CHAPTER 1

The New Gilded Age

In the first sentence of one of the greatest works of modern political science, Robert Dahl posed a question of profound importance for democratic theory and practice: "In a political system where nearly every adult may vote but where knowledge, wealth, social position, access to officials, and other resources are unequally distributed, who actually governs?"[1]

Dahl's answer to this question, for one American city in the late 1950s, was that political power was surprisingly widely dispersed. Examining politics and policy-making in New Haven, Connecticut, he concluded that shifting, largely distinct coalitions of elected and unelected leaders influenced key decisions in different issue areas. This pluralistic pattern was facilitated by the fact that many individuals and groups with substantial resources at their disposal chose not to devote those resources to political activity. Even "economic notables"—the wealthy property owners, businessmen, and bank directors constituting the top tier of New Haven's economic elite—were "simply one of the many groups out of which individuals sporadically emerge to influence the policies and acts of city officials."[2]

The significance of Dahl's question has been magnified, and the pertinence of his answer has been cast in doubt, by dramatic economic and political changes in the United States over the past half-century. Economically, America has become vastly richer and vastly more unequal. Perhaps most strikingly, the share of total income going to people at the level of Dahl's "economic notables"—the top 0.1% of income-earners—has tripled, from 3.3% in the late 1950s to 10.3% in 2014. The share going to the top 1% of income-earners—a much broader but still very affluent group—doubled over the same period, from 10.4% to 21.2%.[3] The nation's wealth

[1] Dahl (1961, 1).

[2] Of the 238 people in this group, only three were among the 23 most influential participants in the city's politics and policy-making. Nine more were "minor leaders"—all in the field of urban redevelopment, a policy area of distinctive relevance for their economic interests (Dahl 1961, 72, and chap. 6).

[3] These figures are from tabulations in the World Top Incomes Database constructed by Facundo Alvaredo, Tony Atkinson, Thomas Piketty, and Emmanuel Saez (http://topincomes.parisschoolofeconomics.eu/#Database:) and include capital gains. In both cases, the share of

is even more concentrated, with the wealthiest 1% of households holding 41.8% and the wealthiest 0.1% holding 22.0%.[4] It seems natural to wonder whether the pluralistic democracy Dahl found in the 1950s has survived this rapidly escalating concentration of economic resources in the hands of America's most affluent citizens.[5]

Meanwhile, the political process has evolved in ways that seem likely to reinforce the advantages of wealth. Political campaigns have become dramatically more expensive since the 1950s, increasing the reliance of elected officials on people who can afford to help finance their bids for reelection. Major campaign finance regulations imposed in response to the Watergate scandal of the early 1970s have been significantly weakened by a series of Supreme Court decisions—most notably in *Citizens United v. FEC* in 2010—chipping away at contribution limits and allowing unlimited contributions to "super PACs" engaged in putatively independent campaign expenditures. Even more importantly, lobbying activities by corporations and business and professional organizations have accelerated greatly, outpacing the growth of public interest groups. Meanwhile, membership in labor unions has declined substantially, eroding the primary mechanism for organized representation of working people in the governmental process.

How have these economic and political developments affected "who actually governs"? Political scientists since Aristotle have wrestled with the question of whether substantial economic inequality is compatible with democracy, but until recently that question was far from the forefront of contemporary empirical research. In 2004, a task force on inequality and American democracy convened by the American Political Science Association concluded that political scientists knew "astonishingly little" about the "cumulative effects on American democracy" of recent economic and political changes. However, the task force members worried "that rising economic inequality will solidify longstanding disparities in political voice and influence, and perhaps exacerbate such disparities."[6]

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income going to top earners was even higher in 2007, but declined in the Great Recession and by 2014 had not (yet) fully recovered.

[4] These figures are from 2012, the most recent year available as of this writing. The corresponding wealth shares in the late 1950s were 29% and 10%. Saez and Zucman (forthcoming), online appendix (http://gabriel-zucman.eu/files/SaezZucman2016QJEAppendix.pdf), "Table B1: Top Wealth Shares, Individual-Level Unit of Observation."

[5] Dahl himself continued to revise and elaborate his account of the workings of American democracy. His *Dilemmas of Pluralist Democracy* (1982) was especially pertinent in this respect: chapter 8 addressed the ramifications of economic inequality for the American political system and the potential significance of economic inequality as a political issue. His 2006 book *On Political Equality* examined more broadly whether the ideal of political equality is compatible with fundamental aspects of human nature.

[6] Task Force on Inequality and American Democracy (2004, 662); Jacobs and Skocpol (2005).

The work of the APSA task force helped to stimulate a substantial body of new research focusing on economic inequality and American democracy.[7] While that work is far from complete, and much of it remains controversial, political scientists have made real progress in tracing the political consequences of economic inequality. Their findings suggest that elected officials and public policy are largely unresponsive to the policy preferences of millions of low-income citizens, leaving their political interests to be served or ignored as the ideological whims of incumbent elites may dictate. Dahl suggested that democracy entails “continued responsiveness of the government to the preferences of its citizens, considered as political equals.”[8] The contemporary United States is a very long way from meeting that standard.

While it has become increasingly clear that economic inequality has profound ramifications for democratic politics, that is only half the story of this book. The other half of the story is that politics also profoundly shapes economics. While technological change, globalization, demographic shifts, and other economic and social forces have produced powerful pressures toward greater inequality in recent decades, politics and public policy can and do significantly reinforce or mitigate those pressures, depending on the political aims and priorities of elected officials. I trace the impact of public policies on changes in the U.S. income distribution over almost seven decades, from the tripled income share of Dahl’s “economic notables” at the top to the plight of minimum wage workers at the bottom. I find that partisan politics and the ideological convictions of political elites have had a substantial impact on the American economy, especially on the economic fortunes of middle-class and poor people. Economic inequality is, in substantial part, a *political* phenomenon.

In theory, public opinion constrains the ideological convictions of political elites in democratic political systems. In practice, however, elected officials have a great deal of political leeway. This fact is strikingly illustrated by the behavior of Democratic and Republican senators from the same state, who routinely pursue vastly different policies while “representing” precisely the same constituents. On a broader historical scale, political latitude is also demonstrated by consistent, marked shifts in economic priorities and performance when Democrats replace Republicans, or when Republicans replace Democrats, in the White House. In these respects, among others, conventional democratic theory misses much of what is most interesting and important about the actual workings of the American political system.

[7] For example, Bartels (2008); Page and Jacobs (2009); Hacker and Pierson (2010); Gilens (2012); Schlozman, Verba, and Brady (2012); Carnes (2013); Page, Bartels, and Seawright (2013); Gilens and Page (2014).

[8] Dahl (1971, 1).

My examination of the partisan politics of economic inequality, in chapter 2, reveals that Democratic and Republican presidents since the late 1940s have presided over dramatically different patterns of income growth. On average, the real incomes of middle-class families have grown more than twice as fast under Democrats as they have under Republicans, while the real incomes of working poor families have grown *ten times* as fast under Democrats as they have under Republicans. These substantial partisan differences persist even after allowing for differences in economic circumstances and historical trends beyond the control of individual presidents. They demonstrate that escalating inequality is *not* simply an inevitable economic trend—and that a great deal of economic inequality in the contemporary United States is specifically attributable to the policies and priorities of Republican presidents.

Any satisfactory account of the American political economy must therefore explain how and why Republicans have had so much success in the American electoral arena despite their startlingly negative impact on the economic fortunes of middle-class and poor people. My analysis in chapter 3 identifies three distinct biases in political accountability that explain much of their success. One is a myopic focus of voters on very recent economic performance, which rewards Republicans' surprising success in concentrating income growth in election years. Another is the peculiar sensitivity of voters at all income levels to high-income growth rates, which rewards Republicans' success in generating election-year income growth among affluent families specifically. Finally, the responsiveness of voters to campaign spending rewards Republicans' frequent advantage in fund-raising. Together, these biases probably account three times over for the Republican Party's net advantage in popular votes cast in presidential elections since the end of World War II—and for four of the nine instances in which Republicans won the White House. Voters' seemingly straightforward tendency to reward or punish the incumbent government at the polls for good or bad economic performance turns out to be warped in ways that are both fascinating and politically crucial.

In chapter 4, I turn to citizens' views about equality; their attitudes toward salient economic groups such as rich people, poor people, big business, and labor unions; and their perceptions of the extent, causes, and consequences of economic inequality in contemporary America. My analysis reveals considerable concern about inequality among ordinary Americans and considerable sympathy for working-class and poor people. However, it also reveals a good deal of ignorance and misconnection between values, beliefs, and policy preferences among people who pay relatively little attention to politics and public affairs, and a good deal of politically motivated misperception among better-informed people. As a result, political elites retain considerable latitude to pursue their own policy ends.

Chapters 5, 6, and 7 provide a series of case studies of politics and policymaking in issue areas with important ramifications for economic inequality. Chapter 5 focuses on the Bush tax cuts of 2001 and 2003, which dramatically reduced the federal tax burdens of wealthy Americans. I find that public opinion regarding the Bush tax cuts was remarkably shallow and confused considering the multi-*trillion*-dollar stakes. A year after the 2001 tax cut took effect, 40% of the public said they had not thought about whether they favored or opposed it, and those who did take a position did so largely on the basis of how they felt about their own tax burden. Views about the tax burden of the rich had no apparent impact on public opinion, despite the fact that most of the benefits went to affluent taxpayers; egalitarian values reduced support for the tax cut, but only among strong egalitarians who were also politically well informed.

