# STATES OF INEQUALITY:
# GOVERNMENT PARTISANSHIP, PUBLIC POLICIES, AND INCOME DISPARITY IN THE AMERICAN STATES, 1970-2005

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# STATES OF INEQUALITY: GOVERNMENT PARTISANSHIP, PUBLIC POLICIES, AND INCOME DISPARITY IN THE AMERICAN STATES, 1970-2005

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A steady stream of research describes rising income inequality in the U.S. since the 1970s. Beneath this familiar story, however, are a variety of state experiences. In this dissertation, I develop and test a new theory to explain why income inequality varies in the states over time. My partisan political-economy theory for state inequality builds on political explanations for national inequality; but it takes a step further to recognize and incorporate variation in state governments, which do most of the governing and policymaking in our federal system. I demonstrate that shifts in state government party composition, and related policy shifts, are a fundamental determinant of over time changes in state-level inequality between 1970 and 2005. First, controlling for economic and demographic factors, I find that increases in Democratic control of state government are significantly related to decreases, or diminished growth, of market inequality, while increases in Republican control coincide with increases in inequality. Second, I show *how* partisanship influences income disparity by identifying policy mechanisms that respond to changes in government partisanship and that also relate to changes in inequality: state public sector employment, minimum wages, and public welfare spending. My results for the former two policies suggest that the parties in state governments shape the distribution of income even before making adjustments with income taxes and transfers; however, those for the latter point to the relevance of state governments for changes in post-tax and transfer inequality as well. Together, the results of my research demonstrate that patterns in

income inequality are not simply a function of broader economic shifts, or even policies set by the national government. Rather, the parties or party members we elect to state governments, and their policy decisions, help determine the extent of income disparity in the United States. These findings allow us to say with more empirical certainty that there are political explanations for changes in income inequality in the U.S. throughout the past forty years.

## BIOGRAPHICAL SKETCH

Julianna Koch received her M.A. and Ph.D in Government from Cornell University and B.A. summa cum laude from Skidmore College. While completing her Ph.D., Koch served as a research assistant and co-author to Dr. Suzanne Mettler for research focusing on public experiences with and attitudes towards government programs. Her article, “Public Opinion in the U.S. States, 1956-2010,” co-authored with Dr. Peter Enns, is forthcoming in *State Politics and Policy Quarterly.*

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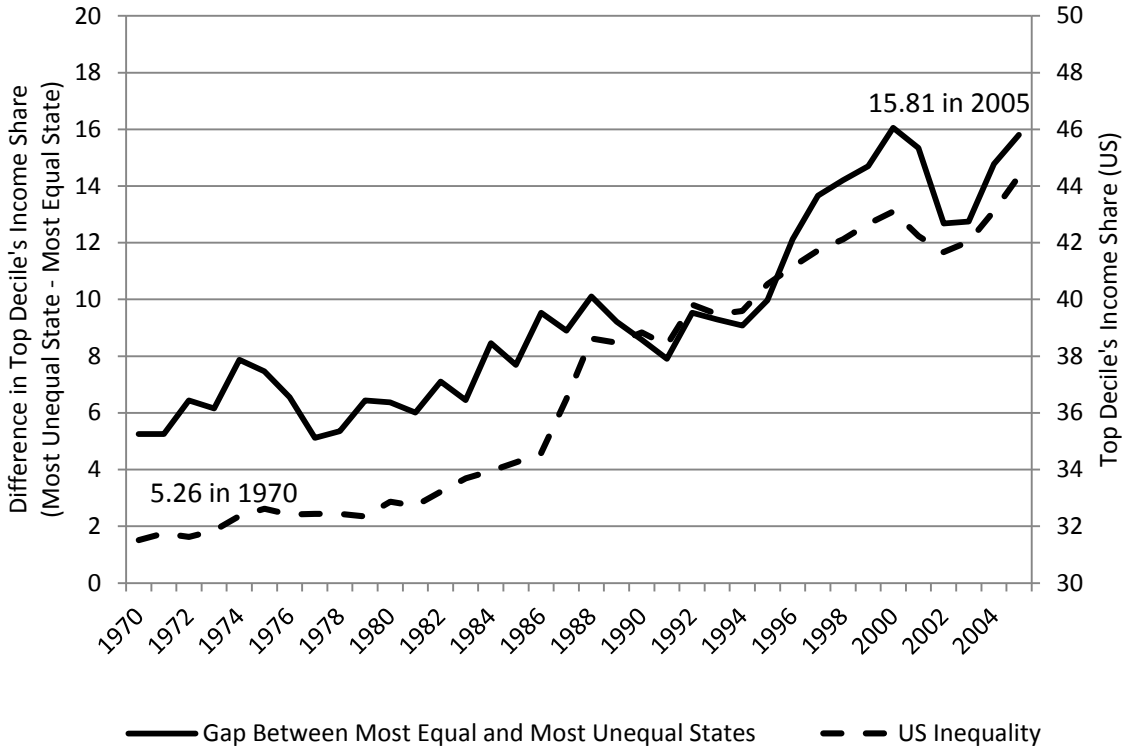
# CHAPTER 1
# INCOME INEQUALITY IN THE AMERICAN STATES

