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Hurdles to Shared Prosperity: Congress, Parties, and the National Policy Process in an Era of Inequality

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Since the 1980s, income concentration has increased dramatically, with the top 1 percent increasing their share from 10.7 percent in 1980 to 20.2 percent in 2014 (an 89 percent increase), and the top 0.01 percent income share increasing even more – by approximately 230 percent.¹ Before the turn of the twenty-first century, scholars seeking to explain rising inequality emphasized structural economic change and demographics, focusing on factors such as deindustrialization, globalization, aging, union decline, and skill-biased technological change (Alderson and Nielsen 2002; Berman et al. 1998; Bound and Johnson 1992; Danziger and Gottschalk 1995; Goldin and Katz 2008). In this work, politics and policy played, at most, a peripheral role in explaining the ebb and flow of American inequality. But newer scholarship has given politics a more central place in our understanding of income disparity.

This scholarship collectively argues that policy outcomes produced at the intersection of political behavior and political institutions are essential for understanding changes in economic inequality and the decline of shared prosperity. Democratic victories in presidential elections (Bartels 2008; Campbell 2011; Kelly 2009; Kenworthy 2010), congressional races (Volscho and Kelly 2012), and state-level contests (Franko and Witko 2017; Hatch and Rigby 2014; Kelly and Witko 2012) translate into more economic equality when compared to the alternative of greater Republican power. However, the choices voters make at the polls are motivated by concerns about economic inequality only in the rare

¹ Top income share data are from the World Inequality Database (https://wid.world/country/usa/, accessed 3/28/2019). Income concept is pretax national income.
circumstance when politicians make explicit linkages between policy proposals and inequality (Achen and Bartels 2016; Bartels 2005; Franko et al. 2013). Additionally, when the preferences of the rich and the poor diverge, the rich are often more likely to get what they want (Enns 2015; Gilens 2012; Gilens and Page 2014; Page et al. 2018; Soroka and Wlezien 2008). The interest system overrepresents the voices of economic elites (Schlozman et al. 2012). And a wide variety of policies have worsened inequality (Bucci 2018; Feigenbaum et al. 2019; Hacker and Pierson 2010; Volscho and Kelly 2012).

At the same time, a growing body of research has analyzed how economic inequality affects the American political system. Work on policy feedback finds that the design of tax policy, welfare, and a variety of other social policies can shape support for redistributive programs (Faricy 2015; Howard 1993; Mettler 2011; 2005; Mettler and SoRelle 2014). Scholars of public opinion have found that inequality tends to undermine public demand for redistribution, although centering distributional issues in the political debate can help strengthen support for redistribution as inequality increases (Franko et al. 2013; Kelly and Enns 2010; Luttig 2013).

The resurgence of scholarly interest in economic inequality is a welcome development. Indeed, the core questions motivating this line of research are essential for understanding the US political economy and answering them enables us to make sense of many puzzling dimensions of American politics and policymaking. But to this point, the distribution of economic resources, the stratification of power structures, and the links between economic power and political influence – that is, issues at the substantive core of the American political economy – remain at the periphery of research on America’s national political institutions.

In this chapter, we seek to bring a substantive political economy perspective to US legislative institutions. We present two key theoretical insights. First, that the design of American political institutions is biased toward economic elites because it contributes to policy inaction in a context where the status quo favors economic elites. Second, that the limited policy action that does occur in a time of polarization tends to exacerbate economic inequality. Using several decades of data on economic inequality and policy production, we identify several aggregate

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2 We use the term economic elite as a shorthand way of referring to actors at the very top of the economic ladder – those occupying the top 1 percent (or less) of the income or wealth distribution, though empirically we typically focus on the income distribution.
patterns consistent with our theoretical argument. Income inequality and policy stagnation are strongly associated over time, and the effect of policy stagnation on income inequality becomes increasingly inequitable as the existing gap between the rich and the poor grows. Additionally, as income inequality has increased in the United States, policy action in the realm of domestic economic policy (the domain in which redistributive policies are categorized) has declined while activity in other domains such as immigration and crime has increased. Beyond these aggregate patterns we discuss how financial deregulation, a policy with dramatic benefits for economic elites, found sufficient bipartisan support to overcome gridlock while labor law (which has the potential to empower middle- and lower-income workers) has suffered from policy stagnation in the face of rising inequality.

AMERICAN INEQUALITY AND INSTITUTIONAL DESIGN IN COMPARATIVE PERSPECTIVE

Compared to other rich democracies, the US income distribution is distinct. Figure 1.1 plots top 1 percent income shares from 1980 to the present in the United States, Australia, Canada, France, Germany, and Italy. These data show that income concentration in the United States stands out both in its level and its path over time. The left-hand panels plot concentration of pretax income – panel A plots raw values while panel C adjusts the series by zeroing out each country at 1980 in order to focus on change. These panels demonstrate that pretax income is more concentrated in the United States than in any of the comparison countries. The United States was slightly more unequal than other countries in 1980, and the gap between the United States and others has grown. By the mid-2000s, the top 1 percent share of pretax income in the United States was more than double that of the most equal countries examined here (Australia and Italy). Every country saw at least some increase in income concentration since 1980, but the United States is a clear outlier, with top 1 percent income share roughly doubling from around 10 percent to just over 20 percent by 2014.

