Inequality Growth and Economic Policy Liberalism: An Updated Test of a Classic Theory

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Long-standing political economy theory argues that increases in economic inequality will increase public demand for liberal economic policy. Empirical support for this proposition is relatively inconsistent, though, with the result being uncertainty about the validity of the theory. Since the inception of such theory, however, scholarship has rendered new insights about how to conceptualize the most theoretically plausible measure of exposure to inequality. In contrast to prior work, which largely focuses on citizens’ responses to what may now be viewed as an implausible measure, national-level inequality, this article focuses on what this literature suggests to be a more plausible measure: inequality growth in citizens’ local context. Using national panel data, this article offers a theoretically updated and more rigorous test of the redistributive democracy hypothesis. The results demonstrate that drastic increases in local income inequality are associated with increasing support for liberal economic policy.

One of the central puzzles in the study of American politics is the unabated growth in economic inequality over the past half a century. In attempting to grapple with this trend, a primary question explored by scholars is the relationship between economic inequality and mass support for redistribution. Long-standing theories, such as the Meltzer-Richard (MR) model, argue that increases in inequality will lead to increases in public demand for redistribution (Meltzer and Richard 1981); however, empirical research has rendered mixed support for this prediction, with some studies offering corroborating evidence (Dallinger 2010; Finseraas 2009; Schmidt-Catran 2016) and others disconfirming evidence (Kelly and Enns 2010; Kenworthy and McCall 2008; Lubker 2007). In the United States, which is prominent for having high levels of inequality and low levels of redistribution relative to peer nations (Brandolini and Smeeding 2006), there is even evidence that increases in inequality lead to decreased support for redistribution (Kelly and Enns 2010)—although this work is also met with countervailing evidence (Grant and Lebo 2016; Johnston and Newman 2016). While the literature contains a handful of studies that confirm the predictions of the MR model, the bulk of the research yield either null or opposing results, with the outcome being uncertainty about the validity of the model. As noted by Franko (2016), the “collective results of these studies do not provide a coherent account of how people respond to rising inequality” (957).

In this short article, I address key limitations in previous research and offer an unprecedented test of the effect of inequality growth on economic policy preferences. I offer a critique of how inequality as a contextual effect has been conceptualized and argue that the predominant conceptualization and empirical operationalization is based on problematic assumptions about citizens’ awareness of nationwide economic conditions. Specifically, I argue that, despite the diversity of data used, the predominant reliance in prior scholarship on national-level inequality offers a suboptimal test of the effect of inequality on public opinion because the level of, or year-to-year changes in, nationwide income inequality is unlikely to be perceived by citizens. Aside from specifying a contextual effects hypothesis in which the context in question is a massive geographic unit (i.e., country), many tests focus on citizens’ reactions to the level of inequality, whereas source theories, such as the MR model, emphasize over-time growth in inequality. Moreover, numerous tests of
the MR model rely on aggregate opinion data (Kelly and Enns 2010; Kenworthy and McCall 2008) rather than individual-level data, or better, individual panel data. Indeed, what is distinctly missing from the literature is a test that analyzes the effect of a theoretically plausible contextual measure of inequality and does so with data suitable for observing changes in individual economic policy attitudes before and after a significant growth in inequality.

INEQUALITY AS A CONTEXTUAL EFFECT: LOCALIZING THE MR MODEL

When testing for the effect of national-level inequality on public attitudes, prior scholarship is essentially treating the level of national inequality as a contextual effect. Contextual effects are defined as the forces operative within a bounded space that lead to casual interactions, observations, and diffuse experiences, capable of influencing the attitudes and behaviors of those residing within such spaces (Hopkins 2010; Huckfeldt and Sprague 1995). In the case of the MR model—and the majority of work testing it—the context in question is national, and the causal variable of interest is economic inequality.1 One critical assumption underlying this work is that citizens perceive the level of inequality in their nation of residence. Interestingly, the MR model gives relatively little attention to the psychological dynamics of citizen attention to economic conditions; rather, the model simply assumes that citizens are “fully informed about the state of the economy” (Meltzer and Richard 1981, 915).

