# Appendix G

Alternative Causal Ordering Assumptions for Creation of Impulse Response Functions

At several points in the main text, I mention that I considered a different assumption regarding the causal ordering of variables in a VAR model when creating impulse response functions. Most notably, I typically report results in the main text that assume that inequality is the final variable in a causal chain. However, since the theory of an inequality trap explicitly posits that inequality may be a driver of politics, it is sensible to test whether different assumptions about causal ordering when depicting long run effects produce different inferences. In particular, I re-estimated most of the VARs reported in the main text shifting inequality from the final variable in the causal chain to the first variable in the causal chain. The results are reported here. The main conclusion is that the assumptions about causal ordering do not substantially alter the conclusions reported in the main text. The one result that changes slightly is seen in Figure G.3d, where the results reported in the text do not identify feedback between inequality and presidential election outcomes but such feedback is seen here when the causal ordering assumption is altered.
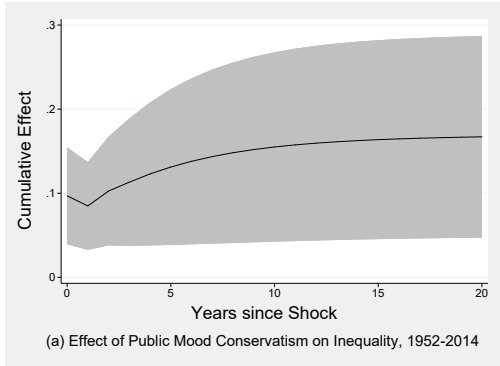
(a) Effect of Public Mood Conservatism
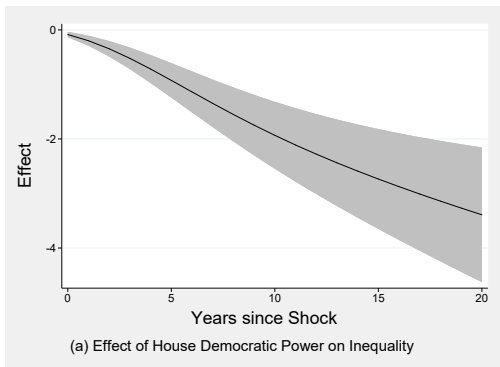on Inequality, 1952-2014
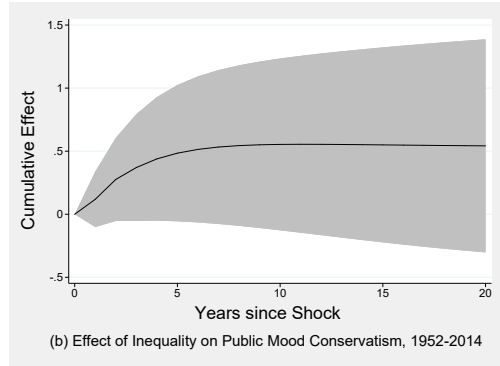
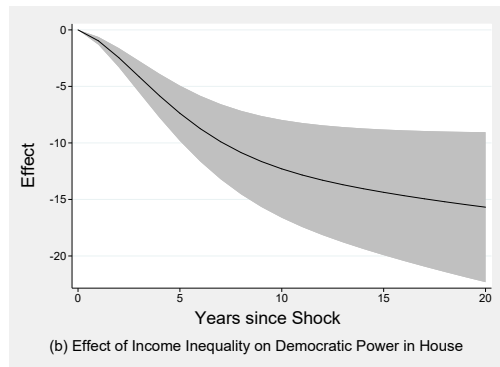(b) Effect of Income Inequality on Public Mood Conservatism, 1952-2014

Source: Author's calculations from annual data, 1952 to 2014.

Note: Charts plot orthogonalized cumulative impulse response functions based on a vector autoregression including top .01% income share and public mood conservatism. Models also include the top capital gains tax rate, top income tax rate, financial deregulation, and Congressional partisanship. The plot represents the predicted effect of a standard deviation shift in one variable on the other variable over a 20 year period. The figure replicates the analysis reported in Figure 3.2 but with the assumed causal ordering changed to put inequality at the beginning rather than the end of the causal chain.

