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# Presidents, Profits, Productivity, & Poverty: A Great Divide between the Pre- & Post-Reagan U.S. Economy?

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*This paper examined profits, productivity, and poverty in the United States from 1961 through 2002. Results indicated that the “great divide” thesis regarding the U.S. economy before and after the Reagan administration depends on which measure of the economy is the focus of attention. In addition, on some measures where before and after differences were detected, the nature of those differences was paradoxical. Corporate profits as a share of national income, for example, were highest in Democratic rather than Republican administrations and despite the increased income inequality of the post-Reagan years, individual and family poverty rates remained relatively constant after edging upward from the 1970s but still below 1960s highs. Further, findings provide some evidence corroborating neoclassic economic theory in regard to incentives and productivity and they present a challenge to activists who equate poverty as a natural or an inevitable byproduct of the more market-driven fiscal and monetary policies of the 1980s and 1990s.*

*Key words: economy, profits, production, poverty, Reagan administration, presidents*

This paper examined profits, productivity, and poverty in the United States from 1961, with the onset of the Kennedy administration, through 2002, the first two years of the GW Bush administration. It focused on these and other macroeconomic measures by presidential terms to determine the nature and extent of economic life in the U.S. about twenty years before and after the Reagan administration. The paper was guided in part

by classical economic theory, which predicts that greater levels of productivity would be accompanied by increased corporate profits and income inequality, but also decreased poverty, and in part by contemporary fiscal policy informed by neoclassical economic theory, which predicts that readjusting tax incentives would promote greater levels of productivity (Fullerton, 1994; Smith, 1994/1776; Stiglitz, 2003). It tests the thesis that the Reagan administration can be viewed as a "great divide" in the sense that this and subsequent administrations relied more explicitly and ideologically on market mechanisms and increased productivity rather than on government programs per se to address social problems, with poverty reduction viewed as a natural byproduct of a dynamic economy (Anderson, 1988; *Economic Report of the President*, 1994; Feldstein, 1994a; Gilbert, 2002; Gilbert & Gilbert, 1989; Madrick, 2003).

In 1965, President Johnson declared a war on poverty. Several presidential policy advisors during the Johnson administration such as James Tobin and Robert Lampman proclaimed the prospects of eliminating poverty by 1980 (Iceland, 2003). During the 1970s, however, the U.S. experienced relatively double-digit inflation and nearly double-digit unemployment rates. Concern about poverty as a national problem, however, receded, especially after failures by Congress to pass President Nixon's Family Assistance Plan in 1969 and again in 1972. By the 1980s, President Reagan had declared that poverty won the war launched by President Johnson, that in effect government efforts failed and may have even exacerbated the problem. The Reagan administration stressed deregulation of market related activities and devolution of federal responsibilities of domestic policies and programs either to lower levels of government or to the private sector. States began experimenting with ways to promote greater labor force participation among welfare recipients. The Family Support Act of 1988 encouraged the further expansion of efforts linking poverty reduction with welfare recipients' labor force participation.

The economic expansion of the economy that the Reagan administration enjoyed after the 1981 recession was interrupted during the GH Bush Administration. The recession of 1990–91 paved the way in part for the advent of the Clinton administra-

tion. With a focus on deficit reduction, deregulation, and capital gains tax cuts, the Clinton administration enjoyed another expansion of the economy. Overall, the economic and social policies of the Clinton administration primarily relied on market mechanisms and looked to a growing economy to affect poverty rates, exemplified in part by its expansion of the Earned Income Tax Credit in 1993 to boost the work-effort and income levels of low-income workers (Center on Budget and Policy Priorities, 1998; *Economic Report of the President*, 1994). The Personal Responsibility and Work Opportunities Act of 1996, which created the Temporary Assistance for Needy Families (TANF) program and ended the entitlement nature of the Federal-State Aid to Families with Dependent Children (AFDC) program, explicitly aimed at, among other things, welfare reduction more so than at poverty reduction.

The Reagan administration can be viewed as a “great divide,” relying more explicitly and ideologically on market mechanisms and increased productivity rather than on government programs per se to address social problems, with poverty reduction viewed as a natural byproduct of a dynamic economy (Anderson, 1988; *Economic Report of the President*, 1994; Feldstein, 1994a; Judis, 1988; Madrick, 2003; Stein, 1984). The “great divide” also meant a shift in emphasis from pre-Reagan fiscal policy to post-Reagan monetary policy as the main mechanism by which the Federal Government intervened in the economy. This study sought to test the “great divide” thesis, that is, to determine how the ideological shift regarding the proper role of government in the economy and society that had accompanied the Reagan administration and gained ascendancy thereafter affected poverty / inequality between 1961 and 2002. In doing so, it assessed the extent to which there were significant differences in a variety of macroeconomic indicators and Federal capacity by presidential terms. The study provided an empirical basis for assessing the merits of the ideological underpinnings of presidential economic rhetoric and policies, with a particular focus on the relationship between prosperity and poverty / inequality in the U.S. Study results were intended to enable policymakers and others interested in the amelioration of poverty to get a better sense of how strongly the economic welfare of the nation coincided with poverty /

inequality and what if any relationship existed between corporate profits and poverty / inequality.

