The Politics of Economic Inequality

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In late 2013, President Obama previewed his intended political strategy for the 2014 election year with a speech in Southeast D.C. "I believe this is the defining challenge of our time: Making sure our economy works for every working American," Obama said. "It's why I ran for President."

Obama in that speech called inequality "a fundamental threat to the American Dream, our way of life and what we stand for around the globe." Inequality and immobility became a theme of his State of the Union address a month later.

Around this time, reviews of Thomas Piketty's *Capital in the Twenty-First Century* dominated every magazine, website, and newspaper in Washington, D.C.

But by election season—by the beginning of Autumn 2014—Obama had dropped that talk. "Income inequality seems like it's on the back burner now—at least in terms of their rhetoric," Jim Kessler, senior vice president for policy at Third Way, a centrist Democratic think tank, told the *Washington Post* in July. Democrats were back to "War on Women" talk, and actually campaigning on their support for corporate subsidy programs such as the Export-Import Bank.

Still, Democrats kept up their billionaire-bashing, and their relentless call for an increase in the minimum wage.

This shift in posture—and this nuanced approach to questions of wealth, poverty, fairness, and inequality was nearly uniform across the party, and it reflected an interpretation of public opinion polling. It reflected a sophisticated read of the American attitude towards inequality.

To understand the role the issue of inequality plays in American politics today, it's instructive to review public polling, and also to study the political positioning by some of the most message-disciplined candidates in the country—the Democratic nominees in the top-tier U.S. Senate races.

Such a review suggests an American public that cares about inequality, but not as a top-tier issue. It also suggests Americans' concerns about inequality are grounded in an understanding of fairness, and nuanced understanding of *earned* wealth versus unearned wealth.

Polling Data

Polling data generally shows that Americans see economic inequality as growing, and they dislike the current level of inequality. But they don't care very intensely about it—and there's a serious limit to what most people are willing to do about it. This gives inequality a real, but limited role in U.S. politics.

First, most Americans think inequality is getting worse.

Four in five Americans “feel the rich get richer and the poor get poorer,” in a 2013 Harris Interactive poll. “The gap between the rich and the poor in the U.S. is getting larger,” said 75 percent of Americans in a CBS News poll in January 2014. Only 5 percent said the gap was getting smaller.

“The gap between the rich and everyone else in the U.S. has increased,” said 65 percent of those polled by Pew that same month—compared to only 8 percent who said the gap had shrunk.

Second, most Americans think inequality, at its current levels, is bad.

Only 7 percent of respondents told Gallup in January 2014 that they were “Very satisfied about the way income and wealth are distributed in the U.S.” while 39 percent called themselves “very dissatisfied.”

In a January 2012 Gallup poll, Americans were more likely to say the economy was unfair (49%) than fair (45%). Consistently about 60 percent tell Gallup that “Money and wealth should be more evenly distributed.” Interestingly, this number dropped (and the view that “Distribution is fair” rose) just after stock market collapses in 2000 and 2008.

The trickier question is what government should do about inequality. Public opinion polls in this area are mixed and more evenly split.

When Gallup asked in early 2014 “how important is it to you that the president and Congress deal with [The distribution of income and wealth] in the next year?” 57 percent said it was extremely important or very important.

“When it comes to reducing income inequality between the rich and poor, do you want to see the government more involved than it currently is?” NBC News and the Wall Street Journal asked in January 2014. More than one third said yes. But a combined 46 percent said “less involved” or “not involved at all.”

Gallup sometimes puts the question of redistribution very directly, asking respondents if they believe “Our government should redistribute wealth by heavy taxes on rich.” Even with this stark wording, the public is pretty evenly split, with 52 percent favoring redistribution in an April 2013 survey.

“In thinking about the gap between the rich and everyone else,” Bloomberg News asked in June 2014, “do you think it would be better for the government to implement policies designed to shrink that gap, or better for the government to stand aside and let the market operate freely even if the gap gets wider?”

Slightly more respondents said “let the market operate freely” than called for government action. In general, poll questions like this find an evenly divided American public.

The final question is how much of a priority this should be. When the AP asked respondents to list up to 10 problems they would “like the government to be working on in the year 2014,” there was very little interest in inequality. Only five percent of those polled brought up “Income inequality/concerns about poor and/or middle class.”

Taken together, polls show this picture: Americans see inequality as growing, which is a problem they would like government to address—but not as a top priority.

