

# Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States

JACOB S. HACKER

STANLEY B. RESOR PROFESSOR OF POLITICAL SCIENCE, YALE UNIVERSITY

PAUL PIERSON

AVICE SAINT ENDOWED CHAIR OF PUBLIC POLICY AND PROFESSOR OF POLITICAL SCIENCE, UNIVERSITY OF CALIFORNIA, BERKELEY

---

## Abstract

The dramatic rise in inequality in the United States over the past generation has occasioned considerable attention from economists, but strikingly little from students of American politics. In recent years, however, a small but growing body of political science research on rising inequality has challenged standard economic accounts that emphasize apolitical processes of economic change. For all the sophistication of this new politically oriented scholarship, however, it too fails to provide a compelling account of the political sources and effects of rising inequality. In particular, these studies share with dominant economic accounts three weaknesses: (1) They downplay the distinctive feature of American inequality—namely, the extreme concentration of income gains at the top of the economic ladder—(2) they miss the profound role of government policy in creating this “winner-take-all” pattern; and (3) they give little attention or weight to the dramatic long-term transformation of the organizational landscape of American politics that lies behind these changes in policy. These weaknesses are interrelated, stemming ultimately from a conception of politics that emphasizes the sway (or lack thereof) of the “median voter” in electoral politics, rather than the influence of organized interests in the process of policymaking. A perspective centered on organizational and policy change—one that identifies the major policy shifts that have bolstered the economic standing of those at the top and then links those shifts to concrete organizational efforts by resourceful private interests—fares much better at explaining why the American political economy has become distinctively winner-take-all.

---

DEMOCRACY AND MARKETS

UNDERSTANDING THE EFFECTS OF AMERICA'S ECONOMIC STRATIFICATION

A TOBIN PROJECT CONFERENCE, APRIL 30 – MAY 2, 2010



# Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States\*

JACOB S. HACKER

STANLEY B. RESOR PROFESSOR OF POLITICAL SCIENCE, YALE UNIVERSITY

PAUL PIERSON

AVICE SAINT ENDOWED CHAIR OF PUBLIC POLICY AND PROFESSOR OF POLITICAL SCIENCE, UNIVERSITY OF CALIFORNIA, BERKELEY

---

Over the last decade, inequality has moved from the periphery to the center of public and scholarly debate. Most of this discussion has focused on the hypothesized *economic* roots of rising inequality: increasing global integration, rising returns to education, changing technology, heightened domestic competition, and so on. Recently, however, a small but prominent wave of books and articles by students of American politics has suggested that politics and public policy have played a more central role in the rise in inequality than economic accounts suggest.<sup>1</sup>

As important as these works have been, they have not yet produced a convincing analysis of the political roots of rising inequality that can rival the dominant economic perspective that focuses on depoliticized processes of economic change. By a “convincing analysis,” we mean an analysis that is both consistent with the known facts about inequality (and, in particular, that rising inequality is “winner-take-all,” with a very small slice of the population becoming dramatically richer and the rest largely holding steady) and that shows how political processes and government policy are causally related to these known facts.

In this paper, we argue that the weaknesses of existing political analyses stem in part from their excessive emphasis on the voter-politician nexus and their corresponding neglect of the role of

---

\* This paper develops thinking we have done for our forthcoming book, *Winner-Take-All Politics*. Some of the more specific empirical claims are elaborated in the book and in a forthcoming article in *Politics & Society*. We thank Lee Drutman, Chloe Thurston, and Sophie Rasmussen for research assistance, and Fred Block, David Karol, Bob Kuttner, Frank Levy, Suzanne Mettler, and Philipp Rehm for valuable comments and advice.

organized interests and of the profound effects of government on the distribution of market rewards. Ironically, since these new analyses aim to put American politics at the heart of our understanding of post-1970s patterns of economic distribution, these weaknesses actually cause scholars to *understate* substantially the role of public policy and political contestation in the sharp increase in inequality in the United States. Our argument thus has implications not just for scholarly debates over inequality's sources, but also for discussion of how it might be tackled. If our analysis is correct, organizational imbalances in American politics that have abetted shifts in public policy favoring those at the top should be a prime target of reform.