Figure G.1: Is There a Reciprocal Relationship Between Inequality and Public Opinion?
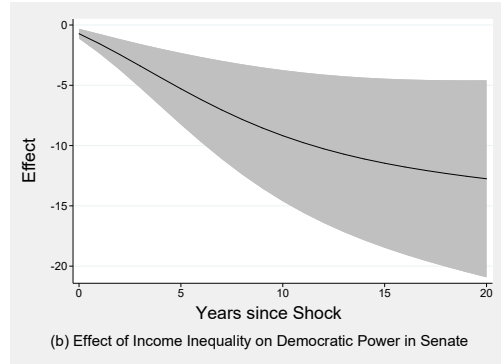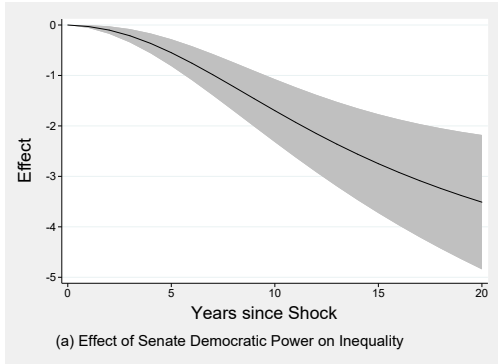

(a) Effect of House Democratic Power
on Inequality

(b) Effect of Income Inequality on Democratic Power in House

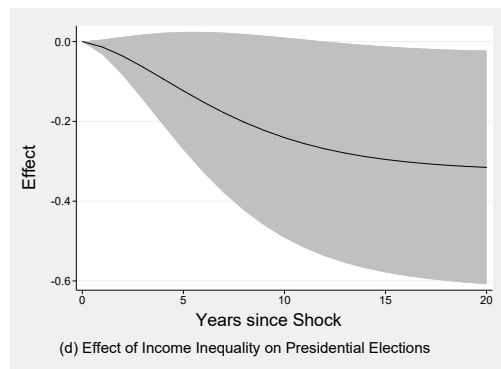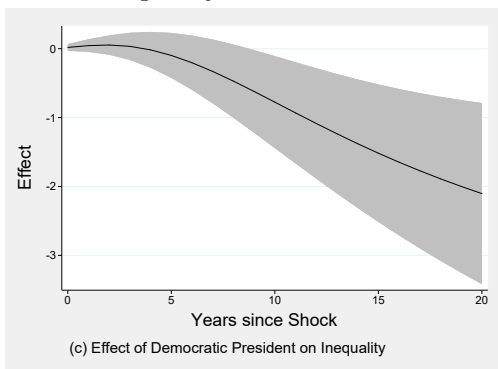Figure G.2: Is There a Reciprocal Relationship Between Inequality and House Elections?

Source: Author's calculations from annual data, 1913 to 2014.

Note: Charts plot orthogonalized cumulative impulse response functions based on a vector autoregression including top .01% income share and the percent of Democratic seats in the House of Representatives. Models also include union strength, financial deregulation, and the top capital gains tax rate. The plot represents the predicted effect of a standard deviation shift in one variable on the other variable over a 20 year period. The figure replicates the analysis reported in Figure 4.2 but with the assumed causal ordering changed to put inequality at the beginning rather than the end of the causal chain.

(a) Effect of Senate Democratic Power on Inequality

(b) Effect of Income Inequality on Democratic Power in Senate

(c) Effect of Democratic President on Inequality

(d) Effect of Income Inequality on Presidential Elections

Figure G.3: Inequality and Elections in the Senate and Presidency

Source: Author's calculations from annual data, 1913 to 2014.

Note: Charts plot orthogonalized cumulative impulse response functions based on VARs. Models include the percent of Democratic seats in the Senate or Democratic control of presidency along with top .01% income share. Models also include union strength, financial deregulation, and the top capital gains tax rate. The plot represents the predicted effect of a standard deviation shift in one variable on the other variable over a 20 year period. The figure replicates the analysis reported in Figure 4.3 but with the assumed causal ordering changed to put inequality at the beginning rather than the end of the causal chain.