Chapter 6 focuses on the campaign to repeal the federal estate tax. As with the Bush tax cuts more generally, I find that repeal of the estate tax has been remarkably popular among ordinary Americans, regardless of their political views and economic circumstances, and despite the fact that the vast majority of them never have been or would be subject to estate taxation. Moreover, the strange appeal of estate tax repeal long predates the efforts of conservative interest groups in the 1990s to manufacture public opposition to the estate tax. Thus, the real political mystery is not why the estate tax was temporarily phased out in 2001, but why it has survived for nearly a century despite the public's antipathy. The simple answer is that the views of liberal elites determined to prevent repeal have been more consequential than the views of ordinary citizens.

In chapter 7, I turn from wealthy heirs to working poor people and the eroding minimum wage. Here, too, the views of ordinary citizens seem to have had remarkably little impact on public policy. The real value of the federal minimum wage has declined by one-third since the late 1960s, despite remarkably strong and consistent public support for minimum wage increases. My analysis attributes this erosion to the declining political clout of labor unions and to shifts in partisan control of Congress and the White House. As with the estate tax, the politics of the minimum wage underscores the ability of determined elites in the American political system to postpone or prevent policy shifts. However, in this case the determined elites have not been liberal Democrats intent on taxing the bequests of millionaires, but conservative Republicans intent on protecting the free market (and low-wage employers) from the predations of people earning $7.25 per hour. Conversely, the adoption of higher state-specific minimum wage rates has mostly hinged upon the political strength of unions and Democratic politicians rather than mass opinion, even in states with initiative and referendum procedures.

My case studies of the Bush tax cuts, estate tax repeal, and the eroding minimum wage shed light on both the political causes and the political consequences of escalating economic inequality in contemporary America. In chapter 8, I attempt to provide a more general answer to Dahl's fundamental question: who governs? I examine broad patterns of policy-making across a wide range of issues, focusing on disparities in the responsiveness of elected officials to the views of their constituents. I find that the roll call votes cast by members of the U.S. Senate and House of Representatives are much better accounted for by their own partisanship than by the preferences of their constituents. Moreover, insofar as constituents' views do matter, political influence seems to be limited mostly to affluent and middle-class people. In the case of senators, the opinions of millions of ordinary citizens in the bottom one-third of the income distribution have *no* discernible impact on the behavior of their elected representatives.

Chapters 9 and 10 carry the analysis through the Obama era. In chapter 9, I examine the responses of policy-makers and citizens to the greatest economic calamity of our time, the Great Recession. Many observers expected the economic crisis to shift American politics significantly to the left. It did contribute to the dramatic election of Barack Obama, whose response to the recession underlined once again the significance of partisan ideologies in shaping public policy. However, voters' predictable impatience with a slow economic recovery and their predictable resistance to ideological overreach combined with the intransigence of Republicans in Congress to constrain and then stifle Obama's "New New Deal." Meanwhile, the persistent tendency of policy-makers to see the world through privileged eyes—personified by Treasury Secretary Timothy Geithner's perceptions and judgments during and after the tumultuous Wall Street meltdown—arguably tilted economic policy in favor of wealthy interests at the expense of ordinary Americans.

In chapter 10, I assess the politics of inequality in the wake of the Great Recession, the rise and fall of the Occupy Wall Street movement, and President Obama's high-profile rhetoric identifying inequality as "the defining challenge of our time." My analysis suggests that these developments have had remarkably little impact on Americans' perceptions and values regarding inequality, on their policy preferences, and on their voting behavior. Even a presidential election in which "the chasm between the rich and ordinary workers" became "a crucial talking point in the Democratic Party's arsenal" turned much less on voters' views about taxing the wealthy than on their perceptions of the Republican nominee as an out-of-touch plutocrat.[9]

Writing in the 1980s, at an early stage in the most recent wave of escalating inequality, political scientists Sidney Verba and Gary Orren depicted an ongoing back-and-forth between the powerful forces of economic inequality and political equality: "Political equality . . . poses a constant challenge to economic inequality as disadvantaged groups petition the state for redress.

[9] Eduardo Porter, "Inequality Undermines Democracy," *New York Times*, March 20, 2012.

Egalitarian demands lead to equalizing legislation, such as the progressive income tax. But the continuing disparities in the economic sphere work to limit the effectiveness of such laws, as the economically advantaged groups unleash their greater resources in the political sphere. These groups lobby for tax loopholes, hire lawyers and accountants to maximize their benefit from tax laws, and then deduct the costs."[10]

In the long run of American political history, Verba and Orren's depiction seems apt. However, in the current economic and political environment it is easy to wonder whether the "constant challenge to economic inequality" posed by the ideal of political equality is really so constant or, in the end, so effective. This book provides strong evidence that economic inequality impinges powerfully on the political process, frustrating the egalitarian ideals of American democracy. The countervailing impact of egalitarian ideals in constraining disparities in the economic sphere seems to be considerably more tenuous, notwithstanding the comfortable notion among many liberals that the public has been or soon will be mobilized in support of "equalizing legislation."

Escalating Economic Inequality

Most Americans have only a vague sense of the contours of the nation's income distribution—especially for parts of the income distribution that extend beyond their personal experience. Annual tabulations published by the U.S. Census Bureau provide a useful summary of the incomes of families at different points in the distribution. For example, in 2014 the typical American family had a total pre-tax income of $66,632. More than 16 million families—one out of every five—earned less than $29,100. A similar number earned more than $129,000. Even higher in the distribution, the richest 5% of American families had incomes of more than $230,000.[11]

The Census Bureau provides similar annual tabulations of income going back to 1947 for families at the 20th, 40th, 60th, 80th, and 95th percentiles of the income distribution. These tabulations constitute the longest

[10] Verba and Orren (1985, 19).

[11] U.S. Census Bureau, Current Population Survey (CPS), Annual Social and Economic Supplements, "Table F-1: Income Limits for Each Fifth and Top 5 Percent of Families (All Races): 1947 to 2014." These data are derived from the Census Bureau's March CPS and are intended to reflect total pre-tax income for families consisting of two or more people. Pre-tax income includes wages, interest and dividends, and cash transfers such as Social Security payments, but does not include the value of government services such as Medicare and food stamps. The data and additional information are available from the Census Bureau website (http://www.census.gov/hhes/www/income/data/historical/families/).

consistent data series included in the Census Bureau's Historical Income Tables.[12] Although they do not reflect the economic fortunes of very poor families at one extreme or very wealthy families at the other extreme, they do represent a broad range of economic circumstances, encompassing working poor families at the 20th percentile, middle-class families at the 40th and 60th percentiles, affluent families at the 80th percentile, and even more affluent families at the 95th percentile. Thus, they provide an invaluable record of the changing economic fortunes of American families over a period of almost seven decades.[13]

The distribution of income in American society has shifted markedly in that time. The broad outlines of this transformation are evident in figure 1.1, which shows how the real pre-tax incomes (in 2014 dollars) of families at various points in the income distribution have changed since 1947. It is clear from figure 1.1 that the period since World War II has seen substantial gains in real income for families throughout the income distribution, but especially for those who were already well off. The average rate of real income growth over the entire period covered by the figure increased uniformly with each step up the income distribution, from 1.0% per year for families at the 20th percentile to 1.7% per year for families at the 95th percentile.

The difference between 1.0% and 1.7% may sound small, but it has compounded into a dramatic difference in *cumulative* real income growth over the past 67 years: 98% for families at the 20th percentile versus 207% for families at the 95th percentile. Of course, the contrast in economic gains between poor families and rich families is even starker in absolute terms than it is in percentage terms. The real incomes of families at the 20th percentile increased by less than $15,000 (2014 dollars) over this period, while the real incomes of families at the 95th percentile increased by more than ten times that much.

These figures convey a striking disparity in the economic fortunes of rich and poor American families since the late 1940s. However, they fail to capture another important difference in the experience of families near the bottom of the income distribution and those near the top: poor families

[12] The Census Bureau's definition of families excludes a growing proportion of households consisting of single or unrelated people. (In 2014, 34% of households were not families by the Census Bureau's definition, up from 18% in 1967, and the median income of all households was $53,657, almost 20% less than the median income of families.) However, a parallel series of income tabulations for the larger universe of households displays generally similar income trends over the period for which the two series overlap, 1967–2014.

[13] Obviously, specific families do not remain at exactly the same point in the income distribution from year to year. Indeed, the specific families included in the Current Population Survey, from which these tabulations are derived, change from year to year. Nevertheless, the data reflect the aggregate economic fortunes of poor, middle-class, and rich families and how they have changed.

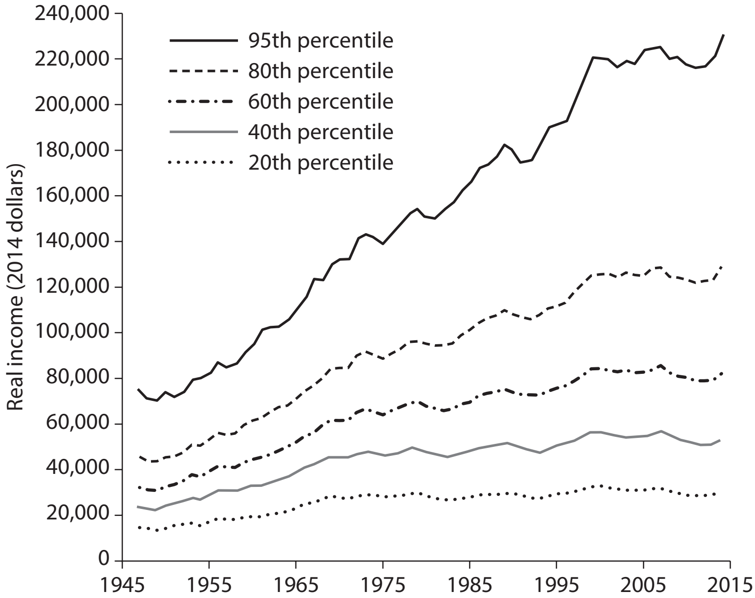

FIGURE 1.1 Family Incomes by Income Percentile, 1947–2014

have been subject to considerably larger fluctuations in income growth rates. For example, families at the 20th percentile experienced declining real incomes in 25 of the 67 years represented in figure 1.1, including six declines of 3% or more since the mid-1970s; by comparison, families at the 95th percentile have experienced only one decline of 3% or more in their real incomes since 1951.