Turning to the right side of the figure, panels B and D plot income concentration based on post-transfer rather than pretax income.

3 Data from the World Inequality Database (http://wid.world).
4 For all countries but Australia, the unit of analysis is split-share adults, in which tax unit income is divided equally across adults in the tax unit. For Australia, the unit of analysis is individuals.
Figure 1.1 Top 1% income share in the United States and five other rich democracies
Unsurprisingly, taxes reduce income concentration in every country. In fact, for countries other than the United States, accounting for the effects of transfers renders their level of income concentration relatively flat since 1980. Not so for the United States, where income inequality expanded consequentially whether transfers are accounted for or not. The evidence here is clear: inequality is higher in the United States than the comparison countries – it started higher and evolved in a more unequal direction. And this widening divide between the United States and other countries is the result of greater increases in American market inequality as well as comparatively little policy effort to counter inegalitarian market forces.

Why has inequality been allowed to escalate largely unchecked in the United States even as other countries have acted more aggressively to limit rising posttax inequality? Answering this question requires understanding distinctive features of the United States political economy. One such aspect of the US system, which has received attention in both comparative and American politics scholarship, is the proliferation of veto points throughout the American policy process. The separation of powers in the presidential system as well as the bicameral legislature contribute to unusually high bars for policy action in the United States. Although American presidents have gained more ability to act unitarily, the constitutional structure of separate powers remains intact. Additionally, not only does the US legislative structure require policies to navigate two chambers, but legislators elected to the House and Senate follow different sets of rules and norms and serve different constituencies, with Senators being elected statewide and most of the House elected in substate districts. As a result, the division of legislative power frequently adds significant complications to the policymaking process and makes disagreement across the two chambers more likely.

This proliferation of veto points produces bias toward the status quo, and status quo bias is often tantamount to elite bias. Those who controlled or limited policymaking options in the past have created the status quo of the present. Thus, maintaining the status quo preserves the preferences of those who constructed existing institutions and policy legacies. While there is some churning in precisely who occupies the upper echelon of the American economy, the status quo favors those with power and resources, as they are the people and organizations for whom the current system is working. In the United States, the present system has enabled considerable inequality between the rich and the rest, and this pattern is likely to perpetuate unless policy interventions
can somehow disrupt the policy-scape in which this economic status quo was developed.5

Considerable cross-national evidence supports the idea that status quo bias induced by veto points limits redistribution, undermines welfare-state generosity, and exacerbates inequality (Stepan and Linz 2011). Studies focused on postindustrial democracies find a negative relationship between the number of veto points and a country’s redistributive effort, social spending, and income equality (Birchfield and Crepaz 1998; Crepaz and Moser 2004; Huber and Stephens 2001; Swank 2002). These are some of the most robust findings in comparative political economy research, and the US case typifies these patterns with its proliferation of veto points and its weak redistributive effort, low social spending, and high inequality.

This comparative political economy perspective helps foreground the significance of institutional design for understanding America’s political economy and its implications for distributional outcomes. But focusing on cross-national variation necessarily involves painting with a broad brush. To understand precisely how the status quo bias of American institutions has increasingly reproduced and reinforced inegalitarian outcomes over time, we need to consider the operation of specific political institutions. We must analyze how both the institutions themselves and the social and economic conditions with which they interact have changed in ways that have contributed to deepening rather than alleviating inequality.

Toward that goal, we turn our focus to Congress. As the national legislative body, Congress is situated at the center of policy processes with potential to shape distributional outcomes, but its two chambers also comprise the system’s most significant veto points. We analyze how this institutional logic has intersected with changing economic and social realities in ways that have allowed status quo bias to work in favor of economic elites. Congress is particularly well-positioned to shape economic outcomes, through action as well as inaction. Existing congressional politics scholarship has tended either

5 Other major dislocations could serve a similar role in disrupting the status quo. For instance, evidence suggests the Great Depression contributed to the end of the Gilded Age, the last cycle of accelerating economic inequality. However, the more recent financial crisis, which precipitated the onset of the aptly named “Great Recession” of 2007–9, produced a slight blip in rising inequality, but failed to generate a major disjuncture. The perpetuation of the inequality, despite the potentially disruptive Great Recession, only serves to further emphasize the centrality of policy interventions for altering existing economic structures and raises serious doubts about whether the shock of COVID-19 will fundamentally disrupt existing economic and racial disparities.
to emphasize gridlock or to advance claims that policy change still happens despite institutional constraints. In contrast, the political economy lens we employ helps illuminate both outcomes. Our evidence demonstrates how both policy stasis and policy change have worked to intensify existing advantage, limiting egalitarian policies while simultaneously making way for inegalitarian ones, ultimately exacerbating disparities in the American system.

STATUS QUO BIAS AND BIPARTISANSHIP IN CONGRESS

American institutional design has been largely static for several decades, yet static institutions interact with other societal conditions in ways that can contribute to important dynamics. The number of veto points in a single country rarely changes, but the degree of status quo bias these veto points impose varies depending on other facets of the policy environment. One application of this logic is incorporated into the comparative political economy literature through its distinction between veto points and veto players, which are essentially veto points that become activated when actors within one veto point substantively disagree with those in another (Tsebelis 1999).

