

# How Much Do Presidents Influence Income Inequality?

Lane Kenworthy

*Some scholars argue that whether the president is a Democrat or a Republican has a significant impact on changes in income inequality. That influence may have declined in recent decades.*

INCOME INEQUALITY IN THE UNITED STATES HAS INCREASED in the past generation, and there is little agreement among researchers about why. Larry Bartels's *Unequal Democracy*, published in 2008, offers a new explanation. Bartels suggests that a key part of the story is different policies pursued by Democratic and Republican presidents.

The notion that political parties influence income inequality has been around for a long time. I suspect many nonacademics take its truth for granted. Among American scholars, the notion is perhaps most closely associated with Douglas Hibbs (1987; Hibbs and Dennis 1988). A number of comparative researchers have argued that parties are a key determinant of distributive outcomes.<sup>1</sup>

Yet in the U.S. debate about rising inequality, partisanship has been on the sideline. One reason is that income inequality began to rise in the mid-1970s, before the Reagan cuts in taxes and social programs, and it continued to increase during the Clinton years. Another is that economists, who have been at the forefront in the U.S. scholarly debate, have focused heavily on the impact of supply-and-demand factors

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such as technological change and globalization. Economists working outside this framework have tended to emphasize institutions such as unionization rather than politics. Thus Bartels's argument, while by no means novel, is very much a fresh one.

Is it correct? Bartels's empirical analysis covers the period since World War II. I think he probably has it right for the early part of this period, but there is reason to doubt whether his explanation holds up for recent decades.

### **Bartels's Argument and Evidence**

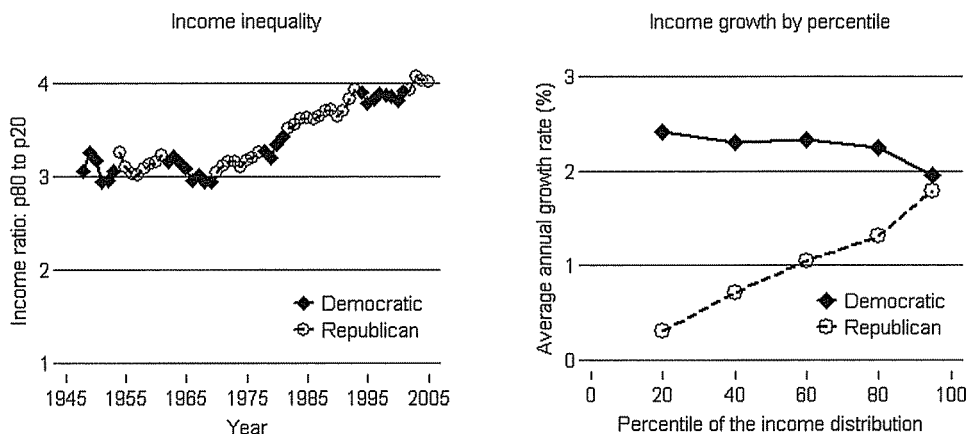
Bartels suggests that over the period from 1948 to 2005, patterns of income inequality in the United States were strongly influenced by partisan differences in presidents' policies.<sup>2</sup>

Inequality increased under Republican presidents and decreased or held constant under Democratic presidents. This, according to Bartels, is because incomes of the bottom 80 percent of families tended to grow more rapidly under Democratic presidents than under Republican ones. Figure 1 shows the patterns over time for inequality and for income growth by percentile.

Following Edward Tufte (1978) and Douglas Hibbs (1987; Hibbs and Dennis 1988), Bartels attributes this contrast to differences in macroeconomic and tax-and-transfer policies:

The dramatic differences in patterns of income growth under Democratic and Republican presidents . . . reflect consistent differences in policies and priorities between Democratic and Republican administrations. In the first half of the post-war era, these differences were expressed primarily in macroeconomic policies and performance, with Democrats presiding over significantly less unemployment and significantly more overall economic growth than Republicans. Since the 1970s some of these macroeconomic differences have been muted, but significant partisan differences in tax and transfer policies have continued to produce significant partisan disparities in patterns of post-tax income growth, with the middle class and, especially, the working poor experiencing significantly more income growth under Democratic presidents than under Republican presidents. (2008, p. 30)

Is this right?



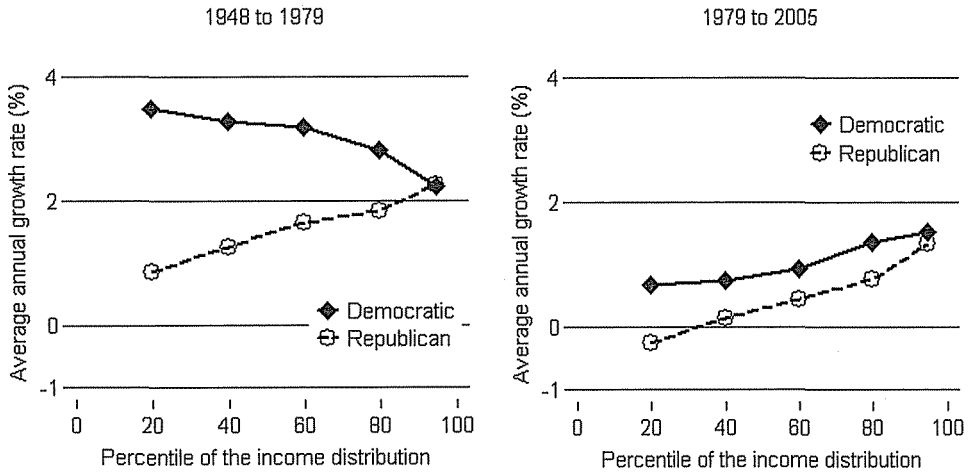
**Figure 1. Bartels's Evidence on Income Inequality and Income Growth by President's Party, 1948–2005**

Source: Bartels 2008.