A wealth of popular and scholarly information about the state of the economy, macroeconomic measures, and related policies during the study period formed the backdrop of this study (see, Bartlett and Steele, 1992 & 1994; Blinder, 1987; Caputo, 1994; Feldstein, 1994a & b; Greider, 1987; Iceland, 2003; Krugman, 1990; Lieberman, 1991; Stein, 1984; Stiglitz, 2003), as well as annual issues of the *Economic Report of the President*. Many of the indices of the nation's economic welfare used in this study appeared in Stein's analysis of economic policy from the Roosevelt to the first Reagan administrations. As noted, the present study went beyond the Reagan administration, to the first two years of the GW Bush administration. It began with the Kennedy administration rather than with the Roosevelt administration, because poverty became part of the national domestic policy agenda during the 1960s. The present study also differed from Stein's, however, in part by focusing more directly on the link between economic performance and poverty and by including several measures of income inequality. This study contrasted presidential economic rhetoric and macroeconomic outcomes for approximately twenty years before and after the so-called Reagan revolution that signaled a transition from a political economy conducive to government efforts aimed at income redistribution to assist those in economic need to one more reliant on market mechanisms.

## Method

### *Data*

Unless otherwise noted, data were obtained from the *Economic Report of the President* (2003). Other sources of data, as cited in Table 1, were obtained from Federal Government Internet sites.

### *Measures*

As can be seen from Table 1, most measures were self-explanatory. Some discussion, however, was needed in regard to several measures.

*Corporate Profits.* Corporate Profits A incorporated inventory valuation and capital consumption adjustments and excluded tax

Table 1

*Study Measures*

<i>Measure</i>	<i>Definition</i>
Presidential Terms	Kennedy (1960–63), Johnson (1963–1968), Nixon (1969–1973), Ford (1974–1976), Carter (1977–1980), Reagan (1981–1988), Bush, GH (1989–1992), Clinton (1993–2000), Bush, GW (2001–Present)
Profits	
Corporate Profits A <sup>1</sup>	Percent of National Income
Corporate Profits B <sup>2</sup>	Price per unit of Real Gross Product of Non-financial Corporate Business [\$s]
Productivity	
Growth Measures	
Real Gross Domestic Product <sup>3</sup>	Billions of chained 1996 \$s.
Changes in Real Gross Domestic Product <sup>3</sup>	Percent change in Real Gross Domestic Product from previous period
Output per hour <sup>4</sup>	Output per hour of all persons, non-farm business, 1992 = 100
Changes in Output per hour <sup>4</sup>	Percent change in non-farm business output per hour of all persons
Costs	
Employee Compensation A <sup>1</sup>	Percent of National Income
Employee Compensation B <sup>2</sup>	Price per unit of Real Gross Product of Non-financial Corporate Business [\$s]
Federal Corporate Profit Taxes	Percent of Corporate Profits B
Poverty & Inequality	
Individual/Family Poverty <sup>5</sup>	Percent of individuals/families with incomes below official poverty thresholds
Family Inequality A <sup>6</sup>	Gini Index
Family Inequality B <sup>6</sup>	Ratio of aggregate shares of family income of highest quintile to lowest quintile

*continued*

<i>Measure</i>	<i>Definition</i>
<i>Poverty &amp; Inequality continued</i>	
Family Inequality C <sup>6</sup>	Ratio of aggregate shares of family income of top 5% of families to lowest quintile
<i>Other Measures</i>	
Federal Government Capacity	
Debt	As Percent of Gross Domestic Product
Surplus/Deficit	As Percent of Gross Domestic Product
Receipts	As Percent of Gross Domestic Product
Personal Income Taxes A <sup>7</sup>	As Percent of Total Revenue
Corporate Taxes <sup>7</sup>	As Percent of Total Revenue
Social Security Contributions <sup>7</sup>	As Percent of Total Revenue
Money Supply	M1 as Percent of Gross Domestic Product
Labor Force Participation	Labor force participation rate of all civilians aged 16 or above
Personal Income Taxes B <sup>8</sup>	As Percent of Personal Revenue
Personal Savings <sup>9</sup>	As Percent of Disposable Income
Unemployment	Annual Unemployment Rate
Unemployment Duration	Annual, Average Weeks

*Sources:* <sup>1</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2003d;

<sup>2</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2003g; <sup>3</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2003c; <sup>4</sup> Bureau of Labor Statistics, 2003; <sup>5</sup> U.S. Bureau of the Census, 2003b; <sup>6</sup> U.S. Bureau of the Census, 2003a; <sup>7</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2003b; <sup>8</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2003f; <sup>9</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2003e.

liabilities. Employee Compensation A included wage and salary accruals, as well as supplements to wages and salaries such as employer contributions to social insurance. Corporate Profits B and Employee Compensation B were determined by using the implicit price deflator for gross product of non-financial corporate business divided by 100. Corporate Profits B also incorporated inventory valuation and capital consumption adjustments and excluded tax liabilities. Compensation B incorporated unit labor costs.

