What difference can a president make?

Lane Kenworthy

Spring 2010

Outline

Two hypotheses

Larry Bartels' *Unequal Democracy*

Is Bartels right?

Two hypotheses

Hypothesis 1: Not much

Even in countries where the government has a great deal of power, much remains outside its influence

In the United States, the executive's power is especially constrained

- Congress has legislative authority
- The courts decide what laws do and don't conform to the constitution and how those laws should be administered
- The Federal Reserve controls monetary policy
- State governments have considerable authority for some programs

Hypothesis 2: A lot

How?

- Fiscal policy
- Monetary policy (informal influence)
- Taxes and transfers
- Minimum wage
- Labor policy (NLRB)

Political Parties and Macroeconomic Policy*

DOUGLAS A. HIBBS, JR.
Massachusetts Institute of Technology

This study examines postwar patterns in macroeconomic policies and outcomes associated with left- and right-wing governments in capitalist democracies. It argues that the objective economic interests as well as the subjective preferences of lower income and occupational status groups are best served by a relatively low unemployment-high inflation macroeconomic configuration, whereas a comparatively high unemployment-low inflation configuration is compatible with the interests and preferences of upper income and occupational status groups. Highly aggregated data on unemployment and inflation outcomes in relation to the political orientation of governments in 12 West European and North American nations are analyzed revealing a low unemployment-high inflation configuration in nations regularly governed by the Left and a high unemployment-low inflation pattern in political systems dominated by center and rightist parties. Finally, time-series analyses of quarterly postwar unemployment data for the United States and Great Britain suggests that the unemployment rate has been driven downward by Democratic and Labour administrations and upward by Republican and Conservative governments. The general conclusion is that governments pursue macroeconomic policies broadly in accordance with the objective economic interests and subjective preferences of their class-defined core political constituencies.

THE DEMOCRATIC CLASS STRUGGLE

WALTER KORPI

Evelyne Huber and John D. Stephens

Development and Crisis of the Welfare State

Parties and Policies in Global Markets

OFF CENTER

The Republican Revolution & the Erosion of American Democracy

Jacob Hacker
& Paul Pierson

The Politics of Income Inequality in the United States

NATHAN J. KELLY
University of Tennessee

CAMBRIDGE
UNIVERSITY PRESS

Larry Bartels' *Unequal Democracy*

LARRY M. BARTELS

unequal democracy

★★★★★★★

The Political Economy of the New Gilded Age

Larry Bartels' Unequal Democracy*, 2008*

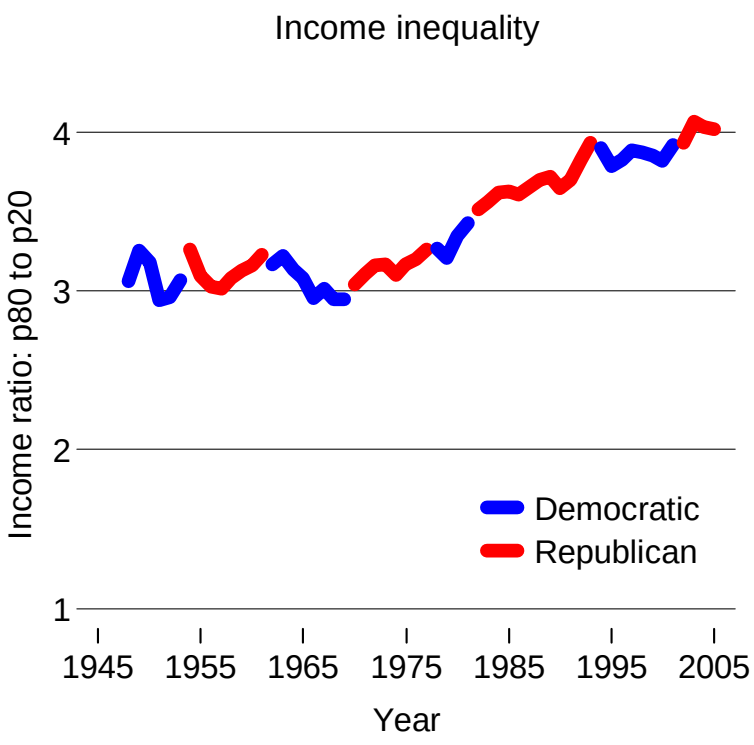
A clear and forceful statement of the case that presidents matter

