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CHAPTER 1

The New Gilded Age

ask
Students

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

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

The significance of Dahl's question has been magnified, and the pertinence of his answer has been cast in doubt, by dramatic economic and political changes in the United States over the past half-century. Economically, America has become vastly richer and vastly more unequal. Perhaps most strikingly, the share of total income going to people at the level of Dahl's "economic notables"—the top 0.1% of income-earners—has more than tripled, from 3.2% in the late 1950s to 10.9% in 2005. The share going to the top 1% of income-earners—a much broader but still very affluent group—more than doubled over the same period, from 10.2% to 21.8%.³ It seems natural to wonder whether the pluralistic democracy Dahl found in the 1950s has survived

¹ Dahl (1961), 1.

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

³ These figures are from tabulations by Piketty and Saez (2003), updated at <http://elsa.berkeley.edu/~saez/>, table A3.

Is this pluralism?

this rapid concentration of vast additional resources in the hands of America's wealthiest citizens.⁴

Meanwhile, the political process has evolved in ways that seem likely to reinforce the advantages of wealth. Political campaigns have become dramatically more expensive since the 1950s, increasing the reliance of elected officials on people who can afford to help finance their bids for reelection. Lobbying activities by corporations and business and professional organizations have accelerated greatly, outpacing the growth of public interest groups. Membership in labor unions has declined substantially, eroding the primary mechanism for organized representation of working people in the governmental process.

How have these economic and political developments affected "who actually governs?" In 2004, the Task Force on Inequality and American Democracy, convened by the American Political Science Association, concluded that political scientists know "astonishingly little" about the "cumulative effects on American democracy" of these economic and political changes. However, based on what we *do* know, the task force members worried "that rising economic inequality will solidify longstanding disparities in political voice and influence, and perhaps exacerbate such disparities."⁵

This book provides a multifaceted examination of the political causes and consequences of economic inequality in contemporary America. Political scientists since Aristotle have wrestled with the question of whether substantial economic inequality is compatible with democracy. My evidence on that score is not encouraging. I find that elected officials are utterly unresponsive to the policy preferences of millions of low-income citizens, leaving their political interests to be served or ignored as the ideological whims of incumbent elites may dictate. Dahl suggested that democracy entails "continued responsiveness of the government to the preferences of its citizens, considered as political equals."⁶ The contemporary United States is a very long way from meeting that standard.

Economic inequality clearly has profound ramifications for democratic politics. However, that is only half the story of this book. The other half of the story is that politics also profoundly shapes economics. While technological change, globalization, demographic shifts, and other economic and social forces have produced powerful pressures toward greater inequality in recent

⁴ Dahl himself has continued to revise and elaborate his account of the workings of American democracy. His *Dilemmas of Pluralist Democracy* (1982) is especially pertinent in this respect; chapter 8 addresses the ramifications of economic inequality for the American political system and the potential significance of economic inequality as a political issue. His most recent book, *On Political Equality* (2006), examines whether the ideal of political equality is compatible with fundamental aspects of human nature.

⁵ Task Force on Inequality and American Democracy (2004), 662.

⁶ Dahl (1971), 1.

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decades, politics and public policy can and do significantly reinforce or mitigate those pressures, depending on the political aims and priorities of elected officials. I trace the impact of public policies on changes in the U.S. income distribution over the past half-century, from the tripled income share of Dahl's "economic notables" at the top to the plight of minimum wage workers at the bottom. I find that partisan politics and the ideological convictions of political elites have had a substantial impact on the American economy, especially on the economic fortunes of middle-class and poor people. Economic inequality is, in substantial part, a *political* phenomenon.

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

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

Any satisfactory account of the American political economy must therefore explain how and why Republicans have had so much success in the American electoral arena despite their startling negative impact on the economic fortunes of middle-class and poor people. Thus, in chapter 3, I examine contemporary class politics and partisan change, testing the popular belief that the white working class has been lured into the Republican ranks by hot-button social issues such as abortion and gay marriage. Contrary to this familiar story, I find that low-income whites have actually become more *Democratic* in their presidential voting behavior over the past half-century, partially counterbalancing Republican gains among more affluent white voters.

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Moreover, low-income white voters continue to attach less weight to social issues than to economic issues—and they attach less weight to social issues than more affluent white voters do. The familiar image of a party system transformed by Republican gains among working-class cultural conservatives turns out to be largely mythical.

Then why *have* Republican presidential candidates fared so well over the past half-century? My analysis in chapter 4 identifies three distinct biases in political accountability that explain much of their success. One is a myopic focus of voters on very recent economic performance, which rewards Republicans' surprising success in concentrating income growth in election years. Another is the peculiar sensitivity of voters at all income levels to high-income growth rates, which rewards Republicans' success in generating election-year income growth among affluent families specifically. Finally, the responsiveness of voters to campaign spending rewards Republicans' consistent advantage in fundraising. Together, these biases account three times over for the Republican Party's net advantage in presidential elections in the post-war era. Voters' seemingly straightforward tendency to reward or punish the incumbent government at the polls for good or bad economic performance turns out to be warped in ways that are both fascinating and politically crucial.

In chapter 5, I turn to citizens' views about equality; their attitudes toward salient economic groups such as rich people, poor people, big business, and labor unions; and their perceptions of the extent, causes, and consequences of economic inequality in contemporary America. My analysis reveals considerable concern about inequality among ordinary Americans and considerable sympathy for working-class and poor people. However, it also reveals a good deal of ignorance and misconnection between values, beliefs, and policy preferences among people who pay relatively little attention to politics and public affairs, and a good deal of politically motivated misperception among better-informed people. As a result, political elites retain considerable latitude to pursue their own policy ends.

Chapters 6, 7, and 8 provide a series of case studies of politics and policy making in issue areas with important ramifications for economic inequality. Chapter 6 focuses on the Bush tax cuts of 2001 and 2003, which dramatically reduced the federal tax burdens of wealthy Americans. I find that public opinion regarding the Bush tax cuts was remarkably shallow and confused, considering the multitrillion-dollar stakes. More than three years after the 2001 tax cut took effect, 40% of the public said they had not thought about whether they favored or opposed it, and those who did take a position did so largely on the basis of how they felt about their own tax burden. Views about the tax burden of the rich had no apparent impact on public opinion, despite the fact that most of the benefits went to the top 5% of taxpayers; egalitarian values reduced support for the tax cut, but only among strong egalitarians who were also politically well informed.

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Chapter 7 focuses on the campaign to repeal the federal estate tax. As with the Bush tax cuts more generally, I find that repeal of the estate tax is remarkably popular among ordinary Americans, regardless of their political views and economic circumstances, and despite the fact that the vast majority of them never have been or would be subject to estate taxation. Moreover, the strange appeal of estate tax repeal long predates the efforts of conservative interest groups in the 1990s to manufacture public opposition to the estate tax. Thus, the real political mystery is not why the estate tax was phased out in 2001, but why it survived for more than 80 years—and will likely return when the phaseout expires in 2011. The simple answer is that the views of liberal elites determined to prevent repeal have been more consequential than the views of ordinary citizens.

