

Description of Project for Sabbatical Leave Spring 2022
Testing Theories of Increased Economic Inequality in the United States
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Statement of Aims and Objectives of Project: Please consider my application for sabbatical leave for Spring 2022. If successful in my application, I plan to complete the fourth and final phase of a project testing four competing theories seeking to explain the increase in economic inequality observed in the United States over the period between 1970 and 2010. I also will use the time to write a coauthored book manuscript based on the project for publication.

In the Summer of 2020, I began working on a research project with Oliver Cooke (Economics, Stockton) and Daniel Mallinson (Political Science, Penn State) testing four theories seeking to explain the rise in economic inequality observed in the United States since the 1970s. The first three phases of the project include (1) developing the literature review, (2) data collection, and (3) the initial analyses the writing of a paper based on it. The first phase of the project is complete. The second phase is nearly complete. I expect we will complete the third phase in the Summer of 2021. If awarded this proposed sabbatical leave, I plan to use the Spring 2022 semester (and Summer 2022) to conduct the fourth phase of this project. This phase will extend the initial analyses (the third phase) to examine two other questions important for understanding economic inequality in the United States during this four-decade period. First, I will test for whether the predictors of inequality across the full four-decades differ within shorter time periods where significant change in inequality is observed. Second, I will test for potential inter-state variation in the predictors of inequality that may explain inter-state differences observed in the timing, direction, and magnitude of change in economic inequality. This sabbatical leave also will be used to write a book manuscript based on the entire project.

Background Work: The first phase of this project was completed by Cooke and Mallinson. In their paper titled “The Great Debate’s Four Narratives: Making Sense of Economic Inequality in the United States” (Cooke and Mallinson 2020), they describe the four basic theories (progressive, conservative, libertarian, and Marxist) seeking to explain the increase in economic inequality in the United States over the last four decades. According to the progressive theory, increases in economic inequality resulted from a drop in the top marginal tax rate, an attack on and subsequent decline in the power of labor unions, reductions in social welfare spending, deregulation of business, increased corporate lobbying efforts, as well as globalization of the economy and changes in technology. According to the conservative theory, increased economic inequality during this period is a product of growth in the regulatory state that makes it difficult for American businesses to compete in a global market, the failure of public education, and erosion of traditional norms and family values, which resulted in welfare dependence and a “culture of poverty.” Like the conservative theory, the libertarian theory views increased inequality is a product of increased labor regulations that made it difficult for businesses to compete, as well as failures of public education. What distinguishes the libertarian theory from the conservative theory is its emphasis on the increase in corporatism, which hampers business competition, and modern central banking, which redistributes income and wealth upward. The Marxist theory argues that increased economic inequality is a natural result of capitalist economic systems, which produce economic stagnation. Stagnation then requires a shift toward finance as a source of continued economic growth (“financialization” of the economy), and increased indebtedness of American working- and middle-class families.

Most research in Political Science approaches the question of economic inequality from the progressive perspective, while most research in Economic starts from the conservative or libertarian perspectives. Little research acknowledges the Marxist perspective, and no research (to our knowledge) has tested all four competing theories. One chapter in the proposed book will document these ideological biases in the literature.

During the second phase of the project, we collected data on the fifty United States for the years 1970 through 2010. We started with Michigan State University’s Correlates of State Policy [database](#) and added additional state-level economic, population, and political variables during the Summer of 2020. We currently have approximately 90% of the data needed. Over the spring and summer months of 2021, we plan to collect the final 10% of the needed data, conduct the analyses testing the four theories, and write a paper based on those analyses for submission to a peer-reviewed journal. This paper will present a general test of the four theories and represent the end of the third phase of this project. If successful in my

application, I will use the 2022 Spring semester (and 2022 summer months) to conduct the fourth phase of the project.

Statement of Procedures/Methodology: To test the four theories seeking to explain the rise in economic inequality in the United States over the past four decades, we utilize the considerable variation in economic inequality and its hypothesized predictors observed across the fifty states over the period including 1970 through 2010. Thus, our study is cross-sectional (states) and time-serial (years) and includes 2000 observations. We currently end the time series in 2010 due to a lack of available data for all of the necessary variables, though we will extend the analyses to later years if new data become available.

