticized for suggesting a target for equality that is too high or low. Thus, rather than comparing inequality in the United States in the year 2000 to any absolute equality target, I will focus on placing the degree of inequality in the United States in a comparative context. I want to show how inequality in the United States compares to inequality in other countries around the world.

### **2.2.1. Comparative Inequality in the United States and Europe**

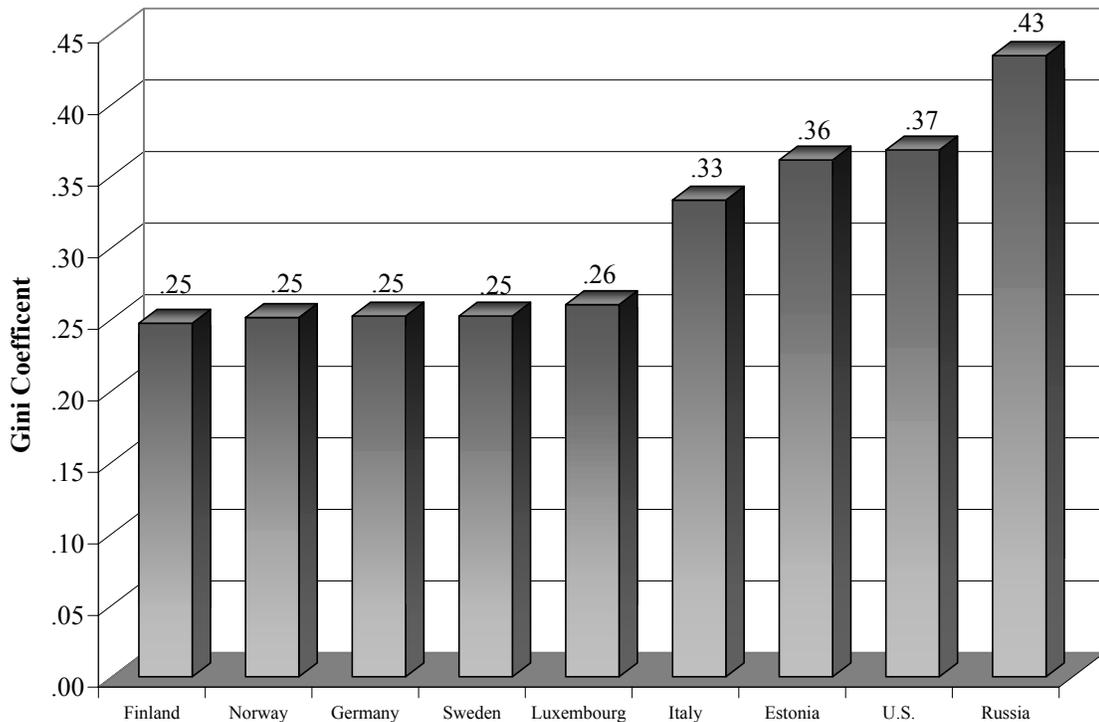
Based on the earlier discussion, it should be obvious that there are some potential data comparability issues when examining inequality across countries. First, the same unit of analysis (like families or households) must be examined in each country. Second, the income concept (like money income) must be identical across countries. Achieving data comparability in cross-national examinations of income inequality is not easy. In fact, data comparability problems limited scholarly research on income inequality around the world for decades. Recently, many comparability problems have been overcome, and the highest

quality cross national income data currently comes from the Luxembourg Income Study (LIS).

The LIS has compiled a database of household income surveys conducted in many North American, South American, European, and Asian countries. For example, the LIS uses data gathered by Statistics Sweden, a government-funded organization, to compute the distribution of income in Sweden. Similarly, the March CPS conducted by the U.S. Census Bureau is the LIS data source for the United States. While the LIS bases its inequality estimates for the United States on the same data that I have used up to this point, readers should be aware that the levels of inequality reported earlier in this chapter are not identical to the levels that will be reported below. The reason for this is that the income concept used by the LIS differs from money income as reported by the U.S. Census Bureau.<sup>4</sup> Rather than money income, the LIS reports inequality in disposable income. Unlike money income, the LIS disposable income concept adds some government non-cash benefits and subtracts payroll and income taxes from money

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<sup>4</sup> LIS data can be used to compare inequality across countries using money income as the income concept. This, however, requires manipulation of the individual-country surveys available through the LIS. Since my only goal here is to provide a basic picture of how inequality in the United States compares to other countries, I am more concerned about simplicity and comparability across countries rather than comparability of U.S. data with that presented earlier. Thus, I use the readily available inequality estimates that the LIS computes based on its summary income variable (disposable income), rather than manipulating individual country studies to make them comparable with the U.S. government's official income definition. As I move from description to explanation I will shift my focus from money income to income definitions that are more theoretically useful in the context of this analysis.



*Figure 2.3. Income Inequality in Nine Countries*

income. Given this, it should not be surprising that inequality in the United States based on the LIS disposable income concept is lower than that based on the money income concept discussed earlier. The most important point remains that inequality in LIS disposable income is quite reliable for making cross-national comparisons.

Figure 2.4 shows income inequality in nine countries for which LIS data were available for the year 2000 – Estonia, Finland, Germany, Italy, Luxembourg, Norway, Russia, Sweden, and the United States. With the countries sorted by the degree of disposable income inequality, it is easy to see that the United States was the second most unequal of these countries during 2000. Only the Russian Federation had higher levels of inequality than the United States. In fact, even the former Soviet Republic of Estonia had a slightly lower level of inequality than the United States. Of the developed, Western countries listed, the United States had the highest level of inequality, with Scandinavian and other European

countries having a much more egalitarian distribution of disposable income. The data presented here clearly show that the United States has more income inequality than many other developed countries. And the specific countries available for analysis or the measure of inequality used do not dramatically influence this result. Comparative studies of income inequality consistently show that inequality in the United States is among the highest of any developed democracy (Gottschalk and Smeeding 1997).

### **2.2.2. Money Income Inequality in the United States, 1947-2000**

Examining inequality in other countries as a point of comparison is one way of substantively understanding the degree of inequality in the United States. Clearly, those with values favoring egalitarian economic outcomes are not likely to be pleased by the evidence presented in the previous section. Of developed democracies, the United States is one of the least equal in terms of economic equality. A second way to grasp the real meaning of inequality in the United States at the end of the 20<sup>th</sup> century is to compare recent data to previous points in time. So, in this section I compare the United States not to other societies but to itself at earlier points in time, going back as far as 1947.

Movement in the T20/B20 ratio and the T20/B40 ratio of household money income is charted in Figure 2.5 for the United States during the post World War II Era.<sup>5</sup> While the T20/B20 ratio is more volatile than the measure that combines the bottom two

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<sup>5</sup> The Census Bureau has reported household income inequality since the late 1960s. Given this, the data I present is based on household income only since 1967. Prior to 1967 I utilized a combination of family and unrelated individual income inequality to estimate household income inequality. This was possible since the Census has continued to report inequality for families and unrelated individuals since 1967. I utilized comparisons of household, family, and unrelated individual income inequality since 1967 as a basis to estimate the movement of household income inequality prior to 1967 using inequality in family and unrelated individual income.

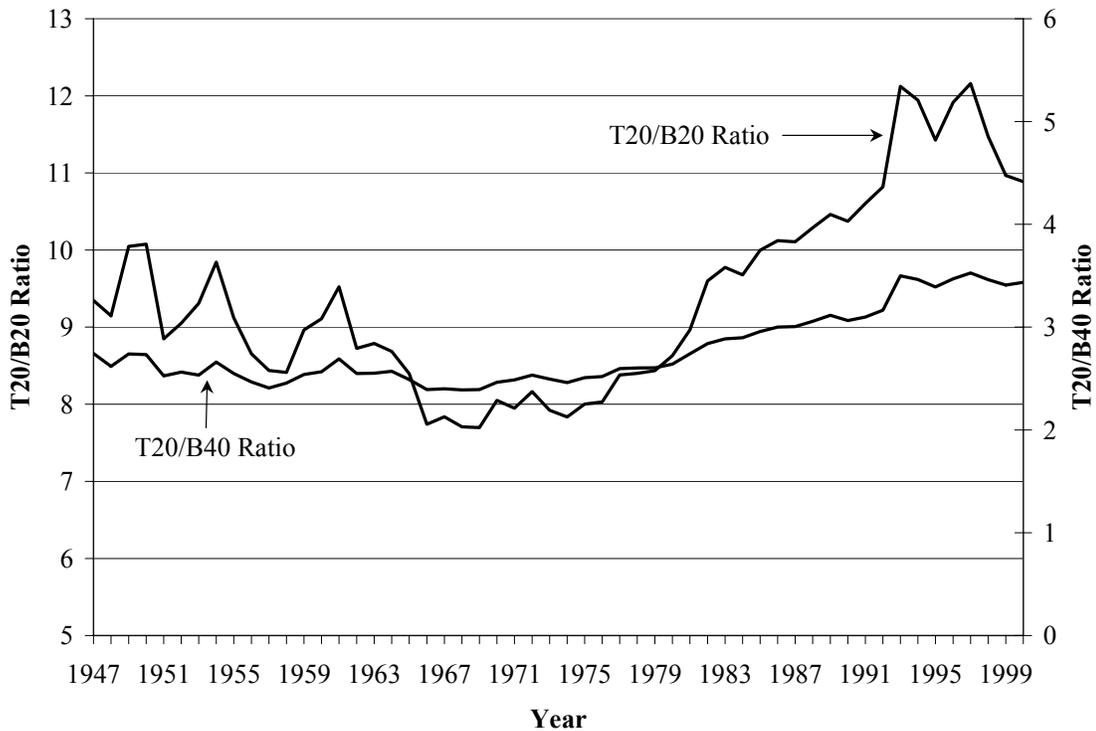


Figure 2.4. U.S. Household Money Income Quintile Ratios, 1947-2000

quintiles, both measures tell essentially the same story. Inequality in money income decreased between 1947 and approximately 1970, with increases in inequality to follow with a slight leveling off in the late 1990s. In fact, inequality was at its highest point during the post WWII era during the early 1990s, and inequality in the United States was higher in 2000 than it was after the end of WWII.

Census data goes back only to 1947, but some researchers have attempted to estimate inequality as far back as the 1920s. For example, Eugene Smolensky has computed unpublished estimates of income inequality showing that inequality in the 1990s was nearly as high as that during the Depression era. It is also worth noting that using the Gini coefficient rather than quintile ratios does not alter the observed path of inequality in the United States in a substantively important way. In fact, every measure of money income inequality in the United States shows that, since 1947, it decreased gradually until around

1970, and since then through the 1990s the path has reversed toward greater inequality. The bottom line is that inequality in the United States at the end of the 20<sup>th</sup> century was much higher than in other developed democracies, but it was also higher than at previous times in the United States. In fact, the levels of inequality currently present in the United States are about as high as they have been since reliable data on income inequality have been available.

### **2.2.3. Inequality as the Price for Growth?**

In the two previous sections we have seen that inequality in the United States at the end of the 20<sup>th</sup> century is high relative to both other countries and the U.S. at earlier points in time. For some readers these facts may be new and difficult to believe, while this information may be old news for many others. Clearly, income inequality is a normatively loaded outcome, and the data presented to this point have likely evoked some response from most readers. For those with egalitarian values, patriotism and love of country might lead to doubts about the veracity of the statistics presented above. However, if the data above are acknowledged as accurate, my inclination is that most Americans, on both the ideological right and left, would report disappointment with the current degree of inequality when compared to other countries and, in particular, previous times in the United States. Inequality in the United States is relatively high, but is its absolute level too high? Is it so high that action should be taken to lower it?

Answering these questions is where those on the left and the right would diverge based on the discussion in the first chapter. American liberals would almost certainly respond in the affirmative to both questions. Such individuals would likely find the degree of inequality present in the United States alarming and would support government and social action to make economic outcomes more egalitarian. For conservatives, however, inequality is not viewed as a problem, but a natural result of inequalities in individual ability, desire,

motivation, and work ethic. To take action to reduce inequality could actually do more harm than good. My research cannot determine which of these philosophical views on inequality is correct, but I can present evidence that is useful to those with a third viewpoint on inequality.

This third viewpoint could be described as a practical conservatism with regard to income inequality. Most Americans probably do not have attitudes that align with the two extremes of pure ideological liberalism or conservatism. Rather, most people in the United States are somewhere in between. They are likely to say that high levels of inequality are a potential problem, but economic growth should be paramount, with absolute, rather than relative well-being as the primary economic goal of society. People holding these views would say that inequality might be high, but inequality is a byproduct of economic growth. To focus on inequality is to risk economic interventions that limit economic growth, thereby harming the material well-being of all members of society, both the rich and the poor. These practical conservatives would likely have similar policy preferences as a pure ideological conservative, but for different reasons. Rather than being unconcerned about inequality, practical conservatives see inequality as a necessary evil that must be tolerated in order to maintain a robust economy.

My research cannot and is not intended to provide a basis on which to judge whether ideological conservatism or liberalism is better with respect to income inequality. This is an important question, but it is normative rather than empirical. My research and the work of others is helpful, however, in assessing the validity of the practical conservative viewpoint. If my description of practical conservatism is correct, this viewpoint is highly informed by empirical assumptions. Specifically, this view assumes that inequality is either the natural

result of a strong economy or the necessary precursor to economic growth. However, this assumption may be one of the greatest myths of American politics.

In 1955, Kuznets argued that there is a connection between economic growth and inequality. The stylized inverted U-curve of growth and inequality that sprang from his work hypothesized that as an economy grows via productivity increases of industrialization, inequality will first rise. Later, after industrialization becomes more complete, inequality will eventually fall as economic growth continues. The Kuznetz hypothesis was, until recently, the established view on the link between growth and inequality. Of course the Kuznetz hypothesis would not support the empirical assumption of the practical conservative. Viewing inequality as a natural product of economic growth is only appropriate in societies in the process of industrialization or undergoing a bifurcation in the labor market between low and high productivity sectors. While productivity is on the rise in the United States, it can hardly be said that the United States is at the stage of development in which the relationship between growth and inequality would be positive under the Kuznetz hypothesis. In fact, this theory would more likely predict a negative relationship between growth and inequality in a society such as the United States at the end of the 20<sup>th</sup> century.<sup>6</sup>

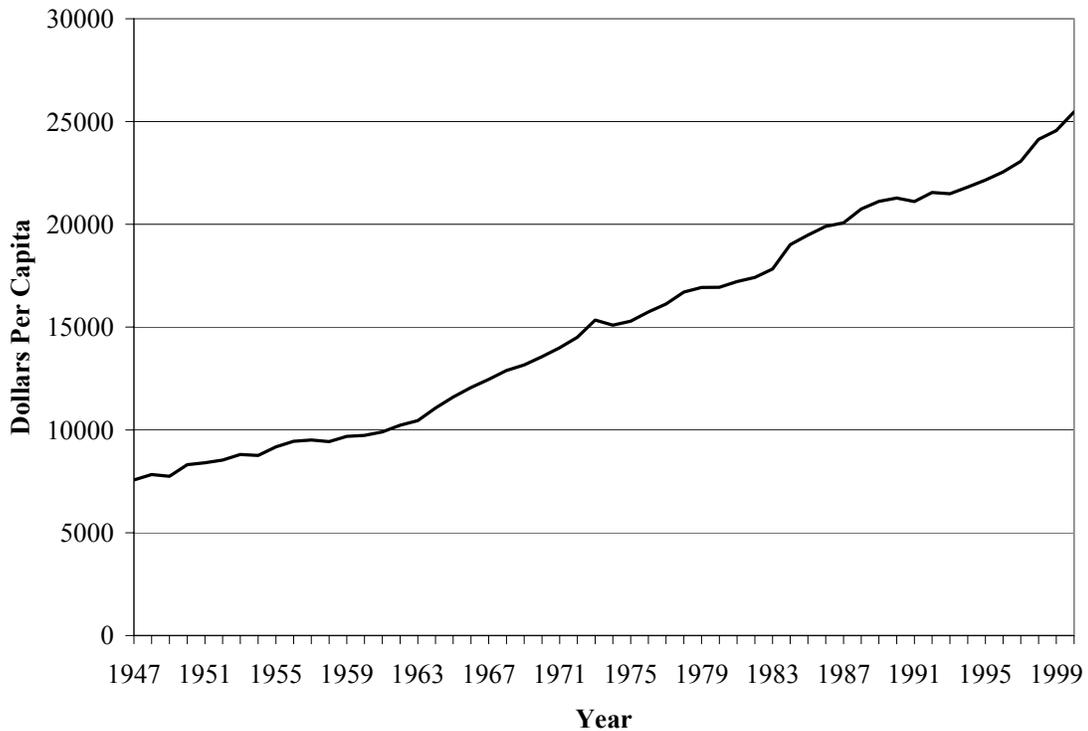
Recent research has cast doubt on the Kuznets hypothesis. Deninger and Squire (1998), in fact, conclude that there is no systematic connection between economic growth and income inequality. Most economists, it seems, now take a rather skeptical view of the notion that inequality is simply a necessary byproduct of economic growth. No empirical support for this idea can be found, and there is even some weak evidence that in at least some

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<sup>6</sup> Many of the observations I make in this brief review of the scholarly literature on growth and inequality are borrowed from a much more complete review of this literature by Francisco Ferreira (1999).