In chapter 8, I turn from wealthy heirs to working poor people and the eroding minimum wage. Here, too, the views of ordinary citizens seem to have had very little impact on public policy. The real value of the minimum wage has declined by more than 40% since the late 1960s, despite remarkably strong and consistent public support for minimum wage increases. My analysis attributes this erosion to the declining political clout of labor unions and to shifts in partisan control of Congress and the White House. As with the estate tax, the politics of the minimum wage underscores the ability of determined elites in the American political system to postpone or prevent policy shifts. However, in this case the determined elites have not been liberal Democrats intent on taxing the bequests of millionaires, but conservative Republicans intent on protecting the free market (and low-wage employers) from the predations of people earning \$5.15 per hour.

My case studies of the Bush tax cuts, estate tax repeal, and the eroding minimum wage shed light on both the political causes and the political consequences of escalating economic inequality in contemporary America. In chapter 9, I attempt to provide a more general answer to Dahl's fundamental question: Who governs? I examine broad patterns of policy making across a wide range of issues, focusing on disparities in the responsiveness of elected officials to the views of their constituents. I find that the roll call votes cast by U.S. senators are much better accounted for by their own partisanship than by the preferences of their constituents. Moreover, insofar as constituents' views do matter, political influence seems to be limited entirely to affluent and middle-class people. The opinions of millions of ordinary citizens in the bottom third of the income distribution have no discernible impact on the behavior of their elected representatives. These disparities in representation persist even after allowing for differences between high- and low-income citizens in turnout, political knowledge, and contact with public officials.

Writing in the 1980s, at an early stage in the most recent wave of escalating inequality, political scientists Sidney Verba and Gary Orren depicted an ongoing back-and-forth between the powerful forces of economic inequality

and political equality: "Political equality . . . poses a constant challenge to economic inequality as disadvantaged groups petition the state for redress. Egalitarian demands lead to equalizing legislation, such as the progressive income tax. But the continuing disparities in the economic sphere work to limit the effectiveness of such laws, as the economically advantaged groups unleash their greater resources in the political sphere. These groups lobby for tax loopholes, hire lawyers and accountants to maximize their benefit from tax laws, and then deduct the costs."⁷

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

ESCALATING ECONOMIC INEQUALITY

Most Americans have only a vague sense of the contours of the nation's income distribution—especially for parts of the income distribution that extend beyond their personal experience. Annual tabulations published by the U.S. Census Bureau provide a useful summary of the incomes of families at different points in the distribution. For example, in 2005 (the most recent year for which such tabulations are available), the typical American family had a total pre-tax income of \$56,200. More than 15 million families—one out of every five—earned less than \$25,600. A similar number earned more than \$103,100. Even higher in the distribution, the richest 5% of American families had incomes of more than \$184,500.⁸

The Census Bureau provides parallel annual family income tabulations going back to 1947 for families at the 20th, 40th, 60th, 80th, and 95th percentiles of the income distribution. These tabulations constitute the longest consistent data series included in the Census Bureau's Historical Income Tables.⁹

⁷ Verba and Orren (1985), 19.

⁸ "Table F-1: Income Limits for Each Fifth and Top 5 Percent of Families (All Races): 1947 to 2005." These data are derived from the Census Bureau's March Current Population Surveys and are intended to reflect total pre-tax income for families consisting of two or more people. The data and additional information are available from the Census Bureau Web site, <http://www.census.gov/hhes/www/income/histinc/f01ar.html>.

⁹ The Census Bureau's definition of families excludes a growing proportion of households consisting of single or unrelated people. (In 2005, almost one-third of households were not families by the Census Bureau's definition, up from 18% in 1967. The median income of households was \$46,300, about 18% less than the median income of families.) However, a parallel

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of the contours of the nation's income distribution that exist in the annual tabulations published by the Bureau of the Census. For example, in 2005 (the most recent available), the typical American family—more than 15 million families—one earner and one child under age 18

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Although they do not reflect the economic fortunes of very poor families at one extreme or very wealthy families at the other extreme, they do represent a broad range of economic circumstances, encompassing working poor families at the 20th percentile, middle-class families at the 40th and 60th percentiles, affluent families at the 80th percentile, and even more affluent families at the 95th percentile. Thus, they provide an invaluable record of the changing economic fortunes of American families over a period of almost six decades.¹⁰

The distribution of income in American society has shifted markedly in that time. The broad outlines of this transformation are evident in figure 1.1, which shows how the real pre-tax incomes (in thousands of 2006 dollars) of families at various points in the income distribution have changed since 1947. It is clear from figure 1.1 that the period since World War II has seen substantial gains in real income for families throughout the income distribution, but especially for those who were already well off. The average rate of real income growth over the entire period covered by the figure increased uniformly with each step up the income distribution, from about 1.4% per year for families at the 20th percentile to 2% per year for families at the 95th percentile.

The difference between 1.4% and 2% may sound small, but it has compounded into a dramatic difference in *cumulative* real income growth over the past half-century: 118% for families at the 20th percentile versus 199% for families at the 95th percentile. Of course, the contrast in economic gains between poor families and rich families is much starker in absolute terms than it is in percentage terms. Measured in 2006 dollars, the real incomes of families at the 20th percentile increased by less than \$15,000 over this period, while the real incomes of families at the 95th percentile increased by almost \$130,000.

These figures convey a striking disparity in the economic fortunes of rich and poor American families over the past half-century. However, they fail to capture another important difference in the experience of families near the bottom of the income distribution and those near the top: poor families have been subject to considerably larger fluctuations in income growth rates. For example, families at the 20th percentile experienced declining real incomes in 20 of the 58 years represented in figure 1.1, including seven declines of 3% or more; by comparison, families at the 95th percentile have experienced only one decline of 3% or more in their real incomes since 1951.

series of income tabulations for the larger universe of households displays generally similar income trends over the period for which the two series overlap, 1967–2005.

¹⁰ Obviously, specific families do not remain at exactly the same point in the income distribution from year to year. Indeed, the specific families included in the Current Population Survey, from which these tabulations are derived, change from year to year. Nevertheless, the data reflect the general economic fortunes of poor, middle-class, and rich families and how they have changed.

