Increasingly Unequal in Pennsylvania

Income Inequality, 1917 to 2011

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Executive Summary

For more than 30 years, most of the 50 states have experienced a dramatic rise in income inequality. In Pennsylvania, this widening gap between the earnings of most workers and those of the top 1 percent is not the result of the immutable headwinds of globalization but part and parcel of a slow but steady erosion of labor standards, tax policies designed to benefit corporations and the wealthy, and unchecked rising CEO pay.

The economists Thomas Piketty and Emmanual Saez published a groundbreaking study in 2003 documenting rising inequality in the United States over the past century. They found that in the early 20th century, an era dominated by the likes of Pennsylvania banking magnate Andrew Mellon, the share of all income claimed by the top 1 percent of taxpayers rose to over one-fifth of all income in the U.S. Then in a post-World War II era shaped by FDR's New Deal and the rise of unions like the United Steelworkers in Pittsburgh, Piketty and Saez observed a sharp rise in the incomes of the bottom 99 percent of taxpayers and a likewise decline in the share of income claimed by the top 1 percent.

Starting in the 1980s, a number of factors reversed this trend. Employers became more openly hostile to union organizing among their employees, while policymakers began lowering tax rates on top earners and corporations. Minimum wage increases became a thing of the past, even as the economy continued to grow. The result was a rising share of income captured by the top 1 percent and slowing income growth among the bottom 99 percent.

Today the share of income claimed by the top 1 percent in the U.S. is once again about one-fifth of all income in the country, and billionaire activists are funding organizations like the American Legislative Exchange Council (ALEC) to advance state legislation that will solidify their hold over the American economy.

In a new paper following up on the work of Piketty and Saez for the Economic Analysis Research Network (EARN), Estelle Sommeiller and Mark Price developed estimates of top incomes levels and shares from 1917 through 2011 for American states and regions. Here is how Pennsylvania stacks up against the national trends:

- Between 1979 and 2011, the top 1 percent took home more than half (51.5 percent) of the total increase in Pennsylvania income. Over this period, the average income of the bottom 99 percent of Pennsylvania taxpayers grew by 12.1 percent, while the average income of the top 1 percent grew by 125.5 percent — more than 10 times as much.

- The lopsided growth in Pennsylvania incomes since 1979 resulted in a rise in the top 1 percent's share of income from 9.3 percent in 1979 to 17 percent in 2011. This rise in income inequality represents a sharp reversal of the patterns of income growth that prevailed in the half century following the Great Depression's start; the share of income held by the top 1 percent declined steadily in Pennsylvania from 22 percent in 1928 to 9.3 percent in 1979.
- In 2011, the most recent year for which data are available, the top 1 percent in Pennsylvania (with an average income of $882,574) made 20 times more than the bottom 99 percent ($43,399).

Introduction

In 2012, the Keystone Research Center, the Center on Budget and Policy Priorities, and the Economic Policy Institute jointly released *Pulling Apart: A State by State Analysis of Income Trends*, a report on the growth of income in the top, middle, and bottom fifths of households (McNichol et al. 2012). *Pulling Apart* found that the higher the income group, the more growth in income over time, in both the nation and Pennsylvania.

As its authors note, the Census data source relied on in *Pulling Apart* does not permit analysis of trends in the top 1 percent of households at the state level. This limitation is important because national analysis by Thomas Piketty and Emmanuel Saez (2003) has found that an increasing amount of income growth is concentrated among the top 1 percent of taxpayers. The data presented in this brief on top incomes were estimated using the same methodology employed by Piketty and Saez but applied to state level data from the Internal Revenue Service. (See the methodological appendix in Sommeiller and Price (2014) for the details on the construction of the time series summarized in this brief.) This data allows us to observe the degree to which the national pattern of income inequality is characteristic of Pennsylvania.

