

Partisan Politics and the U.S. Income Distribution

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Census Bureau data reveal large, consistent differences in patterns of real pre-tax income growth under Democratic and Republican presidents in the post-war U.S. Democratic presidents have produced slightly more income growth for poor families than for rich families, resulting in a modest decrease in overall inequality. Republican presidents have produced a great deal more income growth for rich families than for poor families, resulting in a substantial increase in inequality. On average, families at the 95th percentile of the income distribution have experienced identical income growth under Democratic and Republican presidents, while those at the 20th percentile have experienced more than four times as much income growth under Democrats as they have under Republicans. These differences are attributable to partisan differences in unemployment (which has been 30 percent lower under Democratic presidents, on average) and GDP growth (which has been 30 percent higher under Democratic presidents, on average); both unemployment and GDP growth have much stronger effects on income growth at the bottom of the income distribution than at the top. Similar partisan differences appear in the distribution of post-tax income growth of households since 1980, despite the fact that the corresponding pre-tax income growth data for that period show little evidence of partisan differences.

Partisan Politics and the U.S. Income Distribution ¹

The past thirty years have seen a substantial increase in economic inequality in the United States. The exact magnitude and timing of this increase depend on exactly how one defines economic inequality, but a variety of plausible measures suggest that the income gap between rich and poor has widened considerably. For example, the Gini coefficient for the distribution of individual earnings of full-time workers increased by almost 25 percent (from .326 to .406) between 1970 and 2000, while the income share of the richest five percent of U.S. households increased by more than one-third (from 15.8 percent to 21.5 percent) between 1980 and 2000.²

It should not be surprising that economists have devoted a good deal of time and energy to describing and attempting to account for these trends (Blank and Blinder 1986; Cutler and Katz 1991; Levy and Murnane 1992; Hines, Hoynes, and Krueger 2001). Nor should it be

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² These figures are calculated from the Historical Income Inequality Tables compiled by the U.S. Census Bureau, Tables IE2 and IE3. The data are publicly available from the Census Bureau website, <http://www.census.gov/hhes/income/histinc/ineqtoc.html>.

surprising that they have focused almost entirely on potential economic explanations rather than on potential political explanations for growing economic inequality. For example, a comprehensive summary of the literature on earnings inequality attempted to ascertain “What shifts in demand, shifts in supply, and/or changes in wage setting institutions are responsible for the observed trend?” (Levy and Murnane 1992, 1335). The authors pointed to “the entry into the labor market of the well educated baby boom generation” and “a long-term trend toward increasing relative demand for highly skilled workers” as important causal factors (Levy and Murnane 1992, 1336). Their closest approach to a political explanation was a passing reference to a finding that “the 25 percent decline in the value of the minimum wage between 1980 and 1988 accounts for a small part of the drop in the relative wages of dropouts during the 1980s, but plays no role in explaining the growing wage gap between high school graduates and college graduates” (Levy and Murnane 1992, 1363-1364).

The point of the present report is to suggest that almost all previous analyses have missed what may be the most important influence on the changing U.S. income distribution over the past half-century – the contrasting policy choices of Democratic and Republican presidents.³ Under Democratic administrations income growth has been more vigorous among the poor than among the rich; under Republican administrations the reverse has been true. The cumulative effect of these differences has been enormous. For example, my projections suggest that income inequality (as measured by the ratio of incomes at the 80th percentile of the income distribution

³ A rudimentary search in the JSTOR archive turned up 214 articles published in economics journals since 1987 with the word “inequality” in the title or the phrase “economic inequality” in the text; but only 19 of these made any mention of “political parties,” “political party,” “partisan,” “Democrat,” or “Republican,” and none focused significantly on the role of partisan politics in exacerbating or mitigating economic inequality.

to those at the 20th percentile) would actually have *declined* slightly over the past thirty years had the patterns of income growth actually observed during Democratic administrations been in effect throughout that period; conversely, continuous application of the patterns of income growth actually observed during periods of Republican control would have produced an even greater divergence in the economic fortunes of rich and poor, with the 80/20 income ratio growing more than 80 percent faster than it actually did.

Previous work by Hibbs (1977; 1987), Keech (1980), Beck (1982), Alesina and Sachs (1988), and others has documented consistent partisan differences in economic policy, with Democrats striving to reduce unemployment and Republicans focusing primarily on controlling inflation. One result, according to Alesina (1988; Alesina and Rosenthal 1989; Alesina, Londregan and Rosenthal 1993), is that Democratic and Republican administrations are characterized by distinct patterns of economic growth, with expansion in the second year of a Democratic president's term followed by slower growth in the third and fourth years, and contraction in the second year of a Republican president's term followed by more robust growth in the third and fourth years.

Notwithstanding these investigations of the "political business cycle," we know less about partisan differences in economic *outcomes* than we do about partisan differences in economic *policies*. In particular, the only analyses to consider the impact of partisan politics on the shape of the income distribution were Hibbs's (1987; Hibbs and Dennis 1988) pioneering studies of the impact of partisan cleavages on a variety of macroeconomic outcomes, including the money supply, unemployment, real output, and income inequality. Using data from 1948 through 1978 (that is, before most of the recent substantial increase in income inequality) Hibbs

(1987, 232-243) found that the ratio of the share of post-tax income received by the top 20 percent of the income distribution to the share received by the bottom 40 percent declined by about .037 during each year of Democratic control while increasing by about .008 during each year of Republican control.⁴ Applying these estimates to his entire period, Hibbs concluded that inequality declined markedly (by a total of about 25 percent) during the 14 years of Democratic control while remaining essentially unchanged during the 17 years of Republican control. Hibbs and Dennis (1988) extended this analysis through the early 1980s and embedded it in a somewhat broader analysis of partisan differences in macroeconomic policy.

Partisan Patterns of Income Growth

The analysis reported here replicates and extends Hibbs's and Dennis's analyses using data on the distribution of income over the past half-century from the U.S Census Bureau's Historical Income Tables.⁵ The Census Bureau has tabulated the total (pre-tax) real income (in 2001 dollars) of families at the 20th, 40th, 60th, 80th, and 95th percentiles of family income in each year from 1947 through 2001. My measure of income growth at each of these income levels is the year-to-year change (in percentage points) in real family income.⁶

⁴ The partisan difference between these estimates (Hibbs 1987, 242) is .0455 (with a standard error of .0247).