As noted by Kenworthy and McCall, one of the most problematic assumptions underlying the MR model is that “people are aware of the true level of market inequality” (2008, 36). Leading research assessing this assumption has proved it largely false, as the literature on innumeracy (Lawrence and Sides 2014) reveals that citizens rarely have a firm grasp of macroeconomic statistics like unemployment and inflation rates (Sigelman and Yanarella 1986). With respect to inequality, Kenworthy and McCall (2008) find that over-time perceptions of income inequality across eight Organization for Economic Cooperation and Development (OECD) nations track poorly with actual trends. Analyses focusing specifically on the United States demonstrate that citizens greatly underestimate the true level of national inequality (Norton and Ariely 2011) and that over-time perceptions of national inequality bear little relationship to actual year-to-year changes in aggregate inequality (Bartels 2008). The general picture painted by this research is one of substantial inaccuracy in citizens’ perceptions of levels of, and over-time changes in, national economic inequality. In sum, the bulk of existing tests of the MR model focus on an implausible context—the nation as a whole—for observing an effect of inequality, as citizens are highly unlikely to be aware of nationwide levels of, or changes in, income inequality.

In response to this problem, recent scholarship has turned its focus on income inequality at the local level as a more plausible contextual effect. This shift has largely taken a cue from the voluminous research on racial context, which demonstrates that, while innumerate about the size of racial groups in the nation as a whole, citizens accurately perceive the size of local racial group populations (Velez and Wong 2017; Wong 2007). The key takeaway point from this work is that the characteristics of the environment surrounding citizens in their daily lives are more likely to exert an influence on their attitudes than are national conditions. Taking a cue from this work, scholarship demonstrates that citizens are generally aware of local economic conditions (Hopkins 2013; Newman, Velez, et al. 2015) and rely on them to inform their evaluations of national economic conditions (Hansford and Gomez 2015). Focusing specifically on inequality, this work finds that, while having a limited grasp of national inequality, citizens are aware of levels of state (Xu and Garand 2010), county (Newman, Johnston, et al. 2015), zip code (Newman, Shah, and Lauterbach 2018), and neighborhood (Minkoff and Lyons 2019) inequality. This work strongly suggests that local inequality is a more plausible contextual effect than national inequality, which in turn implies that the most plausible test for whether citizens bring economic inequality to bear in the formation of their preferences over economic policy is one that focuses on local inequality.

In addition to being bolstered by the observation that citizens are aware of local economic inequality while innumerate with respect to nationwide inequality, the expectation that local inequality will influence citizens’ preferences over economic policy making is further supported by the corpus of research on contextual effects on mass political attitudes. The overarching contribution of this literature is the demonstration that recurrent experiences and observations deriving from citizens’ neighborhoods and surrounding areas (e.g., town, city, county) contribute to their stock of political information (Huckfeldt and Sprague 1995), inform their perception of nationwide conditions (Hansford and Gomez 2015; Newman, Velez, et al. 2015; Wong 2007), and exert a significant

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1. Meltzer and Richard (1981) seek to explain the size of the national government and focus on the position of the “decisive voter” within the income distribution of the nation as a whole. The article begins by addressing the question of why the “share of income allocated by government differs from country to country” (914) and in turn seeks to explain the process that determines “the share of national income taxed and redistributed” (920). It should be noted, however, that the MR model is a theoretical framework that could apply at any level of geopolitical aggregation as long as inequality and policy are observed and made at the same level (e.g., nation, state, city).
influence on the formation of preferences over various domains of government policy. Indeed, while many policies affecting inequality are set at the federal level, the contextual effects literature is replete with theory and evidence that local context influences attitudes over a wide range of national policies, including affirmative action (Glaser 1994), housing (Oliver and Mendelberg 2000), immigration (Hopkins 2010), oil drilling (Bishop 2014), fighting crime (Hopkins 2013), and combating terrorism (Huddy and Feldman 2011).