## The Rise of Winner-Take-All Inequality

The three crucial features of growing U.S. inequality are that (1) economic gains have been highly concentrated at the very top; (2) these lopsided gains have been sustained, growing virtually without interruption since around 1980; and (3) these gains have resulted in few “trickle-down” benefits for most of the population.

Many observers have mistakenly characterized rising inequality as simply a general stretching of the distribution. This portrayal—often grounded in general survey data on incomes, which are notoriously poor at capturing trends at the top of income ladder—is thoroughly contradicted by recent studies based on tax statistics, such as the well-known series on U.S. inequality compiled by Thomas Piketty and Emmanuel Saez.<sup>2</sup> These data show that while gaps have grown across the income spectrum, the real action is at the top, especially the very top.<sup>3</sup> For instance, from 1989 until 2007, the top 1 percent received more than half of all the income growth generated in the American economy, while the highest-income 1/10th of 1 percent—one out of every 1,000 households—received nearly 35 percent.<sup>4</sup>

The income tax data also reveal that the shift of income towards the top has been *sustained*, increasing steadily (and, by historical standards, rapidly) since around 1980. The growing share of national income captured by the richest of Americans is a long-term trend that does not appear to be obviously related to either the business cycle or the shifting partisan occupation of the White House.

Finally, these massive gains at the top were not accompanied by major gains on lower rungs of the income ladder. To accurately assess these broader effects of rising inequality requires including government taxes and benefits in our measure of family income, since government benefits can be a substantial source of income for middle- and low-income Americans. The Congressional Budget Office has developed these broader indicators.<sup>5</sup> They show that *every income group below the top ten percent saw their incomes rise more slowly than average household income between 1979 and 2005*, even when federal taxes and public and private benefits (such as health insurance) are taken into account. Indeed, the average income of the middle-fifth of households would be \$10,000 higher today if they had experienced the average growth of household income, rather than their actual income growth, over this period.

## Why Winner-Take-All? The Weaknesses of Existing Accounts

The three salient trends discussed in the last section raise difficult problems for standard economic analyses of rising inequality that emphasize autonomous market changes that have widened the gap among broad skill and educational groups. It is clear from the facts just reviewed that only a very small slice of the educational elite has entered the new economic elite. Moreover, the United States looks distinct from other rich nations, especially when it comes to the concentration of income at the very top—despite the fact that all these nations have presumably been buffeted by similar market and technological forces. We would certainly not deny that market processes and technological changes have played a significant part in shaping the distribution of rewards at the top. But these accounts do not come close to explaining the concentrated gains at the very top of the American economic ladder, especially those driven by rising executive pay and financial market compensation. They also do not explain why these trends have been much more pronounced in the United States than elsewhere, nor do they explain why public policies conducive to such outcomes arose when they did.

This brings us to the small but growing number of political explanations of the rise of inequality in the United States.<sup>6</sup> Together, these important analyses powerfully call into question standard economic accounts of rising inequality that neglect politics altogether. Nonetheless, they suffer from four notable weaknesses: (1) a neglect (shared with economic accounts) of the growing concentration of income at the top; (2) an over-emphasis on the “median voter” as the crucial constraint on or

source of inegalitarian policy trends; (3) an extremely thin consideration of the policy sources of rising inequality, focusing narrowly on direct tax-and-transfer programs; and, finally, (4) a striking lack of attention to the role of organized interests.

In common with economic accounts, existing political analyses tend to emphasize the broad spreading out of the income distribution, rather than the hyperconcentration of income at the top. This misplaced focus is, in some ways, even more problematic for political accounts than economic accounts. This is because the top-heavy quality of American inequality poses a stark puzzle for standard models of politics that emphasize the preferences of the median voter. Put simply, it is much easier for these models to account for a modest upward income skew than extreme concentration at the top. At the same time, most opinion data—the sine qua non of behavioral political science—does not reach enough citizens at the top to form a reliable picture of how their views or political activities differ from those lower on the economic ladder. Thus, both theoretical inclinations and available data push political scientists to treat rising inequality as essentially a growing gap between the bottom third and top third of the income distribution, precisely the conception that we have argued has led commentators and analysts astray.