⁵ "Table F-1: Income Limits for Each Fifth and Top 5 Percent of Families (All Races): 1947 to 2001." These data are from the March Current Population Surveys, and are intended to reflect total (pre-tax) income for all families consisting of two or more people. The data and additional information are available from the Census Bureau website, <http://www.census.gov/hhes/income/histinc/f01.html>.

⁶ Obviously, specific families do not remain at exactly the same point in the income distribution from

The first column of Table 1 shows the mean and standard deviation of annual real income growth at each income level for all years from 1948 through 2001. The mean levels of annual real income growth increase fairly smoothly from 1.58 percent for families at the 20th percentile to 2.10 percent for families at the 95th percentile. The former represents a real increase of \$13,338 per family (125 percent) over the 54-year period, from \$10,662 in 1947 to \$24,000 in 2001; the later represents a real increase of \$109,771 per family (202 percent), from \$54,333 in 1947 to \$164,104 in 2001.

***** Table 1 *****

It is clear from these figures that, even in percentage terms, real income growth near the bottom of the income distribution has been considerably slower than at the top of the distribution in the post-war U.S. Moreover, poor families have been subject to considerably larger temporal fluctuations in income growth rates than families at higher income levels. For example, families at the 20th percentile experienced declining real incomes in 17 of the 54 years covered by my analysis, including seven declines of three percent or more; by comparison, families at the 80th percentile experienced 11 real declines, only one of which (in 1948) exceeded two percent.

The second and third columns of Table 1 present separate tabulations of real income growth in years when Democrats and Republicans, respectively, occupied the White House. Since it seems unreasonable to expect a new president to have an immediate impact on income growth in his first year in office, my measure of partisan control is lagged by one year; thus, income changes in 2001 are attributed to Democrat Bill Clinton, despite the fact that Republican

one year to the next. Nevertheless, the annual percentage change at each income level provides a useful measure of the general economic fortunes of poor, middle-class, and rich families.

George W. Bush took office in January of that year. The assumption of a one-year lag in partisan policy effects is consistent with macroeconomic evidence regarding the timing of economic responses to monetary and fiscal policy changes (Christiano et al. 1999; Blanchard and Perotti 2002).⁷

Figure 1 provides a graphical display of the data presented numerically in the second and third columns of Table 1. The starkly different patterns of income growth under Democratic and Republican administrations are very clear in the figure. Poor families did slightly better than richer families (producing a modest net decrease in income inequality) under Democratic presidents; rich families did markedly better than poorer families (producing a considerable net increase in income inequality) under Republican presidents. In both cases the patterns are essentially linear over the entire range of family income percentiles represented in the figure (corresponding to incomes ranging from \$24,000 to \$164,000 in 2001).

***** Figure 1 *****

A Partisan Coincidence?

To what extent are the patterns of income growth in Figure 1 attributable to partisan

⁷ I tested the assumption of a one-year lag in partisan effects on income growth more directly by replicating the analysis presented in Table 3 below using current (unlagged) presidential partisanship, and also using presidential partisanship lagged by *two* years. In both cases the resulting regression models fit the data less well than the model with presidential partisanship lagged by one year – in the former case by about 2 percent and in the latter case by almost 4 percent. The analysis using current partisanship produced a partisan pattern of income growth similar to the one displayed in Figure 1; however, almost no partisan pattern was evident in the analysis using presidential partisanship lagged by two years.

politics rather than accidental historical factors? One way to address this question is to examine their consistency across a range of presidents and historical circumstances. To that end, Figure 2 shows the level of income inequality in each year of the post-war period as measured by the ratio of incomes at the 80th percentile of the income distribution to those at the 20th percentile.

*** * * Figure 2 * * ***

By this measure, income inequality was essentially constant from the late 1940s through the late 1960s, with families at the 80th percentile of the income distribution earning about three times as much as families at the 20th percentile. Inequality increased fairly steadily through the 1970s and 1980s before leveling off once again in the 1990s. These broad temporal trends reinforce the impression that growing inequality is significantly related to long-term technological and social changes.

Despite these long-term forces, distinguishing between Democratic and Republican administrations (the black diamonds and white circles in the figure, respectively) reveals the regularity with which Democratic presidents reduced and Republican presidents increased the prevailing level of economic inequality, irrespective of the long-term trend. Indeed, the effect of presidential partisanship on income inequality turns out to be remarkably consistent throughout the second half of the 20th century. The 80/20 income ratio increased under each of the five Republican presidents in this period – Eisenhower, Nixon, Ford, Reagan, and the elder Bush. On the other hand, four of five Democratic presidents – all except Jimmy Carter – presided over declines in income inequality. If this is a coincidence it is a very powerful one, with an *a priori* probability of about .01.⁸ Even in the highly inegalitarian economic climate of the 1990s, Bill

⁸ The *a priori* probability of any particular sequence of increases and decreases in inequality over ten

Clinton managed to produce slightly stronger income growth for families at the 20th percentile (2.0%) than at the 80th percentile (1.9%), though families at the very top of the income distribution did even better.

The strikingly consistent partisan pattern of changes in income inequality in Figure 2 seems hard to attribute to a mere coincidence in the timing of Democratic and Republican administrations. For example, families at the 20th percentile of the income distribution experienced more robust income growth under Democratic presidents even if any one or two administrations are omitted from the analysis,⁹ if presidential election years or partisan transition years are excluded,¹⁰ if linear or quadratic time trends are included,¹¹ or if the analysis is confined to the first half or the second half of the post-war period.¹² In every case, the overall pattern of

presidencies is 1/1024, and 11 of these 1024 sequences include no exceptions or only one exception to the partisan pattern of increasing inequality under Republicans and decreasing inequality under Democrats.

