DOES POLITICS REALLY MATTER?
Policy and Government's Equalizing Influence in the United States

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Analyses of the U.S. governing system indicate that national policy is influenced by public opin-ion, and this is interpreted as representation. Not as much is known about whether policy system-atically influences societal outcomes. In fact, some analyses suggest that there is little connection between policies and the outcomes these policies seek to produce. This article seeks to determine whether such a connection exists for income inequality. Although connections should exist, vari-ous views of the policymaking process cast doubt on the prospect. Measures of government's equalizing influence and aggregate policy are created for 1979-1996, and time series regression is used to test the connection between the two. Even in the presence of controls for economic and demographic factors, policy liberalism produces greater government redistribution. When assessed in light of earlier research, these results indicate that shifts in public opinion lead to important changes in the way government influences society.

Keywords: inequality; income distribution; public policy; policy consequences

Democracy requires that government officials be accountable to the people—that government be representative. Representation is, at least in part, a dynamic process that occurs through time. If liberal (or conservative) sentiment increases in the public, policymakers should follow by increasing their output of liberal (or conservative) policies. Contrarily, if liberal (or conservative) sentiment declines, the liberal-ism (or conservatism) of policy should decline as well. This is one form of representation, and it is a core aspect of democratic accountability.

But democratic accountability requires more than a connection between public opinion and the policies enacted by government officials. These policies should matter. If health care costs are high and the public demands government action to create a more accessible health system, then policies should be enacted that meet such demands. More than this, however, these policies should actually help control costs and improve accessibility. Anything less would diminish the quality of representation. If public opinion shifts and policymaking responds, but government's effect on society fails to move accordingly, then representation is incomplete.[1] Representation might occur, but does it really matter?

Government has the potential to influence many societal outcomes ranging from education to health care, from national security to the environment. The focus of this article, however, is government's effect on income inequality. "Who gets what?" is the central question of political choice in the United States and around the world. Disagreements occur regarding who should bear the tax burden, what benefits social programs should offer, and how economies should be organized. In effect, the distribution of income provides an empirical answer to a central question of politics. Among outcomes produced by the U.S. political-economic system, then, the distribution of income is one of the most important.

We know that as public opinion becomes more liberal, policymakers enact more liberal policies—shifts in public opinion lead to shifts in policymaking (Erikson, MacKuen, & Stimson, 2002; Page & Shapiro, 1992; Stimson, MacKuen, & Erikson, 1995; Wlezien, 1995). The connection between policy activity and governmental impact, however, has not been assessed. This connection is important because movements in public opinion and differential election outcomes are less important if they are not reflected in the impact of policy. In addition, vertical democratic accountability would be difficult in a system in which government fails to systematically influence societal outcomes.

The article proceeds in seven parts. The next three sections lay out the theories that are addressed. I argue that income inequality is an outcome that government policy should systematically influence; I then describe an aggregate conceptualization of policy; finally, I point out the difficulties of controlling policy outcomes. The fourth and fifth sections describe government's effect on income inequality and

the ideological tone of policy from 1979-1996. The sixth section reports an analysis of the connection between policy and government's equalizing effects over time. Implications of the results are discussed in the final section.

THE SOCIETAL OUTCOME
OF INCOME INEQUALITY

Power resources theory (Korpi, 1978; Stephens, 1979), developed in the context of comparative political theory, suggests that government's effect on income inequality will be particularly responsive to changes in policy. This theory argues that the lower classes in society organize politically by electing parties of the left and center—those that implement policies favoring the poor. Specific to income inequality, left-leaning policies should produce programs that redistribute income from the rich to the poor. This fits quite well with the basic ideological divide in American politics. Policymakers from the right (conservatives, Republicans) and the left (liberals, Democrats) fundamentally disagree about government's role in income redistribution. Liberals tend to favor state action to balance the scales between rich and poor. Conservatives, on the other hand, place greater importance on allowing the free market to determine economic outcomes, including the distribution of income.

Legislation was passed in 2001, for example, that reduces and eventually eliminates the estate tax. Conservatives were pleased with the outcome because this tax is one of many redistributive government policies that alter market outcomes, whereas liberals were discouraged because they see income inequality as a problem in need of corrective action. Conservatives won in this case, so they expect to see a government that is less active in equalizing the income distribution by allowing a fuller transmission of wealth from one generation to the next. In a simple case like this, it appears that a conservative policy victory will reduce the equalizing effect of government. Whether policies such as this have their intended effect is a question typically explored by policy analysts who examine the effects of one or a few pieces of legislation. However, less is known about the influence of these individual policies when they are aggregated.