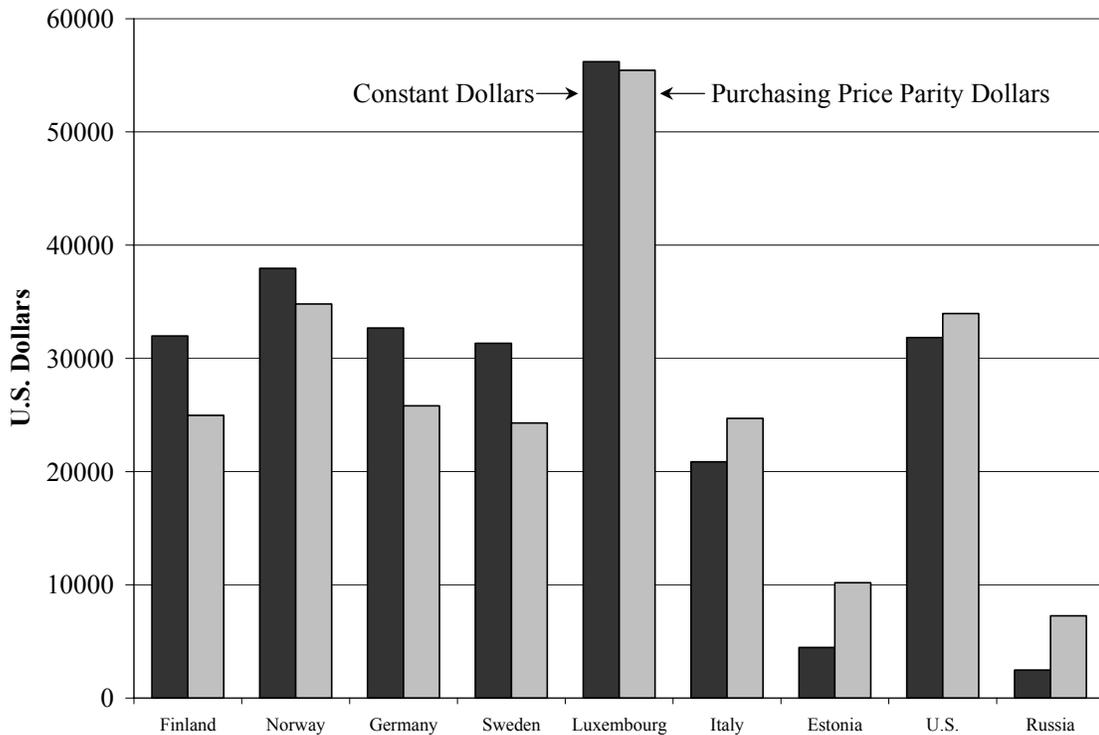
limited circumstances equality, rather than inequality, is produced by economic growth (Ravallion and Chen 1997). This research would seem to completely disprove the assumption that inequality is a natural result of a strong economy. However, the studies cited to this point have been specifically designed to test whether economic growth influences income inequality, not whether income inequality is a necessary precursor to economic growth.

A second line of research addresses this possibility by asking whether income inequality causes economic growth, essentially reversing the causal arrow of the studies discussed above. Quantitative analyses of various data sets by both Alesina and Rodrik (1994) and Persson and Tabellini (1994) actually show a negative relationship between inequality and growth, with higher levels of inequality associated with lower growth rates. And Benabou (1996), in a survey of quantitative investigations of this issue, finds that most studies confirm this finding. While this finding has not been tested fully enough to warrant a solid conclusion and some studies have found evidence in favor of the view that inequality produces growth (Barro 2000; Forbes 2000; Li and Zou 1998), the most strongly supported conclusion appears to be that there is either a negative relationship or no relationship at all between income inequality and economic growth. In sum, the economics literature provides no support for the assumption that income inequality is either a natural result of, or necessary condition for, economic growth.



*Figure 2.5. Per Capita Disposable Income in the United States (Constant Dollars), 1947-2000*

These previous studies in economics are enlightening and provide strong evidence contradicting the idea that inequality is the price that must be accepted for economic growth. I think it is also useful to make a quick examination of some data for the U.S. and other countries regarding the relationship between inequality and general economic prosperity. In Figure 2.6 I show the movement in per capita disposable income in the United States between 1947 and 2000. Recalling the earlier inequality data, it is easy to see that there is no clear or obvious relationship between inequality and the average household income (in constant year 2000 dollars) in the United States. Inequality decreased between 1947 and about 1970 and increased between 1970 and 2000. Clearly, this is not the path of general economic prosperity, which has increased fairly steadily during the post WWII era. Figure 2.7, on the other hand, shows comparative economic data, displaying the per capita gross



*Figure 2.6. Per Capita Gross Domestic Product in Nine Countries*

domestic product in the same nine countries for which income inequality was earlier reported. One can clearly see that citizens in the countries with lower levels of inequality have similar levels of economic well-being when compared to the United States. While these two pieces of evidence are not nearly as rigorous as the economic studies cited earlier, they do provide general confirmation that inequality is neither a clear result of nor a requirement for economic growth.

#### **2.2.4. Income Quintiles in the United States: Who Fits Where?**

We have seen in the previous sections that inequality in the contemporary United States is high by almost any standard. Furthermore, we have seen that the degree of inequality in the United States is not an absolute necessity of economic growth. The two standards that have been used to judge inequality in the United States to this point are comparisons with other countries and comparisons with previous levels of inequality in the

U.S. In this section I present a third standard by which to judge inequality in the United States. Specifically, I examine the demographic composition of the household income quintiles. By examining the racial/ethnic, sex, and age composition of each income quintile in the United States, we can answer the question of whether inequality affects these demographic groups similarly. If one believes that individuals of different races, sexes, and ages are equally worthy of monetary reward in society, then there should be no demographic differences between the five income quintiles. Whites and blacks and males and females should all be equally likely to be at the top or bottom of the income distribution. However, if one believes that there are inherent differences between those of different races, sexes, and ages that deserve differential economic reward, then there should be clear demographic differences between each of the five quintiles.

In Table 2.1 I show how each of the income quintiles in the United States and the top five percent of households compare in terms of demographics. Specifically, I show the racial/ethnic composition, the breakdown by age, and the representation of different types of households across income categories. If income inequality affected subpopulations of the U.S. population equally, then each income category would have the same demographic composition as the population as a whole. The data show that this hypothetical situation is far from reality. In terms of race and ethnicity, non-Hispanic whites comprise a substantially larger proportion of the highest income quintile (87%) and a much lower proportion of the lowest income quintile (66%) than the population as a whole (75%). On the other hand, Hispanics and blacks are more prevalent at the bottom of the distribution than they are in the overall population. In terms of age, the households with the youngest and the oldest householders are over-represented in the bottom income

Table 2.1. Demographic Composition of the Household Income Distribution in the United States, 2000

Demographic	Q1	Q2	Q3	Q4	Q5	Top 5%	Full Population
<i>Race/Ethnicity</i>							
Non-Hispanic White	66%	72%	73%	79%	84%	87%	75%
Black	20%	14%	13%	9%	6%	4%	13%
Hispanic	11%	11%	10%	8%	5%	3%	9%
<i>Age</i>							
15-24	9%	9%	6%	4%	2%	1%	6%
25-34	13%	18%	21%	20%	15%	12%	17%
35-44	13%	18%	24%	28%	29%	28%	22%
45-54	12%	15%	19%	24%	32%	33%	20%
55-64	13%	12%	13%	13%	15%	16%	13%
Over 65	40%	29%	16%	10%	8%	9%	21%
<i>Type of Household</i>							
Married Family	20%	40%	54%	68%	80%	84%	52%
Male Family Householder	3%	5%	5%	5%	3%	3%	4%
Female Family Householder	18%	16%	12%	8%	4%	3%	12%
Male Non-Family Householder	20%	18%	15%	11%	8%	7%	14%
Female Non-Family Householder	39%	21%	14%	8%	5%	4%	18%

Note: Cell entries are column percentages.

quintiles and under-represented at the top of the distribution. Finally, with regard to the type of household, married family households tend to be the richest type of household. The most important information available from the comparisons of household type, for both family and non-family households, those with male householders are substantially better off than those with female householders. The story presented in these charts is, I am sure, not surprising – race, age, and sex help to distinguish the income quintiles.

### 2.3. The Distribution of Income – What it Takes to be Rich or Poor in America

In this chapter I have introduced some measurement concepts that will remain important through the rest of the dissertation. We have also seen that inequality is relatively high in the United States and that different kinds of households are affected by this income inequality in different ways. I want to conclude this chapter by making the income distribution in the United States a bit more concrete. So far I have discussed income inequality at an aggregate level – how much aggregate income certain income quintiles have than others. But how much money does it take to make it into the various income quintiles? This is the question I answer in this section.

*Table 2.2. Income by Percentile and Average Income in Each Quintile and the top 5% of Households*

Percentile	Income at Specified		Mean Income
	Percentile	Quintile	
20 <sup>th</sup>	\$17,920	Lowest	\$10,157
40 <sup>th</sup>	\$33,000	Second	\$25,361
60 <sup>th</sup>	\$52,174	Third	\$42,233
80 <sup>th</sup>	\$81,766	Fourth	\$65,653
95 <sup>th</sup>	\$145,220	Fifth	\$142,269
		Top 5%	\$252,400

Table 2.2 presents two pieces of information – the income at five points in the income distribution, and the average income of households in each of the five income quintiles as

well as the top five percent of households. When I first looked at these data, I was struck by how little income those in the lowest quintile make. By the same token, I also found the level of income required to make it into the top income quintile surprisingly low. The information in this table provides readers with the ability to see where they fit into the income distribution of the United States. I would guess that the old myth that everyone in America is in the middle class would apply. Those at the bottom and the top of the income distribution might be surprised to learn how far from the middle they are.

This table also puts some common political proposals in better perspective. When politicians propose policies that will affect the top five percent of households, they are talking about those with over \$142,000 of income, and policies that are reported to affect only those earning over \$200,000 would apply to three or four percent of American households. In the next chapter I start to analyze explicitly the effect of politics on income inequality by assessing the distributional consequences of several well-known government policies. I also move to more explicit tests of the theoretical framework developed in the first chapter.

### *3. Policy and Income Redistribution*

As we saw in the last chapter, when Richard Nixon took the oath of office in 1969, he inherited an economy in which American incomes were more equal than when his predecessor took office, more equal in fact than ever before. That had been the pattern for a long time. Every four-year period brought a new level of equality to American society. It was never to be again. Following the Nixon/Ford presidencies, every new president took control of an economy that was less equal than it had been four years before. How America could trend toward equality for most of the twentieth century and then reverse course for the final quarter century is the explanatory problem to which I now turn. I assess in particular the (national) government role, the actions and policies by which government balances – or unbalances – the scales of equality. Much of the story of equality and inequality is a story of changes in a market economy. But an important part of the story is governmental – policies that benefit some people at the expense of others. That is the focus in this chapter.

#### **3.1. Government Action to Equalize Incomes: Explicit Redistribution**

Income inequality in the contemporary United States is high. The data presented in the last chapter leave no doubt about that. There should also be no doubt, however, that the U.S. national government, through a wide variety of programs, takes action to reduce inequality. The most readily apparent and easily recognized programs that equalize incomes are explicitly redistributive. That is, they take money from some in the form of taxes in order to pay out benefits to others. The analysis in this chapter focuses on the equalizing effect of

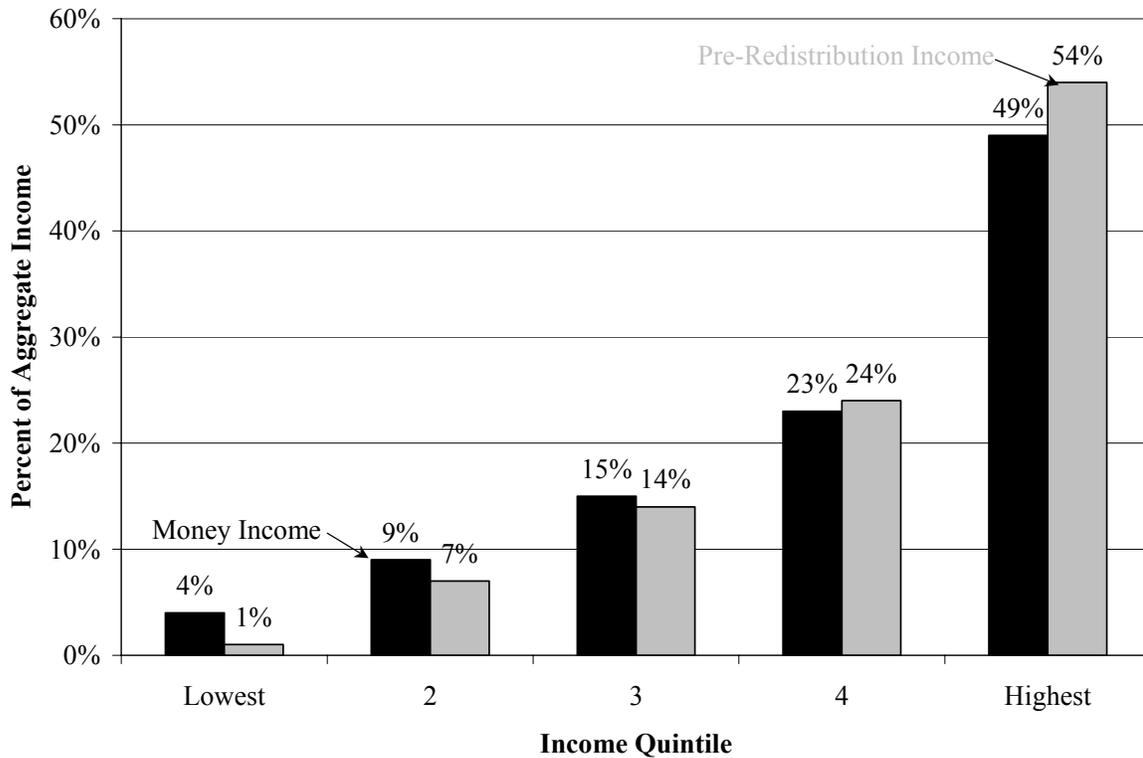
explicitly redistributive programs in the United States and whether this effect is responsive to political decisions.

### **3.1.1. Assessing Government Redistribution**

The goal of this section is to examine government programs that explicitly redistribute income from the top of the income distribution toward the bottom. What we want to know is the degree to which explicit government redistribution influences income inequality in the United States. The redistributive effect of a government program is straightforward in concept. It is the difference between the hypothetical income inequality that would exist in the absence of government activity and the income inequality that exists after government has acted. The empirical observation of this concept is, however, quite difficult. While income inequality as it has existed in the United States for the past several decades can be observed, a world in which government has not played a role simply does not exist. Thus, the full implications of government action on income distribution can be only imperfectly observed.

Many federal government programs influence the distribution of income. Some have primarily indirect effects that are hard to pinpoint. Other programs affect the distribution of income much more directly, through either cash or in-kind benefits, and these are the kinds of programs I look at in this chapter. Food stamps, Social Security, and Medicare benefits fall under this category. But some of these direct assistance programs have additional indirect effects. Medicare, for example, augments the income of health care providers as well as the primary beneficiaries by creating demand for health services that would not otherwise exist. Of course expenditures are only one side of the coin. Taxes have distributional consequences as well. While it is difficult or impossible to empirically observe the full distributional effects

(both the direct and indirect effects) of explicitly redistributive programs, available data can be used to measure the direct effects of government taxation and explicit benefit programs.



*Figure 3.1. Income Distribution by Quintile for Money and Pre-Redistribution Income*

In order to calculate the explicit distributional effect of a government program, the distribution of income excluding the program must be compared to the distribution of income including the program. The first step in calculating the distributional consequences of multiple government programs is to define a baseline income distribution as a consistent point of comparison. This distribution should include only income that comes from market (or non-governmental) sources. Fortunately, with individual-level March CPS data, this task is not too difficult. In the previous chapter the focus was on household money income inequality. Money income, as an income concept, includes income from government programs like public assistance that distribute benefits in the form of cash payments. So

money income is not a good income concept for the purpose of determining the distributional impact of individual government programs. As a baseline for comparison I will focus on income excluding money from any government mandated, funded, or administered program. I call this concept pre-redistribution income, and it is measured with income from the following sources: earnings from an employer, employer healthcare contributions, capital gains, pension or retirement income, interest, dividends, rents, royalties, estates, trusts, alimony, child support, financial assistance from outside the household, and other money income that is not otherwise categorized.<sup>1</sup> As a point of reference, Figure 3.1 displays the distribution of income based on money income (the definition used in Chapter 2) to that based on pre-redistribution inequality for households in 2000. Not surprisingly, pre-redistribution income is even more unequally distributed than money income. Also, it is easy to see that the cash benefits included in money income but excluded from pre-redistribution income primarily redistribute income from the top income quintile to the bottom two income quintiles.

Measuring inequality excluding government benefits is the first step toward assessing the distributional consequences of government programs, and inequality in pre-redistribution

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<sup>1</sup> One could argue that other governmental sources of income should also be excluded. For example, federal employees obviously receive their wages from the government. I view this type of government income source differently than government sources that provide payments (or mandate employer payments) for something other than services rendered. There are certainly some gray areas in this categorization. For example, workers' compensation income is not included in pre-redistribution income. Workers' compensation, as I understand it, is paid jointly by the government and the injured worker's employer. Because it is a government mandated program that is at least partially funded out of government coffers, I exclude it from pre-redistribution income. On the other hand, child support and alimony payments are also, in a sense, mandated by government. However, since these payments come completely from private funds and enforcement mechanisms for requiring these payments are extremely weak, they are included in pre-redistribution income. In a practical sense, this decision is not consequential given the tiny amount of income comprised by child support alimony payments.

income provides a baseline for assessing the distributional consequences of government programs in the United States. The second step is to determine how the distribution of income changes when benefits from a particular government program are re-introduced to the definition of income. In the sections that follow, I examine how taxation and benefit programs that are familiar to us all influenced income inequality in the United States during the year 2000.

In this chapter and those that follow, I define and make use of a measure that I call government redistribution. Before I go on, then, I want to be perfectly clear about the concept this measure is intended to tap and about what it does and does not include. My goal is to measure the direct, first-round distributional impact of federal taxation and explicit government benefit programs. This means, for example, that my measure of government redistribution makes no effort to account for the distributional impact of public goods programs and programs like public primary education. This is not to say that these programs have no distributional impact, but I have found it impossible to create a measure of this impact with which I am satisfied. Public education no doubt influences human capital formation that enables individuals to obtain marketable skills that can increase wages. But this kind of distributional effect is not what I mean by explicit redistribution. I do not, however, dismiss the distributional effects of these kinds of programs completely. In later chapters I examine the connection between policy and pre-redistribution inequality in addition to the connection between policy and explicit government redistribution. While programs like education do not have an explicitly redistributive component (or perhaps only a small one), they do have a redistributive impact that is felt in the marketplace – in pre-redistribution inequality.

