Politics, preferences, and prices: the political consequences of inequality[1]

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Abstract
Drawing on the literature from both political science and economics, I identify four main channels through which democracy may be harmed by economic inequality: an increasing political responsiveness to the wealthy (via lobbying, campaign finance, etc.) simultaneously coupled with a decreasing political responsiveness to the poor and the middle class, increasing political instability, the ability of corporations and financial elites to subvert market reforms enacted by political consensus, and a shift of political preferences toward authoritarian political leaders. I argue that while the first three reasons have received sufficient attention in the literature, not enough attention has been paid to the way in which economic inequality alters the preferences of the electorate. I pull from work on endogenous preferences as well as longstanding arguments from the institutionalist economic perspective to support this argument.

I. Introduction

Political and economic inequalities are inevitably related. Much of the literature addressing the economic consequences of inequality has focused on politics as the mechanism through which economic inequality impinges on growth (Alesina and Rodrik, 1994; Perotti, 1993). The researcher who wishes to develop a complete understanding of inequality must find a way to disentangle the economic effects of inequality from the political effects. The goal of this paper is to isolate the latter. Specifically, I wish to address some of the ways in which economic inequality may be harmful for democracy. If economic inequality inhibits the ability of all members of society to obtain equal representation in government, then – as one researcher put it – such a government is a “democracy in name only” (Gilens, 2005). Drawing on the literature from both political science and economics, I identify four main channels through which democracy may be harmed by economic inequality: an increasing political responsiveness to the wealthy (via lobbying, campaign finance, etc.) simultaneously coupled with a decreasing political responsiveness to the poor and the middle class, increasing political instability, the ability of corporations and financial elites to subvert market reforms enacted by political consensus, and a shift of political preferences toward authoritarian political leaders. In reduced form, economic inequality creates political power, political instability, market power, and shifts in preferences all of which act in ways detrimental to democracy. The first three are well documented in the literature on inequality. I cover these views in Section II. In contrast, I argue not enough attention has been paid to the way in which economic inequality alters the preferences of the electorate. I pull from work on endogenous preferences as well as longstanding arguments from the institutionalist economic perspective to support this argument.

The rest of the paper is organized as follows: after covering the political and market power views and their critiques in Section II, I argue for the importance of the institutionalist /

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endogenous preference position in Section III. Section IV considers objections to the endogenous preference view. Section V concludes.

II. Democracy or plutocracy?

There is an extensive literature on both the political (Apel, 2016; Bartels, 2008; Gilens, 2005, 2012; Hacker and Pierson, 2010) and economic (Klasen, 2012; Piketty, 2014; Stiglitz, 2012; Wisman, 2008) causes and consequences of inequality. Rather than addressing each of the works in this literature individually, in this section I turn my attention to two works that advance the two most important points of this literature more broadly: the problem of political responsiveness (Gilens, 2005) and the problem of political instability (Alesina and Perrotti, 1996).

The question of political responsiveness is an empirical one. Gilens (2005) attempts to give an answer using longitudinal data on public opinion and political outcomes over the period 1981–2002. The dataset consists in 1,781 questions indicating the proportion of individuals who "favor" or "oppose" a given policy proposal, with data broken out by categories of income, race, education, sex, etc. In addition to the proportion of respondents, Gilens' (2005) data contains the actual policy response of the government. Thus, breaking up the proportions of "favor" and "oppose" by income level, and relating these to the policy outcome, one has a potential test of the impact of income inequality on policy. If the preferences of the rich tend to outweigh the preferences of the poor and the middle class in determining policy, then income inequality may be harmful to democracy. If a society becomes more unequal over time, one might expect the "voice" of the poor in government to gradually decline if the above holds.