An additional concern with how the literature has tested the MR model is the prevalence of studies assessing the response of citizens to prevailing levels of income inequality. A fair amount of cross-national research assesses between-country differences in mass support for redistribution as well as actual redistribution, as a function of levels of inequality (Finseraas 2009; Lubker 2007; Moene and Wallerstein 2001). The problem with this is that source theories, such as the MR model, focus on over-time increases in, as compared to prevailing levels of, income inequality. The importance of this distinction is illustrated by Kenworthy and Pontusson (2005), who demonstrate that, while a negative correlation exists between levels of inequality and redistribution among OECD nations, a positive relationship exists between growth in inequality and redistribution. This finding is complemented by recent work focusing on subnational inequality: whereas research focusing on the level of county inequality uncovers substantively small effects on economic policy mood (Johnston and Newman 2016), analyses of changes in state-level inequality uncover positive and sizable effects (Franko 2016). Critically, prior research finds that changes in local demographics capture citizens’ attention more than prevailing conditions (Hopkins 2010; Newman and Velez 2014). This work suggests that the characteristic of local inequality most likely to affect public opinion is over-time growth.

In sum, while prior scholarship explores the effect of between-county differences in levels of inequality on economic policy attitudes (Johnston and Newman 2016), this work does not explore the effect of changes in inequality, which the MR model and previous research point to as the relevant causal variable. Moreover, while other research explores the effect of within-state changes in inequality on economic policy attitudes (Franko 2016), this work focuses on a relatively large unit of geographic aggregation (i.e., state), which may render it a less precise test than one focusing on changes in county inequality. Indeed, research on contextual effects suggests that smaller units of geographic aggregation (e.g., county or zip code) are much less heterogeneous than states and more likely to capture direct exposure to measured demographic variables theoretically positioned as causal factors, such racial and ethnic minority populations (Velez and Wong 2017) or economic conditions (Newman et al. 2018). Thus, what is distinctly missing from the literature is an approach that analyzes the effect of changes in inequality in citizens’ immediate residential environment on economic policy attitudes.

**DATA, METHOD, AND RESULTS**

To build on past work, I analyze the effect of local inequality growth on citizens’ support for liberal economic policy over time. I draw on the 2010–14 Cooperative Congressional Election Study (CCES) Panel Study, which measures the economic policy preferences of a national sample of 9,500 adult Americans in 2010, 2012, and 2014. Importantly, this panel contains county Federal Information Processing System (FIPS) and zip codes for all respondents, enabling the survey to be merged with data from the Census Bureau.

The independent variable in this analysis is *Inequality Growth*, which is the percentage point difference in county Gini between 2010 and 2014. To assess the robustness of results using county as the measure of context, I also present results using zip code level data. A substantial amount of inequality growth occurred at the county level between 2010 and 2014: the range of *Inequality Growth* at the county level is $-0.08$ to $0.16$, which is impressive given that the range of the Gini coefficient at the county level in 2010 was $0.33$ to $0.60$. The substantial amount of inequality growth during this short time window is likely due to the 2008 financial crisis and subsequent recession (Frémeaux 2014). Interestingly, *Inequality Growth* and county Gini in 2010 are only weakly correlated ($r = -0.22$), with inequality growth more likely to have occurred in contexts with lower preexisting levels of inequality. Importantly, there was significant geographic dispersion in where inequality grew, as 44 (50) states contain a county (zip) with a value of *Inequality Growth* at or above its 90th percentile value. The dependent variable in my analysis is an item appearing in the 2010 and 2014 waves of the panel asking respondents to report their preference over cutting spending on social programs versus increasing taxes in order to balance the budget in their state. The response options are on a 0–100 scale, with 0 indicating a preference for government to balance the budget “all from tax increases” and 100 indicating “all from spending cuts.” This item is used in past research to measure economic policy liberalism (Johnston and Newman 2016) and taps into a key feature of the policy mood concept (Stimson 1999) by measuring preferences over government economic intervention and activity. I recoded this measure so higher values indicate greater policy liberalism.