Although it may not be immediately apparent in figure 1.1, the pattern of income growth in the past 40 years has differed sharply from the pattern in the first half of the postwar era. In the 1950s and 1960s, families in every part of the income distribution experienced robust income growth. Since the mid-1970s, income growth has been a good deal slower and a good deal less evenly distributed. These differences are evident in figure 1.2, which compares cumulative rates of real income growth for families in various parts of the income distribution from 1947 to 1974 and from 1974 to 2014.[14]

From the late 1940s through the early 1970s, American income growth was rapid and remarkably egalitarian, at least in percentage terms. Indeed, the real incomes of working poor families (at the 20th percentile of the income distribution) and affluent families (at the 80th percentile) both grew

[14] This figure is modeled on a similar presentation of the same data by Mishel, Bernstein, and Boushey (2003, 57).

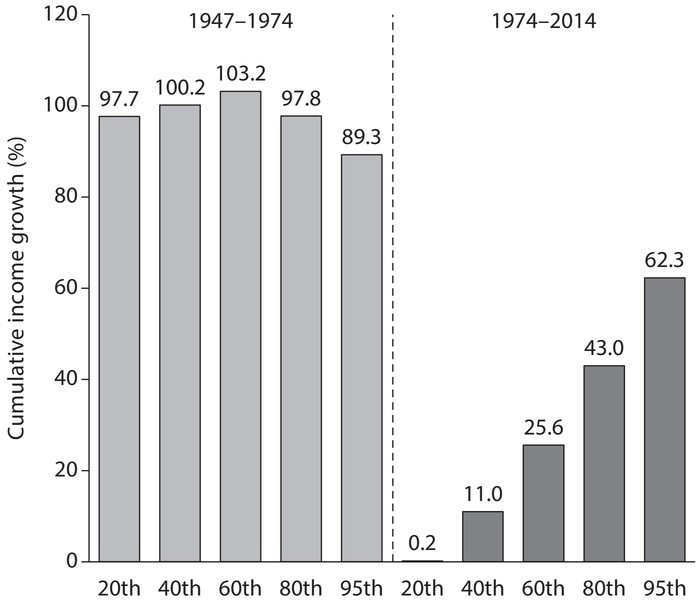

Figure 1.2 Cumulative Income Growth by Income Percentile, 1947–1974 and 1974–2014

by the same 98% over this period. Income growth was slightly higher for middle-class families and slightly lower for families at the 95th percentile, but every income group experienced real income growth between 2.4% and 2.6% per year.

Over the past four decades, income growth has been much slower and much less evenly distributed. Even for families near the top of the income distribution, the average rate of real income growth has been cut in half, from 2.4% per year to 1.2% for families at the 95th percentile. For less affluent families, real income growth has slowed to a crawl. Families at the 60th percentile experienced real income growth of 0.6% per year—less than one-fourth as fast as in the earlier period. The real incomes of families at the 20th percentile barely grew at all over these four decades, increasing by just 0.004% per year. Much of the income growth that did occur was attributable to increases in working hours, especially from the increasing participation of women in the workforce.

Even the disparities in income growth for affluent, middle-class, and working poor American families charted in figures 1.1 and 1.2 understate the extent of escalating inequality since the 1970s in two important ways. First, they miss a noteworthy deterioration of economic circumstances at the very bottom of the income distribution. Shifts in public policy, including welfare reform and the expansion of the Earned Income Tax Credit, have increasingly focused government aid on the "deserving poor"—people with jobs and families—rather than the poorest of the poor. Thus, while assistance for single parents with incomes just above the poverty line increased by 74 percent from 1983 to 2004, assistance for those with the lowest incomes fell by more than one-third. About 5% of Americans live in "deep poverty" (with household incomes below *half* the poverty line, even after taking account of food stamps, housing assistance, and other government aid), and that proportion has remained virtually unchanged since the early 1970s.[15]

Kathryn Edin and Luke Shaefer have focused attention on an even poorer stratum of low-income households—those with cash incomes of less than $2 per person per day. They estimated that 0.5% of U.S. children lived in such households on a "chronic" basis (for at least seven months of the year) in 1996. But in that year a Republican Congress and a Democratic president who had pledged to "end welfare as we know it" joined forces to scrap the 60-year-old Aid to Families with Dependent Children program, replacing it with the more restrictive Temporary Assistance for Needy Families. Welfare rolls shrank precipitously, but not all of those who lost their welfare entitlements found work. By 2005, the proportion of children living in chronic $2-a-day poverty had more than doubled, to 1.2%. By 2012, that proportion had more than *tripled*, to 1.7%, and many more households were experiencing "episodic" $2-a-day poverty (for three to six months of the year). Edin and Shaefer characterized these changes as "a fundamental shift in the circumstances of households with children at the very bottom of the bottom in the United States."[16]

At the other end of the income distribution, the growing affluence of families at the 95th percentile (the highest stratum represented in the Census Bureau figures in figure 1.1) is dwarfed by the even more dramatic gains made by people at the very top of the top. Economists Thomas Piketty and Emmanuel Saez have used information collected by the Internal Revenue Service (IRS) to track the economic fortunes of people much higher up the economic ladder than the Census Bureau tabulations reach. Figure 1.3 presents their tabulations of the real incomes (in 2014 dollars) of taxpayers at

[15] Eduardo Porter, "Electing to Ignore the Poorest of the Poor," *New York Times*, November 17, 2015; Fox et al. (2015); Kathleen Short, "The Supplemental Poverty Measure: 2014," Current Population Reports P60-254, U.S. Census Bureau, September 2015.

[16] Edin and Shaefer (2015); Shaefer, Edin, and Talbert (2015, 127–129, 136). The $2-a-day threshold is a poverty standard commonly employed by the World Bank in less developed countries. The proportions of children living in $2-a-day poverty are lower if food stamps are counted as cash, but Edin and Shaefer argued that, for very poor families, food stamps are neither fully fungible nor culturally equivalent to cash.

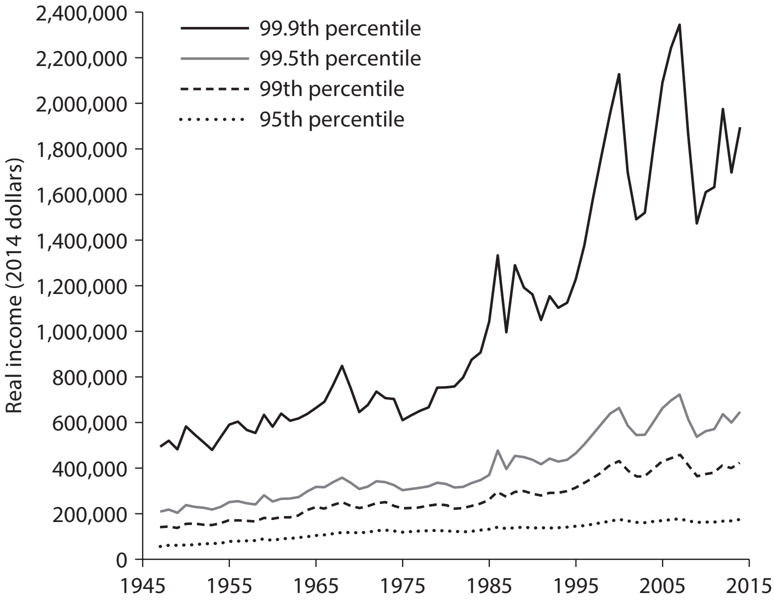

FIGURE 1.3 Top Incomes by Income Percentile, 1947–2014

the 95th, 99th, 99.5th, and 99.9th percentiles of the income distribution since 1947.[17]

What is most striking in figure 1.3 is that, even within this affluent subgroup, income growth over the past four decades has accelerated with every additional step up the economic ladder. The impressive growth of real incomes at the 95th percentile, which looms so large in figure 1.1, is virtually invisible in figure 1.3. The real incomes of taxpayers at the 99th percentile—the threshold for entry into “the 1%”—*doubled* between 1981 and the pre-recession income peak in 2007. The threshold for entry into the top one-tenth of the 1% more than *tripled* over the same period, from about $760,000 to $2.3 million in annual income, before falling to “just” $1.9 million in the depths of the Great Recession.

[17] Piketty and Saez (2003, table A6). Updated data are available from the World Top Incomes Database (http://topincomes.parisschoolofeconomics.eu/#Database:). These figures derived from IRS data are not directly comparable with the Census Bureau figures charted in figure 1.1. For example, the Census Bureau’s income figure for families at the 95th percentile in 2014 is $230,030; the corresponding IRS figure for the 95th percentile of tax filers is $174,240. The latter figure represents annual gross income (including capital gains) reported on individual tax returns. Comparisons are complicated by the fact that some families do not file tax returns, while others file more than one return. For recent years, Piketty and Saez assumed that non-filers had incomes equal to 20% of the average income of filers.