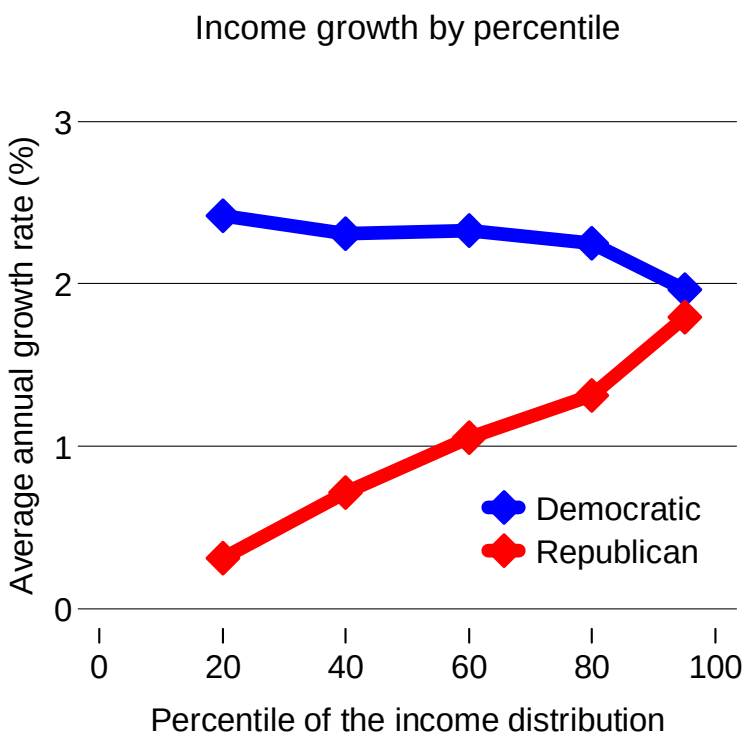
Shows that patterns of income growth at various points in the distribution have been markedly different under Democratic and Republican presidents since WW2

Offers a plausible causal mechanism

- Fiscal and monetary policy through the late 1970s
- Tax-and-transfer policy since then

Bartels' evidence





Note: 1948 to 2005. These charts replicate Bartels' 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 coded as Republican and 2001 as Democratic.

Source: My calculations from Census Bureau data, www.census.gov/hhes/www/income/histinc/f01ar.html.

Is Bartels right?

Is Bartels right?

For 1948-79, I think he is

For 1979-2005, I'm skeptical

- The partisan difference shrinks
- The difference appears to be pretransfer-pretransfer, contrary to Bartels' conclusion
- If we use data that take into account the top 1%, there's virtually no partisan difference

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.[1]

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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LANE KENWORTHY is professor of sociology and political science at the University of Arizona. His recent books include Economic Growth, Redistribution, and Poverty *(Oxford University Press, forthcoming),* Jobs with Equality *(Oxford University Press, 2008), and* Egalitarian Capitalism *(Russell Sage Foundation, 2004).* *The author thanks Larry Bartels and Larry Jacobs for helpful comments.*