An example will serve to illustrate the point. In a much-discussed and justly influential book, *Unequal Democracy*, Larry Bartels argues that since World War II, Republican presidents have more or less consistently abetted inequality while Democratic presidents have more or less consistently reduced it. Because Bartels relies on survey data on income, however, he has very little to say about the spectacular rise of high-end incomes. In fact, Bartels's main measure of inequality is the 80/20 ratio, the ratio of income at the 80th and 20th percentiles—which leaves out most of the story of rising inequality.

As it turns out, when Bartels looks at the relationship between the 80/20 ratio and the partisan identity of the president, the association he finds is driven by the growth of income at the 20th percentile under Democratic presidents, not by the positive effects of Republican presidents on growth at the top. In other words, Bartels's argument about partisanship boils down to the claim that those on the bottom portions of the income ladder do much worse under Republicans than under Democrats. This is an important argument, but it does not directly address the issue of why growth has been so skewed toward the very top since the late 1970s.

Once we shift our gaze to the biggest fact about American inequality—the steady upward rise of the share of income going to the very top—a simple partisan story becomes much harder to sustain. Instead, something happened around 1980 that resulted in a fairly consistent upward trend in the fortunes of those at the very top, regardless of the partisan identity of the president.<sup>7</sup>

To turn to our second concern, recent political accounts also fix much of their attention on voters and their preferences. In one sense, this is understandable: standard median-voter models of redistribution argue that greater inequality in the distribution of market income should lead to greater median-voter support for redistribution and, thereby, more redistributive public policy—decidedly not the pattern seen in the United States.<sup>8</sup> However, the fixation on the median voter has led to two sorts of analytic wheel spinning. On the one hand, some political scientists have endeavored (unsuccessfully) to show that the median-voter model really works. On the other hand, the limits of the median-voter model have led other analysts to focus on why voters have not been as effective a check on politicians as the model predicts. The former arguments fail on their face. The latter raise the question of where, if not from voters, pressure for inequality-abetting policies comes from—a question that these accounts, with their focus on the voter-politician nexus, are poorly equipped to answer.

The first response is exemplified by Nolan McCarty, Keith Poole, and Howard Rosenthal's important book, *Polarized America*. Working within the median-voter model, McCarty, Poole, and Rosenthal argue that pressures for redistribution amid the era of rising inequality have been muted by the influx of low-income immigrants, which both brings a substantial number of nonvoters into the lower part of the income distribution and pulls down average income, increasing the income of the median voter relative to the average. The net effect, they argue, is that “*Voters are doing as well as they have ever done*” and “pressure for redistribution on politicians has been muted despite rising overall inequality.”<sup>9</sup>

McCarty, Poole, and Rosenthal's argument that the relative position of the median voter has held steady has received a good deal of attention and, if true, would at least partially account for the lack of a strong government response to rising inequality. But we are convinced it is not true. Indeed, in light of the winner-take-all trends in income already discussed, it would take a truly massive influx of low-income immigrants to preserve the median voter's relative position.<sup>10</sup> In reality, our own

analyses of decennial census samples—which allow us to look at the relationship between citizenship and income using very large samples—indicate that the relative position of the median citizen has *declined* dramatically since the 1970s.<sup>11</sup>

The second response to the inherent difficulties faced by the median-voter model is to amend the model. This is how we see much of Bartels’s innovative argumentation in *Unequal Democracy*. Bartels claims that voters recognize and are concerned about rising inequality (and, indeed, care more about economic issues than in the past), but have only a hazy idea of how inequality and policies pertaining to it affect them. He argues, for example, that Republicans have been able to win in spite of their presidents’ harmful effects on most voters because they are better at timing the business cycle, producing growth just before elections for which myopic voters reward them.