⁹ Omitting each of the ten post-war presidents in turn from the comparison reported in Table 1 produces estimates of the partisan difference in income growth at the 20th percentile ranging from 1.31 (with a *t*-statistic of 1.2, omitting Lyndon Johnson) to 2.64 (with a *t*-statistic of 2.6, omitting Dwight Eisenhower).

¹⁰ The estimated partisan difference in income growth at the 20th percentile in a regression model excluding presidential election years is 3.12 (with a *t*-statistic of 2.7). The corresponding estimate in a model excluding partisan transition years (1953, 1961, 1969, 1977, 1981, 1993, and 2001) is 2.26 (with a *t*-statistic of 2.0).

¹¹ The estimated partisan difference in income growth at the 20th percentile in a regression model with a linear time trend is 1.99 (with a *t*-statistic of 1.9). The corresponding estimate in a model with a quadratic time trend is 2.35 (with a *t*-statistic of 2.1).

¹² The estimated partisan difference in income growth at the 20th percentile is 2.23 (with a *t*-statistic of 1.2) for the period from 1948 through 1973 and 1.41 (with a *t*-statistic of 1.4) for the period from 1974

partisan differences in income growth is qualitatively similar to the wedge-shaped pattern in Figure 1.

It may be tempting to suppose that the different patterns of income growth under Democratic and Republican presidents reflect a cycle of partisan equilibration in which Democrats pursue expansionary policies in reaction to Republican contractions and Republicans pursue contraction as an antidote to Democratic expansion. That hypothesis seems to be supported by the temporal pattern of partisan effects through the four years of each president's term. For example, the first column of Table 2 reports the partisan difference in average real income growth for the working poor (represented here by families at the 20th percentile of the income distribution) on a year-by-year basis. Positive entries indicate faster growth under Democrats than under Republicans, while negative entries indicate slower growth under Democrats than under Republicans.

***** Table 2 *****

The largest partisan difference by far in the first column of Table 2 appears in the second year of each administration—the first year in which the president's policies could be expected to have a significant economic effect. Democratic presidents in those years presided over average real income growth for the working poor of 4.5 percent, while the corresponding average growth rate under Republican presidents was –1.2 percent. The partisan difference in growth declined substantially by the third year of each administration and was actually reversed by the year of the next presidential election. This temporal pattern certainly seems consistent with the idea that Republican presidents attempt to counteract the perceived failings of their

through 2001.

Democratic predecessors' policies and vice versa.

However, the story looks more complicated if we distinguish between administrations in which the president was of the opposite party as his predecessor (in the second column of Table 2) and those in which the president succeeded himself or a predecessor of his own party (in the third column of Table 2). In the former cases, the partisan difference in real income growth for the working poor was even more dramatically concentrated at the beginning of each administration, ranging from 8.9 percentage points in Year 2 to -5.3 percentage points in Year 4. However, substantial partisan differences in real income growth also appear in the first half of administrations where there is no partisan turnover. Indeed, averaging across entire administrations, the partisan difference in real income growth for the working poor was much larger when the same party remained in power (2.8 percentage points) than in cases of partisan turnover (1.1 percentage points). Democratic presidents who succeeded themselves or other Democrats produced average real income growth of 2.9 percentage points for families at the 20th percentile of the income distribution; Republican presidents who succeeded themselves or other Republicans produced average growth of 0.1 percentage points. Clearly these differences cannot be attributable to short-term corrections of the other party's misguided policies.

Another way to gauge the significance of the partisan pattern of income growth in Figure 1 is to embed potential partisan effects in a somewhat more elaborate model of income growth. Table 3 presents the results of a series of parallel Seemingly Unrelated Regression analyses accounting for annual real income growth at each income level.¹³ Each regression model

¹³ The Seemingly Unrelated Regression (SUR) estimator (Zellner 1962) exploits cross-equation correlations of the regression disturbances to produce more efficient parameter estimates than with ordinary least squares regression. Not surprisingly, the residuals from the parallel regression models

includes the lagged growth rate, a linear time trend, and a presidential partisanship variable. The regression models for the 20th, 40th, 60th, and 80th percentiles also include the lagged growth rate for families at the 95th percentile, in order to capture the possibility that income growth “trickles down” from the top of the income distribution to families at lower income levels. The parameter estimates for partisan control in these regression models represent estimates of the difference in average income growth at each income level under Democratic and Republican presidents, net of any differences attributable to broad historical trends or recent economic circumstances.¹⁴

***** Table 3 *****

The results in Table 3 reflect the impact of exogenous technological, demographic, and other factors on income growth and on the shape of the income distribution. The main effects of these factors are captured by the linear trend variable in the regression models, which implies

considered here are strongly correlated, reflecting the extent to which economic shocks affect families at all income levels in similar ways. The ten cross-equation correlations range from .45 to .92, with an average value of .76. (The first-order serial correlations of the residuals for each equation range from $-.07$ to $.05$, with an average value of $-.01$.) As a result, some of the SUR parameter estimates reported in Table 3 are much more precise than the corresponding ordinary least squares parameter estimates, especially for lagged growth. However, the estimated partisan effects in Table 3 are quite similar to the comparable ordinary least squares estimates, with coefficients only about 4 percent larger and standard errors only about 6 percent smaller.

¹⁴ The limitations of the available data make it impossible to tell whether the partisan composition of Congress also has a consequential effect on income inequality. Adding a measure of the average proportion of Democrats in the House and Senate to the regression equations reported in Table 3 suggests that it may; however, the modest variation in the partisan composition of Congress in the post-war period makes the relevant parameter estimates very imprecise, with an average t -statistic of .3.

that average real income growth in the bottom two-thirds of the income distribution has declined by about two-thirds of a percentage point per decade over the post-war period.¹⁵ They are also reflected in the impact of lagged growth for families at the 95th percentile, which indicates that income gains at the top of the distribution have “trickled down” significantly to families at lower income levels, and especially to those near the bottom of the distribution. By contrast, lagged income growth at each income level has a modest negative effect on current income growth at that level, suggesting some tendency toward equilibration in the income growth rates.

