Republican strength in congress aids super-rich, president's affiliation has no effect

October 1 2012

Republican strength in Congress increases the share of income held by the top 1 percent, but the president's political affiliation has no effect, suggests a new study in the October issue of the *American Sociological Review* that looks at the rise of the super-rich in the United States.

"This points to the central role that Congress has in the legislative process," said study co-author Thomas W. Volscho, an Assistant Professor of Sociology at CUNY-College of Staten Island. "The president has limited ability to make the sort of legislative changes necessary to affect the top 1 percent without the support of Congress, making Congress the central actor here."

According to the study, "The Rise of the Super-Rich: Power Resources, Taxes, Financial Markets, and the Dynamics of the Top 1 Percent, 1949 to 2008," following years of relative stability post World War II, the income share of the top 1 percent grew rapidly after 1980—from 10 percent in 1981 to 23.5 percent in 2007, a 135 percent increase. The income share of the super-rich dropped to about 21 percent in 2008, likely as a result of the financial crisis that had begun, Volscho said. By way of comparison, the income share of the top 1 percent was 11.7 percent in 1949.

"We found evidence that congressional shifts to the Republican Party, diminishing union membership, lower top tax rates, and financial asset bubbles in stock and real estate markets played a strong role in the rise of the 1 percent," said Volscho, who co-authored the study with Nathan

J. Kelly, an Associate Professor of Political Science at the University of Tennessee. "From the early 1980s to 2008, these measures saw major shifts after relative stability in Democratic dominance of Congress, union membership, tax rates, and prices of stocks and real estate during the postwar era of the late 1940s to the late 1970s."

While Volscho and Kelly found that Republican strength in Congress was associated with higher levels of inequality, the link between politics and inequality was not merely due to redistribution, as the study was based on income, including capital gains, prior to taxes and transfers.

"Democrats are more favorable than Republicans toward social programs that redistribute income, but the parties also differ over what the economic rules of the game should be," Volscho said. "Based on our analysis, Democrats appear to favor an economic system that produces more egalitarian outcomes even before any redistribution occurs."

From 1949 through 2008, the impact of a one percentage point increase in the share of seats (just over five seats) held by Republicans in Congress raised the top income share by about .08 percentage points, according to the study.

"At first glance, this might seem negligible, but that's really not the case," said Volscho. "Given that the estimated national income in 2008 was more than $7.8 trillion, an increase of only 1 percent in Republican seat share would raise the income of the top 1 percent by nearly $6.6 billion. That equates to about $6,600 per family in the top 1 percent."

In terms of labor unions, over the course of the study period, Volscho and Kelly found that a one percentage point decrease in union membership among private sector workers was associated with more than a .40 percentage point increase in the income share of the super-rich. According to Volscho, private sector union membership was 34.9

percent in 1949, but had dropped to 7.6 percent by 2008.

Based on the estimated 2008 national income, the effect of a one percentage point drop in private sector union membership would transfer $33.4 billion to the top 1 percent, Volscho said.

"As union membership has decreased, a greater share of income has shifted toward the top 1 percent," Volscho said. "With a decrease in union membership, workers' wage bargaining power diminishes and this can increase firms' market value and their profitability. A higher market value often translates into higher stock prices and executive compensation, thereby shifting income toward the top."

The study also found that the effect of a percentage point decrease in capital gains and income taxes was similar in magnitude to the effect of a percentage point increase in the share of seats held by Republicans in Congress. Additionally, based on the estimated 2008 national income, a 100 point increase in the (inflation adjusted) Standard & Poor's 500 composite stock market index over the previous year would transfer about $39.6 billion to the top 1 percent and a 10 point (inflation adjusted) increase in Robert Shiller's real historical home price index would shift $34.1 billion to the top 1 percent, Volscho said.

The study relies on data from a variety of sources including a paper, "Income Inequality in the United States, 1913-1998," in The Quarterly Journal of Economics, online updates to the paper, the U.S. Census Bureau's Statistical Abstract of the United States, Unionstats.com, the Urban Institute and the Brookings Institution's Tax Policy Center, Standard & Poor's 500 composite stock market index, and Robert Shiller's real historical home price index.

Provided by American Sociological Association