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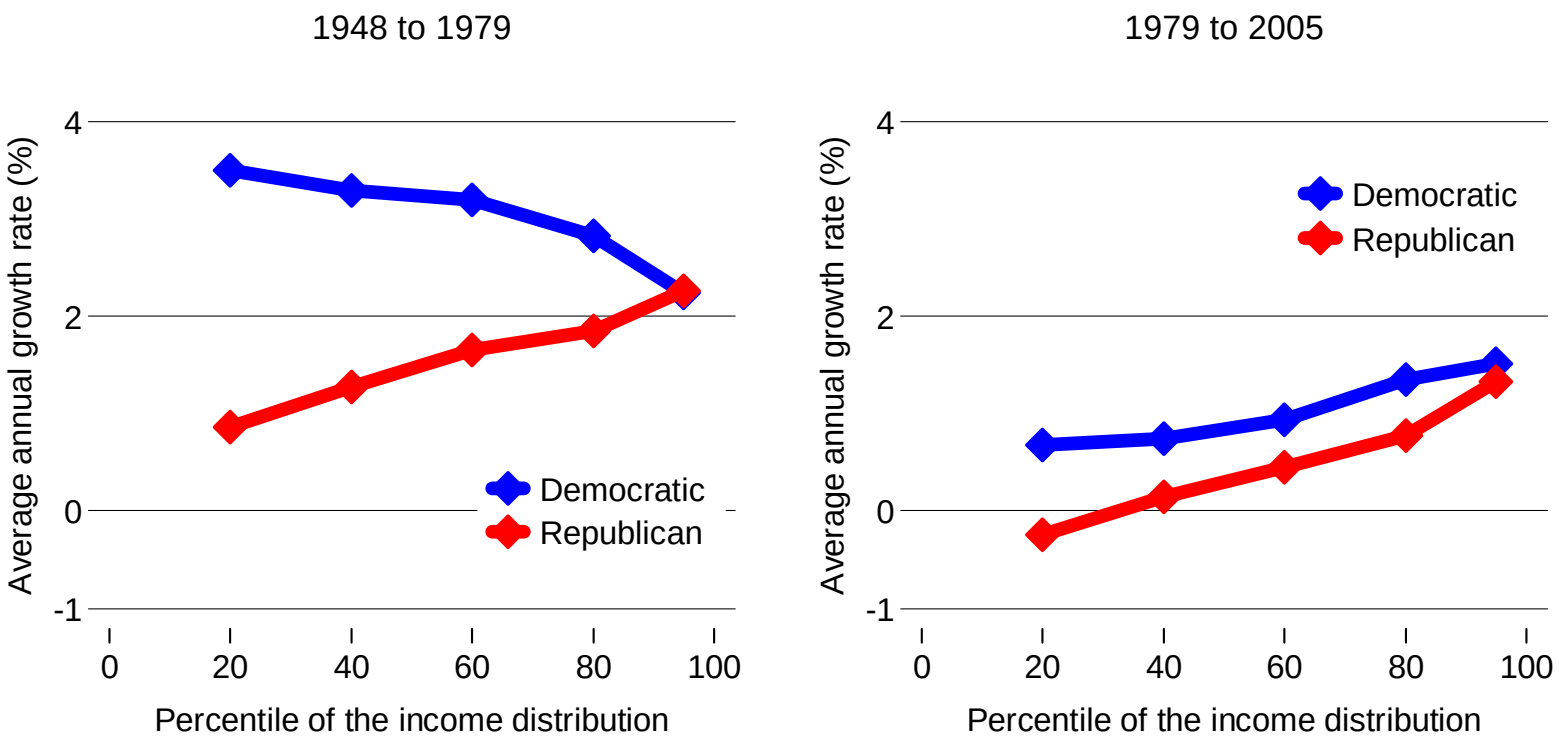
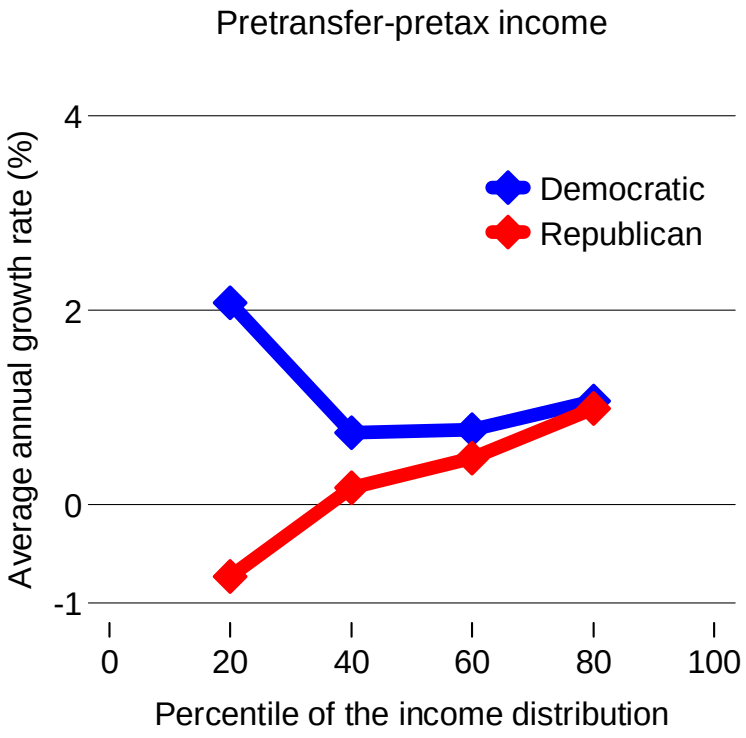
Income growth, 1948-79 vs. 1979-2005