Interestingly, none of these patterns appears nearly as clearly at the top of the income distribution as in the middle and lower classes; indeed, there is a fairly striking disconnection between the structure of income growth at the top of the income distribution and the structures at lower income levels. Income growth at the 95th percentile was virtually unrelated to growth in the previous year and relatively unaffected by presidential partisanship, while displaying only a very modest negative trend – about one-third as large as in the other income groups – over the 53 years covered by my analysis. The most affluent American families have done very well under both parties, and have been relatively unaffected by changes in the structure of the U.S. economy over the past half-century.

Notwithstanding the complicating effects of the control variables included in the regression analysis, the impact of presidential partisanship evident in Table 1 and Figure 1 emerges clearly in Table 3 as well. Indeed, the partisan differences between Democratic and

¹⁵ My time trend variable runs from –52 in 1949 to 0 in 2001. Thus, the negative coefficients in Table 3 reflect declining income growth over time, while calculations based on the other parameter estimates in Table 3 represent expected growth rates at the end of the period covered by my analysis.

Republican presidents are larger in Table 3 than in Table 1, declining in a more or less linear fashion from 2.40 percentage points at the 20th percentile to .31 percentage points at the 95th percentile of the family income distribution.¹⁶ Thus, the striking differences in the economic fortunes of rich and poor under Democratic and Republican administrations evident in the historical record do not seem to be an artifact of the different conditions under which Democrats and Republicans have happened to hold the reins of government, but a reflection of the fundamental significance of partisan politics in the political economy of the post-war U.S.

The implications of this analysis for contemporary patterns of income growth are illustrated in Table 4, which presents estimated growth rates for Democratic and Republican administrations under the economic conditions prevailing in 2001.¹⁷ These estimated levels of income growth are a good deal lower than the historical averages presented in Table 1, primarily due to the significant secular decline in the rate of real income growth over most of the income distribution in the second half of the 20th century. Through most of the post-war period, Democratic administrations have produced much more robust income growth for poor and

¹⁶ The difference in partisan effects between the 20th percentile and the 95th percentile is 2.09 (with a *t*-statistic of 2.3). The difference in partisan effects between the 40th percentile and the 95th percentile is 1.44 (with a *t*-statistic of 2.4). The difference in partisan effects between the 20th percentile and the 80th percentile is 1.30 (with a *t*-statistic of 1.9). The difference in partisan effects between the 20th percentile and the 60th percentile is .91 (with a *t*-statistic of 1.6). The difference in partisan effects between the 40th percentile and the 80th percentile is .65 (with a *t*-statistic of 1.6). Thus, it is easy to reject the hypothesis that the apparent differences in partisan effects across the income distribution in Table 3 are coincidental.

¹⁷ The estimates in Table 4 reflect predicted levels of real income growth under Democratic and Republican presidents based on the regression results in Table 3, and assuming that the lagged growth rate for each income level, the lagged 95th percentile growth rate, and the time trend variable all take their 2001 values.

middle-class families than Republican administrations have; but under the economic circumstances prevailing at the turn of the century the corresponding partisan difference is between weak income growth under Democratic presidents and declining real incomes under Republican presidents.

***** Table 4 *****

The estimates presented in Table 4 also highlight the increasing disparity in economic fortunes between rich and the poor families in the contemporary U.S., especially but by no means only under Republican presidents. Whereas the historical average growth rates under Republican administrations ranged from .60 at the 20th percentile to 2.09 at the 95th percentile (a difference of 1.5 percentage points), the corresponding predicted growth rates for 2001 under a Republican administration range from -2.12 at the 20th percentile to 1.42 at the 95th percentile (a difference of 3.5 percentage points). On the other hand, the predicted income growth rates for a Democratic administration in Table 4 range from .28 to 1.73 (a difference of 1.4 percentage points), whereas the historical average growth rates under Democratic administrations were actually higher at the 20th percentile (2.63) than at the 95th percentile (2.11) . The fact that affluent families now fare better than poor families even under Democratic presidents reinforces the significance of changes in the structure of the U.S. economy over the half-century covered by my analysis.

Macroeconomics, Public Policy, and Income Inequality

The stark partisan differences in income growth evident in the preceding analysis are especially striking in view of the fact that the analyses focus entirely on pre-tax income figures.

These figures include cash benefits from the government such as Social Security and unemployment benefits; but they do not reflect any partisan differences in the distribution of non-cash government benefits or in effective tax rates. Since taxes and transfers are the most obvious policy levers available to presidents with partisan distributional goals, the question naturally arises of how, exactly, Democratic and Republican presidents manage to produce contrasting patterns of *pre-tax* income growth.

The answer to this question turns on another set of stark partisan differences first noted by Hibbs (1977; 1987) – differences in macroeconomic performance under Democratic and Republican presidents. Hibbs (1987, 218) argued that, given the class composition of their respective supporting coalitions, “Democratic administrations are more likely than Republican ones to run the risk of higher inflation rates in order to pursue expansive policies designed to yield lower unemployment and extra growth.” His empirical analyses (based on data from 1953 through 1983) supported these claims, indicating that “after adjustment lags the unemployment rate tends to be about 2 percentage points lower under the Democrats than under the Republicans” and that “real output tends to be about 6 percent higher” (1987, 226).

Table 5 presents comparisons of macroeconomic performance between Democratic and Republican administrations over the longer (54-year) period covered by my analysis. Unlike Hibbs’s non-linear regression estimates, these are simple average values of unemployment, GDP growth, and inflation under each party’s presidents, again assuming a one-year lag in presidential influence. Despite the differences, the comparisons of unemployment and GDP growth rates are quite consistent with Hibbs’s: the average level of unemployment has been more than 30 percent lower under Democratic presidents than under Republicans, while the average level of real GDP growth has been 30 percent higher. It is interesting to note, however, that the average inflation

rate has been identical under Republican and Democratic presidents over this period.¹⁸ While differential sensitivity to inflation may account for partisan differences in unemployment and GDP growth, as Hibbs's suggested, it is less obvious that Republican presidents have been more successful than Democrats in containing inflation.¹⁹

***** Table 5 *****

Table 6 presents the results of regression models in which these macroeconomic variables appear as additional explanatory variables in the analyses of income growth reported in Table 3. Adding unemployment, inflation, and GDP growth to the analysis leaves no remaining partisan differences in income growth at any income level; the regression coefficients on the dummy variable for Democratic presidents (in the first row of the table) are all extremely close to zero. Thus, the partisan differences in pre-tax income growth apparent in Table 3 seem to be entirely attributable to the partisan differences in macroeconomic performance in Table 5.