To test this hypothesis Gilens (2005) estimates a logit model in which the policy outcome – taking a value of 1 for a change and 0 otherwise – is regressed on the proportion of respondents within the given category that favor the policy change. Two main results appear. First, it appears that policy has a strong status-quo bias. Even if a majority of the population prefers a new policy, it is still relatively unlikely to pass (the predicted probability of a policy passing if 90% of the population is in favor is only 46% (p.785)). Gilens (2005) argues that this is consistent with the desire of the framers of the constitution to "inhibit the 'tyranny of the majority'" (p.786). The second finding, and the crucial one for the relationship between inequality and democracy, is that the preference-policy link becomes weaker as you move down the income distribution. Gilens (2005) estimates that an increase in the percent of individuals at the 10^{th} percentile of the income distribution who support a given policy from 10% to 90% increases the predicted probability of change from approximately 20% to 40%. In contrast, an increase in the percent of individuals at the 90^{th} percentile of the income distribution who support a given policy from 10% to 90% increases the probability that the policy will be adopted from approximately 12% to almost 50% (note that when the proportion of high-income earners that supports the policy is low, the probability that the policy passes is lower than when the proportion of low-income individuals that supports the policy is low).

This result becomes even starker when divergence in preference between the poor and the wealthy is allowed. Gilens (2005) finds that when preferences diverge between the 90^{th} and 10^{th} percentiles, an increase from 10% support to 90% support at the 10^{th} percentile has zero effect on the predicted probability of a policy change. In contrast, given preference divergence, an increase in support at the 90^{th} percentile from 10% to 90% increases the predicted probability of a policy change from approximately 15% to almost 50%. Thus, in the case of a disagreement between the rich and the poor, the will of the rich wins out.

What Gilens (2005) is not clear on is the mechanism by which the rich assert their influence. Three potential mechanisms suggest themselves however: lobbying, political advertising, and campaign contributions (Hacker and Pierson, 2010). The role of political advertising is of particular interest in the United States since the decision on *Citizens United v. FEC* in 2010. With its decision on *Citizens United* the Supreme Court determined that freedom of speech laws prevent the federal government from prohibiting the creation of, donation of money to, and independent expenditure of money by "non-profit" corporations such as political action committees (PACs) (*Citizens United v. Federal Election Commission,* 558 U.S. 310). These "non-profits" thus present themselves as an opportunity to obtain an essentially limitless source of support for political candidates, insofar as they can acquire adequate donations and purchase expensive advertising. While not directly preventing poor or middle class individuals from expressing their political opinion, insofar as the rich can out-advertise (and out-fund) candidates supported by the rest of the income distribution, they can effectively yell over them. In a ruling that amounts to declaring "money is speech," the Supreme Court determined the poor should have no voice.

In addition to the role played by political advertising, the role of lobbying in shaping the preferences of politicians is well known to economists and political scientists alike. There is a large literature in economics on the role of lobbying in policymaking (Mitra. 1999; Esteban and Ray, 2006), the results of which indicate that the influence of the wealthy increases with the amount of money they contribute to political lobbying.

Finally, the mechanism of simple campaign contributions and contribution of time to political campaigns is suggested by Gilens (2005): "[t]he most obvious source of influence over policy that distinguishes high-income Americans is money and the willingness to donate to parties, candidates, and interest organizations" (p.793). The rich are substantially more likely to donate to an individual candidate, and other research indicates that propensity to donate and the size of donations increase with income level (Gilens, 2005). Additionally, the rich are likely less time-constrained in terms of their income earning ability (i.e. an extra dollar earned by the rich is less likely to go toward purchasing the necessities of life than an extra dollar earned by the poor or the middle class) and as such may be more likely and/or able to spend their time volunteering for political campaigns in the form of canvassing, phone-banking, or otherwise.

The weakness in Gilens' (2005) argument is a lack of control for other variables possibly affecting governmental responsiveness. Indeed, the question of causality is that which plagues Gilens' (2005) findings most. The most obvious omitted variable candidate is a control for voter turnout. Although Gilens' (2005) data measures the level of support for various policies across income percentiles, it is not clear that high levels of support necessarily translate to increased voter turnout at all percentiles. If those at the top end of the income distribution tend to vote more frequently and in higher density, then increasing policy responsiveness to those with top incomes when preferences diverge across the income distribution is explained by the relative amount of votes cast. This differential matters, but it implies the question of interest is not "why is policy more responsive to those at the top?" but "why do those at the top vote more at the bottom?" Voting inequality matters for how economic inequality translates to policy.