Yet Bartels focuses so heavily on amending the median-voter model (with varying persuasiveness) that he leaves largely unanswered the question of where the political pressure for less egalitarian policy outcomes come from. In other words, if voters do not run the show, who does, and how have those who do engineered such a profound policy shift? Bartels repeatedly invokes “the immense significance of elite ideology in the making of American public policy”—but this turns out to be merely a residual category.<sup>12</sup> While we think ideology is important, it is probably not the only or even the main thing driving elected officials. Instead, we would highlight the crucial role of organized interests in American politics, and in particular the mobilization of business and corporate groups from the 1970s on, the weakening of organized labor, and the rise of a large constellation of advocacy organizations on the left focused not on material, pocketbook issues but post-material, quality-of-life issues. Indeed, we are struck by the very limited attention that Bartels and other Americanists have paid to organized interests in trying to explain the rise in income inequality, a stance that departs sharply from decades of work in comparative political economy. We will return to this point in a moment

Finally, the third hallmark of existing political accounts is that they consider a very narrow range of policies—taxes, the minimum wage, perhaps fiscal and monetary policy—and make limited effort to assess the relative significance of particular policy instruments in generating distributional outcomes. As a result, political accounts often have little to add to economic ones with regard to the role of government in influencing inequality.



To take a concrete example, one of the few policies that has received significant attention in these recent treatments of inequality is the minimum wage.<sup>13</sup> But while the declining value of the minimum wage certainly has distributional consequences and is clearly linked to politics, it is hard to see how an account of change in the minimum wage, no matter how persuasive, will get us very far in understanding the main distributional outcome that needs to be explained: the hyperconcentration of income at the top.

To be sure, in claiming that inequality ebbs and flows with the changing partisan identity of the White House, Bartels opens the door to an arresting argument about policy. Yet Bartels's does not identify policies that can be plausibly linked the sustained run-up of top incomes. He suggests that the key tool presidents use to change the income distribution is fiscal and monetary policy. Such contractionary and expansionary initiatives, however, seem a better candidate for explaining short-term fluctuations and patterns of income growth than long-term changes in the income distribution, especially sustained gains at the top rather than growth at the bottom.

Finally, and perhaps most telling of all given the broad aspirations of recent efforts of political scientists to explain rising inequality, these accounts pay strikingly limited attention to organized interests. In the two ambitious book-length analyses we have been discussing—books that represent the state of the art in contemporary American politics research—unions and corporations are hardly mentioned. The idea that the shifting balance of organized interests might be relevant is almost altogether absent.

This near-complete absence is linked to another common feature of these analyses: None pays any real attention to comparative material as a source of insight or evidence. Although this is standard in contemporary research on American politics, it is highly revealing and consequential. When explaining change over time within American politics, analysts are drawn to the most obviously fluid features of a political environment: election outcomes, shifting public opinion, and so on. Broader features of the environment—systems of interest intermediation or what comparativists might call the “regime” of policy arrangements that structure the political economy—are essentially invisible. Lacking any reference to the often starkly contrasting circumstances in other affluent democracies, these features slip into the background.

## An Organizational-Policy Perspective on Winner-Take-All Inequality

Is there an alternative political approach than can more convincingly explain the stunning shift of income toward the very top? We are convinced there is, though we can only sketch out its broad outlines here. At the root of the weaknesses of existing political accounts, in our view, is a conception of politics that focuses overwhelmingly on the voter-politician relationship. By contrast, we believe the rise of winner-take-all inequality can only be convincingly explained with an “organizational-policy perspective.” This alternative perspective is built around several central claims about how to understand the nature and politics of policy change.

First, to analyze the political sources of rising inequality is to focus foremost on the exercise of *authority*. For most of those engaged in politics over sustained periods, elections are only a means to an end: control over authority, or the capacity to make policies. Gaining and using control over political authority, in turn, requires organization. Influencing the exercise of government power in modern democracies necessitates a range of formidable capabilities: the capacity to overcome collective action problems, mobilize resources, develop extensive expertise, focus sustained attention, coordinate actions with others, and operate across multiple domains. By and large, these are the attributes of organizations, not discrete, atomized voters.