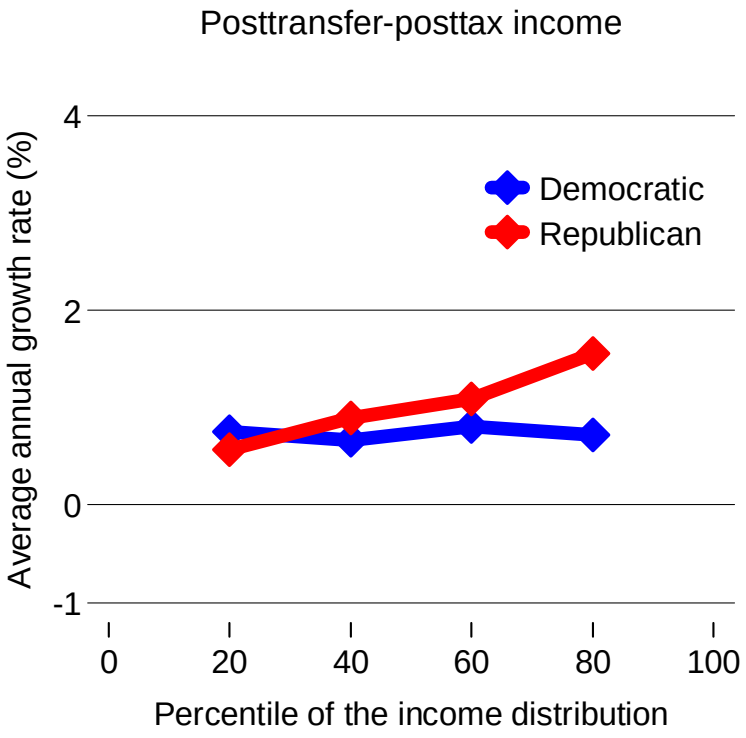


Note: These income data include cash transfers (except the EITC) but exclude near-cash transfers and taxes. The unit is families.

Source: My calculations from Census Bureau data, www.census.gov/hhes/www/income/histinc/f01ar.html.

Pre-pre vs. post-post income growth, 1979-2003





Note: 1979-2003. The unit is households.

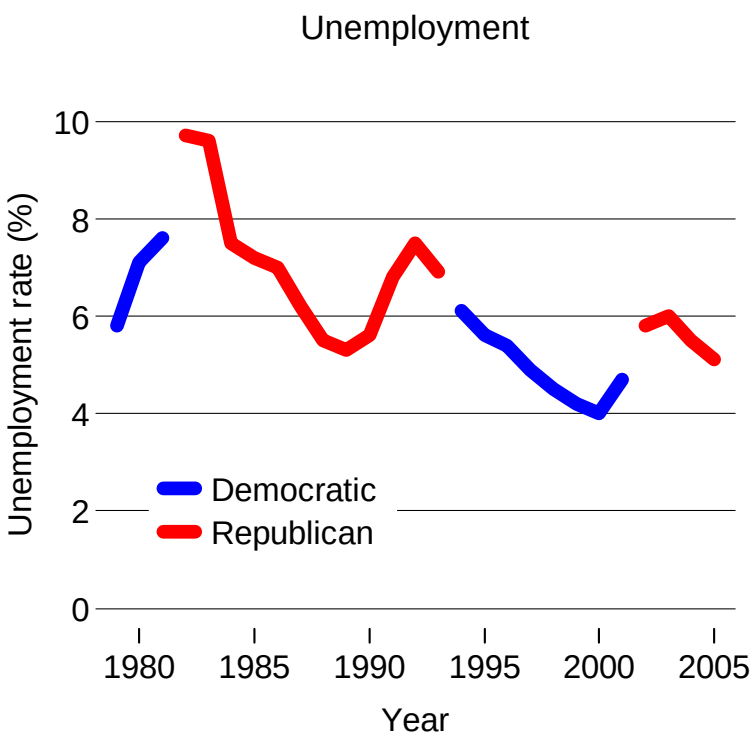
Source: My calculations from Census Bureau data, www.census.gov/hhes/www/income/histinc/rdi6.html, definitions 4 and 14.