Earlier work by Alesina and Perotti (1996) supports the findings of Gilens (2005). These authors find that income inequality tends to fuel social discontent which can increase socio-political instability. Using a sample of 71 countries for the period 1960-1985, the authors estimate a simultaneous equations model looking at the dual impact of economic inequality on socio-political instability and of socio-political instability on investment. For the question at hand, it is primarily the first relationship I am concerned with. The authors make a compelling case that increasing income inequality is likely to result in increasing demand for political regime change, of which violence, expropriation of property, and illegal seizure of power may be a part. Regime change characterized by the aforementioned characteristics is evidently harmful to democracy. Thus, if the empirical results indicate that income inequality leads to increasing political instability, one would safely conclude that such inequality may undermine democracy.

To measure socio-political instability the authors construct an index which includes various signs of political instability, including: the relative ethnic homogeneity of the population, the average number of deaths in domestic disturbances (per million people), the average number of assassinations, the average number of successful and unsuccessful *coup d'état*, and a dummy for whether or not the current regime is a democracy, semi-democracy, or dictatorship. This composite index is regressed on variables for education, investment, and the inequality measure – an indicator of the share of the third and fourth income quintiles in total output (i.e. a measure of the size of the middle class). The authors find that a decrease in the size of the middle-class increases socio-political instability. The result is statistically significant and robust across a variety of specifications. Insofar as those who take advantage of political instability to gain power are likely to reside in the top portion of the income distribution, Alesina and Perotti's (1996) findings lend support to Gilen's (2005) argument.

Alesina and Perotti's (1996) argument runs into conceptual difficulties when one attempts to translate their findings into policy implications. A comparison with an earlier work, Alesina and Rodrick (1994), will serve to illustrate this point. Alesina and Rodrick (1994) find that economic inequality is potentially harmful for growth because increasing inequality is associated with a tendency to adopt redistributive policies that deviate from Pareto efficiency/The Golden Rule savings rate. Inequality thus creates problems for growth, but it does so without ever approaching the limit of socio-political instability. Redistributive polices may fall entirely within the realm of accepted democratic principles. The question therefore becomes, when is inequality more likely to lead to political instability relative to simple redistribution? The answer will depend on the institutional structure of the country in question. Some institutions may be robust to political instability at relatively high levels of inequality, while others may succumb to a *coup d'etat* for relative trivialities. There is a potential trade-off in policy making between allocating funds to fight inequality, and allocating funds to create institutions that are robust to it. The correct policy bundle will depend, in part, on the preferences of the electorate. Attention to the process through which such preferences are formed is therefore key to understanding how and when inequality can create socio-political instability that is harmful for democracy.

Increasing income inequality thus appears to negatively affect democracy via political channels in two ways: by decreasing the government's political responsiveness to the poor and the middle class and by increasing the likelihood of socio-political instability (through which democratically elected governments may be undermined). However, it is not only through political channels that income inequality may produce harmful political outcomes. Just as it is through political channels that economic inequality has been shown to negatively impact economic growth (Alesina and Rodrick, 1994), so too income inequality may work through economic channels to produce harmful political outcomes.

The main way economic inequality creates negative political outcomes through economic channels is via the increased power to avoid democratically enacted market reform that wealth confers to its owners. In standard economic jargon, wealth allows certain individuals and institutions to be price-makers when they would otherwise be price-takers. Two such examples will serve to illustrate the point: the concentration and magnitude of tax evasion among top income earners and corporations, and the ability of owners and firms to undermine collective bargaining by workers, thus removing Galbraith's (1952) "countervailing power".

One such example of a democratically enacted market reform is an increase in corporate or personal income taxation. If those at the top end of the income/wealth distribution are able to use the power granted them by wealth to move funds around in a way that makes those funds untaxable, then income inequality will tend to undermine democracy – insofar as it makes it difficult to enforce democratically enacted policy provisions. Recent work indicates that the ability of top income earners and wealth holders to engage in such activities is substantial. Zucman (2013; 2015) estimates that the amount of wealth held in tax havens is on the order of 8% of all global financial wealth. Zucman (2013) argues that properly accounting for this wealth would shift the Eurozone's balance-sheet position from net-debtor to net-creditor. Tax evasion on this scale represents a substantial loss – not only in terms of the lost government revenue and the "cost of rent-seeking" paid by those moving wealth, but also of the capacity of the state to enforce laws enacted by democratic means.