To be sure, voters wield real power thorough the ballot box. As the research of Bartels and many others has shown, however, voters’ attention to the highly complex matter of what government actually does is limited, superficial, and typically brief. In our fragmented political system, victories without enduring organization are almost always fleeting. Struggles over policy—over what the government actually *does* for and to its citizens—are usually long, hard slogs. These are struggles that involve drawn-out conflicts in multiple arenas, extremely complicated issues where only full-time, well-trained participants are likely to be effective, and stakes that can easily reach hundreds of billions of dollars. Inevitably, organized groups are crucial actors, and usually *the* crucial actors, in these struggles.

Once we are more attentive to the importance of organized interests and their relentless focus on what government actually does, it helps us to think differently about another crucial feature of modern politics: the two major parties. Parties are not exclusively, or even primarily, marriages-of-convenience for teams of election-minded politicians seeking to appeal to voters.<sup>14</sup> They are also vehicles for carrying the concerns of coalitions of interest groups into policy-making. Politicians (and parties) care about groups because they can mobilize resources that elected officials need. Moreover, groups combine these resources with intense preferences and substantial information, giving them unique capacities to reward and punish.

That interest groups seek to influence policy through the parties has important implications for the study of political economy. It means that major shifts in the overall balance of organized interests are likely to exert effects on *both* major parties, although often in different ways. Such shifts have surely occurred: Over the last generation, mass membership organizations representing the economic interests of voters from the middle to the bottom of the economic ladder, always weak, have atrophied further, while the capacity of employers, other business-linked interests, and the affluent in general has greatly increased. These interwoven changes—which include the decline of unions and the ever-increasing presence of big money in political life—have dramatically weakened the *organized* political voice of ordinary citizens on economic issues, with effects that have reverberated through American politics and affected both parties.

The role of government in the political economy is not, therefore, just a question of the balance between the two parties, as Bartels's argument about the effects of partisan control of the presidency would suggest. Equally important is the matter of where the two parties situate themselves with respect to the most important issues of governance. This in turn is likely to depend on the shifting balance of organized interests. For instance, and again contrary to Bartels, we would emphasize that important elements of the Democratic Party have responded to the substantial decline in organized labor and increase in the capacity of organized business interests by repositioning themselves on a number of critical issues, including taxation and deregulation, in ways that have undercut the party's traditional commitment to egalitarian policies.

The second implication is that parties often seek to be responsive to the concerns of policy-demanding interest groups even when this threatens to conflict with the preferences of the median

voter. Indeed, this tension—as parties in government try to mediate the cross-cutting pulls of voter and organized interests—is central to modern governance.<sup>15</sup> *The art for policymakers is not to respond to the median voter; it is to minimize the trade-offs when the desires of powerful groups and the desires of voters collide.*

Our final claim is that government involvement in the modern economy is both broad and deep. Analysts often note that much of the rise in inequality at the very top has occurred in market incomes, or what income specialists (misleadingly) call “pre-tax and -transfer inequality.” The conclusion often taken from this is that market changes, not public policy, are driving the trend. This conclusion, however, overlooks the strong evidence that direct government tax- and -transfer policy *is* abetting inequality, especially at the very top of the income ladder. More important, it conflates pre-tax and -transfer inequality with pre-*government* inequality. The implicit view is that the market autonomously produces the distribution of economic rewards and only then does government step in to redistribute income. Yet government actually has an enormous range of tools for affecting the distribution of earnings before taxes and benefits take effect. Over the long run, government policies do not simply redistribute what labor and financial markets produce; they *structure* those markets in ways that shape both economic outcomes and the capacity for organized action among economic interests. Policy helps to set the basic contours of the economy, the “variant of capitalism”, if you will.<sup>16</sup>

We base this argument not just on the American experience, but also the powerful evidence from a large body of comparative research that finds large differences in how governments “make” markets between nations that can all be reasonably described as affluent capitalist democracies. These differences, in turn, reflect institutionally embedded structures of governance and organization—the role and reach of labor unions, the ways in which economic policies support certain production strategies and not others, the incentives for specific corporate governance and executive pay arrangements that national regulatory and taxation regimes create—that are enormously consequential for the distribution of market rewards.<sup>17</sup>