¹⁸ The average annual *change* in the inflation rate, not shown in Table 5, is also identical under Republican and Democratic presidents.

¹⁹ The simple averages reported in Table 5 may obscure a partisan difference in inflation performance by ignoring the possibility of secular trends in the "natural" rate of inflation. Adding linear, quadratic, and cubic trend variables to a regression of inflation on presidential partisanship changes the estimated effect of Democratic presidents from .02 (with a standard error of .84) to 1.71 (.76). Adding lagged inflation to the analysis implies a smaller but longer-lasting partisan effect, with a coefficient of .96 (.64) and a coefficient for lagged inflation of .50 (.10). Adding secular trend variables to a regression of unemployment on presidential partisanship reduces the estimated difference between Democratic and Republican presidents by about a third, from -1.51 (.37) to -.94 (.33). The apparent effect of Democratic presidents on GDP growth actually increases slightly, from 1.22 (.66) without trend variables to 1.34 (.74) with trend variables.

* * * **Table 6** * * *

How do these differences in aggregate economic conditions get reflected differentially in the incomes of rich and poor families? It is clear from the parameter estimates in Table 6 that the Democratic advantages with respect to unemployment and GDP growth are much more beneficial to families near the bottom of the income distribution than to those near the top of the distribution. The estimated impact of GDP growth on income growth declines in roughly linear fashion from .970 at the 20th percentile to .351 at the 95th percentile, while the estimated impact of unemployment declines even more sharply from .814 at the 20th percentile to .035 at the 95th percentile. These results indicate that the incomes of poor families are much more sensitive than the incomes of rich families to economic contractions and expansions. Conversely, the impact of inflation is negligible near the bottom of the income distribution but increases significantly at higher income levels.²⁰

The results presented in Tables 4 and 5 provide a clear explanation for the apparently puzzling partisan differences in pre-tax income growth for lower- and middle-class families documented in Table 1. The policies of Democratic presidents produce more employment and output growth, which disproportionately benefit poor and middle-class families. Republican presidents tend to focus more on containing inflation; insofar as they are successful, the effects on real income growth are negligible near the bottom of the income distribution and small even

²⁰ Substituting the annual *change* in the inflation rate produces a similar but somewhat stronger pattern of differential effects on income growth, ranging from +.20 (with a standard error of .16) at the 20th percentile to -.30 (.18) at the 95th percentile. The former estimate implies that reining in inflation may actually *reduce* real income growth among the working poor, other things being equal.

at the top.

What additional effects, if any, do presidents have through partisan tax and transfer policies? Previous work on changing patterns of family income inequality suggests that increasing inequality since the 1970s is overwhelmingly due to increasing inequality in wages, especially for male wage earners; non-wage sources of income, including government transfers, seem to have had little net impact (Danziger and Gottschalk 1995). That work suggests that partisan tax and transfer policies may be less important than partisan patterns of macroeconomic performance. On the other hand, Danziger and Gottschalk's results may simply reflect the fact that Republicans controlled the White House in 14 of the 18 years covered by their analysis (1973-1991). Perhaps taxes and transfers have a significant inequality-reducing effect in Democratic administrations but not in Republican administrations.

Unfortunately, Census Bureau data on the distribution of post-tax income are only available beginning in 1979.²¹ Thus, the scope for historical analysis of partisan effects on post-tax income growth is quite limited; rather than comparing five Democrats and five Republicans over 54 years, we have one-and-a-half Democrats (Clinton and two years of Carter) and two Republicans (Reagan and the elder Bush) over 22 years. With that caveat, the upper panel of Table 7 presents average rates of real after-tax income growth since 1980 under Democratic and Republican presidents for households at the 20th, 40th, 60th, and 80th

²¹ "Table RDI-6: Income Limits for Each Fifth of Households, by Selected Definition of Income: 1979 to 2001." The table reports 15 different "Experimental Measures" of income. The one employed here is Definition 15, which subtracts federal and state taxes from the standard measure of pre-tax income and adds capital gains, health insurance supplements to wage or salary income, non-cash government transfers, and net imputed returns on home equity. The data and additional information are available from the Census Bureau website, <http://www.census.gov/hhes/income/histinc/rdi6.html>.

percentiles of the income distribution. The patterns of income growth – and the partisan differences in those patterns – are qualitatively similar to the patterns for pre-tax family income growth in Figure 1. Households at every income level did about equally well under Carter and Clinton, while Reagan and Bush produced weaker income growth at the top of the income distribution and little or none at the bottom. The partisan difference in average growth rates at the 20th percentile is 1.7 percentage points (with a *t*-statistic of 2.1), while the partisan differences for middle-income voters are on the order of one percentage point.

***** Table 7 *****

A comparison of the magnitude of these partisan differences with those presented in Figure 1 seems to suggest that post-tax income growth is less subject than pre-tax income growth to partisan effects, which is certainly counterintuitive. However, the comparison between the patterns in Table 7 and Figure 1 is misleading because of the difference in time periods. That fact is evident from the lower panel of Table 7, which reports average levels of pre-tax household income growth for the same 22-year period covered by the post-tax calculations in the upper panel of the table.²² Here there is very little evidence of partisan differences in income growth at any income level; real incomes at the 20th percentile grew three times as fast under Carter and Clinton as under Reagan and Bush, but even this difference is not close to being

²² The data employed in the lower panel of Table 7 are based on the same “official definition” of pre-tax income as in Tables 1 through 3 and Figure 1, but applied to households rather than families to maximize comparability with the data in the upper panel of the table. The distinction between households and families is inconsequential here; parallel calculations employing the family data from 1980 through 2001 produce very similar results.