The second way inequality creates negative political outcomes through economic channels is via its attenuating effect on collective bargaining. It is no secret that union membership in the United States has seen precipitous declines since the 1980s. At the start of the great recession in 2008, union membership had fallen from its post-World War II peak of around 30% of the employed population to a mere 8% (Galbraith 2016, p.83). While some of this decline can be – and often is (Stiglitz, 2012; Atkinson, 2015; Apel, 2016; Galbraith, 2016) – ascribed to deliberate policy intervention on behalf of the federal government in the 1980s (noting also that a decline in union membership itself has an effect on income inequality), an important contributing mechanism is the rise of inequality itself. By altering the incentives of workers and management, rising inequality weakens the power of unions in both the wage-bargaining process and in the political arena.

To see this process clearly, consider a potentially "exogenous" factor (at least, to the wage-bargaining process) influencing inequality, such as skill-biased technical change. A worker near the top-end of the skill distribution will begin to see her wages rise as the relative demand for workers in her position increases. Workers such as this may also be given promotions (in all likelihood, the aforementioned wage increases may in-fact be tied to promotions). Assuming that such promotions – and the correlative subsequent pay raises – are contingent on conforming to norms of upper-management, skilled workers may be tempted to side with the management in labor disputes. As Atkinson (2015) points out, this dynamic may swing the balance of power in wage negotiations toward management, as employees that would otherwise have supported the union defect in hopes of currying favor. The incentive for such defection is increasing in the extent of inequality, insofar as increasing inequality raises the potential payout to defection. For large levels of inequality the incentive for any one employee to defect in a wage-bargaining game is high, even if the actual probability of receiving the payout is low. Inequality thus exacerbates trends worsening the relative position of workers in the labor market. The second order effect of this decline is the diminution of the political efficacy of unions.

To the extent that effective political organization depends on internal public goods and economies of scale, a decline in union membership resulting from rising inequality will undermine the ability of unions to effectively lobby for policies that further the interest of working class. Furthermore, a decline in union membership has a direct impact on the responsiveness of government to labor vis-à-vis its effect on total union income dues. If the effectiveness of any one lobby is mostly a function of wealth (Esteban and Ray, 2006; Hilber and Robert-Nicoud, 2013) then a decline in union funds will decrease relative lobby effectiveness. Increasing inequality will thus create more uneven political outcomes, and potentially harm democracy, by decreasing the voice of – and political responsiveness of the government to – the working class relative to the wealthy via its impact on unions.

III. Endogenous preferences and political authoritarianism

The impact of inequality on democracy via the political and economic mechanisms discussed above has received much attention elsewhere – if not together, then certainly separately. In this section I wish to turn to a potential consequence for democracy of economic inequality rarely addressed directly in the literature: the ability for changes in market structure to alter the tastes of the electorate. Despite the best laid plans (and models) of economists, preferences (including preference for a particular political candidate) are endogenous. A priori, there is no reason one should expect political preferences to stay constant in the face of rising inequality. I argue that inequality is harmful to democracy because individuals may either A) internalize the notion of a hierarchical society (the "go along to get along" model) or B) be pushed to political extremism. Both outcomes may lead to an increased preference for authoritarian political leaders and thus undermine democracy. In scenario A), an authoritarian leader might be preferred if voters internalize the notion that the wealthiest class is in some way superior. In scenario B), an authoritarian leader may be preferred if s/he promises to put an end to inequality. In either case democracy may be harmed. Ex-post, these two mechanisms may be difficult to differentiate. They need not be mutually exclusive however. Recent events in the politics of at least one major country indicate that these two currents at times overlap.[2] In what follows I discuss both how inequality may induce or alter preference formation, and how the two channels through which such preferences affect democracy overlap.

What is likely the oldest argument for endogenous preferences can be found in Thorstein Veblen's (2009 [1899]) *Theory of the Leisure Class*. Veblen (2009) argues over time there arises a distinction between the "employments proper to several classes" (7). This distinction references the exemption of certain wealthy groups from the need to engage in industrial occupations. Leisure, as opposed to industry, becomes the defining feature for this privileged group of individuals. This class is immediately posed with a problem however. Unlike the industrial occupations, the work of the leisure class has no obvious productive output. To maintain one's status as a member of the privileged class one must come up with creative ways to signal that s/he has not in fact been working. The result of these efforts is the development of the forms of "conspicuous leisure" and later, "conspicuous consumption." Veblen writes:

> "[T]he criteria of past performance of leisure therefore commonly take the form of 'immaterial' goods. Such immaterial evidence of past leisure are

[2] See the Trump phenomena in the United States.