In this vein, scholars of congressional politics have focused on the causes and consequences of substantive (dis)agreement within and across actors and institutions in the legislative branch. Institutional theories have argued that gridlock and policy inaction are the norm in Congress (Binder 2003; Brady and Volden 2005; Koger 2010), and have emphasized that even when new policies are enacted, they are often not substantially different from the original status quo (Clinton 2012). Krehbiel’s pivotal politics model incorporates partisan dynamics into these general arguments concerning stasis in congressional policymaking by emphasizing how the tendency toward gridlock is heightened as the parties move apart ideologically (Krehbiel 1998). Inertia and inaction dominate the narrative in this line of work.

But a second strand of literature emphasizes the ability of parties to overcome legislative gridlock in a polarized environment. Several varieties of partisan theories of congressional policymaking, including conditional party government, strategic party government, and cartel theory, all emphasize how majority parties dominate the policymaking process and realize legislative objectives that advance the party’s ideological preferences (Aldrich and Rohde 2000; Cox and McCubbins 2005; Finocchiaro and Rohde 2008; Koger and Lebo 2017).
Both institutional and partisan theories of Congress point toward the central importance of party polarization for understanding policy-making, but they view the implications of polarization quite differently. Under the conditions of party polarization that have become one of the most notable features of contemporary American politics, party-centric views of legislative politics see parties as better able to control the legislative process and advance their goals. But institutional theories argue that this polarization makes lawmaking more challenging in the context of a bicameral legislature in which a super-majority is required to pass laws. Thus, party polarization can be a double-edged sword for legislative effectiveness, perhaps making it easier for majority parties to control the agenda but more difficult to realize policy change.

Other scholars, however, argue that legislative actors have essentially adapted to an institutional setting where policymaking is difficult, devising skills and procedures to facilitate compromise and accomplish consequential policy change. Parties are not irrelevant for these theories of lawmaking, but because a substantial amount of consensus across party lines must be reached before Congress can formally act, parties are not central. Views of policymaking that emphasize action rather than stasis argue that policy is made even in challenging institutional and political contexts. David Mayhew exemplifies this perspective in *Divided We Govern*, which makes the well-known argument that Congress is quite capable of enacting important legislation in the context of divided government, with landmark laws typically generating broad bipartisan support (Mayhew 2005).

James Curry and Frances Lee (2019) have expanded this argument in what they refer to as “non-party government.” Instead of centering the role of parties in the legislative process or emphasizing congressional inaction, Curry and Lee see bipartisan compromise as the hallmark of congressional activity. Analyzing decades of lawmaking, they find that bipartisan coalitions are essentially no less common during the current era of high party polarization than they were in less polarized times past. One potential implication is that the institutional design of Congress dominates other factors, requiring bipartisan negotiation and compromise irrespective of variations in partisan power and polarization.

How might we reconcile these competing perspectives on the legislative process and the role of partisan competition in Congress? Each offers useful insights, but none fully explains the precise patterns of action and inaction that characterize congressional policymaking. In a sense, both
“non-partisan” and “partisan” models of policymaking provide a one-size-fits all theoretical framework for understanding policymaking. To develop a broadly generalizable model of the legislative process, existing perspectives downplay the possibility that different processes are at work for different types of policy, rendering them less useful as standalone frameworks for understanding connections between polarization, policymaking, and distributional outcomes. We argue that a political economy approach, which has been largely overlooked in studies of US parties and Congress, helps make sense of these patterns by illuminating how institutional design and partisan dynamics interact with economic structures to facilitate action on a small set of substantive policy goals and inaction or busywork elsewhere.

THE DISTRIBUTIONAL POLITICAL ECONOMY OF PARTIES, POLARIZATION, AND POLICY (IN)ACTION

It might seem odd to characterize prior research on political parties and the US Congress as paying insufficient attention to political economy. In some sense, research on legislative institutions is the subfield of American politics most attentive to political economy. Public choice perspectives rooted in economic theory are common in congressional research, and arguments about rent-seeking behavior by corporations and other particularized interests in the legislative process appear frequently in work on legislative institutions, policymaking, and voting behavior in Congress (Arnold 1990; Cox and Magar 1999; Diermeier et al. 2005; Kau et al. 1982; Mayhew 1974). Research on parties and Congress has no shortage of microeconomic theoretical foundations.

What is uncommon, however, is a substantive political economy perspective. By substantive political economy, we mean a theoretical framework that places economic hierarchies and stratification as central, focusing on how political decision-making shapes and is shaped by macroeconomic outcomes, particularly those that are distributional and class or race correlated. Understanding how macroeconomic structures and associated social hierarchies interact with politics offers considerable insight into the workings of partisan competition and congressional policymaking, well beyond the ideas existing studies have gleaned from microeconomic logics of congressional behavior.

A substantive political economy perspective on parties, polarization, and lawmaking shifts the analytical focus from how much policy is made to what the content of policy is and who wins or loses when policy changes...
Previously, we identified three seemingly contradictory findings from prior work: (1) the general tendency of status quo maintenance in the legislative arena, (2) the role of parties in shaping legislative agendas and policy, and (3) the ongoing prevalence of bipartisan compromise in successful attempts at policy change. To reconcile these patterns, we turn toward an account that draws on structural power theory, which enables us to make sense of policy action as well as inaction and connects these policymaking patterns to the economic hierarchies that enable and reinforce them.