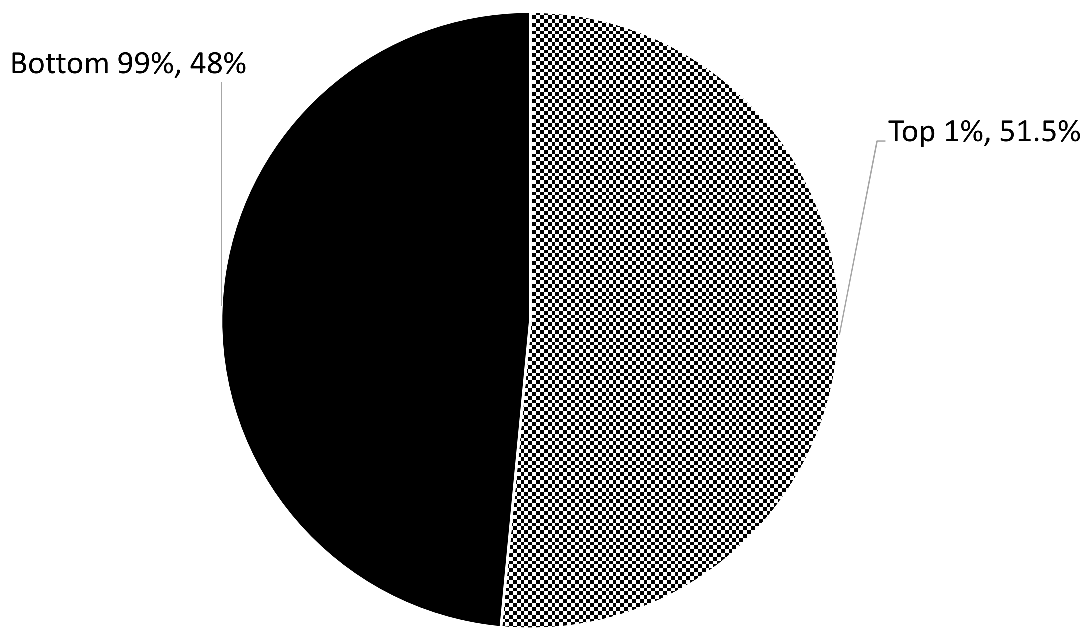
Lopsided Income Growth from 1979 to 2011

We begin our analysis with an examination of trends in income growth overall, among the top 1 percent and among the bottom 99 percent of taxpayers from 1979 to 2011. (All figures in this report are adjusted for inflation and in 2011 dollars.)

As illustrated in Figure 1 and Table 1, the top 1 percent took home over half (51.5 percent) of the total increase in Pennsylvania income between 1979 and 2011. Over this period, the average income of the bottom 99 percent of Pennsylvania taxpayers grew by 12.1 percent, while the average income of the top 1 percent grew by 125.5 percent — more than 10 times as much.

The top 1 percent captured a large share of income growth in most states over this period. Nationally, the top 1 percent captured 86.3 percent of all income growth between 1979 and 2011. Pennsylvania performed better in part because of stronger income growth among the bottom 99 percent — 12.1 percent versus a 2.3 percent increase in the rest of the country. Among neighboring states (Delaware, Maryland, New Jersey, New York, Ohio, and West Virginia), the share of income growth captured by the top 1 percent was smaller only in two of the six states — New Jersey (47.9 percent) and Maryland (33.9 percent).

Figure 1. Share of overall income growth (adjusted for inflation) from 1979 to 2011 captured by the top 1% and bottom 99% in Pennsylvania



Note. Data are for tax units.

Source. Sommeiller, Estelle, and Mark Price. 2014. *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*. Economic Analysis and Research Network (EARN) Report.

Table 1.

Real Income growth from 1979 to 2011, overall and for the top 1% and bottom 99%, U.S. and by state and region

Rank (by top 1% income growth)	State/region	Average real income growth			Share of total growth (or loss) captured by top 1%
		Overall	Top 1%	Bottom 99%	
14	Pennsylvania	22.6%	125.5%	12.1%	51.5%
50	Delaware	5.6%	45.7%	1.0%	83.2%
12	Maryland	32.5%	130.0%	23.5%	33.9%
6	New Jersey	35.0%	175.8%	20.2%	47.9%
3	New York	35.2%	241.0%	8.5%	78.7%
39	Ohio	-0.6%	70.0%	-7.7%	Ŧ
38	West Virginia	3.9%	70.8%	-2.9%	167.5%
	Northeast	34.9%	208.2%	14.9%	61.8%
	United States	14.8%	128.9%	2.3%	86.3%

Note. Ŧ Only the incomes of the top 1% grew over this period

Source. Sommeiller, Estelle, and Mark Price. 2014. *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*. Economic Analysis and Research Network (EARN) Report.

