

## Chapter 2

### The Partisan Political Economy

... as our economy grows, market forces work to provide the greatest rewards to those with the needed skills in the growth areas. ... This trend ... is simply an economic reality, and it is neither fair nor useful to blame any political party.

– Treasury Secretary Henry Paulson, 2006<sup>1</sup>

Secretary Paulson’s attribution of increasing economic inequality to impersonal “market forces” is politically convenient, given his prominent position in an administration that has presided over booming corporate profits but stagnant wages for most working people. Nonetheless, his perspective is symptomatic of a much more general tendency to think of the economy as a natural system existing prior to, and largely separate from, the political sphere.

In the run-up to the 2004 presidential election, for example, the Associated Press reported that, “Over two decades, the income gap has steadily increased between the richest Americans, who own homes and stocks and got big tax breaks, and those at the middle and bottom of the pay scale, whose paychecks buy less.” While the AP story noted that Democratic presidential candidate John Kerry was attempting to make the economy a campaign issue, the last word went to the chief economist for Wells Fargo: “This really has nothing to do with Bush or Kerry, but more to do with the longer-term shift in the structure of the economy.” Similarly, in the run-up to

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<sup>1</sup> Remarks Prepared for Delivery by Treasury Secretary Henry H. Paulson At Columbia University,

the 2006 midterm election business columnist Ben Stein noted that “There is extreme income inequality in this country. It is hard to say whether it’s the fault of President Bush, since there was also extreme income inequality under former President Bill Clinton, and in fact there has always been extreme income inequality.”<sup>2</sup>

The tendency to think of economic outcomes as natural and inevitable is politically significant because it discourages systematic critical scrutiny of their causes and consequences. If escalating inequality is “simply an economic reality,” it seems pointless to spend too much energy worrying about how and why it arises. Moreover, if “there has always been extreme income inequality” under Republicans and Democrats alike, it seems pointless to hope that public policies might mitigate that inequality. As prominent policy analyst Lawrence Mead rather breezily put it, in a response to the report of the American Political Science Association’s Task Force on Inequality and American Democracy cited in Chapter 1, “The causes [of growing economic inequality] are not well understood and have little tie to government.”<sup>3</sup>

My aim in this chapter is to refute the notion that the causes of economic inequality in contemporary America “have little tie to government.” Indeed, I suggest that the narrowly economic focus of most previous studies of inequality has caused them to miss what may be the most important single influence on the changing U.S. income distribution over the past half-century – the contrasting policy choices of Democratic and Republican presidents. Under Republican administrations, real income growth for the lower and middle income classes has

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August 1, 2006. <http://www.treas.gov/press/releases/hp41.htm>.

<sup>2</sup> Associated Press, “Gap Between the Rich, Others Grows,” *Trenton Times*, August 17, 2004, page A6. Ben Stein, “You Can Complain, or You Can Make Money,” *New York Times*, October 15, 2006, page BU 3.

<sup>3</sup> Mead (2004), 671.

consistently lagged well behind the income growth rate for the rich – and well behind the income growth rate for the lower and middle classes themselves under Democratic administrations.

In addition to documenting these substantial partisan disparities in income growth, the analyses presented in this chapter address a variety of potential explanations for them. I show that the dramatic differences in patterns of income growth under Democratic and Republican presidents are quite unlikely to have occurred by chance; nor can they be attributed to oil price shocks or changes in the structure of the labor force or other purely economic factors, or to cyclical corrections by each party of the other party's policy excesses. Rather, they reflect consistent differences in policies and priorities between Democratic and Republican administrations. In the first half of the post-war era, these differences were expressed primarily in macroeconomic policies and performance, with Democrats presiding over significantly less unemployment and significantly more overall economic growth than Republicans. Since the 1970s some of these macroeconomic differences have been muted, but significant partisan differences in tax and transfer policies have continued to produce significant partisan disparities in patterns of post-tax income growth, with the middle class and, especially, the working poor experiencing significantly more income growth under Democratic presidents than under Republican presidents.

The cumulative effect of these partisan differences has been enormous. My projections based on the historical performance of Democratic and Republican presidents suggest that income inequality would actually have *declined* slightly over the past fifty years – completely erasing the substantial increase in inequality documented in Chapter 1 – had the patterns of income growth characteristic of Democratic administrations been in effect throughout that period. Conversely, continuous application of the patterns of income growth observed during

periods of Republican control would have produced a much greater divergence in the economic fortunes of rich and poor people than we have actually experienced – a Platinum-Gilded Age.

## **Partisan Patterns of Income Growth**

As I suggested in Chapter 1, economists have generally paid only perfunctory attention to potential *political* explanations for increasing economic inequality in contemporary America. They have paid even less attention to *partisan* political explanations – perhaps because marked partisan differences in economic outcomes are difficult to account for within the framework of standard economic models.<sup>4</sup> While political economists have documented consistent partisan differences in economic policy, they have seldom focused on the implications of those differences for income inequality or for the specific economic fortunes of people in different parts of the income distribution.<sup>5</sup>

The most notable exception to this pattern of neglect is the work of Douglas Hibbs, who produced pioneering studies of the impact of partisan politics on a variety of macroeconomic outcomes, including the money supply, unemployment, real output, and income inequality. Using data from 1948 through 1978 (that is, before most of the substantial increase in income

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<sup>4</sup> A rudimentary search of *JSTOR*, an online archive including articles from more than 50 economics journals, turned up 228 articles published since 1987 with the phrase “economic inequality” in the text; but only 19 of these made any mention of “political parties,” “political party,” “partisan,” “Democrat,” or “Republican,” and only one brief piece (Bartels and Brady 2003) focused significantly on the role of partisan politics in exacerbating or mitigating economic inequality. In addition, Atkinson (1997) and Putterman, Roemer, and Silvestre (1998) argued for the general significance of political factors (and more specifically for the potential utility of models in which political parties may generate non-median policy outcomes) in the course of surveying economic research on income distribution and egalitarianism, respectively.

inequality documented in Chapter 1), Hibbs found that the ratio of the share of post-tax income received by the top twenty percent of the income distribution to the share received by the bottom forty percent declined during periods of Democratic control but increased during periods of Republican control. Applying these estimates to his entire period, Hibbs concluded that inequality declined markedly (by a total of about 25 percent) during the fourteen years of Democratic control covered by his analysis, while remaining essentially unchanged during the seventeen years of Republican control. Hibbs and Christopher Dennis extended this analysis through the early 1980s and embedded it in a somewhat broader analysis of partisan differences in macroeconomic policy.<sup>6</sup>

In this chapter I extend Hibbs and Dennis's analyses in a variety of ways – most notably by incorporating twenty years of additional historical experience, including most of the period of escalating inequality described in Chapter 1. My focus is on partisan patterns of real income growth for affluent, middle-class, and working poor families. I use the tabulations from the U.S. Census Bureau's Historical Income Tables introduced in Chapter 1 to examine year-to-year changes in real pre-tax income for families at the 20th, 40th, 60th, 80th, and 95th percentiles of the income distribution from 1948 through 2005.

It will not be surprising, in light of the discussion in Chapter 1, that the average rate of real income growth during this period was higher for affluent families than for those lower in the income distribution. These average growth rates, which appear in the first column of Table 2.1, range from 2% for families at the 95th percentile down to 1.4% for families at the 20th percentile.

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<sup>5</sup> Hibbs (1977; 1987); Keech (1980); Beck (1982); Alesina and Sachs (1988).

<sup>6</sup> Hibbs (1987), 232-243. The *t*-statistic for this partisan difference is 1.8, suggesting that it is very

**\*\*\* Table 2.1 \*\*\***

What may be more surprising is that this pattern of differential growth is entirely limited to periods in which Republicans controlled the White House. The second and third columns of Table 2.1 present separate tabulations of real income growth during Democratic and Republican administrations, respectively. Since it seems unreasonable to expect a new president to have an immediate impact on income growth in his first year in office, my measure of partisan control is lagged by one year; thus, income changes in 2001 are attributed to Democrat Bill Clinton, despite the fact that Republican George W. Bush took office in January of that year. The assumption of a one-year lag in partisan policy effects is consistent with macroeconomic evidence regarding the timing of economic responses to monetary and fiscal policy changes; it also turns out to fit the observed data better than a zero-, two-, three-, four-, or five-year lag.<sup>7</sup>

Figure 2.1 provides a graphical representation of the patterns documented in the second and third columns of Table 2.1. The starkly different patterns of income growth under Democratic and Republican administrations are very clear in the figure. Under Democratic presidents, poor families did slightly better than richer families (at least in proportional terms), producing a modest net decrease in income inequality; under Republican presidents, rich families did vastly better than poorer families, producing a considerable net increase in income inequality. In both cases the patterns are essentially linear over the entire range of family

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unlikely to be due to chance. Hibbs and Dennis (1988).

<sup>7</sup> Christiano et al. (1999); Blanchard and Perotti (2002). I have investigated the statistical fit of alternative lags by replicating the analysis presented in Table 2.3 below using current (unlagged) presidential partisanship, and also using presidential partisanship lagged by two, three, four, or five years. In every case the resulting regression model fit the data four to five percent less well than the model with presidential partisanship lagged by one year.

incomes represented in the figure (that is, for incomes ranging from about \$25,000 to \$200,000 in 2005).

**\*\*\* Figure 2.1 \*\*\***

If patterns of income growth differ so dramatically under Democratic and Republican presidents, it seems natural to wonder whether there are similar differences attributable to Democratic and Republican members of Congress. Unfortunately, the historical pattern of change in the partisan composition of Congress in the post-war era makes it very hard to tell. With Democrats holding an uninterrupted majority in the House of Representatives from 1955 through 1994 and Republicans in control from 1995 through 2006, any effect of variation in the partisan composition of Congress is likely to be confounded with the effects of broader economic trends. Thus, although simple tabulations of income growth levels suggest that they have generally been higher when Congress has been more Democratic, those differences cannot be considered dispositive.<sup>8</sup>

### **A Partisan Coincidence?**

The partisan differences in characteristic rates of income growth documented in Figure 2.1 would seem to be of immense economic and political significance – if they are real. They suggest that middle-class and poor families in the post-war era have routinely fared much worse

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<sup>8</sup> Adding a measure of the average proportion of Democrats in the House and Senate to the regression equations reported in Table 2.3 below suggests that Democrats in Congress probably had positive effects on income growth, at least for low-income families; but the relevant parameter estimates are small (implying that even the largest observed shift in the partisan composition of Congress had much less effect on income growth than a shift in partisan control of the White House) and very imprecise (with an

under Republican presidents than they have under Democratic presidents. By this accounting, economic inequality in contemporary America is profoundly shaped by partisan politics.