Our argument is that America’s institutional design is biased toward elites, and this elite bias has only intensified as economic disparities have widened. Under current conditions, this bias manifests in both a tendency to protect the status quo and a related tendency for bipartisan coalitions to produce substantive policy changes of a particular sort, namely those advancing the goals of economic elites. Policy inaction is beneficial to elite actors in part because those at the pinnacle of the current economic and political power structure benefit disproportionately from maintaining a status quo that enabled their position at the top of the hierarchy. But occasionally elites seek policy change to further their interests, and we argue that as inequality has risen, increasing ideological polarization – along with changes in the internal dynamics of both the Democratic and Republican parties – has made it increasingly likely that the sorts of substantive policies able to generate sufficient bipartisan support are those that sustain or even exacerbate existing economic hierarchies that benefit the elite.

These dynamics reflect structural power at work – individuals, corporations, and groups situated in privileged economic positions exert considerable leverage over policy processes by virtue of their (perceived) role in fostering prosperity for all. Detailed discussions of structural power and its consequences for the policy process can be found in the introductory chapter of this volume as well as our other work on the topic (Witko et al. 2021). For our purposes here, it is sufficient to emphasize that structural power theory expects almost all politicians – regardless of their partisan affiliation – to want to make sure these economic influencers remain invested in sustaining the economy (Swank 1992). In essence, structural

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6 Some studies, of course, pay a great deal of attention to these issues. A sampling includes Bartels 2016; Erikson et al. 2003; Hacker and Pierson 2010; and McCarty et al. 2006.

7 For discussions on the material and ideational foundations of structural power, see Bell 2012; Block 1977; Culpepper 2015; and Fairfield 2015.
power exists when certain actors have power simply due to the position that they occupy in a stratified economy. As result, policies that advance wealthy interests manage to attract bipartisan support, allowing them to advance successfully through the circuitous legislative process while policy efforts they oppose tend to fall short. The discussion that follows provides support for these expectations, demonstrating how a political economy approach generally, and structural power theory specifically, help illuminate the peculiar patterns of congressional action and inaction that are unexplained by other approaches.

**THE INEGALITARIAN CONSEQUENCES OF POLICY STAGNATION**

There are at least three scenarios in which policy stagnation may have distributional effects. The first and most overt is *policy sclerosis*, which happens when problems emerge but policies to address them cannot gain traction. Rising inequality has been a defining characteristic of the US economy for forty years, yet there is still contention over whether this constitutes a “problem” and even greater disagreement over what should be done. Those who profit from ignoring the problem, of course, are situated at the top of the economic hierarchy and possess considerable structural power, while the beneficiaries of such policy change lack any such leverage. Second, *policy drift* occurs when shifting economic or societal conditions change the effects of the existing policy structure in ways that increasingly align with (or drift toward) the interests of actors who then intentionally block action in these domains (Hacker 2004, 2005; Hacker et al. 2015; Mettler 2016). In such cases, simply blocking policy reform works to benefit that actor. The minimum wage is one of many examples of policy drift, as inflation erodes the real value of a constant nominal minimum wage level over time (Bartels 2016; Galvin 2016). Although policy drift and policy sclerosis both result from inaction, they differ in two important ways: (1) unlike drift, sclerosis does not require the meaning or impact of existing policy to change, rather sclerosis results any time a new or potential problem arises and policymakers do not act to address it, and (2) sclerosis may occur without intent on the part of political actors. Third, policy

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8 Other examples of policy drift come from the domains of public insurance provision, social welfare, labor law and enforcement, infrastructure, and education. See Beland 2007; Galvin and Hacker 2020; Mettler 2016; and Rocco 2017.
stagnation can work to reinforce existing hierarchies through *policy stretching*. Stretching happens when existing policies are applied in domains or to problems they were never intended to address. Policy stretching typically occurs outside Congress, in regulatory or legal contexts where bureaucrats and judges make choices about how to apply, extend, or interpret statutory guidance. For example, in the throes of the Great Recession, regulators stretched the existing policy framework of federal deposit insurance to provide government guarantees backstopping the debts of FDIC banks as well as their bank holding companies and commercial subsidiaries (Funk and Hirschman 2014; Geithner 2014; Katz 2015; Rahman and Thelen, this volume).

Policy stagnation does not always and in every case benefit economic elites. Sometimes an inability to enact policy reforms has led to de facto expansions of the welfare state as societal conditions have changed, such as the extensions of disability benefits and healthcare (Galvin and Hacker 2020). And regulators occasionally stretch existing policy to benefit ordinary Americans, as when the 1963 Clean Air Act has been used to impose limits on greenhouse gases not stipulated in the statute itself. But these are exceptions. Absent some exogenous egalitarian change in the economy, congressional action is needed to counter the dynamics producing rising levels of inequality. Policy sclerosis does nothing to address these inegalitarian processes, and policy drift and policy stretching most often work to reproduce and deepen inequality, not counteract it. Status quo bias in the contemporary United States, then, is elite bias.