Inequality Back at Levels Not Seen Since Late 1920s

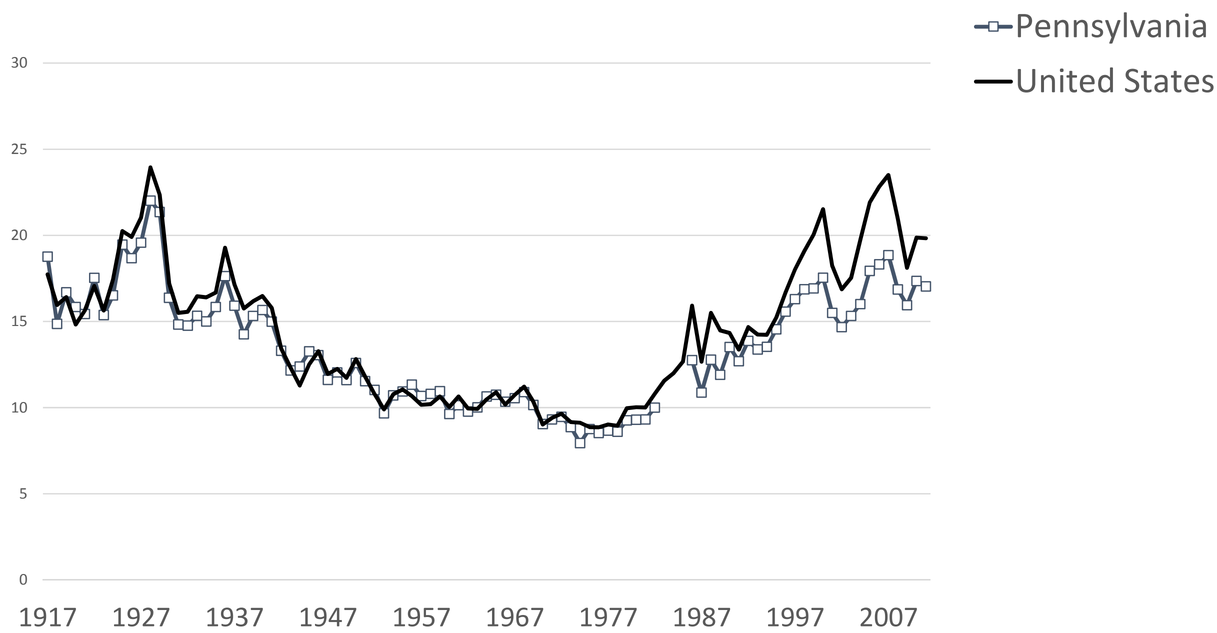
As illustrated in Figure 2 and Table 2, the lopsided growth in incomes since 1979 resulted in an increase in the top 1 percent's share of income, rising from 9.3 percent in 1979 to 17 percent in 2011.

It is important to note that just prior to the Great Recession, the top 1 percent's share of all income in Pennsylvania was 18.9 percent. The decline since then reflects the impact of the recession on top incomes. Although top incomes have not yet fully recovered from the recession, unequal income growth has returned with the income of the top 1 percent in Pennsylvania rising 8.3 percent between the end of the recession and 2011. Over this same period, the income of the bottom 99 percent fell by 0.05 percent.

As Table 2 illustrates, New York and New Jersey are our only neighboring states to experience a bigger percentage point increase in the share of income earned by the top 1 percent.

This rise in income inequality represents a sharp reversal of the patterns of income growth that prevailed in the half century following the beginning of the Great Depression; the share of income held by the stop 1 percent declined steadily in Pennsylvania from 22 percent in 1928 to 9.3 percent in 1979.

Figure 2. The share of all income claimed by top 1%, United States and Pennsylvania, 1917-2011



Note. Data are for tax units. Tax data from 1983 to 1985 were unavailable, hence the gap in Pennsylvania figures. Income includes capital gains income.

Source. Sommeiller, Estelle, and Mark Price. 2014. *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*. Economic Analysis and Research Network (EARN) Report.