Just minutes into his third State of the Union address, President Obama decried the concentration of income in the hands of a few and called it the "defining issue of our time" (Obama 2012). It was a bold statement to be sure, but there was nothing groundbreaking about this particular part of Obama's speech. That U.S. income disparity has increased in the past few decades has become a familiar refrain. A steady stream of research shows that incomes have grown more unequal in the U.S. since the 1970s, that this trend is largely driven by gains for the top of the income distribution, and that, compared with other advanced industrial democracies, income differences in the U.S. stand out as particularly large (Jacobs and Skocpol 2005, Smeeding 2004, Picketty and Saez 2003). Outside academic circles, the Occupy Wall Street movement vocally criticized "the 1%," and income inequality is now a frequent subject in the news media and on the op-ed pages. For all this scholarly and popular attention and even outrage, however, income differences continue to grow. And while many speculate that our political system is at least partly to blame, we remain unable to say, with any real certainty, whether or how government drives changes in the distribution of income.

While we struggle to understand the determinants of this phenomenon, one significant aspect of U.S. inequality – its startling heterogeneity at the state-level – has been a footnote at best. As the most common measure of income inequality, the Gini index, climbed to record highs, and the top 10% and top 1% of earners captured greater and greater shares of income – 46% and 17% respectively by 2010 (Alverado et al) – the states were having radically different experiences. Indeed, the gap between the highest inequality and lowest inequality states in 2005 – Florida and West Virginia (Frank 2008) - was even larger than the oft-studied increase in U.S.

inequality between 1970 and 2005. Perhaps even more striking, this gap between states has increased over time; it was three times greater in 2005 than in 1970. This increasing range of inequality among the states is displayed by the solid line in Figure 1.1, and clearly rivals the increase in U.S. inequality during this time (dashed line), with both patterns charted on comparable 20 point scales.

**Figure 1.1 Increasing Variation in Inequality in the States and U.S. Inequality, Top Decile Income Shares, 1970-2005**




The tendency to overlook this impressive growth of variation in inequality in the states is a critical mistake. In the first place, an aggregate focus on the national trend paints a misleading picture of what inequality looks like in the U.S., as well as how citizens experience it. Secondly, by viewing inequality only at the national level, we fumble the opportunity to peer into the mechanisms, especially the political mechanisms, at work. Nearly a decade ago, political

scientists exclaimed that politics and policies were relevant for rising income inequality (Jacobs and Skocpol 2005). But when they took stock of what we knew about these relationships, they found that scholars had established few concrete empirical connections between the political system and distributional outcomes. Although some more recent research makes strides in this area (e.g. Volscho and Kelly 2012), our situation is the same today in two important and, I argue, related ways. First, while we know politics and inequality are relevant for each other, we continue to struggle to establish causal links, or to say how exactly the political system might shape distributional outcomes. Second, the most widely-cited research in this field, while touting the importance of government, stops at Washington's edge, thereby ignoring the vast majority of our federal political system. With such an incomplete view of our political system, it is little wonder we are left with so many unanswered questions about whether or how government drives, or mitigates, income disparity in the U.S.

This project exploits the variation in state political systems and in state-level inequality to provide new insights into how government and policies are a key determinant of inequality in the U.S. In particular, it zeros in on year-to-year *changes* in inequality among the states since 1970 and shows how state governments, through the partisan policies they implement in office, explain a significant amount of this over time variation. By placing states front and center, and by breaking down the relationships between state political processes and shifts in the income distribution, I provide new answers to unresolved questions about inequality. My findings show us how the political system is emeshed with changes in the income disparity in the U.S. and give us new answers to questions about *why* and *when* inequality increases or declines.