Note: These charts replicate Bartels's figures 2.2 (p. 35) and 2.1 (p. 33). The income data include cash transfers (except the EITC) but exclude near-cash transfers and taxes. The unit is families. In this and all subsequent charts, I follow Bartels in lagging the outcomes one year; for example, 1993 is counted as Republican and 2001 as Democratic. Source: Census Bureau data, available at [www.census.gov/hhes/www/income/histinc/f01ar.html](http://www.census.gov/hhes/www/income/histinc/f01ar.html).

## World War II Through the 1970s

I believe Bartels's story through the end of the 1970s. He offers convincing evidence that Democratic and Republican presidents had different preferences about growth and unemployment versus inflation, that they pursued fiscal policy with these preferences in mind and pressured the Federal Reserve to do the same with monetary policy, that these policy approaches often had the intended effect on gross domestic product (GDP) growth and unemployment, and that these factors in turn likely contributed to different patterns of income growth for American families. There is more work to be done to verify these links in the causal chain, but at the moment my sense is that the evidence supports the hypothesis of strong partisan presidential effects in the early post-World War II era.



**Figure 2. Income Growth by President's Party, 1948–1979 and 1979–2005**

Source: Census Bureau data, available at [www.census.gov/hhes/www/income/histinc/f01ar.html](http://www.census.gov/hhes/www/income/histinc/f01ar.html).

Note: These income data include cash transfers (except the EITC) but exclude near-cash transfers and taxes. The unit is families.

### Since the 1970s

I am less confident that Bartels is correct about what has happened since the 1970s. My doubts arise from examination of additional and arguably better income data than those he uses.

### The Bottom 95 Percent of the Distribution

Let's begin with the data Bartels mainly relies on: Census Bureau data on pretax family income. Figure 2 shows that the relationship between president's party and patterns of income growth weakened considerably after the 1970s. From 1948 to 1979, income growth in the bottom 80 percent of the distribution was faster under Democratic presidents. That difference continued between 1979 and 2005, but it was much less pronounced.

In exploring the post-1970s era, Bartels examines additional data: a set of "experimental measures" from the Census Bureau (2005) based on various definitions of income. A limitation of these data is that

they begin in 1979 and end in 2003. Another limitation is that they are not available for the ninety-fifth percentile (P95). These drawbacks are offset by several advantages. One is that the data are for households rather than families; they therefore include single adults living alone, which are left out by the data on families. Perhaps more valuable, these data include a fuller array of government transfers, and they subtract taxes. Bartels chooses the Census Bureau's most "complete" definition of income. It is posttransfer and posttax and also adds imputed rent income for households. These data yield a pattern for the post-1970s period that is fairly similar to the one in Figure 1 (see *Unequal Democracy*, figure 2.4, not shown here).

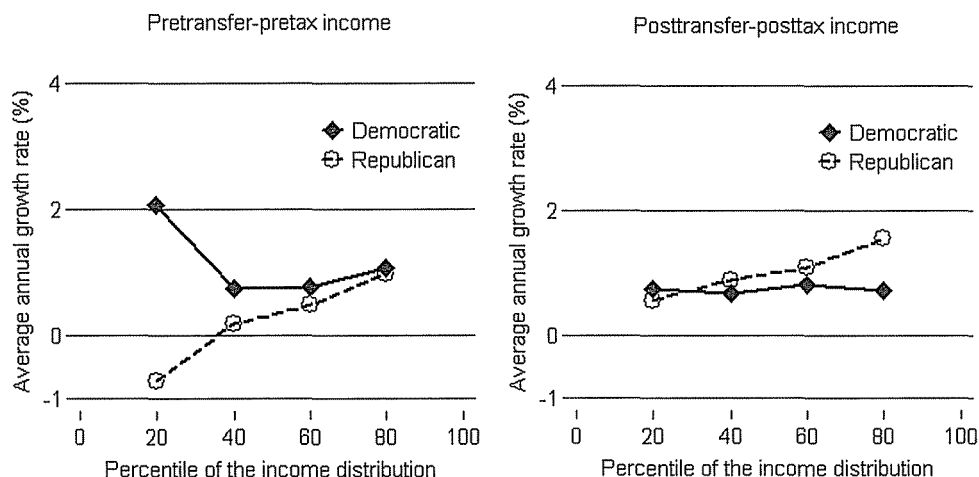
Bartels concludes that there has continued to be a sizable partisan effect on inequality in the post-1970s period, and that it has worked mainly through transfers and taxes. I do not think this is right.

#### *The Post-1970s Partisan Difference Is a Pretransfer-Pretax One*

The Census Bureau's experimental measures data set can be used to explore this issue more directly. To assess the impact of government transfers and taxes on income growth, we need a measure of pretransfer-pretax income and a measure of posttransfer-posttax income. Both are available.

I remove imputed rent, as it is neither a government transfer nor a tax. In principle it should be fine to include imputed rent, provided it is in both the "pre" and the "post" measures, but in the appendix I show that doing so produces misleading results.