Even higher up in the distribution (and literally off the chart in figure 1.3), the real incomes of taxpayers at the 99.99th percentile more than *quadrupled* between 1981 and 2007. The real income *threshold*—not the *average* income—for this hyper-rich stratum (comprising about 16,500 taxpayers in 2014) was more or less constant for three decades following the end of World War II, but it escalated rapidly from about $2 million (2014 dollars) in the mid-1970s to about $5 million in the early 1990s, $12 million at the height of the tech bubble in 2000, and $13.1 million on the eve of the Great Recession. Although this hyper-rich income threshold fell by 45% between 2007 and 2009, it soon began to rebound, as it has from every previous setback, reaching $9.7 million in 2014.

Another illuminating way to look at Piketty and Saez's tabulations is in terms of the *shares* of total income going to people in different economic strata. Figure 1.4 shows these income shares for the top 5% of taxpayers (the solid line) and the top 1% (the dotted line) over the past century. For the period since World War II, the picture here is quite consistent with the picture presented in figures 1.1 and 1.3. The share of income going to the rich remained remarkably constant from the mid-1940s through the 1970s and then began to escalate rapidly. For example, the top 5% of taxpayers accounted for 23% of total income in 1981, but almost 38% in 2014. The top 1% accounted for 10% of total income in 1981, but more than 21% in 2014; after declining gradually over most of the 20th century, their share of the pie doubled in the course of a single generation.[18]

Two other features of the historical trends in income shares stand out in figure 1.4. One is that the increasing share of income going to people in the top 5% of the distribution is entirely accounted for by the increasing share going to the top 1%; the distance between the solid and dotted lines, which represents the share going to people between the 95th and 99th percentiles, remained virtually constant. As in figure 1.3, it is clear here that the really dramatic economic gains over the past 40 years have been concentrated among the extremely rich, largely bypassing even the vast majority of ordinary rich people in the top 5% of the income distribution.

[18] Piketty and Saez (2003, table A3); World Top Incomes Database (http://topincomes.parisschoolofeconomics.eu/#Database:). The income shares reported in figure 1.4 include capital gains as well as other sources of income. Piketty and Saez noted that capital gains are "a volatile component" of income and "tend to be realized in a lumpy way." Some of this lumpiness is real (as with the spikes in top income shares coinciding with the peaks of the tech bubble in 2000 and the real estate bubble in 2007), while some reflects artifacts of tax accounting (as with the spike corresponding to the tax reform of 1986). Nevertheless, the historical trends in income shares are generally similar whether capital gains are included or excluded (compare Piketty and Saez 2003, table A1). However, ignoring capital gains understates the income share of the richest taxpayers. For example, the average income share of the top 1% of taxpayers in 2005–2014 was 17.8% excluding capital gains but 21.1% including capital gains.

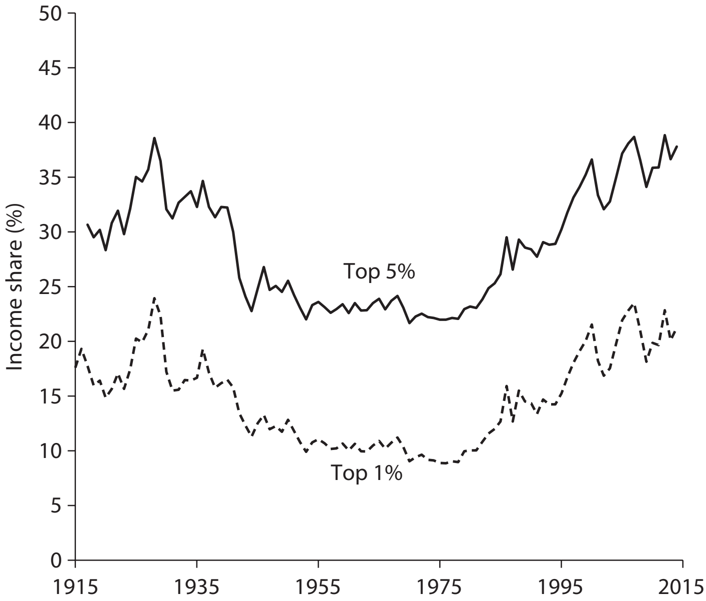

FIGURE 1.4 Income Shares of Top 5% and Top 1%, 1915–2014

Indeed, economists Frank Levy and Peter Temin used Piketty and Saez's data to show that more than four-fifths of the total increase in Americans' real pre-tax income between 1980 and 2005 went to the top 1% of taxpayers. Around the same time, a front-page story in the *New York Times* declared that "the hyper-rich have emerged in the last three decades as the biggest winners in a remarkable transformation of the American economy." Of course, several years later "the 1%" became the bête noire of the Occupy Wall Street movement.[19]

Because Piketty and Saez's tabulations go back to the advent of the federal income tax system, they also provide important historical perspective on the absolute magnitude of inequality in the contemporary American income distribution. Although it is impossible to reliably compare current levels of inequality with those prevailing in the original Gilded Age in the late 19th century, it *is* possible to compare the position of today's economic elite with their counterparts in what most economic historians consider the other notable highpoint of economic inequality in American history—the 1920s. Whether we focus on the share of income going to the top 5% of taxpayers or the share going to the even richer top 1%, figure 1.4 suggests

[19] Levy and Temin (2007, 49–50); David Cay Johnston, "Richest Are Leaving Even the Rich Far Behind," *New York Times*, June 5, 2005; Gitlin (2012).

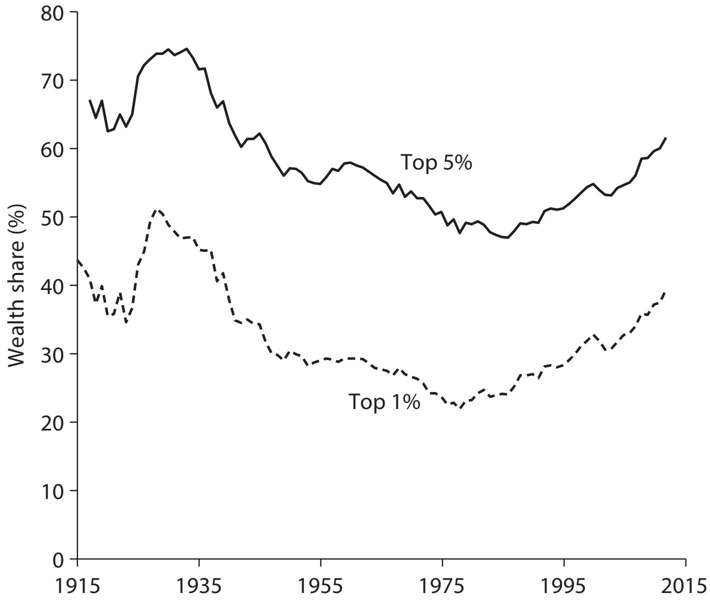

FIGURE 1.5 Wealth Shares of Top 5% and Top 1%, 1915–2012

that current levels of inequality rival those of the Roaring Twenties, before the Great Depression wiped out much of the financial wealth of the nation's reigning upper class. By this metric, America's New Gilded Age is a retrogression of historic scope.[20]

Finally, it is worth noting that wealth in the contemporary United States (as in virtually all capitalist societies) is even more concentrated than income.[21] Piketty's *Capital in the Twenty-First Century*, a scholarly tome on the dynamics of wealth accumulation, became an unlikely worldwide bestseller in 2014. For the United States, Saez and Gabriel Zucman have used the same income tax data underlying figures 1.3 and 1.4 to impute the distribution of wealth over the past century. Their estimates of the shares of wealth held by the richest 5% and the richest 1% of households are presented in figure 1.5. The pattern of wealth concentration generally mirrors the trend

[20] I do not know who first referred to the contemporary era as a "New Gilded Age." The term served as the title of a collection of pieces from the *New Yorker* magazine on "the culture of affluence" (Remnick 2000). It subsequently appeared in an influential essay by Paul Krugman in the *New York Times Magazine* ("For Richer: How the Permissive Capitalism of the Boom Destroyed American Equality") on October 20, 2002, and in the headline of a front-page article by Louis Uchitelle in the *New York Times* ("Age of Riches: The Richest of the Rich, Proud of a New Gilded Age") on July 15, 2007.

[21] Wolff (2002).

in top income shares in figure 1.4, but with two important distinctions. First, changes in the concentration of wealth have generally been slower and smoother than changes in the concentration of income. For example, whereas the decline in top income shares in the wake of the Wall Street crash of 1929 was mostly over by 1944, the decline in top wealth shares continued for another 35 years. On the other hand, top wealth shares had a good deal further to fall, since the top 1% of wealth-holders accounted for more than half of America's net worth on the eve of the crash and the top 5% accounted for almost three-quarters. The corresponding wealth shares in 2014 were 42% for the top 1% and 65% for the top 5%, reflecting a 35-year rebound largely uninterrupted by the fluctuations in top income shares produced by the bursting of the tech bubble at the turn of the century and the housing bubble in 2008. [22]

Interpreting Inequality

What are we to make of these economic trends? To some people, they reflect an era of economic dynamism and expanding opportunity. Others are made uneasy by the sheer magnitude of the gulf between the rich and the poor in contemporary America, even if they cannot quite pinpoint why. Still others are less concerned about inequality per se than about the absolute living standards of the poor or about the extent of their opportunity to work their way up the economic ladder. For the most part, discussions of escalating inequality have focused on four related issues: economic growth, economic mobility, fairness, and inevitability.