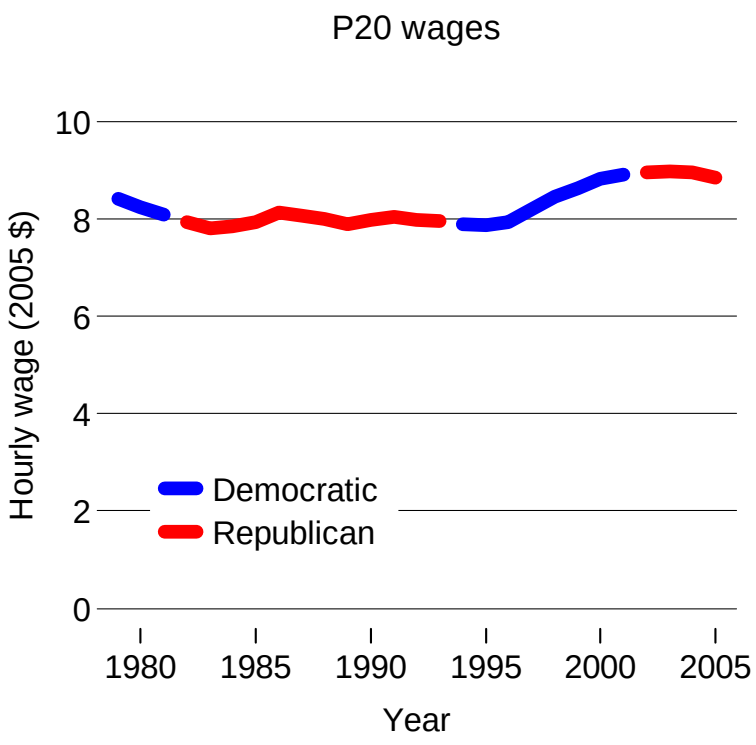
Causal mechanism(s)?

Possibilities

- Macroeconomic policy, unemployment, and wages
- Technology
- Education
- Globalization
- Unionization
- Minimum wage

Macroeconomic policy





Note: P20 = 20th percentile of the distribution. The unit is individuals.

Source: Bureau of Labor Statistics, stats.bls.gov; Economic Policy Institute, www.epi.org.

Macroeconomic policy

The pattern fits: unemployment has been lower, and wages have increased more, under Democrats

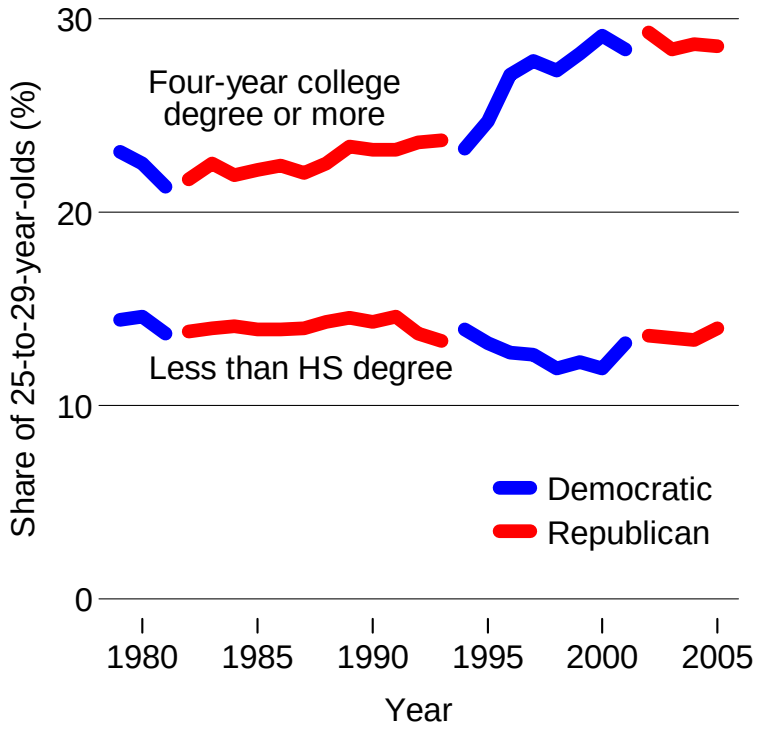
But due to what policies?