> quasi-scholarly or quasi-artistic accomplishments and a knowledge of processes and incidents which do not conduce directly to the furtherance of human life" (p. 34).

The problem with the development of these patterns of conspicuous leisure and conspicuous consumption is that they are non-neutral with respect to the well-being of those not in the leisure class. Consumption and leisure are honorific, they confer one's social standing. The ability to evidence one's own conspicuous leisure, or to engage in conspicuous consumption, has an effect on an individual's place in the social order and on their social well-being. In Veblen's words, individuals "wish to conform to established usage, to avoid unfavorable notice and comment, to live up to the accepted cannons of decency" (p.78). Around this desire arise "pecuniary canons of taste" set by the leisure class. These function as the "accredited canons of consumption," (p.78) by which the leisure class orders which goods and activities are "honorific" and which are not.

While there may be a gap between the extent to which the wealthiest individuals in a society actually determine the preferences of individuals down the income distribution and Veblen's account of pecuniary canons of taste set by the leisure class, there is no doubt that the relative power of the wealthy to determine trends and standards of taste is greater than that of the general populous. Trends in fashion, politics, sports, and even religion are determined by a rather limited pool of individuals with enough wealth and social standing (be it as a star athlete, fashion designer, long-tenured politician, etc.) to both afford enough advertising and garner enough interest for taste-making campaigns to be effective. There is a reason why Michael Jordan's return from retirement resulted in a nearly 2% increase in stock market returns for endorsed brands (Mathur et. al., 1997) or why Kanye West can sell a plain white T-shirt for $120,[3] erstwhile – despite considering myself quite fashionable – my own endorsements of various products seem to lack the same effect. While perhaps not a one-to-one correlation, the tastes of the wealthy certainly influence the preferences of other classes, and "in some approximation, [these tastes] become incumbent upon all classes lower in the scale" (p. 59).

As the wealthy gain in relative power and social standing as a result of rising economic inequality, social incentives to conform to the canons of taste set by the wealthy become stronger for those further down the income distribution. The stronger the social consequences of non-conformism, the less likely any one individual is to choose that path. Thus individuals may "go along to get along", and the preferences of society as a whole may shift to largely reflect the preferences of the wealthy. The shift of preferences in this direction is harmful for democracy in two ways. First, individuals may be incentivized to vote for policies and representatives that do not have their best interest in mind – thus reducing the overall representativeness of government. Second, individuals will be more likely to vote for authoritarian candidates.

Bowles (1998) offers a more detailed picture of how the endogenous preference channel may operate to induce conformism. Identifying changes in framing and situation construal, intrinsic and extrinsic motivation, effects of the evolution of norms, task performance effects, and effects on the process of cultural transmission as the five main channels through which changes in market structure impact preferences, Bowles (1998) argues that market outcomes are not independent of the social structure(s) that markets create. He writes, "[A]llocation

[3] See the following: http://www.businessinsider.com/kanye-designed-items-sell-out-2013-7

rules also establish relationships among people, based on assignment to distinct positions with corresponding rights, status and obligations" (p.85). For the purpose of the present argument, the evolution of norms and task performance effects will serve best to illustrate the way changes in preferences arising from inequality can be harmful to democracy in the way outlined above.

Consider again the case of the skilled worker. Let us assume for the moment that Atkinson (2015) is correct and "technological change biased towards skilled workers undermines the coalition between them and unskilled workers" (p. 94).[4] In this scenario, the skilled worker has acquired a new norm regarding her behavior toward unskilled workers. If she finds the application of this norm successful at work, she may find it optimal to extend the norm to other spheres of life (Edgerton, 1971; Breer and Locke, 1965; Bowles, 1998). Bowles (1998) writes, "[S]trategies found successful in coping with the tasks defined by one sphere of life are generalized to other realms of life" (p.97). By altering the tasks performed at work (i.e. cooperation vs. non-cooperation among different skill groups in the bargaining process), changes in the structure of the income distribution may alter preferences in other arenas – such as politics – through the process by which successful norms are adapted and generalized from one activity to the next.