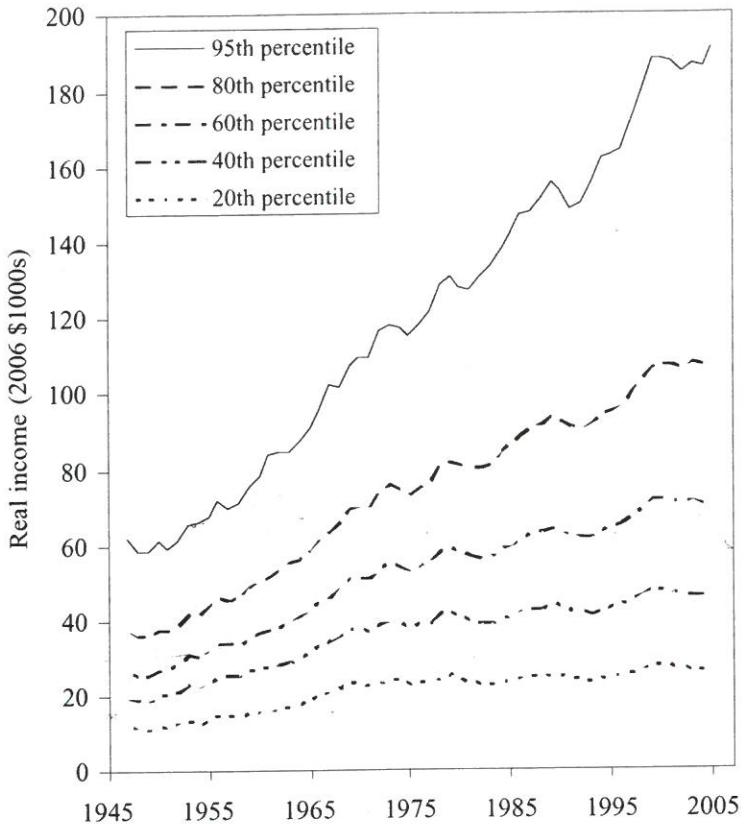


Figure 1.1 Family Incomes by Income Percentile, 1947–2005

Although it may not be immediately apparent in figure 1.1, the pattern of income growth in the past three decades has differed sharply from the pattern in the first half of the post-war era. In the 1950s and 1960s families in every part of the income distribution experienced robust income growth. Since the mid-1970s income growth has been a good deal slower and a good deal less evenly distributed. These differences are evident in figure 1.2, which compares cumulative rates of real income growth for families in various parts of the income distribution from 1947 to 1974 and from 1974 to 2005.¹¹

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

¹¹ This figure is modeled on a similar presentation of the same data by Mishel, Bernstein, and Boushey (2003), 57.

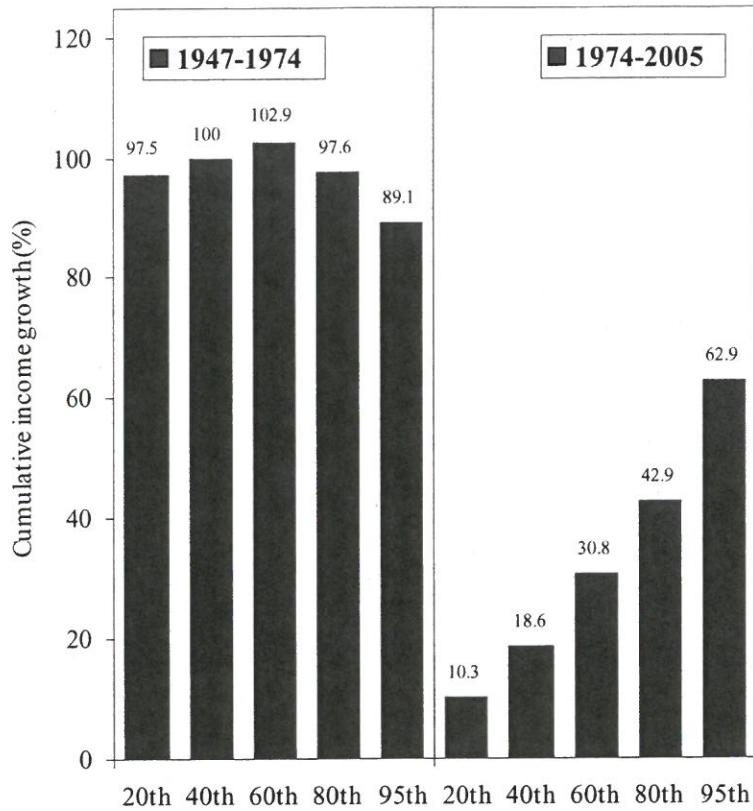
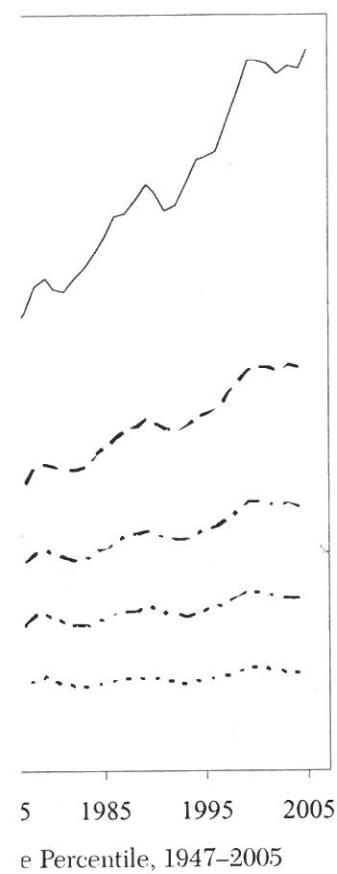


Figure 1.2 Cumulative Income Growth by Income Percentile, 1947–1974 and 1974–2005

arent in figure 1.1, the pattern of growth differed sharply from the pattern in the 1950s and 1960s families in every income bracket experienced robust income growth. Since the 1970s, growth has been much more modest in figure 1.2, which compares families in various parts of the income distribution from 1974 to 2005.¹¹

In the 1970s American income growth was modest, even in percentage terms. Indeed, the real incomes of families at the 20th percentile of the income distribution grew by only 0.4% per year.

The same data by Mishel, Bernstein, and

bution) and affluent families (at the 80th percentile) both grew by the same 2.4% over this period. Income growth was slightly higher for middle-class families and slightly lower for families at the 95th percentile, but every income group experienced real income growth between 2.4% and 2.7% per year.

Over the past three decades, income growth has been much slower and much less evenly distributed. Even for families near the top of the income distribution, the average rate of real income growth slowed substantially (from 2.4% per year to 1.6% per year for families at the 95th percentile). For less affluent families, real income growth slowed to a crawl. Families at the 60th percentile experienced real income growth of less than 1% per year—down from 2.7% in the earlier period. The real incomes of families at the 20th percentile grew by only 0.4% per year—down from 2.6% in the earlier period. Much of the income growth that did occur was attributable to increases in working hours, especially from the increasing participation of women in the workforce.

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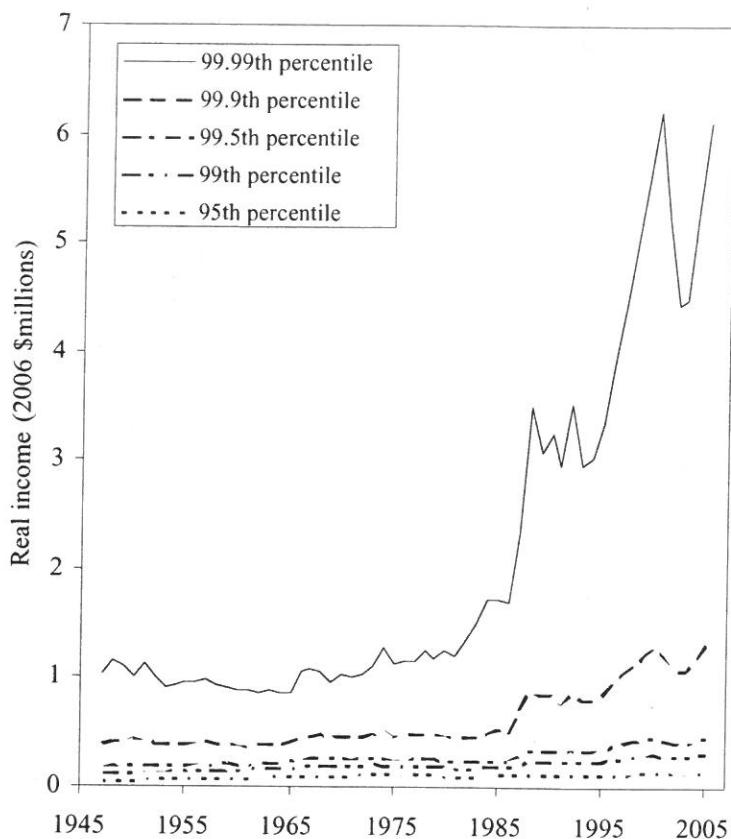