(a) Effect of House Polarization on In-
equality

(b) Effect of Senate Polarization on In-
equality

(c) Effect of Inequality on House Polar-
ization

(d) Effect of Inequality on Senate Po-
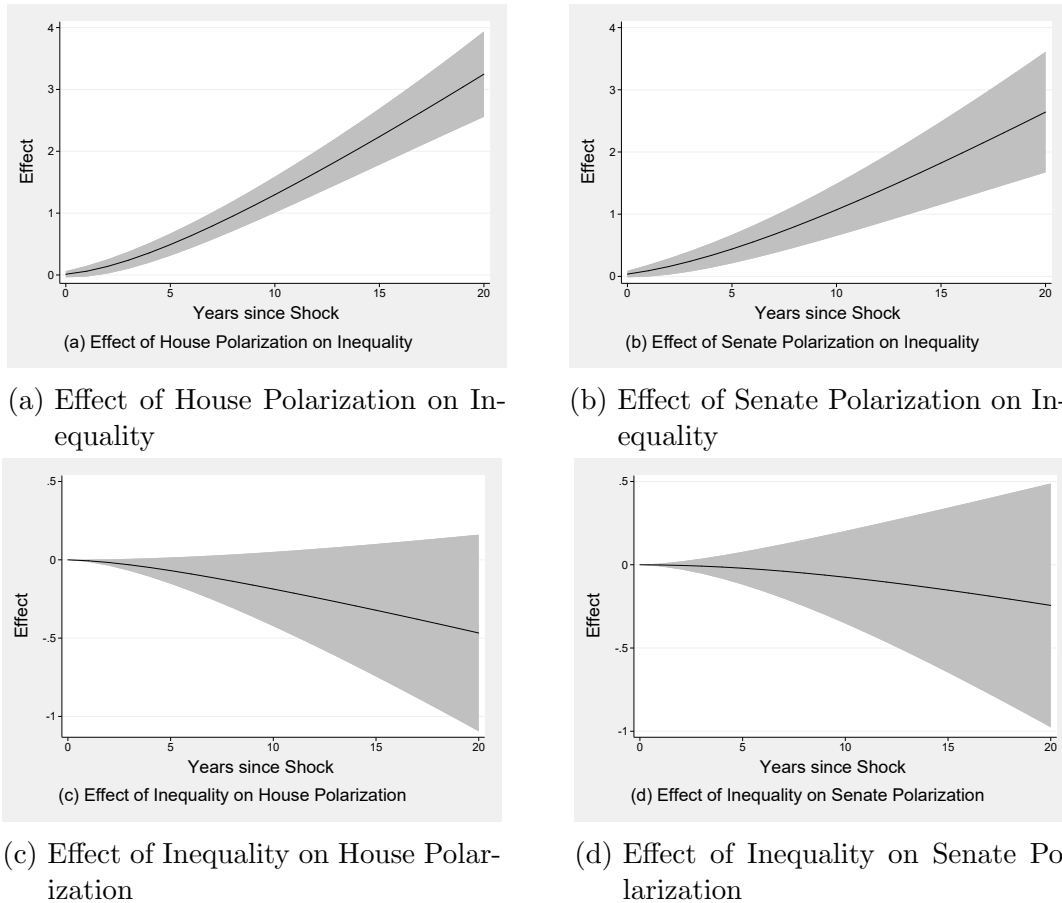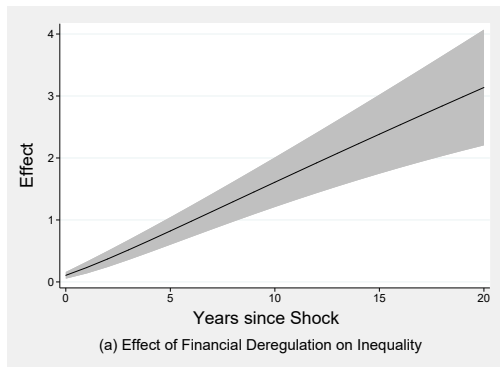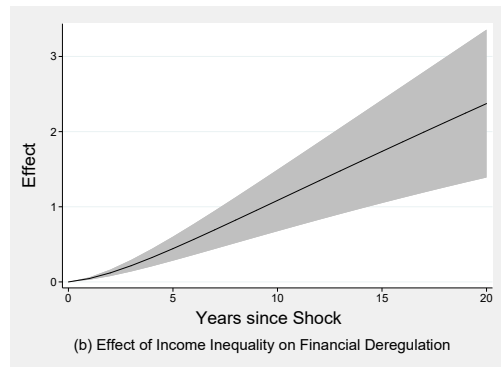larization

Figure G.4: Is There a Reciprocal Relationship Between Inequality and Polarization?

Source: Author's calculations from annual data, 1913 to 2014.

Note: The plot represents the predicted effect of a standard deviation shift in one variable on the other variable over a 20 year period using orthogonalized cumulative impulse response functions based on two vector autoregressions including top .01% income share, either House or Senate party polarization, and a measure of legislative policy stagnation (Grant & Kelly 2008). The figure replicates the analysis reported in Figure 6.2 but with the assumed causal ordering changed to put inequality at the beginning rather than the end of the causal chain.

(a) Effect of Financial Deregulation on Inequality

(b) Effect of Income Inequality on Financial Deregulation

Figure G.5: Is There a Reciprocal Relationship Between Inequality and Financial Deregulation?

Source: Author's calculations from annual data, 1913 to 2014.

Note: Charts plot orthogonalized cumulative impulse response functions based on a vector autoregression including financial deregulation and top .01% income share. The plot represents the predicted effect of a standard deviation shift in one variable on the other variable over a 20 year period. The figure replicates the analysis reported in Figure 5.4 but with the assumed causal ordering changed to put inequality at the beginning rather than the end of the causal chain.