One crucial—and highly contentious—question is whether dramatic income gains among the hyper-rich "trickle down" to middle-class and poor people, increasing the size of everyone's piece of the pie. After all, even the influential liberal political theorist John Rawls argued that inequality is just insofar as it contributes to the well-being of the least well-off members of society.[23] Many ordinary Americans believe that "large differences in income are necessary for America's prosperity," as one standard survey question puts it.[24] However, economists who have studied the relationship

[22] Piketty (2014); Saez and Zucman (forthcoming, online appendix, Table B1). Imputing wealth from income tax returns sounds like a hazardous undertaking, and it is. However, Saez and Zucman's imputations closely match more direct evidence of the distribution of wealth from other, more fragmentary sources, such as the Survey of Consumer Finances and estate tax returns. Additional evidence regarding trends in wealth-holding in recent decades appears in chapter 9.

[23] Rawls (1971, chap. 2).

[24] This question has been included in several General Social Surveys conducted as part of the International Social Survey Programme (http://www.issp.org/). In four surveys conducted

between inequality and economic growth have found little evidence that large disparities in income and wealth promote growth.[25] There is not even much hard evidence in support of the commonsense notion that progressive tax rates retard growth by discouraging economic effort. Indeed, one liberal economist, Robert Frank, has written that "the lessons of experience are downright brutal" to the notion that higher taxes stifle economic growth by causing wealthy people to work less or take fewer risks.[26]

In recent years, some economists have gone beyond the observation that inequality does not seem to be "necessary for America's prosperity" to argue that high levels of inequality actually inhibit economic growth. In a much-discussed 2012 speech, Alan Krueger, the chairman of President Obama's Council of Economic Advisers, noted that he "used to have an aversion to using the term inequality," but had come to the conclusion that "the rise in inequality in the United States over the last three decades has reached the point that inequality in incomes is causing an unhealthy division in opportunities, and is a threat to our economic growth." Nobel laureate Joseph Stiglitz published not one but two books arguing that economic inequality is inimical to growth. And a large cross-national study released by the International Monetary Fund in 2014 concluded that "*lower net inequality is robustly correlated with faster and more durable growth*" and that "*redistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth*. Thus the combined direct and indirect effects of redistribution—including the growth effects of the resulting lower inequality—are on average pro-growth."[27]

Much of the economic argument in favor of economic inequality hinges on the assumption that large fortunes will be invested in productive economic activities. In fact, however, there is some reason to worry that the new hyper-rich are less likely to invest their wealth than to fritter it away on jewelry, yachts, and caviar. According to one press report, the after-tax savings rate of households in the top 5% of the income distribution fell by more than half from 1990 through 2006 (from 13.6% to 6.2%), while real sales growth in the luxury retail industry averaged more than 10% per year.[28]

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between 1987 and 2000, the proportion of the U.S. public agreeing that large differences in income are necessary for prosperity ranged from 26% to 32%, while the proportion disagreeing ranged from 38% to 58% (McCall 2005, appendix table 1).

[25] Alesina and Rodrik (1994); Persson and Tabellini (1994); Bénabou (1996); Perotti (1996).

[26] Robert H. Frank, "In the Real World of Work and Wages, Trickle-Down Theories Don't Hold Up," *New York Times*, April 12, 2007.

[27] Alan B. Krueger, "The Rise and Consequences of Inequality in the United States," remarks as prepared for delivery to the Center for American Progress, January 12, 2012; Stiglitz (2012; 2015); Ostry, Berg, and Tsangarides (2014, 4, emphasis in original).

[28] Anna Bernasek, "The Rich Spend Just Like You and Me," *New York Times*, August 6, 2006. Bernasek drew upon detailed data on growth in the luxury retail sector through 2001

Even if inequality did promote overall economic growth, that would not necessarily imply that it contributed to the well-being of the least well-off members of society. The benefits of economic growth may or may not "trickle down" to the poor. Although it is common for Americans to suppose that the nation's collective wealth makes even poor people better off than they otherwise would be, the reality is that poor people in America seem to be distinctly *less* well off than poor people in countries that are less wealthy but less unequal. A careful comparison of the living standards of poor children in 13 rich democracies in the 1990s found the United States ranking next to last, 20% below Canada and France and 35% below Norway, despite its greater overall wealth.[29] Moreover, even holding constant the absolute economic status of the least well-off, there is good reason to worry that inequality itself may have deleterious social implications—not only for the poor, but for all Americans—in the realms of family and community life, health, and education.[30]

An even more dramatic indication of the momentous consequences of economic inequality is the increasing disparity in life expectancy between affluent and poor Americans. According to a tabulation by the Social Security Administration, the difference in life expectancy between 60-year-old men in the top and bottom halves of the earnings distribution increased from 1.2 years in the early 1970s to 5.8 years in 2001. A Brookings Institution study found that the difference in life expectancy between men in the top and bottom deciles of the earnings distribution increased from six years for those born in 1920 to 14 years for those born in 1950, while the corresponding gap for women increased from less than five years to 13 years. The differences in life expectancy between earnings groups are partly attributable to differential risks of smoking and prescription drug abuse, but one public health expert noted that these and other specific risk factors are manifestations of broader economic and social inequities "that high-tech medicine cannot fix."[31]

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compiled by Jonathan Parker, Yacine Ait-Sahalia, and Motohiro Yogo (2004) and supplemented with bits of subsequent data from individual high-end retailers such as Tiffany.

[29] The comparison was for children at the 10th percentile of the income distribution in each country, based on data from the Luxembourg Income Study. The authors suggest that this difference would be reduced (though not eliminated) by counting non-cash benefits such as schooling—but only by assuming, rather implausibly, that American children regardless of family income levels benefit equally from public spending on education. See Osberg, Smeeding, and Schwabish (2004, 826–834).

[30] Neckerman (2004) and Wilkinson and Pickett (2009) provided comprehensive reviews of research in these domains. For recent additions to the literature, see Marmot (2015) on health, Bradbury et al. (2015) on education, and Putnam (2015) on social life.

[31] Bosworth, Burtless, and Zhang (2016); Sabrina Tavernise, "Disparity in Life Spans of the Rich and the Poor Is Growing," *New York Times*, February 12, 2016.

Another important strand of debate focuses on the extent of economic mobility and the relationship between inequality and mobility. As one journalistic account put it, "Mobility is the promise that lies at the heart of the American dream. It is supposed to take the sting out of the widening gulf between the have-mores and the have-nots. There are poor and rich in the United States, of course, the argument goes; but as long as one can become the other, as long as there is something close to equality of opportunity, the differences between them do not add up to class barriers."[32]

For some observers, the dynamism of the modern economy is vividly reflected in the extent of turnover at the pinnacle of the income distribution. For example, *Forbes* classified 69% of the people on its 2014 list of the 400 richest Americans as "self-made," compared to fewer than half in 1984. It is worth noting, however, that capitalists interpret the "self-made" designation pretty broadly, including not only genuine rags-to-riches billionaires like George Soros and Oprah Winfrey but also people like Rupert Murdoch, who "inherited two newspapers when his father died." Donald Trump, whose modest origins famously included "a small loan of a million dollars" from his father, barely missed *Forbes*'s "self-made" cut-off.[33]

While the composition of the *Forbes* 400 list has symbolic significance, there is little reason to believe that it reflects patterns of economic mobility in American society as a whole. Leaving aside this handful of billionaires, to what extent are the economic fortunes of ordinary Americans determined by their starting positions in the economic hierarchy? One commentator, Michael Kinsley, warned that "immobility over generations is what congeals financial differences into old-fashioned, European-style social class."[34] However, a recent large-scale analysis of matched tax records demonstrated that the correlation between contemporary Americans' income ranks and those of their parents was twice as strong as in Canada or Denmark. Broader studies showed that the United States has "significantly less economic mobility than Canada, Finland, Sweden, Norway, and possibly Germany; and the United States may be a less economically mobile society than Britain."[35]

[32] Janny Scott and David Leonhardt, "Class in America: Shadowy Lines That Still Divide," *New York Times*, May 15, 2005.

[33] Nina Munk, "Don't Blink. You'll Miss the 258th-Richest American," *New York Times*, September 25, 2005; Agustino Fontevecchia, "The New Forbes 400 Self-Made Score: From Silver Spooners to Bootstrappers," *Forbes*, October 2, 2014; "Verbatim: Donald Trump on the Rough Life, and Getting $1 Million from His Father," *New York Times*, October 26, 2015. If Trump had simply invested his $40 million share of his father's real estate company in a stock index fund in 1974, his fortune in 2015 would have been nearly $3 billion; *Forbes* estimated his net worth in that year at $4.5 billion, perhaps owing in part to vigorous lobbying on Trump's part for a higher valuation. Randall Lane, "Inside the Epic Fantasy That's Driven Donald Trump for 33 Years," *Forbes*, September 29, 2015.

[34] Michael Kinsley, "Mobility vs. Nobility," *Washington Post*, June 5, 2005.

[35] Chetty et al. (2014a, 15–16); Beller and Hout (2006, 30).

These comparisons suggest—contrary to the fervent beliefs of many Americans—that the contemporary United States outclasses Europe in the rigidity of its hidebound European-style class structure.