“statistically significant” given the short time span and low overall income growth rates.²³

A comparison of the pre-tax and post-tax income growth patterns in Table 7 suggests that taxes and transfers had some redistributive effect under Carter and Clinton, but none under Reagan and Bush. Unfortunately, the limitations of the post-tax income data make it impossible to tell whether the same pattern held for previous Democratic and Republican presidents, or whether redistribution through taxes and transfers (for example, Clinton’s significant expansion of the Earned Income Tax Credit) is the modern Democrat’s *substitute* for pre-tax redistribution through expansionary macroeconomic policies. In any event, the partisan differences in post-tax income growth in the upper panel of Table 7 are sufficiently large, and sufficiently familiar in their pattern, to reinforce the conclusion that partisan politics has a profound impact on the economic fortunes of poor and middle-class households.

Election Cycles and Partisan Income Growth

Analysts of American electoral politics have documented a strong connection between the state of the economy and the political fortunes of the incumbent party in presidential and congressional elections (Kramer 1971; Tufte 1978; Hibbs 1987; Bartels and Zaller 2001). In light of this connection, an inspection of Figure 1 might lead one to wonder how Republicans ever get elected in the first place when most of the electorate (even allowing for differences

²³ While the partisan differences in pre-tax income growth in the bottom panel of Table 7 are not “statistically significant,” it is worth noting that the *declines* in partisan differences apparent in the post-1979 data are not “statistically significant” either. Indeed, a variety of elaborations of the regression model in Table 3 to allow for changes in the magnitude of partisan effects produced no “statistically significant” evidence of either structural breaks or secular trends.

across income classes in turnout) has been substantially worse off under Republican presidents than under Democrats. One obvious answer is that there are other important issues in the electoral arena, including war, race, and moral issues. A less obvious answer is that Republicans have been much more successful than Democrats at targeting income growth in presidential election years. If voters weigh recent economic performance much more heavily than performance earlier in a president's term – as most analysts have assumed and some have actually demonstrated – then the *timing* of income growth may provide a significant electoral advantage for Republican presidents. This fact is evident from Table 8, which compares the average levels of income growth under each party in presidential election years and non-election years.

***** Table 8 *****

The class gradient of income growth under Republican presidents is roughly similar in election years and non-election years, with income growth at the 95th percentile exceeding growth at the 20th percentile by about 1.5 percentage points. However, average growth at every income level has been about 2 percentage points higher in presidential election years than in non-election years. Whether through political skill or pure luck, post-war Republican presidents have regularly produced robust income growth in the run-up to presidential elections.

In stark contrast, Democratic presidents have produced much less income growth in presidential election years than in non-election years. These differences, too, are on the order of 2 percentage points, with real incomes at all levels growing by about 3 percent in non-election years but only about 1 percent (and actually *falling* at the top of the income distribution) in presidential election years. As a result, families at every income level have experienced much

more election-year income growth under Republican presidents than under Democratic presidents. Even families at the 20th percentile of the income distribution have seen about twice as much election-year income growth under Republican presidents (2.1 percent) as under Democratic presidents (1.0 percent); the corresponding figures in non-election years are .1 percent and 3.2 percent, respectively.

Tufte (1978, 143) noted that the electorate's short time horizon with respect to economic evaluations could produce "a bias toward policies with immediate, highly visible benefits and deferred, hidden costs—myopic policies for myopic voters." That concern seems confirmed by the record of Republican administrations, which have produced substantially more income growth at every income level in presidential election years than at other times. However, Democratic presidents have quite remarkably turned Tufte's political business cycle on its head, producing substantially *less* income growth at every income level in presidential election years than at other times. Given the strong impact of the election-year economy on presidential election outcomes, that difference in timing has had profound political consequences, shifting the partisan balance of the presidential electorate by three or four percentage points over the entire post-war period.²⁴

²⁴ Most statistical analyses of presidential election outcomes suggest that each additional percentage point of election-year income growth increases the incumbent party's vote share by 2 to 2.5 percentage points. Thus, a difference of 1.6 percentage points between average election-year income growth and average overall income growth (including election and non-election years) would alter the expected vote by 3 or 4 percentage points. Under Democratic presidents the differences between average election-year growth (in Table 8) and average overall growth (in Table 1) range from -1.0 percentage points at the 60th percentile to -2.4 percentage points at the 95th percentile and average -1.6 percentage points. Under Republican presidents the differences between average election-year growth (in Table 8) and average overall growth (in Table 1) range from 1.5 percentage points at the 20th percentile to 2.1 percentage

Politics and the Rise of Economic Inequality

The last four points in Figure 2 represent projections of the trend in income inequality through 2005 based on the statistical analysis reported in Table 3. The white circles, representing projections for the Bush presidency, show a return to the pattern of sharply growing inequality that marked the 1970s and 1980s. The black diamonds, representing projections of what might have been expected to occur under a Democratic president (given past historical patterns), show a continuation of the steady state that characterized the last five years of the Clinton administration. In the current economic environment neither party could be expected to reduce income inequality significantly; but the choice between Gore and Bush was, by this account, a choice between the status quo and a significant further increase in economic inequality in the first years of the 21st century. While the Democratic projection is a mere might-have-been, the Republican projection seems emphatically supported by both the macroeconomic performance and the tax policy of the Bush administration in its first two years in office.

Finally, Figure 2 also includes projections of the trend in inequality for the entire post-war period under Democratic and Republican administrations. (These are the fan-shaped pair of dotted lines in the figure, the upper line corresponding to continuous Republican rule and the lower line representing continuous Democratic rule.) These projections are also constructed on the basis of the statistical analysis reported in Table 3, but assuming continuous Democratic or continuous Republican control throughout the period. Taken literally, they suggest that

points at the 40th percentile and average 1.7 percentage points.

continuous Democratic control would have produced a slight *decrease* in inequality over the past three decades, despite the technological, demographic, and global competitive forces emphasized in economists' accounts of growing inequality – and that continuous Republican control would have produced a much sharper polarization between rich and poor than we have actually observed over the past thirty years, with the 80/20 income ratio growing more than 80 percent faster than it actually did.²⁵ Of course, these projections are based on the rather unrealistic assumption that each party would do all the time what it in fact does half the time, and partly in response to the opposing party's wrong-headed policies. It is by no means clear that either party would have the political will – or the political power – to produce economic redistribution of the cumulative magnitude suggested by these projections in the face of what would presumably be considerable opposition. Nevertheless, the cumulative differences in Figure 2 underline the fundamental significance of partisan politics in ameliorating or exacerbating the “natural” growth of inequality in the political economy of the contemporary U.S.