But to what extent are these patterns really attributable to partisan politics rather than to accidental historical factors? One way to address this question is to examine their consistency across a range of presidents and circumstances. To that end, Figure 2.2 shows the level of income inequality in each year of the post-war period as reflected in one standard measure of inequality, the ratio of incomes at the 80th percentile of the income distribution to those at the 20th percentile.

**\*\*\* Figure 2.2 \*\*\***

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

Despite these long-term forces, distinguishing between Democratic and Republican administrations (the white circles and black diamonds in the figure, respectively) reveals the regularity with which Democratic presidents reduced and Republican presidents increased the prevailing level of economic inequality, irrespective of the long-term trend. Indeed, the effect of presidential partisanship on income inequality turns out to have been remarkably consistent since the end of World War II. The 80/20 income ratio increased under each of the six Republican

presidents in this period – Eisenhower, Nixon, Ford, Reagan, George H. W. Bush, and George W. Bush. On the other hand, four of five Democratic presidents – all except Jimmy Carter – presided over declines in income inequality. If this is a coincidence it is a very powerful one.<sup>9</sup> Even in the highly inegalitarian economic climate of the 1990s, Bill Clinton managed to produce slightly stronger income growth for families at the 20th percentile than at the 80th percentile, though families at the very top of the income distribution did even better.

The strikingly consistent partisan pattern of changes in income inequality in Figure 2.2 seems hard to attribute to a mere coincidence in the timing of Democratic and Republican administrations. That conclusion is reinforced by additional analyses focusing on various subsets of the 58-year period represented in Figure 2.2. For example, families at the 20th percentile of the income distribution experienced much more robust income growth under Democratic presidents than under Republican presidents in both the first and second halves of the post-war era.<sup>10</sup> Substantial partisan differences appear even if any one or two administrations are omitted from the comparison,<sup>11</sup> if years with unusually high or low growth are ignored,<sup>12</sup> or if

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<sup>9</sup> The probability of observing no more than one exception 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  $12/2048 = .006$ .

<sup>10</sup> From 1947-1974, average income growth for families at the 20th percentile of the income distribution was 1.5% under Republican presidents and 3.8% under Democratic presidents; the partisan difference is 2.32 (with a *t*-statistic of 1.3). From 1974-2005, average income growth for families at the 20th percentile was -0.3% under Republicans and 1.3% under Democrats; the partisan difference is 1.59 (with a *t*-statistic of 1.7).

<sup>11</sup> Omitting each of the 11 post-war presidents in turn from the comparison reported in Table 2.1 produces estimates of the partisan difference in income growth at the 20th percentile ranging from 1.49 (with a *t*-statistic of 1.5), omitting Lyndon Johnson, to 2.77 (with a *t*-statistic of 3.0), omitting Dwight Eisenhower.

<sup>12</sup> Excluding years in which real income growth at the 20th percentile was greater than 5% or less than -2% produces a partisan difference of 2.02 (with a *t*-statistic of 4.0).

presidential election years or partisan transition years are excluded.<sup>13</sup> In each of these analyses the overall pattern of partisan differences in income growth is qualitatively similar to the wedge-shaped pattern in Figure 2.1.

It may be tempting to suppose that the very different patterns of income growth under Democratic and Republican presidents in Figure 2.1 reflect a cycle of partisan equilibration in which Democrats pursue expansionary policies in reaction to Republican contractions and Republicans produce contractions as an antidote to Democratic expansions. However, a detailed analysis of the timing of partisan differences in income growth provides no support for that notion. Table 2.2 provides tabulations of average income growth paralleling those in Table 2.1, but separately for administrations in which the president was of the opposite party as his predecessor (in the top panel of the table) and those in which the president succeeded himself or a member of his own party (in the bottom panel).

**\*\*\* Table 2.2 \*\*\***

If slow growth for middle-class and poor families under Republican presidents represented an antidote to unsustainable expansion under Democratic presidents, and vice versa, we would expect to see the greatest partisan differences in administrations where Republicans succeeded Democrats or Democrats succeeded Republicans. However, the actual pattern is exactly the opposite: the partisan differences in average growth rates at every income level were about twice as large in terms with no partisan turnover as they were in the first terms of new partisan regimes. Democratic presidents generally presided over similar income growth rates for families

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<sup>13</sup> The partisan difference in income growth at the 20th percentile excluding presidential election years is 3.27. The corresponding estimate in a model excluding partisan transition years (1953, 1961, 1969, 1977, 1981, 1993, and 2001) is 2.47. The *t*-statistics for these estimates are 3.0 and 2.3, respectively.

in every part of the income distribution, regardless of whether they were in their first or second terms; but average income growth was consistently higher (by a little more than half a percentage point) when Democrats succeeded Democrats than when Democrats succeeded Republicans. Conversely, most families (except the most affluent) did better under first-term Republican presidents than in subsequent Republican administrations; these differences, too, were on the order of half a percentage point.

Income growth was also considerably more unequal in Republican administrations with no partisan turnover than it was under first-term Republican presidents. In both cases there was a steady increase in average growth rates with each step up the income ladder; but the gap in economic fortunes between the rich and the poor was almost twice as large when Republican presidents were well-entrenched in the White House than when they succeeded Democrats. Clearly these differences cannot be attributable to short-term corrections of misguided Democratic policies.

Another way to gauge the robustness of the partisan pattern of income growth in Figure 2.1 is to consider a variety of potential non-political explanations for the pattern. Perhaps Republican presidents have just been unlucky in occupying the White House at times when powerful external forces depressed income growth for middle-class and poor families. In order to explore this possibility, Table 2.3 presents the results of a series of parallel statistical analyses relating each year's real income growth at each of the income levels tabulated by the Census Bureau to a variety of potentially relevant economic and social conditions. The estimated effects of partisan control in these analyses represent the difference in average income growth under Democratic and Republican presidents for families at each income level, net of any differences

attributable to historical trends or current economic circumstances.<sup>14</sup>

**\*\*\* Table 2.3 \*\*\***

One economic circumstance of particular significance for income growth rates is the real price of oil – perhaps the most volatile and economically important commodity in modern industrial economies. Since major oil price shocks are largely outside the control of presidents, it would be misleading to attribute income changes associated with those shocks to partisan politics. As it turns out, however, fluctuations in oil prices have had rather little impact on income *inequality*; the statistical results presented in Table 2.3 suggest that a fifty percent increase in the real price of oil would reduce the real incomes of families at every income level by a similar amount, about 1.5 percentage points.<sup>15</sup>

Income growth rates are also sensitive to changes in labor force participation, since adding an additional family member to the workforce is likely to produce a significant increase in family income. The proportion of adults in the labor force has increased from 59% in the late 1940s and '50s to 67% at the turn of the 21st century, largely due to an increase in the prevalence of working women. The statistical results presented in Table 2.3 indicate that this increase

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<sup>14</sup> The Seemingly Unrelated Regression (SUR) estimator (Zellner 1962) exploits cross-equation correlations of the regression disturbances to produce more efficient parameter estimates than with ordinary least squares regression. Not surprisingly, the residuals from the parallel regression models considered here are strongly correlated, reflecting the extent to which economic shocks affect families at all income levels in similar ways. The ten cross-equation correlations range from .27 to .90, with an average value of .68. As a result, some of the SUR parameter estimates reported in Table 2.3 are a good deal more precise than the corresponding ordinary least squares parameter estimates.

<sup>15</sup> Annual percentage changes in the real price of oil are derived from monthly spot prices (for West Texas Intermediate) compiled by Dow Jones & Company and published by the Federal Reserve Bank of St. Louis: <http://research.stlouisfed.org/fred2/series/OILPRICE/>. By this measure, the real price of oil

significantly bolstered the incomes of American families, especially those in the bottom half of the income distribution.<sup>16</sup>

The price of oil and the increasing participation of women in the labor force are just two of a great many economic and social forces beyond the control of presidents that might be expected to affect the American economy and, perhaps, patterns of income inequality. For example, college education is much more common than it was at the end of World War II, immigrants and the elderly make up larger shares of the population, the average size of families has become smaller, and imports constitute a larger share of the economy than they did. Any or all of these changes may have contributed to changing patterns of income growth over the past half-century. However, because these long-term trends have been so glacial, and so intertwined, it is very difficult to discern their distinct effects on the shape of the income distribution.<sup>17</sup>

Fortunately, from the standpoint of *political* analysis, the very fact that these social and economic trends have been gradual and fairly steady implies that their effects are unlikely to be confounded with the effects of alterations in control of the White House, which occur episodically and have produced only a very slight increase over time in the frequency of Republican governance.<sup>18</sup> Thus, rather than attempting to pinpoint specifically how these and

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increased by 142% in 1974, by 52% in 2000, and by 48% in 1980. The largest decline was 47% in 1986.

<sup>16</sup> My measure is the annual change in the percentage of non-institutionalized civilians over the age of 15 who are employed or seeking work, as tabulated by the Bureau of Labor Statistics:

<http://www.bls.gov/cps/cpsaat1.pdf>.

<sup>17</sup> Correlations between annual levels of labor force participation, college education, immigration, elderly population, family size, and imports as a share of GDP range from .76 to .99 and average .89.

Correlations between these measures and a simple linear trend range from .83 to .99 and average .93.

<sup>18</sup> The correlation between time and partisan control of the White House over the period covered by my analysis is .10. Correlations between partisan control and the social and economic indicators mentioned in the text range from .04 to .14 and average .10.

other long-term trends have affected patterns of income growth, I simply allow for the possibility that expected income growth rates have changed over time by including linear and quadratic trend terms in my analysis. Given the crudeness of this strategy for capturing long-term trends in income growth, it is important to note that the apparent effects of presidential partisanship are insensitive to a variety of alternative strategies for taking account of secular changes in the structure of the American economy and society. The statistical evidence for a partisan political effect turns out to be surprisingly robust in this respect.<sup>19</sup>

The estimated effects associated with the linear and quadratic trend terms in Table 2.3 imply that average real income growth for families below the 95th percentile has declined by a little more than half a percentage point per decade over the post-war era. However, the negative trend in income growth was much milder for families near the top of the income distribution – only one quarter of a percentage point per decade.<sup>20</sup> In this respect, among others, there is a

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<sup>19</sup> For example, adding a cubic trend term to the regression models in Table 2.3 increases the apparent impact of presidential partisanship by 11%, on average; the parameter estimates for Democratic presidents decline in roughly linear fashion from 2.54 (with a standard error of .77) at the 20th percentile to .66 (with a standard error of .61) at the 95th percentile. Replacing the linear and quadratic trend terms with an indicator variable for the period after 1973 decreases the apparent impact of presidential partisanship on income growth rates by an average of 8%; the parameter estimates for Democratic presidents decline in roughly linear fashion from 2.25 (with a standard error of .80) at the 20th percentile to .34 (with a standard error of .61) at the 95th percentile. Including social and economic trend variables, singly or in combination, also produces generally similar patterns of estimated partisan effects. For example, in the best-fitting model I have examined, which includes the value of imports as a share of GDP, the estimated partisan effects are all within 2% of the values reported in Table 2.3.