Comparisons of intergenerational mobility over time within the United States also suggest that the impact of parents' fortunes on their children's fortunes has increased, at least for men. One large recent study found that "rank-based measures of mobility remained stable" among children born between 1971 and 1993, but that "the consequences of the 'birth lottery'" have increased because the "rungs of the ladder have grown further apart," owing to increasing inequality. A broader study measuring the impact of a wide range of family background factors (including family structure, race and ethnicity, parental education and income, and region) similarly found that "the economic gap between advantaged and disadvantaged men increased because economic inequality increased" during the 1970s, 1980s, and 1990s, while "the gaps in women's outcomes remained constant." Another study found that the effect of parental income on men's economic fortunes "declined between 1940 and 1980 but increased during the 1980s and 1990s."[36]

Generally similar trends seem to have affected income mobility measured across decades rather than generations. While the probability of any given family rising from the bottom quintile of the income distribution into the top quintile over the course of a decade increased slightly (from 3.3% in the 1970s to 4.3% in the 1990s), the proportion of families in the top quintile of the income distribution who remained there a decade later also increased; at the same time, the proportion of families falling from the top quintile into the bottom quintile, or from the top two quintiles into the bottom two quintiles, declined. The long-term economic mobility of individual earners (measured by decade-average earnings at 10-year intervals) seems to have increased in the 1960s and early 1970s but stagnated thereafter, with declines in mobility among men balanced by increases among women.[37]

Some observers have downplayed the significance of snapshots of economic inequality at a given point in time on the grounds that individual economic fortunes fluctuate from year to year, making earnings over the course of a lifetime much less unequal than earnings in any given year. However, a detailed study of individual earnings trajectories based on Social Security records going back to the late 1930s found that "increases in annual earnings inequality are driven almost entirely by increases in permanent earnings inequality, with much more modest changes in the variability of transitory earnings." Thus, "annual snapshots of the distribution provide a good

[36] Chetty et al. (2014b); Beller and Hout (2006, 30), summarizing studies by Harding et al. (2005) and Aaronson and Mazumder (2005). See also Solon (2002) and Hout (2004).

[37] Bradbury and Katz (2002, 66); Kopczuk, Saez, and Song (2010, 119).

approximation of the evolution of the longer-term measures of inequality." If anything, the year-to-year correlation in income ranks may have increased slightly, from .855 in 1960 to .869 in 1980 and .898 in 2002.[38]

Another key point of contention is the extent to which escalating inequality reflects the "just" rewards accruing to education and skills in the modern economy. According to one conservative observer, *New York Times* columnist David Brooks,

> the market isn't broken; the meritocracy is working almost too well. It's rewarding people based on individual talents. Higher education pays off because it provides technical knowledge and because it screens out people who are not organized, self-motivated and socially adept. But even among people with identical education levels, inequality is widening as the economy favors certain abilities. . . . What's needed is not a populist revolt, which would make everything worse, but a second generation of human capital policies, designed for people as they actually are, to help them get the intangible skills the economy rewards.[39]

On the other hand, Brooks's liberal counterpart on the *Times* op-ed page, Paul Krugman, attacked "the notion that the winners in our increasingly unequal society are a fairly large group—that the 20 percent or so of American workers who have the skills to take advantage of new technology and globalization are pulling away from the 80 percent who don't have these skills." Noting that the real incomes of college graduates had risen by less than 1% per year over the preceding three decades, Krugman argued that "the big gains have gone to a much smaller, much richer group than that." Nevertheless, the "80-20 fallacy," as he called it, "tends to dominate polite discussion about income trends, not because it's true, but because it's comforting. The notion that it's all about returns to education suggests that nobody is to blame for rising inequality, that it's just a case of supply and demand at work. . . . The idea that we have a rising oligarchy is much more disturbing. It suggests that the growth of inequality may have as much to do with power relations as it does with market forces."[40]

Krugman cited economists Ian Dew-Becker and Robert J. Gordon's detailed analysis of productivity and income growth over four decades. According to Dew-Becker and Gordon, "most of the shift in the income distribution has been from the bottom 90 percent to the top 5 percent. This is much too narrow a group to be consistent with a widespread benefit from

[38] Kopczuk, Saez, and Song (2010, 125, 116). The Gini coefficient for 11-year average earnings increased from .437 in 1950–1960 to .477 in 1973–1983 to .508 in 1994–2004.

[39] David Brooks, "The Populist Myths on Income Inequality," *New York Times*, September 7, 2006.

[40] Paul Krugman, "Graduates Versus Oligarchs," *New York Times*, February 27, 2006.

SBTC [skill-biased technical change]." They found that some of the occupations that should have flourished if the dynamic economy of the 1990s was simply rewarding technical skills actually saw very modest income growth. For example, the earnings of mathematicians and computer scientists increased by only 4.8% between 1989 and 1997, while the earnings of engineers actually declined by 1.4%. In contrast, the earnings of CEOs increased by 100%.[41]

Evidence of a serious mismatch between skills and economic rewards seems likely to fan concerns about the "fairness" of recent changes in the U.S. income distribution. So, too, does the juxtaposition of rapid productivity growth with stagnant middle-class wages. Dew-Becker and Gordon found that economic productivity had increased substantially over the period covered by their analysis, but that "the broad middle of working America has reaped little of the gains in productivity over the past 35 years. . . . The micro data tell a shocking story of gains accruing disproportionately to the top one percent and 0.1 percent of the income distribution." They characterized the first five years of the 21st century as "an unprecedented dichotomy of macroeconomic glow and gloom." On one hand, labor productivity and output growth exploded; on the other hand, median family income fell by 3.8 percent from 1999 to 2004.[42]

The "unprecedented dichotomy" noted by Dew-Becker and Gordon between booming output and stagnant or declining incomes for ordinary workers was a recurrent political problem for the Bush administration. The "strange and unlikely combination" of "strong and healthy aggregate macroeconomic indicators and a grumpy populace," one report said, was "a source of befuddlement to the administration and its allies." Treasury Secretary Henry Paulson acknowledged that "amid this country's strong economic expansion, many Americans simply aren't feeling the benefits." Paulson blamed that fact on "market forces" that "work to provide the greatest rewards to those with the needed skills in the growth areas."[43]

Paulson's predecessor as treasury secretary, John Snow, spoke in similar terms about the "long-term trend to differentiate compensation." According to one observer, "'Long-term,' when used this way by this sort of official, tends to mean 'fundamentally unstoppable.' And, in this case, inexplicable, like a sort of financial global-warming process that may be man-made or (who knows?) a natural cycle that we would welcome if only we knew its function. Snow, a trained economist and former corporate CEO, doesn't

[41] Dew-Becker and Gordon (2005, 73, 74).

[42] Ibid., 60, 3, 1.

[43] Daniel Gross, "When Sweet Statistics Clash with a Sour Mood," *New York Times*, June 4, 2006; remarks prepared for delivery by Treasury Secretary Henry H. Paulson at Columbia University, August 1, 2006.

pretend to be able to explain what's causing this whole compensation differential. Nor does he seem tortured by his ignorance. 'We've moved into a star system for some reason,' he said, 'which is not fully understood.'"[44]

The notion that economic inequality is an inevitable, purely natural phenomenon has been given a pseudo-scientific patina by a self-proclaimed "econophysicist" at the University of Maryland, Victor Yakovenko. Yakovenko noted that, aside from a long upper tail, the dispersion of U.S. incomes closely approximates an exponential distribution—the same kind of distribution characteristic of many natural phenomena. According to an account of Yakovenko's work published in the *New York Times Magazine*'s 2005 survey of "The Year in Ideas," "To an econophysicist, the exponential distribution of incomes is no coincidence: it suggests that the wealth of most Americans is itself in a kind of thermal equilibrium. . . . Yakovenko told *New Scientist* that 'short of getting Stalin,' efforts to make more than superficial dents in inequality would fail."[45]

Economic Inequality as a Political Issue

Interpretations of economic inequality are politically consequential because they shape political responses to inequality. If the differences between rich and poor in contemporary America "do not add up to class barriers," if "the market isn't broken" and "meritocracy is working," or if "efforts to make more than superficial dents in inequality" are doomed to failure, then inequality is unlikely to rise to the top of the political agenda. Many observers have been perplexed by the modest salience of inequality as a political issue in America. For example, Dahl wrote that, "for all the emphasis on equality in the American public ideology, the United States lags well behind a number of other democratic countries in reducing economic inequality. It is a striking fact that the presence of vast disparities in wealth and income, and so in political resources, has never become a highly salient issue in American politics or, certainly, a persistent one."[46] Is that because Americans assume that "efforts to make more than superficial dents in inequality" would fail?

The fact that most other rich democracies are considerably less unequal than the United States provides some reason to think that political arrangements short of Stalinism might not be entirely futile in mitigating economic inequality. For that matter, even the limited range of policies implemented in the United States in the postwar era has had substantial effects on prevailing levels of economic inequality. In short, politics matters.

[44] Walter Kim, "Way Upstairs, Downstairs," *New York Times Magazine*, April 16, 2006, 11.
[45] Christopher Shea, "Econophysics," *New York Times Magazine*, December 11, 2005, 67.
[46] Dahl (1982, 175).

If this claim seems controversial, that is probably because so much public discussion of economic inequality in the New Gilded Age ignores its political dimension. Journalists and commentators may not dwell on the "econophysics" of thermal equilibrium as reflected in the exponential distribution, but they often frame discussions of inequality in a curiously passive, technical, and distinctly apolitical way. The standard perspective is typified by a cover story in *The Economist* on "Inequality in America." The report summarized trends in the American economy in the 1990s and early 2000s:

> Thanks to a jump in productivity growth after 1995, America's economy has outpaced other rich countries' for a decade. Its workers now produce over 30% more each hour they work than ten years ago. In the late 1990s everybody shared in this boom. Though incomes were rising fastest at the top, all workers' wages far outpaced inflation.
>
> But after 2000 something changed. The pace of productivity growth has been rising again, but now it seems to be lifting fewer boats. . . . The fruits of productivity gains have been skewed towards the highest earners, and towards companies, whose profits have reached record levels as a share of GDP.[47]

The report provided no hint of what "something" might have changed after 2000. Nor did it offer any explanation for why "America's income disparities suddenly widened after 1980," nor why "during the 1990s, particularly towards the end of the decade, that gap stabilized and, by some measures, even narrowed."