*Productivity.* Productivity measures included Real Gross Domestic Product, percent changes in Real Gross Domestic Product from preceding periods, Output per Hour, and percent changes in Output Per Hour. The chained estimates of Real Gross Domestic Product were used rather than current dollars because they are the best available method for comparing the level of a given series at two points in time. For further related information regarding chained estimates, see U.S Department of Commerce, Bureau of Economic Analysis (2003a).

*Poverty & Inequality.* Two measures of poverty included percents of individuals and families whose incomes fell below official U.S. poverty thresholds. Income inequality included Family Inequality A, measured as the Gini Index, a general measure of inequality among all families. The Gini Index ranges from 0 when all families have equal shares of income, to 1.0 when one family has all the income and the rest none (Jones & Weinberg, 2000). Income inequality also included Family Income Inequality B and C. Family Income Inequality B comprised ratios of aggregate shares of family income of the highest quintile to those of the lowest quintile, while Family Income Inequality C comprised those of the top five percent of families to those of the lowest quintile.

*Other Measures.* Several measures captured Federal Government capacity, including debt, surplus/deficits, and total receipts as percents of GDP. The sources of Federal receipts (Personal Income Taxes A, Corporate Taxes, and Social Security Contributions) as percents of total revenue were calculated from seasonally adjusted annual data. Money supply (M1) was included in part because of the Federal Reserve Board's shift in emphasis from money targeting in the pre-Reagan decades to interest targeting during the Reagan administration and afterwards (Arestis & Sawyer, 2003; Bernstein, 2001). Monetary policy is one of two main mechanisms by which the Federal Government exerts control over the economy. Unlike the mechanism of fiscal policy, which is subject to Congressional debate and approval, however, monetary policy, for which the Federal Reserve Board has responsibility, largely falls outside the political process per se.



*Procedures*

Analysis of Variance (ANOVA) was used to determine differences in each study measure by presidential term. Use of ANOVAs by presidential administrations made possible comparisons within the pre- and post-Reagan periods as well as between these two study periods. When statistically significant differences were found overall on a measure, post hoc analyses were done to determine differences between specific pairs of presidential terms. The Scheffe post hoc procedure was used when Levine's test of the null hypothesis for homogeneity of variance was accepted and the Games-Howell procedure was used when Levine's test of the null hypothesis for homogeneity of variance was rejected.

*Results**Differences in Economic Well-being by Presidential Terms*

As can be seen in Table 2, ANOVA results showed that no overall statistically significant differences by presidential terms were found for percentage changes in GDP, percentage changes in labor output per hour, or personal income taxes as a percent of personal income. Further, although an overall statistically significant difference by presidential terms was found for Federal revenue as a percent of GDP, post hoc analysis showed no such paired-comparison differences. Statistically significant differences were found for both measures of corporate profits, one measure of productivity (Real GDP), all three measures of costs associated with productivity, and all five measures of poverty and inequality, as well as all other measures of economic well-being in the U.S.

*Corporate Profits.* Corporate profits as a percent of national income ranged from a high of 8.6% under the Johnson administration to a low of 6.1% under the GH Bush administration. They were statistically indistinguishable during the Johnson, Kennedy, and Clinton administrations. During the Clinton administration, corporate profits as a percent of national income were greater than those of the Reagan administration. No statistically significant differences were found between the GW Bush administration and any other presidential terms.

Corporate profits as price per unit of Real GDP ranged from a high of 7 cents during the Clinton administration to a low of 2 cents during the Nixon administration. They were statistically indistinguishable during the Clinton and GW Bush administrations. Corporate profits as price per unit of Real GDP were greater during the Clinton administration than were those of the Reagan and GH Bush administrations, which in turn had greater profits than all other presidential terms, except as noted that of the GW Bush administration. On the whole, corporation profits accounted for greater shares of national income during the Democratic presidential terms of Kennedy, Johnson, and Clinton, but in terms of price per unit of Real GDP, corporations fared better during the Clinton and GW Bush administrations.

*Productivity.* Real GDP ranged from a high of \$9.3 trillion during the GW Bush administration to a low of \$2.6 trillion during the Kennedy administration, as measured in chained 1996 dollars. The GW Bush Administration had a higher Real GDP than that of all other presidential terms. The Clinton administration had a greater than Real GDP than that of the GH Bush administration, which in turn had a higher Real GDP than that during the Reagan administration. The Real GDP was statistically indistinguishable during the Reagan, Carter, Ford, and Nixon administrations and these were greater than that of the Johnson administration, which in turn had a greater GDP than that of the Kennedy administration.