Much of the research on the role of U.S. public policy in shaping inequality has ignored this insight and instead emphasized direct taxes and transfers. When one looks at the declining progressivity of the tax code at the very top of the income ladder, tax policy has played an important role in abetting

winner-take-all inequality. Indeed, *cuts in federal taxes primarily affecting the wealthiest account for roughly one-third of the total rise in the after-tax income share enjoyed by the top 0.1 percent over the last four decades.*<sup>18</sup> And there is no question that public benefits for the middle class and poor have not offset the rising skew of incomes toward the top.

Yet for understanding the highly concentrated nature of post-1970s economic gains, a focus on tax- and -transfer policies will not get us far. Instead, we argue that many of the winner-take-all gains at the top are directly linked to the evolution since the 1970s of key areas of public policy governing corporate structure and pay, the functioning of financial markets, and the framework of industrial relations. While we cannot elaborate on this argument here, suffice it to say that once one delves into the politics and policy of financial market deregulation, the way in which executive compensation is governed, and the steeply declining sway of unions in both the workplace and American politics, the role of government in fostering market structures and outcomes highly favorable toward the most affluent becomes impossible to miss.

Part of the reason why analysts *have* missed this role is that they have tended to search narrowly for big legislative enactments. Important inequality-inducing laws and policies have in fact been created. But it is also important to recognize that major legislative initiatives—what David Mayhew, in his landmark study of divided government, calls “enactments”—are but one of the two principal mechanisms through which politics can reshape how an economy works.<sup>19</sup>

A second mechanism, which we call “drift,” is equally, if not more, important. Drift describes the politically driven failure of public policies to adapt to the shifting realities of a dynamic economy and society. Drift is not the same as simple inaction. Rather, it occurs when the effects of public policies change substantially due to shifts in the surrounding economic or social context and then, *despite the recognition of alternatives*, policymakers fail to update policies *due to pressure from intense minority interests or political actors exploiting veto points in the political process*. Thus, drift requires (1) policies whose effects change due to shifting circumstances; (2) recognition of this change; (3) availability and awareness of viable alternatives; and (4) non-majoritarian reasons why those alternatives are not adopted.

A prominent recent example of drift is the favorable treatment of the income of hedge-fund managers. Remarkably, the astonishing fees these managers receive for investing other people's money are taxed at a low capital-gains rate rather than a much higher income tax rate. The basis for this favorable treatment is a set of obscure IRS rules adopted before hedge funds became a prominent part of the economy. Despite broad agreement that giving ultra-wealthy hedge fund managers billions of dollars in tax breaks makes little policy sense, the financial industry has so far been able to resist efforts to update the rules to reflect new realities.

Three factors make drift an especially salient feature of the modern American political economy. The first is that the design of U.S. political institutions makes policy enactments especially difficult, while maximizing opportunities to pursue policy agendas based on the exploitation of drift. Although there are multiple institutional obstacles, the most important in the last quarter century has been the Senate's requirement of 60 votes to cut off debate on proposed legislation.<sup>20</sup> The second factor enhancing the prominence of drift is the increasing polarization of the two major political parties, which has fostered partisan stalemate even on issues that once featured cross-party bipartisan coalitions. A final factor in the rising significance of drift is that it provides an exceptionally valuable tool for policymakers seeking to be responsive to organized interests rather than disorganized voters. Compared with alternative mechanisms, drift allows policy change to occur through "non-decisions." It is thus less likely to attract the notice of those who pay only sporadic attention to politics and have limited information about policy. Conversely, it is quite easily seen and used by organized interests, such as the financial industry lobbyists defending the hedge-fund tax break.

In sum, our organizational-policy perspective contends that policy—both what government has done and what, as a result of drift, it has failed to do—has played an absolutely central role in the rise of winner-take-all economic outcomes. Moreover, in the main areas where the role of government appears most significant, we see a consistent pattern: active, persistent, and consequential action on the part of organized interests who stood to gain from a transformation of government's role in the American economy.