Inequality in Election 2014

Given the majority support for action on inequality, it’s no surprise President Obama kicked off the current election year using inequality as a theme. But the theme has largely disappeared from the campaign rhetoric of Democrats running for major offices this year.

Examining the scripted rhetoric of politicians reveals their understanding of the electorate. U.S. Senate candidates in competitive races don't rely on their own gut feeling to discern the views and moods of the electorate—they benefit from the polling and focus-group work of their national party. Given how much is at stake in a competitive U.S. Senate race, the parties pour significant resources into studying the public mood. This information is shared with all of their candidates, and so you can often see uniform shifts in the rhetoric and emphasis from all the Senate candidates of one party, across many states. This is evident this year among Democratic candidates, on their handling of inequality issues.

Senate candidates' websites almost always have an "issues" page. Savvy candidates don't make these pages comprehensive, but instead use them as a way to lay out the policy views they most want to convey to voters. A review of the issues pages of Democratic Senate candidates this fall finds almost no mention of inequality.

Of the 12 most competitive Senate races, nine had an "issues" or "priorities" page, with an average of nine and a half top-line issues or issue categories. "Inequality" and poverty didn't show up in any of them. (A few campaigns included "equality," but this was about gay marriage and anti-discrimination laws, and not about wealth or income equality.) The closest was Iowa Senate candidate Bruce Braley, who included "wages" as a top-line issue. That page called for a higher minimum wage and legislation to close the gender pay gap.

In their more detailed discussions of economic issues, only two of the Senate candidates in a top-tier Senate race uses the word "inequality" to refer to income or wealth disparities between the wealthy and the non-wealthy: Gary Peters, in Michigan, in arguing for an increase in the federal minimum wage, and Rick Weiland in South Dakota, who is running a uniquely populist campaign.

The Senate candidates do address issues that are close to the matter of inequality: Mostly, they advocate preserving some aspects of the safety net (but not expanding it), raising the minimum wage, and battling the political influence of big money. When the *Coloradoan* asked Sen. Mark Udall about inequality, he called it a "vexing challenge," and proposed four things: raising the minimum wage, increasing Pell Grants and student loan subsidies, legislating equal pay for equal work, and hiking taxes on companies that offshore jobs.

Udall's response reflected his party's polling on the matter and it reflected his understanding of the place inequality holds in American politics today: people think inequality is too great, and they generally favor the idea of action on inequality, but the specific policies they favor aren't actually redistribution. Udall's four proposed solutions fit into two categories: fairness arguments, and government aid to people just above the median income—that is, government aid to swing voters.

Sen. Chuck Schumer, a member of the Democratic leadership tasked with fundraising and crafting party messaging, explained the party's thinking on the matter this year:

> Both the White House and the Senate agreed that the decline of middle-class incomes was the most serious issue we face in this country, but the focus had to be on how to get middle-class incomes up, rather than drive other people's incomes down. There are some who believe it's better to talk about the negative

> parts of wealth that people have accumulated, but our polling data show people care less about that and more about how we're going to help them.

Following this approach, Democratic Senate candidates enter to the arena of inequality by addressing the two themes Udall did: fairness, and economic support for middle- and upper-middle-class voters. Mostly absent: talk about the poor, or about the rich.

Most Democrats in competitive Senate races are campaigning on increasing the minimum wage, and like Udall, they pivot to this when asked about inequality.

The notion that hiking the minimum wage would ameliorate inequality is not a matter of economic consensus. Increasing the minimum wage, much economic research suggests, helps a few workers get higher wages, while raising prices for consumers, and, much of the data suggest, increasing unemployment among lower-wage workers. Some costs of a minimum-wage hike will come out of corporate profits (thus a progressive transfer from shareholders to workers), but the industries that pay minimum wage are generally the industries that operate on the slimmest profit margins. Much of the cost will be borne by consumers and those workers whose jobs are cut or not created—hardly a cure for inequality.

The party unity in favor of a minimum-wage hike should be seen less as an attempt to ameliorate inequality, and more as an attempt to appeal to voters' idea of fairness.

For example, Democratic Senator Mark Warner of Virginia "expressed concerns … about raising the federal wage floor to $10.10 an hour," *Bloomberg News* reported just before the Senate's February vote on the matter. Warner thought the size and speed of the hike could increase unemployment and prices. Yet he voted for the hike the next day, and emailed his supporters declaring the hike "the right thing to do."