Statistically significant differences by presidential administration were also found in regard to output per hour of all persons in non-farm businesses. Output per hour ranged from a high of 120.2 (with 100 = 1992) during the GW Bush administration to a low of 56.0 during the Kennedy administration. During the Clinton administration it was greater than that of all other presidential terms, with the exception of the GW Bush administration. Output per hour during the GH Bush administration was greater than that of the Reagan administration. During the Carter administration it was statistically indistinguishable from that of the Ford and Nixon administrations, all of which in turn had higher output per hour than the Johnson and Kennedy administrations. Output per hour during the Reagan administration was also greater than that of the Nixon administration.

Table 2  
ANOVA Results

Measure	Kennedy (JFK)	Johnson (LBJ)	Nixon (RN)	Ford (GF)	Carter (JC)	Reagan (RR)	Bush (GHB)	Clinton (WJC)	Bush (GWB)	F-value	Post Hoc Tests Results
Profits											
Corp. Profits A	7.68	8.61	6.22	6.46	6.49	6.05	6.01	7.58	6.72	08.59***	LBJ > JC, RN, RR, GHB; WJC > RR
Corp. Profits B	0.03	0.03	0.02	0.03	0.03	0.05	0.05	0.07	0.06	36.70***	WJC > RR, GHB > JC, GF, LBJ, JFK, RN; WJC, GWB
Productivity											
Real GDP-billions \$s	2567	3175	3828	4198	4771	5586	6714	8061	9327	99.75***	GWB > WJC > GHB > RR, JC, GF, RN > LBJ > JFK;
Changes in Real GDP	4.20	5.22	2.85	2.60	3.28	3.36	1.95	3.70	1.35	01.07	
Output per Hour	55.97	64.22	72.43	78.85	82.08	88.36	96.48	107.18	120.20	108.30***	WJC > GHB > RR, JC, GF, RN > LBJ, JFK; RR > RN; GWB, WJC
Changes in Output/Hr	3.77	2.92	1.77	3.15	0.55	1.68	1.70	1.89	3.65	02.06	
Costs											
Employee Comp. A	68.68	68.96	72.74	72.81	72.48	73.53	72.38	71.39	71.95	16.47***	GF, RN, RR, JC, GHB, GWB, > LBJ, JFK; GWB, WJC > JFK

Employee Comp. B	0.18	0.19	0.24	0.31	0.38	0.52	0.61	0.65	0.69	311.85***	GWB, WJC, GHB > RR > JC, GF > RN > LBJ, JFK; GWB > GHB; RR > GF
Federal Taxes	42.74	39.66	45.89	43.79	46.08	38.35	39.80	36.39	46.78	03.12*	GWB, JC, RN, GF, JFK, GHB, LBJ, RR, WJC; RN, GF > JC
Poverty & Inequality											
Individual Poverty	20.80	15.60	11.90	12.05	11.93	14.08	13.83	13.29	11.90	17.89***	JFK, LBJ, RR, GHB, WJC, GF, JC, RN, GWB; JFK > RR > GF
Family Poverty	17.07	12.42	9.45	9.55	9.46	11.34	11.10	10.50	9.40	17.97***	JFK, LBJ, RR, GHB, WJC, GF, JC, RN, GWB; JFK > RR > GF
Family Inequality A <sup>1</sup>	0.37	0.35	0.35	0.36	0.36	0.39	0.40	0.43	0.44	140.14***	WJC > GHB > RR, JC, GF, RN, LBJ; GHB > JFK, JC
Family Inequality B <sup>1</sup>	8.49	7.62	7.40	7.27	7.62	8.88	9.89	11.11	11.36	74.07***	WJC > GHB > RR, JFK, JC, LBJ, RN, GF; RR > JC; JFK > RN
Family Inequality C <sup>1</sup>	3.28	2.94	2.81	2.66	2.77	3.31	3.89	4.82	5.00	76.46***	WJC > GHB > RR, JFK, LBJ, RN, JC, GF; RR > JC
Other Measures											
Federal Government Debt	43.60	35.82	27.08	26.40	26.75	34.86	44.00	45.06	33.70	16.68***	WJC, GHB, JFK > LBJ, RR, GWB > RN, JC, GF

<i>Measure</i>	<i>Kennedy</i> (JFK)	<i>Johnson</i> (LBJ)	<i>Nixon</i> (RN)	<i>Ford</i> (GF)	<i>Carter</i> (JC)	<i>Reagan</i> (RR)	<i>Bush</i> (GHB)	<i>Clinton</i> (WJC)	<i>Bush</i> (GWB)	<i>F-value</i>	<i>Post Hoc Tests Results</i>
<b>Federal Government</b>											
<i>continued</i>											
Surplus/Deficit(-)	-0.090	-1.12	-0.93	-3.80	-2.43	-4.23	-3.98	-0.76	-0.01	06.51***	RR, GHB, GF, JC, LBJ, RN, JFK, WJC, GWB; GHB > LBJ, RN, JFK; RR > WJC
Federal Revenue	17.67	17.56	18.23	17.55	18.33	18.16	17.90	19.14	18.90	02.33*	WJC, GWB, JC, RN, RR, GHB, JFK, LBJ, GF
Per. Inc. Tax A	35.29	34.17	36.62	35.27	38.06	38.21	37.33	39.11	40.95	05.81***	GWB, WJC, RR, JC, GHB, RR, JFK, GF, LBJ; WJC > LBJ; RR > JFK
Corp. Taxes	16.57	16.68	12.85	12.43	12.53	8.77	8.56	9.31	7.04	88.89***	LBJ, JFK > RN, JC, GF > WJC, RR, GHB, GWB
Soc. Sec.	13.08	15.04	17.92	20.65	21.21	24.28	25.68	24.50	25.13	74.85***	GHB, WJC, RR > JC, GF, RN, LBJ, JFK; GHB, GWB > JC; RN > JFK
Contrib.											
Money Supply	5.80	5.55	6.22	7.06	7.73	10.77	13.15	13.87	12.86	52.07***	WJC, GHB, GWB, RR > JC, GF, RN > JFK, LBJ