Figure 3 shows growth of pretransfer-pretax and posttransfer-posttax household income from 1979 to 2003 by president's party. The key thing to note is that *the partisan difference is almost entirely a pretransfer-pretax one*. For posttransfer-posttax income, the partisan difference is small, particularly in the bottom half of the distribution. As a result, for inequality of posttransfer-posttax income, measured using the P80/P20 ratio (Bartels's preferred measure), the average ten-year change was 0.0 (no change) during Democratic administrations versus +0.3 during Republican ones. For pretransfer-pretax income,



**Figure 3. Pretransfer-Pretax Income Growth and Posttransfer-Posttax Income Growth by President's Party, 1979–2003**

Source: Census Bureau data, available at [www.census.gov/hhes/www/income/histinc/rdi6.html](http://www.census.gov/hhes/www/income/histinc/rdi6.html), definitions 4 and 14.

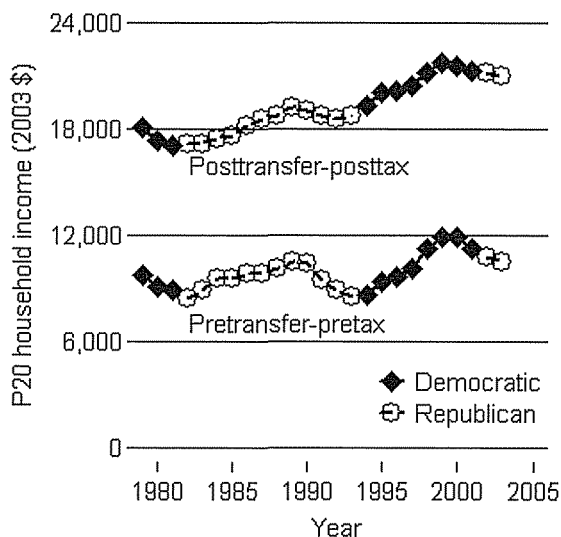
Note: The unit is households.

by contrast, there is a sizable difference:  $-0.9$  under Democratic presidents compared to  $+1.6$  under Republicans.

### *Is It Real?*

Is the post-1970s partisan difference in pretransfer-pretax income growth suggested by the first chart in Figure 3 genuine?

Let us begin by considering why there is a large partisan gap at the twentieth percentile (P20) for pretransfer-pretax income growth but not for posttransfer-posttax income growth. Does this suggest that the data are problematic? Figure 4 sheds some light. The reason for the difference is that from 1990 to 1993, during and after the early-1990s recession, pretransfer-pretax income at the twentieth percentile dropped sharply. These were Republican years. In part because of the low starting point in 1993, pretransfer-pretax income growth during the ensuing recovery, under a Democratic administration, was quite rapid. Transfer and tax policies cushioned the income decline during 1990 to 1993, so posttransfer-posttax P20 income did not decline as



**Figure 4. P20 Pretransfer-Pretax Income and Posttransfer-Posttax Income by President's Party, 1979–2003**

Source: Census Bureau data, available at [www.census.gov/hhes/www/income/histinc/rdi6.html](http://www.census.gov/hhes/www/income/histinc/rdi6.html), definitions 4 and 14.

Note: P20 = twentieth percentile of the distribution. The unit is households.

severely; consequently, it did not rise as rapidly in subsequent years.

Is the partisan difference simply a product of business-cycle timing? In other words, did Republican presidents have the bad fortune to govern during more recession years than their Democratic counterparts? As Figure 4 suggests, this may account for a small portion of the partisan difference in trends in P20 pretransfer-pretax household incomes. But a sizable difference remains even when the business cycle is taken into account. The easiest way to see this is to compare the two lengthy periods during which P20 incomes grew: 1982–89 versus 1993–2000. Each lasted seven years. During the 1980s growth years, under Republican presidents, the average annual rate of pretransfer-pretax household income growth at the twentieth percentile was 3.2 percent. During the 1990s growth years, under a Democratic president, the average was 5.0 percent.

One other worry is that the use of the P80/P20 ratio to measure inequality might somehow overstate the partisan difference. During the

1979–2003 period for which the census experimental data are available, this ratio ranged from a low of 7.3 to a high of 9.3. I noted earlier that according to this measure, the average ten-year change in pretransfer-pretax income inequality was  $-0.9$  under Democratic presidents versus  $+1.6$  under Republicans. An alternative way to measure inequality is with the Gini coefficient. Unlike the P80/P20 ratio, the Gini takes into account the full distribution of households. Between 1979 and 2003, the Gini for pretransfer-pretax income ranged from .460 to .515. Using this measure, the average ten-year change under Democratic presidents was  $+0.002$ , while under Republican presidents it was  $+0.026$ .

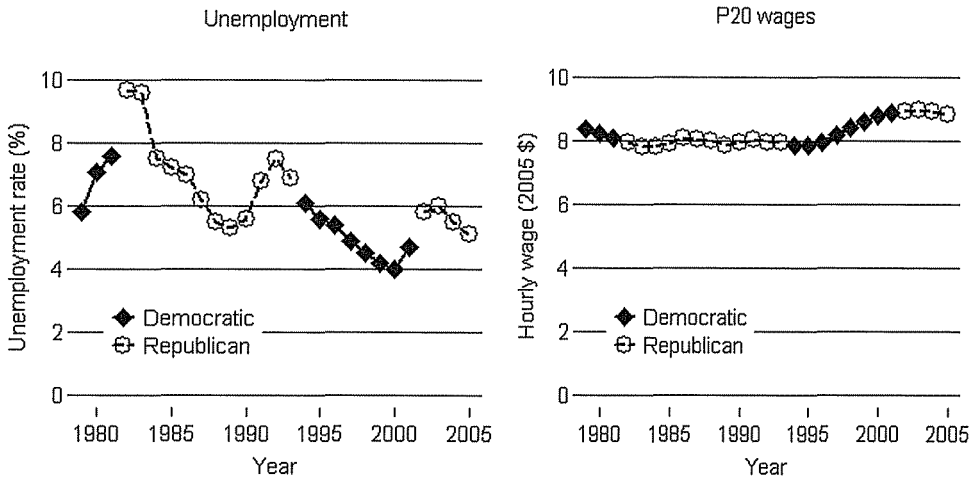
There seems good reason, then, to conclude that there has been a genuine partisan difference in patterns of pretransfer-pretax income inequality during the post-1970s period.