Figure 1.3 Top Incomes by Income Percentile, 1947–2005

Even the disparities in income growth for affluent, middle-class, and poor American families charted in figures 1.1 and 1.2 understate the extent of escalating inequality over the past 30 years, since much of the real action has been concentrated at the very top of the income distribution. While the Census Bureau figures document the experience of families affluent enough to have reached the 95th percentile of the national income distribution, they shed no light on what has happened to people with much higher incomes. As it turns out, income gains among the ultra-rich have vastly outpaced those among the merely affluent.

Economists Thomas Piketty and Emmanuel Saez have used information collected by the Internal Revenue Service to track the economic fortunes of people much higher up the economic ladder than the Census Bureau tabulations reach. Figure 1.3 presents their tabulations of the real incomes (in

millions of 2006 dollars) of taxpayers at the 95th, 99th, 99.5th, 99.9th, and 99.99th percentiles of the income distribution since 1947.¹²

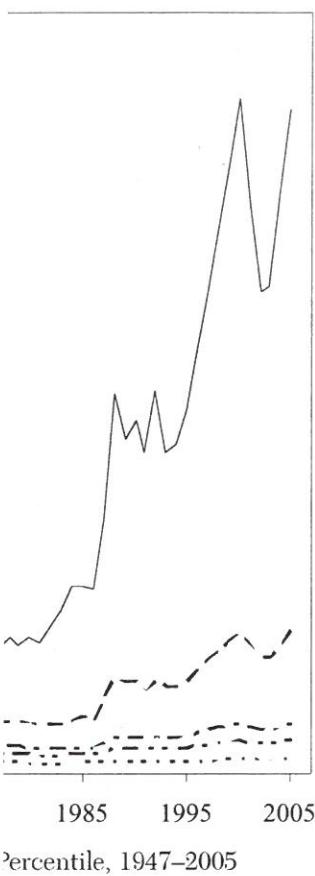
What is most striking in figure 1.3 is that, even at this elevated income level, income growth over the past 25 years has accelerated with every additional step up the economic ladder. For example, while the real income of taxpayers at the 99th percentile doubled between 1981 and 2005, the real income of taxpayers at the 99.99th percentile nearly tripled, and the real income of taxpayers at the 99.999th percentile—a hyper-rich stratum comprising about 13,000 taxpayers—increased fivefold. The real income cutoff for this hyper-rich stratum (not the *average* income but the *lowest* income of taxpayers in this group) was virtually constant for three decades following the end of World War II; but around 1980 it began to escalate rapidly, from about \$1.2 million to \$6.2 million by 2000. Although the real incomes of people in this group declined significantly in the stock market slump of 2000–2002, by 2005 they were once again in excess of \$6 million.

In 2005, the *New York Times* published a 20-year retrospective on the list of the 400 wealthiest Americans produced annually by *Forbes* magazine. The *Times* noted that the *average* net worth of these 400 economic luminaries increased more than fourfold over that period (from \$600 million in 1985 to \$2.81 billion in 2005) and that their combined net wealth in 2005 exceeded the gross domestic product of Canada. “The median household income of Americans has been stuck at around \$44,000 for five years now. The poverty rate is up. Members of the Forbes 400, meanwhile, are richer than Croesus, and every hour they are getting richer.”¹³ X

Another illuminating way to look at Piketty and Saez’s tabulations is in terms of the shares of total income going to people in different economic strata. Figure 1.4 shows these income shares for the top 5% of taxpayers (the solid line) and the top 1% (the dotted line) over a period of almost 90 years. For the period since World War II the picture here is quite consistent with the picture presented in figures 1.1 and 1.3. The share of income going to the rich remained remarkably constant from the mid-1940s through the 1970s and then began to escalate rapidly. For example, the top 5% of taxpayers

¹² Piketty and Saez (2003), table A4. The updated data reported in figure 1.2 are taken from Emmanuel Saez’s Web site, <http://elsa.berkeley.edu/~saez/>. These figures derived from IRS data are not directly comparable with the Census Bureau figures charted in figure 1.1. For example, the Census Bureau’s income figure for families at the 95th percentile in 2005 is \$184,500; the corresponding IRS figure for the 95th percentile of tax filers is \$130,400. The latter figure represents annual gross income reported on individual tax returns, excluding capital gains and government transfers such as Social Security and unemployment benefits. Comparisons are complicated by the fact that some families do not file tax returns, while others file more than one return. For recent years, Piketty and Saez assumed that nonfilers had incomes equal to 20% of the average income of filers.

¹³ Nina Munk, “Don’t Blink. You’ll Miss the 258th-Richest American,” *New York Times*, September 25, 2005, BU 3.



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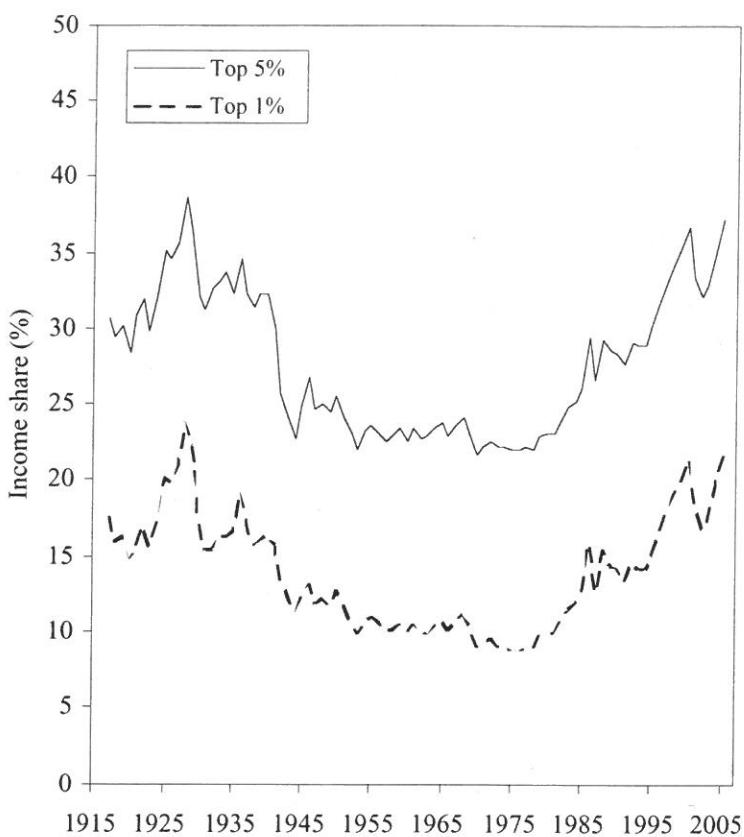
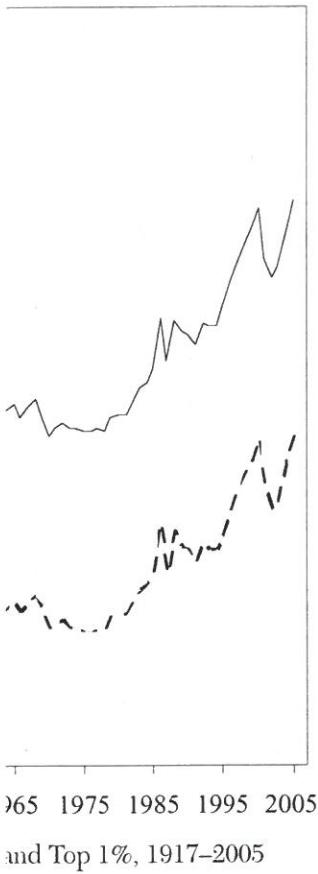