As I alluded to earlier, there are many programs that have two components – one that is explicitly redistributive and one that I view as a secondary market effect. Medicare provides the perfect example, though almost any explicitly redistributive program could be characterized similarly. The explicitly redistributive component of Medicare is the medical benefits received by program beneficiaries. The secondary market effect is the increased wages of health care providers that benefit from induced demand for their services. There should be no doubt that Medicare recipients would not be able to pay for the amount of health care they receive without benefits from the program. The measure of government redistribution that I describe below accounts for the explicitly redistributive component of Medicare, but excludes the second-order market effects that the program has on health care providers. Despite this exclusion, my measure of explicit government redistribution is defensible in the context of describing the outcome of political process because the first-round effects are really where major political debate occurs. Policy debates over Medicare are not about whether to limit the secondary effects of the program or whether these effects are appropriate, but rather about whether benefit levels should be expanded or contracted. The first-round effects are where the political action is.

In sum, it should be clear that my quantification of government redistribution only accounts for the explicitly redistributive components of federal government programs. Therefore, it is not a full accounting of government's distributional impact. Because of this, in later chapters in which I am interested in examining the connection between public policy and government's impact on income inequality, I rely not only on the measure of explicit redistribution that I describe below, but also on pre-redistribution inequality – a concept that will also be defined later in this chapter. By examining both explicit redistribution and pre-

redistribution inequality, I am able not only to examine the effect that policy has on explicit redistribution, but also the indirect market effects of public policy. The distributional results of programs that have indirect market effects (as a primary or secondary effect) will be tapped by changes in pre-redistribution income, while the direct effects of redistributive government benefit and taxation programs are tapped via the measure of government redistribution.<sup>2</sup>

### *3.1.1.1. The Distributional Impact of Taxation*

There is no shortage of political debate and rhetoric about the federal government's system of taxation. On the one hand, Republicans almost always have some proposal in the works to flatten taxes so that everyone pays their "fair share," which in the eyes of conservatives means all paying the same proportion of their income in taxes. Democrats, on the other hand, are constantly bemoaning the lack of fairness in the U.S. tax code that allows wealthy individuals to dodge taxes. The liberal viewpoint is that the tax system is weighted too far in favor of the rich. But what is the real story?

The national government in the United States collects several forms of taxes. In terms of those that directly influence the amount of income earned in U.S. households, these forms of taxation fall principally into two categories – income taxes and payroll taxes. Income taxes, as all of us in America are acutely aware, are based on the amount of income earned within a household. As one earns more money, the amount of taxes due on each additional dollar earned increases. The federal income tax, then, is in theory a progressive tax that takes

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<sup>2</sup> I have not said anything about taxation, but it is worth noting that my measure of explicit redistribution accounts only for the effects of income and payroll taxes. The corporate income tax is the most notable form of federal taxation excluded from my measure. My measure essentially assumes that corporate income taxes are paid by shareholders. This may or may not be the best incidence assumption, but the distribution of the corporate income tax has become largely a moot point given the massive reductions in corporate taxes that have occurred during the last fifty years in the United States.

a greater percentage from those who earn large sums of money than from those who earn little. Of course, the federal income tax is much more complicated than a simple increasing marginal tax rate. Tax liability is reduced for those with expenditures on items ranging from higher education, to home mortgage interest, to hybrid gas/electric vehicles, to name just three. All of these deductions reduce taxable income, thereby reducing taxes paid. Most deductions, in fact, are likely to benefit middle and upper income households (like the mortgage interest deduction). Other programs that are part of the federal income tax system are explicitly designed to help the working poor (like the Earned Income Credit).<sup>3</sup>

Payroll taxes are somewhat different than income taxes. Payroll taxes, as the name implies are taxes collected based on how much an employer pays each employee. The major federal payroll taxes are Social Security, Medicare, and Unemployment Insurance. Payroll taxes are determined as a percentage of wages paid to an employee by an employer, but part of the tax is paid by the employee and part is paid by the employer. Furthermore, for both Social Security and Unemployment, taxes are paid only until the employee earns a specified amount from the employer. In 2000, for example, employees were required to pay 6.2% of the first \$76,000 of their wages in Social Security tax, with a matching amount paid by employers. Medicare taxes are apportioned via a flat rate that is shared by the employer and employee with no earnings ceiling for the tax. Finally, unemployment taxes are fully paid by the employer.

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<sup>3</sup> Revenue lost by the federal government because of available deductions and programs like the Earned Income Credit are called tax expenditures. Tax expenditures are a common way for government to give benefits to certain groups without having a fiscal expenditure in terms of the government balance sheet. I treat tax expenditures as a part of the tax system, but these government benefits are no different than others in the sense that they can help some groups more than others, thereby influencing the distribution of income. However, I do not conduct detailed analyses of the distributional effects of individual tax expenditures, though others have (Howard 1993).

It should be fairly obvious that a tax structured like Social Security will be regressive, taking a greater percentage of earnings from workers with little income than from those high in the income distribution. I am interested primarily in the direct effects of payroll taxes paid by the employee. At least a portion of the employers' portion of payroll taxes can be shifted to the employee in the form of reduced wages. However, I view this as an indirect effect of the tax program that varies by employer. In fact, most economists studying this issue find that employer payroll taxes are only partially shifted to employees (Beach and Balfour 1983; Holmlund 1983; Vroman 1974; Weitenberg 1969).

*Table 3.1. Distribution of Federal Taxes and Earned Income Credit, 2000*

<i>Type of Tax</i>	<i>Pre-Redistribution Quintile</i>				
	1	2	3	4	5
Federal Income	0%	3%	8%	18%	71%
Federal Payroll	1%	8%	17%	26%	48%
Earned Income Credit	15%	61%	15%	6%	2%
Total Federal Taxes	0%	3%	11%	21%	65%
Share of Pre-Redistribution Income	1%	7%	15%	24%	53%

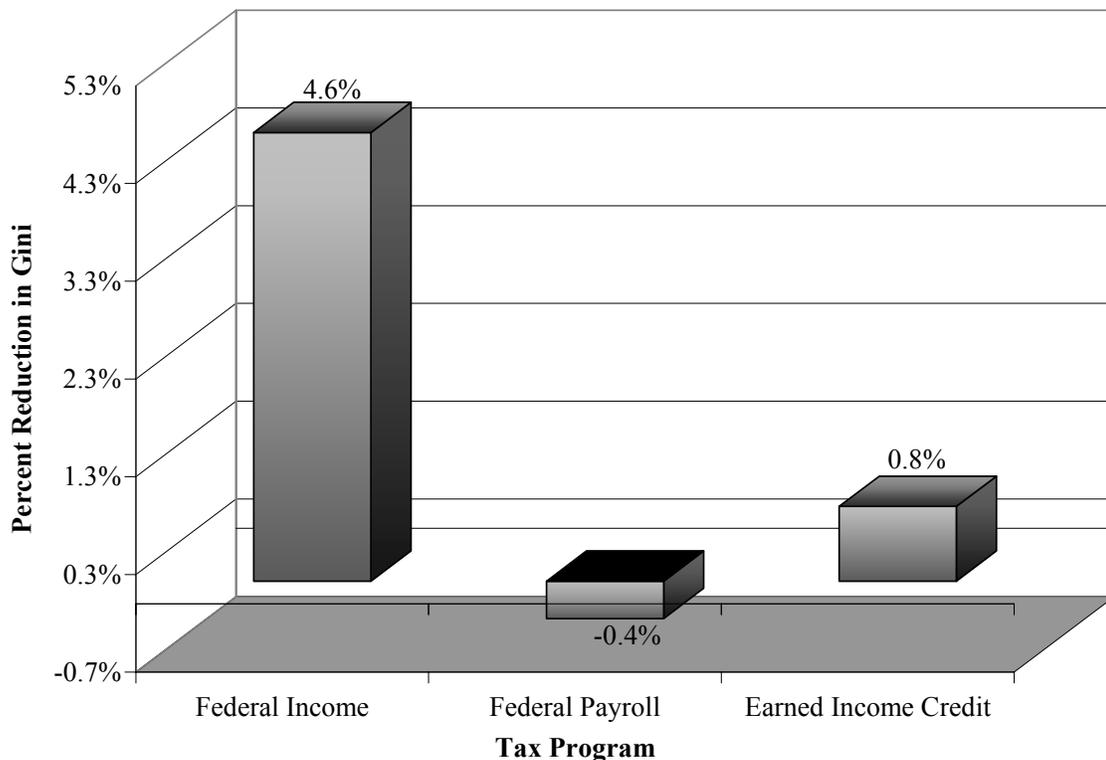
In Table 3.1 I begin to explore directly the distributional effects of several tax programs. Specifically, this table shows the proportion of federal income and payroll taxes paid and Earned Income Tax Credit received by each pre-redistribution income quintile. A completely proportional tax (or credit) would, of course, be allocated between the income quintiles in the same proportion as pre-redistribution income. Not surprisingly, this table shows that federal income taxes are progressive, with the top two income quintiles paying a larger share of taxes than their share of aggregate income and the bottom three quintile paying a smaller share. We also can see that federal payroll taxes are, in fact, slightly regressive. The bottom four income quintiles pay a larger proportion of their income in

payroll taxes than does the top quintile. The one part of the tax system that is designed to equalize incomes through aid to low and middle class working families (the EITC) clearly distributes benefits in a manner consistent with this goal. More than three-quarters of EITC benefits go to the bottom two income quintiles. Finally, the combined distribution of the federal tax burden is weighted toward the wealthiest households, with the top income quintile paying 65% of federal taxes while their share of income is 53%.

It is important to note that the effects of state and local taxes are not examined. It is well known that most state and local taxes (with the exception of the income tax in some states) are regressive. For example, the poor pay much higher proportions of their income in sales and property taxes in than do wealthy Americans. So, I have provided a picture of the distribution of the federal tax burden in 2000, but not an examination of every kind of tax Americans pay at the sub-national level. With that said, the federal tax system appears to be at least moderately progressive – taking a greater percentage of income from the rich than from the poor.

The tangible effect of federal taxes on the degree of income inequality in the United States during the year 2000 is examined in Figure 3.2. This chart shows the percent reduction in the Gini coefficient that can be attributed to the same forms of taxation examined above. The federal tax program that has the single largest effect on income inequality is the federal income tax, which reduced income inequality from its pre-redistribution level by 4.6% during 2000. The earned income credit also equalizes incomes, but by a much smaller amount – less

than 1%. Federal payroll taxes, on the other hand, slightly increase inequality in the United States, and this result is driven primarily by the Social Security tax.<sup>4</sup>



*Figure 3.2. Reduction in Inequality Attributable to Federal Tax Programs in the United States*

### 3.1.1.2. *The Distributional Impact of Government Expenditures*

Federal taxes have some impact on the distribution of income, but programs with the most readily apparent distributional consequences involve government expenditures. The programs that many Americans would probably name if asked what government programs give the most help to the poor would be means-tested programs – benefits like food stamps

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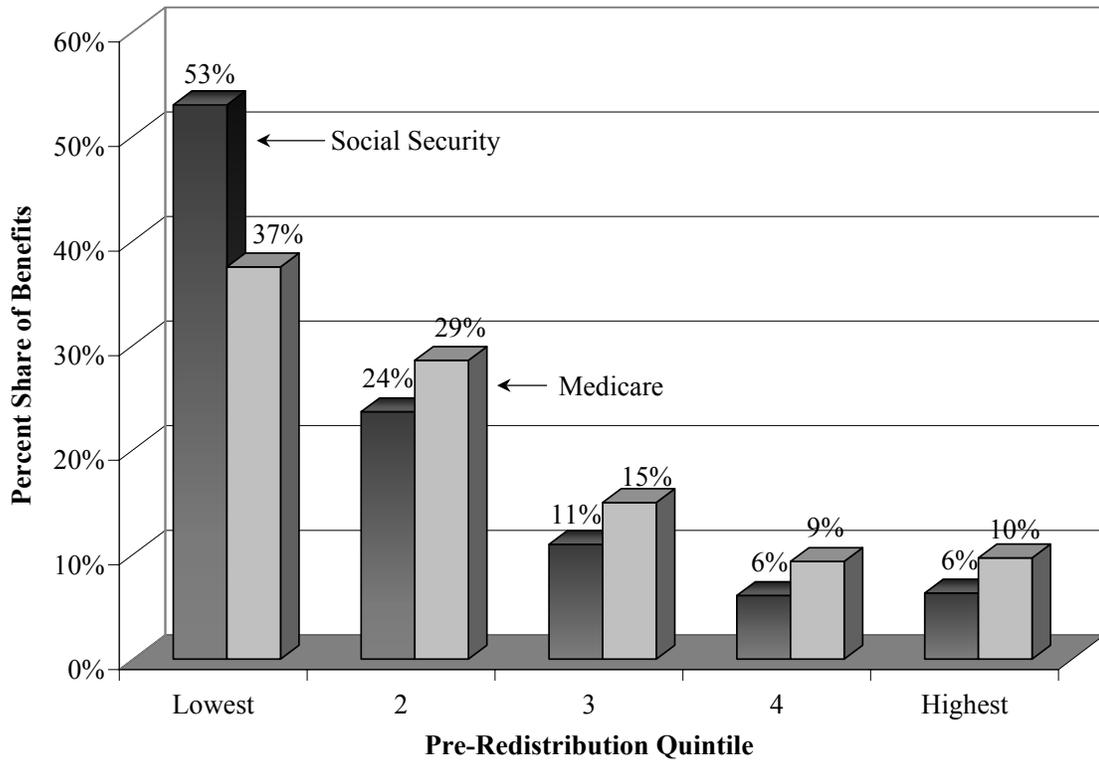
<sup>4</sup> More comprehensive tax incidence studies that examine state, local, and federal taxes that are not levied on individuals (like taxes on business profits) show that the overall distributional effect of taxation in the United States is very minimal (Pechman 1988; Pechman and Okner 1974). The distribution of the tax burden is essentially proportional except for the richest and poorest households.

and welfare. These programs are specifically targeted toward the needy because an individual must be below a certain income level before attaining eligibility for the program. But means-tested programs make up a relatively small part of the national budget, much less than five percent, in fact. I begin my discussion of the distributional impact of government expenditures with two large programs that are designed to ease the financial burden of the retired – Social Security and Medicare.

***Social Security and Medicare.*** In much of the political commentary of the last two or three decades the twin retirement security programs, Social Security and Medicare, have been pictured as boondoggles for the newly affluent "senior" class. Designed as unabashed income redistribution schemes by Franklin Roosevelt and Lyndon Johnson, the two programs have ballooned dramatically as the numbers of retiree recipients have grown. It is commonly suggested that the programs have become entitlements for a politically influential group which, though it no longer needs the benefits, has life and death control over the policy makers who decide what to do. One can imagine a portrait along the lines of Ronald Reagan's famous "welfare queens," the silver-haired retiree driving his Mercedes Benz to the country club, stopping off to deposit the monthly Social Security check.

The data on Social Security and Medicare recipients presented in Figures 3.3 and 3.4 tell a wholly different story. Recipients are for the most part still the poorest Americans. And the income from these programs is for most, virtually all the income they have. Fifty-three percent of total Social Security benefits go to those in the lowest pre-redistribution income quintile, and only twenty-three percent of these benefits go to the top three quintiles combined. The distribution of Medicare benefits is similar, though not quite as skewed as

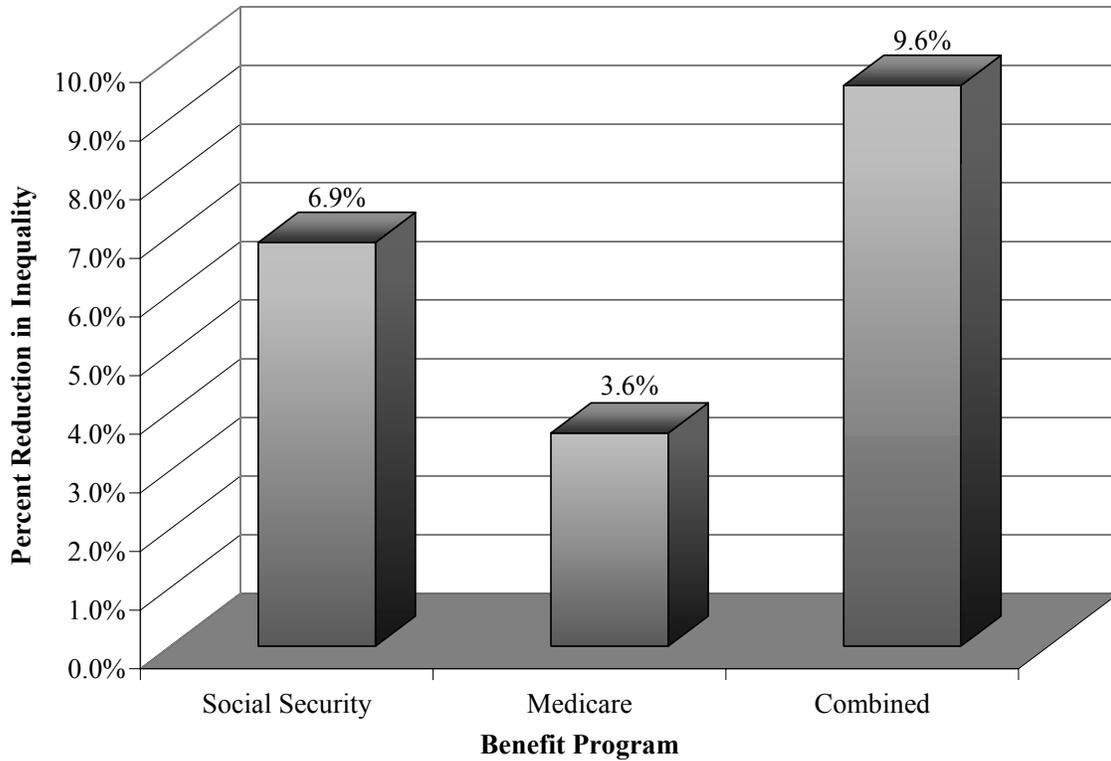
Social Security.<sup>5</sup> The bottom forty percent of households receive sixty-six percent of these benefits, and the top two quintiles garner only nineteen percent. Clearly, Social Security and Medicare cannot be fairly characterized as a boon for the wealthy.