Status quo bias makes successful policy change more challenging. Yet in the current context of deep inequality, the weak and marginalized typically need policy *change* to accomplish their goals. In contrast, because elites benefit from the existing power hierarchy, accomplishing their goals often requires less direct policy action – drift, stretching, and sclerosis often suit their aims perfectly. Moreover, elite interests possess greater structural power and more resources, which they can leverage to prevent threatening policy change. Thus, the tendency toward stagnation often aligns with elite interests. And as inequality deepens, power advantages for economic elites are likely to increase as well, making it easier for established elites to block equality-promoting policy change. As a result, the distributional consequences of policy inaction are likely to become even more inegalitarian when existing levels of inequality are high. That is, inaction is most likely to reproduce and exacerbate inequalities when disparities are already extreme.
PARTY DYNAMICS, POLARIZATION, AND INEGALITARIAN POLICY ACTION

The second part of our argument relates to policy action. Even in the current context of hyper-polarization, legislative policymaking occurs. Government programs are funded (even if by continuing resolutions rather than the regular appropriations process). Some new issues are addressed, and outdated policies are updated. In line with this perspective, Curry and Lee (2019) have argued that bipartisan compromise remains the norm. Unlike work emphasizing congressional polarization and stalemate, they emphasize how party leaders manage to negotiate and build consensus. In their view, leaders prove their mettle not by holding their caucuses together to win ideological battles, but by generating bipartisan policy agreements.

Juxtaposed against the focus on partisan conflict, this “bipartisan lawmaking” argument disrupts the received wisdom. But in many ways, “bipartisan lawmaking” repackages and repurposes Mayhew’s familiar arguments about legislating under divided government, which expects compromise. Viewed through Mayhew’s lens, it is much less surprising that institutional imperatives continue to incentivize majority parties to compromise, negotiate, and co-opt members of the minority despite rising polarization. Absent major institutional reform, which has not been forthcoming, the institutional requirements of congressional policymaking continue to demand legislative processes that produce some bipartisan compromise.

While the process of bipartisan lawmaking is superficially the same, this approach stops short of considering how policy outcomes might vary depending on the policymaking environment as a political economy approach would do. To understand the implications of bipartisan lawmaking for the substance of policy outcomes, we must ask how this policymaking environment may shape the kinds of policy that can (and cannot) generate consensus. A political economy approach to understanding policymaking allows us to specify the kinds of action that are most and least likely given the dimensions of the contemporary policymaking context.

To begin, while legislators have incentives to legislate effectively, the difficulty of consensus-building around substantively significant policy is challenging in the current context. When obstacles to accomplishing meaningful policy change are steep, legislators may resort to generating identifiable outputs however they can. As a result, they are likely to turn
their energy toward less controversial and less meaningful policy actions, such as basic institutional maintenance or bureaucratic housekeeping, rather than attempting significant policy change on controversial economic issues (Morgan 2011). Thus, while the overall quantity of policymaking may appear similar, a polarized context is likely to result in policymaking focused on essential tasks and maintenance, not reimagining entire policy frameworks. Although such minimalist policy action is not precisely stagnation, it cannot accomplish the sort of change necessary to disrupt entrenched systems of inequality that privilege wealthy elites.

In addition to the tendency toward policy action that does not rock the boat, the current policymaking environment is likely to intersect with incentives for bipartisan compromise in ways that bias meaningful policy changes toward the interests of economic elites. Several features of the environment contribute to this pattern. First, polarization has been asymmetric, with Republicans shifting to the right rather than Democrats shifting left. While legislators may manage to sustain respectable levels of legislative output despite polarization, substantive policy outcomes that can generate bipartisan support are likely to be more ideologically conservative under the contemporary dynamic of asymmetric polarization. Because conservative policies tend to favor the interests of economic elites (Kelly 2009), a combination of asymmetric polarization and bipartisan lawmaking are likely to produce outcomes that favor wealthy interests.

Relatedly, internal party dynamics are likely to interact with institutional incentives toward cooperation in ways that shape policy content. Republicans are more ideologically organized than Democrats, who pursue a coalitional strategy bringing together numerous groups under a more diverse ideological umbrella (Grossman and Hopkins 2016). If policy action requires co-opting members of the opposing party, this difference in organizational strategy places Democrats at a competitive disadvantage and is therefore consequential for the content of policy. Since Democrats are a diverse coalition, using group-focused concessions to peel off parts of that coalition is an effective way to build bipartisan support. In contrast, the ideological cohesiveness of Republicans makes co-opting them more challenging. As a result, the sorts of policies around which coalitions can be built are again likely to be more conservative and in line with elite interests.

In addition, the structure of the interest system is likely to shape the substantive outcomes produced in a status quo biased system that requires
bipartisan compromise. Two contemporary dynamics are particularly relevant. First, as economic inequality has risen, those at the top have disproportionate access to financial resources that facilitate political influence. Second, labor unions, which once provided some counterbalance to wealthy interests, have declined. Although corporations and other elite interests have always had substantial resources to intervene in policy processes, their influence has expanded at the same time that union decline has undermined an important organizational presence for middle- and lower-class interests (Witko et al. 2021). Because of these processes, Democrats have relied increasingly on support from high-income elites. This makes them easier targets for Republican co-optation, particularly on economic issues.

To recap, US institutions create status quo bias and require bipartisan lawmaking. When these institutions operate alongside deep economic inequalities, asymmetric polarization, and diffuse and declining lower-class power resources, both policy action and inaction tend to favor economic elites. Status quo bias benefits elite interests who are already situated at the top of the hierarchy and are often well served by policy inaction. Moreover, this elite tilt to the status quo is only exacerbated as economic inequality rises. At the same time, the nature of party polarization and internal party dynamics, particularly as inequality has grown and lower-class power resources have declined, have made it increasingly likely that the areas where bipartisan compromise flourish lack substance or favor the interests of economic elites.