Figure 1.4 Income Shares of Top 5% and Top 1%, 1917–2005

accounted for 23.0% of total income in 1981 but 37.2% in 2005. The top 1% accounted for 10.0% of total income in 1981 but 21.8% in 2005; after declining gradually over most of the twentieth century, their share of the pie more than doubled in the course of a single generation.¹⁴

Two other features of the historical trends in income shares stand out in figure 1.4. One is that the increasing share of income going to people in the

¹⁴ Piketty and Saez (2003), table A3, updated through 2005 at <http://elsa.berkeley.edu/~saez/>. Unlike the absolute income levels reported in figure 1.3, the income shares reported in figure 1.4 include capital gains as well as other sources of income. Piketty and Saez noted that capital gains are “a volatile component” of income and “tend to be realized in a lumpy way.” However, the historical trends in income shares are generally similar whether capital gains are included or excluded (Piketty and Saez 2003, figure A2). Meanwhile, ignoring capital gains understates the income share of the richest taxpayers. For example, the average income share of the top 1% of taxpayers in 2001–2005 was 17.2% excluding capital gains but 18.8% including capital gains.



top 5% of the distribution is entirely accounted for by the increasing share going to the top 1%; the distance between the solid and dotted lines, which represents the share going to people between the 95th and 99th percentiles, remained virtually constant. As in figure 1.3, it is clear here that the really dramatic economic gains over the past 30 years have been concentrated among the extremely rich, largely bypassing even the vast majority of ordinary rich people in the top 5% of the income distribution. Indeed, economists Frank Levy and Peter Temin have used Piketty and Saez's data to show that more than four-fifths of the total increase in Americans' real pre-tax income between 1980 and 2005 went to the top 1% of taxpayers. As a front-page story in the *New York Times* put it, "The hyper-rich have emerged in the last three decades as the biggest winners in a remarkable transformation of the American economy."¹⁵

Because Piketty and Saez's tabulations go back to the advent of the federal income tax system, they also provide important historical perspective on the absolute magnitude of inequality in the contemporary American income distribution. Although it is impossible to compare current levels of inequality with those prevailing in the original Gilded Age in the late nineteenth century, it is possible to compare the position of today's economic elite with their counterparts in what most economic historians consider the other notable highpoint of economic inequality in American history, the 1920s. Whether we focus on the share of income going to the top 5% of taxpayers or the share going to the even richer top 1%, figure 1.4 suggests that current levels of inequality rival those of the Roaring Twenties, before the Great Depression wiped out much of the financial wealth of the nation's reigning upper class. By this metric, America's New Gilded Age is a retrogression of historic scope.¹⁶



INTERPRETING INEQUALITY

What are we to make of these economic trends? For some people, they reflect an era of economic dynamism and expanding opportunity. Others are

¹⁵ Levy and Temin (2007), 49–50; David Cay Johnston, "Richest Are Leaving Even the Rich Far Behind," *New York Times*, June 5, 2005, 1.

¹⁶ I do not know who first referred to the contemporary era as a "New Gilded Age." The term served as the title of a collection of pieces from the *New Yorker* magazine on "the culture of affluence" (Remnick 2000). It subsequently appeared in an influential essay by Paul Krugman in the *New York Times Magazine* in 2002 and in the headline of a front-page article by Louis Uchitelle in the *New York Times* in 2007: Paul Krugman, "For Richer: How the Permissive Capitalism of the Boom Destroyed American Equality," *New York Times Magazine*, October 20, 2002, 62–142; Louis Uchitelle, "Age of Riches: The Richest of the Rich, Proud of a New Gilded Age," *New York Times*, July 15, 2007, A1.

made uneasy by the sheer magnitude of the gulf between the rich and the poor in contemporary America, even if they cannot quite pinpoint why. Still others are less concerned about inequality per se than about the absolute living standards of the poor or about the extent of their opportunity to work their way up the economic ladder.

For the most part, discussions of escalating inequality have focused on four related issues: economic growth, economic mobility, fairness, and inevitability. One crucial—and highly contentious—question is whether dramatic income gains among the hyper-rich “trickle down” to middle-class and poor people, increasing the size of everyone’s piece of the pie. After all, even the influential liberal political theorist John Rawls argued that inequality is just insofar as it contributes to the well-being of the least well-off members of society.¹⁷

Many ordinary Americans believe that “large differences in income are necessary for America’s prosperity,” as one standard survey question puts it.¹⁸ However, economists who have studied the relationship between inequality and economic growth have found little evidence that large disparities in income and wealth promote growth.¹⁹ There is not even much hard evidence in support of the commonsense notion that progressive tax rates retard growth by discouraging economic effort. Indeed, one liberal economist, Robert Frank, has written that “the lessons of experience are downright brutal” to the notion that higher taxes would stifle economic growth by causing wealthy people to work less or take fewer risks.²⁰

Much of the economic argument for inequality hinges on the assumption that large fortunes will be invested in productive economic activities. In fact, however, there is some reason to worry that the new hyper-rich are less likely to invest their wealth than to fritter it away on jewelry, yachts, and caviar. According to one press report, the after-tax savings rate of households in the top 5% of the income distribution fell by more than half from 1990 through 2006 (from 13.6% to 6.2%), while real sales growth in the luxury retail industry averaged more than 10% per year.²¹

¹⁷ Rawls (1971), chapter 2.

¹⁸ This question has been included in several General Social Surveys conducted as part of the International Social Survey Program (ISSP). In four surveys conducted between 1987 and 2000, the proportion of the U.S. public agreeing that large differences in income are necessary for prosperity has ranged from 26% to 32%, while the proportion disagreeing has ranged from 38% to 58% (McCall 2005, appendix table 1).