Labor Force Part.	58.93	59.20	60.53	61.40	63.25	64.74	66.40	66.85	66.75	180.92***	WJC, GWB, GHB > RR, JC, GF, RN > LBJ, JFK
Per. Inc. Tax B	10.10	9.67	10.38	09.32	10.42	9.88	9.32	10.38	10.45	01.33	GF, RN, JC, RR, LBJ, JFK,
Personal Savings	8.13	8.70	9.55	10.00	9.28	9.20	8.08	7.74	3.00	17.62***	GHB > WJC, GWB
Unemploy. Rate	5.97	4.18	5.07	8.10	6.53	7.54	6.30	5.20	5.30	06.92***	GF, RR > LBJ; RR > WJC, RN
Unemploy. Duration	14.77	10.52	09.92	15.00	12.23	15.76	13.83	15.80	14.90	06.84***	WJC, RR > LBJ, RN

<sup>1</sup> The Presidential Term of George W. Bush was omitted on this measure because data were unavailable for 2002.

On the whole, productivity as measured by Real GDP and Output per Hour was highest in the GW Bush and Clinton administrations. There was no statistically significant difference in regard to the rate of change in either of these two measures between any presidential terms.

In regard to costs associated with productivity, statistically significant differences were found by presidential terms on all three measures. Employee compensation as a percent of national income ranged from a high of 73.5% during the Reagan administration to a low of 68.8% during the Kennedy administration. It was statistically indistinguishable among all presidential terms from Nixon through GW Bush. All but the Clinton administration had higher employee compensation as a percent of national income than that of the Johnson and Kennedy administrations, whereas that of the Clinton administration was greater than that of the Kennedy administration.

Employee compensation, as price per unit of Real Gross Profit in non-financial corporate business, ranged from a high of 69 cents during the GW Bush administration to a low of 18 cents during the Kennedy Administration. It was statistically indistinguishable during the GW Bush, Clinton, and GH Bush administrations. Each of these presidential terms had greater such employee compensation than that of the Reagan administration, which in turn had a greater percentage than that of the Carter administration. During the Carter administration such employee compensation was comparable to that of the Ford administration, both of which had higher levels than that of the Nixon administration, which in turn had a higher level than those of the Johnson and Kennedy administrations. In addition, employee compensation as price per unit of Real Gross Profit was higher in the GW Bush administration than it was during the GH Bush administration and it was higher in the Reagan administration than it was during the Ford administration.

Finally, Federal corporate profit taxes as a percent of corporate profits ranged from a high of 46.9% during the GW Bush administration to a low of 39.7% during the Kennedy administration. They were statistically indistinguishable among presidential terms, with one exception: corporate profit taxes were higher as a percent of corporate profits during the Nixon and Carter administrations than during the Clinton administration.

On the whole, workers fared much better in terms of their compensation in the late 1980s and 1990s than they did during the late 1970s and most of the 1980s, but even during the presidential terms of Nixon and Carter they fared better than they did during the Johnson and Kennedy administrations. As workers were doing better, corporate taxes as a percent of their profits remained relatively flat between 1961 and 2002, with the exception of the Nixon and Ford administrations when they exceeded those of the Clinton administration.

*Poverty & Inequality.* Rates of both individual and family poverty ranged from highs of 20.8% and 17.7% respectively during the Kennedy administration to lows of 11.9% and 9.4% during the GW Bush administration. On both measures, the Kennedy administration had greater rates of poverty than all other presidential administrations with the exception of the Johnson administration from which it was statistically indistinguishable. The Reagan administration nonetheless had higher rates of individual and family poverty than those of the Ford administration, whose rates of individual and family poverty were comparable to those of the Carter, Nixon, and GW Bush administrations. The higher individual and family poverty rates of the Reagan administration were also comparable during the GH Bush, and Clinton administrations.

As measured by the Gini Coefficient, family inequality ranged from a high of .43 during the Clinton administration to a low of .35 during the Johnson and Nixon administrations. As the ratio of aggregate shares of family income, families in the top five percent of incomes and in the highest quintile earned highs of 4.8 and 11.1 more respectively than did families in the lowest quintile during the Clinton administration, whereas they earned lows of 2.7 and 7.3 times more respectively during the Ford administration.