This is what Democrats signal with proposals to increase the minimum wage: fairness towards those at the bottom of the income scale—though not necessarily more money.

And for those at the top of the income scale, Democrats have the same sort of prescription: no real redistribution, but plenty of gestures towards fairness. Democrats don't attack Republican efforts to repeal the estate tax. They aren't campaigning on raising the capital gains rate to equal income tax rates. Not a single one of the top Democratic candidates' websites calls for higher individual income tax rates.

Instead of going after billionaires' wealth, Democratic politicians in the 2014 cycle are going after their political clout. Sen. Hagan in North Carolina has made it a main theme of her campaign to point out how groups funded by conservative billionaires Charles and David Koch are supporting her opponent. Al Franken in Minnesota and Gary Peters in Michigan are campaigning in the same vein. Visitors to Peters' website land on a page in which the candidate criticizes the Supreme Court's ruling in *Citizens United v. FEC*, which opened avenues for organizations and wealthy individuals to spend more on politics.

As with the minimum wage issue, this is not a call for redistribution, but more an appeal to fairness—*it is just not fair that people with more money should have more of a say in politics*.

Just what do billionaires *do* with this unfair say in politics? Democratic candidates often don't delve into that. The undue influence of the wealthy is *itself* the problem.

Given the consistency of this theme among Democratic candidates, it is safe to assume the party has developed this message in accordance with polling data and focus group tests. Public polls suggest the same themes.

During Occupy Wall Street in 2011, Pew conducted a poll about views towards Wall Street, inequality, and the fairness of America's economic system. On all these questions, the greatest consensus was found on the question of whether, "there is too much power in the hands of a few rich people and corporations." About 77 percent of respondents said yes.

The Democratic attacks on the Kochs don't focus on the Kochs' businesses, or how they got rich, but on how much they are spending on politics, and the ways in which they are influencing politics.

I saw this first hand at Occupy Wall Street. In the early days of that protest, I spent the night on the sidewalk of Zuccotti Park. In the morning, I took a census of the various signs. By far, the public policy mentioned most was campaign finance regulation. It was more prevalent than discussions of bailouts, taxes, regulations, or war. Democracy and disenfranchisement were more common themes than redistribution.

Democrats' campaigns, and the occupiers' interests reflect the general American view towards wealth: We don't mind rich people being rich; we mind rich people having undue influence.

Americans don't mind rich people being rich

The polls bear out the notion that Americans distrust the wealthy, but ultimately don't want to do away with them.

Gallup in 2012 asked Americans "do you think the United States benefits from having a class of rich people, or not?" Sixty-two percent said yes, while 32 percent said no.

Pew in 2012 asked "How are the rich different from average Americans?" Respondents found them more likely to be intelligent and hardworking, but also more likely to be greedy and less likely to be honest.

When it comes to individual rich people, Americans like them. In a January 2014 poll, Bill Gates—America's richest man—was the fifth most admired person among Americans. In 2011, CNN asked Americans about billionaire Warren Buffett, the second richest man in the country. Forty-three percent of respondents had a favorable view of him, compared to 24 percent who saw him unfavorably. Oprah Winfrey, in a 2009 poll, had 69 percent favorability to 26 percent unfavorable.

Wall Street, meanwhile, is very unpopular. Americans in a 2011 Pew poll were far more likely to say Wall Street *hurts* the country (51 percent) than helps the country (36 percent). Seventy-seven percent said Wall Street bankers are overpaid in 2011.

In late 2009, a Time magazine poll asked "Do you think that executives at the large Wall Street financial institutions today are paid fairly for the work they do, paid somewhat higher than they should be paid, or is their pay completely out of line with what they do?" Sixty-three percent said the pay was completely out of line. Another 22 percent said it was a bit too high.

In specific cases, where Americans can see the value that a person provided, they don't begrudge that person's wealth. But in general, Americans aren't sure that most rich people earned their wealth.

Sixty percent in a 2014 survey agreed that, "most people who want to get ahead can make it if they're willing to work hard." In that same poll, however, only 38 percent said that the wealthy got wealthy by working harder than others—51 percent cited "advantages" that the wealthy person had.