### *Causal Mechanism(s)*

If the partisan difference since the 1970s is in *pretransfer-pretax* income growth, what is the causal mechanism? What have Democratic and Republican presidents done since the 1970s to generate different patterns of pretransfer-pretax income growth? There would seem to be five main possibilities: (1) macroeconomic policy (as in earlier decades); (2) technology and skills; (3) globalization; (4) unionization; (5) the minimum wage. Let's consider these in turn.

*Macroeconomic Policy.* At first glance, macroeconomic policy looks like a plausible mechanism. Figure 5 shows the unemployment rate and the twentieth-percentile hourly wage rate over time. Changes in the unemployment rate do not appear to have affected changes in low-end wages. But the low *level* of unemployment in the late 1990s, during the second Clinton administration, arguably produced a labor market tight enough to generate the wage increases that occurred from 1996 to 2000 (Bernstein and Baker 2003).

Yet the macroeconomic policy hypothesis actually seems very unlikely to hold. Beginning in the early 1980s, monetary policy was largely taken out of the hands of presidents. Under Paul Volcker, Alan Greenspan, and now Ben Bernanke, the Federal Reserve has pursued



**Figure 5. Unemployment Rate and P20 Wage Level by President's Party, 1979–2005**

Source: Bureau of Labor Statistics, [stats.bls.gov](http://stats.bls.gov); Economic Policy Institute, [www.epi.org](http://www.epi.org).

Note: P20 = 20th percentile of the distribution.

monetary policy independent of the wishes of presidents, and its success first at curtailing the high inflation of the late 1970s and then at reducing the frequency and intensity of recessions has furthered this pattern of independence as time has gone on. Moreover, the traditional correlation between president's party and fiscal policy orientation reversed during this period. Ronald Reagan and George W. Bush pursued heavily stimulative fiscal policy, cutting taxes and increasing government spending. Bill Clinton opted for fiscal austerity, raising taxes and reducing expenditures.

*Technological Change and Skills.* The most common explanation for rising earnings and income inequality in the United States focuses on technological change and the supply of and demand for skills (Autor et al. 2006; Goldin and Katz 2008). The spread of computerization throughout the economy is said to have increased employer demand for individuals with computer-related skills and reduced demand for those without such skills. Employers are assumed to use educational attainment as a proxy for skills. Rising inequality is attributed to an increase in demand for highly educated employees without a com-

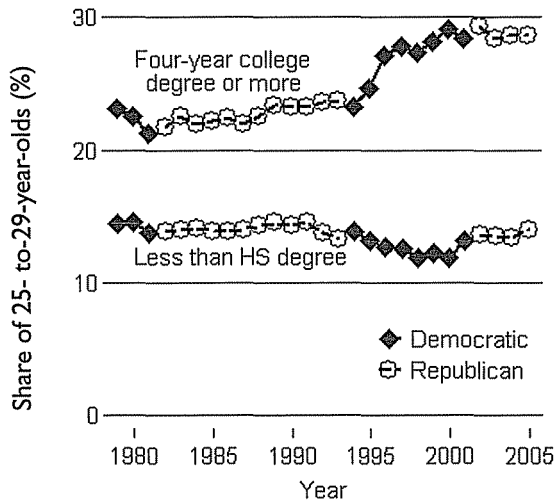


Figure 6. Educational Attainment by President's Party, 1979–2005

Source: Census Bureau.

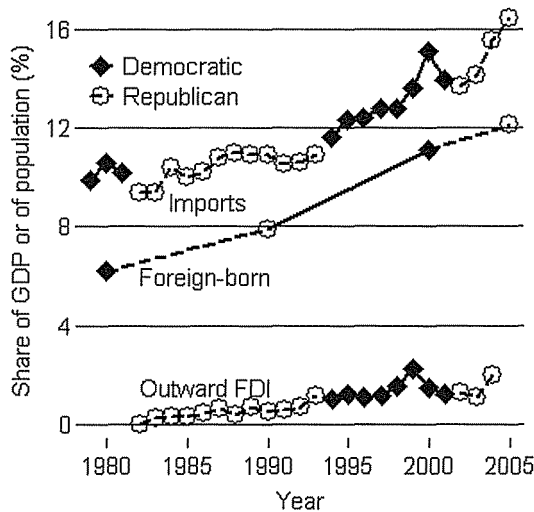
mensurate increase in supply, coupled with a decrease in demand for less-skilled workers without a commensurate decrease in supply.

This explanation has advocates and critics, and I will make no attempt to resolve the debate here. Instead, I want simply to see if there is indication of differences in over-time patterns of technological change and/or educational attainment by president's party.

I am not aware of arguments suggesting that the pace and timing of computerization has differed under recent Democratic and Republican administrations, and in any case this is very difficult to measure.