Although there was variation across presidential terms, family inequality reached their highest levels on all three measures during the Clinton administration, surpassing that of all other presidential terms. It should be noted, that in the first year of the GW Bush administration (the measures were unavailable for the second year of the Bush Administration at the time of the study), the measures of family inequality were quite close to and slightly higher than those of the Clinton administration: .44 on the



Gini Coefficient, 5.0 and 11.4 respectively on shares of aggregate family income of top five percent and high quintile vs. the lowest quintiles.

On the whole, rates of individual and family poverty were highest in the 1960s, declined somewhat in the 1970s, but stabilized upward in the 1980s and afterwards. Family inequality increased during the Reagan and GH Bush administrations, but increased even more during the Clinton administration.

*Other Macroeconomic Measures.* Measures related to Federal Government capacity included Federal debt, surplus/deficit, and receipt as percents of GDP, personal income taxes, corporate taxes, and Social Security contributions as percents of Total Federal Revenue. Government debt as a percent of GDP ranged from a high of 45.6% during the Clinton administration to a low of 26.4% during the Ford administration. It was statistically indistinguishable during the presidential terms of Clinton, GH Bush, and Kennedy, all of whom had greater government debt to a statistically significant degree than those of the Johnson, Reagan, and GW Bush administrations, which in turn had statistically significant higher percentages of debt than the comparable levels during the Nixon, Carter and Ford administrations.

The government deficit as a percent of GDP ranged from a high of 4.23% during the Reagan administration to a low of 0.76% during the Clinton administration. It was statistically indistinguishable during the Reagan and GH Bush administrations, both of which had statistically significant greater deficits than those in the Johnson, Nixon, and Kennedy administrations. Deficits during the Clinton administration were statistically comparable to those of the GH Bush and GW Bush administrations.

Government receipts as a percent of GDP ranged from a high of 19.1% during the Clinton administration to a low of 17.6% during the Ford administration. Despite an overall statistically significant difference in receipts as percents of GDP ( $F = 2.33, p < .05$ ), post hoc analysis indicated no statistical differences among the cross comparisons between presidential terms.

On the whole, the Federal Government ran comparable debts during the early and latter years of the study period, namely in the 1960s and in the 1980s and afterwards, while it ran greater deficits,

as a percent of GDP, primarily during the Reagan administration. Throughout the entire study period, Total Receipts, as a percent of GDP, were comparable across presidential administrations.

Personal income taxes, as a percent of the Federal Government's Total Revenue, ranged from a high of 41.0% during the GW Bush administration to a low of 34.2% during the Johnson administration. It was statistically indistinguishable during the GW Bush and Clinton administrations. The Clinton administration received a greater portion of Total Revenue from personal income taxes than that of the Johnson administration and the Reagan administration received a greater portion than that of the Kennedy, Ford, and Johnson administrations. No other differences in personal income taxes as percents of Total Revenue were found among other cross-paired comparisons of presidential terms.

Corporate taxes as a percent of Total Revenue ranged from a high of 16.7% during the Johnson administration to a low of 7.0% during the GW Bush administration. The Kennedy and Johnson administrations generated statistically significant higher percentages of Total Revenue from corporate taxes than the Nixon, Carter, and Ford administrations. The Clinton, Reagan, GH Bush, and GW Bush administrations generated comparable percentages of Total Revenue from corporate taxes and these percentages were in turn lower to a statistically significant degree than all other cross-paired comparisons with other presidential terms.

Social Security contributions as a percent of Total Revenue ranged from a high of 25.7% during the GH Bush administration to a low of 13.1% during the Kennedy administration. During the GH Bush, Clinton, and Reagan administrations they were greater to a statistically significant degree than those of all other cross-paired comparisons of presidential terms. The GW Bush administration had a greater percentage of Total Revenue from Social Security contributions than the Carter administration. The Nixon administration had a greater percentage than that of JFK. On the whole, personal income taxes and Social Security contributions increased as proportions of Total Revenue from the 1980s onward, while those of corporate taxes declined.

Other macroeconomic measures included the M1 supply of money as a percent of GDP, labor force participation rates of all

persons 16 years of age and older, personal income taxes as a percent of personal revenue, personal savings as a percent of personal disposable income, annual unemployment rates, and average number of weeks unemployed per year. The M1 supply of money ranged from a high of 13.9% of GDP during the Clinton administration to a low of 5.6% during the Johnson administration. It was more plentiful to a statistically significant degree during the Clinton, GH Bush, GW Bush, and Reagan administrations than all other presidential terms. M1 was more plentiful to a statistically significant degree during the Carter and Ford administrations compared to that of the Nixon administration, which in turn had a greater M1 supply than the roughly comparable supplies in the Kennedy and Johnson administrations.

The labor force participation rate ranged from a high of 10% during the Clinton administration to a low of 58.9% during the Kennedy administration. The Clinton, GW Bush, and GH Bush administrations had higher rates than those of the Reagan, Carter, Ford, and Nixon administrations, which, in turn, had higher rates than did the Johnson and Kennedy administrations. On the whole, the greater availability of money supply from the Reagan administration onwards was accompanied by greater labor force participation rates.