*Figure 3.3. Share of Social Security and Medicare Benefits Received by Each Income Quintile*

The equalizing effects of Social Security and Medicare are quite dramatic, so much as to dwarf all other federal programs. If the level of inequality after Social

<sup>5</sup> Medicare, of course, is a non-cash benefit that provides those over 65 with access to medical care. Since this benefit is not in the form of cash, there is some question about how to convert the benefits received into income. The March CPS values Medicare benefits using the fungible conversion method. Rather than converting Medicare benefits to income by computing the market value of the health care received, the fungible method determines the amount of money the household would have actually spent on health care had the benefit not been received. The assumption of this method is that households would have forgone health insurance if given the choice between food and insurance. So, the fungible method actually provides a conservative method for determining the distribution of Medicare benefits and their redistributive effect.



*Figure 3.4. The Reduction in Inequality Attributed to Social Security Payments and Medicare Benefits*

Security and Medicare (each treated separately) are compared to pre-redistribution inequality, we see that Social Security benefits reduce inequality by nearly seven percent and Medicare reduces inequality by 3.6 percent. When the effect of both programs is combined, the Gini coefficient drops from .52 to .47, a reduction of almost ten percent. Examining just these two programs clearly shows that the greatest redistributive impact of government in the United States comes through expenditures rather than revenue collection. Without these two programs, nearly one-fifth of all Americans would essentially have no income.<sup>6</sup> These individuals would lack income for food and housing and would then incur medical expenses

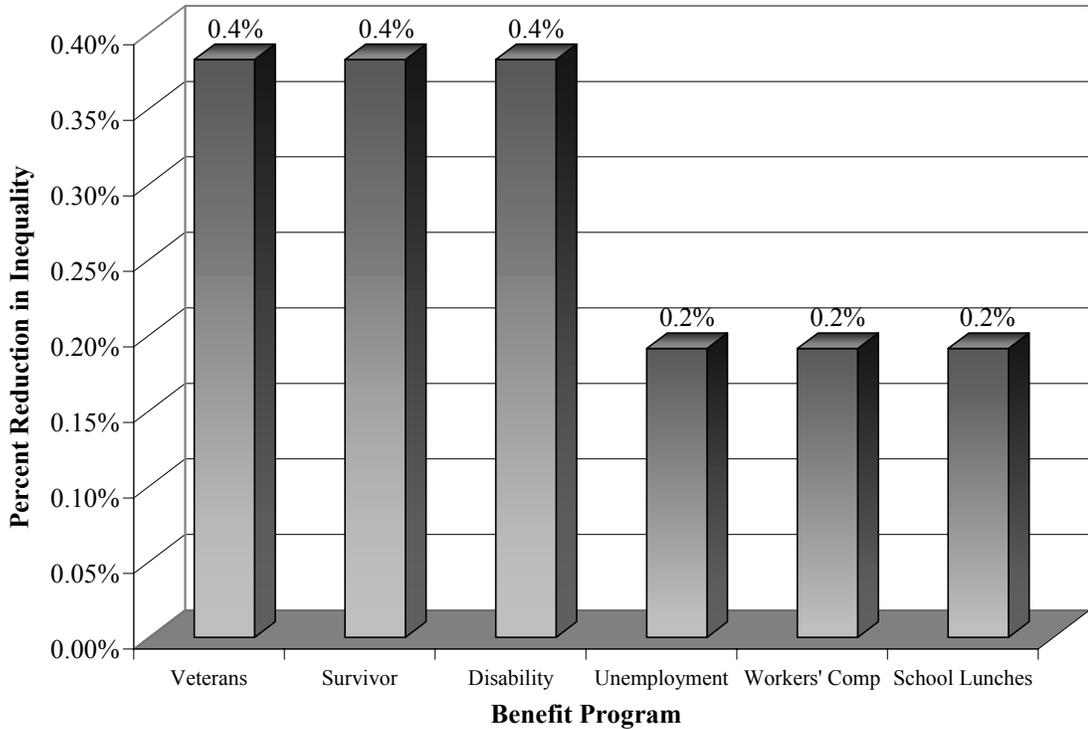
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<sup>6</sup> Some of these individuals would elect to continue working, but at some point this would obviously become impossible. Furthermore, it is hard to imagine that many people who subsist on Social Security and Medicare alone would not seek other forms of income under the current plan if they could. These benefits do not exactly provide for kingly living, but do allow elderly Americans to live during their retirement years.

(often associated with aging) and be unable either to pay those costs or to pay for insurance to replace Medicare. This is not the welfare state that is the centerpiece of political dialogue. In dollar terms, however, it is the welfare state that matters. Everything else is at the periphery. I turn now to describing the effects of those “other” programs.

***Other programs.*** The programs discussed in this section are an interesting combination of federal, state, and local activities, so isolating the effect of the national government in these programs is impossible. For example, Medicaid (the medical program for the poor) was initiated by the federal government, but is administered and partially funded by the states. States get to decide specific eligibility criteria and benefit levels, with funding shared by the national government. Some states would, no doubt, have similar programs without funding from the national government, but it is likely that funding levels would be lower and many states would forego such programs completely. Strictly speaking, the effects of programs like Medicaid should be allocated between the state and national governments. However, I do not have any basis on which to make such an allocation with the data I am using. Therefore, I attribute the distributional effects of these programs to the federal government alone.

My initial intent was to array the redistributive effect (percent decrease in Gini attributable to income from each program) of all spending programs on a single graph such as Figure 3.4 above. But Social Security and Medicare had to be treated separately because their scale is so great that other programs look about equally trivial in contrast. The programs are not trivial, and we can see in Figures 3.5 and 3.6 that some matter more than others.



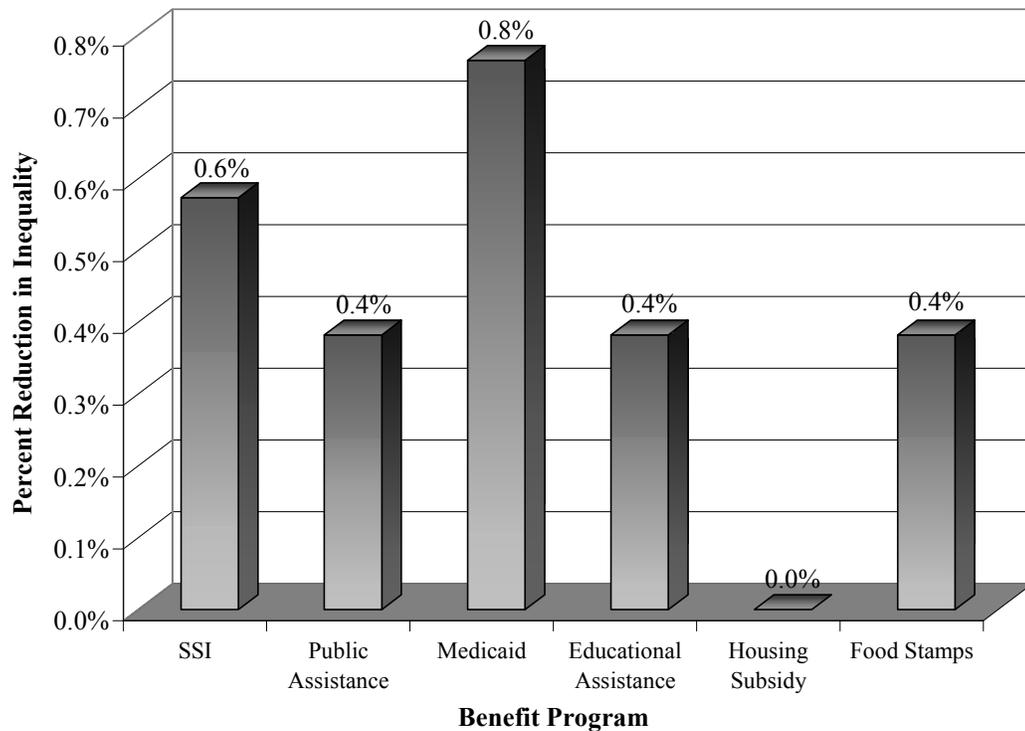
*Figure 3.5. The Equalizing Effect of Non Means-Tested Government Benefit Programs*

Figure 3.5 shows the reduction in inequality that non means-tested benefit programs have in the United States. These are programs that have no income requirement for eligibility. In order to receive benefits from these programs, one has to be in a specified category of individuals, with these categories not being defined by income. To receive veterans’ benefits, one must have fought in a foreign conflict for the U.S. military. To receive school lunches, a household must have children attending a school that participates in the school lunch subsidy program.<sup>7</sup> The distributional impact of veterans’, survivor, and disability benefits are similar, with each program reducing inequality by approximately .4

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<sup>7</sup> All children eating school-provided lunches benefit directly from the school lunch program. Children from poor households get additional benefits in the form of further reduced prices or free lunches. Other non means-tested programs have certain components that are means-tested, but the general benefit is not based on income. I categorize these programs as non means-tested.

percent. Unemployment benefits, workers' compensation, and the school lunch program have an even smaller effect, reducing inequality by about .2 percent each.



*Figure 3.6. The Distributional Effect of Means-Tested Government Benefit Programs*

Still, all of the programs discussed to this point are not what most Americans probably think of as the American welfare state. Rather, welfare is for those who are truly needy – the poorest in society. Programs that are targeted to the poor are means-tested – receipt of the benefit is only for those below a certain income level. The equalizing effect of means-tested benefits are charted in Figure 3.6. Of means-tested benefits, the largest equalizing effect is produced by Medicaid, but its .8% reduction in inequality is still small in comparison to the effects of Social Security and Medicare. The next largest effect is that of the SSI income supplement program. The public assistance programs that are so often at the center of political dialogue come next, but are only about half as large as Medicaid in their impact.

3.1.1.3. *The Total Government Contribution to Equality in 2000*

Now we have seen the distributional consequences of several individual government programs, from the income tax to welfare assistance. When the distribution of income excluding all government income sources is compared to the distribution including these sources one at a time, it becomes clear that nearly all government programs that explicitly take or give money to individuals equalize incomes. The issue I turn to in this section is the tangible effect of government programs considered collectively.

*Table 3.2. The Distribution and Level of Income by Decile in the United States, 2000*

Decile	<i>Pre-Redistribution Income</i>		<i>Post-Government Income</i>	
	Share	Mean	Share	Mean
1	0%	\$0	2%	\$10,988
2	1%	\$5,323	3%	\$16,835
3	3%	\$15,225	4%	\$22,182
4	4%	\$24,798	6%	\$28,226
5	6%	\$34,483	7%	\$34,281
6	8%	\$45,363	8%	\$42,339
7	10%	\$58,076	10%	\$51,982
8	13%	\$73,790	13%	\$63,710
9	18%	\$96,995	16%	\$80,460
10	36%	\$200,605	31%	\$156,855

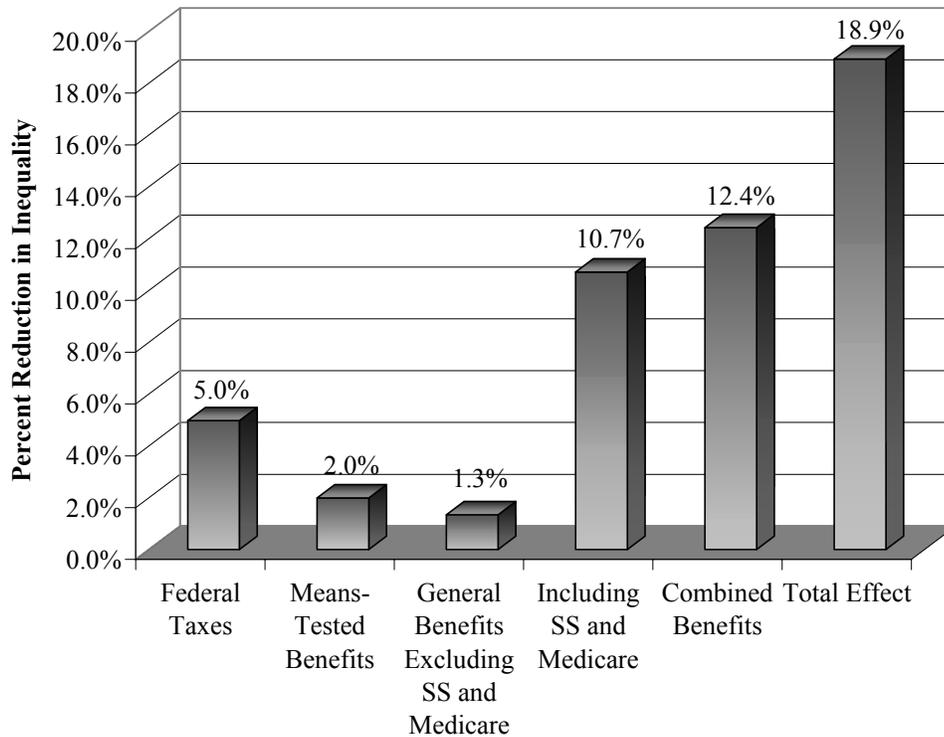
I begin by comparing the distribution of income by income deciles in Table 3.2. I use deciles in this case because they yield some insights that could not be seen in income shares by quintile. The first two columns show the income shares and levels of each income decile based on the now familiar concept of pre-redistribution income. The columns on the right of the table show the same information for a different income concept – post-government inequality. Post-government income accounts for the effects of taxes and government benefit programs by subtracting federal taxes paid from and adding the value of government benefits to pre-redistribution income.

The data in this table tell an interesting story. First of all, without government benefits, the bottom ten percent of households would have essentially no income. These households consist primarily of elderly individuals who do not work and have no private pension or retirement income. Without the government, these individuals would have no money for food, shelter, or basic health care. The second quintile is not much better off, with only a one percent share of aggregate income and an average of a little over five thousand dollars available for basic expenses. Those in the third and fourth income deciles have an average of over fifteen thousand dollars from non-government income sources – enough to provide a basic standard of living in the United States, but by no means a kingly existence. At the other end of the income distribution, however, households are very well-to-do prior to government action. The top ten percent of households garnered approximately thirty-six percent of pre-redistribution income in 2000, providing an average household income of over two hundred thousand dollars.

The distribution of post-government income is quite different. The two right columns of Table 3.2 show that households at the bottom of the income distribution, while not getting rich by any means, are probably able to subsist on government benefits. The bottom decile (of primarily retired persons) garnered a two percent share of aggregate post-government income, with an average income of nearly eleven-thousand dollars. The top of the income distribution is also substantially different, with income share of the top ten percent reduced from thirty-six to thirty-one percent by government programs and the average income of these households reduced by a striking forty-four thousand dollars. This table also makes clear that the lion's share of redistribution is from the top twenty percent of households to the

bottom forty percent. The income share of the middle forty percent of households remains essentially the same between pre-redistribution and post-government income.

Figure 3.7 quantifies the reduction in inequality that is caused by certain types of government programs – taxes, mean-tested benefits, non means-tested benefits (both including and excluding Social Security and Medicare), all benefits combined, and the total effect of federal taxes and benefits. This chart depicts an American welfare state that is different from the one that is so often at the heart of political debate. While distributional concerns are not often discussed openly in American politics, they are most common in debates over taxes and means-tested benefit programs. Democrats and Republicans have pretty clear differences, for example, on how the tax burden should be distributed, with those on the left continually pushing for more progressive forms of taxation. What we see in this chart, however, is that taxes and means-tested benefits are not where the redistributive action is. Taxes and means-tested programs do have an impact on income inequality, but taxes reduce inequality by only five percent, and means-tested programs equalize incomes by only two percent. This result probably should not be surprising. It would be difficult for programs that take up such a small portion of federal expenditures to make a massive difference in income inequality.



*Figure 3.7. The Combined Equalizing Effect of Government Action in the United States, 2000*

The more surprising result is for the effect of general benefit programs that are not targeted toward the poor. Income inequality is not usually mentioned explicitly in political debate about these general benefit programs. Sometimes there are questions about whether benefits like Social Security and Medicare should be made at least somewhat contingent on income, and questions about the level of benefits that should be provided in these programs are also common. It is clear, however, that most of government's influence on income inequality is achieved through such programs. Non means-tested benefits (excluding Social Security and Medicare) reduce income inequality by only 1.3 percent, but Social Security and Medicare combined have truly massive effects. When these two benefit programs are added, non means-tested programs reduce inequality by a staggering 10.7 percent. In fact,

more than sixty percent of government's 18.9 percent reduction in inequality through taxes and expenditures can be attributed to programs that are not specifically targeted to the poor.

It is interesting that perhaps the two most popular benefit programs in the United States (Social Security and Medicare) are also the two most redistributive. Take away the progressive income tax, welfare of all kinds, unemployment compensation, disability, and on and on, and you produce effects on the income structure of Americans smaller than those produced by these two program alone. For those on the political left who are frustrated by the degree of conservative sentiment in the United States, this information might be encouraging. Despite a general lack of concern about equalizing economic outcomes, two of the most sacred and untouchable programs in the United States are, in fact, highly redistributive. This phenomenon is actually not unique to the United States. In other more generous welfare states, most benefits are not means-tested. Welfare state generosity is politically feasible when government benefit programs are not about rich versus poor, but about extending useful benefits to all citizens in society. Given this, the issue on the current American agenda that could have the largest distributional impact in the future is health care. Making health care a guaranteed benefit of U.S. citizenship would undoubtedly have an equalizing effect – perhaps a large one.

