

Income Inequality and Political Polarization in the USA

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Abstract: This paper focuses on the relationship and interaction of income inequality and two dimensions of political polarization in the USA after 2000. It turns out that: first, political polarization of USA presidents has a negative relationship with income inequality; second, states with higher income inequality prefer to vote for the Democratic Party; third, income inequality of conditions dramatically varies based on regional differences. This work can contribute to the research on income inequality and partisanship in the USA and provide the latest situation in the 2020 Election.

Keywords: political polarization, income inequality, regional polarization, American political parties

1. Introduction

Global income inequality has shown an upward trend since the 1970s, as the real income individuals with the top 1% income share have increased more than 60%, and people with income in the full tenths earned 9.6 times more than people whose income is in the bottom tenths [1,2]. Consistent with the global trend of increasing income inequality, America shows similar developmental patterns (see figure 1 in the Appendix). In addition, political polarization has grown along with economic inequality and further creates more social stratification and conflicts (see figure 2 in the Appendix). The example of the USA can contribute a new perspective to approaching income inequality and political polarization: first, the conflict between the two dominant parties (the Republican party and the Democratic Party) of the USA could be seen as the conflict and interaction of two completely different ideologies in most of the world (liberal capitalism and classical capitalism), which enables us to investigate the interaction between the two systems and its impact on income inequality in an in-state level; second, as the world's biggest developed economy, USA could give us a paradigm of the coevolution of income inequality and political polarization. This paper will further explore how polarized political parties and their alternation influences the GINI coefficient of states in the USA based on the literature that political polarization and income inequality are closely related.

2. Literature

According to Hare and Poole [3], economic regulation is the primary conflict between the two parties in the USA. The number of moderates has decreased significantly and almost disappeared in the past 40 years. Both parties in the USA have taken a more extreme attitude on economic issues. Existing work also implied that the increasing trend of income inequality and political polarization

corresponds to each other and that “the effect of income on partisanship has almost tripled over the past 40 years.” [4]. Moreover, there is evidence showing that political polarization could cause economic inequality in the long run and that the gridlock induced by income inequality would prevent politicians from reducing income inequality [5,6].

3. Methodology

This paper will use the GINI coefficient (data from www.statista.com) to measure income inequality and DW-NOMINATE dimension 1 (data from voteview.com) as the political polarization index. GINI coefficient can be a perfect index to measure income inequality between households and citizens, and DW-NOMINATE describes the political ideology of political parties or actors. Since this paper will only focus on relationships between different factors and their approximate correlation, I will adopt bivariate analysis and ignore the impact of some lurking variables. Statistical regression is also used to present the extent of correlation.

4. Argument

In the first part, I will use the DW-NOMINATE of American presidents from 2000 to 2021 (Bill Clinton, George W. Bush, Barack Hussein Obama II, Donald John Trump, and Joe Biden) as the independent variable, and the GINI coefficient of USA as the dependent variable to see how polarized parties influence income inequality of USA. Interestingly, both Figure 3 and Figure 4 in the Appendix return a negative relationship between the political polarization of US presidents and income inequality, which indicates that no matter which party the president belongs to, a more polarized political ideology leads to less domestic income inequality. It seems counterintuitive but could be explained by the changing political positions of both parties and their supporters. The 2020 Election, for instance, displayed a mixed but polar part of both parties when an increasing number of the elite class started to support the Democratic Party, even though most leftists in the USA are in the Democratic Party and the Republican Party's traditional support for classical capitalism. Therefore, we may infer that both parties are trying to decrease income inequality to attract voters from the middle and lower classes.

Moreover, from the figures, we can see a stronger correlation between Republican presidents' political polarization and income inequality than the one on the Democratic presidents' side. This demonstrates that Republican presidents might adopt more economic policies to redistribute than Democratic presidents, which is consistent with the higher degree of political polarization of the Republican Party (according to figure 2, the DW-NOMINATE of Republicans has exceeded 0.6 while that of Democrats is about -0.4 in 2015). And the primary channel for political factors to influence income inequality could be reforming to a distributive tax system (such as higher taxes on financial sector profits), Raising the minimum wage and indexing it to inflation, and removing subsidies for the “too-big-to-fail” financial institutions.