An examination of trends in economic inequality across these four decades within each state reveals important variation in both the timing, direction, and extent of change in economic inequality. Whereas most states saw a gradual increase in inequality starting at the end of the 1970s followed by a steep increase in the mid-1980s, six states saw a steep increase in inequality around 1980. Most states during the 1990s saw little substantial change in inequality, though fourteen states saw modest increases. Around the turn of the century we see fairly dramatic differences in inequality trends across states. Thirteen states saw substantial decreases in inequality starting in 2000, followed by an increase coinciding with the Great Recession. Other states, including many in the South, saw a steep rise in inequality starting in 2002, followed by either a flattening or drop in inequality around the time of the Great Recession. Finally, a few states saw little change in inequality following the initial increase in the mid-1980s. This fourth phase of the project, which will be conducted during my proposed sabbatical, will investigate these differences across time and states. Below, I provide a brief description of the indicators used to test the four theories, followed by a discussion of the analytic methods.

Space limitations preclude a listing of all quantitative indicators, but I will provide a brief discussion of them here. Economic inequality is measured using six different indicators that are prominent in the literature. We have measures of the extent of business regulation, labor strength, tax policy, and social welfare policy, which are important for testing progressive, conservative, and libertarian theories. We also have measures of the extent to which citizens in states were susceptible to job loss from global competition and changes in technology, important for testing the progressive theory, as well as measures of moral decline, important for testing the conservative theory. Measures of corporate power allow for testing the libertarian theory. Finally, measures of financialization of the economy and debt as a proportion of gross state product allow for a test of the Marxist theory.

There are a number of choices for how to conduct cross-sectional time-series analysis in the presence of nonstationarity and heteroskedasticity (De Boef and Keele 2008). For our analyses, we will use single-equation general error correction models (GECM), which are favored in the Political Science literature (Enns et al. 2017). This strategy regresses first differenced dependent variables (indicators of inequality) on differenced and lagged independent variables (predictors of inequality), as well as a lagged dependent variable, represented by the following equation: $\Delta Y_t = \alpha_1 Y_{t-1} + \beta_1 \Delta X_t + \beta_2 X_{t-1} + \varepsilon_t$. An advantage of this method is that it allows for the estimation of both short-term and long-term effects (De Boef and Keele 2008, Kelly and Witko 2012). However, because there is debate about the most appropriate modeling technique, we will replicate our GECM models using a variety of other techniques to establish the robustness of our findings.

For the fourth phase of the project, we will conduct analyses of the four periods characterized variation in trends in inequality across states. These four periods align roughly with four decades: (1) the 1980s, characterized by either a steep increase in inequality around 1980 or around 1985, (2) the 1990s, characterized by either no change in inequality or a modest increase, especially around 1996, (3) the 2000s, characterized by either a drop in inequality starting in 2000 or an increase starting in 2002, and (4) the 2008 and beyond, characterized by either a decrease in inequality starting around 2008, an increase around 2008, or no change. These analyses will examine two basic questions. First, we will examine whether some factors found to influence inequality across the entire four decades matter more within any one of these four periods. For example, it is possible that what drove the increase in inequality in the 1980s is different from what influenced change in inequality in first decade of the 2000s. Analyses will be conducted for each of the four time periods, estimating models similar to those used in analysis for the third phase (described above). Second, we will test for potential inter-state differences in what explains change in inequality within each of these time periods with the aim of understanding why different states experienced differences in the magnitude, direction, and timing of change in inequality. For example, the factors that produced decreases in inequality in some states starting in 2000 may be different from the factors that

produced increases in inequality among other states in 2002. Toward this end, we will also conduct shift-share analysis (Knudsen 2000), which tests for how much of states' change in inequality can be attributed to state-level factors as opposed to national trends. Thus, the fourth phase of the analysis will examine both potential differences in the predictors of inequality across the different time periods, as well as differences in the predictors of inequality across states.

Importance or Value: Along with climate change, the increase in economic inequality starting in the 1970s is among the most widely recognized global challenges today. Research on the causes of economic inequality shape public perceptions of inequality and influence public policy. As discussed above, much of the existing literature seeking to explain economic inequality in the United States tacitly assumes one of the four theories is correct and no single study has tested the four theories systematically. The third phase of our project seeks to do so. The fourth phase of the project, examining why states vary in the timing and extent of change in inequality, acknowledges that, while inequality has increased in all fifty states, it has done so at different times and to greater or lesser degrees across the states. Understanding this variation across time and states will provide needed additional information about what states can do to address the general increase in inequality that continues today.

Further Research and Outcome: This project will be concluded with the completion of the fourth phase. We expect this project will result in a book manuscript that we can send to potential publishers by September 2022.

Works Cited

- Cooke, Oliver and Daniel Mallinson. 2020. "The Great Debate's Four Narratives: Making Sense of Economic Inequality in the United States." Working paper.
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- Knudsen, Daniel C. 2000. "Shift-share Analysis: Further Examination of Models for the Description of Economic Change." *Socio-Economic Planning Sciences* 34(3): 177-198.