## Conclusion

Explaining the remarkable rise of winner-take-all requires a true *political economy*—that is, a perspective that sees modern capitalism and modern electoral democracies as deeply interconnected. On the one side, government profoundly influences the economy through an extensive range of policies that shape and reshape markets. On the other side, economic actors—especially when capable of sustained collective action on behalf of shared material interests—have a massive and ongoing impact on how political authority is exercised.

Recent economic accounts have missed the first side of this relationship. Conceptualizing government's role in an excessively narrow way, they have attributed highly concentrated gains to impersonal technological forces. While this interpretation has some basis, neither the American experience nor comparative evidence suggests it can bear the weight that economists have placed on it.

Recent political accounts have missed the second side of this relationship. Conceptualizing politics and policy in excessively narrow ways, they have sought to sustain an explanatory focus on the median voter. Yet once the hyper-concentration of gains is recognized, and the policy dynamics more clearly outlined, appeals to the median voter look less and less like a plausible line of argument and more and more like a kind of *deus ex machina*.

Perhaps surprisingly, the limits of these accounts flow from a similar source. Too many economists and political scientists have treated the American political economy as an atomized space, and focused their analysis on individual actors, from voters and politicians to workers and consumers. But the American political economy is an *organized* space, with extensive government policies shaping markets, and increasingly powerful groups who favor winner-take-all outcomes playing a critical role in politics. Finding allies in both political parties, organized groups with a long view have successfully pushed new initiatives onto the American political agenda and exploited the opportunities created by American political institutions to transform U.S. public policy—through both new enactments and pervasive policy drift. In the process, they have fundamentally reshaped the economic standing of millions of ordinary Americans

The good news is that rising economic inequality is not an inevitable economic reality. It is a political outcome created by major shifts in what government has done and not done. That does not mean it will be easy to reverse. Doing so will take concerted, sustained government action to improve the economic standing of those who have been left outside the circumscribed winners' circle. It will also require political reform aimed at reducing the capacity of entrenched elites to block needed reform and at encouraging the development of groups that can provide a continuing, organized capacity to mobilize middle-class voters and monitor government and politics on their behalf. But beating winner-take-all is ultimately in our hands. .



---

<sup>1</sup> Lawrence R. Jacobs and Theda Skocpol, *Inequality and American Democracy* (New York: Russell Sage Foundation, 2005); Martin Gilens, “Inequality and Democratic Responsiveness,” *Public Opinion Quarterly* 69, no. 5 (2005): 778-796; Nolan McCarty, Keith Poole and Howard Rosenthal, *Polarized America: The Dance of Ideology and Unequal Riches* (Boston: MIT Press, 2006); Larry Bartels, *Unequal Democracy: The Political Economy of the Gilded Age* (Princeton: Princeton University Press, 2008); and Nathan Kelly, *The Politics of Income Inequality in the United States* (New York: Cambridge Press, 2009).

<sup>2</sup> Thomas Piketty and Emmanuel Saez, “Income Inequality in the United States, 1913-1998,” *Quarterly Journal of Economics* 118, no. 1 (2003): 1-39; and Thomas Piketty and Emmanuel Saez, Updated Tables and Figures for Piketty and Saez 2003 (<http://elsa.berkeley.edu/~saez/TabFig2007.xls>. [2009]). This pattern also shows up in the so-called internal data for the Current Population Survey—the original responses, which are not as severely truncated at high income levels as the results provided to researchers. Richard V. Burkhauser, Shuaizhang Feng, Stephen P. Jenkins, and Jeff Larimore, “Recent Trends in Top Income Shares in the USA: Reconciling Estimates from March CPS and IRS Tax Return Data,” Institute for the Study of Labor Discussion Paper No. 4426 (September 2009).

<sup>3</sup> Paul Krugman, *The Conscience of a Liberal* (New York: W.W. Norton, 2007).