My analysis includes a range of pretreatment controls. At the contextual level, I control for 2010 median income,
unemployment, education rates, immigration, partisan leanings, and population density. These variables are included as controls because each may be predictive of both where inequality grew and economic policy preferences. At the individual level, I control for standard demographics and political and religious orientations. Appendix A (apps. A and B are available online) provides information about the CCES and variable measurement. For ease of interpretation, all non-dichotomous predictor variables were recoded to range 0–1.

Following leading research by Margalit (2013), I estimate a static-score lagged dependent variable model (Finkel 1995). Given the hierarchical structure of my data, I estimate random intercepts multilevel regression models.

Table 1 column 1 presents the results from the model using county-level contextual data, and column 2 shows those using zip code level contextual data. Given the continuous nature of the dependent variable and the use of linear models, the results are directly interpretable. Across both models, local Inequality Growth exerts a positive and statistically significant effect. Interestingly, whether focusing on county inequality growth or finer-grained zip code inequality growth, the size of the effect is nearly the same. Focusing on the county-level model, we see that going from respondents residing in an area with little change in the level of income inequality to those residing in an area where inequality grew significantly is associated with over an 8 point increase on the 0–100 scale of the dependent variable (see fig. A1, available online). One way to put this effect in perspective is to view it in relation to the effect of an increase in the lagged dependent variable, which accounts for roughly half the variance in 2014

Table 1. Effect of Local Inequality Growth on Economic Policy Liberalism

<table>
<thead>
<tr>
<th></th>
<th>County Model</th>
<th>Zip Code Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Inequality growth</td>
<td>8.37* (4.18)</td>
<td>8.42* (3.94)</td>
</tr>
<tr>
<td>Contextual control:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median income</td>
<td>−6.06** (2.21)</td>
<td>−13.41*** (3.13)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>1.01 (2.74)</td>
<td>−4.51 (2.80)</td>
</tr>
<tr>
<td>College educated</td>
<td>3.26 (2.25)</td>
<td>5.83** (2.00)</td>
</tr>
<tr>
<td>Percentage immigrant</td>
<td>−.921 (1.42)</td>
<td>−2.66 (1.68)</td>
</tr>
<tr>
<td>Republican vote</td>
<td>4.43** (1.61)</td>
<td>3.78** (1.38)</td>
</tr>
<tr>
<td>Population density</td>
<td>3.64 (2.97)</td>
<td>9.43* (3.77)</td>
</tr>
<tr>
<td>Individual control:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attitude (2010)</td>
<td>49.37*** (.913)</td>
<td>49.23*** (.914)</td>
</tr>
<tr>
<td>Education</td>
<td>1.31 (.730)</td>
<td>1.11 (.742)</td>
</tr>
<tr>
<td>Income</td>
<td>−2.85** (.904)</td>
<td>−2.96*** (.912)</td>
</tr>
<tr>
<td>Age</td>
<td>.135*** (.017)</td>
<td>.134*** (.017)</td>
</tr>
<tr>
<td>Male</td>
<td>−.709 (.403)</td>
<td>−.697 (.403)</td>
</tr>
<tr>
<td>Black</td>
<td>−1.44 (.831)</td>
<td>−1.54 (.843)</td>
</tr>
<tr>
<td>Latino</td>
<td>−2.71** (.941)</td>
<td>−2.74* (1.86)</td>
</tr>
<tr>
<td>Asian</td>
<td>−1.30 (1.85)</td>
<td>−1.18 (1.86)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>.562 (.757)</td>
<td>.500 (.757)</td>
</tr>
<tr>
<td>Sociotropic evaluation</td>
<td>11.04*** (.883)</td>
<td>11.00*** (.883)</td>
</tr>
<tr>
<td>Homeowner</td>
<td>−1.57** (.518)</td>
<td>−1.25* (.521)</td>
</tr>
<tr>
<td>Party ID</td>
<td>−4.13*** (.662)</td>
<td>−4.06*** (.662)</td>
</tr>
<tr>
<td>Ideology</td>
<td>−22.27*** (.998)</td>
<td>−22.23*** (.999)</td>
</tr>
<tr>
<td>Religiosity</td>
<td>−.950 (.541)</td>
<td>−.891 (.542)</td>
</tr>
<tr>
<td>Intercept</td>
<td>25.42 (2.81)</td>
<td>24.84 (3.20)</td>
</tr>
<tr>
<td>Level 1 units</td>
<td>9,464</td>
<td>9,433</td>
</tr>
<tr>
<td>Level 2 units</td>
<td>1,629</td>
<td>6,337</td>
</tr>
</tbody>
</table>

