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Submission #316

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Project Title:

For Richer or Poorer: The Politics of Redistribution in Bad Economic Times

Which thematic area does your project most strongly link to?:

Labor markets and poverty

Description of Project's Link to Core Thematic Research Area Noted Above:

This project examines the policy consequences of economic downturns, such as the current fiscal crisis stemming from the Great Recession and its jobless recovery. It is motivated by concern that economic pressures are disproportionately born by the poor—in the form of cut-backs to safety net programs, as well as via longer-term increases in income and political inequality that feed back into future policy debates. To evaluate this concern, I adopt a longitudinal research design: tracking a range of state redistributive policies from 1980s through today. This time period has seen rising income inequality, critical changes in states' policy approaches, and a handful of national recessions that played out differently, in timing, duration, and severity, across the 50 states. Capitalizing on these dynamics, I compare states' policy response to labor market downturns, examine the influence of low-income political power in shaping state responses, and trace the long-term consequences for the distribution of income and political influence. This project bridges two of CPR's thematic areas: (1) the non-cash safety net, and (2) labor markets and poverty, by asking how changes in economic conditions led states to restrict the generosity of different elements of their social safety nets. This empirical foundation will allow for: a fuller understanding of the shape and structure of our current social safety net, identification of the economic and political conditions most conducive to a strong social safety net, and further insight into the political feasibility and durability of alternative approaches to policy redistribution to benefit the poor.

Total Funding Requested:

\$20,000

How will you be accepting this award?:

One personal services contract with the P.I.

IRB: Describe a timely plan for obtaining IRB approval or exemption for human subjects research.:

This project does not use individual-level data, but instead uses measures of state-level conditions (i.e. unemployment rate). If the project is funded, I will submit an application (under exempt status) immediately. It should be able to be processed within a week.

Upload a PDF containing project narrative, budget and justification, project timeline, and CVs (for all investigators):

[rigby ucdavis proposal 09-20-12 nocoverpage.pdf](#) [4]

Other information

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For Richer or Poorer: The Politics of Redistribution in Bad Economic Times

Project Narrative

The United States continues to struggle with the aftermaths of the Great Recession: a crisis in which the nation lost more than 7.5 million jobs and the unemployment rate peaked at 10 percent (Grusky, Western, and Wimer 2011). Of particular concern is an emerging body of research illustrating that—in terms of labor market outcomes—the Great Recession had its most negative impacts on more disadvantaged Americans (Hout, Levanon, and Cumberworth 2011; Hoynes, Miller, and Schaller 2012). This project asks whether state political institutions further disadvantaged this same group of Americans. Economic downturns place enormous pressure on state coffers—leading states to cut programs and raise taxes to help balance their books (McNichol, Oliff, and Johnson 2011; Oliff, Mai, and Palacios 2012). Particularly vulnerable at this time are safety net policies that benefit low-income citizens who, although more reliant on government services, are disadvantaged in terms of political power relative to those with more resources—monetary, time, organization, and attention (Bartels 2008; Campbell 2010; Schlozman et al 2012). This power imbalance raises concerns that state economic pressures are disproportionately borne by the poor, both in the form of short-term policy change and in longer-term increases in income and political inequality that further disadvantage the poor in later policy debates (Gilens 2012; Rigby and Wright forthcoming; Schneider and Ingram 2008).

This project takes up this concern, adopting a longitudinal research design to track state redistributive policy choices from the early-1980s through the current economic crisis. Adopting this long view is critical for placing the current recession in its historical context, as well as for assessing the short-term, long-term, and cumulative effects of economic downturns. In addition, examining this particular time period allows for a broad examination of redistributive politics during this era of increasing income inequality in the United States (Neckerman 2004). Responding to recent calls to conceptualize income inequality as political phenomenon, not only an economic one (Hacker and Pierson 2010; Kelly 2009), I

examine how variation in state-level politics—made manifest in the form of states’ redistributive policy choices—contributes to the trajectory of income inequality across the states, over time.