Personal income taxes as a percent of personal revenue ranged from a high of 14.4% during the GW Bush and Carter administrations to a low of 9.3% during the GH Bush and Ford administrations. No statistically significant relationship was found in regard to personal income as a percent of personal revenue by presidential terms.

Personal savings as a percent of disposable income ranged from high of 10.0% during the Ford administration to a low of 3.0% during the GW Bush administration. The Ford, Nixon, Carter, Reagan, Johnson, Kennedy, and GH Bush administrations had higher percentages of personal savings rates than the comparable rates of the Clinton and GW Bush administrations. On the whole, despite the greater availability of money supply and greater labor force participation rates in the latter half of the study period and despite the relatively stable level of personal income taxes as a percent of personal revenue, personal savings were

lowest throughout the 1990s, during the Clinton and GW Bush administrations.

The unemployment rate ranged from a high of 8.1% during the Ford administration to a low of 4.2% during the Johnson administration. The Ford and Reagan administrations had higher rates than that of the Johnson administration. Further, the Reagan administration had higher unemployment rates than those of the Clinton and Nixon administrations. No other differences in unemployment rates were found among other cross-paired comparisons of presidential terms.

The average number of weeks unemployed ranged from a high of 15.8% per year during the Clinton administration to a low of 9.9% during the Nixon administration. Duration of unemployment during the Clinton and Reagan administrations was longer than those of the Johnson and Nixon administrations. No other differences in duration of unemployment were found among other cross-paired comparisons of presidential terms. On the whole, the improving economy and greater availability of money supply from the Reagan Administration onwards was accompanied by higher rates of unemployment during the 1980s and longer duration of unemployment spells during the 1990s.

### Discussion

Results of this study indicate that the “great divide” thesis regarding the U.S. economy before and after the Reagan administration depends on which measure of the economy is the focus of attention. In addition, on some measures where before and after differences are detected, the nature of those differences is paradoxical. Further, findings provide some evidence corroborating neoclassic economic theory in regard to incentives and productivity and they present a challenge to activists who equate income inequality and poverty as natural or inevitable byproducts of the more market-driven fiscal and monetary policies of the 1980s and 1990s.

Measures supporting the thesis include Corporate Profits as a percent of GDP, Real GDP, Output per Hour, Employee Compensation, Income Inequality, Federal Deficits, Personal and

Corporate Income Taxes, Social Security contributions, Labor Force Participation, M1 Money Supply, Unemployment Rates, and Duration of Unemployment. Measures not supporting the thesis include Corporate Profits as a Share of National Income, Corporate Taxes, changes in Real GDP and Output per Hour, Individual and Family Poverty, Federal Debt, and Total Federal Revenues.

Findings of this study indicate that corporate profits accounted for greater shares of national income during the Democratic presidential terms of Kennedy, Johnson, and Clinton. This finding is consistent with Varian (2003) who reported results of a study showing that investments in stocks outperformed bonds under Democrats rather than under Republican presidents. In addition, corporate taxes as a percent of their profits remained relatively flat between 1961 and 2002, with the exception of the Nixon and Ford administrations when they exceeded those of the Clinton administration. In regard to corporate profits as a share of national income and corporate taxes as a percent of their profits, the "great divide" thesis does not hold.

In terms of corporate profits as a percent of Real GDP, however, findings of this study show that corporations fared better throughout the 1980s and 1990s, especially during the Clinton and GW Bush administrations. These findings indicate that economic welfare measured by Real GDP and corporate profits were more closely tied together following the Reagan administration than prior to it. The "great divide" thesis holds. Overall, these findings suggest that whether Democrats or Republicans occupy the White House corporations benefit relative to Real GDP whenever the virtues of market mechanisms are extolled and form the basis of economic policies.

In regard to productivity, the "great divide" thesis gets mixed support. Findings show that productivity as measured by Real GDP and Output per Hour were highest in the GW Bush and Clinton administrations, but there were no statistically significant differences found in regard to the rate of change on either of these two measures between any presidential terms. That is, productivity increased constantly, but it did so at an even rate that did not correlate with presidential administrations. Hence, the size of the economy and level of worker output per hour were

greater after than before the Reagan administration, supporting the "great divide" thesis. Nonetheless, the relatively similar rates of change on each of these measures between presidential terms cast doubts on the "great divide" thesis.