Source. 2010–14 Cooperative Congressional Election Study Panel Study.
Note. Unstandardized coefficients from multilevel regression models with random intercepts for county/zip estimated using xtmixed in Stata. Standard errors in parentheses. Two-tailed hypothesis tests.
* p < .05.
** p < .01.
*** p < .001.
policy attitudes. Thus, a change of 8.4 points represents roughly 17% of the effect exerted by prior attitudes. Alternatively, the effect of local inequality is larger than the effects of education, income, and partisanship. This said, one variable in particular—ideological self-identification—exerts a powerful effect, as moving from strongly liberal to strongly conservative respondents is associated with a 22 point decrease in policy liberalism, or roughly one-fifth of the scale.

These results hold when estimating single-level regression models (table A1; tables A1–A7, B1, and B2 are available online), applying survey weights (table A2), and controlling for changes in unemployment (table A3). Placebo tests demonstrate that Inequality Growth does not explain changes in a range of attitudes unrelated to economic inequality, such as gay marriage, gun control, and climate change (table A4), and exerts no effect on 2010 economic policy attitudes (table A5). Finally, insignificant interactions were observed between Inequality Growth and income and partisanship (table A6).

CONCLUSION
In contrast to the building notion that Americans’ policy preferences fail to respond to inequality, this article demonstrates that subnational economic policy preferences grow more liberal following drastic growth in local inequality. The findings presented here align with recent work advancing subnational models of redistributive politics (Franko and Witko 2018; Kelly and Witko 2012). This work contends that federal inaction to address growing economic inequality, as well as the devolution of welfare administration in the mid-1990s (Soss, Fording, and Schram 2008), puts state and local governments in a more important position to influence levels of inequality (Franko and Witko 2018; Kelly and Witko 2012). In response, we have seen an increase in efforts at the state and local level to address inequality directly, such as taxes on the wealthy, minimum wage increases, and earned-income tax credits (Franko and Witko 2018). Focusing on redistributive tax measures alone, we have seen efforts to raise taxes on the wealthy (e.g., “millionaire’s taxes”) to support social programs in over a dozen states and localities within the past 15 years (Henchman 2012; Hobbs 2016; Le 2017; Young et al. 2016). This short article suggests that, in addition to being stimulated by federal inaction and devolution, the increasingly subnational locus of redistributive politics may derive from the subnational manner in which inequality manifests (Bee 2012; Hatch and Rigby 2015) and is perceived by citizens (Minkoff and Lyons 2019). My findings support the possibility of a correction mechanism for inequality predicted by theories of redistributive democracy, yet one that unfolds in a more local manner than previously theorized.

ACKNOWLEDGMENTS
I would like to thank Tyler Reny and Yamil R. Velez for providing assistance with some of the ancillary analyses reported in the appendix and the editor and anonymous reviewers for providing valuable feedback that helped to improve this short article.

REFERENCES

2. Given the negative correlation between left-party government and inequality growth in the United States (e.g., Kelly and Witko 2012), one implication of the findings in this article is that exposure to local inequality growth may also foster gravitation toward left political parties. This possibility is explored in app. B, where auxiliary analyses suggest that Inequality Growth may exert a positive indirect effect on identification with the Democratic Party by increasing support for liberal economic policy.