This process is harmful for democracy if – as in the case of the skilled worker – the learned behavior is one of non-cooperation. Specifically, antagonism against individuals of lower socio-economic status may show up in a preference for leaders who – at best – are representative of only the interests of the wealthy. Powdthavee and Oswald (2014) find that dramatic changes in one's place in the income distribution – as in the case of the skilled worker – result in a shift of individual preferences toward policies that are more right-wing and inegalitarian. Using exogenous variation in income generated by lottery winnings, the authors find that lottery winners tend to tilt their political preferences to the right following the windfall. The results are found to be robust to different ways of defining "right wing" and conditioning on an individual's having voted for leftist candidates in the past (Powdthavee and Oswald, 2014). One can expect those who benefit from income inequality to shift their vote toward less democratic candidates if the aforementioned benefits – whether they be in the workplace or elsewhere – are contingent on a manifest antagonism toward those lower down the socio-economic ladder. This may be true even if benefits are small, depending on the extent to which a given individual generalizes task-based norms, and can result in individuals further down the income distribution voting for candidates that only have the interest of the wealthy in mind (think for example, of a worker who defects from cooperation when the likelihood of obtaining a promotion is small, but the potential payout is high).

The losers of increasing economic inequality are also subject to changes in preferences. If increasing inequality is – in part – a result of changes in the composition of the labor force due to international competition, then higher unemployment rates and lower wages for formerly well-compensated workers in sectors such as manufacturing will result in shifts in political preference. As labor demand falls for formerly well-paid unskilled labor, the relative bargaining positions of employers and employees are altered as the fallback position of labor if made less attractive. The result of this, Bowles (1998) writes, is that "[t]he surrender of authority to employers which characterizes the labor market appears to support far-reaching psychological effects, some of which undermine the sense of control of one's life" (p. 99). This relative powerlessness of employees *vis-à-vis* employers can negatively affect

[4] See Acemoglu, Aghion, and Violante (2001) and Brandolini (2010) for further support of this point.

democracy in two ways: by increasing individual's incentives to "go along to get along" – and thus increasing voter turnout for authoritarian candidates – or by inciting backlash against authority, increasing the preference for reformist candidates who may be willing to suspend democratic principles to enact economic reform.

In the first case, consider the individual who – as inequality increases – finds unquestioning submission to authority an increasingly successful heuristic in the work place. As this norm gets adopted and extended to other spheres of life, a pattern of preference for authority emerges. This preference is harmful for democracy to the extent that a arge portion of the electorate turn out for authoritarian candidates. If the population whose employment and earnings prospects are negatively affected by increasing inequality is large, this outcome is a distinct possibility. A shift in preferences of this sort seems to be one plausible explanation of the high rates of support for a candidate like Donald Trump in geographic areas of the United States associated with declining employment in manufacturing, mining, and other heavy industry (Irwin and Katz, 2016; Inglehart and Norris, 2016). Additionally, this version of the Bowles-Veblen endogenous preference link provides a behavioral mechanism for explaining the phenomena observed in philosopher Hannah Arendt's (1951; 1963) work on the origins of totalitarianism. Arendt's study of totalitarian regimes in the 20th century relies on a notion of "the banality of evil" as a state of thoughtless in which an individual becomes "rinsed with clichés, norms, ideologies, and national ethos" (Kilkenny, 2016), and uses those norms as justification for acts supporting political authoritarianism. The condition(s) under which the banality of evil may prevail are socio-economic in nature, and may thus be explained through the process of preference formation outlined above.

In the second case, consider an individual who finds submission to authority an unsuccessful heuristic. This may be one of the many long-term unemployed individuals who lost their job as a result of the 2008 financial crisis. Finding application of the "go along to get along" principles of their peers unsuccessful, these individuals may move to demand political reform. There is here a link between the endogenous preference argument and the earlier arguments from Alesina and Rodrick (1994) and Alesina and Perotti (1996). The extent of political reform demanded (and whether a line is crossed between pressure for reform and political instability) will depend on the extent of inequality, as Alesina and Perotti (1996) argue. Furthermore, the robustness of the political system to instability will depend on the extent to which individuals adopt either the "go along to get along" model or the "political extremism" model. A particular country's political institutions may be robust to high levels of inequality if the preferences of the electorate have been shaped in such a way as to prefer submission to authority.