Conceptual Framework

Guiding this project is a conceptual framework developed from the current literature and illustrated in Figure 1. It begins with a primary focus on state economic cycles, which are expected to shape states’ redistributive policy choice in the short-term (Arrow 1), as well as income inequality in the longer-term (Arrow 2). Yet, the degree to which states respond to economic downturns by reducing redistribution is expected to vary based on the political influence of low-income citizens (Arrow 3). In addition—considering a longer time frame—income inequality may serve as more than an outcome of this process, but also (Arrow 4) serve to shape future policy debates. This conceptual model leads to four research aims, each aligned with one of the four arrows depicted in the conceptual framework: (1) assessing the degree to which an economic downturn decays state redistributive policy efforts; (2) examining the longer-term consequences for the level of income inequality in the state; (3) identifying political factors that magnify, or buffer, the degree to which state policy responses burden low-income citizens; and (4) exploring the long-term consequences of economic downturns on future political debate.

[See Conceptual Framework in Figure 1]

Data & Analytic Strategy

In preparation for testing these research aims, I have combined data from a range of sources into a pooled cross-sectional, time-series dataset covering all 50 states from 1980 to 2010. This dataset (N=2000 state-years) includes annual measures of state unemployment (to capture the business cycle), multiple indicators of redistributive policy choices, and measure of low-income political power, as well as a set of control variables capturing other elements of each state’s socio-economic, demographic, and political context that are known to shape policymaking and the distribution of income. The key measures are described below—along with the analytic strategy for testing each aim.

Aim 1: Economic Context —→ *Redistributive Policy Choices*

The first aim is primarily descriptive—to map the consequences of economic downturns for different aspects of state redistributive policy. The primary analytic strategy will be to use fixed-effect models to isolate policy changes following changes in a state’s unemployment rate. To capture redistributive policy effort, I focus on four common, yet distinct, approaches states may take to redistribute resources toward the poor: (1) Income transfers to low-income families (operationalized as state spending on welfare per person in poverty); (2) Investment in public goods and human capital (per capita spending on education); (3) Tax credits/burden on low-income families (state tax credit/burden levied on a family at 150 percent of the FPL); and (4) Market conditioning in which state policies shape the distribution of market income (state minimum wage).¹

These data are all publicly available—going back to the late-1970s—through the Census of State Governments, NBER’s TaxSim program, and the Federation of Tax Administrators. In fact, previous research has explored the determinants of each of these measures (Jacoby and Schneider 2001; Newman & O’Brien 2011). Yet, no research has compared these alternative approaches to redistribution—despite evidence that states adopt different mixes of policy tools in response to unique economic and political contexts, such as my previous work on these dynamics within state early childhood education policy (Rigby 2007) or Faricy’s (2011) recent study of how party effects vary for direct versus indirect social spending. Informed by this literature, I expect each form of redistribution to exhibit its own level of vulnerability to economic downturns, as well as distinct impact on income inequality (Kelly 2005; 2009).

Aim 2: Economic Context —→ *Income Inequality*

For the second aim, I examine the longer-term consequences of economic downturns on income inequality by regressing income inequality on the lagged unemployment rate—incorporating lags of the

¹ I recognize that these measures only serve as proxies for the level and change in states’ safety nets, which are determined by a whole host of policy decisions. Yet, these four measures provide two important attributes that justify my focus on each. First, all four can be tracked at an annual basis over the 40 year time period that this study examines. Additionally, each represents a distinct approach to redistribution that states may take, so allows for (a) a broader picture of state redistributive policy (extending beyond welfare payments alone) and (b) a comparison of the socio-economic and socio-political dynamics surrounding each approach.

four measures of redistributive policy as mediators linking economic context and income inequality. In addition, I will include the same set of control variables employed in the earlier models. Here, I will address a paradox in the simple model listed above: how could cyclical business cycles be associated with the linear, upward trend in income inequality over the last forty years? My hypothesis is that state responses to economic recoveries do not mirror their responses to economic downturns. Instead, the status quo bias in our policymaking institutions promotes path dependency and stability (Hacker and Pierson 2010) that serve to sustain spending cuts and tax hikes adopted during downturns, even as economic conditions improve. This is because contractions serve as a particularly potent force pushing spending cuts and tax increases onto the political agenda, whereas expansions are more gradual non-crises, unable to overcome the status quo bias that reinforces efforts to block redistributive policy change. I test for the hypothesized non-linear effects of changes in economic conditions by disaggregating the measure of unemployment into two variables—one capturing the proportion change in contraction times and the other capturing the proportion change during times of expansion. By modeling the effect of contractions separately from the effect of expansions in the business cycle, I can compare the policy consequences of economic downturns versus recoveries.

