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Andrew Chen *on*
Poetry's New Sincerity

Richard G. Stern *on*
Tragi-farce, Simulacra, Libby, and *Lear*

Ji Xia *on*
The Trauma of "I Claim"

Kira Bennett *on*
The Faux Feminism of *Twilight*

Ben Brubaker *on*
Heroes and Villains in *Watchmen*

Ardevan Yaghoubi *on*
The Space of the University

and

Noah Ennis *on*
First Looking into *Lapham's Quarterly*

Economics and Politics: Inequality in Partisan Politics

by Dmitri Leybman

Unequal Democracy: The Political Economy of the New Gilded Age
by Larry M. Bartels
Princeton University Press, 328 pp., $29.95

A persistent debate between economists and political scientists concerns the extent to which political decisions can impact macroeconomic outcomes. Economists are usually skeptical when a politician courts voters by reminding them of his successful efforts at improving the economy. The same skepticism is usually applied to politicians running on campaigns to improve the economy. True, there are some things the government can do to interfere with economic growth—implementing protectionist policies, for example—but on the whole, politicians are powerless to reverse the tide of inexorable economic changes. Therefore, say the economists, any responsibility an incumbent takes for the economic state of the country is due to a spurious correlation between his term in office and the economic outcomes obtained during that period.

But are politicians really so powerless? During the 2008 elections, there was perhaps no more salient issue than the state of the economy. Liberalization of financial markets, the bursting of the housing bubble, and the indiscriminate use of untenable securities all helped to bring about the largest financial crisis since the Great Depression. When Americans elected Barack Obama, they were electing a political leader whom they trusted to ameliorate the economic crisis. Indeed, such retrospective voting on the basis of economic concerns is assumed to be one of the driving forces in electoral politics and voting behavior (Fiorina 1981). If we take the economists' argument seriously and assume politicians have little to do with the state of the economy, then citizens who vote on the basis of their economic concerns appear seriously misguided in their behavior.

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Larry Bartels's *Unequal Democracy: The Political Economy of the New Gilded Age*, published in 2008, is of the most insightful analyses yet of the impact of politics on the economy. Bartels, a political scientist, has been conducting research on the relationships among income, political partisanship, and voting behavior since the late 1990s. When the political commentator Thomas Frank argued in *What's the Matter with Kansas* that poor individuals in red states weren't voting in their economic interests, it was Bartels who provided the sobering rejoinder reminding Frank and his readers that income has actually become a stronger factor in determining an individual's political ideology. In the past twenty years, poorer people have become more reliable Democrats, while the rich have closely aligned themselves with Republicans. As Bartels notes, "the general trend in support for Democratic presidential candidates among whites in the bottom third of the income distribution has been upward, not downward" (Bartels 2008:73-74). Moreover, although it is true that Democratic presidential candidates have lost support among white voters over the past fifty years, this loss of support has been from relatively well-off white voters and "they have been partially offset by *increasing* support for Democratic candidates among poorer white Americans" (Bartels 2008:74).

Bartels's book comes at an important point. Too often the political landscape of the country has been colored along blue and red lines. It is widely accepted that the country can be divided into red and blue states, and that somehow the poor are siding with Republicans on social issues, while ignoring their own economic interests. The neat red and blue maps we saw in 2000 and 2004 were presented as proof that the country was divided and irrevocably split along regional lines. Bartels's work, along with that of Morris Fiorina, David W. Brady, Pietro Nivola, and others, will help dispel some of these myths about the saliency of "culture issues" in shaping the voting behavior of the working and lower-middle classes.

The most astonishing finding in Bartels's book is the consistently wide disparity in income inequality and real per capita GNP growth figures reported under Democratic as opposed to Republican presidents. To understand why this disparity occurs, we should begin by acknowledging that Democrats and Republicans seek different short-term economic objectives. In short, presidents are thought to exploit a short-run Philips curve where inflation and unemployment are inversely related to each other (Alesina and Rosenthal 1995). When unemployment is high, inflation will be low; when unemployment is low, inflation tends to be high. Democratic presidents tend to trade off higher inflation for lower unemployment, but Republican presidents tend to prefer lower inflation while tolerating higher unemployment (Alesina, Roubini, and Cohen 1997; Hibbs 1988). This drive for different macroeconomic objectives produces what political scientists refer to as the political business cycle. The mechanism by which politicians are able to obtain higher or lower inflation and unemployment is still under some debate, but the fact that these macroeconomic objectives differ between Democrats and Republicans has become widely accepted in political economics (Hibbs 1988, Alesina and Rosenthal 1995).