***Why Study Inequality?***

At any given time, we expect some level of inequality between income groups. A whole

category of public policies – redistributive policies, including progressive features of our income tax system and a list of transfer policies – has long functioned to reduce some of these income differences between groups in society. But the drastic increases in U.S. income inequality since the 1970s, especially gains concentrated at the very top of the income distribution, have attracted the attention of policymakers, academics, and ordinary citizens alike. Increasing inequality over time is, at a minimum, a signal that some are gaining relatively more than others. In the U.S. in particular, it is also the case that many citizens are falling behind in *absolute* terms, while just a few are prospering. For those on the losing side, this situation comes with real financial costs. It is difficult to improve or even maintain one's economic situation when gains in income go disproportionately to those at the top (Gottschalk 1997; Jacobs and Skocpol 2004, 3). Indeed, past analyses suggest that there is a zero-sum element to income inequality; these gains for the top come "at least partially *at the expense of those lower on the income ladder*" (Hacker and Pierson 2010, 159, emphasis added).

This pattern is not just about the size of bank accounts. A high level of income inequality also threatens other tangible outcomes like health, housing adequacy, and quality of education (McNichol et al 2012) and may contribute to social problems, including crime and poor educational performance (Wilkinson and Pickett 2009). Economic inequality is tied to political inequality. The financially well-off have more resources for political participation and organization, as well as disproportionate access to policymakers (Bartels 2008; Gilens 2005, 2011). When inequality increases and some citizens fall further behind economically, it also becomes more difficult for them to influence policy in their favor, creating a vicious cycle. In short, a significant number of people are worse off financially, socially, and politically, as a result of recent trends in U.S. income inequality.

### *Why Study the States?*

Given these substantial consequences, it comes as no surprise that rising inequality has attracted considerable scholarly (and popular) scrutiny across disciplines. Many are eager to explain record-breaking levels of inequality and discover ways to mitigate it. I argue that there is much to be gained by studying inequality trends at the state level. For one, we more accurately depict U.S. inequality when we take state-level heterogeneity into account. For individual citizens, inequality within one's state is more relevant than national trends. State context determines the degree to which inequality impacts financial and social well-being, with citizens in some states or at some points in time facing greater inequality than others. Higher state-level inequality is associated with greater personal bankruptcy filings (Bertrand and Morse 2013; Levine, Frank, and Dijk 2010), higher divorce rates, and even longer commute times (Levine, Frank, and Dijk 2010). And we know that levels of *state* inequality are perceptible to citizens; it shapes their views of national inequality (Xu and Garand 2010). Moreover, because states are the foundation for our national elections and representation, state-specific effects on political attitudes and behavior, including voter turnout (Galbraith and Hale 2008), can shape national-level political outcomes. Variation in state-level inequality therefore holds economic and political significance within and beyond the states.

State-level analyses also have methodological advantages. At the state level, we are in a better position to disentangle underlying factors that cause relatively greater inequality in some states and might be masked in national-level analyses. We can use the variation in state contexts to discover which characteristics or variables matter for the outcome of interest, while also holding many country-level factors constant. In other words, states are a good place to test theories.

### *Why Study State Politics? Federalism and the Political Mechanisms of Inequality*

Much more than serving as "laboratories" for theory testing, however, I suggest that states themselves are part of the explanation *for* inequality. And they are particularly critical for our understanding of how political systems contribute to income differences. Owing to federalism, the states have distinct public policies and institutions. Students of federalism have noted that this feature of American government leaves U.S. policy "fragmented and varied" and warned that it promotes unequal outcomes between states, as well as groups of citizens (Robertson 2013, Wildavsky 1985). For any number of policy areas in which states exercise control, citizens are treated differently depending on where they live. For example, Mettler (2000) noted that greater state authority over welfare policies meant that "poor single mothers and their children were subject to the vagaries of political geography" (26). And because states govern the "everyday life" of Americans (Robertson 2013) there are many such instances of unequal treatment. Similarly, federalism is linked to unequal treatment of groups across states, including by gender (Mettler 1998), race (Lieberman 1998, 2005), and sexual orientation (Knauer 2008).

