# How Inequality Undermines Democracy

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Inequality has been on the rise over the last three decades, and has been a pervasive issue in the recent U.S. national election. On one level, income inequality is a non-issue in a market economy where there will always be winners and losers. In a market where individuals are free to make choices and reap the rewards of the choices they make, it is a given that some will wind up with more than others. We cannot all be equal because we don't all have the same natural endowments. Those with certain skills and abilities will often wind up with more than those without. And those who went to school to train for specific occupations that pay well will earn more than those who did not. In short, skilled workers will earn more than non-skilled workers. Consequently, in an increasingly global economy where there will be two classes — skilled and educated workers at the top earning high wages and unskilled and poorly educated workers at the bottom earning low wages — there is bound to be inequality. Moreover, as these trends continue, the gap between the top and the bottom is only bound to grow. On another level, however, income inequality is a seminal issue because of what it really speaks to: the disappearance of the middle class. Inequality per se may not be the problem; rather it is the rate of increase in inequality. In this essay, I argue that to the extent that inequality effectively speaks to a shrinking middle class it represents a threat to democracy.

**Rising Inequality**

Income inequality is an amorphous concept. When we talk about income inequality we are often talking about the gap between the top and the bottom. The extent to which it is a problem is contingent on just how it is measured. General income inequality, as measured by the ratio of the incomes of the top fifth of the population to those of the bottom fifth, for instance, includes in all income; not just income earned laboring. For those at the top this can include wages, interest and dividend income.[i] For those at the bottom this can include income supports, which are usually subsidies or in-kind assistance that has the effect of boosting the wages of those at the bottom or their effective purchasing power. Income at the bottom, then, often includes wages plus these supports, whether through public assistance transfer programs and/or disability programs. Therefore, wage income will not be the same as income inequality, and this gap between the top and bottom will tend to be less.

General income inequality has in recent decades been on the rise. Those at the top of the distribution have seen their incomes increase while those at the bottom have seen their incomes decrease in real terms. Prior to 1973, the incomes of families in the bottom fifth of the income distribution in the U.S. grew more rapidly than the income of families in other countries. After 1973 low-income families in the U.S. experienced a steady decline in real income, especially from the late 1970s through the middle of the 1990s. Between 1979 and 2007, the top one percent of families had 60 percent of the income gains while the bottom 90 percent only had about 9 percent of those income gains (Belman and Wolfson 2014). Income inequality, especially after 1980, exploded with the top decile share of the national income rising to between 45-50 percent in the 2000s. This may nonetheless understate the problem, which in recent years has been couched as the very top pulling away from the rest because a subclass of "supermanagers" — those at the top of the distribution with great ability and talent, who in some cases were viewed as "superstars" because they were able to make their companies profitable and return a high rate of return to shareholders — emerged who were earning extremely high compensation (Hacker and Pierson 2010; Piketty 2014).

Still, it is hard to know that the top is pulling away from the rest based on data from the Current Population Survey (CPS) because the Census data only reports individual income up to a $1 million. Because income over $ 1 million is effectively excluded, studies of income inequality based on census data understate the problem. It is for this reason that researchers like to use the percentile measures of 90/10, 90/50, and 50/10. Table 1 shows the rise in income inequality on the basis of family income between 2002 and 2014 using those measures plus the top-to-bottom quintile ratio.

**Table 1 General Trends in Family Income Inequality**

| | 90/10 percent ratio | 90/50 percent ratio | 50/10 percent ratio | Top-to-bottom quintile ratio |
|---|---|---|---|---|
| 2002 | 9.2 | 2.5 | 4.0 | 14.2 |
| 2003 | 10.2 | 2.7 | 4.0 | 14.3 |
| 2004 | 11.4 | 2.6 | 4.4 | 14.9 |
| 2005 | 11.5 | 2.6 | 4.3 | 15.2 |
| 2006 | 11.3 | 2.6 | 4.3 | 15.4 |
| 2007 | 11.5 | 2.7 | 4.3 | 15.4 |
| 2008 | 11.4 | 2.6 | 4.4 | 14.8 |
| 2009 | 12.9 | 2.7 | 4.5 | 15.7 |
| 2010 | 12.5 | 2.7 | 4.6 | 16.9 |
| 2011 | 13.2 | 2.7 | 4.8 | 16.9 |
| 2012 | 12.8 | 2.8 | 4.6 | 17.4 |
| 2013 | 13.0 | 2.8 | 4.7 | 17.6 |
| 2014 | 13.2 | 2.8 | 4.6 | 17.5 |
| **Change** | **+32.6** | **+16.7** | **+15.0** | **+23.2** |

Income inequality is clearly rising. The rise in both the 90/10 and 90/50 percentiles might support the argument that the top has been pulling away from the rest. Certainly, the top-to-bottom quintile measure suggests that the top has been pulling away from the middle, even as this effectively understates the problem.