<sup>20</sup> My time trend variable runs from 0 in 1949 to 1 in 2005. Thus, the total decline in annual income growth rates at each income level over the entire period covered by my analysis is captured by the sum of the “Linear trend” and “Quadratic trend” coefficients in the corresponding column of Table 2.3. The implied declines per decade in average income growth rates are .55, .62, .60, .48, and .24, respectively,

fairly striking disconnection between the pattern of income growth for families at the 95th percentile and the pattern for less affluent families. Income growth at the 95th percentile was also virtually unrelated to growth in the previous year, and relatively unaffected by presidential partisanship. Thus, the most affluent families represented in the Census Bureau's tabulations have been surprisingly insulated from the structural shifts in the U.S. economy that have eroded income growth among less affluent families over the past half-century; and they have fared very well regardless of which party controls the White House.

On the other hand, income growth among these affluent families does seem to have spurred significant subsequent income growth among middle-class and, especially, working poor families. This "trickle-down" phenomenon is reflected in the positive effects of the previous year's growth rate for families at the 95th percentile on current growth for families at lower income levels in Table 2.3. Conversely, current growth for families at each income level was negatively related to the previous year's growth rate at the same income level, suggesting some tendency toward equilibration (with growth spurts in one year leading to slumps the following year, and vice versa), or perhaps some measurement error in the year-by-year growth rates derived from the Census Bureau's Current Population Surveys.

Despite the complicating effects of the constellation of explanatory factors represented in Table 2.3, the impact of presidential partisanship emerges clearly in these analyses. Indeed, the partisan differences between Democratic and Republican presidents estimated in Table 2.3 are remarkably similar in magnitude to those reported in Table 2.1, declining in a roughly linear fashion from 2.3 percentage points at the 20th percentile to 0.5 percentage points at the 95th percentile of the family income distribution. These statistical results provide strong evidence that

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for families at the 20th, 40th, 60th, 80th, and 95th percentiles of the income distribution.

the striking differences in the economic fortunes of rich and poor families under Democratic and Republican administrations are not an artifact of the different conditions under which Democrats and Republicans have happened to hold the reins of government, but a reflection of the fundamental significance of partisan politics in the political economy of the post-war U.S.<sup>21</sup>

### **Partisan Differences in Macroeconomic Policy**

My probing of the remarkable partisan differences in patterns of income growth over the past half-century suggests that they are real, not a historical coincidence or a statistical illusion. But how do Democratic and Republican presidents actually *produce* such strikingly different patterns of income growth? That would be a fruitful research agenda for a small army of economists. Here, I merely attempt to sketch some consistent partisan differences in key policy areas in the post-war era, provide some examples of contrasting Democratic and Republican policy initiatives, and trace the connection between partisan differences in macroeconomic performance and partisan patterns of inequality. The case studies presented in Chapters 6, 7, and 8, though still far from comprehensive, are intended to supplement this brief overview with more detailed examinations of partisan politics in two especially important areas, tax policy and minimum wage policy.

One important source of partisan differences in income growth is that Democratic and Republican presidents have consistently pursued rather different macroeconomic policies, and those policies have had significant consequences for the changing shape of the U.S. income distribution. As Edward Tufte wrote, summarizing cross-national research through the mid-

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<sup>21</sup> The partisan differences for all but the 95th percentile are too large to be plausibly attributable to chance, with t-statistics ranging from 2.4 to 2.9.

1970s, “Party platforms and political ideology set priorities and help decide policy. The consequence is that the governing political party is very much responsible for major macroeconomic outcomes – unemployment rates, inflation rates, income equalization, and the size and rate of expansion of the government budget.”<sup>22</sup>

In the U.S., as in many other industrial democracies, differences in the class composition of the parties’ respective supporting coalitions have encouraged them to adopt distinctive macroeconomic priorities. Douglas Hibbs, writing in the mid-1980s, summarized these distinctive priorities simply and forcefully: “Democratic administrations are more likely than Republican ones to run the risk of higher inflation rates in order to pursue expansive policies designed to yield lower unemployment and extra growth.” Hibbs added that “six of the seven recessions experienced since the Treasury-Federal Reserve Accord of 1951, which made possible activist monetary policies coordinated with fiscal policies, occurred during Republican administrations. Every one of these contractions was either intentionally created or passively accepted, at least for a while, in order to fight inflation.”<sup>23</sup>

The testimony of policy-makers, both contemporary and retrospective, provides ample evidence of important differences in economic philosophies and priorities between Republican and Democratic administrations. For example, Tufte noted that

The Eisenhower administration memoirs, fiscal histories, and diaries ... bristle with determined statements on the need to avoid inflation and reduce the federal budget. Stimulative interventionist policies by the government were to be avoided because they ultimately stifled creative business initiative and because they served little purpose, since economic downturns and unemployment were seen as self-curing.

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<sup>22</sup> Tufte (1978), 104.

<sup>23</sup> Hibbs (1987), 218.

In stark contrast, within weeks of John Kennedy's inauguration the new Democratic administration was being bombarded with pleas from a future Nobel laureate, Paul Samuelson, for stimulative interventionist policies:

WHAT THIS COUNTRY NEEDS IS AN ACROSS THE BOARD RISE IN DISPOSABLE INCOME TO LOWER THE LEVEL OF UNEMPLOYMENT, SPEED UP THE RECOVERY AND THE RETURN TO HEALTHY GROWTH, PROMOTE CAPITAL FORMATION AND THE GENERAL WELFARE, INSURE DOMESTIC TRANQUILITY AND THE TRIUMPH OF THE DEMOCRATIC PARTY AT THE POLLS.<sup>24</sup>

Two more future Nobel laureates, James Tobin and Robert Solow, were among the key members of Kennedy's economic policy-making team who drafted the administration's blueprint for economic recovery, a report by the Council of Economic Advisers entitled "The American Economy in 1961: Problems and Policies." In their diagnosis, "the real challenge of economic policy in the months ahead" was to absorb some \$50 billion in slack economic capacity. To that end, Kennedy had already "proposed programs in education, health, natural resources and highways, which, while fully justified on their own merits, promise additional benefit in the form of speedier recovery." If more stimulation proved necessary, "A further program for economic recovery might consider a speed-up in Government construction and related projects, an expansion of housing programs, and tax reduction."<sup>25</sup>

Income growth under Kennedy was substantially stronger than it had been under Eisenhower for middle-class and working-poor families, although affluent families fared less

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<sup>24</sup> Tufte (1978), 17, 7.

<sup>25</sup> Tobin and Weidenbaum (1988), 54, 46, 48-49.

well.<sup>26</sup> Kennedy's successor, Lyndon Johnson, presided over five years of extraordinarily rapid, broad-based income growth. From 1964 through 1969, the real incomes of families at the 95th percentile of the income distribution grew by 4.2% per year. The corresponding growth rates for families at the 80th, 60th, and 40th percentiles were 4.3%, 4.3%, and 4.5%, respectively. The only group that deviated from this remarkable pattern of proportional income growth was the working poor; their incomes grew even more rapidly than those of more affluent families, by 5.6% per year. That fact was certainly at least partly attributable to a variety of new anti-poverty policies and programs implemented as part of Johnson's "Great Society," including Medicare and Medicaid, Job Corps, Food Stamps, and the Community Action Program, among others.

Johnson's successor, Richard Nixon, is sometimes viewed as a rather unconventional, non-ideological Republican president, at least in the realm of domestic policy. However, the first few years of Nixon's presidency "fit the stylized pattern of Republican economic priorities well: An orthodox policy of fiscal and monetary restraint was pursued to raise the rate of unemployment and contain the inflationary pressures inherited from the Johnson administration." The result of these policies was likewise consistent with the typical Republican pattern: the robust egalitarian income growth that had persisted for five years under Johnson screeched to a halt in 1970, replaced by slow growth for the affluent and sharp declines in income for the working poor. Only in August 1971, with a reelection campaign on the horizon, did Nixon launch a New Economic Policy including "fiscal stimulation, monetary expansion, a wage-price freeze, and a

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<sup>26</sup> The average real income growth rate for families at the 20th percentile of the income distribution increased from 2.1% under Eisenhower to 3.8% under Kennedy. Middle-class incomes grew by 2.3% under Eisenhower and 3.3% under Kennedy, while the growth rate for families at the 95th percentile declined from 3.2% to 1.4%.

devaluation of the dollar.”<sup>27</sup>

Nixon’s New Economic Policy produced a booming economy in 1972, with real income growth ranging from 4.5% for working-poor families to 6.6% for families at the 95th percentile of the income distribution. This robust growth contributed significantly to Nixon’s landslide reelection. However, income growth slowed considerably in 1973 and disappeared in 1974. By the time Nixon resigned in disgrace in the wake of the Watergate scandal, in August 1974, the country was sliding into a severe recession.

The recession of 1974-75 was triggered by a massive oil price shock engineered by the Organization of Petroleum Exporting Countries (OPEC). The real price of oil increased by 140% in 1974, throwing the industrial sector of the U.S. and other advanced economies into a tailspin. Accidental president Gerald Ford entered the White House in the midst of a major economic crisis not of his own making.

While it is true that every president’s economic performance is shaped by unpredictable and uncontrollable events, presidents’ *responses* to those events are often strongly colored by their partisan priorities and predispositions. Given President Ford’s conventional Main Street Republican background, it is perhaps unsurprising that he “initially refused to respond” to the OPEC price shock “with policies to restore aggregate demand,” as most Democrats would have done. Instead, he

launched the ‘Whip Inflation Now’ program of fiscal and monetary restraint, which helped prolong the deep post-OPEC slump in employment and output through 1974 and into 1975. ... Only after a long and sharp decline in real output did President

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<sup>27</sup> Hibbs (1987), 271. Real income growth rates in 1969 had ranged from 3.9% to 5.7%; in 1970 they declined monotonically from 1.9% for families at the 95th percentile of the income distribution to -2.7% for families at the 20th percentile.