Hello? George W. Bush? Ronald Reagan? Bill Clinton? In 3,000 words, the report offered no suggestion that any policy choice by these or other elected officials might have contributed to the economic trends it summarized. Rather, "the main cause was technology, which increased the demand for skilled workers relative to their supply, with freer trade reinforcing the effect." The report also suggested that "institutional changes, particularly the weakening of unions," might have "made the going harder for people at the bottom" and that "greedy businessmen" might be "sanction[ing] huge salaries for each other at the expense of shareholders."

Reports of this sort obviously do little to make "the presence of vast disparities in wealth and income" noted by Dahl "a highly salient issue in American politics." Indeed, the authors of the *Economist*'s cover story began by assuring their readers that "Americans do not go in for envy. The gap between rich and poor is bigger than in any other advanced country, but most people are unconcerned. Whereas Europeans fret about the way the economic pie is divided, Americans want to join the rich, not soak them.

[47] "The Rich, the Poor and the Growing Gap Between Them," *The Economist*, June 17, 2006, 28.

Eight out of ten, more than anywhere else, believe that though you may start out poor, if you work hard, you can make pots of money. It is a central part of the American Dream."[48]

The political economy of inequality might be very different if, contrary to Dahl's observation, the presence of vast disparities in wealth and income *was* a highly salient issue in American politics. How likely is that, and how might it happen?

One admittedly unsystematic barometer of the popular zeitgeist is the annual "What People Earn" issue of *Parade* magazine, a popular Sunday newspaper supplement claiming more than 50 million readers. For more than 30 years, *Parade* has published annual "Special Reports" including dozens of Americans' names, photos, occupations, and salaries. Most are ordinary people with five-figure incomes; some are immensely wealthy celebrities like Michael Jordan, Donald Trump, and SpongeBob Squarepants. The stories accompanying these "salary surveys" address the current economic climate and job prospects, shedding light on the shifting resonance of economic inequality in contemporary American culture.

In 2002, for example, financial writer Andrew Tobias put the gulf between the incomes of the rich and famous, on one hand, and ordinary people, on the other, in reassuring perspective, noting that in "Uganda or Peru . . . plumbers and librarians earn a whole lot less" than in the United States. "Yes. Life *is* unfair," Tobias wrote. "But for most of us, it could be a lot worse. And in America there's at least a fighting chance that, if you work at it, you—or your kids anyway—can close the gap."[49]

The following year Tobias revisited the issue of economic inequality, but in a rather different tone. While remaining sanguine about the millions earned by Ben Affleck, Madonna, and Stephen King ("I don't mind a bit. This is America! More power to them!"), he was more skeptical about the earnings of CEOs, suggesting that in some cases "the market isn't really free and the CEO largely sets his own pay." Noting that one modestly paid CEO earned more than "the Joint Chiefs of Staff and the presidents of Harvard, Yale and Princeton—combined!" Tobias concluded, somewhat defensively, that "it is not class warfare to face these facts, observe these trends and raise these questions. Many will conclude that all is as it should be. Others will say things have gotten out of whack. The ability to confront, debate and occasionally course-correct is one of our nation's greatest strengths."[50]

In 2005, the *Parade* report noted that productivity "has risen steadily; but economists say that, so far, the resulting benefits have gone into corporate

[48] Ibid.

[49] Lynn Brenner, "How Did *You* Do?" *Parade*, March 3, 2002, 4–5; Andrew Tobias, "Are They Worth It?" *Parade*, March 3, 2002, 8.

[50] Andrew Tobias, "How Much Is Fair?" *Parade*, March 2, 2003, 10–11.

profits." By 2007, the disparity between "government statistics" and the "daily experience" of workers had become a major theme of *Parade*'s annual report. Prominent subheads announced that "most Americans didn't see the long economic boom reflected in their paychecks" and that "the salary gains of the last five years have gone to the highest-paid workers." The body of the story reported that "many Americans are troubled by the income gap between the nation's highest earners and everyone else—a gap that has grown dramatically in recent decades." By 2010, *Parade* was profiling people forced by the Great Recession to "hunker down," work part-time, or change jobs. "Across America," readers were told, "workers' resilience is being tested." But the piece left little doubt that resilience would win out: "Frustrating? Yes. Discouraging? No way."[51]

Meanwhile, in a very different segment of the Sunday magazine market, the *New York Times Magazine* in 2007 published a special "Money Issue" titled "Inside the Income Gap." Lengthy articles focused on class disparities in schooling, John Edwards's "poverty platform" in the 2008 presidential race, and the implications of an increasingly global labor market. However, the impact of these weighty examinations of the sociology and politics of economic inequality was diminished by the distracting interspersion of colorful advertisements for investment companies, exotic consumer goods, and high-end real estate. One three-page article on "The Inequality Conundrum" ("How can you promote equality without killing off the genie of American prosperity?") was woven around advertisements for a private bank and financial planning company ("an entire team of wealth experts"), high-definition flat-screen televisions ("the ultimate TV experience"), the national airline of the Cayman Islands ("Endless beauty. Non-stop flights"), and luxury apartments on New York's Fifth Avenue ("From $10.25 million").[52]

The lifestyles of *New York Times Magazine* readers are emblematic of a striking social gulf between the people who are most likely to read lengthy articles (or books!) on the subject of inequality and the people who have themselves been on the losing end of escalating inequality in the past 40 years. That social gulf has been exacerbated by the economic trends of the New Gilded Age, and it constitutes a significant obstacle to political progress in responding to those trends. One can only wonder how many affluent readers will get around to pondering "The Inequality Conundrum" as soon as they return from the Cayman Islands.

Occasionally the luxury-porn gets seamlessly integrated with social commentary in the magazine's editorial content. In 2015 *T*: *The New York*

[51] Lynn Brenner, "How Did *You* Do?" *Parade*, March 13, 2005, 4–10; Lynn Brenner, "How Did *You* Do?" *Parade*, April 15, 2007, 4–8; George Anders, "How We're Making It Work," *Parade*, April 11, 2010.

[52] "Inside the Income Gap," *New York Times Magazine*, June 10, 2007.

Times Style Magazine dispatched op-ed luminary David Brooks to check in on "The Ultimate Vacation," a 24-day round-the-world tour organized by Four Seasons hotels at a cost of "roughly" $120,000 per person. "I tried but failed to ward off the second bottle of champagne," Brooks's report began. He detailed the charms of the group's private jet, Russian caviar, and "squad of local greeters" and functionaries at each stop on the whirlwind global jaunt. "Sometimes it is the structure of things that you shall be pampered," he philosophized, "and you have no choice but to sit back and accept that fact." Yet he went on to assure readers that his fellow travelers were "rich but not fancy," that they "spent their lives busy with work and family," and that "very few of these people were born to money." (Did he ask, or could he just tell?) "Of course, we all have a responsibility to reduce inequality in our society," Brooks concluded. "But maybe not every day."[53]

As one perceptive commentator noted, "countless Americans don't even have time to worry about reducing societal inequality, because they're at work every day."[54] And since the Four Seasons tour would have cost a typical American couple two and a half years of vacation time and about four years of income, *they* probably won't have to sit back and accept the "fact" that "the structure of things" sometimes (somehow) results in lavish intercontinental pampering. Yet Brooks's only real misgiving seems to have been that this sliver of what he called "the lower end of the upper class" did not spend enough time on a day trip to Ephesus to read St. Paul and "talk about how to reconcile material happiness with spiritual joy."[55]

If the juxtaposition of social concern and conspicuous consumption in the *New York Times Magazine* symbolizes the ambivalent resonance of the New Gilded Age among its winners, the various conflicting themes in the *Parade* reports on "What People Earn" underscore the complexity of the cultural norms and values that shape thinking about economic inequality among the people whose economic fortunes have stagnated. American workers are suffering from wage freezes, benefit reductions, and shrinking job security, but they are better off than their counterparts in Uganda or Peru. Celebrities are entitled to their millions, but perhaps there *is* something troubling about CEOs earning more than the combined salaries of the Joint Chiefs of Staff and the presidents of Harvard, Yale, and Princeton. The income gap between the rich and the rest has grown dramatically, but in America, you—or your kids anyway—can close the gap. Or maybe not.

[53] David Brooks, "The Ultimate Vacation," *T: The New York Times Style Magazine*, November 15, 2015, 118–122.

[54] Max Ehrenfreund, "What David Brooks Discovered About the Rich on a $120,000 Vacation," *Washington Post*, *Wonkblog*, November 16, 2015.

[55] Brooks, "The Ultimate Vacation."

Inequality and American Democracy

To a famously perceptive foreign observer of 19th-century America, Alexis de Tocqueville, the spirit of equality was the hallmark of American culture: "Any man and any power which would contest the irresistible force of equality will be overturned and destroyed by it." However, Tocqueville recognized that equality in the social and political realms could coexist with a great deal of economic inequality. "There are just as many wealthy people in the United States as elsewhere," he observed. "I am not even aware of a country where the love of money has a larger place in men's hearts or where they express a deeper scorn for the theory of a permanent equality of possessions."[56]

Tocqueville's juxtaposition of social equality and economic inequality has been a recurrent theme in commentary on the place of equality in American political culture. According to Verba and Orren, for example, ordinary Americans have complex views about the value of equality:

> Their sentiments are far more egalitarian in some areas than in others. They assign different goods to different spheres of justice. There are spheres for money, political power, welfare, leisure time, and love. . . . The aim of egalitarianism is not the elimination of all differences, which would be impossible, nor even the elimination of differences within any one of these spheres, which might also be impossible unless the state continually intervened. Rather, the goal is to keep the spheres autonomous and their boundaries intact. Success in one sphere should not be convertible into success in another sphere. Political power, which is the most dangerous social good because it is the easiest to convert, must be constrained against transmutation into economic power, and vice versa.[57]

One of the most important questions explored in this book is whether political equality can be achieved, or even approximated, in a society marked by glaring economic inequalities. When push comes to shove, how impermeable are the boundaries separating the economic and political spheres of American life?