- The Federal Reserve has acted much more autonomously in setting monetary policy since 1979
- And it's been Republicans, rather than Democrats, that have pursued the more stimulative fiscal policy during this period

Technological change

No reason to think it has been less rapid under Democratic presidents

Education

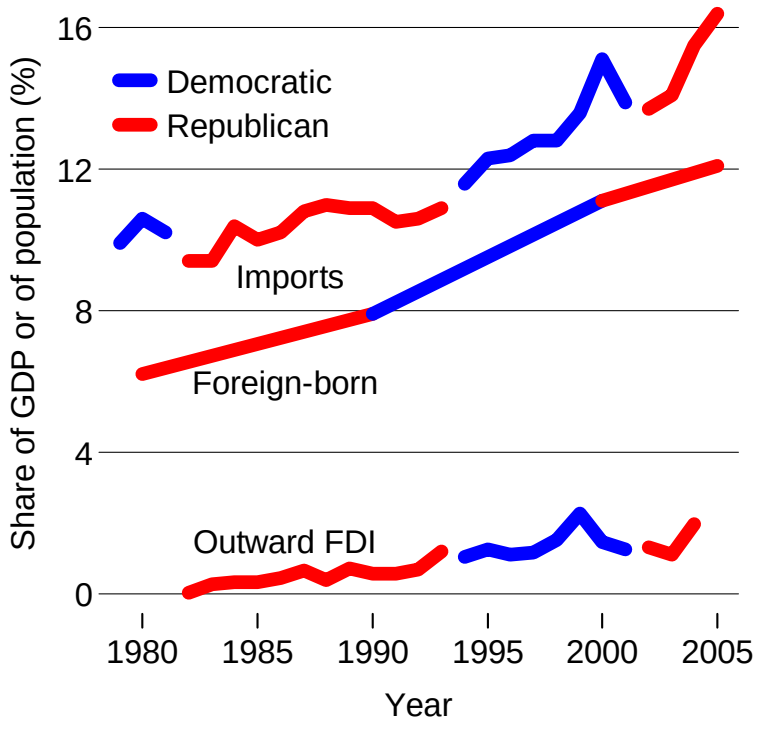


Source: My calculations from Census Bureau data.

Education

The empirical pattern appears to fit, but changes in educational policy should take much longer to have an effect

Globalization



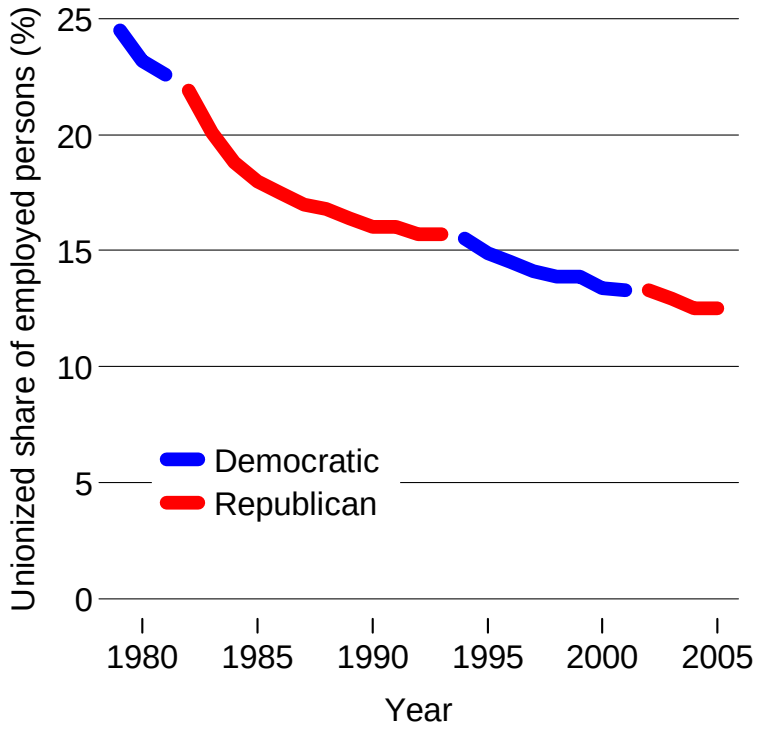
Note: Data for the foreign-born share of the population are available for only selected years, so the line segments do not correspond perfectly to president's party. Outward FDI data are missing for 1979-81 and 2005.