¹⁹ Alesina and Rodrik (1994); Persson and Tabellini (1994); Bénabou (1996); Perotti (1996).

²⁰ Robert H. Frank, “In the Real World of Work and Wages, Trickle-Down Theories Don’t Hold Up,” *New York Times*, April 12, 2007, C3.

²¹ Anna Bernasek, “The Rich Spend Just Like You and Me,” *New York Times*, August 6, 2006, BU 4. Bernasek drew upon detailed data on growth in the luxury retail sector through 2001, compiled by Parker, Ait-Sahalia, and Yogo (2004), supplemented with bits of more recent data from individual high-end retailers such as Tiffany.

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Even if inequality does promote overall economic growth, that does not necessarily imply that it contributes to the well-being of the least well-off members of society. The benefits of economic growth may or may not "trickle down" to the poor. Although it is common for Americans to suppose that the nation's collective wealth makes even poor people better off than they otherwise would be, the reality is that poor people in America seem to be distinctly *less* well off than poor people in countries that are less wealthy but less unequal. A careful comparison of the living standards of poor children in 13 rich democracies in the 1990s found the United States ranking next to last, 20% below Canada and France and 35% below Norway, despite its greater overall wealth.²² Moreover, even holding constant the absolute economic status of the least well-off, there is some reason to worry that inequality itself may have deleterious social implications in the realms of family and community life, health, and education.²³

Another important strand of debate focuses on the extent of economic mobility and the relationship between inequality and mobility. As one journalistic account put it, "Mobility is the promise that lies at the heart of the American dream. It is supposed to take the sting out of the widening gulf between the have-mores and the have-nots. There are poor and rich in the United States, of course, the argument goes; but as long as one can become the other, as long as there is something close to equality of opportunity, the differences between them do not add up to class barriers."²⁴

The dynamism of the modern economy is certainly reflected in the extent of turnover at the pinnacle of the income distribution. For example, the *New York Times'* 20-year retrospective on the *Forbes* list of the 400 richest Americans counted 255 "self-made fortunes" in 2005, up from 165 in 1985. The number of people on the list with undergraduate degrees from Harvard or Yale declined (from 37 to 25), while the number from California nearly doubled (from 49 to 96).²⁵

Of course, the composition of the *Forbes* 400 may or may not reflect patterns of economic mobility in American society as a whole. Leaving aside this handful of billionaires, to what extent are the economic fortunes of

²²The comparison is for children at the 10th percentile of the income distribution in each country, based on data from the Luxembourg Income Study. The authors suggest that this difference would be reduced (though not eliminated) by counting noncash benefits such as schooling—but only by assuming, rather implausibly, that American children regardless of family income levels benefit equally from public spending on education. See Osberg, Smeeding, and Schwabish (2004), 826–834.

²³For a comprehensive review of scholarly research in these domains, see Neckerman (2004).

²⁴Janny Scott and David Leonhardt, "Class in America: Shadowy Lines That Still Divide," *New York Times*, May 15, 2005, 1.

²⁵Munk, "Don't Blink. You'll Miss the 258th-Richest American," BU 3.

ordinary Americans determined by their starting points in the economic hierarchy? One commentator, Michael Kinsley, warned that “immobility over generations is what congeals financial differences into old-fashioned, European-style social class.”²⁶ However, recent evidence suggests that the United States already has “significantly less economic mobility than Canada, Finland, Sweden, Norway, and possibly Germany; and the United States may be a less economically mobile society than Britain.”²⁷ These comparisons suggest—contrary to the fervent beliefs of many Americans—that the contemporary United States outclasses Europe in the rigidity of its hidebound European-style class structure.

Comparisons of intergenerational mobility over time within the United States also provide some evidence that mobility has declined over the past three decades, at least for men. One study measuring the impact of a wide range of family background factors (including family structure, race and ethnicity, parental education and income, and region) found that “the economic gap between advantaged and disadvantaged men increased because economic inequality increased” during the 1970s, 1980s, and 1990s, while “the gaps in women’s outcomes remained constant.” Another study found that the effect of parental income on men’s economic fortunes “declined between 1940 and 1980 but increased during the 1980s and 1990s.”²⁸

A detailed analysis of income mobility across decades rather than generations also suggests that there has been at least a modest decline in mobility since the 1970s. The probability of any given family rising from the bottom quintile of the income distribution into the top quintile over the course of a decade increased slightly (from 3.3% in the 1970s to 4.3% in the 1990s). However, the proportion of families in the top quintile of the income distribution who remained there a decade later also increased, while the proportion of families falling from the top quintile into the bottom quintile, or from the top two quintiles into the bottom two quintiles, declined.²⁹

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

the market isn’t broken; the meritocracy is working almost too well. It’s rewarding people based on individual talents. Higher education pays off because it provides technical knowledge and because it screens out people who are not organized, self-motivated and socially adept. But even among people with

²⁶ Michael Kinsley, “Mobility vs. Nobility,” *Washington Post*, June 5, 2005, B07.

²⁷ Beller and Hout (2006), 30; Solon (2002).

²⁸ Beller and Hout (2006), 30, summarizing studies by Harding et al. (2005) and Aaronson and Mazumder (2005). See also Solon (2002); Hout (2004).

²⁹ Bradbury and Katz (2002), 66.

their starting points in the economic model. Kinsley, warned that “immobility has become a social difference into old-fashioned, ever, recent evidence suggests that there is significantly less economic mobility than in Germany; and the United States is a more mobile society than Britain.”²⁷ These fervent beliefs of many Americans—outclasses Europe in the rigidity of its culture.

Mobility over time within the United States has declined over the past study measuring the impact of a wide range of factors, including family structure, race and ethnicity, and region) found that “the economic mobility of unskilled men increased because economic opportunities in the 1970s, 1980s, and 1990s, while “the opportunities for skilled men declined.” Another study found that the economic fortunes “declined between the 1980s and 1990s.”²⁸

Mobility across decades rather than generations at least a modest decline in mobility given family rising from the bottom to the top quintile over the course of a decade in the 1970s to 4.3% in the 1990s). the top quintile of the income distribution also increased, while the proportion moving into the bottom quintile, or from two quintiles, declined.²⁹

The extent to which escalating inequality is due to education and skills in the modern economy is a matter of dispute. As an observer, New York Times columnist

David Brooks writes: “Education is working almost too well. It’s rewards are too great. Higher education pays off because it screens out people who are not adept. But even among people with

Washington Post, June 5, 2005, B07.

studies by Harding et al. (2005) and Aaronson and Haskins (2004).

identical education levels, inequality is widening as the economy favors certain abilities. . . . What’s needed is not a populist revolt, which would make everything worse, but a second generation of human capital policies, designed for people as they actually are, to help them get the intangible skills the economy rewards.³⁰