In the second part, I will analyze the GINI coefficient of Blue States and Red States to see the correlation between their partisanship and income inequality (without weighting). The 2020 Election state distribution map is shown in Figure 5 in the Appendix. Above all, according to Figure 6 and Figure 7 in the Appendix, we can see approximately a 0.4 higher GINI point of Blue States on average, which may suggest that states with greater income inequality chose to vote for the Democratic Party during the 2020 Election. Specifically, conditions in eastern and western coastal areas generally increase income inequality. Since there is “a strong negative link between inequality and growth” found in American empirical research [7], we can conclude that most Blue States are the states with higher economic growth (Blue states are primarily concentrated in coastal areas).

In contrast, almost all middle states are Red States and present lower income inequality. This can be consistent with what Hare and Pole concluded: regional issues are the second-dimension issue of the division of the Democratic and Republican parties (second to economic regulation) since all race-related issues will involve policies of redistribution [thus affecting income inequality]. As a result, we can see a second form of political polarization (regional polarization) and its relationship with the first-dimension issue (income inequality) in this part of the discussion.

5. Conclusion

In this essay, I adopt a quantitative research method and find a negative relationship between income inequality and political polarization of USA presidents in both the Republican Party and Democratic Party and how regional polarization caused by income inequality and economic growth, in turn, affect partisanship in the USA.

References

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Appendix

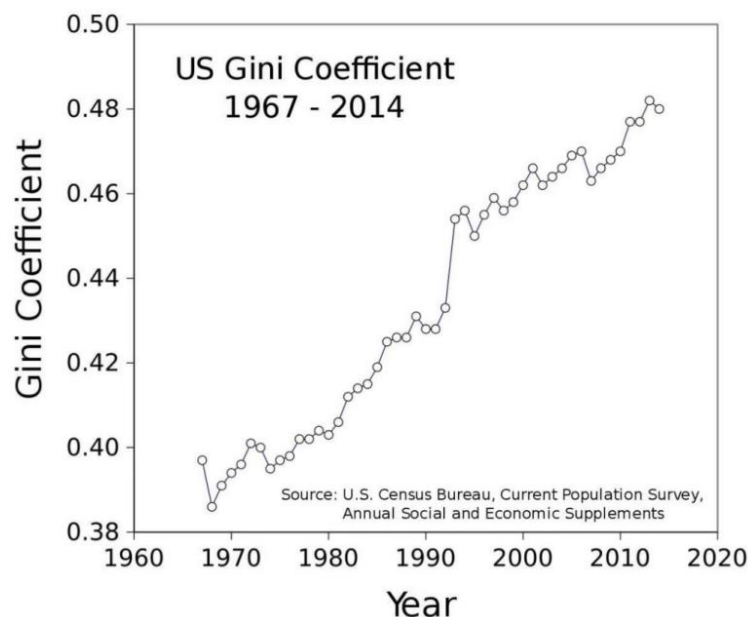


Figure 1: US gini coefficient 1967-2014.

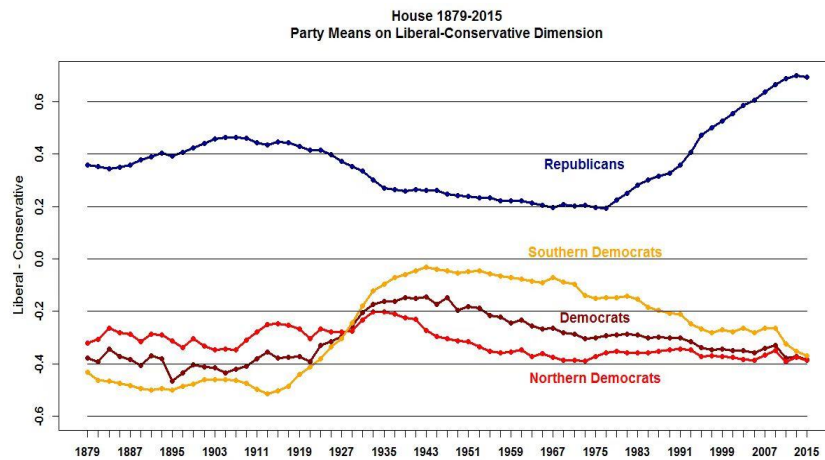


Figure 2: DW-NOMINATE of parties in US 1875-2015.