A CUMULATIVE, AGGREGATE VIEW OF POLICY

What is policy? First, policy can refer to the actions of legislators or executives. Policy can also refer to the laws and regulations of government. Finally, policy sometimes refers to specific budgetary decisions. This analysis draws on the first two meanings. Actions taken by members of Congress and presidents are policy activity (or policy-making). These are the ongoing activities that indicate the ideological tone in Washington from year to year and are closely related to the laws and regulations that are eventually enacted (Erikson et al., 2002). When legislation is passed, it is permanent until amended or over-turned, so its effects are not fleeting. The policymaking activity in any given year produces marginal changes to the previously existing body of policy—this accumulation over time is policy.[2]

Most public policy research divides policy into separate pieces. There is gun control policy, welfare policy, environmental policy, and so on. Given an interest in the correspondence between the general ideological tone of public opinion, policy, and outcomes, all policies that could influence the income distribution must be considered. There is difficulty, however, in determining which policies fit into this category. Fiscal incidence research argues that a wide variety of government benefits, even those that are not explicitly designed to redistribute income, may be unevenly distributed (Musgrave & Musgrave, 1989; Peppard & Roberts, 1977). Because of this, focusing on a specific subset of policies risks the exclusion of a policy or set of policies that influences the distribution of income. Excluding policies with distributional effects can lead to improper inferences if one set of policies moves in a liberal direction while another set takes a conservative course. Further complications can arise if some policies have their intended effects whereas others do not.

As a result, I treat policy differently. Rather than examining individual pieces of policy, *aggregate* policy is the focus of this analysis. Policy is treated collectively and arrayed on a single left-right dimension, which appears reasonable given the findings of earlier research at the system level (Erikson et al., 2002). Specifically, the public mood can be aligned on a single primary dimension (Stimson, 1999). More important, policymaking in Congress and by the president can also be placed on a single dimension, particularly in the modern era (Mac-

Donald & Rabinowitz, 1987; Poole & Rosenthal, 1997).[3] I examine policy across domains (aggregate) accumulated over time (cumulative).

The key empirical question this article analyzes is whether liberal shifts in policy cause government's equalizing effect to increase. As policy ebbs and flows over time, it is expected to have predictable consequences. Simply stated, liberal policy should lead to liberal outcomes. Power resources theory suggests that redistribution is one of the major dividing lines between parties in industrialized democracies. This theory, when coupled with empirical support for "dynamic representation" in the United States (Stimson et al., 1995), suggests a set of relationships between public opinion, government policy, and government's effect on income inequality (see Figure 1). Specifically, when public opinion becomes more liberal, government should have a greater equalizing effect because of an increase in liberal policy.

THE DIFFICULTY OF
CONTROLLING POLICY OUTCOMES

Politicians, pundits, and academics alike once commonly held the simplistic view that the policies enacted by government are inextricably linked to government's impact on society. The belief was that if public officials saw a change needed in society, government action could be taken to alleviate the problem. This view, however, is naïve. Analyses of policies often show that their impact fails to meet goals, and often does not exist at all. For a variety of reasons, policy may not be connected to government's effect on important outcomes, including its effect on income inequality.

Legislation, first, often has unintended consequences. F. A. Hayek (1948), for example, argues that policymakers cannot comprehend the effects of their proposals because the calculus that formulates the response of individual citizens is not fully knowable. Efforts to influence society via economic interventions are therefore fraught with difficulty (Wagner, 1996).

Rational expectations economic theory also questions the ability of government to control outcomes. The rational expectations hypothesis maintains that economic actors will utilize all relevant information
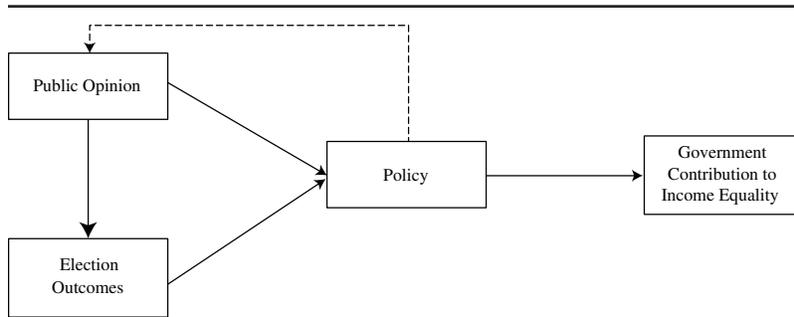
Figure 1:   The Systems Model for Opinion, Elections, Policy, and the Government Contribution to Income Equality