## The Threat to Democracy

Democratic theory assumes a society of free, equal, and autonomous individuals. Although democracy may have different meanings for different people, an ideal of democracy is that all individuals are supposed to have equal standing. This means that each individual is equal before the law, has the same vote as other individuals, the same right to express oneself in the political sphere, and perhaps most importantly the same potential to influence what government does, even if they opt not to exercise that potential. All citizens, then, have the same access to governing institutions. Within this theoretical construct, which may also characterize American democracy, money is supposed to be irrelevant to one’s standing. Both the rich and the poor are equal before government (Hacker and Pierson 2010). This conception of equality, otherwise known as procedural equality is not usually concerned with how resources, wealth and income are distributed, but with how individuals stand in relation to one another. Individuals can have more than others so long as they are equal in terms of their legal and political standing. Procedural equality is especially critical to democratic society because it serves to secure another essential condition: personal freedom, which is also a necessary condition for individuals to function autonomously. The greater their autonomy, the more likely they are to participate in the democratic process. Individuals are free to pursue their goals and objectives—i.e. self-interests—so long as their pursuit does not interfere with others’ ability to pursue their own goals and objectives. In a very basic sense, and certainly within the context of classical political thought, this is what it means to talk about personal independence or autonomy. But as Tocqueville observed there cannot be real political equality without some measure of economic equality as well, because a society with great concentrations of poor people can be dangerous (Zetterbaum 1987). Therefore, economic inequality could pose serious problems in a procedural democracy.

Why, then, might inequality be so dangerous to democracy? According to Acemoglu and Robinson (2006), unrest is often a consequence of inequality. And yet, changes are more likely to occur in those societies with greater inequality between elites and citizens. The more equal the society, the less likely are the masses to demand democratization. Democratization requires that society be sufficiently unequal so that the threat of revolution is credible. Therefore, an elite may be willing to begin a transition by extending the right of franchise because it is in its interests to do so. The transition effectively preserves the status quo by staving off the threat of revolution, which in the end may preserve the power base of the elite. Yet, the elite only democratizes to the degree necessary to stave off the threat of revolution, because the former effectively limits the power of the majority by diluting popular pressure and undermining the power of the majority. Democratization refers to achieving voice through fair procedures. But democratization could mean achieving greater equality through the redistribution of resources aimed at achieving equality of result.

Economic equality, then, effectively promotes democracy because it effectively reduces the pressure for redistribution, which could occur as a byproduct of mass revolution and the subsequent creation of an authoritarian regime (Boix 2003). More unequal distribution of wealth increases the redistributive demands of the population and the ultimate level of taxes in a democratic system. But what happens when the political system is unresponsive to a so-called democratic vote on the tax rate?

A truly democratic regime would not simply take away from the wealthy elite for the benefit of the masses, but it might set a higher tax rate for purposes of redistribution. In a democracy, everybody votes on the tax rate in accordance with what is known as the median voter theorem. This holds that the more inequality there is the greater will be the distance between the median income and society's average income. The greater the distance, the more calls there are for redistribution, and it is the distance itself that effectively determines the tax rate (Meltzer and Richard 1981).

On an individual level, unequal distribution of wealth and income, however, may adversely affect individuals' ability to participate in the democratic process as equals. It may result in procedural inequality to the extent that those lacking in wealth and income may not enjoy the same access to political and policy officials as those who possess wealth and income enjoy. With a greater concentration of wealth at the top, elites are in a better position to use their wealth toward the attainment of their political and other ideological objectives (Bachrach and Botwinick 1992, pp. 4-5). Those at the top of the distribution often enjoy inordinate power and are able to not only limit redistribution, but shape the rules of the game in favor of those with more resources (Stiglitz 2012). Various studies have found legislative bodies to be more responsive to affluent constituents than to non-affluent constituents (Bartels 2008; Gilens 2012; Volscho and Kelly 2012).

Inequality, especially in its extreme form of poverty, does in the end deprive us of our capabilities, which is said to be a kind of freedom. To the extent that individuals at the bottom of the income distribution could be said to be poor, poverty deprives individuals of their capabilities. Therefore, there is a strong case to be made for judging individual advantage in terms of the capability that a person has — “the substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value” (Sen 1999, p.87). Such freedoms are the basis of individual autonomy. Those with more resources may be better positioned to pursue their goals and objectives, while those with fewer resources may find that their ability to pursue their goals and objectives are limited.