Here's one way to understand Americans' attitude towards the wealthy:

Americans think many of the wealthy earned their wealth by providing value to the economy, especially when actual rich individuals are in question. If those rich people *earned* their wealth, Americans don't begrudge it. But many rich people, Americans feel, didn't earn it. Wall Street for instance, is disliked, and considered a drag on the economy, rather than providing value to the economy.

Some of this view of Wall Street as a net drain is probably grounded in the opaque nature of the financial industry: moving money around the economy may increase liquidity and increase the efficient distribution of resources, but from the outside, it's hard to distinguish Wall Street machinations—consider derivatives, high-frequency trading, short-selling—as creating wealth. Warren Buffett, in contrast, is plainly providing capital to well run, but underfunded businesses.

The bailouts also contributed to this view of Wall Street as a net leech. Wall Street, to the average eye, makes money by gambling, created instability that led to a financial crisis, and then stole taxpayer money through a bailout. Wall Street's unpopularity is due not to its having lots of money, but to its having money it seems not to have *earned*.

The Inequality that Matters

The public's attitude towards the wealthy—admiring it when it's earned, and scorning it when it's plundered—is a moral sentiment that aligns with economic reality. Earned wealth helps the economy; extracted wealth hurts the economy. Put another way: capitalism is good; cronyism is bad.

One important academic study on inequality extends this framework to the economic impact of inequality.

A standard argument about inequality today is that it isn't simply morally upsetting, but it's economically harmful. On the whole, many studies suggest, inequality (particularly *wealth* inequality more than *income* inequality) is correlated with economic stagnation. But Sutirtha Bagchi of the University of Michigan's business school, and Jan Svejnar of Columbia University's School of International & Public Affairs, looked deeper and found data suggesting a more nuanced relationship.

In some cases—some economies during some time periods—wealthy inequality was strongly correlated with stagnation. In others cases, there was no significant relationship. The difference? The first group had a high proportion of politically connected billionaires, while the latter did not. The authors put it this way:

> [W]ealth inequality reduces economic growth, but when we control for the fact that some billionaires acquired wealth through political connections, the effect of politically connected wealth inequality is negative, while politically unconnected wealth inequality, income inequality, and initial poverty have no significant effect.

The authors looked at the billionaires in different countries at different times. Then, using an admittedly subjective judgment, they divided billionaires into "those who benefited from political connections and those who did not." It was not sufficient to have been politically connected and wealthy—or to have gotten wealthy from government action. The political connections must have led directly to the wealth. Again, from the paper:

> we distinguish between altering the playing field to benefit a particular individual or group of individuals from a generally pro-business regulatory environment. Thus for instance in Hong Kong or Singapore, all businessmen and entrepreneurs benefit from the pro-business administrations. This is different from the case of, say, Indonesia, where during the Suharto regime it really mattered whether one knew Suharto because that could make all the difference between obtaining a potentially lucrative import license or not

Examples of cronyist wealth included Mexican billionaire Carlos Slim, or Russia in the 1990s, which saw a "sudden spurt in" the number of billionaires, "on account of the large-scale privatization of state assets that took place as part of Boris Yeltsin's re-election as President."

The finding, again: Wealth inequality goes hand-in-hand with economic stagnation when the wealthy get their wealth through political connections.

The United States

How does the U.S. economy fit in to this framework? We are relatively clean. Warren Buffett may have used his closeness with Bush and Obama Treasury officials to gain more certainty of a bailout before his October 2008 investment in Goldman Sachs, but he's no Russian oligarch. Buffett's billions have, as a rule, come from market means rather than political means.

Compared to Suharto's Indonesia or Putin's Russia, the U.S. is crony-free. But in what direction is it heading?

Consider this: 6 of the 10 wealthiest counties in the country are within commuting distance of the U.S. Capitol. The culprit is not so much the plush compensation packages of federal bureaucrats, but the lucrative revolving door, and the burgeoning business of lobbyists, consultants, and government contractors.

When proximity to political power correlates with wealth, that suggests that cronyism is on the rise. The results of such a trend would be the replacement of free-market capitalism—which Americans tend to like, but distrust—with crony capitalism, which Americans deplore.

If government continues to increase its role in the economy and continues to determine more and more who is rich, then you can expect Americans to turn against the wealthy more and more. In that situation, the politics of inequality would develop from being a nuanced issue, demanding careful management by the Left, to being a potent brew, powering policies of redistribution on a serious scale.