Aim #3: The Moderating Role of Low-Income Political Influence

The third aim recognizes that states consider more than the availability of fiscal resources when responding to economic downturns (or recoveries). A key factor influencing who wins and who loses in these policy debates is the relative political power held by low-income citizens. Power resource theory (Brady 2009), along with the broader cross-national research on the politics of inequality and redistribution (Iversen and Soskic 2011), provides a helpful lens for identifying three sources of political influence among low-income citizens, as described below.

One way that political power can flow to low-income citizens is through their direct engagement in the political process. For example, many scholars have identified less generous welfare benefits in states with bigger voting gaps between the rich and poor (Avery and Peffley 2005; Hill and Leighley 1992). Alternatively, the interests of low-income citizens may be represented by left parties, or via

market-based mobilization by labor unions (Brady 2009). When these sources of low-income political power are present, states are expected to respond differently to bad economic times—choosing to protect redistributive spending, taxes, and market conditioning policies. Without these protective factors buffering poor citizens from efforts to scale back redistribution, budget cuts are more likely to fall on lower income citizens, whose relatively quiet voice in the policymaking process can be more easily overlooked. The three sources of low-income political power are operationalized as follows. First, I will use measures generated from CPS data (see Rigby & Springer 2011) that capture income bias in voting between rich and poor citizens. The influence of left parties in government will be measured using Berry et al (1998)'s measure of government ideology, which weights party control by the relative liberal-conservative ideology of policymakers in the state. And Census data on membership in labor unions will also be used to capture likely mobilization by unions.

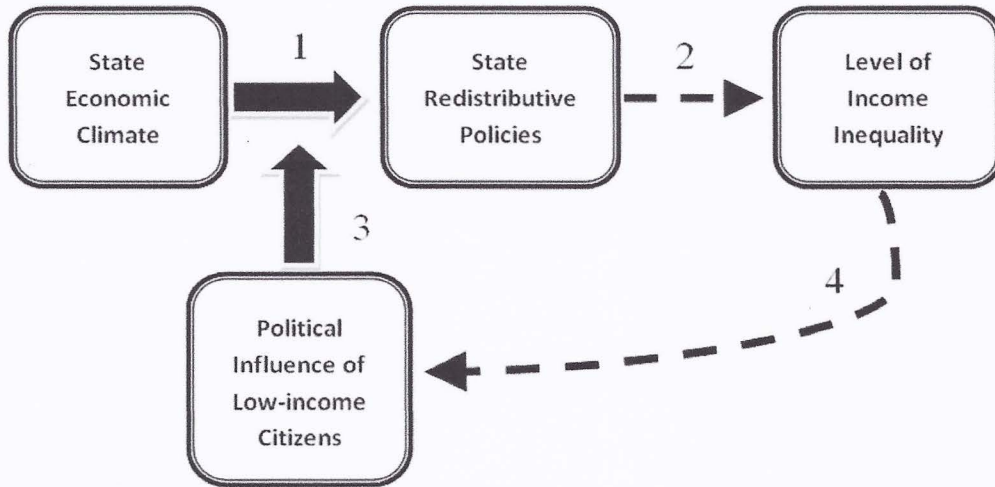
Aim #4: Longer-term Consequences of Economic Downturns

Another aim of this project is to identify the longer-term effects of state economic cycles. I will examine how state policy choices feed back into later political dynamics by restructuring patterns of political alignment, mobilization, and participation in ways that matter for future policy debates. Recent research has advanced our understanding of these policy feedback effects (Mettler and Soss 2004). Further illuminating these long-term dynamics within redistributive policymaking can shed additional light on growing concerns that our political process is serving to reproduce, if not fuel, inequality—rather than reigning in the inequality inherent in capitalist economies (Bartels 2008). The specific modeling strategy for testing Aim 4 will depend on the relationships that I find when testing my hypotheses for Aims 1 to 3. Yet, I expect to test for these longer-term policy feedback effects within a mediated model in which my measures of political power among the poor (income bias in voting, left party representation, and union membership) are incorporated into the cross-lagged models examining the relationship between income inequality and redistributive policy. These findings may help identify the forms of redistribution most vulnerable—versus resilient—to economic downturns over time, as well as highlight those most critical for addressing inequalities in both income and political power across the American states.

Figure 1.

Conceptual Framework

For Richer or Poorer: The Politics of Redistribution in Bad Economic Times



Note: Solid arrows indicate expected short-term effects (0-2 years); dashed arrows indicate effects likely to emerge in the longer-term (3+ years) impacting future cycles of redistributive politics.

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