An individual’s ability to pursue their goals and objectives is important to democracy for yet another reason. A democracy, especially as its legitimacy and power are derived from popular consent, assumes that individuals have the capacity to reason for themselves, i.e. to deliberate in the public square, and to act on that capacity in a responsible manner. They cannot effectively participate, whether it be in full policy discussions or selecting their own representatives, if they cannot deliberate in a rational manner. As democracy requires that individuals execute their agency, human agency must be protected. But this human agency also presupposes that basic material needs will have been met, which may be less likely given ever widening disparities in wealth and income. Democracy also requires a measure of trust between people, and growing income inequality is said to threaten trust as various groups, mainly those at the bottom, experience political alienation and perceive the system not to be fair. As social capital is the glue that holds society together (Stiglitz 2012), if individuals believe that the economic and political system is unfair, the glue does not work and society does not function well. This is because institutions effectively promote trust. A trusting population tends to be more cooperative, and governments with trusting populations tend to be less corrupt and function with less conflict and greater responsiveness (Uslaner 2008).

## Impact of Inequality on Civic Participation

Income inequality not only distorts democracy in terms of how institutions and political actors respond to different levels of income, but it may have a profound effect on the development of social capital, which affects civic engagement. Democracy requires the active participation of citizens in the affairs of their communities, which extends beyond mere voting. Underlying social capital is the notion that civic virtue is most powerful when it is embedded in a dense network of social relations. American civil society has been defined by its associative life, in which Americans belong to voluntary organizations. And through these organizations, they participate in the affairs of their communities (Putnam 2000).

In a study of the relationship between income inequality and civic engagement, Levin-Waldman (2013) found that in 2008 individuals in households with different levels of income had different levels of civic engagement. Six measures of civic engagement were considered: daily discussions of politics, daily reading of newspapers — which were intended to speak to one’s knowledge about and interest in politics — involvement in protests, attendance at political meetings, visiting public officials, and participating in civic organizations. Participation was found to be greater on all measures of participation among those in households earning more than $100,000 a year than among those earning less than $30,000. Those at the highest end of the distribution were not necessarily more likely to be engaged than those between $30,000 and $99,999, but those in households between $30,000 to $59,999 were considerably more likely to be engaged than those in households below $30,000. Participation appeared to improve dramatically when one was in a household with income greater than $30,000. These differences alone would suggest that entry into the middle class might result in greater levels of civic participation. Moreover, logistical regressions found that those with higher incomes were more likely to be civically engaged, and that those earning less than a minimum wage were least likely to be engaged.

Aside from the adverse impact that income inequality has on civic engagement, it could also lead to political anomie. As family income inequality increases, those families below the median are further from the social norm than before. Similarly, those at the top of the distribution see a larger gap between themselves and the rest of the population. Families at the bottom of the distribution may end up drifting further from the mainstream, and thus may also experience greater alienation as those with greater resources may come to see them as both more distinct and undeserving. This may also have consequences for how citizens in turn view the potential role and functions of government (Haveman, Sandefeur, Wolfe, and Voyer 2004). Poor people experience greater social alienation because of their tendency to participate less, which means that they may be out of touch with common interests. But participation is also less likely because the alienation coming from social isolation will lead many to the conclusion that there really is no benefit from participation in the common project of which they are part. When resources are unequally distributed, those at the top and the bottom might not see themselves as sharing the same fate. Consequently, they have less reason to trust people of different backgrounds. Where inequality is high, people may be less optimistic about being masters of their own fate. Increasing inequality results in less participation because of declining trust (Uslaner and Brown 2005).

## Conclusion

With rising inequality, it ought to be clear that there are serious challenges to democracy. It cannot be predicted with certainty just how disruptive inequality will be to democracy, as this is contingent on the fragility of democracy. In the U.S., we are clearly seeing an erosion in democracy in that elected representatives no longer represent all people equally. Rather there is greater responsiveness to those with resources, especially those contributing to political campaigns. Increasingly those without resources find themselves frozen out. In more fragile democracies, the response is unrest. And even in the U.S. we see some of that with various social protest movements. Although the results of the 2016 national election were not necessarily a response to rising income inequality, they were clearly a response to the larger economic conditions of which rising income inequality has been a symptom. Specifically, voters appeared to be rebelling against political elites who apparently were unable to deliver good job growth with rising wages. Voters chose a candidate who, rhetorically at least, was opposed to open borders and free trade, and were effectively challenging the commitment of elites to globalism — the same globalism that has resulted in the two-tier economy with highly skilled and paid workers at the top and poorly skilled and paid workers at the bottom. It might be a stretch to conclude that the election of Donald Trump represents a desire for authoritarianism. And yet, his critics view him as such, and if the voters were not choosing what they might have thought were authoritarian solutions to economic conditions, they were clearly responding to the very economic conditions that have been the source of rising inequality in recent years.

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[i] Dividend income is income from stocks and/or other types of investments.

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