What about educational attainment? Figure 6 shows trends in the shares of 25- to 29-year-olds with less than a high school degree (low-skilled) and with a four-year college degree or more (high-skilled). Here we do observe a noteworthy partisan distinction. College completion fell slightly in the last Carter years and then inched up during the Reagan and Bush I administrations. Under Clinton, however, there was a sizable increase.

Can this be attributed to policy? That seems unlikely. The Clinton administration did increase the availability and amount of government-subsidized college student loans, but this type of policy change



**Figure 7. Globalization by President's Party, 1979–2005**

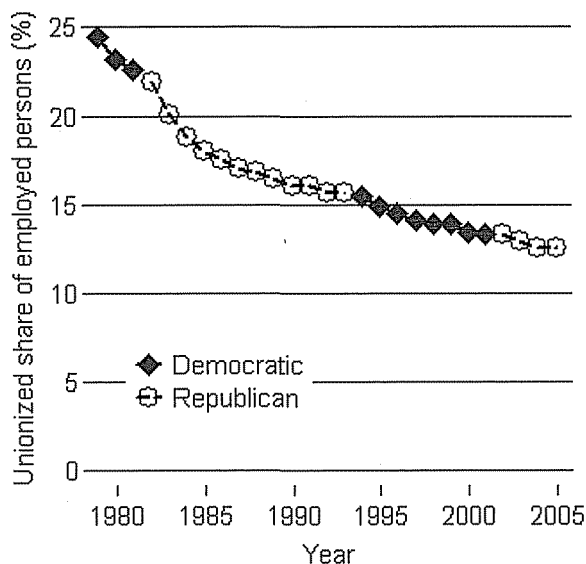
Source: Census Bureau, OECD, and United Nations data.

Note: Data for the foreign-born share of the population are available for only selected years, so the line segments do not correspond perfectly to president's party. Outward FDI data are missing for 1979–81 and 2005.

would take a number of years before having an impact on the college completion rate among 25- to 29-year-olds. The sharp rise in that rate during the Clinton years occurred mainly in 1995 and 1996, which almost certainly is too soon to have been a product of policy efforts.

*Globalization.* Another common account of rising U.S. inequality points to globalization as the culprit. Here the focus tends to be on stagnation and decline of wages at the low end of the distribution. Rising imports have contributed to job loss among less-skilled workers, and intensified competition can be used by domestic employers to justify wage freezes (real wage reductions). Employers' ability to move plants and office work abroad can be used to similar effect. Immigration, a third component of globalization, has heightened the supply of low-skilled labor.

Are there identifiable partisan differences in globalization trends? Figure 7 shows imports as a share of GDP, outward foreign direct investment as a share of GDP, and the foreign-born as a share of the U.S. population. Though these are not necessarily ideal indicators (see



**Figure 8. Unionization by President's Party, 1979–2005**

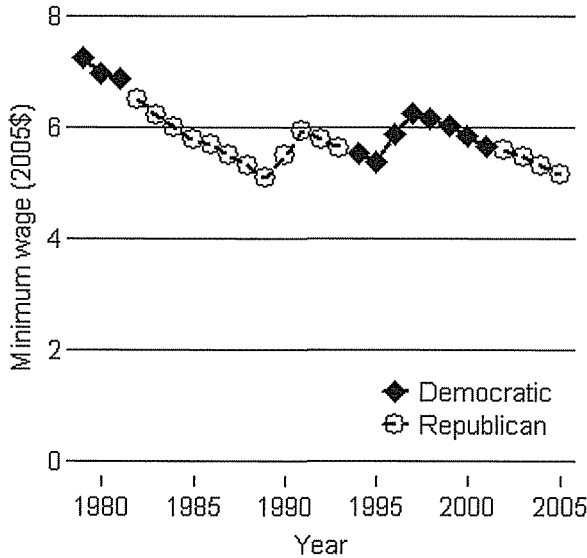
Source: Bureau of Labor Statistics, stats.bls.gov.

Note: Average ten-year change: –4.3 percentage points under Democratic presidents, –4.8 percentage points under Republicans.

Krugman 2008), each suggests that globalization increased no less rapidly during Democratic administrations than Republican ones.

*Unions.* Unions are an important contributor to wage growth, and particularly to its distribution. The U.S. unionization rate—union members as a share of employed persons—declined by a total of twelve percentage points between 1979 and 2005, from 24.5 percent to 12.5 percent. Figure 8 shows this decline by president's party. Unionization fell by 4.3 percentage points during the ten years of Democratic administrations and by 7.7 percentage points in the sixteen years of Republican presidencies. The average ten-year change was thus 4.3 percentage points under Democrat presidents and 4.8 under Republicans. This is a difference, but it is a fairly small one.

There could be a qualitative effect of president's party that is missed in these unionization data. President Reagan's firing of the striking air traffic controllers in 1981 was widely interpreted as a signal that management would henceforth be allowed much greater leeway in ignoring



**Figure 9. Minimum Wage by President's Party, 1979–2005**

Source: BLS data, with adjustment for inflation using the CPI-U-RS.

Note: Average ten-year change:  $-\$0.30$  under Democratic presidents,  $-\$1.10$  under Republicans.

unions or attempting to get rid of them altogether. Moreover, under Reagan the National Labor Relations Board tilted sharply in favor of employers in its implementation of existing labor law. This orientation changed during Clinton's two terms, but was then reinstated by the Bush administration in the early 2000s. However, a careful analysis by Henry Farber and Bruce Western (2002) casts doubt on this explanation of declining unionization in the United States. The main factor, they conclude, has been shifts in the structure of the economy.