Findings indicate that workers fared much better in terms of their compensation in the late 1980s and 1990s than they did during the late 1970s and most of the 1980s. In addition, findings indicate that workers' shares of national income were paradoxically higher during Republican administrations than the earlier Democratic administrations and to a lesser extent than the Clinton administration when corporate shares were highest. In regard to workers' compensation, the "great divide" thesis for the most part holds. These findings are consistent with related results showing the greater availability of the M1 supply of money from the Reagan administration onwards and the greater labor force participation rates. After the inflationary 1970s, Federal Reserve efforts to curb inflation and lower interest rates made more money available, which invariably contributed to increasing productivity and wages, as well as to drawing proportionately more of the working age population into the labor force. Overall, findings about workers' compensation and corporate profits corroborate neoclassical economic theory regarding incentives and productivity. They provide some evidence for the "great divide" thesis: fiscal and monetary policies since the Reagan administration sought and apparently achieved a better match between increasing productivity and its rewards to corporations and workers in the aggregate. It should be noted, however, that total compensation, which includes fringe benefits, is not the same as wages, which declined or remained flat from the late 1970s through the mid-1990s (Bernstein & Mishel, 1997).

In regard to poverty and inequality, findings indicate that the rates of individual and family poverty were highest in the 1960s, declined somewhat in the 1970s, but they stabilized upward in the 1980s and afterwards. Findings also indicated that family inequality increased during the Reagan and GH Bush administrations, but increased even more during the Clinton administration. These findings in part contradict Stiglitz (2003) who claimed that poverty was reduced and inequality halted during the Clinton administration (p. xxi). Rather, they support

both neoclassical economic theory and the "great divide" thesis in regard to inequality: inequality substantially increased, as did the economy, more so after the Reagan administration than before it. Findings, however, did not support the "great divide" thesis in regard to individual and family poverty, both of which stabilized upward in the 1980s and afterwards. They suggest on one hand that increasing productivity is insufficient to mitigate poverty rates and on the other hand that increased income inequality among families need not be accompanied by increased individual or family poverty. This is not to say that it does not matter if rich people get richer as long as poor people hold their own economically or move above the poverty line. These findings do suggest that redistributive arguments cast in zero-sum terms between inequality and poverty might be a harder sell even as a social justice issue (Nathanson, 1998). To the extent that increased income inequality is not accompanied by increased individual or family poverty rates, social welfare advocates and policy makers may want to focus on reducing poverty rather than income inequality as a social problem during times of economic expansion.

In regard to Federal capacity, findings indicate that the Federal Government ran comparable debts, as a percent of GDP, during the early and latter years of the study period, namely in the 1960s, the 1980s and afterwards, and that it ran greater deficits, also as a percent of GDP, primarily during the Reagan administration. As GDP increases, so does the national debt, signifying that presidential fiscal policies have been fairly consistent over the past four decades with national debt and GDP roughly balanced. In regard to national debt, the "great divide" thesis does not hold. Unlike debt, which is a cumulative sum that the nation owes its creditors, surplus/deficits reflect deviations from annual budgets. Findings suggest that the amount of national debt per se need not be problematic to the extent it remains a relatively constant proportion of GDP. To the extent the nation borrows money to pay for annual deficits, however, the nation's debt increases. Whether or not the nation's productivity can increase sufficiently to generate the funds necessary to meet the Social Security obligations of the Baby Boom generation in the absence of other programmatic changes is uncertain at best.

Findings also indicate that Total Receipts, as a percent of GDP, were comparable between presidential terms throughout the entire study period. The “great divide” thesis does not hold for Total Receipts. Nonetheless, results show that personal income taxes and Social Security contributions increased as proportions of Total Revenue from the 1980s onward, while those of corporate taxes as a proportion of Total Revenue declined. As Friedman (2003) also documents, there has been a role-reversal regarding Social Security contributions and corporate income taxes as shares of Federal tax receipts, with corporate income taxes reaching its peak of 32% of Federal tax revenues in 1952 to just over 7% in 2003 and payroll taxes representing about 10% of Federal tax revenues in 1952 and 40% in 2003. The “great divide” notion does not hold in regard to the components of Total Revenue. These findings suggest that the favorable tax treatment the Federal Government gave to corporations over the past two decades was accompanied, as previously noted, by greater levels of GDP, as well as of employee compensation, but also by greater income inequality without any discernable reduction in poverty rates. Workers may have benefited from higher levels of compensation in the post-Reagan era, but their take home pay was partially eroded by increased income and payroll taxes, while corporations enjoyed the dual rewards of lower taxes and higher profits.

Finally, costs associated with greater levels of GDP, employee compensation, and labor force participation rates since the 1980s include higher rates of unemployment during the 1980s and longer duration of unemployment spells and lower levels of personal savings throughout 1990s. These findings support the “great divide” thesis and represent the downside of efforts relying primarily on market forces to increase productivity. Nonetheless, given these costs, especially higher unemployment rates and greater duration of unemployment, it is all the more remarkable that individual and family poverty rates remained relatively flat once they stabilized upwards in the 1980s and afterwards from the 1970s rates but still below the 1960s rates. A question policy makers and others must face is whether the overall benefits of the economy throughout the 1980s and 1990s were good enough. For many they are not (e.g., Goolsbee, 2003; Roach, 2003) and to the extent that structural changes in the economy portend decreases



in the rates of job creation, the future holds less promise in the absence of government intervention (Groshen & Potter, 2003). Perhaps costs associated with reducing individual and family poverty rates, however, are more than the country is willing to bear.

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