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

Globalization

Increase in globalization has not been faster under Republican presidents

Unions



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

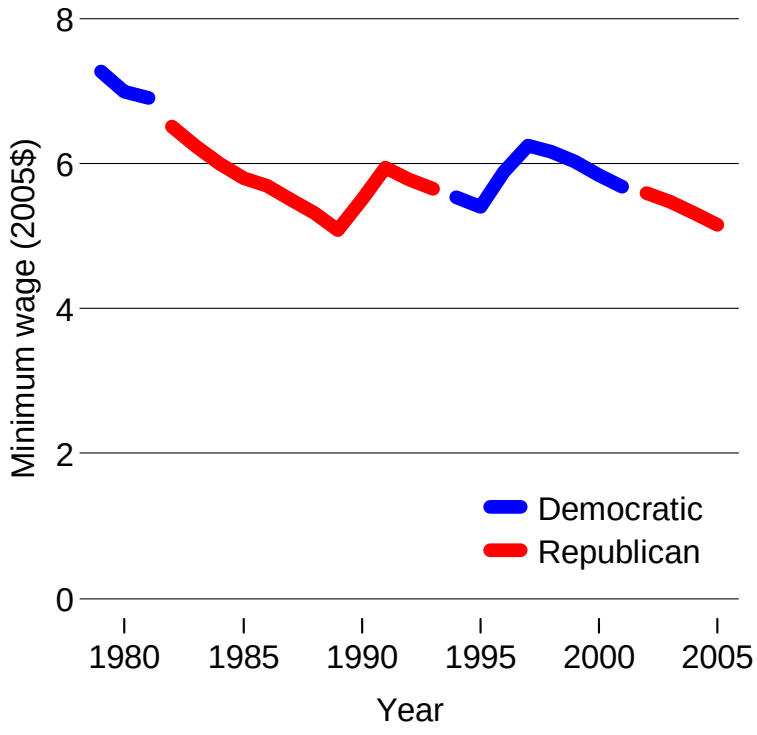
Source: Bureau of Labor Statistics, stats.bls.gov.

Unions

The small quantitative partisan difference in union decline could overlook a large qualitative difference: the NLRB's enforcement of labor law

But other research suggests that isn't the key cause of unions' decline

Minimum wage



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

Source: My calculations, with adjustment for inflation using the CPI-U-RS.