### **3.2. Redistribution in the United States, 1947-2000**

The examination of government redistribution discussed above has certainly shed light on the nature of the American welfare state. But much of this information is not exactly path-breaking. Economists and policy analysts have been examining the distributional consequences of specific government programs for many years. Looking at redistribution by the U.S. government during 2000 is no doubt interesting, but it does not go to the heart of the theoretical questions I outlined in the first chapter. I am not so much interested in how much

government redistribution happened at one point in time, but whether political changes led to systematic changes in policy that create predictable changes in redistributive patterns. There really is not any way to answer these theoretical questions by looking at a snapshot of redistribution in the United States at one point in time. I need to examine political change and changes in redistribution over time. The question is whether policy movement toward the left produces greater government redistribution. But to answer this question I need to develop a measure of redistribution over time – in this case the post-WWII era.

### **3.2.1. Measuring Redistribution in the Post-WWII United States**

In order to measure redistribution over time, I extend the logic that was applied to 2000 data to previous years. In essence, (first-order) redistribution is the difference between pre-redistribution inequality and post-government inequality. I discussed these two income concepts in the previous section, and they will continue to be useful as we move further back in time, with our end goal being 1947. If the same kind of income data were available in the complete period from 1947-2000, this measurement task would be fairly straightforward. I would simply need to look at the March CPS data for this period, construct a measure of income inequality excluding income from government sources, and then see how much government benefits and taxes reduce inequality. The problem, unfortunately, is that earlier data in the United States does not include income from sources such as non-cash government benefits. My basic method will still be based on examining the difference between pre-redistribution income inequality and post-government inequality each year. However, the specific techniques used to derive pre-redistribution and post-government inequality are slightly different than the technique used when redistribution in just one year was the goal.

One of the essential ingredients to creating a useful measure of the redistributive effect of government is to use data that are comparable over the time period of interest. With

regard to basic income data, this is only a minor problem. The U.S. Census Bureau has reported data on money income – the income from market sources as well as government cash benefits – since 1947. So, money income is the starting point of the process to create a time series measure of government redistribution. While data are available back to 1947, the early income data aggregated individual incomes to families rather than households, with a separate report of income for unrelated individuals living in the same housing unit. The unit of analysis is essential because the redistributive effect of government programs is defined by changes in inequality, and inequality is based on a particular unit of analysis. Up to this point that unit of analysis has been households. The 2000 data discussed earlier in this chapter showed redistribution between *households*.

In order to ensure data comparability over time, then, it is essential that that income is measured using the same unit of analysis. One option is to focus on inequality in *family* income. The U.S. Census Bureau has continued to report income data for families since the switch to households as the primary unit of analysis. It has become clear that inequality in household income is a better and more comparable measure of inequality over time because it takes advantage of information about not only families but also unrelated individuals living under the same roof – it is a more comprehensive unit of analysis. So it is preferable to analyze households, if possible. However, there is no appropriate way to examine household income inequality prior to 1967. So I use the strategy of combining available information about the money income of families and unrelated individuals. This technique produces lower estimates of inequality than household income, but it is certainly better than using family income alone.

This process works as follows. Since 1947 the Census Bureau has collected the data necessary to compute inequality in money income for unrelated individuals and families. While the individual-level data that are necessary to compute Gini coefficients are not useful for my purposes during the early years of income data collection, aggregate income shares for each quintile for families and unrelated individuals are regularly reported in Census Bureau publications. Using this information produces an estimate of income inequality that is not as accurate as that for households, but it provides a comparable measure during the full period of interest and allows a better estimate than using only family income. In 1967, for example, the first quintile of families had about 5.5 percent (\$26.8 billion) of aggregate family money income (\$487.7 billion). The first quintile of unrelated individuals had 3 percent (\$1.40 billion) of aggregate money income (\$46.6 billion). When these two groups are combined, the first quintile held \$28.2 billion of \$534.3 billion, for an income share of 5 percent. Table 3.3 shows similar data for all five income quintiles in 1967. This combination of families and individuals provides comparable money income share data going back to 1947 that is better than using family income alone, but still falls short of household data by consistently providing a lower estimate of inequality than the household data.

*Table 3.3. Quintile Distribution of Money Income for Families, Unrelated Individuals, and Households in 1967*

Quintile	Families	Unrelated Individuals	Combined	Households
1	6%	3%	5%	4%
2	12%	8%	12%	11%
3	18%	13%	17%	17%
4	24%	24%	23%	24%
5	40%	52%	41%	44%

In order to compute the distributional effects of government, I follow a strategy that is borrowed from Smeeding (1979) and Browning (1979), and the logic of this method is illustrated in Table 3.4. The money income received by each income quintile of combined family and unrelated individuals is the starting point of this method, and this distribution is reported in the first row of the table based on data from 2000. Money income, though, includes income from government cash transfers, so these must be removed before inequality in pre-redistribution income, the baseline for calculating the effect of government action, can be derived. While extremely detailed data about the distribution of cash transfer benefits is not available consistently in income data back to 1947, budgetary data are available that report the expenditures of federal government programs that distribute cash benefits. In years that detailed income data are available (especially after 1979), it is a straightforward matter to allocate aggregate cash transfer expenditures by the government to the five income quintiles. In other words, we know which income quintiles (based on money income) received cash transfers and how much they received, so the aggregate amount of cash transfers received by each quintile can be subtracted to yield the distribution of income excluding cash transfers. For earlier years when detailed income data are not available, we can use what is known about the distribution of cash transfers in other years to allocate cash transfers between the income quintiles.<sup>8</sup> This adjustment is shown in the second row of Table 3.4. One further adjustment based on known underreporting of certain forms of income in the Census data is shown in the third row, and the pre-redistribution quintile shares are reported in the fourth row. The pre-redistribution quintile shares computed in this way are almost

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<sup>8</sup> The distribution of cash transfer benefits has remained relatively steady over time, with the distributional effects of these programs primarily determined by expenditures. Cash transfers are proportionally allocated to the five quintiles using the same formula prior to 1979.

identical to those reported earlier in this chapter, with the only discrepancy being slightly more inequality in the household data reported earlier, which is to be expected.

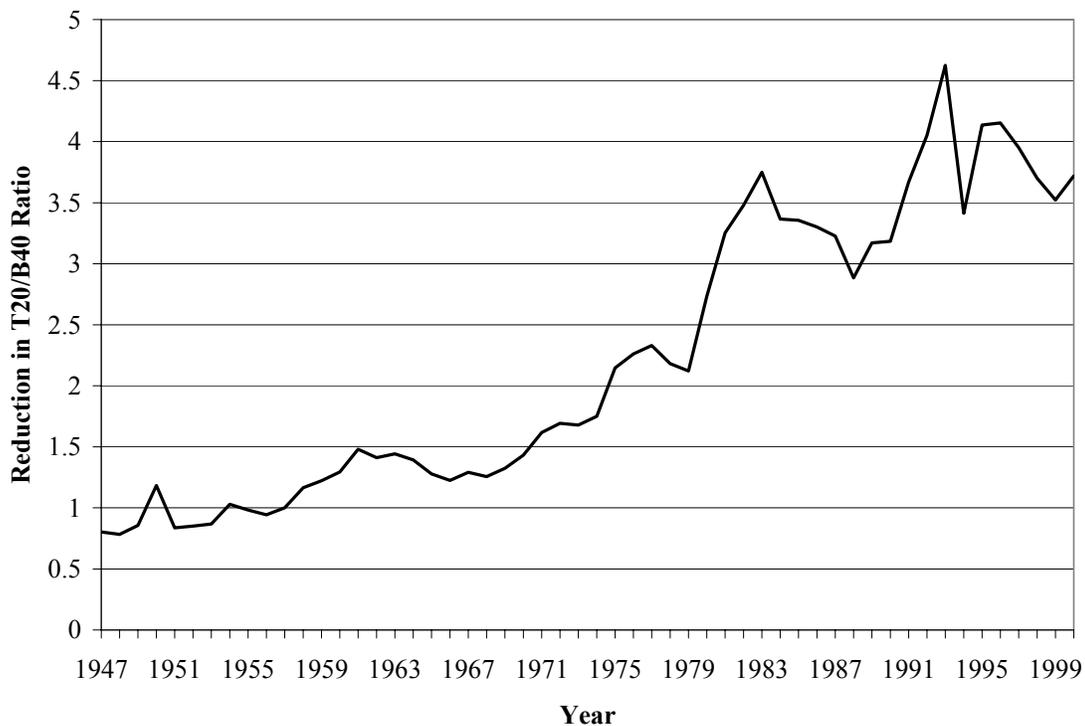
*Table 3.4. A Method for Computing the Income Distribution Over Time Illustrated With Data from 2000*

Income Component	Money Income Quintile					Total
	1	2	3	4	5	
1. Money Income	\$267	\$578	\$925	\$1395	\$2903	\$6077
<i>Subtract:</i>						
2. Cash Transfers	\$270	\$141	\$76	\$53	\$47	\$587
<i>Add:</i>						
3. Underreporting	\$49	\$65	\$86	\$111	\$236	\$547
<i>Equals:</i>						
<b>4. Pre-Redistribution Share</b>	<b>\$46</b>	<b>\$502</b>	<b>\$935</b>	<b>\$1453</b>	<b>\$3092</b>	<b>\$6037</b>
	<b>1%</b>	<b>8%</b>	<b>16%</b>	<b>24%</b>	<b>51%</b>	
<i>Add:</i>						
5. Cash Transfers	\$270	\$141	\$76	\$53	\$47	\$587
6. In-Kind Benefits	\$209	\$85	\$53	\$41	\$43	\$431
<i>Subtract:</i>						
7. Taxes	\$17	\$83	\$215	\$381	\$961	\$1657
<i>Equals:</i>						
<b>8. Post-Government Share</b>	<b>\$508</b>	<b>\$645</b>	<b>\$849</b>	<b>\$1166</b>	<b>\$2221</b>	<b>\$5398</b>
	<b>10%</b>	<b>12%</b>	<b>16%</b>	<b>22%</b>	<b>41%</b>	

The fifth, sixth, and seventh rows of the table present adjustments to pre-redistribution income that are necessary to create post-government income – cash transfers are re-introduced, the effect of in-kind benefits is added, and taxes are subtracted. As with cash transfers, consistently available budgetary data are used to determine the total government expenditures for in-kind benefits such as food stamps and Medicare. Since the distribution of these benefits is essentially identical for years in which individual-level in-kind benefit income data are available, these expenditures are distributed among the five income quintiles using the same formula each year, with the lowest quintiles receiving most of these expenditures. For taxes, the Internal Revenue Service has reported the total amount

of revenue collected via personal tax vehicles for a long time. The distribution of these taxes is based on tax incidence research. Despite massive changes in tax laws, for most years the top quintile paid between 55 percent and 65 percent of these taxes and the lowest quintile never paid more than 3%.

The amount of post-government income received by each income quintile and the share of aggregate income this amount represents is displayed at the bottom of Table 3.4. Using the methods described above, the 2000 data reported in this table are extremely close to the estimates produced by the much more detailed individual-level analysis discussed earlier, again with the expected difference that the previously discussed household data estimate post-government inequality to be slightly higher than the estimate here. Most importantly, however, applying this method allows for a valid estimate of government's influence on inequality in every year from 1947 to 2000. The Gini coefficient cannot be computed accurately using anything less than decile income shares (I have only quintile shares), but calculating the T20/B40 ratio (ratio of the aggregate income of the top 20 percent of the income distribution to the bottom 40 percent) is possible. Using the procedures discussed above, we see that the pre-redistribution T20/B40 ratio was 5.64 and the post-government ratio was 1.93, an absolute reduction of 3.71.



*Figure 3.8. The Equalizing Effect of Explicit Government Redistribution, 1947-2000*

Figure 3.8 shows the reduction in the T20/B40 ratio attributable to government programs that are explicitly redistributive. The graph clearly indicates that the general trend has been for government to redistribute more and more over time, but with notable deviations from this path. The largest increases in government redistribution, not surprisingly, occurred following the Great Society initiatives of the late 1960s. However, an equally substantial increase actually occurred during the early Reagan years. The movement of this series over time is in itself interesting, but explaining it is even more important. What government does is an empirical fact, why it does what it does is a question of politics. In the next chapter I'll begin to look at the influence that political decisions, as well as non-political factors, have on government's equalizing effect through explicitly redistributive programs. I'll also introduce a quite different mechanism through which government can influence income inequality, and its responsiveness to politics.

## 4. *Politics, Redistribution, and the Manipulation of Economic Opportunity*

In the previous two chapters I have presented an essentially descriptive picture of inequality in the United States and the equalizing effect of explicitly redistributive policies. In this chapter I move from description to explanation. I begin by reviewing the theoretical foundation of this analysis – the macro politics model. I then discuss how my analysis is related to the primary theory that has been previously applied to the outcome of income inequality in comparative political theories. Finally, I present an analysis of the connection between political decisions and distributional outcomes in the United States. We will see that politics is an important determinant not only of how much redistribution government does, but also on the degree of inequality in pre-redistribution inequality.

### **4.1. Macro Politics, Power Resources, and the Distributional Consequences of Policy**

The macro politics model examines relationships between various parts of the U.S. governing system at the aggregate level, such as public opinion, presidential approval, partisanship, elections, and public policy. The argument is that the parts of the system behave in orderly and predictable ways. Citizens make choices between competing policy alternatives presented by political parties, the preferred alternatives are enacted, and citizens then judge the quality of the outcomes produced by the enacted policies. Empirical tests of this model show that liberal shifts in public opinion produce liberal shifts in policy because policymakers respond to changes in public opinion and, if they do not, are replaced through popular elections. Implicit in the model is the idea that changes in public policy produce

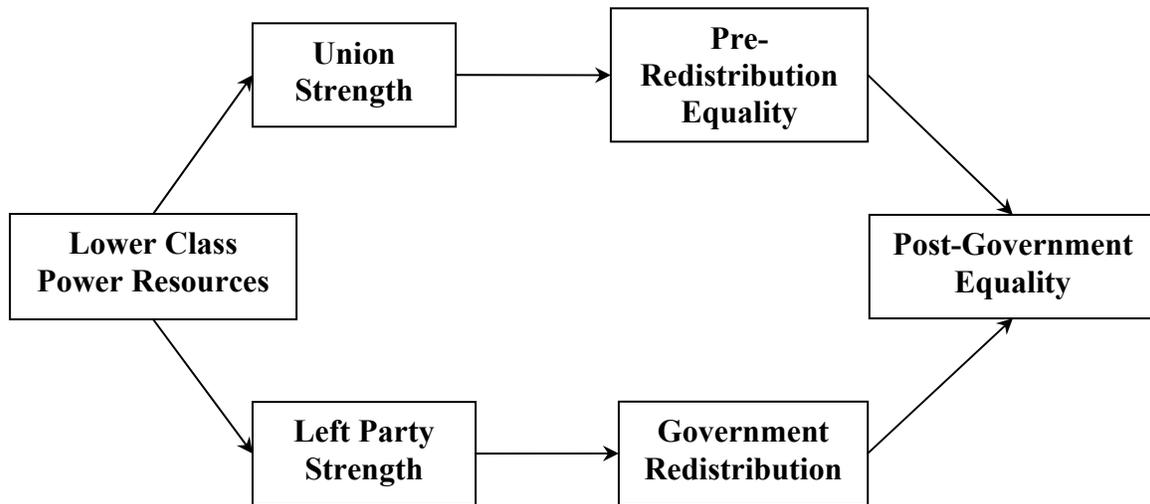
different consequences depending on the nature of the change. A leftward shift in policy should produce quite different consequences than a move to the right according to the macro politics model. I discussed this model in greater detail in the first chapter, and with regard to income inequality the primary prediction of relevance in my work is that shifts toward the left in public policy will produce greater income equality.

Much work in the area of politics and income inequality has been done previously, and it is typically rooted in a theory that differs in some important ways from the macro politics model – the power resources theory of the welfare state (Esping Andersen 1990; Hicks 1999; Hicks and Swank 1992; Huber, Ragan, and Stephens 1993; Huber and Stephens 2001; Korpi 1978, 1983; Stephens 1979). Essentially, the macro politics model and power resources theory have rather different views of the underlying causes of government policy, but they are similar in their predictions for the connection between public policy and distributional outcomes. While my work is generally motivated by the macro politics model, it is also clearly related to power resources theory and much of the empirical analysis presented in this chapter is specifically driven by insights from power resources theory. So, the connections between the macro politics model, power resources theory, and my research merits some discussion.

#### **4.1.1. Power Resources, Distribution, and Redistribution**

Power resources theory is rooted in a class analytic framework and is a theory of how economic and political interests are organized in society and how this organization influences distributional outcomes. In this theory, the lower classes organize themselves to improve their material well-being. The success of their organization in two distinct, yet related, realms is dependent on the power resources to which they have access. First, the lower classes

organize themselves economically, or in the market. The market form of organization is evidenced by union centralization and membership levels. The ability of



*Figure 4.1. Power Resources Theory and Distributional Outcomes*

the lower classes to organize unions enables them to receive better, and more equitable wages in the labor market than they would otherwise be able to receive.

But organization in the market is only one aspect of power resources – there is also a political side to the story. Organization in the political realm occurs in the form of parties. More specifically, the lower classes (partially through labor unions) rally electoral support for parties of the left that support government intervention to balance the scales between rich and poor. Most often, this government equalizing action is thought of in terms of explicit redistribution. This explicit redistribution is what I examined in the previous chapter – government action that takes money disproportionately from the rich and gives money disproportionately to the poor. Power resources theory in its most basic form, then, provides for two mechanisms through which the lower classes can achieve favorable distributional outcomes. They organize labor unions to produce greater equality in pre-redistribution income and they organize left parties to produce greater government redistribution. Both of

these factors lead to an overall reduction in post-government income inequality. This set of relationships is depicted in Figure 4.1. Lower class power resources lead to strong unions and left parties that, respectively, produce lower levels of pre-redistribution inequality and higher amounts of government redistribution that, when combined, increase post-government income equality.