<sup>4</sup> Calculated from <http://elsa.berkeley.edu/~saez/TabFig2007.xls>. See CBS Sunday Morning, “The Great American Paycheck Squeeze,” 28 February 2010, [www.cbsnews.com/stories/2010/02/28/sunday/main6252373.shtml](http://www.cbsnews.com/stories/2010/02/28/sunday/main6252373.shtml).

<sup>5</sup> Congressional Budget Office (CBO), *Historical Effective Federal Tax Rates* (Washington, DC: CBO, December 2007).

<sup>6</sup> See Gilens, “Inequality and Democratic Responsiveness”; McCarty, Poole, and Rosenthal, *Polarized America*; Bartels, *Unequal Democracy*; and Kelly, *Politics of Income Inequality in the U.S.*

<sup>7</sup> Lane Kenworthy, “How Much Do Presidents Influence Income Inequality?” *Challenge* 5, no. 1 (2010).

<sup>8</sup> Thomas Romer, “Individual Welfare, Majority Voting and the Properties of a Linear Income Tax,” *Journal of Public Economics* 4 (1975): 163-185; Allan H. Meltzer and Scott F. Richard, “A Rational Theory of the Size of Government,” *Journal of Political Economy* 89, no. 5 (1981): 914-927; and Kevin W. S. Roberts, “Voting Over Income Tax Schedules,” *Journal of Public Economics* 8, no. 3 (1977): 329-340.

<sup>9</sup> McCarty, Poole, and Rosenthal, *Polarized America*, 118, 119.

<sup>10</sup> The foreign-born population increased from 4.7 percent of the U.S. population in 1970 to 10.4 percent in 2000. U.S. Census, *Profile of the Foreign-Born Population in the United States: 2000* (Washington, DC: US Government Printing Office, 2001).

<sup>11</sup> These data do not take into account changes in the distribution of voting, but McCarty, Poole, and Rosenthal find little evidence of changes in the class distribution of voting in their own analyses, which use the November Current Population Survey. A recent analysis of the November CPS by Jan Leighley and Jonathan Nagler finds a rise in class bias in voting. But this increase seems to be driven by the stagnation of voting rates in the bottom quintile. Trends in voting rates for the middle three quintiles—which are most crucial for the median-voter approach—appear to track the top quintiles closely. Leighley and Nagler, “Class Bias in the U.S. Electorate, 1972-2004,” Paper Presented at the Annual Meeting of the American Political Science Association, August 31-September 3, 2006, Philadelphia, Pennsylvania.

---

<sup>12</sup> Bartels, *Unequal Democracy*,

<sup>13</sup> McCarty, Poole, Rosenthal, *Polarized America*; and Bartels, *Unequal Democracy*.

<sup>14</sup> Kathleen Bawn, et al., “A Theory of Political Parties.” Unpublished manuscript, UCLA Political Science.

<sup>15</sup> See Jacob S. Hacker and Paul Pierson, *Off Center* (New Haven: Yale University Press, 2005).

<sup>16</sup> Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (New York: Oxford University Press, 2001).

<sup>17</sup> For example, Hall and Soskice, *Varieties of Capitalism*; Jonas Pontusson, *Inequality and Prosperity: Social Europe vs. America* (Ithaca, NY: Cornell University Press, 2005); Peter A. Gourevitch and James Shinn, *Political Power and Corporate Control: The New Global Politics of Corporate Governance* (Princeton: University of Princeton Press, 2005).

<sup>18</sup> Thomas Piketty and Emmanuel Saez, “How Progressive is the U.S. Federal Tax System? A Historical and International Perspective,” *Journal of Economic Perspectives* 21, no. 1 (2007) :3-24.

<sup>19</sup> David Mayhew, *Divided We Govern: Party Control, Lawmaking, and Investigations, 1946- 1990* (New Haven, CT: Yale University Press, 1991).

<sup>20</sup> See Gregory J. Wawro and Eric Schickler, *Filibuster: Obstruction and Lawmaking in the U.S. Senate* (Princeton, N.J.: Princeton University Press, 2006).