Ford finally propose a one-year tax rebate in January 1975. The Democratic-dominated Congress passed the bill two and a half months later, after increasing the amount of the rebate substantially and redistributing it in favor of low-income and middle-income individuals.<sup>28</sup>

Real incomes, which had declined significantly in 1975, rebounded in 1976 – almost, but not quite, enough to get Ford reelected.

The economic recovery that had begun in President Ford's final year in office accelerated under his Democratic successor, Jimmy Carter. Real income growth in 1978 exceeded 5%, and the unemployment rate fell from 7% to 6%. From a distributional standpoint, the nature of the recovery shifted markedly. Under Ford, both the recession and the recovery were marked by the class bias characteristic of Republican administrations: low-income families lost more real income than affluent families in 1975, and gained less in 1976 and 1977. In marked contrast, real income growth in 1978 was robust across the board, with families at the 20th and 40th percentiles gaining 5.6% and 5.9%, respectively.

President Carter's economic policies were surprisingly consistent with traditional Democratic tendencies and priorities, given his own ideological moderation, his often-rocky relations with the Democratic leadership in Congress, and the difficult economic times in which he governed – “An Age of Limits,” as one scholarly account put it. Carter and Congress negotiated a stimulus package including tax cuts and increased government spending, as well as an increase in the minimum wage and an expansion of federal employment programs. The administration refused to tolerate higher unemployment in order to check inflation, reckoning that “The human and social costs of this approach are prohibitive,” according to one White

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<sup>28</sup> Hibbs (1987), 272.

House policy memorandum.<sup>29</sup>

Within months of taking office, Carter obtained congressional support for almost \$10 billion in new funding for employment programs, much of it through the Comprehensive Employment and Training Act (CETA). The new money, channeled through local governments, paid for training grants, full-time public service jobs for up to two years, and summer jobs for low-income high school students. Four years later, Carter's Secretary of Labor announced proudly that he had presided over "more than a two and a half fold increase" in funds for employment and training, and that "about 4 million economically disadvantaged persons received training and job opportunities" under CETA in each year of the Carter administration.<sup>30</sup>

The unemployment rate declined through most of Carter's term, but spiked back up in the wake of a second major oil price shock in 1979-80. Slow growth was coupled with double-digit price inflation – an unprecedented combination of economic ills dubbed "stagflation." Running for reelection in the midst of recession, as well as foreign crises in Iran and Afghanistan, Carter was defeated by a popular vote margin of almost ten percentage points.

When Carter's Republican successor, Ronald Reagan, assumed office in 1981, the unemployment rate stood at 7.5% – exactly the same level as four years earlier. However, Reagan's response to the unemployment problem stemming from an oil price shock was dramatically different from Carter's. Reagan's first budget gutted the controversial public service employment component of CETA and significantly reduced funding for job training programs. When CETA expired in 1982, the Reagan administration reluctantly agreed to support a much smaller successor program, the Job Training and Partnership Act (JTPA), with no public service

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<sup>29</sup> Bevin (2002), 198, 71, 128.

<sup>30</sup> Ray Marshall, "The Labor Department in The Carter Administration: A Summary Report – January 14,

employment and primary reliance on the private sector rather than local governments. “At its peak,” one summary of domestic policy in the Reagan years noted, “CETA had funded more than three-quarters of a million full-time public service jobs. JTPA funds training, but not wages, for a smaller number of participants, who are enrolled, on average, for less than half the year. Spending on employment and training programs fell from about \$22 billion to about \$8 billion (in 1992 dollars) between 1979 and 1982. ... Spending was also reduced for Food Stamps, school lunches, legal services, and social services.”<sup>31</sup>

President Reagan’s broader macroeconomic policies reflected a decisive choice between the horns of the “stagflation” dilemma. As Hibbs put it, “Monetary policy during the Reagan years leaned harder and longer against inflation than at any time since the Eisenhower administrations. The monetary restraint succeeded in breaking the inflationary legacy of the 1970s, but at the cost of the highest unemployment rates since the last years of the Great Depression.”<sup>32</sup>

## **Macroeconomic Performance and Income Growth**

The contrasting responses of Jimmy Carter and Ronald Reagan to the economic ills of “stagflation” are emblematic of surprisingly consistent partisan differences in the macroeconomic policies and priorities of Democratic and Republican presidents in the post-war era. Rather than multiplying examples, I turn in this section to the question of how those contrasting policies have affected the economic fortunes of American families. As it turns out,

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1981.” U.S. Department of Labor, <http://www.dol.gov/oasam/programs/history/carter-eta.htm>.

<sup>31</sup> Danziger and Gottschalk (1995), 25.

<sup>32</sup> Hibbs (1987), 281.

they have resulted in striking differences in macroeconomic performance between Democratic and Republican presidents, and those differences account for much of the partisan difference in income growth patterns evident in Figure 2.1.

Here, too, my analysis builds upon pioneering work by Douglas Hibbs. His empirical analyses, based on data from 1953 through 1983, documented significant partisan differences in macroeconomic performance between Democratic and Republican administrations. In particular, Hibbs found that “after adjustment lags the unemployment rate tends to be about 2 percentage points lower under the Democrats than under the Republicans” and that “real output tends to be about 6 percent higher.”<sup>33</sup>

Table 2.4 and Figure 2.3 present comparisons of overall macroeconomic performance between Democratic and Republican administrations over the longer (58-year) period covered by my analysis. Unlike Hibbs’s non-linear regression estimates, these are simple average values of unemployment, GNP growth, and inflation under each party’s presidents, again assuming a one-year lag in presidential influence.<sup>34</sup> Despite these differences, the comparisons of unemployment and GNP growth rates are quite consistent with Hibbs’s: the average level of unemployment over the entire post-war era has been almost thirty percent higher under Republican presidents than under Democrats, while the average rate of real per capita GNP growth has been more than forty percent lower. It is interesting to note, however, that despite Republicans’ traditional emphasis on curbing inflation, the average inflation rate has been virtually identical under Republican and

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<sup>33</sup> Hibbs (1987), 226. For an earlier version of these analyses, see Hibbs (1977).

<sup>34</sup> The annual unemployment rate for the civilian labor force is reported by the Bureau of Labor Statistics: <http://www.bls.gov/cps/home.htm#empstat>. The GNP growth rate is calculated from annual data on real GNP per capita (chained dollars) reported by the Bureau of Economic Analysis: <http://www.bea.doc.gov>, Table 7.1. The inflation rate is calculated from the Census Bureau’s consumer price index CPI-U-RS:

Democratic presidents over this period.<sup>35</sup> While differential sensitivity to inflation may have contributed to partisan differences in unemployment and GNP growth, as Hibbs suggested, it is less obvious that Republican presidents have actually been more successful than Democrats in containing inflation.<sup>36</sup>

**\*\*\* Table 2.4; Figure 2.3 \*\*\***

As with the partisan differences in income growth documented in Figure 2.1, the partisan differences in macroeconomic outcomes documented in Figure 2.3 cannot plausibly be attributed to differences in the circumstances in which Republican and Democratic presidents have occupied the White House. Embedding the partisan comparisons in a statistical analysis paralleling the analysis of income growth presented in Table 2.3 provides strong evidence of significant partisan differences in unemployment and GNP growth between Republican and Democratic administrations, even after allowing for differences in specific economic

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<http://www.census.gov/hhes/income/income03/cpiurs.html>.

<sup>35</sup> The average annual *change* in the inflation rate, not shown in Table 2.4, is also virtually identical under Republican and Democratic presidents ( $-0.18$  versus  $+0.03$ ; the  $t$ -statistic for the difference is  $0.3$ ).

<sup>36</sup> The simple averages reported in Table 2.4 may obscure an important partisan difference in inflation performance by ignoring the possibility of secular trends in the “natural” rate of inflation. Adding linear, quadratic, and cubic trend variables to a regression of inflation on (lagged) presidential partisanship produces some statistical evidence of higher inflation rates under Democratic presidents: the relevant regression parameter estimate is  $.75$ . Unfortunately, the estimate is quite imprecise (with a standard error of  $.72$ ), making it very hard to tell how much, if any, of the apparent Republican advantage in constraining inflation is real. Adding lagged inflation to the analysis implies a smaller but longer-lasting partisan effect, with a coefficient of  $.53$  ( $.56$ ) and a coefficient for lagged inflation of  $.54$  ( $.11$ ). Adding trend variables to a regression of unemployment on presidential partisanship reduces the estimated difference between Democratic and Republican presidents by 16%, from  $-1.42$  to  $-1.19$  (with a standard error of  $.30$ ). The apparent effect of Democratic presidents on GNP growth actually increases slightly,

circumstances and general historical trends.<sup>37</sup>

The partisan differences in macroeconomic performance documented in Table 2.4 turn out to account for the lion's share of the partisan differences in income growth evident in Table 2.3. Once differences in unemployment, inflation, and GNP growth are taken into account, the additional income growth attributable to Democratic presidents (in the first row of Table 2.5) is only about half a percentage point – and that modest additional income growth is virtually constant across the income spectrum.

**\*\*\* Table 2.5 \*\*\***

The rest of the statistical results presented in Table 2.5 provide a clearer sense of how partisan differences in macroeconomic performance get translated into partisan patterns of income growth for middle-class and poor families. Unemployment and GNP growth have very substantial effects on income growth rates for poor and middle-class families, but very little impact on the incomes of families near the top of the income distribution. Thus, the lower unemployment rates and higher GNP growth rates that have generally prevailed during Democratic administrations are much more beneficial to families near the bottom of the income distribution than to those near the top. Conversely, the impact of inflation is negligible near the

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from 1.14 without trend variables to 1.21 (with a standard error of .64).

<sup>37</sup> In regression analyses paralleling those presented in Table 2.3, the average unemployment rate is .76 percentage points lower under Democratic presidents (with a *t*-statistic of -4.0), and the average rate of GNP growth is 2.10 percentage points higher under Democratic presidents (with a *t*-statistic of 4.6). Allowing for delayed effects produced by lagged unemployment, inflation, and GNP growth in these models, the partisan differences implied by these statistical results are quite similar in magnitude to the raw partisan differences reported in the right-most column of Table 2.4.

bottom of the income distribution, but much more significant at higher income levels.<sup>38</sup>

The statistical evidence presented in Tables 2.4 and 2.5 provides a clear explanation for the partisan differences in pre-tax income growth for lower- and middle-class families documented in Table 2.1. The policies of Democratic presidents have produced more employment and output growth, disproportionately benefiting poor and middle-class families. Republican presidents have tended to focus more on containing inflation, which has negligible effects on real income growth near the bottom of the income distribution but substantial effects at the top.