On the other hand, Brooks’s liberal counterpart on the *Times* op-ed page, Paul Krugman, attacked “the notion that the winners in our increasingly unequal society are a fairly large group—that the 20 percent or so of American workers who have the skills to take advantage of new technology and globalization are pulling away from the 80 percent who don’t have these skills.” Noting that the real incomes of college graduates have risen by less than 1% per year over the past three decades, Krugman argued that “the big gains have gone to a much smaller, much richer group than that.” Nevertheless, the “80-20 fallacy,” as he called it, “tends to dominate polite discussion about income trends, not because it’s true, but because it’s comforting. The notion that it’s all about returns to education suggests that nobody is to blame for rising inequality, that it’s just a case of supply and demand at work. . . . The idea that we have a rising oligarchy is much more disturbing. It suggests that the growth of inequality may have as much to do with power relations as it does with market forces.”³¹

Krugman cited economists Ian Dew-Becker and Robert J. Gordon’s detailed analysis of productivity and income growth over the past four decades. According to Dew-Becker and Gordon, “most of the shift in the income distribution has been from the bottom 90 percent to the top 5 percent. This is much too narrow a group to be consistent with a widespread benefit from SBTC [skill-biased technical change].” They found that some of the occupations that should have flourished if the dynamic economy of the 1990s was simply rewarding technical skills actually saw very modest income growth. For example, the earnings of mathematicians and computer scientists increased by only 4.8% between 1989 and 1997, while the earnings of engineers actually declined by 1.4%. In contrast, the earnings of CEOs increased by 100%.³²

Evidence of a serious mismatch between skills and economic rewards seems likely to fan concerns about the “fairness” of recent changes in the U.S. income distribution. So, too, does the juxtaposition of rapid productivity growth with stagnant middle-class wages. Dew-Becker and Gordon found that economic productivity had increased substantially over the period covered by their analysis, but that “the broad middle of working America has

²⁹ David Brooks, “The Populist Myths on Income Inequality,” *New York Times*, September 7, 2006, A29.

³⁰ Paul Krugman, “Graduates versus Oligarchs,” *New York Times*, February 27, 2006, A19.

³¹ Dew-Becker and Gordon (2005), 73, 74.

reaped little of the gains in productivity over the past 35 years. . . . The micro data tell a shocking story of gains accruing disproportionately to the top one percent and 0.1 percent of the income distribution.” They characterized the first five years of the twenty-first century as “an unprecedented dichotomy of macroeconomic glow and gloom.” On one hand, labor productivity and output growth exploded; on the other hand, median family income fell by 3.8 percent from 1999 to 2004.³³

The “unprecedented dichotomy” noted by Dew-Becker and Gordon between booming output and stagnant or declining incomes for ordinary workers has been a recurrent political problem for the Bush administration. On the eve of the 2004 presidential campaign, the *New York Times* announced “A Recovery for Profits, But Not for Workers.” A similar headline in the midst of the 2006 midterm campaign asked, “After Years of Growth, What about Workers’ Share?” Press reports noted that the president was making little headway in convincing the American public that the economy was prospering, despite robust output growth and increasing average wages. The “strange and unlikely combination” of “strong and healthy aggregate macroeconomic indicators and a grumpy populace,” one report said, was “a source of befuddlement to the administration and its allies.”³⁴

Faced with this “grumpy populace” and an imminent election, Treasury Secretary Henry Paulson acknowledged that “amid this country’s strong economic expansion, many Americans simply aren’t feeling the benefits.” Paulson blamed that fact on “market forces” that “work to provide the greatest rewards to those with the needed skills in the growth areas.” Paulson’s predecessor as treasury secretary, John Snow, spoke in similar terms about the “long-term trend to differentiate compensation.”

According to one observer, “‘Long-term,’ when used this way by this sort of official, tends to mean ‘fundamentally unstoppable.’ And, in this case, inexplicable, like a sort of financial global-warming process that may be man-made or (who knows?) a natural cycle that we would welcome if only we knew its function. Snow, a trained economist and former corporate C.E.O., doesn’t pretend to be able to explain what’s causing this whole compensation differential. Nor does he seem tortured by his ignorance. ‘We’ve moved into a star system for some reason,’ he said, ‘which is not fully understood.’”³⁵

³³ Ibid., 60, 3, 1.

³⁴ Louis Uchitelle, “A Recovery for Profits, But Not for Workers,” *New York Times*, December 21, 2003, BU 4; Eduardo Porter, “After Years of Growth, What about Workers’ Share?” *New York Times*, October 15, 2006, BU 3; Daniel Gross, “When Sweet Statistics Clash with a Sour Mood,” *New York Times*, June 4, 2006, BU 3.

³⁵ Remarks Prepared for Delivery by Treasury Secretary Henry H. Paulson at Columbia University, August 1, 2006, <http://www.treas.gov/press/releases/hp41.htm>; Walter Kim, “Way Upstairs, Downstairs,” *New York Times Magazine*, April 16, 2006, 11.

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The notion that economic inequality is an inevitable, purely natural phe- nomenon has been given a pseudo-scientific patina by a self-proclaimed "econophysicist" at the University of Maryland, Victor Yakovenko. Yakovenko noted that, aside from a long upper tail, the dispersion of U.S. incomes closely approximates an exponential distribution—the same kind of distribution characteristic of many natural phenomena. According to an account of Yakovenko's work published in the *New York Times Magazine*'s 2005 survey of "The Year in Ideas," "To an econophysicist, the exponential distribution of incomes is no coincidence: it suggests that the wealth of most Americans is itself in a kind of thermal equilibrium. . . . Yakovenko told *New Scientist* that 'short of getting Stalin,' efforts to make more than superficial dents in inequality would fail."³⁶

ECONOMIC INEQUALITY AS A POLITICAL ISSUE

Interpretations of economic inequality are politically consequential because they shape responses to inequality. If the differences between rich and poor in contemporary America "do not add up to class barriers," if "the market isn't broken" and "meritocracy is working," or if "efforts to make more than superficial dents in inequality" are doomed to failure, then inequality is unlikely to rise to the top of the political agenda. Many observers have been perplexed by the modest salience of inequality as a political issue in America. For example, Dahl wrote that, "For all the emphasis on equality in the American public ideology, the United States lags well behind a number of other democratic countries in reducing economic inequality. It is a striking fact that the presence of vast disparities in wealth and income, and so in political resources, has never become a highly salient issue in American politics or, certainly, a persistent one."³⁷ Is that because Americans assume that "efforts to make more than superficial dents in inequality" would fail?

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

If this claim seems controversial, that is probably because so much public discussion of economic inequality in the New Gilded Age ignores its political dimension. Journalists and commentators may not dwell on the "econophysics"

³⁶ Christopher Shea, "Econophysics," *New York Times Magazine*, December 11, 2005, 67.

³⁷ Dahl (1982), 175.

of thermal equilibrium as reflected in the exponential distribution, but they often frame discussions of inequality in a curiously passive, technical, and distinctly apolitical way. The standard perspective is typified by a 2006 cover story in *The Economist* on "Inequality in America." The report summarized trends in the American economy over the preceding decade:

Thanks to a jump in productivity growth after 1995, America's economy has outpaced other rich countries' for a decade. Its workers now produce over 30% more each hour they work than ten years ago. In the late 1990s everybody shared in this boom. Though incomes were rising fastest at the top, all workers' wages far outpaced inflation.