when making their decisions (Muth, 1961). This means that economic decisions will be based both on the current situation and any information available about the future. Many studies have since tested the rational expectations hypothesis and searched for mechanisms through which government can influence macroeconomic outcomes even in the presence of rational expectations (Minford & Peel, 1983; Phelps & Taylor, 1977). Although rational expectations theory suggests that policymakers can influence societal outcomes under some conditions, the connection between policy and government's effect on society can be limited. If relevant actors correctly anticipate policy changes, government's impact will not be felt when a new policy is implemented.

As an example specific to income inequality, consider a proposal that would dramatically increase taxes on monetary compensation exceeding $1 million. This tax increase, like many changes in tax policy, could be at least partially avoided by changing compensation packages to limit monetary payment to $1 million while increasing compensation through other devices such as stock options. If the individuals targeted by this policy change are able to anticipate it, they can modify compensation packages even before the change occurs. Thus, through rational expectations, the effect of the new policy could be minimized.

The difficulties mentioned to this point exist even if policy is perfectly implemented. It is well known, however, that the implementa-

tion of policy by bureaucrats and governmental agencies can diverge greatly from the initial intent of legislators. Although there are certainly cases of successful policy implementation, the overriding message of the literature is that implementation is no simple task and that it is successful only under a limited set of circumstances (Hill & Weissert, 1995; Pressman & Wildavsky, 1973; Sharkansky, 1967).

Even if politicians are able to comprehend the full implications of their policy choices and these policies can be implemented exactly as intended, several other facets of the policymaking process make it difficult for policy to systematically influence societal outcomes. A symbolic view of politics (Edelman, 1971) holds that much, if not most, policy activity is conducted for the purpose of manipulating political symbols. Policies are enacted not to change society but to maintain the current power structure. An example of symbolic politics is the creation of a program such as Aid to Families with Dependent Children (AFDC) while failing to fully fund it (Keiser & Soss, 1998; Lipsky, 1984). This symbolic activity is designed to demonstrate concern for poor families while doing little to change their actual circumstances. If the symbolic view of politics is correct in the context of redistribution, enacting "liberal" or "conservative" policies should cause little change in government's equalizing effect. Although the symbolic politics view does not imply that government fails to influence society, it does imply that ideological movement in policy should matter little.[4]

Lack of knowledge on the part of policymakers, rational expectations economics, problems with policy implementation, and policymaking as symbolic action all raise doubts about the connection between the ideological tone of policy and government's effect on society.[5] To the extent that any *one* of these perspectives is correct, the ability to find a connection between policy liberalism and government's effect on income inequality is diminished. Given the sheer number of ways the relationship between policy and governmental effects can break down, it is a very real possibility that the connection between public opinion and policy goes only so far. Although the public may have some degree of control over policy, this control may not translate into power over outcomes such as income inequality.[6]

MEASURING THE GOVERNMENT
CONTRIBUTION TO INCOME EQUALITY

The causes of income inequality in the United States, including political institutions and processes, have been extensively examined (Danziger & Gottschalk, 1995; Devine, 1983; Fortin & Lemieux, 1997; Hibbs & Dennis, 1988). This article is different in that it focuses on government's equalizing effect through income redistribution rather than on the *level* of income inequality. Distributional outcomes are viewed as a two-stage process in which market and demographic factors lead to pregovernment income inequality. Government then takes action through several programs that taken together have an equalizing effect. This section of the article addresses the issue of measuring the equalizing effect over time.

The government's impact on income distribution is straightforward in concept. It is the difference between the hypothetical income inequality that would exist in the absence of government activity and the income inequality that exists after government has acted. The empirical observation of this concept is, however, quite difficult. Although income inequality as it has existed in the United States for the past several decades can be observed, a world in which government has not played a role simply does not exist. Thus, the full implications of government action on income distribution can be only imperfectly observed.

Many federal government programs influence the distribution of income. Some have primarily indirect effects that are hard to pinpoint. Defense expenditures, for example, fall principally into this category. Other programs affect the distribution of income much more directly, through either cash or in-kind benefits. Food stamps, social security, and Medicare benefits fall under this category. But some of these direct assistance programs have additional indirect effects. Medicare, for example, augments the income of health care providers as well as the primary beneficiaries by creating demand for health services that would not otherwise exist. Of course expenditures are only one side of the coin. Taxes have distributional effects as well.