Table 2

Top 1% share of all income, U.S. and by state and region, 1928, 1979, 2011

Rank (by change in share 1979-2011)	State/region	1928	1979	2011	Change in income share of the top 1% (percentage points)	
					1928 to 1979	1979 to 2011
18	Pennsylvania	22.0	9.3	17.0	-12.8	7.8
47	Delaware	45.0	10.2	14.1	-34.8	3.9
39	Maryland	26.4	8.5	14.7	-17.9	6.2
9	New Jersey	22.9	9.5	19.5	-13.4	9.9
2	New York	29.4	11.5	29.0	-17.9	17.5
34	Ohio	21.2	9.0	15.5	-12.1	6.4
40	West Virginia	16.5	9.2	15.2	-7.2	5.9
	Northeast	26.3	10.3	26.1	-16.0	15.8
	United States	23.4	9.9	21.8	-13.4	11.8

Source. Sommeiller, Estelle, and Mark Price. 2014. *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*. Economic Analysis and Research Network (EARN) Report.

Income Inequality in 2011

In 2011, the most recent year for which data are available, the top 1 percent (with an average income of $882,574) made 20 times more than the bottom 99 percent ($43,399). Among our six neighboring states, only in New York (40.5) and New Jersey (23.9) was the distance (top-to-bottom ratio) between the top 1 percent and the bottom 99 percent greater than in Pennsylvania.

Table 3.

Ratio of top 1% income to bottom 99% income, U.S. and by state and region, 2011

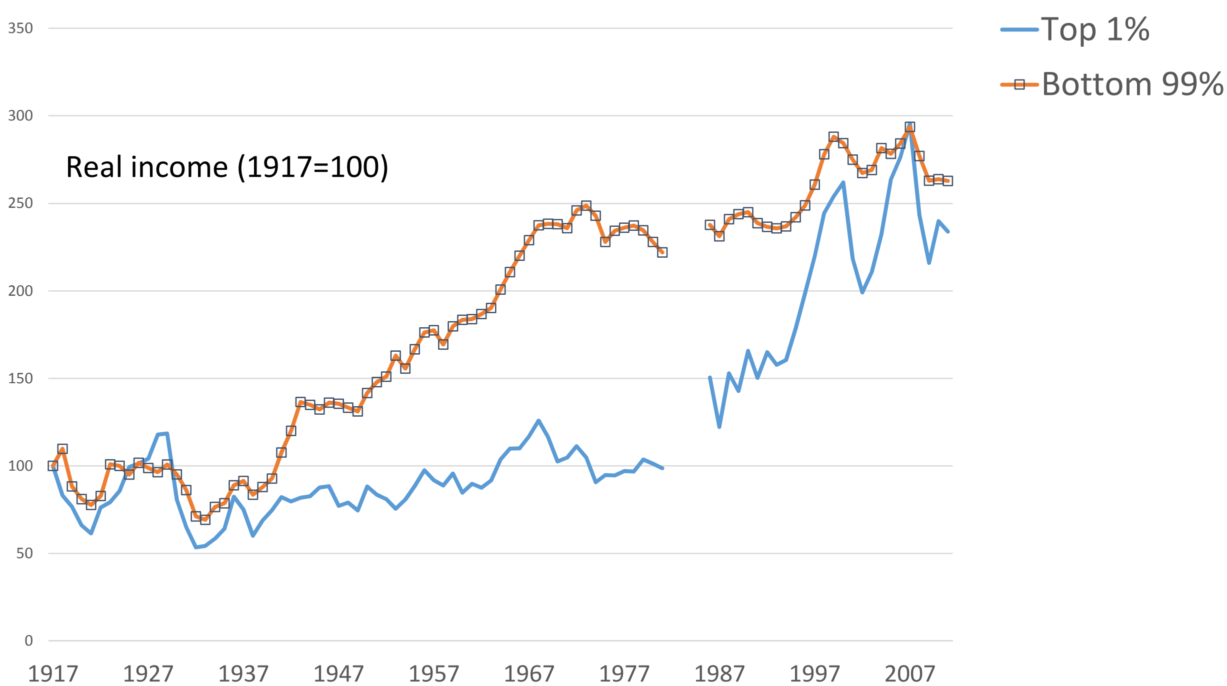
Rank (by top-to-bottom ratio)	State/region	Average income of the top 1%	Average income of the bottom 99%	Top-to-bottom ratio
15	Pennsylvania	$882,574	$43,399	20.3
43	Delaware	$732,052	$45,059	16.2
38	Maryland	$1,007,595	$59,011	17.1
10	New Jersey	$1,312,077	$54,864	23.9
2	New York	$1,749,590	$43,202	40.5
29	Ohio	$699,693	$38,583	18.1
34	West Virginia	$560,682	$31,626	17.7
	Northeast	$1,425,607	$46,501	30.7
	United States	$1,040,506	$42,694	24.4