At some points in American history, at least, those boundaries have been remarkably permeable. The original Gilded Age in the late 19th century is a dramatic case in point. Rapid economic expansion and transformation coexisted with intense partisan conflict and political corruption. Social Darwinism provided a powerful ideological rationale for letting the devil take the hindmost. The mordant novel by Mark Twain and Charles Warner that

[56] Tocqueville (1835/1840, 587, 64).
[57] Verba and Orren (1985, 7–8).

gave the era its name portrayed a political process in which the greedy and cynical preyed on the greedy and gullible.[58]

In *Wealth and Democracy: A Political History of the American Rich*, political analyst Kevin Phillips called attention to a variety of striking economic and political parallels between the "capitalist heydays" of the Gilded Age, the Roaring Twenties, and the contemporary era. Economically, he argued, all three periods were marked by "major economic and corporate restructuring," "bull markets and rising, increasingly precarious levels of speculation, leverage, and debt," "exaltation of business, entrepreneurialism, and the achievements of free enterprise," and "concentration of wealth, economic polarization, and rising levels of inequality." Politically, all three periods featured "conservative politics and ideology," "skepticism of government," "reduction or elimination of taxes, especially on corporations, personal income, or inheritance," and "high levels of corruption," among other factors.[59]

Having surveyed the rise and fall of great economic fortunes through more than two centuries of American history, Phillips emphasized the regularity with which concentrations of wealth in new industries, regions, and families have been spurred, subsidized, and supported by government policies. "From the nursery years of the Republic," he wrote, "U.S. government economic decisions in matters of taxation, central bank operations, debt management, banking, trade and tariffs, and financial rescues or bailouts have been keys to expanding, shrinking, or realigning the nation's privately held assets. . . . Occasionally public policy tilted toward the lower and middle classes, as under Jefferson, Jackson, and Franklin D. Roosevelt. Most often, in the United States and elsewhere, these avenues and alleyways have been explored, every nook and cranny, for the benefit of the financial and business classes."[60]

In the same vein, Paul Krugman has emphasized the importance of social and political forces in shaping the economic trends of the past 75 years:

> Middle-class America didn't emerge by accident. It was created by what has been called the Great Compression of incomes that took place during World War II, and sustained for a generation by social norms that favored equality, strong labor unions and progressive taxation. Since the 1970's, all of those sustaining forces have lost their power.
>
> Since 1980 in particular, U.S. government policies have consistently favored the wealthy at the expense of working families—and

[58] Twain and Warner (1873).
[59] Phillips (2002, 297). For an earlier exploration of similar themes, see Phillips (1990).
[60] Phillips (2002, 214).

> under the current [George W. Bush] administration, that favoritism has become extreme and relentless. From tax cuts that favor the rich to bankruptcy "reform" that punishes the unlucky, almost every domestic policy seems intended to accelerate our march back to the robber baron era.[61]

While economists have spent a good deal of scholarly energy describing and attempting to explain the striking escalation of economic inequality in the United States over the past 40 years, they have paid remarkably little attention to social and political factors of the sort cited by Krugman. For example, one comprehensive summary of the complex 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?" 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. 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."[62]

It probably should not be surprising, in light of their scholarly expertise and interests, that economists have tended to focus much less attention on potential *political* explanations for escalating economic inequality than on potential *economic* explanations. In a presidential address to the Royal Economic Society, British economist Anthony Atkinson criticized his colleagues' tendency to ignore or downplay the impact on the income distribution of social and political factors, arguing that "we need to go beyond purely economic explanations and to look for an explanation in the theory of public choice, or 'political economy.' We have to study the behaviour of the government, or its agencies, in determining the level and coverage of state benefits."

Atkinson went on to criticize economists who *have* considered political factors for their uncritical reliance on the rather mechanical assumption that government policy responds directly to the economic interests of the so-called median voter—the ideological centrist whose vote should be pivotal in any collective decision arrived at, directly or indirectly, by majority rule. He urged them to go beyond this simple framework to gauge the extent to

[61] Paul Krugman, "Losing Our Country," *New York Times*, June 10, 2005.

[62] Levy and Murnane (1992, 1335, 1336, 1363–1364). Other prominent examples of economic analyses of wage inequality include Blank and Blinder (1986); Cutler and Katz (1991); and Hines, Hoynes, and Krueger (2001). A 2007 paper by Frank Levy and Peter Temin provided a richer institutional account, concluding that "only a reorientation of government policy can restore the general prosperity of the postwar boom, can recreate a more equitable distribution of productivity gains where a rising tide lifts all boats" (41).

which redistributive policies are shaped "by the ideology or preferences of political parties, or by political pressure from different interest groups, or by bureaucratic control of civil servants or agencies."[63]

Atkinson's criticism seems apt, since political economists wedded to the familiar majoritarian model have remarkable difficulty even in explaining why the numerous poor in democratic political systems do not expropriate the much less numerous wealthy. If taxes are proportional to income and government benefits are distributed equally, for example, everyone with below-average income—a clear majority of the electorate in any democratic political system with enough capitalism to generate a wealthy class—has an economic incentive to favor a tax rate of 100%.[64] Even if redistribution entails some waste, most people should favor some redistribution, and poorer people should prefer more. Furthermore, increases in economic inequality should result in higher taxes and more redistribution.[65]

Of course, the reality is that very few people—even very few poor people—favor aggressive redistribution of the sort implied by these simple economic models. Nor is aggressive redistribution anywhere in sight. Writing more than three decades ago, before most of the substantial increase in economic inequality documented in figures 1.1 and 1.3, Dahl noted that, "after half a century of the American welfare state . . . the after-tax distribution of wealth and income remains highly unequal."[66] Now, after more than 80 years of an expanding American welfare state, the distributions of wealth and income are even more unequal than they were when Dahl wrote. Moreover, systematic analyses suggest that the extent of economic inequality has little impact on the extent of redistribution, either across nations or within the United States.[67] Certainly, recent American experience amply demonstrates that escalating economic inequality need not prevent the adoption of major policy initiatives further advantaging the wealthy over the middle class and poor. The massive tax cuts of the Bush era, whose gains went mostly to people near the top of the income distribution, are a dramatic case in point.[68]

[63] Atkinson (1997, 315, 316). On the theoretical importance of the "median voter" in competitive elections, see Downs (1957).

[64] McCarty, Poole, and Rosenthal (2006, 124) calculated that the *average* income of American families in 2000 exceeded the *median* income (excluding non-citizens) by about 40%. Even if non-voters are excluded from the calculation of the median, the average income of all families exceeded the median income *of voters* by more than 20%.

[65] Meltzer and Richard (1981) provided an influential formalization of the political economy of redistribution. Recent applications and extensions include Roemer (1999) and McCarty, Poole, and Rosenthal (2006, chaps. 3 and 4).

[66] Dahl (1982, 172).

[67] Bénabou (1996); Perotti (1996); Rodriguez (1999; 2004).

[68] On the Bush tax cuts as a test of the responsiveness of the American political system to the policy preferences of the median voter, see Hacker and Pierson (2005a).

In the following pages, I explore these glaring disjunctions between the predictions of simple majoritarian models and actual patterns of policy-making in the United States over the past half-century. As Atkinson surmised, the gulf between theoretical expectations and reality turns out to have a great deal to do with "the ideology or preferences of political parties" and with "political pressure from different interest groups." For example, I find, in chapter 7, that although Americans have strongly and consistently favored raising the federal minimum wage, their elected representatives have allowed the real value of the minimum wage to decline by one-third since the late 1960s. Moreover, my analysis in chapter 8 shows that elected officials voting on a minimum wage increase paid no attention at all to the views of people poor enough to be directly affected by that policy change. My broader analysis indicates that this sort of unresponsiveness is no anomaly, but a very common pattern in American policy-making.

The gap between the predictions of conventional political-economic models and the actual workings of American democracy also reflects the profound difficulties faced by ordinary citizens in connecting specific policy proposals to their own values and interests. Economic analyses often take such connections for granted, but for many people in many policy domains they are misconstrued or simply missing. Egalitarian impulses often fail to get translated into policy because ordinary citizens do not grasp the policy implications of their egalitarian values. For example, I show in chapter 6 that almost two-thirds of the people who said the rich pay less than they should in taxes nevertheless favored repealing the federal estate tax—a tax that affected only the richest 1–2% of taxpayers at the time and affects many fewer now. Any serious attempt to understand the political economy of the New Gilded Age requires grappling with the political psychology of American voters and with the real limitations of public opinion as a basis for democratic policy-making.

Escalating economic inequality poses a crucial challenge to America's democratic ideals. The nature of that challenge has been nicely captured by Michael Kinsley: "According to our founding document and our national myth, we are all created equal and then it's up to us. Inequality in material things is mitigated in two ways: first, by equal opportunity at the start, and, second, by full civic equality despite material differences. We don't claim to have achieved all this, but these are our national goals and we are always moving toward them."[69]

It is a nice sentiment—but is it true? As we will see in the following pages, the evidence is far from reassuring.

[69] Michael Kinsley, "Mobility vs. Nobility," *Washington Post*, June 5, 2005.