#### **4.1.2. Linking the Macro Politics Model and Power Resources**

Given that power resources theory developed as a part of the comparative welfare states literature and the macro politics model is from a fairly recent body of work in American politics, it probably should not be surprising that these theories have never been considered in conjunction with one another. In some respects, these two theories present competing alternatives about the foundations and implications of political conflict. Most notably, power resources theory views social class as a fundamental division in politics, while the macro politics model is framed around ideological and partisan conflict. Perhaps even more important, the macro politics model sees citizen preferences as an important underlying cause of government action, while power resources theory discounts the independent effect of opinion on state activity. In power resources theory it is *power*, not *preferences*, that make all the difference. So, the underlying view of politics presented in power resources theory is different than the one implied by the macro politics model.

With reference to the outcome of income inequality, however, the two theories actually complement one another nicely. Both power resources theory (explicitly) and the macro politics model (more implicitly) are concerned with the outcomes produced by political conflict. For power resources theory, in fact, distributional outcomes are of paramount importance. One of the theoretical contributions of my work is bringing these theories into communication with one another in a way that enhances our understanding of

the political processes underlying distributional outcomes. How exactly do I link these theories with regard to income inequality?

Power resources theory argues that a particular relationship will exist between partisan control of government and distributional outcomes. Namely, the strength of left parties in government will influence the amount of state redistribution, thereby affecting the post-government distribution of income. The macro politics model looks at a different outcome. Rather than examining government redistribution and the resultant degree of income inequality, the macro politics model assesses the connection between election outcomes and the ideological direction of government policy. There is, of course, a slight difference in terminology, but when these models speak of left party strength and election outcomes, they are certainly speaking about the same concept – which team in the contest over government activity controls the policymaking apparatus. The difference between the theories with regard to the determinants of partisan strength in government remains, but if these differences are set aside for the moment, it is easy to see that both theories have a great deal in common. It is in these areas of commonality on which I build my own theory and empirical test of the connection between political choice and distributional outcomes.

#### **4.1.3. Building on the Macro Politics Model and Power Resources Theory**

My analysis builds on the macro politics model in a very straightforward manner. The ideological direction of public policy is essentially the most important outcome of the political process that is explicitly analyzed in the macro politics model. I simply take this theory one step further by asking whether public policy has the expected effects on distributional outcomes – specifically, whether movement toward the left in public policy produces downward movement in income inequality.

My research builds on power resources theory in two more nuanced ways. First, power resources theory views partisan control of government as an indicator of power resources in the political realm. The theory goes on to argue that partisan control of government in large part determines governmental policy, and these policies influence income inequality. Every empirical test of this theory of which I am aware leaves the intervening variable of public policy unmeasured, instead using left party strength (measured in various ways) as both the measure of political power resources and a proxy of sorts for public policy. Such tests, of course, do not perfectly align with the real underlying argument of power resources theory because left party strength does not perfectly tap the content of government policy. Failing to explicitly measure public policy, in this case, is merely a form of measurement error that attenuates any real connections that would exist with the use of a better indicator of public policy. If studies that use partisan control of government as a proxy for public policy find support for power resources theory, a better measure of public policy should only increase the strength of this finding. So, failing to measure the public policy variable that theoretically intervenes between partisan control and income inequality does not cast doubt on previous studies that report findings consistent with power resources theory.

Given that power resources theory was developed in the context of comparative politics, it is not surprising that most empirical tests of it have been cross-national. These cross-national studies conducted in developed democracies (especially in Europe) support power resources theory in finding that government undertakes more redistribution when parties of the left control government (Bradley et al. 2003; Corina, Van Arnhem, and Schotsman 1982; Hicks and Swank 1984; Sawyer 1976). I, of course, am looking at the United States, where much less support for the theory has been found (Hibbs and Dennis

1988). In fact, most scholars studying the American welfare state focus on its distinctiveness rather than its similarities with other countries in which power resources has been seen as a powerful explanation of welfare state development (Howard 1999; Skocpol 1993; Skocpol and Amenta 1986). One factor, then, that makes it particularly important to examine *policy* explicitly when examining the connection between state action and distributional outcomes in the United States is that only a few studies find a connection between partisan control of government and distributional outcomes in the U.S.

A second and perhaps even more important reason to look at policy explicitly in the United States is the institutional context. In most of the European democracies, party control is, in practice, a plausibly defensible proxy for the actual policy actions of government. On matters of importance, parties take clear positions, decide how their legislative delegation will vote, and the votes are delivered as promised. There is a high degree of party discipline in legislative voting decisions. In the United States, however, party discipline, though increasing in recent years, is comparatively weak. Individual Republican and Democratic members of Congress routinely cast votes in opposition of the party leadership's favored position, and sometimes even the party leadership is divided on important and divisive policy decisions. Because of this, it is obvious that party control would be a much weaker proxy for policy decisions in the United States than in most other developed democracies to which power resources theory has been applied. Therefore, I examine government policy explicitly in my work, and this is the first way my work builds on the power resources tradition.

My work also extends power resources theory by examining two separate, yet related mechanisms through which government can influence distributional outcomes – explicit redistribution and actions that influence the pre-redistribution level of inequality. The idea of

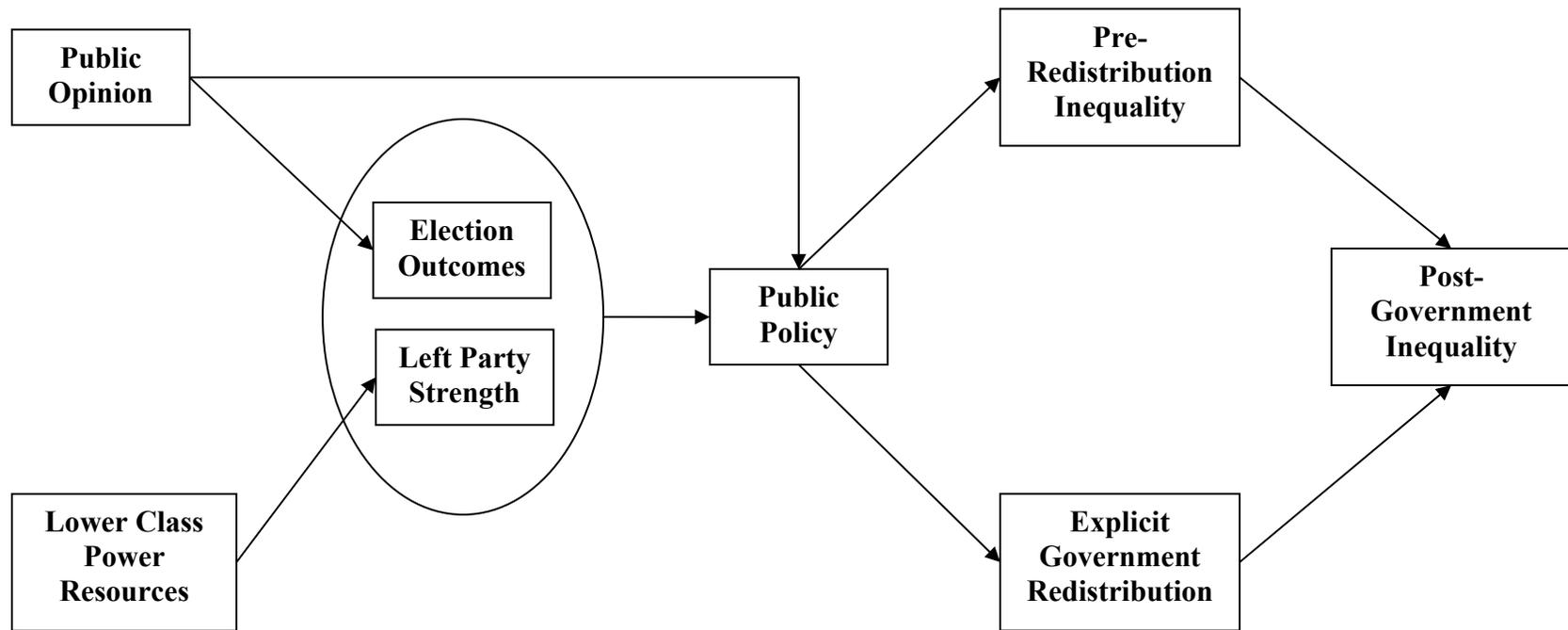
explicit redistribution is fairly straightforward, and was discussed in greater detail in the previous chapter. It occurs whenever government explicitly takes money from some and gives it to others. Redistribution is most commonly thought of as transfers from the rich to the poor that occur through taxation that funds benefits for middle and lower income individuals and families. Power resources theory suggests that government's redistributive effect should increase when policies favored by parties of the left are enacted. When left parties are put into office, public policy should respond accordingly, and in the context of income inequality these changes should cause government to undertake more action to equalize the distribution of income. Greater redistribution should occur.

Previous analyses, especially cross-national studies, have produced empirical support for these predictions with regard to redistribution. Specifically, the government's of many developed democracies undertake more redistribution when parties of the left control government (Corina, Van Arnhem, and Schotsman 1982; Hibbs and Dennis 1988; Hicks and Swank 1984; Sawyer 1976; Stephens 1979). More recently, Bradley et al. (2003) have explicitly explored the possibility of an additional mechanism for the state to influence distributional outcomes – by influencing pre-redistribution inequality. This represents an important and straightforward extension of previous conceptions of power resources theory, and it is important for the analysis I present here.

Power resources theory has always had a “market,” or pre-redistribution component. Specifically, the lower classes organize in labor unions to secure higher wages than they would receive in the absence of collective bargaining, thereby reducing inequality. But unions were viewed as the primary, if not sole, vehicle through which income inequality prior to explicitly redistributive action by the state could be reduced. It is reasonable to argue,

however, that action by the state might also initiate programs that would influence the level of inequality prior to redistribution. In the parlance of power resources theory, if left party strength is indicative of lower class power resources, left parties should favor using the power of government in every practicable way to reduce economic inequality. It should be quite obvious that explicit redistribution is not the only kind of government action that could be used to equalize incomes. Programs ranging from public education, to health care, to wage controls, to corporate regulation can undoubtedly have distributional consequences. Bradley et al. (2003) point out, and I heartily agree, that policies favored by left parties should not only equalize the income distribution through explicit redistribution, but also other kinds of programs.

The quantitative analysis presented by Bradley et al. (2003), however, shows no support for a connection between left party strength and pre-redistribution inequality. It is possible, however, that an inability to measure public policy effectively in a cross-national analysis hides the theoretical prediction. Another possibility is that this type of connection truly does not exist in the welfare states of Western Europe. The United States is different. Redistribution is an idea that is eschewed by the American citizenry and those that represent them, so the American welfare state, perhaps more than any other in the world, might be more likely to use programs that are not explicitly redistributive to influence the distribution of income. So, I explicitly examine the connection between public policy in the United States and pre-redistribution inequality as well as explicit government redistribution.



*Figure 4.2. Theoretical Model Combining Power Resources Theory and the Macro Politics Model to Explain Distributional Outcomes*

#### **4.1.4. A Theoretical Model of Distributional Outcomes in the United States**

In Figure 4.2, I summarize my theoretical model of distributional outcomes in the United States. This figure shows how the macro politics model and power resources theory overlap as well as my view that the effect of government on income inequality occurs through two mechanisms. I hypothesize that shifts toward the left in public policy will produce reductions in inequality through both the traditionally conceptualized path of explicit redistribution, and the more recently considered mechanism of pre-redistribution inequality.

I want to be careful to point out that the empirical tests that follow from this model are essentially agnostic about whether power resources theory or the macro politics model is correct in terms of what partisan control of government means. My models do not explicitly test power resources theory, but they are, in many respects, informed and motivated by it. The starting point of my analysis is actually public policy, so it is inconsequential at this point whether policy is a product of public opinion or whether it is a product of lower class power resources. In actuality, both theories could be right in part. In the next sections I discuss the most important independent variable in these analyses – public policy – and then test these theoretical predictions outlined above with data from the post-WWII United States.

#### **4.2. Conceptualizing and Measuring Policy**

Having developed divergent theoretical expectations about the distributional consequences of public policy, I now turn to the issue of more carefully defining policy. In keeping with the macro politics tradition, policy is conceptualized as the sum total of laws enacted by government in this analysis. This conceptualization has three important characteristics. First, it is only interested in important and substantive change. Some activities by policymakers – as suggested by the symbolic politics model discussed in the first chapter – represent symbolic activities designed for an audience or failed policy

attempts, but laws embody government policy that *can* actually influence people's lives. It is important to ignore activities that are clearly symbolic or represent failed attempts at policy change. Second, policy is cumulative. It is clear that policy is not developed from scratch each year, but is actually the result of modifications to previous decisions. Changes occur at the margin while most previous policy decisions remain in effect. These marginal changes are what should influence the path of distributional outcomes. Finally, my conceptualization of policy is highly aggregated. While it is common to take a particularistic view of policy with each set of policies representing government's response to a particular set of issues, a domain-specific focus is not satisfying in the broader theoretical context of this paper.

The fact that I examine policy in general rather than particularistic pieces of policy is the most theoretically important aspect of this conception of policy. Traditionally, analysts interested in public policy examine policies on an individual or domain-specific basis. Questions are framed in terms of "does policy X influence outcome Y?" In the context of distributional outcomes, typical issues might be the effect of redistributive policy on distributional outcomes or the impact of welfare reform on income inequality. In my view, however, it is inadequate to focus solely on redistributive policy if the distributional consequences of government action are to be fully appreciated. I theorize that government policy can influence distributional outcomes through both redistribution and the manipulation of economic opportunity. Almost everything government does influences economic opportunity, and many potentially important policies would not be captured by examining only policies that are clearly redistributive. Thus, analyzing the distributional effects of government's influence on economic opportunity demands a global measure of policy that takes account of everything government does.

With this conception of policy in mind, I utilize a measure of policy developed by Erikson, MacKuen, and Stimson (2002). This measure examines important policy change by focusing on the crucial public laws identified by David Mayhew (1991) and updated through 2000.<sup>1</sup> From this list, laws related to domestic policy with national impact are coded as to whether they were viewed as expanding (liberal) or contracting (conservative) government at the time they were passed. Laws that were ambiguous in their expansion versus contraction of government were coded as neutral and do not contribute to the policy change captured in this measure. Liberal legislation is counted +1, conservative legislation -1, and exceptionally important laws (as defined by Mayhew) are counted +2 or -2. Each year since 1947, a score is produced by summing liberal minus conservative legislation – this is annual policy change. The current level of policy is produced by accumulating annual policy change over time. A net liberal shift in policy produces a positive change in this policy measure. Since the late 1940s, the most important policy changes have usually led to government expansion. In essence, then, the debate in the United States has not been literally about the *contraction* versus expansion of government, but about whether government should expand in response to the problems that develop in an increasingly complex society. In the context of the post-WWII United States, conservatives have not regularly offered proposals that would contract government. Rather, they have opposed new government expansion. Given this, the measure discussed above that focuses on the expansion versus contraction of government fails to appropriately capture policy as a result of the ideological conflicts occurring in the governing system of the United States. To look at which side is winning and losing in the policy debate, which is precisely what I want to do, a slightly different measure is needed.

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<sup>1</sup> Updates to the list of most important laws since 1990 are available on David Mayhew's website at <http://pantheon.yale.edu/~dmayhew>.

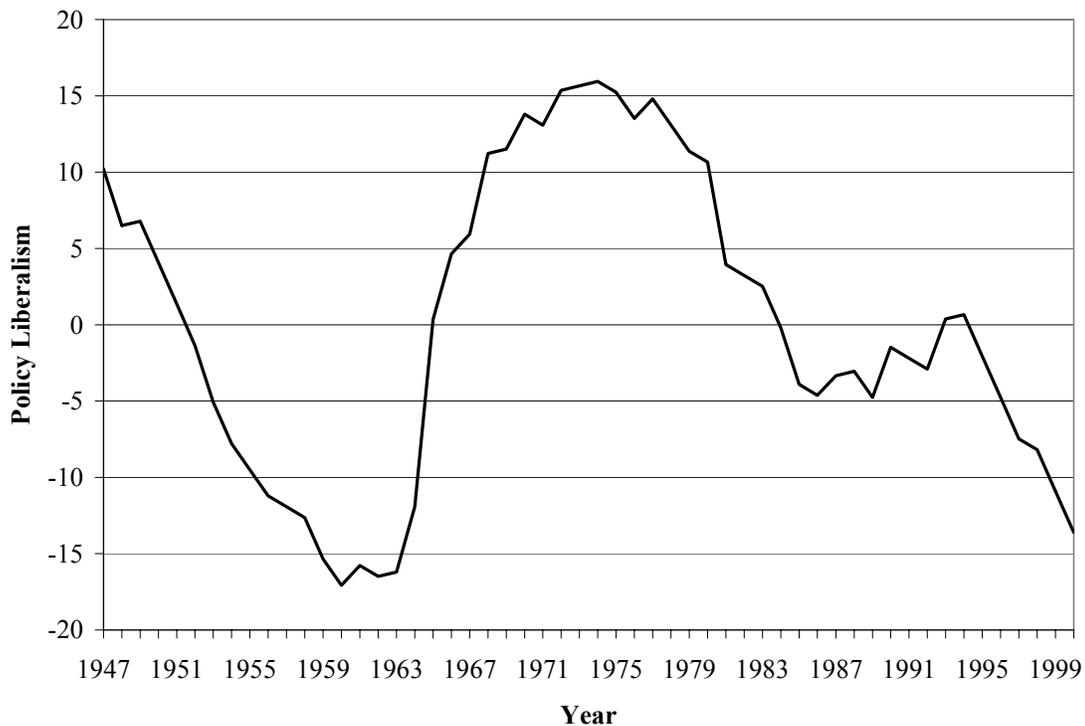


Figure 4.3. *The Ideological Tenor of Public Policy in the United States, 1947-2000*

It is more appropriate to examine the accumulation of policy relative to the long-term trend of government expansion. During the period under analysis (1947-2000), there was an average of 2.19 new laws passed each year that expanded government activity. The detrended measure of policy utilized in this analysis removes the trend of 2.19, rising only when the net increase in government-expanding laws exceeds 2.19. I will refer to this measure as *Policy Liberalism*.<sup>2</sup> It is charted in Figure 4.3 from 1947-2000. The major turning points of policy to occur in some expected places and lend the measure a degree of facial validity. A sharp liberal turn in policy took place in the early 1960s as Lyndon Johnson began his Great Society program, policy turned in a conservative direction around the time of

<sup>2</sup> Mayhew's list of important laws no doubt includes some laws that have no easily identifiable distributional consequences. I do not argue that every law in this list has distributional consequences. Rather, Policy Liberalism should be seen as a general indicator of the ideological tone of policy produced in Washington. I test whether domestic public policy in general influences distributional outcomes rather than the effect of specific laws.