*The Minimum Wage.* A fifth pathway through which presidents might have influenced developments in inequality of pretransfer-pretax income is the statutory minimum wage. As Figure 9 indicates, the inflation-adjusted value of the minimum wage fell sharply during the Reagan years and the first Bush II administration while remaining more or less constant under Carter and Clinton. The average ten-year change was  $-\$0.30$  under Democratic presidencies versus  $-\$1.10$  under Republicans. This is a fairly large difference, and it is traceable to differences in presidents' policy preferences (Bartels 2008, ch. 8).

The question is how much of an influence changes in the minimum wage had on changes in household income inequality, and here there is considerable disagreement (Gottschalk and Danziger 2005; Levy and Temin 2007; Western et al. 2008).

### *Summary*

If we focus on patterns in the bottom 95 percent of the income distribution, as Bartels does, we do observe a partisan difference in inequality trends in the period since the 1970s. But contrary to what Bartels suggests, it is largely a difference in pretransfer-pretax income growth. The low unemployment rates of the late 1990s appear to be a key source of this difference, but it is dicey to attribute that to a “Democratic” policy approach (see, e.g., Bernstein and Baker 2003, 81–87). The minimum wage is perhaps the most plausible mechanism underlying this partisan difference.

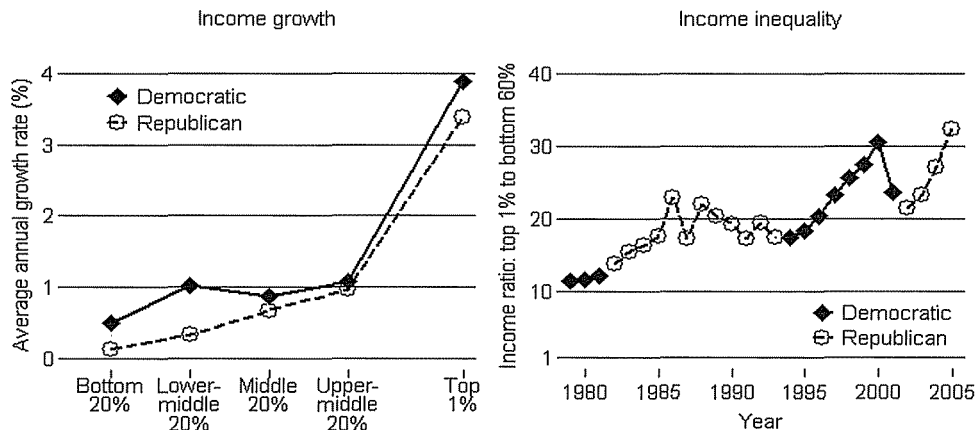
### ***The Full Distribution, Including the Top***

In the census survey data on which Bartels relies for his empirical analysis, and which I used in the previous subsection, very large incomes are top-coded. For incomes above a particular level, the surveyor records the top-code amount rather than the actual income. These data therefore contain little information about incomes at the high end of the distribution.

Other data sources, especially tax records, indicate that this limitation is a significant one. Calculations by the Congressional Budget Office (2007) and by Thomas Piketty and Emmanuel Saez (2007) suggest that since the late 1970s, high-end incomes have skyrocketed. Bartels’s analysis may therefore have missed a crucial part—the crucial part, some would argue (Hacker and Pierson forthcoming; Krugman 2007)—of the inequality story during this period.

### *Are There Partisan Differences?*

Figure 10 uses the CBO data, which are derived by merging survey results with tax records, to examine trends in income growth and in-



**Figure 10. Patterns of Income Growth and Income Inequality by President's Party, 1979–2005, with Data That Include the Top of the Distribution**

Source: Congressional Budget Office data, available at [www.cbo.gov/doc.cfm?index=8885](http://www.cbo.gov/doc.cfm?index=8885).

Note: The income data are posttransfer-posttax. The unit is households. Average ten-year change in the top 1%/bottom 60% ratio: +7.0 under Democratic presidents, +8.7 under Republicans.

come inequality by president's party. The first chart shows the average annual rate of growth of posttransfer-posttax income for the bottom four quintiles and top 1 percent of households. Like the census data, these data indicate that households in the lower two-thirds or so fared better under Democratic presidents than under Republican ones. But as the chart shows, the CBO calculations suggest that the top 1 percent also did better under Democrats.

The second chart in Figure 10 shows over-time inequality patterns, with inequality measured here as the ratio of the top 1 percent's average income to the bottom 60 percent's average. (Bartels's main inequality measure is the ratio of ninety-fifth or eightieth percentile income to twentieth percentile income.) The data suggest a small increase in Carter's last three years, a sizable rise under Reagan and Bush I, and very large increases under Clinton and Bush II.