Minimum wage

Here the story seems to work

Post-1970s trends in the bottom 95%: summary

There has been a partisan difference in patterns of income growth

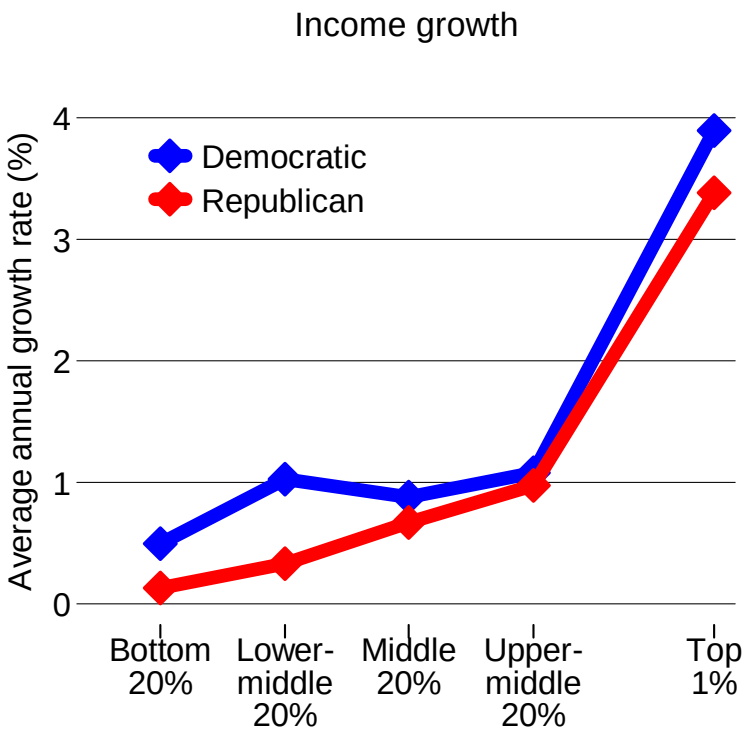
It's in pretransfer-pretax income

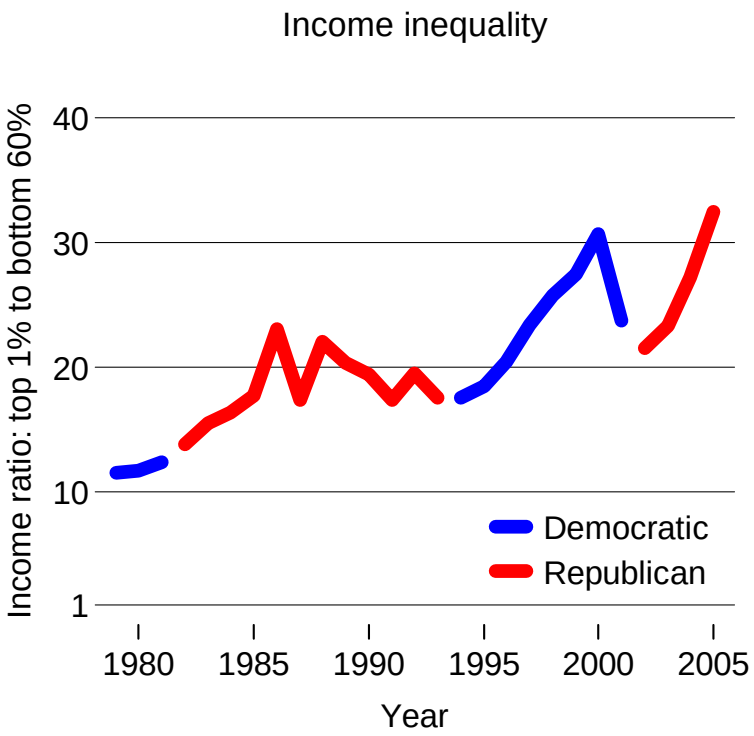
The most likely partisan source is minimum wage changes

What if we take the top end into account?

The Census Bureau (CPS) data are not very helpful for the top 1%, which is where much of the income gain has occurred since the 1970s

Income growth and inequality, 1979-2005, with data that include the top 1%





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

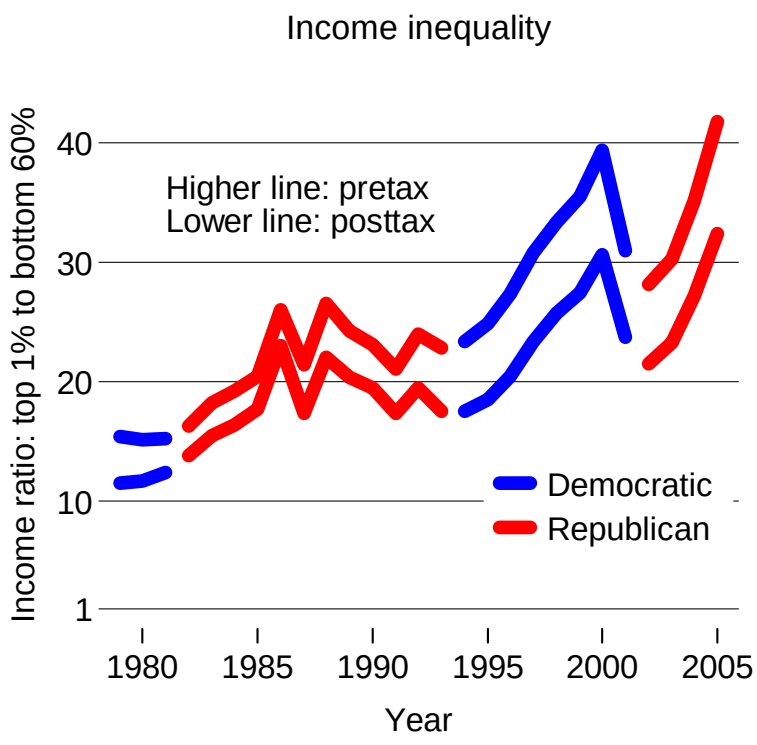
Source: My calculations from Congressional Budget Office data, www.cbo.gov/doc.cfm?index=8885.

Causal mechanism(s)

Those examined earlier

Taxes on top incomes

Taxes



Source: My calculations from Congressional Budget Office data, www.cbo.gov/doc.cfm?index=8885.

Post-1970s trends including the top 1%: summary

Little or no partisan difference

- Tax policy has had an impact
- But that impact has been swamped by trends in pretax income

Social scientists don't yet have a good handle on the causes of the sharp rise in pretax incomes at the top

Summary

Summary

I've examined only one outcome (though an important one): patterns of income growth at different points in the distribution

There was a clear partisan difference in policies and in income growth from WW2 through the 1970s

Since the 1970s, by contrast, there's been a smaller or nonexistent partisan difference

- Policies toward the minimum wage and taxes differed, and they may well have had an impact
- But they don't appear to have been the key causes, especially of the soaring incomes of the top 1%