Table 4.1. Selected Laws Included in Policy Liberalism Measure

Year	Coding	Law and Description
1953	L	Social Security expansion. Raised benefits and extended coverage.
1959	C	Landrum-Griffin Labor Reform Act. Restricted union activities.
1962	L	Manpower Development and Training Act. Established training programs to help workers transition to new sectors.
1964	L	CIVIL RIGHTS ACT. Banned a wide variety of discriminatory practices.
1970	L	Clean Air Act. Set restrictions on automobile emissions and other air pollutants.
1977	L	Minimum wage increase.
1985	C	Gramm-Rudman-Hollings Anti-Deficit Act. Automatic spending cuts to produce a balanced budget.
1996	C	WELFARE REFORM. Removed guaranteed assistance to children, placed work requirements on welfare recipients.

Notes: L signifies liberal change in policy, C means conservative. Laws in all caps were viewed as particularly important.

Reagan's election to the presidency, and another sharp turn toward the right happened after the Republican takeover of Congress in 1994. This measure of policy includes a wide variety of policies. Whether such a measure has any connection to distributional outcomes is a legitimate question. Table 4.1 shows selected laws from each decade since the 1950s that are included in the policy liberalism measure, a brief description of the law, and how it was coded as to ideological direction. It is easy to see that some of the laws included in the measure are clearly related to distributional outcomes while others are not. Furthermore, even if I were to list every law included in the measure, it would be obvious that some laws that did not make Mayhew's list would likely have important distributional consequences.

It is important to remember, then, that this measure of policy liberalism is not designed to tap *distributional* policy. Measuring distributional policy, in fact, would be nearly impossible anyway because categorizing a policy as distributional or not is an arbitrary choice that I would not want to make. Rather, this measure is designed to tap the

general ideological direction of *macro* policy, and I have chosen to rely on a measure created by others. Neither Mayhew (1991) nor Erikson et al. (2003) had my research in mind when they made the decisions that eventually led to the creation of the policy liberalism measure. This decreases the likelihood that any systematic measurement error would be biased in favor of my hypotheses.<sup>3</sup> More importantly, this is the measure of policy that fits best with the theoretical foundations of my work, because the fundamental question is whether which side wins in the conflict over policy helps to determine what I believe to be an essential outcome of the political process in general. With this said, I move to an analysis of the connection between policy liberalism and distributional outcomes.

### **4.3. Policy and Distributional Outcomes, 1947-2000**

The analytic framework of this paper, shaped primarily by the macro politics model and power resources theory, suggests a particular set of relationships between policy liberalism and distributional outcomes. Liberal policy is expected to increase redistribution and decrease pre-redistribution inequality, thereby decreasing overall inequality by definition. With this structural model in mind, I conduct a time-series analysis that examines the connections between policy liberalism, pre-redistribution inequality, and redistribution. First I will look at the relationship about which we know the most – policy liberalism and redistribution. This part of the analysis sheds light on whether government redistributive action is a predictable result of the winners and losers of political conflict in the United

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<sup>3</sup> One way that the measure could have been biased in my favor, for example, would have been to code any law that was clearly designed to redistribute income as liberal and then assign the ideological direction of laws without clear redistributive consequences in a random fashion. This would have made the measure more a signal of redistributive policy, but would have made it less a test of whether the general direction of all policies combined is influential.

States. Then I will analyze the connection between policy liberalism and pre-redistribution inequality – a connection about which we know much less.

#### **4.3.1. A Methodological Digression – Error Correction Models**

Throughout this analysis (of both redistribution and pre-redistribution inequality, I implement error correction models (Banerjee et al. 1993; Davidson et al. 1978) to estimate the connection between policy liberalism and distributional outcomes. This type of model is appropriate when theory suggests that a dependent variable responds to short-term changes in independent variables or maintains a long-term level consistent with these variables. This is precisely the kind of relationship that may exist between policy and income inequality. I hypothesize that distributional outcomes should be responsive to changes in policy. However, even if policy changes do not quickly produce different distributional outcomes, inequality should gradually decrease if liberal policies are maintained over time.

More specifically, I estimate the short and long-term effects of policy liberalism on the two dependent variables using single equation error correction models. This strategy is selected in favor of the most common alternative, the Engle-Granger two-step procedure, for two reasons (Engle and Granger 1987). First, unlike the two-step method, the single equation model does not impose the assumption of cointegration on the series analyzed. In fact, the single equation error correction model is a modified version of an autoregressive distributed lag model in which the dependent variable is a function of its past values and past values of the independent variables. This means that the single equation error correction model can be applied to integrated and stationary time-series and (Banerjee et al. 1993; De Boef 2001; De Boef and Granato 1999). Secondly, the single equation estimator is preferred in small samples (Banerjee et al. 1986; De Boef and Granato 1999). Overall, use of the single

equation model can be justified in a broader range of circumstances than the two-step method.

A bivariate single-equation error correction model can be expressed as:

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(1)

This equation examines the effect of changes in  $X$  and the level of  $X$  in comparison to  $Y$ .<sup>4</sup>  $\beta_2$  is the error correction rate, and  $\gamma$  is the (inestimable) distance between the variables when in their equilibrium state. In essence,  $\beta_2$  captures how quickly discrepancies in the equilibrium distance between  $X$  and  $Y$  are eliminated. The short-term relationship between  $X$  and  $Y$  is captured by  $\beta_1$ , while the long-term relationship is estimated in  $\beta_3$ . In the models estimated below, both policy liberalism and non-policy controls are examined as independent variables, so multiple  $X$ 's are present in the estimating equations.

#### **4.3.2. Macro Policy Liberalism and Explicit Redistribution**

The question I address in this section is whether public policy influences the redistributive effect of government in the United States. An affirmative answer to this question would be consistent with the predictions of power resources theory and would mark an important extension of the macro politics model. In order to provide an answer to this question, I utilize time series analysis with a particular emphasis on two variables – the primary independent variable is the policy liberalism measure discussed immediately above, and the dependent variable is the explicit redistribution measure described in the previous

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<sup>4</sup> Error correction models are often represented with the differenced  $X$  variable with a  $t$  subscript. However, the literature on error correction models suggests that the onset of the initial effect of an independent variable can be lagged. In my theoretical setup it makes sense to lag the effect of policy by at least one year. Policy cannot have an immediate effect because implementation cannot occur without delay. Therefore, my models always lag the first-difference of right hand side variables.

chapter. As discussed above, the connection between policy liberalism and redistribution will be analyzed using a single equation error correction model.

There are, of course, factors other than macro policy liberalism that should be considered as possible explanations of government redistribution. For example, economic conditions are likely an important determinant of government redistribution. When economic times are hard, those meeting the requirements to qualify for means-tested government benefits would automatically increase. In fact, not controlling for economic conditions would be an extremely important misspecification because government redistribution would increase during hard economic times regardless of whether an actual shift in policy occurs. To control for economic conditions, I include the unemployment rate in my analysis. Other economic indicators could also be used, but unemployment does an excellent job of capturing the specific economic conditions that would increase the need for means-tested benefits like welfare payments and non means-tested programs like unemployment compensation. There is also an important demographic factor that must be considered when examining government redistribution – the size of the aged population. As we saw earlier, the two largest programs that redistribute income toward the poor are Medicare and Social Security, both of which are targeted toward the elderly. It seems likely that when the proportion of the population over age sixty-five increases, redistribution will increase as well. Finally, rather than modeling the absolute amount by which inequality is reduced by government redistribution, I use the percent reduction in inequality. This controls for the possibility that government simply undertakes more redistribution when the market produces high levels of inequality.

Table 4.2. *The Effect of Policy Liberalism on Explicit Government Redistribution*

Short-Term Effects	$\Delta$ Redistribution
$\Delta$ Policy Liberalism <sub>t-1</sub>	-.24 (.12)
$\Delta$ Unemployment Rate <sub>t-1</sub>	.53 (.34)
$\Delta$ % Population over 65 <sub>t-1</sub>	-4.50 (8.37)
<u>Long-Term Effects</u>	
Policy Liberalism <sub>t-1</sub>	.12* (.04)
Unemployment Rate <sub>t-1</sub>	.80 (.54)
% Population over 65 <sub>t-1</sub>	5.86* (1.55)
Redistribution <sub>t-1</sub> (Error Correction Rate)	-.73* (.20)
Constant	-28.70* (8.49)
N	52
Adj. R <sup>2</sup>	.29
Durbin's h	.15
p-value	.68

Note: Entries are OLS coefficients with standard errors in parentheses.

\*  $p < .05$ , one-tailed test

The results of this analysis presented in Table 4.2 show that liberal policy produces more redistribution (proportional reduction in inequality) in the long-run. The key coefficients are those estimated for lagged levels of policy liberalism and redistribution, and their substantive interpretation is fairly straightforward. When policy liberalism increases by one point, there is no short-term effect on redistribution. However, this increase in policy liberalism disturbs the long-run equilibrium relationship. After a one-point disturbance in policy, redistribution is too low compared to the distance between these two variables when in their equilibrium state. The coefficient for the lagged level of policy liberalism indicates

that redistribution will eventually increase by .16 to correct for the disturbance to the long-run relationship. The error correction rate indicates that more than 70% of this effect will be realized the year after the change in policy, and all but 7% of the disequilibrium will be corrected two years after the initial shock. Overall, these results are consistent with those predicted by power resources theory. They also extend the previous finding that party control influences redistribution to the conclusion that the policies enacted in the governing system, which vary with partisan control, directly affect redistribution.

#### **4.3.3. Redistribution by Other Means: Policy, Pre-Redistribution Inequality, and the Manipulation of Economic Opportunity**

The analysis in the previous section clearly shows that liberal policy produces greater amounts of government redistribution. This will by definition decrease overall levels of inequality. But, I am also interested in a second path of government influence on distributional outcomes – that which might manifest itself in pre-redistribution inequality. The kinds of policy that would increase government redistribution are fairly self-evident, and the distributional effects of several individual programs were discussed in the previous chapter. Other government programs that are not explicitly redistributive can also have distributional consequences. In fact, I would argue that most government policies have at least some distributional component. So before I turn to an analysis of macro policy liberalism and pre-redistribution inequality, I want to briefly discuss some “non-redistributive” policies that have fairly clear distributional consequence.

I will mention just three illustrative examples: public education, the minimum wage, and corporate accounting regulations. Some education programs redistribute income in a fairly explicit way. Pell grants, for example, provide funding to students from low income families to receive higher education. But even a program like Pell grants have a component

that is not explicitly redistributive, and more basic funding for primary and secondary education fall almost completely into this category. The part of public education provision that is not explicitly redistributive comes in the form of an increase in marketable skills that will enable recipients of education to earn higher wages later in life. Providing educational opportunities that are open and equal to all today create a better chance for income inequality in the future – inequality prior to explicit government redistribution. Minimum wage laws are also, at the very least, *designed* to influence the distribution of income.<sup>5</sup> These regulations do not explicitly take money from some and give it to others, but they do change labor market conditions by setting a floor below which no hourly worker’s wages can fall. This, on its face, would equalize pre-redistribution income. Finally, corporate accounting regulations that, for example, allow corporate executives to be compensated via stock options without this compensation figuring into the company’s profit-loss statement would seem to have pretty clear distributional consequences. If already highly paid corporate executives can receive (often) valuable stock options with essentially no cost their company, their future income is likely to increase, thereby reducing pre-redistribution equality in the long run.

I label the effects of these “non-redistributive” policies as the manipulation of economic opportunity. Economic opportunity is often construed rather narrowly as the skills and knowledge necessary to earn high wages in the labor market. So, education would clearly be a governmental program that influences economic opportunity as traditionally viewed. But the traditional view of economic opportunity is far too narrow. Economic opportunities are not completely, or perhaps even mostly, determined by individual characteristics. Economic

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<sup>5</sup> The specific effects of the minimum wage are contested. Economic theory suggests that the distributional consequences of increased minimum wages will be offset by rising unemployment (Stigler 1946), but recent quantitative analyses indicate that unemployment is not influenced by changes in the minimum wage (Card and Krueger 1994).

opportunity is also in large part determined by the economic environment. If American textile companies are closing, economic opportunity diminishes for those with training and experience in textile manufacturing. There is no change in the characteristics of individual textile workers, but there is undoubtedly a change in their economic opportunities. By the same token, I would say that economic opportunities increase for corporate executives when they can receive stock options at no profit-cost to their company. Without this regulation, the same individuals with the same intelligence, skills, and education would not have the same economic opportunities.

Nearly every action taken by government, in fact, is likely to *influence* economic opportunity. The question is whether policy is systematically used to *manipulate* economic opportunity in an effort to influence distributional outcomes. I theorize that redistribution and government's influence on economic opportunity are really two sides of the same coin. I believe policy is produced by policymakers who are thinking explicitly about the distributional consequences of everything they do and acting with near perfect consistency when they do it. Regardless of whether a policy is designed to explicitly redistribute income or not, distributional outcomes can be an important part of the decision. Securities law that permits corporations to pay top executives in stock options and then claim that it has no effect on the bottom line has likely had effects of income inequality. The minimum wage affects all hourly workers, including the vast majority who earn more than the minimum. The fight over public versus private education always has one eye on the real issue of the income classes that benefit from one or the other. If distributional consequences produced by such "non-redistributional" policies are inadvertent, then there should be no evidence that policy influences inequality through the manipulation of economic opportunity.

#### 4.3.3.1. *A Time Series Analysis of Macro Policy and Pre-Redistribution Inequality*

From an empirical standpoint, the distributional consequences of government actions that manipulate, or change the distribution of, economic opportunity would occur prior to the effects of any explicitly redistributive government programs. Redistribution is really the second stage of the process, and the earlier analysis of public policy and explicit government redistribution taps the effect of the state in this second phase. The analysis in this section, however, focuses on the first stage, when individuals sell their services in the labor market and make investments in other markets. Some would call this first stage of the process the “market” income distribution, implying a *laissez-faire* outcome. Since government has programs like education and the minimum wage and corporate accounting regulation that change the structure of opportunities in the market, this is a misnomer. I call this stage pre-redistribution, and use the degree of inequality in pre-redistribution income to assess it. If liberal policy produces less pre-redistribution inequality, this is evidence that government manipulates economic opportunity to exert influence on distributional outcomes. While my focus is on government policy, non-policy factors have also been explored as causes of inequality. This analysis must control for any of these factors that could create a spurious relationship between policy and inequality. Other explanations for income inequality can be roughly divided into two categories: labor market characteristics and demographic factors. I include many of the most prominent non-policy explanations in this analysis (see Danziger and Gottschalk, 1995 for a thorough review). Specifically, I focus on three demographic factors and three labor market factors in addition to policy. While these variables have received a great amount of attention in other studies, they have rarely been considered collectively.

The demographic explanations address the proportion of single-female headed households and the rates of female labor force participation and immigration. A rising proportion of single-female headed households has been cited as a leading cause of inequality in the United States because these households earn less than married couple households (Gottschalk and Smeeding 1997; Levy and Michel 1991; Nielson and Alderson 1997). With regard to female labor force participation, some studies show that it leads to increased income inequality (Karoly and Burtless 1995; Nielson and Alderson 1997) while other researchers have found little connection between household income inequality and female labor force participation (Cancian, Danziger, and Gottschalk 1993). Finally, increased immigration has been found to increase inequality because new immigrants earn less than other workers and immigration increases the relative supply of unskilled workers (Borjas, Freeman, and Katz 1992).

Unemployment, deindustrialization, and union membership are the labor market factors examined in this analysis. Clearly, a higher proportion of unemployed individuals earning no income through wages or salaries should produce a greater degree of inequality. Empirical analyses have demonstrated that this is, in fact, the case (Bradley et al. 2003; Hibbs and Dennis 1988). Deindustrialization, in large part produced by globalization, has also been connected to rising inequality (Alderson and Neilson 2002; Nielson and Alderson 1995). Finally, declining union membership is also a determinant of increasing inequality (Bradley et al. 2003; Freeman 1993; Stephens 1979). This explanation is, like policy in the current analysis, rooted in power resources theory. While political parties are the institutions in which the lower classes organize to influence the state, unions are seen as the institutions

through which the market can be influenced and higher wages can be garnered. Union strength actually compliments policy as a power resources explanation of income inequality.

As a first step, then, current changes in pre-redistribution inequality are regressed on short-term changes in and long-term levels of policy liberalism, the percent of single female-headed households, female labor force participation, the percent of the U.S population comprised of new immigrants, the unemployment rate, the percent of the workforce in non-manufacturing jobs, and the percent of the workforce not belonging to a union. As with any single equation error correction model, the levels of the right hand side variables are lagged one period. Short term changes in policy liberalism are also lagged one period because changes in policy are not likely to have an immediate effect on distributional outcomes. Once enacted, it takes time for a law to be fully implemented. Some laws take effect quickly while the full implications of other laws are phased in over years. The error correction component of the model can capture the long-term effects, but short-term changes in policy must be lagged to appropriately capture this influence. The results of this analysis are presented in Table 4.3.