Researchers who study the incidence of taxes and expenditures attempt to discover both the direct and indirect effects of government action. These studies focus on the distributional effects of government

in one or a few cross sections (Browning & Johnson, 1979; Pechman, 1985; Peppard & Roberts, 1977; Reynolds & Smolensky, 1977). Incidence studies are also usually interested in the effects of one program or a particular domain of programs, such as the income tax. Because incidence studies take advantage of data sources that are available only sporadically, the full distributional influence of government is not available at regular intervals. However, since 1979 the U.S. Census Bureau has reported annual data that demonstrate the *direct* distributional effects of several federal government programs.

Census data provide information about inequality based on 15 separate definitions of income. One definition computes household income before taxes are paid and any governmental payments are received. The income distribution computed based on this definition most closely approximates the pregovernment distribution of income —the hypothetical distribution before including the direct effects of taxes and expenditures. The postgovernment income distribution is computed based on income after direct taxes are paid and cash and noncash benefits are received. This definition of income includes such sources as social security and Medicare benefits and excludes any income and payroll taxes paid (see Table 1 for the specific income sources included in these definitions). Thus, it accounts for direct government redistribution.[7]

The Gini coefficient is utilized in this analysis to measure pregovernment and postgovernment inequality.[8] This is at least partially out of necessity, because only a few income definitions are available at the individual level in publicly accessible census data. Thus, only aggregate summaries are of use, and the Gini is the only measure of inequality computed by the census for all income definitions. Although the Gini exhibits weaknesses as a measure of inequality when comparing it over time or across countries, its use is completely appropriate in the context of this analysis because movement over time in the level of inequality is never considered. Rather, the Gini coefficients (pregovernment and postgovernment) are only directly compared within one country in one cross section at a time, which is not problematic (Braun 1988).

The difference between the pregovernment Gini and the postgovernment Gini (multiplied by 100) measured annually from 1979-1998 is the dependent variable in this analysis. To give a sense of its move-

TABLE 1
Overview of Key Census Bureau Income
Definitions, With Example Data From 1998

Census Bureau Income Definition	Definition 4	Definition 14
Income sources included	Money income (excluding government cash transfers), capital gains/losses, health insurance supplements to wage/salary	Income included in Definition 4 minus payroll and income taxes, plus earned income credit, value of government cash transfers received, Medicare, Medicaid, school lunch benefits, and other governmental noncash transfers
Terminology in article	"Pregovernment"	"Postgovernment"
1998 Gini coefficient	.509	.405

ment over time, Figure 2 graphs government's equalizing effect and the pregovernment level of inequality.[9] Basic knowledge of political eras would lead to the expectation that this series would move lower during the conservative Reagan years, moderately increase or remain the same during the first Bush administration, and increase under Bill Clinton until the Republican takeover of Congress. Actual movement in the series does not perfectly mesh with intuition, but the general story fits. Although movement during the Reagan years is not a perfect trend toward a smaller government effect, the series is lower at the end of Reagan's two terms than it was at the beginning. The story during Bush's term fits expectations well. The slight increases in the government contribution in the last 2 years of his term can probably be explained by an economic downturn that forced many out of work and into means-tested programs. Finally, Clinton's terms show steady movement toward more government redistribution until 1994 when the Republicans took control of Congress.

This discussion is obviously not definitive. It merely provides visual evidence that liberal policy might lead to a larger equalizing effect. Systematic investigation requires more than examining move-
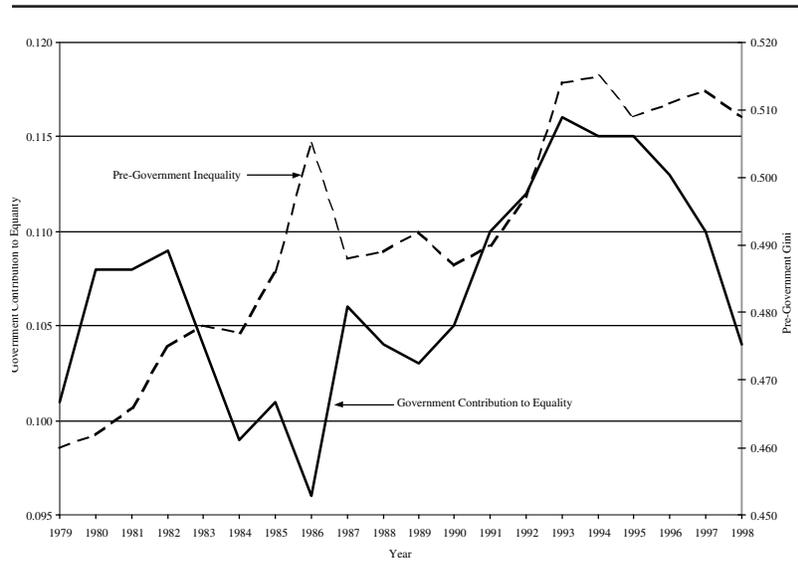
Figure 2: Pregovernment Inequality and Government's Equalizing Effect