The notion that these partisan differences in income growth reflect conscious policy choices on the part of Republican and Democratic presidents is reinforced by a more detailed analysis of their political timing. Alberto Alesina has noted that Democratic and Republican administrations are characterized by distinct cycles of economic growth, with expansion in the second year of a Democratic president's term followed by slower growth in the third and fourth years, and contraction in the second year of a Republican president's term followed by more robust growth in the third and fourth years.<sup>39</sup> These cycles are unsurprising in light of the fact that presidents have their greatest influence over policy in the first year of each new administration – the so-called “honeymoon” period immediately following election or reelection; the effects of that influence are felt one year later, in the second year of each four-year term.

The political economic cycle identified by Alesina appears conspicuously in data on growth rates in real GNP per capita over the entire post-war era. In the second year of each four-year cycle Democrats presided over average GNP growth of 4.4%, while Republicans presided

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<sup>38</sup> Substituting the annual *change* in the inflation rate produces a similar but somewhat stronger pattern of differential effects on income growth. Indeed, the results suggest that efforts to rein in inflation may actually *reduce* real income growth among the working poor, other things being equal.

<sup>39</sup> Alesina (1988); Alesina and Rosenthal (1989); Alesina, Londregan and Rosenthal (1993).

over average growth of  $-0.8\%$ .<sup>40</sup> By contrast, in the first, third, and fourth years of each president's term average GNP growth rates were virtually identical:  $2.3\%$  for Democrats versus  $2.5\%$  for Republicans.

Alesina's political economic cycle also appears clearly in income growth rates for families in every part of the income distribution. Table 2.6 provides a comparison of average income growth rates under Democratic and Republican presidents in the second years of their terms (in the top panel of the table) and in the rest of each four-year term (in the bottom panel). The largest partisan differences by far appear in the second year of each administration – the first year in which the president's policies could be expected to have a significant economic effect. Democratic presidents in those years presided over average real income growth for the working poor of  $5.7\%$ , while the corresponding average growth rate under Republican presidents was  $-1.3\%$  – a remarkable partisan difference of seven percentage points. The corresponding partisan differences in income growth for middle-class and affluent families were also substantial, ranging from 5.4 percentage points at the 40th percentile down to 3.4 percentage points at the 95th percentile.

**\*\*\* Table 2.6 \*\*\***

By comparison, partisan differences in income growth in non-honeymoon years were much more muted. Democratic presidents produced somewhat more income growth for middle-class and poor families in those years, while Republican presidents produced somewhat more income

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<sup>40</sup> The  $t$ -statistic for this difference is 5.5. The average partisan difference is virtually identical in “honeymoon” years with and without partisan turnover; thus, as with the partisan differences in income growth in Table 2.2, there is no indication in the data that this effect reflects corrections of the opposition party's macroeconomic failings.

growth for affluent families; but neither of these partisan differences is large enough to be statistically reliable. Nor was the inequality in income growth between rich and poor families under Republican presidents nearly as stark in other years as in “honeymoon” years – the average growth rate was 1.2 percentage points higher for families at the 95th percentile than for families at the 20th percentile in non-honeymoon years, but 2.2 percentage points higher in the second year of each four-year term.

The dramatic differences in output and income growth associated with Democratic and Republican “honeymoon” periods are a testament to the ability of presidents in the post-Keynesian era to shape the economy to their partisan ends. Democratic presidents have routinely used these periods to produce vibrant economic growth for families in every part of the income distribution; in contrast, Republicans have routinely presided over economic contractions and declining incomes for middle-class and poor families. Partisan differences in macroeconomic priorities and performance have clearly had a very significant impact on the economic fortunes of American families over the past half-century, and that impact has been especially marked at the point in the electoral cycle when presidents are most politically influential.

### **Partisan Policies and Post-Tax Income Growth**

The stark partisan differences in income growth documented in Table 2.1 are especially striking in light of the fact that the tabulations reported there focus entirely on pre-tax income figures. Those figures include cash benefits from the government such as Social Security and unemployment benefits; but they do not reflect any partisan differences in the distribution of non-cash government benefits or in effective tax rates. Since taxes and transfers are the most obvious policy levers available to presidents with partisan distributional goals, the pre-tax

income tabulations seem likely to miss much of what is distinctive about Democratic and Republican policies.

Partisan differences in economic philosophy and distributional priorities are especially striking in the realm of tax policy. The history of major post-war tax cuts is especially illuminating. While it is true that presidents of both parties have implemented significant tax cuts, they have done so in very different ways and for very different reasons. For example, when President Kennedy's economic team argued for a tax cut in the early 1960s, they reasoned that "The beneficiaries of a personal income tax cut, especially in the lower brackets, would promptly spend a large part of the proceeds on goods and services, thereby stimulating production, employment, and income." In contrast, the supply-side theory adopted in the Reagan administration suggested that tax cuts "could not be given to the middle class or even the poor. In order to be successful, tax cuts had to be directed primarily toward the wealthy because of their larger role in saving and investing. ... Tax cuts for everyone else might stimulate additional consumption, but that was not what supply-side economics was all about."<sup>41</sup>

President Reagan's tax policies reinforced preexisting trends contributing to increasing economic inequality. As Sheldon Danziger and Peter Gottschalk have pointed out, because of "technological changes, the globalization of markets, and other structural changes in the labor market ... government tax and transfer policies would have had to become more redistributive than they had been in the 1970s just to keep poverty and inequality constant. Instead, because of the Reagan philosophy and legislative changes, income tax and antipoverty policies became less progressive." Similarly, Hibbs noted that Reagan "succeeded in reversing the trend of increasing federal commitments to the poor

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<sup>41</sup> Tobin and Weidenbaum (1988), 49; Karier (1997), 76.

and near-poor,” adding that, “most important of all, Reagan achieved a dramatic redistribution of the federal tax burden from corporations and high-income classes to moderate- and low-income groups.<sup>42</sup>

When Bill Clinton entered the White House in 1993, he apparently felt a good deal more constrained by the Federal Reserve Board and the bond markets than previous Democratic presidents had been. Rather than relying on macro-economic stimulation or across-the-board tax cuts to complete the economy’s recovery from the recession of 1991, Clinton focused on reducing the ballooning federal budget deficit. Nevertheless, in his first year in office he proposed, and Congress passed, a major expansion of the Earned Income Tax Credit for working poor people. Higher up the income ladder, tax brackets were revised to make them somewhat more progressive while increasing total revenue.<sup>43</sup>

Clinton succeeded so well at reining in the budget deficit that his successor, George W. Bush, inherited a substantial budget surplus. Bush took advantage of the opportunity to engineer a series of major tax cuts. However, in marked contrast to Clinton’s strategy of targeting tax cuts to mitigate the effects on the income distribution of technological changes, globalization, and shifting labor markets, Bush exacerbated those effects by reverting to President Reagan’s emphasis on reducing the tax burden of wealthy individuals and corporations.

I examine the politics and economic impact of the Bush tax cuts in much more detail in Chapter 6. My aim here, however, is to provide a more general accounting of the impact of tax and transfer policies on the shape of the income distribution under Republican and Democratic

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<sup>42</sup> Danziger and Gottschalk (1995), 29. Hibbs (1987), 281.

<sup>43</sup> As one sympathetic account had it, “Taxes were raised a bit and made more progressive (helping to balance the budget). What followed, contrary to alarmist predictions, was not an economic crash, but rather a sustained economic boom.” Page and Simmons (2000), 158.

presidents. Unfortunately, consistent Census Bureau tabulations of the distribution of post-tax income are only available from 1979 through 2003. Thus, the scope for systematic historical analysis of partisan effects on post-tax income growth is quite limited; rather than five Democratic and six Republican presidents over 58 years, the data encompass only ten years of Democratic control (two under Carter and eight under Clinton) and fourteen years of Republican control (eight under Reagan, four under George H.W. Bush, and two under George W. Bush). With that caveat, Figure 2.4 shows the average rates of real after-tax income growth since 1980 under Democratic and Republican presidents for households at the 20th, 40th, 60th, and 80th percentiles of the income distribution.<sup>44</sup>

**\*\*\* Figure 2.4 \*\*\***

In qualitative terms, the partisan pattern of post-tax income growth in Figure 2.4 is strikingly similar to the partisan pattern of pre-tax family income growth in Figure 2.1. Households at every income level did about equally well under Carter and Clinton, with average growth rates ranging from 1.4% to 1.6%. On the other hand, Republican presidents presided over weaker income growth for households in the top half of the income distribution and little or no income growth for households in the bottom half of the income distribution. As with the partisan

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<sup>44</sup> “Table RDI-6: Income Limits for Each Fifth of Households, by Selected Definition of Income: 1979 to 2003.” <http://www.census.gov/hhes/income/histinc/rdi6.html>. The table reports fifteen different “Experimental Measures” of income. The one employed here is the most expansive, Definition 15, which subtracts federal and state taxes from the standard measure of pre-tax income and adds capital gains, health insurance supplements to wage or salary income, non-cash government transfers, and net imputed returns on home equity. Unlike the pre-tax income tabulations included in the Census Bureau’s Historical Income Tables, these tabulations of “experimental measures” of income have not been updated to include more recent years, nor do they include information on households at the 95th percentile of the income distribution.

differences in pre-tax growth presented in Figure 2.1, these partisan differences in post-tax growth are concentrated in the second year of each administration, when the policy initiatives adopted in the “honeymoon” period immediately following Inauguration Day are most likely to take effect.<sup>45</sup>

Despite the qualitative similarity, however, a comparison of the magnitude of partisan differences in Figures 2.1 and 2.4 seems to suggest that post-tax income growth was somewhat less subject to partisan effects than pre-tax income growth. That impression is confirmed by comparing the magnitudes of partisan differences in post-tax income growth, which are reported in the top panel of Table 2.7, with the corresponding partisan differences in pre-tax income growth in Table 2.1. For example, average pre-tax income growth for middle-income families was about 1.5 percentage point higher under Democratic presidents than under Republican presidents in Table 2.1, but the corresponding difference in average post-tax income growth in Table 2.7 is only about one percentage point.