How much did inequality change under Democratic versus Republican presidents according to this measure? During Democratic years, the average ten-year change in the top 1 percent/bottom 60 percent

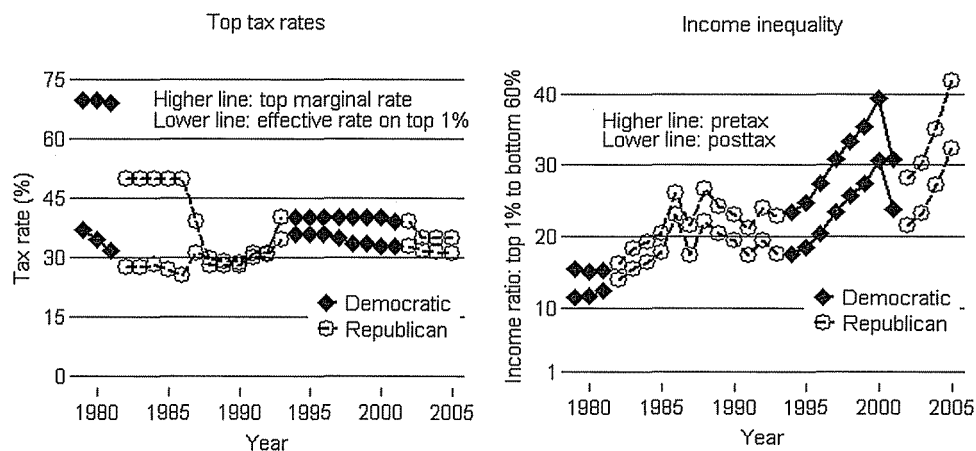
ratio was +7.0. During Republican years, the average ten-year change was +8.7. There is a difference here, but it is not an especially large one. And it is heavily influenced by a single year: 2001. (This counts as a Democratic year because, following Bartels, I lag income and inequality data by one year; see the note to Figure 1.) After rising continuously between 1993 and 2000, the top 1 percent/bottom 60 percent ratio fell sharply in 2001. This was due to the stock market plunge. Since that plunge was in large part a product of the collapse of the dot-com-driven bubble, it is not clear whether we should attribute it to anything the Clinton administration did or did not do. If we ignore 2001, the average ten-year change under Democratic administrations balloons from +7.0 to +13.9.

#### *Have Presidents Mattered?*

To what degree have differences in the policies pursued by Democratic and Republican presidents contributed to the trends in income growth and income inequality shown in Figure 10? Put another way, how have they affected the ability of those at the top of the distribution to capture a rising share of the country's economic growth? In my view, social scientists do not yet have a good answer to this question.

We can begin by turning the question around and asking what impact presidents have had on the declining ability of those in the bottom half (or two-thirds, or three-quarters) of the distribution to get much of the growth. I examined the leading potential culprits—macroeconomic policy, technological change and skills, globalization, union strength, and the minimum wage—in the previous section. My conclusion is that partisan differences may have played a role, but it might not have been an especially large one.

What about the high end of the distribution? Taxes are one obvious candidate. Ronald Reagan and George W. Bush each significantly reduced the top federal income tax rate, while Bill Clinton increased it. The first chart in Figure 11 shows high-end tax rates since 1979. The “effective” tax rate takes into account not only the statutory rate but also exemptions and deductions. It, too, has been higher under Demo-



**Figure 11. Tax Rates and Patterns of Pretax and Posttax Income Inequality by President's Party, 1979–2005**

Source: Congressional Budget Office data, available at [www.cbo.gov/doc.cfm?index=8885](http://www.cbo.gov/doc.cfm?index=8885).

cratic presidents than Republican ones, but the difference is smaller. The second chart in Figure 11 shows the trend in income inequality (the top 1 percent/bottom 60 percent ratio) in posttax income (the same line as in the second chart in Figure 10) and in pretax income. The gap between pretax inequality and posttax inequality is larger under Democratic presidents than Republican ones, indicating that the tax system has tended to reduce inequality to a greater extent under Democrats.

However, the second chart in Figure 11 makes it clear that the increase in inequality of pretax income swamped the effects of changes in taxation. According to the CBO data, average real pretax income among the top 1 percent of households tripled between 1979 and 2005, jumping from \$500,000 to \$1,500,000. The top 1 percent's share of total pretax income doubled from 9 percent to 18 percent. What accounts for this spectacular rise in pretax incomes and income share at the top of the distribution? Here we have many hypotheses but as yet few solid answers (Atkinson, Piketty, and Saez 2009; Gordon and Dew-Becker 2007, 2008; Hacker and Pierson forthcoming; Kenworthy forthcoming; Krugman 2007; Leigh 2009; Levy and Temin 2007;

Piketty and Saez 2006, 2007; Reich 2007; Roine et al. 2007; Scheve and Stasavage 2009). Possible contributing factors include changes in market competition, in the financialization of the economy, in business influence on policymakers, in the demand for executive, entertainment, and athletic talent, in corporate governance practices, and in norms. It may turn out that there are identifiable partisan effects on whichever of these factors have had the largest impact. But I am not aware of any compelling story along these lines at the moment.

## **Conclusion**

Larry Bartels has done us an enormous service by laying out the case for a partisan political interpretation of income inequality developments in the United States and by carefully examining relevant empirical evidence. He is admirably modest in noting that he does not have all of the answers and in insisting that much more research is needed on the issue (Bartels 2008, 42). My objective here is in the same spirit of attempting to push our understanding forward. I have done so mainly by looking at additional data on income trends for the period since the 1970s.

Here are my conclusions:

Bartels's account of the first portion of the post-World War II era seems to me compelling. From the late 1940s through the 1970s, Democratic and Republican presidents tended to have sharply contrasting fiscal and monetary policy orientations. This difference in policies appears to have contributed to sizable differences in income growth for families at various points in the income distribution. Families near the top tended to do equally well irrespective of the president's party, but families in the bottom 80 percent fared better under Democrats. Income inequality in the United States changed little over the period as a whole, as increases under Republican presidents were balanced by declines under Democratic presidents.

Since the 1970s the story has been very different. Income inequality has risen sharply, and the correlation between president's party and movement in inequality has been much weaker.