ment of the series in relation to political eras and partisan dynamics in Washington. An indicator of aggregate public policy that can be used as a predictor of the government contribution is needed.

MEASURING POLICY LIBERALISM

With the aggregate, cumulative conception of policy discussed earlier in mind, the analysis that follows utilizes a measure developed by Erikson et al. (2002, p. 353). Their measure, which will be called Aggregate Policy Output here, captures the key aspects of the aggregate policy concept in that it aggregates policymaking across policy domains and branches of government and accumulates policymaking over time.[10] Using a process similar to principal components analysis, they develop multiple indicators of policy activity for the three elected branches—the House of Representatives, Senate, and presidency.

For the House and Senate every roll-call vote is considered in the creation of the policy activity measure. Aggregate Policy Output

focuses on the proportion of liberal wins on ideologically polarized votes. The measure also utilizes the president's position on polarized votes included in *Congressional Quarterly*'s "key votes." The recorded presidential position is used to compute the percentage of liberal stands taken by the president each year. Because policy activity in each of the branches must be coincident in order for legislation to become law, the three measures are multiplied to produce the quasi-probability of a liberal law:[11]

$$\text{Pr(Liberal)}_t = (\text{Proportion House Liberal Wins}_t) * (\text{Proportion Senate Liberal Wins}_t) * (\text{Proportion Liberal Presidential Positions}_t).$$

Then, to capture the idea that past policy activity is important in determining the current content of policy, yearly policy activity is collected over time as follows:

$$\text{Aggregate Policy Output}_t = \lambda(\text{Aggregate Policy Output}_{t-1}) + (1 - \lambda) * \text{Pr(Liberal)}_t.$$

The value of λ (.80) was initially decided a priori, but empirical estimation of λ supported the decision.[12] This set of equations yields a value for Aggregate Policy Output that ranges from 0 to 1, with higher values indicating liberal output. This series is plotted in Figure 3 for 1979-1996.

AN ANALYSIS OF POLICY AND GOVERNMENT'S EFFECT ON INCOME EQUALITY

The models estimated here seek to determine whether policy explains government's impact on income equality. If policy does not influence government's equalizing impact, then at least some of the theories arguing that there is little connection between the goals of policy and government's effect on society are correct. If policy as conceptualized and measured influences government's equalizing impact, we will know that the totality of policies produced by the U.S. national government has systematic and orderly distributional consequences.

Although I am most interested in the connection between policy and government's equalizing influence, other potentially confound-
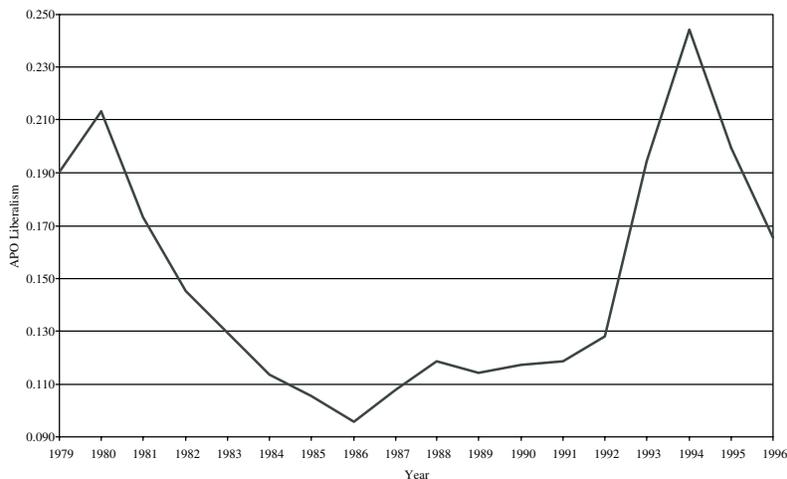
Figure 3: Aggregate Policy Output Liberalism, 1979-1996

ing factors must be ruled out. Labor market, labor supply, demographics, and wage-setting institutions have all been suggested as determinants of the *level* of income inequality (Berman, Bound, & Griliches, 1994; Bluestone & Harrison, 1982; Danziger & Gottschalk, 1995; Gustafsson & Johannson, 1999; Stephens, 1979). Recall, however, that this analysis is different from these previous studies in that my focus is on government's redistributive effect. The difference in the dependent variable is important. Only factors that can be expected to influence government's equalizing effect, as opposed to the level of income inequality, could contribute to a spurious effect of Aggregate Policy Output. Just one demographic and two economic variables are the most likely confounding factors—unemployment, the level of pregovernment inequality, and the percentage of population aged 65 and older.