Source. Sommeiller, Estelle, and Mark Price. 2014. *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*. Economic Analysis and Research Network (EARN) Report.

Conclusion

Figure 3 presents the incomes of the 1 percent and the bottom 99 percent indexed to their levels in 1917, the beginning of our time series. The figure identifies two distinct periods: the first following the end of World War II from the late 1940s to the 1970s, and the second beginning in the early 1980s. In the first period, the average income of the bottom 99 percent in Pennsylvania grew from $22,377 to $41,060 by 1973, an increase of 83 percent. The top 1 percent in Pennsylvania didn't do as well but did see their incomes grow over this period by more than $104,000 to $395,561, an increase of 36 percent. Since that 1973 peak, these income trends more than reversed as the bottom 99% saw their income climb by just 6 percent to $43,399, while the top 1 percent saw their incomes rise to $882,574, an increase of 123 percent.

Figure 3. Top 1% and bottom 99% real income growth in Pennsylvania 1917 to 2011



Note. Data are for tax units. Tax data from 1983 to 1985 were unavailable, hence the gap in figures. Income includes capital gains income.

Source. Sommeiller, Estelle, and Mark Price. 2014. *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*. Economic Analysis and Research Network (EARN) Report.

What could have changed in America between these two eras?

The period from the late 1940s to the end of the 1970s was characterized by a rising minimum wage, low levels of unemployment, widespread collective bargaining in private industries (manufacturing, transportation [trucking, airlines, and railroads], telecommunications, and construction), and a cultural and political environment in which it was unthinkable for executives to receive outsized bonuses while laying off workers.

Union membership in Pennsylvania dropped from 27.5 percent in 1983 to 12.7 percent in 2013 (Hirsch and Macpherson 2003). The federal minimum wage purchases fewer goods and services than it did in 1968 (Cooper 2013). And executives in companies from Hostess (Castellano 2012) to American International Group (AIG) think nothing of demanding bonuses after bankrupting their companies and receiving multibillion-dollar taxpayer bailouts (Andrews and Baker 2009).

Policy choices and cultural forces have combined to put downward pressure on the wages and incomes of most Americans even as their productivity has risen. CEOs and financial-sector executives at the commanding heights of the private economy have raked in a rising share of the nation's and Pennsylvania's expanding economic pie, setting new norms for top incomes often emulated today by college presidents (as well as college football and basketball coaches), surgeons, lawyers, entertainers, and professional athletes.

More than in most other advanced countries, in America the children of affluent parents grow up to be affluent, and the children of the poor remain poor (Corak 2013).

With top incomes once again on the rise in Pennsylvania and across the nation, policymakers at all levels of government must be challenged to embrace policies aimed at restoring broadly shared prosperity and widespread opportunity.

Some of the policy choices that would restore opportunity will involve some familiar tools like raising and indexing the minimum wage to inflation. But some of the policy tools we must embrace will have to reflect the character of our times and our economy.

For example:

- Let's give workers the choice to form area-wide unions that can lift up regional wages and benefits — in sectors like fast food, in health care, in restaurants, in retail, and so on.
- Let's strengthen training and career structures to give workers the skills and supports to achieve economic security in today's economy.
- Let's turn unemployment insurance into "re-employment insurance" that combines income support with long-term training leading to jobs that pay decently.
- Let’s provide universal access to high quality Pre-K programs.

These and many more policy ideas put into practice are critical to ensure that the all 50 states across the United States live up to our ideals as the land of opportunity.

The Keystone Research Center is an independent, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania and U.S. economy.

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