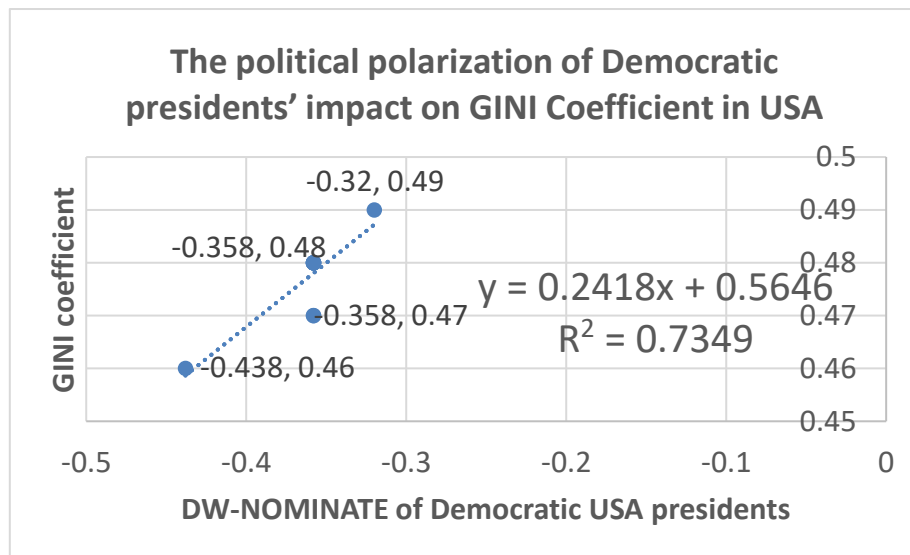


Figure 3: The political polarization of democratic presidents' impact on GINI coefficient in USA.

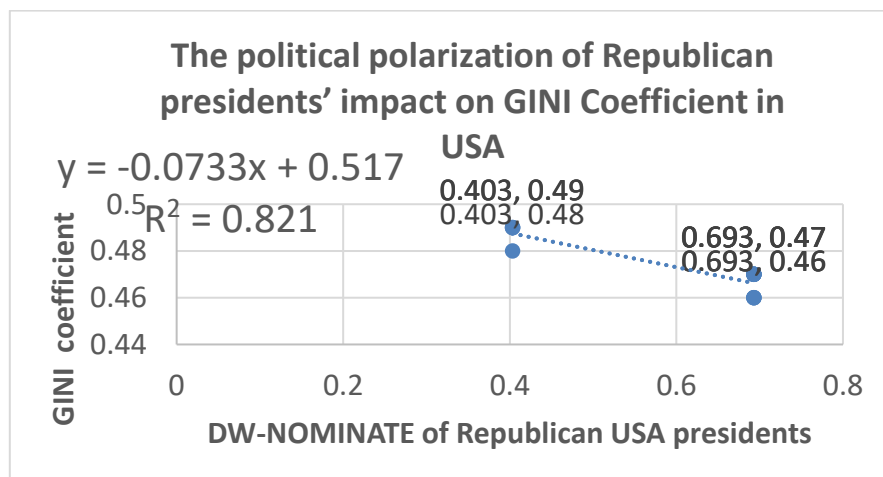


Figure 4: The political polarization of republican presidents' impact on GINI coefficient in USA.