If the candidate both promises reform and satisfies the desire for submission to authority, this candidate may be successful at capturing a large swath of the electorate that has been – in one way or another – alienated by increasing inequality. There is no reason a priori why an individual may not hold both a deference to authority and a desire for strong redistributive reform. Both of the preference formation processes outlined above may operate on a single individual along different dimensions. Depending on the extent of reform promised and the degree of authoritarianism, the result will be detrimental to democracy.

IV. Critiques and discussion

The difficulties for the endogenous preference argument are both conceptual and empirical. In this section I will attempt to outline what I see as the biggest problem for the argument, as well as offer a response from the institutionalist perspective.

The biggest problem for the endogenous preference argument is a lack of formal identification. The exact process through which preferences are altered via economic, social, or political institutions is something of a black box. One can make inferences about an individual's preferences only indirectly through behavioral outcomes. While observed outcomes may indicate that preferences have indeed shifted – the theoretical models of economics are ill-equipped to describe a problem of choice under shifting preferences. Indeed, it is not clear how one would write down a utility maximization problem at all if preferences were not assumed constant. Thus, as one institutionalist wrote, economists "unduly given to difficult theoretical niceties" may find themselves at odds with the Bowles-Veblen approach (Veblen, 2009[1899], p. 31).

Despite the difficulty in developing a formal theoretical model of endogenous preferences, the increasing quality and availability of public opinion and consumer expenditure data makes possible the empirical identification of shifts in preferences. Using an appropriate combination of survey responses to questions about preferences and consumption bundles, it is possible to identify empirically whether a given behavior is a result of a shift in preferences (a change in the utility function) or the result of changes in prices and income along a given utility function. There is no reason to assume – as is often done in empirical work – that preferences are constant and all changes in behavior are the result of shifts in relative prices or income, a point emphasized by Joan Robinson (1962).[5]

Furthermore, a lack of analytical tractability does not imply a lack of fidelity to reality. In fact, as Friedman (1953) and others freely admit, it is often precisely *unrealism* that characterizes the assumptions of neoclassical models. One should fear for the state of the science if mathematical tractability is prized above the ability to depict reality. The picture of the world painted by the institutionalist may be messier than mainstream economists would prefer, but that does not mean that is not in fact how the world is. As Veblen (2009) wrote, "[I]n the organic complex of habits and thought which make up the substance of an individual's conscious life the economic interest does not lie isolated and distinct from all other interests" (p.78).

V. Conclusion

I will conclude by summarizing the arguments made thus far and drawing out some directions for future research. I have shown that there are four main ways economic inequality may potentially harm democracy. Economic inequality may simultaneously increase political responsiveness to the wealthy and decrease responsiveness to the poor and the middle class, it may increase political instability, it may increase the ability of the wealthy to subvert market reforms enacted by political consensus, and it may alter the preferences of the electorate in ways that favor authoritarianism.

[5] And, as usual, ignored by the rest of the profession for the sake of convenience.

I have argued that, while the first three aforementioned consequences are studied elsewhere in the inequality literature, little attention has been paid to the way inequality shapes tastes of the electorate. This channel is important if one is concerned with the type of leaders that may be elected during times of high inequality. If increasing inequality either A) increases individuals' preferences for authority or B) increases individuals' preferences for downward redistribution (rather than assuming – as in Alesina and Rodrick (1994) – a given preference for redistribution), the outcome may be bad for democracy. Furthermore, the way inequality shapes preferences is important for the other channels by which economic inequality affects the political process. Depending on preferences and the institutions that flow from them political institutions may not be robust to high levels of inequality. The extent to which inequality is harmful to democracy depends on the institutional arrangements in the country in question.

Two outlets for future research suggest themselves as profitable. The first, as mentioned earlier, is a general test of the institutionalist hypothesis using joint data on consumption and public opinion. The second is the use of public opinion data to test which of the preference modification channels – the "go along to get along" channel, the "political extremism channel," both, or neither – have tended to operate as a result of increasing economic inequality over time. Survey questions addressing preference for authority and downward redistribution, along with data on inequality and other explanatory variables, may be used in such a study. Answers to these questions can help guide policymaking in the presence of a shifting income distribution by alerting policymakers to the potential trade-offs that occur as preferences in the electorate shift in response to new policy. Such answers are important, the study of inequality is incomplete without understanding the institutional context within which it operates.

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