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ECONOMY

The Politics of Income Inequality

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The years from the late 19th and early 20th centuries were not the most egalitarian in American history. Robber barons roamed the economy, living off lavish rents generated by powerful cartels and industrial monopolies.

The richest 1 percent of Americans reaped nearly one in five dollars generated by the economy and amassed almost half its wealth; at the other end of the scale, wage earners lost ground to inflation. It was the era of the Haymarket riots and Upton Sinclair's "The Jungle." Workers staged 1,500 strikes in 1886 alone.

Ultimately, though, the disparities in wealth and income led to an age of ferment that came to be known as the Progressive Era.

Women got the right to vote. Congress passed the Sherman Act. Chicago's Beef Trust and John D. Rockefeller's Standard Oil were taken down. In 1914, Henry Ford decided to raise wages to $5 a day, doubling at a stroke most of his workers' pay.

And crucially, a progressive federal income tax was enacted by Constitutional amendment, overcoming the opposition of not only the steel lobby and the establishment press, but a Supreme Court that had struck down the income tax law of 1894 as unconstitutional.

"The present assault on capital is but the beginning," wrote Justice Stephen J. Field in a concurring opinion against the 1894 law. "It will be but the steppingstone to others, larger and more sweeping, till our political contests will become a war of the poor against the rich; a war constantly growing in intensity and bitterness."

But Edwin Seligman of Columbia University, one of the leading proponents of a progressive income tax, ultimately had the winning argument: "Amid the clashing of divergent interests and the endeavor of each social class to roll off the burden of taxation on some other class, we discern the slow and laborious growth of standards of justice in taxation and the attempt on the part of the community as a whole to realize this justice."

The United States has come a long way over the last century. Still, it remains a strikingly similar place in a couple of important respects.

The income of a typical American family has barely risen since the 1970s. The share of national income captured by the richest 1 percent of Americans is even higher than it was at the dawn of the 20th century.

The parallel offers valuable insight into one of the most important questions posed by the nation's lopsided development: Can democracy stop inequality from rising? Despite the gains of the Progressive Era, the answer echoing down the halls of history is not encouraging.

Basic models of political economy hold that inequality self-corrects. As income concentrates among a smaller group of voters, majorities will vote for more redistribution.

But that isn't quite how the world works. For starters, the poor vote less than the rich. And they don't vote exclusively based on their economic self-interest. Many Americans, rich or poor, mistrust government. They support free-market capitalism and view the distribution of the nation's economic fruits as roughly fair.

The growing concentration of income can, in fact, make inequality more difficult to correct, as the wealthy bring their wealth to bear on the political process to maintain their privilege.

What's more, disparities in income seem to produce political polarization and gridlock, which tend to favor those who receive a better deal from the prevailing rules, says Francesco Trebbi, an expert on political economy at the University of British Columbia in Vancouver, Canada.

The American political system may eventually act against the interests of the fortunate few at the very top of the pyramid of success. But that may be only because many affluent, powerful people just below the top notch see themselves as losers from the nation's economic dynamics.

"The really upset people are those that are well in the top of the distribution," said Nolan McCarty, a political scientist at Princeton. "There could be a populist uprising, but that is less likely than a battle within the top 1 percent."

This is, indeed, reminiscent of the Progressive movement, which was led not by pitchfork-wielding populists, but by lawyers, college professors and others in the upper middle class who saw their future prosperity and social standing at risk.

"There hasn't been the immiseration you would associate with a revolution," Professor McCarty said. "But people are concerned about fairness and the way the game has been rigged."

Is this alignment of forces enough to stop America's income chasm from growing?

Some scholars draw hope from the nation's history. In his best-selling "Capital in the Twenty-First Century," the French economist Thomas Piketty proposes that inequality could be tempered by returning to the tax rates of the past. Confiscatory taxes of excess incomes are, he says, "an American invention." If we could raise top tax rates to nearly 80 percent once, why couldn't we do it again?

Historical precedent, however, doesn't justify unbridled optimism. For all the egalitarian initiatives of the Progressive Era, it did little to curb the concentration of income at the top.

"The Progressive era established the basic grammar and vocabulary and syntax of the American policy discussion for a century," said David Kennedy, the prominent Stanford historian. "All the main themes of equity and access to democratic institutions and workplace regulations came up then."

But in terms of real redistribution, Professor Kennedy added, "relatively little was accomplished."

The bold new income tax affected only a tiny share of Americans. And while the top rate for a married couple was 7 percent, to reach it they had to make more than $500,000, nearly $12 million in 2014 dollars. In 1913, it raised a grand total of $28 million, a mere $668 million in today's dollars.

Justifying hefty taxation of the wealthy required a more compelling argument than inequality. The immiseration caused by the Great Depression helped. But winning the argument required war. Only the prospect of many thousands of poor young men contributing their lives to the national project could justify taking more of the elite's money in the service of the national good.

"The idea was conscription of wealth and income," said Kenneth Scheve, a political scientist at Stanford. "The term was used in party manifestos, in speeches to Congress. It came up everywhere."

By 1917, the top federal income tax rate had been raised to 67 percent. Though it fell in the 1920s, it would rise again during the Great Depression and, especially, World War II. In 1940, before the United States entered the conflagration, the federal income tax raised $1.5 billion ($25 billion in today's money). By 1945, it collected $17 billion ($223 billion). The top income tax rate would not fall below 70 percent again until 1980.

But what does this historical precedent say about our ability to deal with inequality today?

The Great Recession helped make a case for redistribution. Jason Furman, President Obama's chief economic adviser, says that the administration's initiatives — like higher income tax rates, subsidies to buy health insurance under the Affordable Care Act and expanded tax breaks for poor families with children — have produced "the most significant policy-induced reduction in inequality in at least 40 years." Just the tax measures, Mr. Furman estimated, take off about half a decade's worth of increasing inequality, as measured by the so-called Gini coefficient.

Is this as good as it gets? For all the struggle on the part of the White House, the income gap keeps growing. Maybe this means that, in the absence of war, democracy can't do much more.

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