**\*\*\* Table 2.7 \*\*\***

It certainly seems odd to suppose that presidents have had less influence on the distribution of post-tax income than on the distribution of pre-tax income – especially in light of the dramatic differences in tax policies between Republican and Democratic presidents over the past quarter-century. As it turns out, however, this peculiarity is more apparent than real. A direct comparison of the magnitudes of partisan differences in Figure 2.1 and Figure 2.4 is quite misleading

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<sup>45</sup> In “honeymoon” years the differences in average post-tax income growth between Democratic and Republican presidents range from 5.0% for households at the 20th percentile of the income distribution to 3.0% for households at the 80th percentile. The corresponding differences in non-honeymoon years range from 0.9% to -0.3%.

because the two figures refer to very different time periods – 1947 through 2005 in Figure 2.1 and 1980-2003 in Figure 2.4.<sup>46</sup>

The tabulations presented in the lower panel of Table 2.7 summarize pre-tax household income growth over the same 24-year period covered by the post-tax calculations in the upper panel of the table.<sup>47</sup> Here the partisan differences in average income growth rates are much smaller than in Table 2.1, ranging from a bit less than one percentage point for households at the 20th percentile to only one-tenth of a percentage point at the 80th percentile.<sup>48</sup> These differences suggest that it has become much more difficult in the past quarter-century for presidents to influence the distribution of pre-tax income. The most plausible explanation for this difference is that the increasing impact on the American economy of global trade and credit flows, and the increasing domestic prestige and political independence of the Federal Reserve Board, have reduced the ability of presidents to pursue distinctive partisan macroeconomic policies.<sup>49</sup>

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<sup>46</sup> An additional difference is that the data summarized in Figure 2.1 are for families of two or more people, while those summarized in Figure 2.4 are for households. However, that distinction is inconsequential here; parallel calculations employing the pre-tax family and household data from 1980 through 2003 produce very similar results.

<sup>47</sup> The data employed in the lower panel of Table 2.7 are based on the same definition of pre-tax income as in Table 2.1, but applied to households rather than families to maximize comparability with the data in the upper panel.

<sup>48</sup> These partisan differences in pre-tax growth are nowhere close to being “statistically significant,” even for households at the 20th percentile. However, it is worth noting that the *declines* in partisan differences apparent in the post-1979 data by comparison with the earlier post-war period are not “statistically significant” either. Indeed, a variety of elaborations of the regression model in Table 2.3 to allow for changes in the magnitude of partisan effects produced no statistically reliable evidence of either structural breaks or secular trends.

<sup>49</sup> The partisan difference in unemployment evident in Table 2.4 persists even when the comparison is limited to the period from 1980 through 2003: the average unemployment rate was 6.9% under

It is striking, however, that even as contemporary presidents have been increasingly constrained in their pursuit of partisan macroeconomic policies, they seem to have been quite successful in using taxes and transfers to shape the post-tax income distribution along familiar partisan lines. That impression is reinforced by the statistical analysis reported in Table 2.8, which parallels the analysis of pre-tax income growth in Table 2.3 using the available post-tax data. As in Table 2.3, the statistical analysis shows that the partisan differences in income growth evident in simple tabulations persist even after taking systematic account of the differing economic circumstances in which Democrats and Republicans have held the White House. Indeed, in this case the estimated partisan effects are even larger than the corresponding raw differences in post-tax income growth in Figure 2.4, ranging in roughly linear fashion from 3.1 percentage points for households at the 20th percentile of the income distribution to 1.5 percentage points for households at the 80th percentile.<sup>50</sup> These results provide surprisingly strong statistical evidence of characteristic partisan differences in post-tax income growth paralleling – and, indeed, surpassing in magnitude – the differences in pre-tax income growth evident over the entire post-war period.

**\*\*\* Table 2.8 \*\*\***

Unfortunately, the limitations of the post-tax income data make it impossible to distinguish

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Republican presidents and 5.4% under Democratic presidents, for a difference of 1.49 (with a standard error of .54). However, the earlier partisan difference in average GNP growth entirely disappeared: real per capita growth averaged 1.8% under both Republicans and Democrats.

<sup>50</sup> As with the parallel analysis of pre-tax income growth presented in Table 2.3, the estimated partisan effects in Table 2.8 are insensitive to plausible variations in model specification. For example, excluding the quadratic trend term does not change any of the estimated partisan effects by as much as 5%, while excluding both trend terms reduces the estimated partisan effects by only 8% to 11%.

between two possible interpretations of the changing partisan political economy of the U.S. over the past quarter-century. One possibility is that contemporary presidents, faced with the increasing difficulty of influencing the macroeconomy, have resorted to tax and transfer policies as alternative means to achieve their partisan ends. In this interpretation, redistribution through taxes and transfers (for example, Clinton's significant expansion of the Earned Income Tax Credit) is the modern Democrat's *substitute* for pre-tax redistribution through expansionary macroeconomic policies. The other, perhaps more likely possibility is that earlier presidents relied on both macroeconomic policies and tax and transfer policies to pursue their partisan ends, producing larger partisan effects than appear in the pre-tax data – and larger partisan effects than contemporary presidents are able to achieve.

In any case, the partisan differences in post-tax income growth since 1980 are sufficiently large, and sufficiently familiar in their pattern, to reinforce the conclusion that partisan politics has a profound impact on the economic fortunes of poor and middle-class households in contemporary America. While Republican and Democratic presidents may have lost a considerable portion of their influence over the distribution of pre-tax income, they have managed to continue to produce marked partisan differences in the distribution of post-tax income, with Democrats presiding over higher average income growth across the board and substantially higher average growth for people of modest means. Here, too, the partisan political economy seems to be of fundamental importance for the economic fortunes of ordinary Americans.

### **Democrats, Republicans, and the Rise of Inequality**

Economists associate the escalation of inequality over the past thirty years with important

structural changes in the American economy, including demographic shifts, globalization, and technological change. There is no reason to doubt that these factors have played an important role in increasing the gap in incomes between rich people and poor people in the contemporary U.S. But if this is “simply an economic reality,” as Treasury Secretary Paulson asserted, it does not follow that nothing can be done to mitigate the economic and social consequences of that reality. Nor does the fact that “there has always been extreme income inequality,” as Ben Stein observed, imply that presidents and their policy choices can have no significant effect on the extent of inequality at any given time.

The cumulative impact of these partisan policy choices is illustrated in Figure 2.5. The dotted line in the center of the figure represents the actual course of inequality over the past half-century, as measured by the ratio of family incomes at the 80th and 20th percentiles of the income distribution. (This portion of the figure is simply repeated from Figure 2.2.) The solid upper line represents the projected course of the 80/20 income ratio over the same period given the pattern of income growth that prevailed under Republican presidents during this period, while the lower line represents the projected course of the 80/20 income ratio under Democratic presidents. (These projections are constructed on the basis of the statistical analysis reported in Table 2.3, the former assuming continuous Republican control and the latter assuming continuous Democratic control throughout the period.)

**\*\*\* Figure 2.5 \*\*\***

The projections in Figure 2.5 imply that continuous Democratic control would have produced an essentially constant level of economic inequality over the past three decades, despite all the technological, demographic, and global competitive forces emphasized in economists’ accounts of escalating inequality. In contrast, continuous Republican control would

have produced a much sharper polarization between rich and poor than has actually occurred over the past thirty years, with the 80/20 income ratio reaching a level about one-third higher than it actually did.<sup>51</sup>

The projections presented in Figure 2.5 are based on an arguably unrealistic assumption: that if either party had uninterrupted control of the White House, it would do all the time what it in fact does only half the time. It is impossible to know whether either party would actually have the political will or the political power to produce economic redistribution of the cumulative magnitude suggested by these projections. Nevertheless, the cumulative differences portrayed in Figure 2.5 convey the fundamental significance of partisan politics in ameliorating or exacerbating economic inequality over the past half-century.

In the first 25 years of the post-war era, the partisan differences in income growth patterns documented in this chapter implied robust growth for middle-class and poor families under Democratic presidents and more modest growth under Republicans. In the less propitious economic circumstances prevailing in the early 21st century, not even a steady succession of Democratic presidents and policies would be likely to reproduce the robust broad-based income growth of the 1960s. However, that does not make the choice between Democrats and Republicans any less consequential.

The magnitude of what is at stake in partisan control of economic policy may be demonstrated by considering the ramifications of a few hundred votes in a single presidential election. In his first four years in office, President Bush presided over a 2% cumulative increase

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<sup>51</sup> The 80/20 income ratio increased by 27% between 1975 and 2005. The projections in Figure 2.5 suggest that it would have increased by 45% under continuous Republican control, but by only 3% under continuous Democratic control.

in the real incomes of families at the 95th percentile of the income distribution, but a 1% *decline* in the real incomes of middle-class families and a 3% decline in the real incomes of working poor families. (Meanwhile, Piketty and Saez's tabulations of IRS data indicate that the real incomes of taxpayers at the 99th percentile increased by more than 7% over this period, while the real incomes of taxpayers at the 99.99th percentile increased by almost 18%.) However, the statistical analyses presented in Table 2.3 imply that, had President Al Gore governed under the same economic circumstances, the real incomes of working poor families would probably have grown by about 6% (1.5% per year) over those four years, and the real incomes of middle-class families would probably have grown by about 4.5% (1.1% per year), while the real incomes of families at the 95th percentile would have remained unchanged.

As Edward Tufte insisted thirty years ago, “economic life vibrates with the rhythms of politics.”<sup>52</sup> Thus, while it may be “neither fair nor useful to blame any political party” for the structural changes in the economy that make income growth and income inequality much more pressing issues now than they were in the post-war boom years of the 1950s and ‘60s, it certainly seems fair – and perhaps even useful – to hold political parties accountable for the profound impact of their policies on the way those structural changes shape the economic fortunes of wealthy, middle-class, and poor American families.

Of course, whether voters *do* hold political parties accountable for the profound impact of their policies is another question. I address that question in Chapters 3 and 4, which turn Tufte's maxim on its head by exploring the ways in which American political life vibrates with the rhythm of economics.

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<sup>52</sup> Tufte (1978), 137.

**Table 2.1**  
**Real Income Growth Rates by Income Level and Presidential Partisanship, 1948-2005**

Average annual real pre-tax income growth (%) for families at various points in the income distribution (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration.

	<b>All presidents</b>	<b>Democratic presidents</b>	<b>Republican presidents</b>	<b>Partisan difference</b>
<b>20th percentile</b>	1.42 (.50)	2.64 (.77)	.43 (.61)	2.21 (.97)
<b>40th percentile</b>	1.54 (.39)	2.46 (.58)	.80 (.49)	1.67 (.75)
<b>60th percentile</b>	1.73 (.34)	2.47 (.52)	1.13 (.43)	1.33 (.67)
<b>80th percentile</b>	1.84 (.33)	2.38 (.50)	1.39 (.42)	.99 (.65)
<b>95th percentile</b>	2.00 (.38)	2.12 (.65)	1.90 (.46)	.22 (.77)
<i>N</i>	58	26	32	58

Source: Census Bureau Historical Income Tables.