Unemployment, the first of the economic factors, should increase government's equalizing effect. Unemployment leads to more unemployment insurance payouts, and these benefits generally go to those at the low part of the income distribution, which means government is doing more to equalize income during times of high unemployment. The second economic factor is the level of pregovernment inequality.

When nongovernment income sources produce a higher level of inequality, policymakers might deem it necessary to take extra measures to redistribute income. On the other hand, the economic conditions that push pregovernment inequality higher might also make it more difficult for government to conduct redistribution. Thus, when pregovernment inequality is high, there is more equalizing work for government to do, but this work may also be more difficult.

The demographic factor that could influence government redistribution is the size of the aged population. Many senior citizens rely on social security payments or benefits provided through Medicare. In fact, these two programs account for much of government's equalizing effect. If the senior population increases, more Medicare and social security benefits are likely paid, thereby increasing government's contribution to equality. Thus, in addition to Aggregate Policy Output, controls for unemployment, the pregovernment level of inequality, and the percentage of the population aged 65 and over are included.

ESTIMATION AND DISCUSSION OF THE MODELS

As with any time series analysis, it is important to ensure that the series analyzed are stationary. The problem, of course, is that using nonstationary series (containing a unit root or a trend) in regression analysis can lead to spurious results (Granger & Newbold, 1974), but it is not always a straightforward matter to categorize a series as stationary (DeBoef & Granato, 1997). Oftentimes, a series generated by a stationary process presents itself as nonstationary when only a small number of time points are available. The dependent variable in this analysis, for example, is stationary in the strict sense of the term because it can only range from 0 to 1, violating the requirement of infinite variance for a unit root process (Banerjee, Dolado, Galbraith, & Hendry, 1993). A unit root test of this variable, however, fails to confirm that it is stationary.[13] Government's contribution to equality, then, is likely a "near-integrated" series (Phillips, 1988). As DeBoef and Granato (1997) demonstrate, near-integrated series can be appropriately treated as integrated.

A standard method for dealing with integrated series is to difference each series and analyze the effect of changes in one variable on changes in another (Enders, 1995). This procedure can transform the data into a stationary series while not substantially altering the theoretical tests that can be conducted. This analysis proceeds, then, by utilizing the first difference of any series that fails a unit root test.[14] The main weakness of this strategy is that "overdifferencing" can occur, biasing results toward 0. This method, then, provides a conservative test of whether change in Aggregate Policy Output produces change in government's contribution to equality.

The results in the first column of Table 2 provide support for the hypothesis that liberal (or conservative) policy leads to a larger (or smaller) government contribution to income equality. Under this specification, policy is substantively and statistically significant, and its effect is in the predicted direction. These results, however, assume that the effect of Aggregate Policy Output occurs instantaneously, with the full impact of policy on government's equalizing effect being felt immediately. It may be more likely that the impact of policy is distributed over several time periods, such that some of the effect occurs immediately whereas the rest of the effect occurs in a more complicated way over time. If the impact of policy is distributed over time, the static model estimated in the first column is specified incorrectly and could produce misleading results. In column 2 of Table 2, I estimate a model in which the impact of Aggregate Policy Output is distributed over four time periods—the current year through 3 years earlier.[15]

This model continues to support the conclusion that policy influences government's redistributive effect. Although the only significant effect still occurs with no lag, it would be slightly misleading to conclude that the full effect of policy is immediate. One must remember that dynamics are built into Aggregate Policy Output. Because Aggregate Policy Output includes both current innovations in policy-making and its own history, a contemporaneous effect of Aggregate Policy Output does not mean that previous changes in policy do not matter. Even changes in policy that occurred many years ago are incorporated into the current value of Aggregate Policy Output.