²⁵ The actual increase in the 80/20 income ratio from 1970 through 2000 was 25.5 percent; the projected increase under continuous Republican control is 46.4 percent, while the projected *decrease* under continuous Democratic control is 3.6 percent.

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Table 1
Real Income Growth Rates by Income Level
and Presidential Partisanship, 1948-2001

Mean and standard deviation of annual real pre-tax income growth (%)
for families at various points in the income distribution.

	All Years	Democratic Presidents	Republican Presidents
20th Percentile	1.58 sd=3.90	2.63 sd=3.95	.60 sd=3.65
40th Percentile	1.66 sd=3.01	2.45 sd=2.97	.93 sd=2.91
60th Percentile	1.86 sd=2.65	2.46 sd=2.68	1.32 sd=2.55
80th Percentile	1.97 sd=2.50	2.37 sd=2.55	1.60 sd=2.43
95th Percentile	2.10 sd=2.96	2.11 sd=3.30	2.09 sd=2.67
N	54	26	28

Table 2
Political Timing of Partisan Differences in Real Income Growth Rates
for the Working Poor, 1948-2001

Partisan difference (Democratic–Republican) in annual real pre-tax income growth (%)
for families at the 20th percentile of the income distribution (with standard errors in
parentheses).

	All Administrations	Partisan Turnover	No Partisan Turnover
Year 2	5.71 (1.84)	8.86 (1.59)	3.34 (2.73)
Year 3	1.60 (2.34)	-.09 (4.03)	2.87 (3.15)
Year 4 (Election Year)	-1.06 (2.11)	-5.35 (3.12)	2.16 (2.48)
Year 5	.37 (1.83)	.83 (2.92)	.02 (2.63)
Total	2.03 (1.03)	1.06 (1.73)	2.80 (1.29)
N	54	24	30

Table 3
Regression Analysis of Income Growth

Annual real pre-tax income growth (%) for families at various points in the income distribution.
Parameter estimates from Seemingly Unrelated Regression models
(with standard errors in parentheses). N=53 (1949-2001).

	20th Percentile	40th Percentile	60th Percentile	80th Percentile	95th Percentile
Democratic President^a	2.40 (.94)	1.75 (.72)	1.49 (.63)	1.10 (.59)	.31 (.76)
Lagged Growth	-.125 (.087)	-.147 (.082)	-.214 (.082)	-.249 (.095)	.040 (.128)
Lagged 95th Percentile	.434 (.166)	.254 (.133)	.253 (.118)	.238 (.119)	---
Linear Trend^b	-.0659 (.0305)	-.0705 (.0238)	-.0648 (.0208)	-.0494 (.0194)	-.0228 (.0246)
Intercept	-1.90 (1.07)	-1.23 (.83)	-.56 (.72)	.29 (.68)	1.42 (.86)
Std error of regression	3.38	2.62	2.32	2.20	2.74
R²	.22	.23	.18	.10	.02

(a) Lagged partisan control (from one year following inauguration to one year following subsequent inauguration).

(b) Trend variable coded as Year-2001 (i.e., from -52 in 1949 to 0 in 2001).

Table 4
Estimated Real Income Growth Rates by Income Level
and Presidential Partisanship, circa 2001

Annual real pre-tax income growth (%) for families at various points in the income distribution.
 Parameter estimates derived from Seemingly Unrelated Regression models
 in Table 3 (with standard errors in parentheses).

	Democratic President	Republican President	Partisan Difference
20th Percentile	.28 (1.10)	-2.12 (1.10)	2.40 (.94)
40th Percentile	.50 (.85)	-1.25 (.83)	1.75 (.72)
60th Percentile	.93 (.74)	-.56 (.72)	1.49 (.63)
80th Percentile	1.21 (.70)	.11 (.68)	1.10 (.59)
95th Percentile	1.73 (.89)	1.42 (.86)	.31 (.76)

Table 5
Partisan Differences in Macroeconomic Performance, 1948-2001

Average values (with standard errors in parentheses).

	Democratic Presidents	Republican Presidents	Partisan Difference
Unemployment (%)	4.84 (.24)	6.35 (.27)	-1.51 (.37)
Inflation (%)	3.97 (.71)	3.95 (.48)	.02 (.84)
GDP Growth (%)	4.08 (.43)	2.86 (.49)	1.22 (.66)
N	26	28	54

Table 6
Regression Analysis of Income Growth with Macroeconomic Controls

Annual real pre-tax income growth (%) for families at various points in the income distribution.
Parameter estimates from Seemingly Unrelated Regression models
(with standard errors in parentheses). N=53 (1949-2001).

	20th Percentile	40th Percentile	60th Percentile	80th Percentile	95th Percentile
Democratic President^a	.00 (.74)	-.02 (.55)	.03 (.46)	.01 (.53)	-.20 (.80)
Unemployment (%)	-.814 (.306)	-.595 (.220)	-.433 (.182)	-.351 (.205)	-.035 (.303)
Inflation (%)	.019 (.112)	-.104 (.083)	-.152 (.069)	-.174 (.079)	-.287 (.121)
GDP Growth (%)	.970 (.142)	.735 (.105)	.644 (.085)	.469 (.097)	.351 (.148)
Lagged Growth	-.067 (.090)	-.099 (.080)	-.129 (.077)	-.224 (.098)	-.016 (.125)
Lagged 95th Percentile	.110 (.122)	.011 (.096)	.030 (.081)	.093 (.101)	---
Linear Trend^b	-.0167 (.0217)	-.0280 (.0164)	-.0262 (.0135)	-.0190 (.0155)	-.0003 (.0236)
Intercept	2.31 (2.32)	2.39 (1.68)	2.27 (1.39)	2.90 (1.58)	2.47 (2.35)
Std error of regression	2.25	1.66	1.41	1.65	2.41
R²	.66	.69	.70	.50	.25

(a) Lagged partisan control (from one year following inauguration to one year following subsequent inauguration).