EVIDENCE OF ELITE ADVANTAGES IN LEGISLATIVE POLICY (IN)ACTION

Although it is beyond the scope of this chapter to evaluate all the expectations that flow from this argument, in the space that remains we present some evidence of the theorized patterns. In addition, our prior work (with colleagues) has provided considerable insight into the ways policy (in)action shapes income concentration and has different trajectories and substantive outcomes depending on the distribution of economic resources (Enns et al. 2014; Kelly 2020; Witko et al. forthcoming). Here, we start with some aggregate evidence of linkages between policy stagnation, bipartisan lawmaking, and rising inequality in the United States. We then discuss patterns in specific domains, which illustrate how processes producing both policy successes and failures have aligned with the interests of economic elites.
REPUBLISHING HIERARCHY THROUGH STAGNATION

In general, we expect a connection between the policy stasis generated by status quo bias, with the inegalitarian effects of status quo bias becoming more prevalent as inequality rises. To measure policy stasis, we use an index of policy stagnation that incorporates the overall volume of national legislative policymaking weighted for the importance of the policies produced and coded so that higher values indicate less policy output. To capture income concentration, we use the share of market income received by the top 1 percent of tax units inclusive of capital gains. Figure 1.2 examines the relationship between the standardized versions of these measures in the United States over time.

The association between the two variables is strong ($r = 0.61$). While the two series occasionally diverge, overall when inequality increases, so does

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**Figure 1.2** Policy stasis and income concentration, 1913–2007

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9 See Grant and Kelly 2008. The measure is similar to a factor score based on the number of public laws passed in each Congress as well as several additional measures that capture important lawmaking. In essence, multiple measures of legislative productivity are combined into a summary index of legislative output. The constituent measures include counts of landmark laws from historians and political scientists, as well as counts of total laws passed. The simplest way to think about this measure is that it captures the amount of legislation approved, weighted for importance. This is why the measure we use here has a U-shape while some other measures show a steady decline in productivity from the New Deal onward.

10 Data from the World Inequality Database (https://wid.world/).
policy stasis. Conversely, when inequality declines, policy stasis does as well. And this positive relationship between inequality and stasis manifests in both the pre- and post-1960 periods. A natural next question is whether this association represents a causal relationship and, if so, which direction causation flows. A simple Granger causality test offers some leverage on these issues. This test starts with the logic that the best way to predict a future value of a variable is to look at the recent past. If additional explanatory power is produced by including past values of other variables in addition to the outcome of interest, then Granger causality is present. We find Granger causality running in both directions, from policy stasis to income concentration and from income concentration to policy stasis. That is, there is a statistically significant effect of lagged policy stasis on income concentration while controlling for past values of income concentration as well as a statistically significant effect of lagged income concentration on policy stasis while controlling for lagged values of policy stasis. This provides evidence in line with our expectation that policy inaction generally contributes to inequality, and also that inaction increases as inequality rises.

Next, we consider whether policy stagnation is always associated with rising income concentration or whether the distributional effects of stagnation differ depending on the current level of inequality. Our argument suggests that the level of inequality in the policy environment conditions the degree to which policy inaction benefits the rich: as inequality rises, we expect wealthy interests to capitalize even more on status quo bias. To evaluate this expectation, we conduct a time-series regression analysis in the form of an error correction model (ECM) with top income shares (TIS) as the outcome and policy stagnation (PS) as the explanatory variable, using annual data from the Great Depression to the Great Recession (1939–2006):

\[ \Delta TIS_t = \alpha_0 + \alpha_1 TIS_{t-1} + \beta_1 \Delta PS_t + \beta_2 PS_{t-1} + \beta_3 (PS_{t-1} \times TIS_{t-1}) + \epsilon_t. \]

This analysis estimates a short-term effect (\( \beta_1 \)) for policy stagnation on inequality as well as a long-term effect spread out over time (\( \beta_2 \)). We also include a multiplicative interaction between the lagged level of stagnation

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11 An ECM is appropriate here because these two variables are co-integrated. In the previous VAR analysis, we saw evidence of two-way causation between income concentration and policy stagnation, which raises potential concern about the exogeneity of policy stagnation in the ECM we estimate. However, when we estimate an ECM with policy stagnation as the outcome and income concentration as the explanatory variable, we find that the exogeneity assumption of the ECM is satisfied.
and the lagged level of inequality. The coefficient for this interaction term ($\beta_3$) allows us to assess whether the effect of stagnation increases as inequality rises.

We use the estimates from this ECM to create Figure 1.3, which depicts the long-run coefficient for policy stagnation at observed levels of top shares. The results show that the effect of policy stagnation on inequality varies depending on the existing level of income concentration. On the left side of the chart, when inequality is at its lowest levels, the effect of policy stagnation is indistinguishable from zero. However, as inequality rises, the inegalitarian effects emerge and increase. This is evidence that the economic implications of stagnation are shaped by the existing distribution of economic resources. As we have theorized, when income is concentrated, inaction serves to further entrench the existing economic hierarchy, while policy action is essential for disrupting inequality. But when inequality is already low, policy stagnation is not a relevant factor in shaping distributional outcomes.