To give some idea of the magnitude of the estimated effect, Aggregate Policy Output moves from approximately 0.10 in 1986 to 0.25 in

TABLE 2
Models of the Impact of Aggregate Policy Output on the
Government Contribution to Income Equality, 1979-1996

Independent Variable	Dependent Variable			
	Δ Government Contribution to Income Equality			
	(1)		(2)	
Δ Aggregate Policy Output$_t$ (liberalism)	7.92**	(2.66)	9.74**	(3.01)
Δ Aggregate Policy Output$_{t-1}$	—		–4.24	(3.40)
Δ Aggregate Policy Output$_{t-2}$	—		6.31	(5.21)
Δ Aggregate Policy Output$_{t-3}$	—		–7.38	(5.64)
Δ Unemployment$_t$	0.24**	(0.08)	0.27*	(0.12)
Δ Pregovernment Gini$_t$	–0.28**	(0.09)	–0.29*	(0.11)
Detrended % of Population Older Than 65$_t$	0.03	(0.52)	–0.16	(1.03)
Intercept	0.16	(0.15)	0.22	(0.30)
Adjusted R^2	0.49		0.51	
Durbin-Watson	2.48		2.68	
n	17		17	

NOTE: Entries are ordinary least squares regression coefficients, with standard errors in parentheses.
*$p < .05$. **$p < .01$, one-tailed tests.

1994. The analysis suggests that this degree of movement in policy liberalism would increase government's reduction in the Gini by about 1.5 points. This appears to be a small change, but considering that government reduced inequality by only 9.6 points in 1986, such change would amount to a 15% increase in government's equalizing impact—an important change. In sum, these results confidently reject theories suggesting a lack of connection between policy and government's effect on inequality. Although some policymaking is posturing for elections or symbolic in nature, variation in the liberalism of policy has a tangible impact on society.

CONCLUSIONS FOR THE GOVERNING
SYSTEM OF THE UNITED STATES

It does not appear that in the realm of income distribution government policy is all or mostly about the manipulation of symbols. Although some policy activity that purports to influence the distribu-

tion of income is no doubt dramatized and conducted to manipulate images or posture for upcoming electoral battles, government influences income equality tangibly, and this influence moves in response to the cumulative policy outputs of the federal government. When the public mood shifts or new representatives are elected, a signal is sent about the preferences of the American public. And this is not an empty signal, because it not only changes the policy activity in Washington but also changes government's impact on society. Much of politics may be about the manipulation of symbols, but this research has uncovered an area where policy moves beyond symbolism to the tangible impact that is desired.

The results also suggest that lawmakers know enough about economic outcomes to get their desired results. Although there may be certain policies that produce unintended consequences, the effect of aggregate policy moves as expected when liberal or conservative politicians are able to enact their preferences. Lawmakers may make mistakes in determining the effects of some policies, but these mistakes are not systematic at the aggregate level. Additionally, although rational expectations economics has shown the inability of government to influence certain economic outcomes, government redistributes income, and this equalizing effect changes systematically in response to changes in the ideological tone of policy.

Finally, the results show that policy analyses limited to cases in which the redistributive intent is advertised will fail to uncover what really matters, because redistribution is a ubiquitous fact of politics that is present, often under the surface, in many policy debates. The ebb and flow of *aggregate* policy is a key determinant of government's equalizing influence. This equalizing impact changes in response to more than just the few pieces of legislation that are directly related to redistributive programs. The gradual accumulation of policy over time and across issue domains plays an important role in determining government's effect on inequality.

The results presented here, coupled with prior research on the U.S. governing system, provide an interesting look at representation. The picture is of a responsive government that changes in accordance with the will of the people. When public opinion becomes more liberal, liberal policy activity increases due to the responsiveness of public officials and the election of new representatives. In the final step, shifts in

policy yield shifts in governmental impact, with liberal policy yielding a larger equalizing impact for government. The existence of the final connection is the main contribution of this analysis—it shows that politics matters powerfully.

NOTES

1. The terms "policy" and "government's effect on society" are often treated as if they are synonymous. In this article, policy refers to government action that is defined by the laws enacted. Government's effect on society is the change in a societal outcome that can be attributed to government action.

2. Perhaps the simplest way to understand the difference between "policymaking" and "policy" is with the help of time series terminology. Policy could be viewed as the *level* of a series, whereas policymaking could be viewed as the *difference* of that series. For further discussion of a cumulative view of policy, see Erikson, MacKuen, and Stimson (2002).

3. Similar work at the state level has also been done. A measure of state policy liberalism has been developed by Erikson, Wright, and McIver (1993) and has been used in a variety of ways to assess connections between public opinion, policy, and outcomes (Barrilleaux, 1997; Erikson et al., 1993).