**Table 2.2**  
**The Impact of Partisan Turnover on Partisan Differences in Real Income Growth Rates, 1948-2005**

Average annual real pre-tax income growth (%) for families at various points in the income distribution (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration. "Partisan turnover" refers to first-term Democrats who succeeded Republicans or first-term Republicans who succeeded Democrats.

	<b>All presidents</b>	<b>Democratic presidents</b>	<b>Republican presidents</b>	<b>Partisan difference</b>
<i>Partisan turnover</i>				
<b>20th percentile</b>	1.38 (.75)	2.28 (1.00)	.71 (1.08)	1.57 (1.52)
<b>40th percentile</b>	1.52 (.54)	2.07 (.75)	1.11 (.76)	.96 (1.09)
<b>60th percentile</b>	1.60 (.47)	2.00 (.63)	1.30 (.67)	.71 (.95)
<b>80th percentile</b>	1.80 (.45)	2.19 (.62)	1.51 (.63)	.68 (.91)
<b>95th percentile</b>	1.89 (.45)	1.93 (.69)	1.86 (.61)	.07 (.92)
<i>N</i>	28	12	16	28
<i>No partisan turnover</i>				
<b>20th percentile</b>	1.46 (.68)	2.95 (1.19)	.16 (.61)	2.80 (1.29)
<b>40th percentile</b>	1.56 (.56)	2.80 (.88)	.48 (.63)	2.31 (1.06)
<b>60th percentile</b>	1.86 (.51)	2.86 (.82)	.97 (.57)	1.89 (.98)
<b>80th percentile</b>	1.87 (.48)	2.55 (.78)	1.27 (.57)	1.28 (.95)
<b>95th percentile</b>	2.10 (.62)	2.28 (1.07)	1.95 (.70)	.34 (1.25)
<i>N</i>	30	14	16	30

Source: Census Bureau Historical Income Tables.

**Table 2.3**  
**Statistical Analysis of Income Growth, 1949-2005**

Annual real pre-tax income growth (%) for families at various points in the income distribution. Parameter estimates from Seemingly Unrelated Regression models (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration. “Linear trend” and “Quadratic trend” reflect cumulative change from 1949 through 2005.

	<b>20th percentile</b>	<b>40th percentile</b>	<b>60th percentile</b>	<b>80th percentile</b>	<b>95th percentile</b>
<b>Democratic president</b>	2.32 (.80)	1.60 (.56)	1.53 (.52)	1.23 (.51)	.50 (.64)
<b>Oil prices (lagged %Δ)</b>	-.032 (.016)	-.031 (.011)	-.035 (.011)	-.030 (.010)	-.032 (.013)
<b>Labor force participation (Δ%)</b>	4.66 (1.44)	4.46 (1.02)	2.95 (.95)	2.69 (.93)	3.58 (1.16)
<b>Lagged growth</b>	-.191 (.084)	-.249 (.074)	-.286 (.077)	-.296 (.090)	-.040 (.114)
<b>Lagged 95th percentile</b>	.395 (.151)	.244 (.111)	.201 (.104)	.187 (.109)	---
<b>Linear trend</b>	-12.84 (5.88)	-13.71 (4.17)	-8.76 (3.88)	-5.30 (3.75)	-4.18 (4.71)
<b>Quadratic trend</b>	9.68 (5.75)	10.18 (4.06)	5.33 (3.78)	2.54 (3.67)	2.83 (4.61)
<b>Intercept</b>	2.68 (1.26)	3.80 (.89)	3.60 (.83)	3.17 (.81)	2.80 (1.01)
<i>Std err of reg</i>	2.89	2.02	1.89	1.84	2.31
$R^2$	.41	.52	.45	.37	.29
$N$	57	57	57	57	57

Source: Census Bureau Historical Income Tables.

*Table 2.4***Macroeconomic Performance under Democratic and Republican Presidents, 1948-2005**

Average values of macroeconomic indicators (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration.

	<b>All presidents</b>	<b>Democratic presidents</b>	<b>Republican presidents</b>	<b>Partisan difference</b>
<b>Unemployment (%)</b>	5.63 (.19)	4.84 (.24)	6.26 (.24)	-1.42 (.34)
<b>Inflation (%)</b>	3.85 (.39)	3.97 (.71)	3.76 (.43)	.20 (.80)
<b>Real per capita GNP growth (%)</b>	2.15 (.31)	2.78 (.41)	1.64 (.43)	1.14 (.60)
<i>N</i>	58	26	32	58

Source: Bureau of Labor Statistics; Bureau of Economic Analysis.

**Table 2.5**  
**Statistical Analysis of Income Growth Including Macroeconomic Conditions, 1949-2005**

Annual real pre-tax income growth (%) for families at various points in the income distribution. Parameter estimates from Seemingly Unrelated Regression models (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration. "Linear trend" and "Quadratic trend" reflect cumulative change from 1949 through 2005.

	<b>20th percentile</b>	<b>40th percentile</b>	<b>60th percentile</b>	<b>80th percentile</b>	<b>95th percentile</b>
<b>Democratic president</b>	.51 (.64)	.45 (.41)	.52 (.37)	.61 (.42)	.51 (.62)
<b>Unemployment (%)</b>	-.849 (.307)	-.672 (.187)	-.577 (.167)	-.484 (.187)	-.115 (.267)
<b>Inflation (%)</b>	-.134 (.127)	-.269 (.082)	-.307 (.073)	-.376 (.084)	-.513 (.123)
<b>GNP growth (%)</b>	.798 (.144)	.523 (.091)	.481 (.079)	.293 (.089)	.126 (.129)
<b>Oil prices (lagged %Δ)</b>	-.005 (.013)	-.00 (.008)	-.008 (.007)	-.005 (.009)	-.007 (.013)
<b>Labor force participation (Δ%)</b>	2.72 (1.09)	3.34 (.71)	2.02 (.63)	2.35 (.72)	4.03 (1.05)
<b>Lagged growth</b>	-.110 (.089)	-.195 (.073)	-.213 (.074)	-.290 (.092)	-.044 (.108)
<b>Lagged 95th percentile</b>	.137 (.117)	.060 (.082)	.033 (.073)	.093 (.092)	---
<b>Linear trend</b>	.63 (5.69)	.29 (3.63)	4.85 (3.22)	8.01 (3.72)	7.73 (5.47)
<b>Quadratic trend</b>	-2.54 (5.43)	-2.59 (3.45)	-7.07 (3.06)	-9.69 (3.54)	-8.13 (5.20)
<b>Intercept</b>	4.99 (1.74)	5.61 (1.11)	5.01 (.98)	4.54 (1.08)	2.70 (1.51)
<i>Std err of reg</i>	2.05	1.31	1.17	1.36	1.97
$R^2$	.70	.80	.79	.66	.48
$N$	57	57	57	57	57

Source: Census Bureau Historical Income Tables.

**Table 2.6**  
**Political Timing of Partisan Differences in Real Income Growth Rates, 1948-2005**

Average annual real pre-tax income growth (%) for families at various points in the income distribution (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration. "Post-election ('honeymoon') years" are the second years of each four-year term (beginning one year following inauguration).

	<b>All presidents</b>	<b>Democratic presidents</b>	<b>Republican presidents</b>	<b>Partisan difference</b>
<i>Post-election ("honeymoon") years</i>				
<b>20th percentile</b>	1.72 (1.18)	5.74 (.89)	-1.29 (1.04)	7.03 (1.44)
<b>40th percentile</b>	1.48 (.90)	4.55 (.84)	-.82 (.68)	5.37 (1.07)
<b>60th percentile</b>	1.32 (.79)	3.96 (.61)	-.66 (.72)	4.62 (.99)
<b>80th percentile</b>	1.70 (.68)	4.08 (.47)	-.08 (.56)	4.16 (.76)
<b>95th percentile</b>	2.35 (.67)	4.28 (.71)	.90 (.69)	3.38 (1.01)
<i>N</i>	14	6	8	14
<i>Other years</i>				
<b>20th percentile</b>	1.33 (.55)	1.71 (.87)	1.01 (.71)	.71 (1.12)
<b>40th percentile</b>	1.56 (.43)	1.83 (.66)	1.33 (.57)	.50 (.87)
<b>60th percentile</b>	1.86 (.38)	2.02 (.63)	1.73 (.47)	.29 (.77)
<b>80th percentile</b>	1.88 (.38)	1.88 (.59)	1.88 (.49)	-.01 (.76)
<b>95th percentile</b>	1.89 (.46)	1.47 (.76)	2.23 (.56)	-.76 (.93)
<i>N</i>	44	20	24	44

Source: Census Bureau Historical Income Tables.

**Table 2.7**  
**Partisan Differences in Real Pre- and Post-Tax Income Growth, 1980-2003**

Average annual real income growth (%) for households at various points in the income distribution (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration.

	<b>All presidents</b>	<b>Democratic presidents</b>	<b>Republican presidents</b>	<b>Partisan difference</b>
<i>Post-tax income growth</i>				
<b>20th percentile</b>	.46 (.42)	1.56 (.59)	-.32 (.49)	1.89 (.76)
<b>40th percentile</b>	.67 (.32)	1.36 (.46)	.18 (.39)	1.17 (.60)
<b>60th percentile</b>	.89 (.30)	1.43 (.44)	.50 (.38)	.93 (.58)
<b>80th percentile</b>	1.11 (.31)	1.37 (.44)	.92 (.44)	.45 (.64)
<i>N</i>	24	10	14	24
<i>Pre-tax income growth</i>				
<b>20th percentile</b>	.39 (.47)	.93 (.89)	.00 (.50)	.93 (.95)
<b>40th percentile</b>	.47 (.40)	.67 (.75)	.33 (.46)	.33 (.83)
<b>60th percentile</b>	.63 (.39)	.74 (.72)	.55 (.45)	.19 (.81)
<b>80th percentile</b>	1.03 (.34)	1.10 (.60)	.98 (.42)	.12 (.71)
<i>N</i>	24	10	14	24

Source: Census Bureau Historical Income Tables.