But after 2000 something changed. The pace of productivity growth has been rising again, but now it seems to be lifting fewer boats. . . . The fruits of productivity gains have been skewed towards the highest earners, and towards companies, whose profits have reached record levels as a share of GDP.³⁸

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

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

Reports of this sort obviously do little to make "the presence of vast disparities in wealth and income" noted by Dahl "a highly salient issue in American politics." Indeed, the authors of the *Economist's* cover story began by assuring their readers that "Americans do not go in for envy. The gap between rich and poor is bigger than in any other advanced country, but most people are unconcerned. Whereas Europeans fret about the way the economic pie is divided, Americans want to join the rich, not soak them. Eight out of ten, more than anywhere else, believe that though you may start out poor, if you work hard, you can make pots of money. It is a central part of the American Dream."³⁹

³⁸ "The Rich, the Poor and the Growing Gap between Them," *The Economist*, June 17, 2006, 28.

³⁹ Ibid.

xponential distribution, but they curiously passive, technical, and elective is typified by a 2006 cover of *America*.³⁷ The report summarized receding decade:

1995, America's economy has out-workers now produce over 30% more. In the late 1990s everybody was singing fastest at the top, all workers'

rate of productivity growth has been faster than boats. . . . The fruits of production have gone to the highest earners, and towards compensation as a share of GDP.³⁸

Something might have changed after the "America's income disparities" luring the 1990s, particularly to the right and, by some measures, even

n? Bill Clinton? In 3,000 words, policy choice by these or other factors the economic trends it summarizes, which increased the demand for freer trade reinforcing the institutional changes, particularly those that made the going harder for people at the bottom" might be "sanction[ing] huge shareholders."

to make "the presence of vast disparities" a highly salient issue in America. *Economist*'s cover story began by not going in for envy. The gap between advanced country, but most Americans fret about the way the economy rewards the rich, not soak them. Eight years later though you may start out of money. It is a central part of the

"between Them," *The Economist*, June 17,

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

One admittedly unsystematic barometer of the popular zeitgeist is the annual "What People Earn" issue of *Parade Magazine*, a popular Sunday newspaper supplement claiming 71 million readers. For several years, *Parade* has published annual "Special Reports" including dozens of Americans' names, photos, occupations, and salaries. Most are ordinary people with five-figure incomes; some are immensely wealthy celebrities like Michael Jordan, Donald Trump, and SpongeBob Squarepants. (Interestingly, more conventional affluent professionals and businesspeople seem to be distinctly underrepresented.⁴⁰) The stories accompanying these "salary surveys" have attempted to summarize the current economic climate and job prospects. In doing so, they have also provided some insight into the shifting resonance of economic inequality in contemporary American culture.

In early 2002, *Parade* depicted "the mood of the nation" as "resolutely confident despite wage freezes, benefit reductions and shrinking job security." An accompanying essay by financial writer Andrew Tobias put the gulf between the incomes of the rich and famous on one hand and ordinary people on the other in reassuring perspective, noting that in "Uganda or Peru . . . plumbers and librarians earn a whole lot less" than in the United States. "Yes. Life is unfair," Tobias wrote. "But for most of us, it could be a lot worse. And in America there's at least a fighting chance that, if you work at it, you—or your kids anyway—can close the gap."⁴¹

The following year, Tobias's essay "How Much Is Fair?" revisited the issue of economic inequality, but in a rather different tone. Tobias remained sanguine about the millions earned by Ben Affleck, Madonna, and Stephen King. ("I don't mind a bit. This is America! More power to them.") However, he was more skeptical about the earnings of CEOs, acknowledging that "most would agree it is best left to the free market to decide" how much they should be paid, but adding that in some cases "the market isn't really free and the CEO largely sets his own pay." Noting that one modestly paid CEO earned more than "the Joint Chiefs of Staff and the presidents of Harvard, Yale and Princeton—combined!" Tobias concluded, somewhat defensively,

⁴⁰ The 2007 survey included 97 people with incomes below \$100,000, 16 with incomes between \$100,000 and \$750,000, and 29 multimillionaires (mostly entertainers and professional athletes). The modestly wealthy group included three political celebrities (Nancy Pelosi, John McCain, and Karl Rove), a professional golfer, and a "bronc rider," as well as a university president, a judge, two photographers, a railroad conductor, an architect, three real estate brokers, a mortgage broker, and a physician's assistant.

⁴¹ Lynn Brenner, "How Did You Do?" *Parade Magazine*, March 3, 2002, 4–5; Andrew Tobias, "Are They Worth It?" *Parade Magazine*, March 3, 2002, 8.

that “it is not class warfare to face these facts, observe these trends and raise these questions. Many will conclude that all is as it should be. Others will say things have gotten out of whack. The ability to confront, debate and occasionally course-correct is one of our nation’s greatest strengths.”⁴²

By 2004, *Parade* headlined that “The economy’s growing again, and we’re spending more—but jobs and wages aren’t keeping pace.” Some 30 paragraphs later, the report mentioned that “The gap between America’s highest- and lowest-paid workers . . . got wider last year” and that the latter “lost ground to inflation.” In 2005, the *Parade* report noted that productivity “has risen steadily; but economists say that, so far, the resulting benefits have gone into corporate profits.”⁴³

By 2007, the disparity between “government statistics” and the “daily experience” of workers had become a major theme of *Parade*’s annual report on the state of the U.S. economy. One prominent subhead announced that “most Americans didn’t see the long economic boom reflected in their paychecks”; another reported that “the salary gains of the last five years have gone to the highest-paid workers.” The body of the story reported that “many Americans are troubled by the income gap between the nation’s highest earners and everyone else—a gap that has grown dramatically in recent decades.”⁴⁴

Meanwhile, in a very different segment of the Sunday magazine market, the *New York Times Magazine* in 2007 published a special “Money Issue” titled “Inside the Income Gap.” Lengthy articles focused on class disparities in schooling, John Edwards’s “poverty platform” in the 2008 presidential race, and the implications of an increasingly global labor market. However, the impact of these weighty examinations of the sociology and politics of economic inequality was diminished by the distracting interspersion of colorful advertisements for investment companies, exotic consumer goods, and high-end real estate. One three-page article on “The Inequality Conundrum” (“How can you promote equality without killing off the genie of American prosperity?”) was woven around advertisements for a private bank and financial planning company (“an entire team of wealth experts”), high definition flat-screen televisions (“the ultimate TV experience”), the national airline of the Cayman Islands (“Endless beauty. Non-stop flights”), and luxury apartments on New York’s Fifth Avenue (“From \$10.25 million”).⁴⁵

The lifestyles of *New York Times Magazine* readers are emblematic of a striking social gulf between the people who are most likely to read lengthy

⁴² Andrew Tobias, “How Much Is Fair?” *Parade Magazine*, March 2, 2003, 10–11.

⁴³ Lynn Brenner, “How Did You Do?” *Parade Magazine*, March 14, 2004, 4–12; Brenner, “How Did You Do?” *Parade Magazine*, March 13, 2005, 4–10.

⁴⁴ Lynn Brenner, “How Did You Do?” *Parade Magazine*, April 15, 2007, 4–8.

⁴⁵ “Inside the Income Gap,” *New York Times Magazine*, June 10, 2007.