(b) Trend variable coded as Year-2001 (i.e., from -52 in 1949 to 0 in 2001).

Table 7
Partisan Differences in Real Pre- and Post-Tax Income Growth, 1980-2001

Annual real income growth (%) for households at various points in the income distribution.
Average values (with standard errors in parentheses).

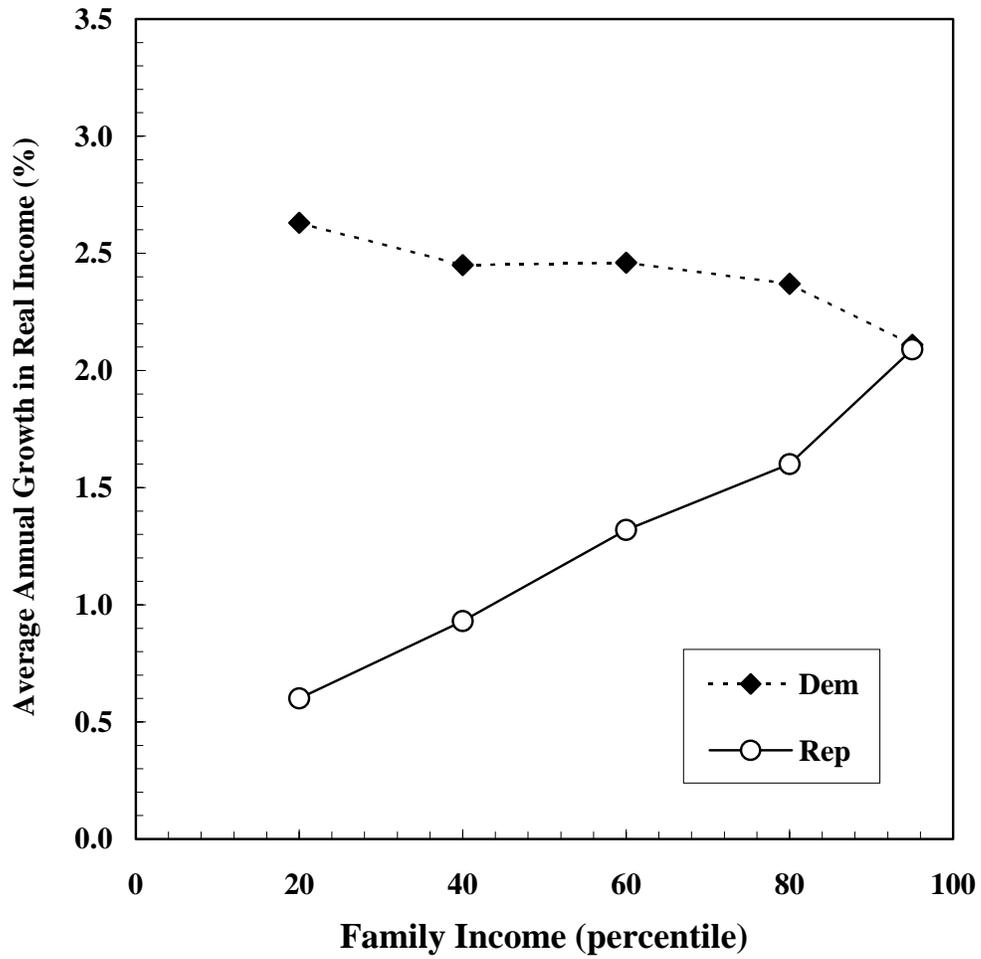
	Democratic Presidents	Republican Presidents	Partisan Difference
Post-Tax Income Growth			
20th Percentile	1.54 (.60)	-.17 (.56)	1.71 (.82)
40th Percentile	1.31 (.50)	.24 (.45)	1.07 (.67)
60th Percentile	1.39 (.48)	.50 (.43)	.88 (.65)
80th Percentile	1.33 (.47)	.87 (.46)	.46 (.66)
Pre-Tax Income Growth			
20th Percentile	.93 (.91)	.30 (.54)	.63 (1.01)
40th Percentile	.67 (.76)	.55 (.51)	.12 (.88)
60th Percentile	.74 (.73)	.71 (.51)	.03 (.87)
80th Percentile	1.10 (.62)	1.14 (.46)	-.03 (.75)
N	10	12	22

Table 8
Presidential Elections and Income Growth, 1948-2001

Annual real pre-tax income growth (%) for families at various points in the income distribution.

	Democratic Presidents	Republican Presidents	Partisan Difference
Non-Election Years			
20th Percentile	3.23 (.88)	.11 (.77)	3.12 (1.17)
40th Percentile	2.93 (.68)	.23 (.59)	2.70 (.90)
60th Percentile	2.83 (.52)	.77 (.54)	2.07 (.75)
80th Percentile	2.97 (.50)	1.09 (.49)	1.88 (.70)
95th Percentile	2.98 (.69)	1.56 (.57)	1.42 (.89)
N	19	21	40
Presidential Election Years			
20th Percentile	.99 (1.52)	2.05 (1.47)	-1.06 (2.11)
40th Percentile	1.15 (1.03)	3.02 (.99)	-1.88 (1.43)
60th Percentile	1.43 (1.35)	2.96 (.83)	-1.53 (1.59)
80th Percentile	.75 (1.12)	3.13 (.96)	-2.38 (1.47)
95th Percentile	-.26 (1.13)	3.69 (.85)	-3.94 (1.41)
N	7	7	14

Figure 1: Income Growth by Income Level in Democratic and Republican Administrations, 1948-2001



**Figure 2: Income Inequality, 1947-2001
(and Projections through 2005, by Party)**