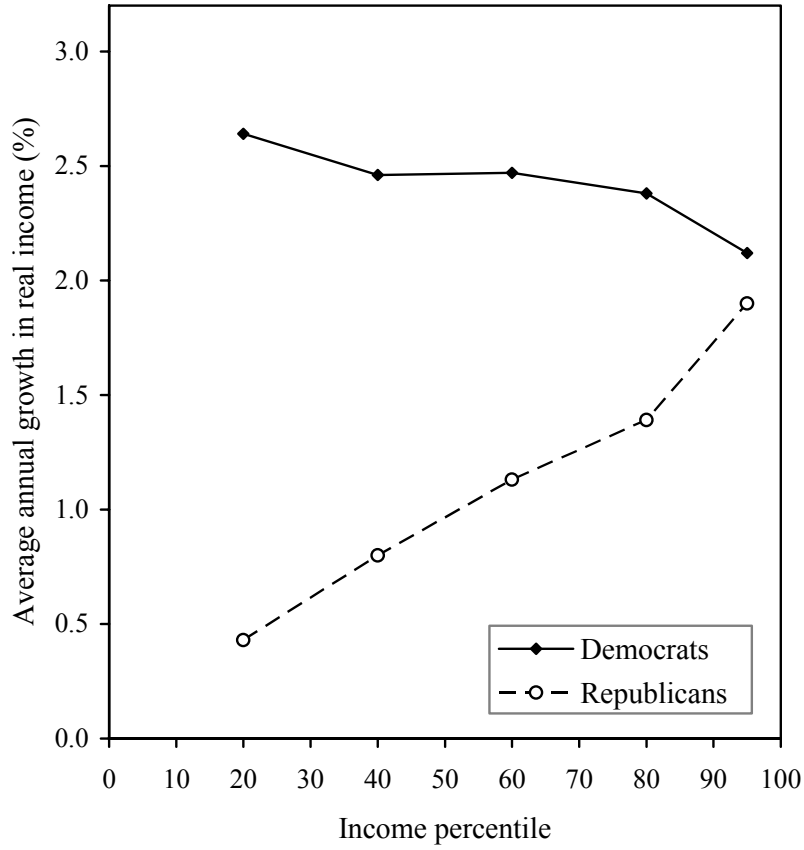
**Table 2.8**  
**Statistical Analysis of Post-Tax Income Growth, 1981-2003**

Annual real post-tax income growth (%) for households at various points in the income distribution. Parameter estimates from Seemingly Unrelated Regression models (with standard errors in parentheses). Partisan control measured from one year following inauguration to one year following subsequent inauguration. "Linear trend" and "Quadratic trend" reflect cumulative change from 1949 through 2005.

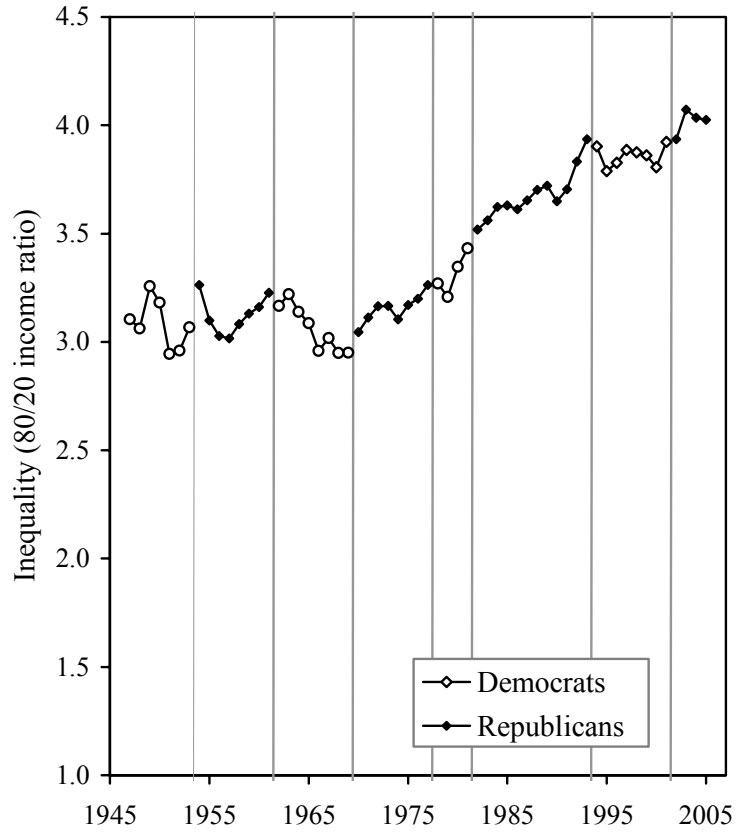
	<b>20th percentile</b>	<b>40th percentile</b>	<b>60th percentile</b>	<b>80th percentile</b>
<b>Democratic president</b>	3.07 (.76)	2.34 (.52)	2.23 (.45)	1.51 (.64)
<b>Oil prices (lagged %Δ)</b>	-.039 (.014)	-.034 (.010)	-.037 (.009)	-.032 (.012)
<b>Labor force participation (Δ%)</b>	1.40 (1.59)	2.03 (1.10)	2.29 (.96)	2.49 (1.33)
<b>Lagged growth</b>	.004 (.131)	-.112 (.099)	-.196 (.089)	-.205 (.141)
<b>Linear trend</b>	19.01 (37.41)	-27.61 (26.23)	-62.70 (22.84)	-87.79 (31.55)
<b>Quadratic trend</b>	-14.31 (24.80)	17.28 (17.39)	39.90 (15.14)	56.78 (20.89)
<b>Intercept</b>	-6.87 (13.83)	10.42 (9.69)	24.04 (8.44)	33.62 (11.68)
<i>Std err of reg</i>	1.34	.94	.81	1.12
$R^2$	.56	.62	.68	.46
<i>N</i>	23	23	23	23

Source: Census Bureau Historical Income Tables.

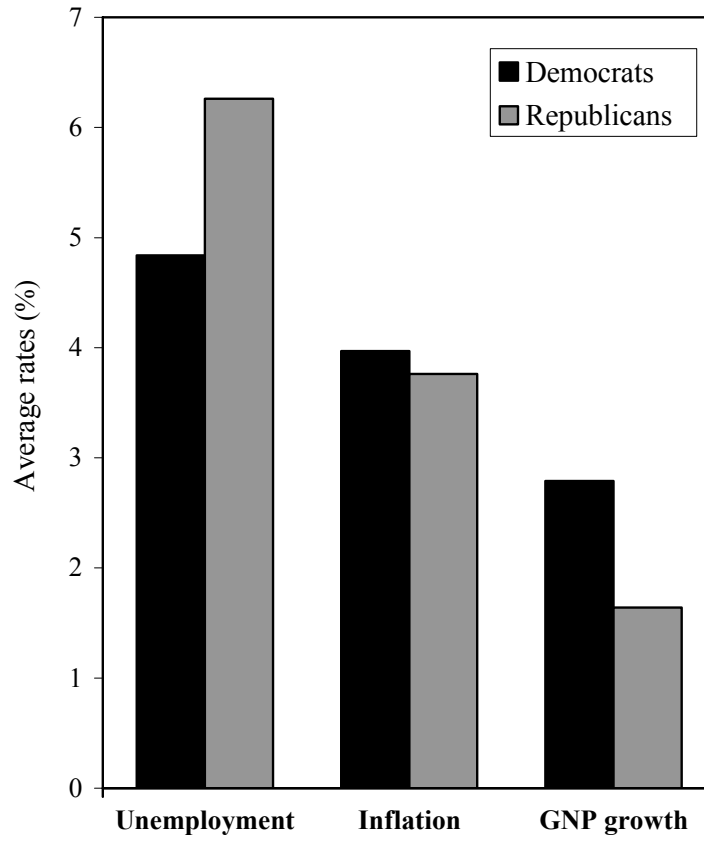
*Figure 2.1*  
**Income Growth by Income Level under Democratic and Republican Presidents, 1948-2005**



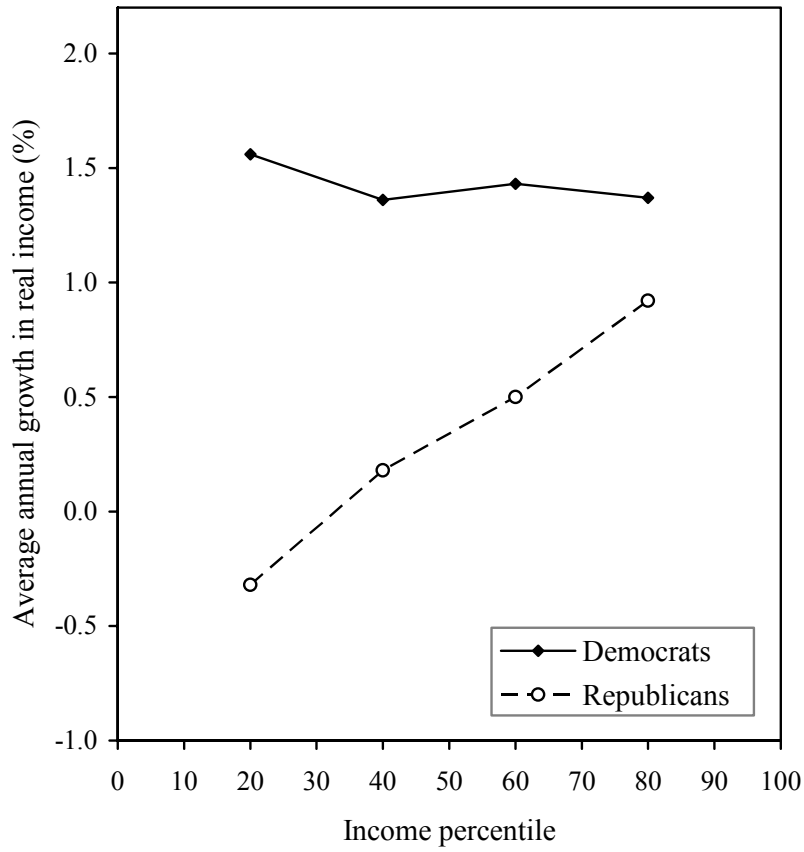
*Figure 2.2*  
**Income Inequality under Democratic  
and Republican Presidents, 1947-2005**



*Figure 2.3*  
**Macroeconomic Performance under Democratic and Republican Presidents, 1948-2005**



*Figure 2.4*  
**Post-Tax Income Growth under Democratic  
and Republican Presidents, 1980-2003**



*Figure 2.5*  
**Projected Income Inequality under Republican  
and Democratic Presidents, 1947-2005**