If we focus on the bottom 95 percent of the income distribution, as Bartels does, we observe a notable partisan difference in inequality trends and in patterns of income growth in the lower half of the distribution during this period. Contrary to Bartels's conclusion, this partisan difference holds mainly for *pretransfer-pretax* income (Figure 3), suggesting that transfer or tax policy differences have not been a key driver. To the extent that presidents have mattered, the effect seems more likely to have operated via the minimum wage.

To fully understand post-1970s trends in income inequality in the United States, it is critical to include developments at the top of the distribution, which Bartels does not do. If we turn to data that include the top 1 percent, we find only a weak association between president's party and changes in inequality since the 1970s (figure 10). Republican and Democratic presidents have pursued contrasting tax policies, and those policies appear to have had an impact on inequality. But that impact has been swamped by trends in pretax income. At the moment we know relatively little about the factors driving the dramatic increase in the share of economic growth going to those at the top of the distribution, and even less about what role presidents have played.

## Notes

1. See Bradley et al. (2003), Esping-Andersen (1985), Hicks and Swank (1984), Korpi (1983), Rueda (2008), and Stephens (1979), among others.
2. Data are available for more recent years, but here and throughout I end in 2005 for consistency with Bartels's analyses.

## For Further Reading

- Atkinson, Anthony B., Thomas Piketty, and Emmanuel Saez. 2009. "Top Incomes in the Long Run of History." Working paper 15408. National Bureau of Economic Research. Available at [www.nber.org](http://www.nber.org).
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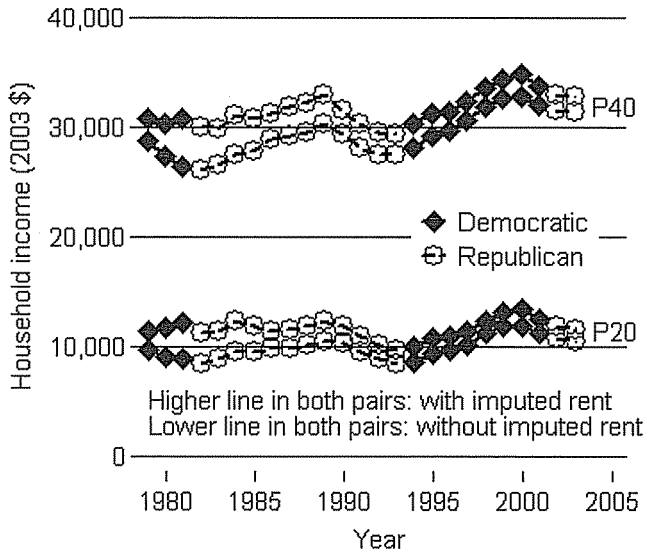
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## **Appendix: Why Imputed Rent Should Not Be Included in Income for This Analysis**

In his examination of patterns of posttransfer–posttax income growth, Bartels (2008, 54–60) uses an income measure from the Census Bureau that includes imputed rent (Census Bureau 2005, definition 15). In principle, it should be okay to include imputed rent in both the pretransfer–pretax and posttransfer–posttax income measures that I use in figure 3. But it turns out that doing so yields a picture of income developments that is misleading if the aim is to assess the impact of president's party on income inequality during the post-1970s period.

Figure A.1 suggests why. It shows 1979–2003 trends in pretransfer–pretax income at the twentieth and fortieth percentiles of the distribution with and without imputed rent added. For most of the period, imputed rent makes no difference. But there is an important exception: the early 1980s. When imputed rent is included, P20 and P40 incomes do not decrease from 1979 to 1981. That matters in the calculation of income growth under Democratic versus Republican



**Figure A.1. P20 and P40 Pretransfer-Pretax Income by President's Party, 1979–2003, with and without Imputed Rent**

Source: Census Bureau data, available at [www.census.gov/hhes/www/income/histinc/rdi6.html](http://www.census.gov/hhes/www/income/histinc/rdi6.html), definition 4 and definition 4 with my addition of imputed rent (defn 4 + [defn 15 – defn 14]).

Note: P20 = twentieth percentile of the distribution; P40 = fortieth percentile. The unit is households.

presidents. With imputed rent added, pretransfer-pretax incomes do not drop during Carter's last two years (recall that 1981 is counted as a Democratic year, because income and inequality performance is lagged one year) and consequently increase very little during Reagan's early years. This boosts the average rate of P20 and P40 income growth for Democratic administrations and reduces it for Republican ones. Without imputed rent included, incomes drop in the last two Carter years and then rise in the early Reagan years.

If this development in imputed rent owed to a Carter administration policy aimed at increasing the value of home ownership for American households, it would make sense to include imputed rent in the income measure. But that is not the case. For these data the Census Bureau calculates imputed rent as the estimated annual benefit of converting one's home equity into an annuity, which is computed using the rate of return on high-grade municipal bonds (personal

communication with Ed Welniak, chief of the Income Surveys Branch, Housing and Household Economic Statistics Division, Census Bureau; see Census Bureau 1988, 225–26). The monetary value of such an annuity increased in 1980 and 1981 because of a sharp rise in nominal interest rates. The return on high-grade municipal bonds jumped from 6 percent in 1979 to 11 percent in 1981, before gradually falling to 7 percent by the late 1980s and lower in the 1990s and 2000s (Council of Economic Advisers 2008, 312, table B-73). The high interest rates of the early 1980s were a product of the Federal Reserve’s attempt to reduce the historically high rate of inflation then prevailing.

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