Bartels wanted to see whether income inequality has any connection to the political party of the president. His analysis showed that between 1949 and 2005 there has emerged a more strongly partisan political economy, with economic inequality almost always increasing under Republican presidents and decreasing under Democratic presidents. As a corollary, income growth is also distributed differently under Democratic versus Republican administrations. For example, the average real per capita GNP growth since 1949 has been forty percent lower under Republicans than Democrats. Unemployment, whose effects are most strongly felt by the working class, has been 30% higher under Republican administrations. Incidentally, Democrats and Republicans do a relatively equal job of controlling inflation over the long term (Bartels 2008: 48).

> *Unequal Democracy* could be just the scholarly work needed to make economists take notice of the potentially productive relationships that can develop between them and political scientists.

One could argue that the increasing growth in income inequality under Republican administrations and its reduction under Democratic administrations is merely a coincidence. Given that since 1949 there have been only eleven presidents, so surely some element of chance is involved in Bartels' empirical findings. However, as Bartels notes, "the probability of observing no more than one exception [the Carter presidency] to the partisan pattern of increasing inequality under Republicans and decreasing inequality under Democrats in a random sequence of 11 increases and decreases would be 12/2,048=.006" (Bartels 2008: 36). There is less than a 0.6-percent chance of observing this pattern if it was merely a coincidence.

One of the most troubling aspects in these findings is the paucity of research that has been conducted to explain them. Most economists, as Bartels is quick to remind the reader, eschew political explanations in favor of seemingly more robust economic ones. When talking about income inequality, one most often hears explanations invoking increased globalization, the increase in immigration, and the increasing income disparity between individuals with college degrees and those without them. Little mention is made of the fact that economies occur under the purview of political institutions and agents with different economic objectives.

Additionally, all three of these economic explanations are only successful at explaining income inequality between certain groups—immigrants versus natives, college-educated versus high school-educated—but they don't explain why is that economic growth for the middle and lower classes remains startlingly different under Democratic and Republican administrations. These explanations also can't account for the fact that wages for most Americans families have been largely stagnant throughout this decade, even as the top 1% has been accumulating a record share of the overall wealth (Bernstein 2008; Saez 2008; Saez and Piketty 2003).

Great scholarly tracts in the social sciences—Olson's *The Logic of Collective Action,* Dahl's *Who Governs*, Allison's *Essence of Cooperation* immediately come to mind—inevitably raise just as many questions as they provide answers. In *Unequal Democracy,* Bartels provides to the curious reader some of the most provocative empirical findings in political science today. But there is still much to be done in cooperation with macroeconomists. First, more research is needed to understand how varying economic policies can disproportionately impact different socio-economic groups. For example, is Keynesian macroeconomic policy more conducive to raising real per capita GNP for the middle classes and lower classes, or can this be accomplished just as well under other economic models, *e.g.* those of the Chicago or Austrian Schools? Such an investigation would let us see if Keynesian economic policies, generally associated with Democratic presidents, are responsible for Bartels's findings that the middle class experiences higher income growth. Or perhaps we would find that long-term macroeconomic outcomes are largely the same for all socio-economic groups, regardless whether the president's policies are more characteristic of Keynesian or Chicago School economics.

Second, economists need to forge an alliance between political scientists and sociologists so as to ensure a more holistic view of how economies work in different societies. Too often, economists, in their drive to formulate internally consistent models and convoluted equations, ignore the impact of political and social institutions. Bartels and the political scientist Henry W. Brady have addressed this concern. In 2003, they published a paper in the American Economic Review urging economists to abandon their "overreliance on standard economic models and methods" and instead engage "in a more constructive research style combining the theoretical and empirical rigor of economics with a broader and more eclectic approach familiar to political scientists" (Bartels and Brady 2003:156). *Unequal Democracy* could be just the scholarly work needed to make economists take notice of the potentially productive relationships that can develop between them and political scientists. Furthermore, it may finally require them to acknowledge what most voters have always known: *politics really does matter*. ❧