**Policy Action Protects the Status Quo in Times of Inequality**

The aforementioned analysis demonstrates that policy stagnation exacerbates inequality, especially when income concentration is already high.
However, even when status quo bias predominates and policy is relatively stagnant, bipartisan lawmaking continues, at least to some extent. But we have argued that the substance of policy that garners bipartisan support varies depending on the policy environment. In the current context of high inequality and its associated complex of asymmetric polarization and declining lower-class power resources, we expect policy activity to be both less substantive and more favorable to elite interests.

To begin considering these expectations, we examine how income concentration is correlated with policymaking in three broad domains: domestic economic policy (including tax rates and fiscal policy more generally), government operations, and immigration and crime. In broad strokes, substantive economic policymaking, which would presumably modify the economic status quo, is likely to decline under conditions of greater inequality, while legislators instead devote attention to housekeeping and diversionary (i.e., noneconomic) issues. Figure 1.4 charts the proportion of public laws addressing each topic from 1949 to 2008 (standardized to aid comparison) along with the top 1 percent income share.

Several notable patterns emerge. First, income concentration has a sizable negative correlation with domestic economic policymaking \((r = -0.80)\). As inequality increases, legislators enact less policy directly connected to economic outcomes and distributional decisions about resource allocation. Second, policy action in the domain of government operations is strongly positively correlated with inequality \((r = 0.87)\). Government operations policymaking can be thought of as basic housekeeping – budgetary requests, civil service, appointments, procurement, etc. And as inequality rises, a greater proportion of lawmaking deals with matters that are essential but mundane. Finally, income inequality is positively correlated with policy production concerning crime and immigration.

These patterns suggest policymakers are less likely to enact policies that might disrupt the economic status quo under conditions of high inequality. Instead, they focus lawmaking on essential but economically inconsequential government operations or on substantive issues like crime and

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12 Data from Policy Agendas Project US public laws dataset (www.comparativeagendas.net/, accessed 5/2/2020). Categories are based on major topic codes. Government operations is topic code 20. Domestic economic policy includes macroeconomic (code 1), agriculture (4), labor (5), transportation (10), housing (14), and banking and commerce (15). Immigration (9) and crime (12) comprise our third category. We calculate the proportion of all public laws (including those not included in our three categories) that fall within each domain.
**Figure 1.4** Income concentration and the topics of public laws
immigration, which may divert attention away from inequality and other economic concerns. Analyzing the substance of policy in this way indicates that even though bipartisan policy production may continue under conditions of rising inequality and asymmetric polarization, the issues that gain bipartisan support vary considerably. While policy activity has continued, its content has become less focused on changes that might alter the economic status quo.

**POLICY ACTION FOR THE RICH, POLICY STAGNATION FOR THE REST**

Economic policymaking declines significantly as inequality rises, although even in this domain some activity occurs. However, our political economy model of policymaking suggests that when economic lawmaking does happen in the current American policy environment, it is likely to reinforce existing hierarchies that favor elite interests. To illustrate this process, we consider policymaking in two specific economic domains – financial deregulation and labor law. The dynamics of financial deregulation demonstrate how the cross-pressures facing the Democratic party occasionally enable bipartisan economic policy action that favors elite interests, while patterns of policy stagnation and drift in labor law emphasize how status quo bias works against the interests of ordinary Americans.

In the realm of financial deregulation, significant policy changes, as well as policy stretching, have advanced the interests of economic elites, with deregulation being one of the key policy actions contributing to rising inequality (Hacker and Pierson 2010; Volscho and Kelly 2012). As wages stagnated and inequality escalated in the 1980s and 1990s, Congress largely ignored these issues and instead focused considerable attention on deregulating finance – a policy goal prioritized by the wealthiest and most structurally powerful sector in the American economy as they aimed to expand their already-escalating profits. By our count, Congress debated dozens of financial deregulation bills and passed at least ten different laws on behalf of various financial sector interests during this period. Ultimately, in the late 1990s, when all major financial sector interests finally converged around the goal of completely deconstructing Depression-era regulatory restrictions, policymakers obliged (Suárez and Kolodny 2011). The resulting Gramm-Leach-Bliley legislation eliminated the existing regulatory framework and deepened the dramatic concentration of wealth in the financial sector.

The structural power of a united financial sector along with well-targeted outreach to cross-pressured Democrats enabled these wealthy
interests to quickly overcome status quo bias and accomplish major deregulatory reform in the space of a single congressional term despite divided government. Throughout the Gramm-Leach-Bliley policy process, finance exploited its structural power advantage and convinced policymakers on both sides of the aisle that financial deregulation was essential to American prosperity. Republican and Democratic members of Congress frequently pointed to the structural significance of finance as a central rationale motivating their commitment to financial deregulation, calling finance “the irrigation system for our economy” and lauding deregulation as “vital for the future of our country.”

Democratic support for deregulation may seem particularly surprising given the party’s typical ideological orientation, but by the 1990s campaign support for Democrats from the financial sector had increased substantially (Witko et al. 2021) and the Democratic position on this issue became quite similar to that of Republicans, despite polarization in other domains (Kelly 2020). Individual Democrats who were particularly receptive to the idea of finance as structurally significant or especially reliant on financial sector contributions played key roles at critical points in the policy process enabling deregulation to advance.