4. A slightly less virulent brand of symbolic politics might be called "smoke and mirrors." This view sees policymaking as posturing for elections. An example of this type of policymaking can be observed when a majority party passes highly popular legislation in one house of Congress with the full knowledge that the other house (controlled by the other party) could never agree to pass the same legislation.

5. Some researchers have argued that incrementalism in the policymaking process also implies a lack of connection between budgetary choices and political factors such as party and ideology (Fenno, 1966; Kamlet & Mowery, 1987; Lowery, Brookheimer, & Malachowski, 1985).

6. Erikson et al. (2002) conduct limited analysis of outcomes such as unemployment and inflation, and find that policy has some influence over these outcomes. My analysis focuses instead on the effect of government on the distribution of income, an issue that speaks to the most fundamental values of a society.

7. The 15 definitions of income reported by the U.S. Census Bureau since 1979 capture a wide array of theoretical income concepts. Definition 1 is the official measure that is most often cited. This definition includes money income—wages, interest, and any other income earned in the form of cash (including cash benefits from the government). Each successive definition of income includes or excludes a new group of income sources. The analysis in this article focuses on the definitions that best operationalize pregovernment and postgovernment income—4 and 14. Definition 4 is an excellent baseline for this analysis because it only captures income that is earned in the market (wages, salaries, tips, interest, benefits, etc.). This makes it a reasonable operationalization of pregovernment income. Definition 14 operationalizes postgovernment income because it subtracts taxes that individuals pay to the federal government and adds income provided in the form of government benefits. This measure is particularly useful in that it includes the effects of both cash (e.g., social security) and noncash (e.g., Medicare) benefits. Of course, measuring income is not a simple task, especially when attempting to capture income

from noncash sources. It is difficult enough for an individual to reliably report income from easily itemized sources such as wages, let alone more vague sources such as employee benefits. The theoretical issues that the census has addressed are too numerous to discuss here. They range from dealing with missing data, to top-coding data for individuals with extremely large incomes, to valuations of Medicare and other noncash benefits. More complete discussion of these issues and many more can be found in the census P-60 series.

8. The Gini is a widely used measure of inequality that compares the actual distribution of income in a society to the distribution that would exist if income were distributed equally. The Gini ranges from 0 to 1. Zero indicates that each unit within society (individual, family, or household) has the same amount of income. One indicates a situation of extreme inequality, in which only one unit has income. So reductions in the Gini yield increases in equality. The main alternatives to the Gini are income percentile ratios such as the 90/10 ratio that measures the ratio of the 90th percentile of income to the 10th percentile. Percentile measures place much greater emphasis on inequality at the extremes of the income distribution than does the Gini.

9. Though the data are not shown, the relative contribution of taxes and transfers using this measure is similar to those found in incidence studies. About 80% of the government contribution can be attributed to transfers throughout the series.

10. They call the measure Policy Activity and use it to predict the cumulative ideological tenor of several important laws from Mayhew's (1991) list. A focus on government's contribution to income equality requires a broader measure of policymaking at its base because the list of "most important" laws excludes numerous pieces of legislation that are important for distributional outcomes. Thus, I utilize Policy Activity (Aggregate Policy Output) rather than the accumulation of important laws that Erikson et al. (2002) use as the final measure of policy liberalism.

11. This multiplicative combination also accounts for the fact that divisions in partisan and ideological control of each of the policymaking institutions influence the substantive changes that can occur in national policy.

12. Although relying on the value for λ determined in Erikson et al. (2002), the analysis in this article was conducted using a variety of values for λ. The results were fundamentally unchanged.

13. The Augmented Dickey Fuller (ADF) test, a standard battery of tests to differentiate between stationary and integrated series, is implemented here. This test essentially regresses a differenced series on its lagged value. A series is integrated if the estimated parameter for the lagged value of the variable is equal to 0.

14. All variables analyzed in this article are successfully transformed to stationary series through first differences except the percentage of the population aged 65 and over. This variable is nonstationary due to the fact that it contains an upward trend rather than containing a unit root. The appropriate transformation to achieve stationarity in a trending series is to remove the trend by regressing the series on time and capturing the residuals. The residuals, which represent the percentage of the population over 65 detrended, are utilized in the analysis.

15. I entertained a variety of models that allowed dynamic causation between Aggregate Policy Output and the redistributive effect of government. The results discussed here are extremely robust across multiple specifications.

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