The results broadly support the predictions of power resources theory and the macro politics model. When policy shifts toward the left, pre-redistribution inequality declines the next year. Substantively, these results show that, on average, a one-point increase in policy liberalism (i.e., the average number liberal laws passed each year is exceeded by one, representing a 1% change based on the variance of this series) reduces the ratio of the aggregate income of the top income quintile to the bottom two quintiles by .034 points. This amounts to approximately a 3% change. So, a 1% increase in policy liberalism produces a 3% decrease in inequality. Since the dependent variable in this analysis captures the

Table 4.3. Policy Liberalism and Pre-Redistribution Inequality

Short-Term Effects	$\Delta$ Pre-Redistribution Inequality
$\Delta$ Policy Liberalism <sub>t-1</sub>	-.034* (.011)
$\Delta$ % Single-Female Headed Households <sub>t-1</sub>	-.122 (.134)
$\Delta$ Female Labor Force Participation Rate <sub>t-1</sub>	.002 (.111)
$\Delta$ % New Immigrants in U.S. Population <sub>t-1</sub>	-.018* (.005)
$\Delta$ Unemployment Rate <sub>t-1</sub>	.178 <sup>†</sup> (.088)
$\Delta$ % Non-Manufacturing Workers <sub>t-1</sub>	-.164 (.109)
$\Delta$ % Non-Union Workers <sub>t-1</sub>	-.020 (.066)
<u>Long-Term Effects</u>	
Policy Liberalism <sub>t-1</sub>	.000 (.005)
% Single-Female Headed Households <sub>t-1</sub>	.257 <sup>†</sup> (.143)
Female Labor Force Participation Rate <sub>t-1</sub>	-.147 (.091)
% New Immigrants in U.S. Population <sub>t-1</sub>	.012* (.005)
Unemployment Rate <sub>t-1</sub>	.019 (.055)
% Non-Manufacturing Workers <sub>t-1</sub>	.092 (.060)
% Non-Union Workers <sub>t-1</sub>	.088 <sup>†</sup> (.044)
Pre-Redistribution Inequality <sub>t-1</sub> (Error Correction Rate)	-.920 <sup>†</sup> (.144)
Constant	-9.38* (3.04)
N	52
Adj. R <sup>2</sup>	.56
Durbin's h	.02
p-value	.93

Note: Entries are OLS coefficients with standard errors in parentheses.

\*  $p < .05$ , two-tailed test

<sup>†</sup>  $p < .05$ , one-tailed test

inequality that exists without the explicit effects of government redistribution, it shows the manipulation of economic opportunity is an avenue through which government influences distributional outcomes. While government very overtly uses redistributive policies to change the distribution of income, policy also influences inequality before explicit redistribution occurs. Additionally, the distributional consequences of policy via the manipulation of economic opportunity are felt quickly since the policy effect is fully captured in the short-term.

Consistent with other studies, these results additionally show that higher levels of immigration lead to greater inequality in the long-run. Declines in union membership also lead, in the long run, to higher levels of inequality. Finally, this analysis provides results consistent with power resources theory in a particularly rigorous context because the political (policy) and market (union strength) manifestations of lower class power resources were both included as explanatory variables. The fact that both union membership and policy independently influence distributional outcomes, when considered jointly, is striking.

#### **4.4. Policy, Distribution, and Redistribution in the United States**

The analysis presented in this chapter leads to one major conclusion: politics matters for distributional outcomes in the United States. The ideological tone of the policies enacted by Congress and signed by the president influences distributional outcomes through two important mechanisms. When policy moves in a liberal direction, the equalizing effect of explicitly redistributive programs rises. However, liberal policy also reduces the level of pre-redistribution inequality, indicating distributional consequences of government action via the manipulation of economic opportunity.

The evidence also shows that income inequality is an outcome influenced by policy in general, rather than just a narrow domain of policy. While it is certainly true that some

government policies are more influential in changing distributional outcomes, the general ideological direction of macro policy, or policy considered across multiple domains, also matters. This means that distributional outcomes are an important part of political conflict in the United States, and which side wins or loses in the battle over public policy has important consequences for income inequality. These findings are broadly consistent with power resources theory and provide an important extension of the macro politics model. In the next chapter I examine the total effect of policy on income inequality that occurs via the manipulation of economic opportunity and explicit redistribution. I compare the effects that occur via these two mechanisms, leading to a surprising result.

## 5. *Comparing Two Mechanisms of Government Influence on Distributional Outcomes*

In the last chapter I showed that government policy influences distributional outcomes through two mechanisms – explicit redistribution and the manipulation of economic opportunity. In this chapter I turn to a different question. Which of these mechanisms matters more? There really is not any way to compare the explicit equalizing effect of redistribution to the manipulation of economic opportunity. The third chapter provided a rough look at how much inequality is decreased through programs that explicitly redistribute income. This is fairly easy because income inequality including the effect of government benefits can be compared to inequality excluding income from government sources. But even the estimates in chapter three were not precise because the methods utilized to compute the redistributive effect of programs could not account for the higher-order effects government transfers. In other words, government benefits equalize income distribution, but they also alter decision-making patterns that would have indirect effects on inequality. These effects are impossible to measure. The effect of the manipulation of economic opportunity is even more elusive. What would the income distribution have looked like without any government actions, even those that influence pre-redistribution inequality? We can imagine, but not measure, the empirical answer to this question.

So, the object of this chapter is not to show that redistribution increased equality by one amount and the manipulation of inequality by another amount. This really cannot be done in any defensible way. The question that can be answered is when political choices are

made and public policies are changed, which mechanism of government influence is more responsive? In other words, is redistribution or the manipulation of economic opportunity a more important mechanism for political influence on the distribution of income?

### 5.1. The Influence of Politics on Inequality: Comparing Two Mechanisms

Of the total influence on income inequality that occurs because of a change in income inequality, how much is attributable to redistribution and how much occurs via effects on pre-redistribution inequality. To get a handle on this question, we first need to know how much overall inequality (post-government inequality) is influenced by a shift in policy, then we can go back and isolate the effects of the two mechanisms. Post-government inequality was never explicitly modeled in the preceding chapter, only pre-redistribution inequality and explicit redistribution. However, these two variables define post-government inequality:

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(1)

This equation can be rewritten as:

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(2)

An increase in pre-redistribution inequality, by definition, produces an increase in post-government inequality. Contrarily, increases in redistribution decrease inequality. Thus, the analysis in the preceding chapter provides information about post-government inequality as well.

So, exactly how much would a hypothetical one-unit shift of policy toward the liberal direction decrease inequality? I will present some data from the year 2000 to sketch an answer to this question. In 2000, pre-redistribution inequality was 5.64, meaning that the top income quintile had nearly six times the aggregate income of the bottom two quintiles. Post-

government inequality was 1.92. From equation 1, this means that redistribution is 65.9 - explicitly redistributive programs reduced inequality by 65.9 percent. Substituting these numbers into equation 2 from above yields the following:

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(3)

So these numbers that represent a real data point in the year 2000 can be used as a starting point – this is how the world was. A part of that existing world was also the level of policy liberalism. Imagine if between 2000 and 2001 policy liberalism increased by one point. We know from the previous chapter that this policy shift would have implications for both redistribution and pre-redistribution inequality, and the regression equations that were estimated provide a prediction about the effect of our hypothetical one-unit liberal policy shift on these two variables. More specifically, a one-point increase policy liberalism produces, on average, a decline of .034 in pre-redistribution inequality and an increase of .16 in redistribution.

Based on this, after our hypothetical increase, the value of pre-redistribution inequality is predicted to change from 5.64 to 5.61. Similarly, the prediction for redistribution is a change from 65.90 to 66.06. The predicted change in post-government inequality can be produced by substituting these new numbers into equation 3 and comparing the result to that produced previously:

$$\text{Post - Government Inequality} = 5.606 \left( 1 - \frac{66.06}{100} \right) = 1.90 \quad (4)$$

The prediction of the models estimated in the previous chapter is that a hypothetical liberal shift in policy would reduce inequality from 1.92 to 1.90 between 2000 and 2001.<sup>1</sup>

But how much of this .02 decline in post-government inequality is attributable to explicit redistribution as opposed to the manipulation of economic opportunity? An answer to this question can be approximated by substituting the new values for pre-redistribution inequality and redistribution into equation 3 one at a time instead of jointly. Doing this demonstrates that approximately 43 percent (.009) of the overall decline in post-government inequality induced by a shock to policy liberalism can be attributed to explicit redistribution while 57 percent (.012) of the decline is due to the manipulation of economic opportunity. So, while explicit redistribution is the mechanism most commonly associated with government's influence on distributional outcomes, this analysis shows that changes in policy influence income inequality through the manipulation of economic opportunity at least as much as through explicit redistribution.

### **5.1.1. The Substantive Impact of Policy Change on Income Inequality**

Presenting coefficient estimates is wonderful, and the coefficients estimated in the previous chapter provide good fodder for discussion. But, coefficients on their own can only say so much. What does a prediction about the distributional consequences of a one-unit shift toward the liberal direction in policy really mean? In this section I want to briefly take advantage of the time-series nature of the data to provide a substantive example of the impact on income inequality that meaningful policy change can have.

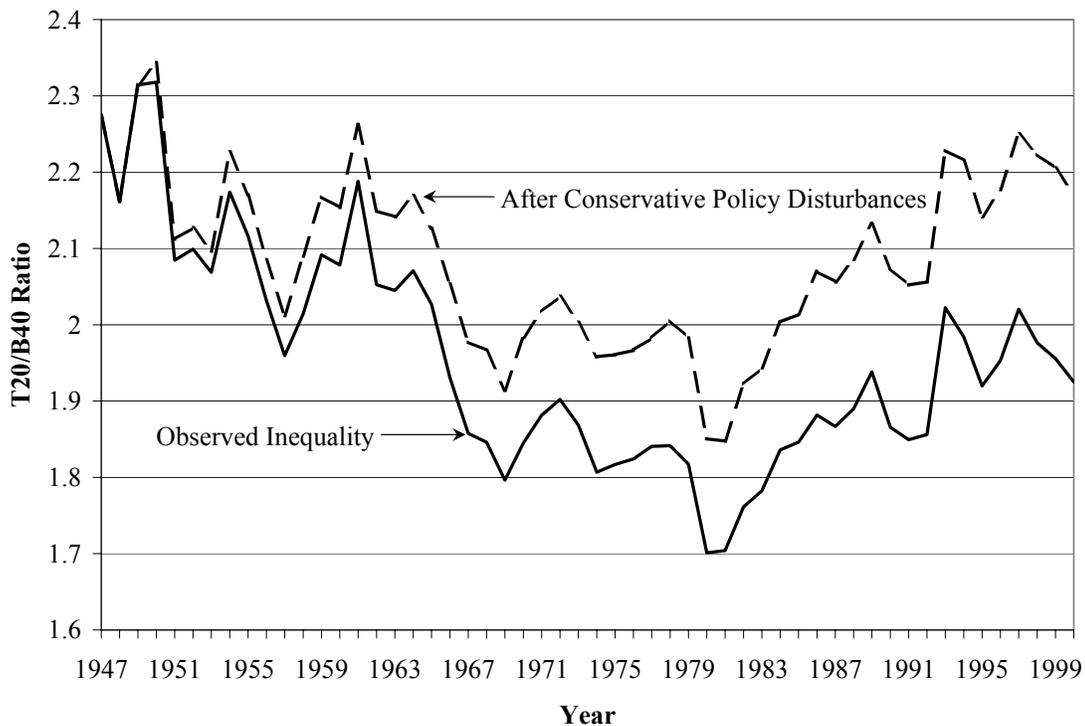
As we have seen, the results from the previous chapter can be utilized to address the total distributional effect of a policy change that occurs via the manipulation of economic

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<sup>1</sup> Since redistribution is a percentage decrease in inequality between pre-redistribution and post-government inequality, the predicted size of the effect varies depending on the degree of pre-redistribution inequality and redistribution prior to a policy shift.

opportunity versus explicit redistribution. This is possible since post-government inequality is defined by pre-redistribution inequality and redistribution (equation 2). Now imagine the following hypothetical situation. What if public policy would have taken a different path than it actually did between 1947 and 2000? Specifically, imagine that one additional conservative (or one less liberal) law during each presidential administration since 1949 would have been passed. Over time, the level of policy liberalism would diverge more and more from its observed path. And this more conservative path of public policy would have consequences for distributional outcomes.

Figure 5.1 illustrates the distributional effects of this situation. The top line of the chart shows the predicted path of post-government inequality if the hypothetical conservative policy shocks would have occurred. The bottom line represents post-government inequality as it actually was. The figure clearly demonstrates that the effect of public policy on inequality is substantively important, with post-government inequality being 15 percent higher in 2000 after accounting for the hypothetical policy shocks. When the path of policy changes, the path of income inequality changes as well, and when policy change is significant (represented by a the hypothetical series of policy shocks), change in inequality is equally impressive.



*Figure 5.1. The Predicted Distributional Effect of a Series of Hypothetical Conservative Policy Shifts on Post-Government Inequality*

## 5.2. What it All Means

In this dissertation I have discussed inequality in the United States, how inequality changed during the second half of the 20<sup>th</sup> century, how government redistributes income, and how politics has consequences for distributional outcomes in the United States. We have come a long way, and I want to conclude by returning to some of the theoretical ideas outlined in the first and third chapters in order to put the reported results into perspective.

### 5.2.1. Power Resources in the United States

It is fairly clear from decades of research in the United States that the development of the American welfare state is not as strongly rooted in class explanations as most OECD countries. Today as much as ever, class divisions are not as important in the United States as they are in many countries. This, of course, is not to say that class does not matter at all in American politics. It clearly does, and the Democratic Party is, in general, more supportive of

policies favoring the lower classes. But the idea that class-based power resources are a key determinant of political outcomes in the United States has not received much support.

Though it is not the primary theoretical focus of my research and I am inclined to think that government action in the United States is driven by much more than the relative power resources of social classes, the results I have presented are broadly compatible with power resources theory. The underpinnings of American politics may not be based primarily on class, but who wins and who loses in political conflict produces outcomes similar to those that would be expected if class were paramount. When policies favored by those on the ideological left (who tend to be Democrats as opposed to Republicans) are enacted, income inequality decreases. Power resources may or may not explicitly apply to the United States, and while I have not tested such a claim, it is my guess that power resources theory has at least some limited applicability to the American case. Regardless, the outcome of income inequality responds to changes in the political climate in exactly the way power resources predicts.

### **5.2.2. Mechanisms of Government Influence in the United States**

We have also seen that the influence of policy on income inequality in America occurs through explicit redistribution and the manipulation of economic opportunity. Some programs take money from some and give it to others, and the equalizing effect of government redistribution is responsive to the ideological direction of policy. Liberal policy produces more redistribution. But, government also influences inequality prior to explicit redistribution – this is government’s effect via the manipulation of economic opportunity. Pre-redistribution inequality is reduced when policy moves toward the left. Increases in liberal policy produce consistent changes in pre-redistribution inequality and redistribution that work in tandem to reduce the overall level of post-government inequality. The

particularly interesting result is that in the contemporary United States, policy influences inequality at least as much through the manipulation of economic opportunity as it does through redistribution.

At first glance this result is surprising, but on another level it provides a possible solution to a seeming quandary of American politics. While it is believed that distributional outcomes are at the heart of political contestation, they are rarely discussed in the United States. Some discussion occurs when a new tax plan is proposed or a new welfare program is in the works. But if public policy debates were the only evidence, distributional outcomes would not appear to be at the heart of American politics. Are citizens and policymakers in the United States so uninterested in distributional outcomes? Changes in tax laws and welfare programs explicitly redistribute income. In these cases it is difficult to avoid talk of distributional outcomes. But this analysis shows that substantial distributional policy consequences occur through the manipulation of economic opportunity. It is easier to avoid discussion of the distributional consequences of policies that are not overtly designed to redistribute income. Because of the way public policy in the United States influences inequality, the comparatively rare public debate about distributional outcomes does not mean that they are not important. This dissertation has shown that distributional outcomes are definitely a target of government action in the United States.

### **5.2.3. The Macro Politics Model, Policy, and Distributional Outcomes**

Finally, the main theoretical implications of my research deserve some discussion. My work is solidly in the macro politics tradition. I was interested in whether the distribution of income is a systematic product of political decisions made in the governing system of the United States. As it turns out, the policy outputs of the U.S. national government influences distributional outcomes in important and sizable ways. This in itself is an interesting result

and is evidence that American politics works in a sensible way at the aggregate level. But, there are broader implications as well.

Given that my research is simply the latest in an ever-growing research tradition, it would be a mistake to ignore previous studies while interpreting my results. An important component of the macro politics model shows that public opinion – the general ideological mood of citizen preferences – is an important determinant of government action. Whether one examines the partisan composition of government institutions, the ideological direction of roll-call votes in Congress, the public positions of the president, or (like I did) the kind of laws enacted by the federal government, the essential message is that public opinion matters.

These findings and the research presented in this dissertation complement one another nicely. On one hand, my results magnify the importance of earlier studies by showing that government's responsiveness to public opinion has substantive, not to mention substantial, consequences. When public policy moves toward the left, we observe outcomes that are theoretically predictable. Namely, income inequality decreases. On the other hand, earlier research magnifies my work by showing that public policy is more than a set of decisions made by elites in Washington. Elites are guided by mass preferences when they produce policy. When coupled with previous research, my work argues in favor of the position that citizens have the capacity not only to influence the decisions of government but, through this influence, to affect contentious societal outcomes like the distribution of income in a substantive way.

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