Despite some efforts to reinvigorate financial sector oversight in the aftermath of the Great Recession (2007–9), the most advantaged financial interests managed to preserve their basic business models and shield their profits first by convincing bureaucrats to protect many financial companies from losses and then by minimizing postcrisis re-regulatory policy efforts, as epitomized in the 2010 Dodd-Frank policy process. In more recent years, financial interests have regained the upper hand in shaping policy outcomes toward greater deregulation. They have accomplished their goals not only through policy stretching, which has successfully undermined the resources and regulatory will for oversight (Ziegler and Wooley 2016), but also through additional bipartisan lawmaking, which has resulted in new statutory reductions in regulation (e.g., 2018 Economic Growth, Regulatory Relief and Consumer Protection Act). When wealthy interests have sought policy action to accomplish financial deregulation, they have been able to exercise considerable influence over

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13 Quotes from congressional floor speeches in the debate surrounding Gramm-Leach-Bliley, 106th Congress.

14 For more details on the way the economic power of affluent financial sector interests facilitated this dramatic reform and thereby increased their profits and intensified inequality, see Keller and Kelly (2015) and Witko et al. (2021).
Republicans as well as cross-pressured Democrats to build the necessary bipartisan consensus. In other moments, they have used the tendency toward policy stagnation, namely blocking maneuvers and policy stretching, to limit regulatory reach.

In contrast, policymaking on behalf of lower- and middle-class Americans in the arena of labor law has been plagued by sclerosis and drift. Legislation that would facilitate union certification through “card check” – a process by which unions gain recognition when a majority of workers sign union cards rather than the more onerous procedure of requiring a vote – has been at the top of organized labor’s list of employment law priorities for decades. But structurally powerful interests maintain staunch opposition to card check legislation and have mobilized their enormous resource advantage to block policy change. As a result, even when Democrats controlled both chambers of Congress during the Obama administration, union efforts to advance card check legislation stalled because they could not construct the necessary bipartisan coalition in the Senate (Francia 2013). Status quo bias and the resulting policy sclerosis in this case clearly favored wealthy interests.

The main area of labor law where organized labor has made modest headway in Congress has been with regard to the minimum wage, with the most recent statutory increases in the federal minimum coming in 1996 and 2007. But these occasional bursts of legislative action conceal a policy arena dominated by inaction and drift. The logic of federal minimum wage policy requires congressional action just to allow wages to keep pace with inflation. In practice, this has meant that as inequality has increased and pro-elite status quo bias has intensified over the past thirty years, minimum wage workers have suffered increasingly long periods in which the real value of their wages have declined and their families have fallen into poverty. Despite being an issue with widespread public support and minimal economic cost (Bartels 2008), accomplishing even small minimum wage increases has required herculean effort by organized labor and their pro-worker allies in order to overcome modest business opposition and build sufficient consensus to change the law. Indeed, the minimum wage has most often appeared on the congressional agenda as a way to provide political cover for the simultaneous passage of other far less popular provisions benefitting business or other wealthy interests.

Thus, actors in the finance sector have frequently been able to leverage their structural position and economic resources to win support from cross-pressured Democrats to overcome status quo bias and accomplish policy change. On the other hand, policy stagnation in pro-worker
employment law illustrates the fundamental disadvantages lower- and middle-class interests face in accomplishing policy action that might disrupt conditions of deep economic inequality. Here wealthy interests prefer inaction, and their structural power and resource advantage easily keeps union initiatives sidelined. Overcoming this opposition in the current policy environment is nearly impossible: even small adjustments in the most basic employment protection, the minimum wage, have required extraordinary leveraging of organizational resources on behalf of lower-class interests.

CONCLUSION

The focus of this chapter has been on legislative policymaking institutions and how they fit into the broader American political economy. National policy institutions are biased toward the status quo, yet bipartisan compromise still enables certain policy changes to occur. We have argued that the general systemic bias toward the status quo tends to benefit economic elites and impede the policy changes needed to undermine economic disparities. At the same time, rising inequality and asymmetric polarization have made it more likely that the policy proposals capable of gaining sufficient bipartisan support to overcome status quo bias are policies that further exacerbate existing inequalities.

Our analysis also coincides with arguments made elsewhere in the volume. Exploring how institutional design interacts with social conditions is an ongoing theme. Our chapter also points to the importance of understanding how fundamental economic change and firm reorganization shapes political power, which is explored more deeply in Ben Ansell and Jane Gingrich’s excellent chapter. As well, Alex Hertel-Fernandez takes a much deeper dive into the history of the American labor movement, which expands on our brief discussion of stagnation in the domain of labor law. Our chapter has also only scratched the surface with regard to the central role of federalism in America’s political economy, which is a theme that is much more fully addressed in Jacob Grumbach, Jacob Hacker, and Paul Pierson’s incisive analysis.

Our goal has been to place the US Congress squarely into a substantive political economy perspective. While existing institutional perspectives on Congress are useful, work that links the arrangement of legislative institutions and the behavior of actors within those institutions to stratified economic structures and outcomes is too rare. The political economy perspective on congressional policymaking that we have developed here points to the
important ways that political conditions, legislative institutions, and class-based disparities are linked. We have only scratched the surface with the analysis conducted here, and we look hopefully toward future efforts to more fully theorize and empirically assess how economic power relations are reflected in legislative institutions and behavior, and how these institutions can serve to reinforce or undermine existing disparities.