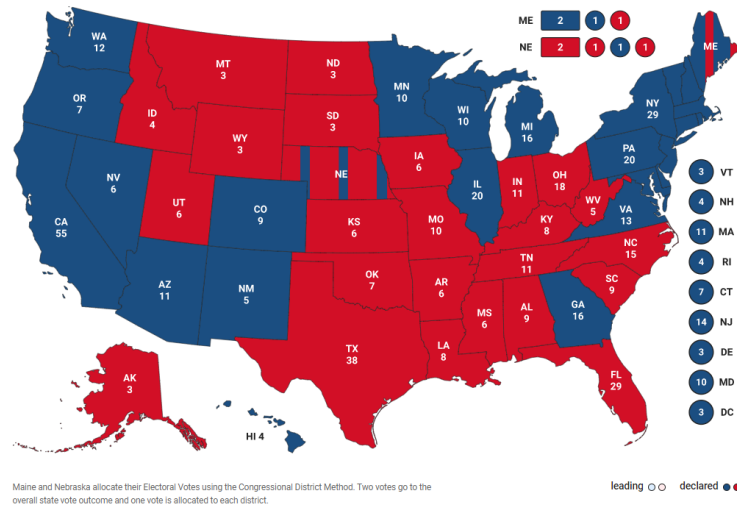


Figure 5: The 2020 election map.

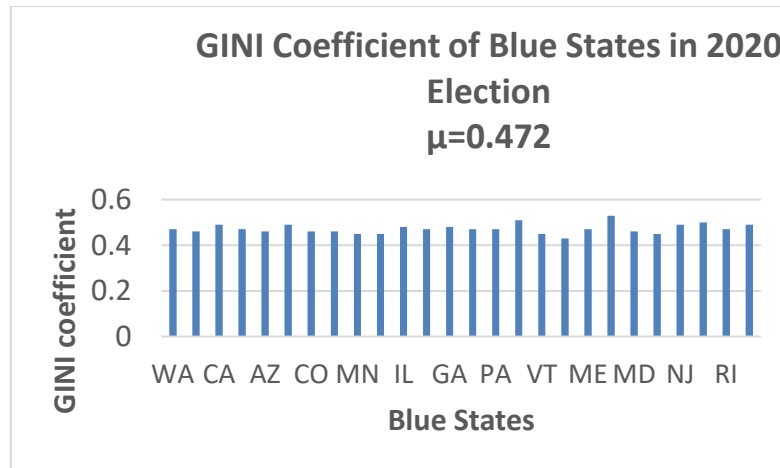


Figure 6: GINI coefficient of blue states in 2020 election.

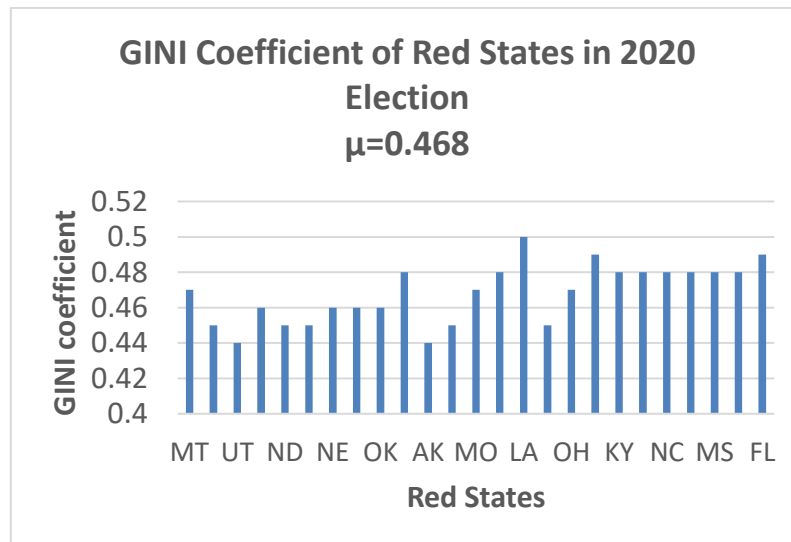


Figure 7: GINI coefficient of red states in 2020 election.