Such arguments about federalism and equality are not necessarily statements about *income* inequality. Nevertheless, I argue that federalism holds important implications for our understanding of how the concentration of income in the United States has changed during the past several decades, and particularly the role of government. Inequality has certainly become a popular subject among political scientists. Scholars examine rising inequality in relation to changes in political participation, mobilization, and organization (Hacker and Pierson 2010; Rosenstone and Hansen 1993; Skocpol 1999; Strolovitch 2006; Verba, Schlozman, and Brady 1995), public policy (Hacker and Pierson 2010), representation and public opinion (Bartels 2008; Gilens 2005, 2011; Kelly and Enns 2010), and ideological and partisan features of government

(Bartels 2008; McCarty, Poole, and Rosenthal 2006). In some of these cases, inequality serves mainly as a context in which to explore political equality or patterns of representation (e.g. Gilens 2005). Others tell us that income inequality relates to inequalities in political participation (e.g. Verba, Schlozman, and Brady 1995). A few suggest more explicitly that there are political *causes* for inequality. For example, as I will discuss further below, scholars like Bartels (2008) and Hacker and Pierson (2010) provide some evidence that features of our political system have contributed to rising inequality. Nevertheless, we have been limited in our ability to show *how* such political factors shape distributional outcomes. A related shortcoming – and one that is at the heart of this project - is that these explanations have left out a significant part of the political system: state government and policies.

If we want to take political causes of inequality seriously – and this dissertation does –we must move beyond national government and break down the political processes which we believe shape income distributions. A thorough examination of these causes means acknowledging the impressive heterogeneity that categorizes U.S. inequality, examining the 50 state governments, which do the vast majority of governing and policymaking in our federal system (Freeman and Rogers 2007), and tracing the specific political processes that connect these governments with distributional outcomes. In the following chapters, I will show that the characteristics and actions of state governments help explain the considerable variation in inequality observed across the states and over time. Federalism therefore fosters differences in income inequality between states while also shaping the extent of differences between income groups in the U.S. more broadly. We will see that understanding inequality in the states – and the political context that shapes this inequality – can help explain patterns of inequality in ways that previous national-level studies could not.

### *State Political Processes and Income Disparity: An Overview*

As I will detail further in Chapter 2, political scientists have certainly helped moved us forward from often apolitical treatments of and explanations for rising income differences in the U.S; however, this work is far from conclusive. We learned from Bartels' (2008) study of inequality that the partisanship of the President explains some over time patterns in income inequality at the national level. But in a political system with not only other national-level actors, but state-level governments and policymakers as well, the story Bartels offers about the partisan political-economy of U.S. inequality is incomplete. With state governments playing a vital policymaking role, and even taking on increasing policymaking responsibility over time, we are left to wonder about the relevance of partisanship for their inequality-related policy choices. Even more critically, Bartels leaves us with a one-size-fits-all theory, encompassing the entire country, to explain a phenomenon that varies widely from state to state and over time. Presidential partisanship cannot explain the extreme and increasing variation inequality we observe in the states during the past several decades. The shifting partisanship of this one national-level figure cannot tell us why, as I will show in the following section, the variation in U.S. inequality among the states rivals or surpasses the variation we observe between different *countries.* Neither can it show us empirically *how* partisanship matters. Although Bartels gives several examples of partisan policy differences that likely lead to different distributional outcomes under the different parties, these connections are generally not subject to empirical scrutiny.

Similarly, theories that highlight important national policy changes as explanations for rising U.S. inequality, such as those offered by Hacker and Pierson (2010), would lead us to expect a uniform pattern of increasing inequality in the U.S. But if national policy changes are to blame

for rising inequality, why do we see such stunning growth of inequality in some states, like Florida, and only modest increases in others? The answer may lie in the very real variation in policies set by the states in our federal system, but we have only begun to examine the effects of these policies.

To explain inequality as it exists in the U.S. – as a phenomenon that differs dramatically across states and over time – we need a theory that predicts such variation, rather than one that suggests a uniform national pattern. We saw in Figure 1.1 above that increasing state-level variation surpasses the over time growth of US inequality, yet our current theories do not address and cannot explain this critical feature of U.S .inequality. This dissertation aims to provide such an explanation. It sets out to improve our understanding of inequality by focusing on state-level variation, specifically asking: *what explains the considerable over time variation in income inequality among the American states since the 1970s?* I answer this question by developing and testing a partisan political-economy theory for state inequality. This theory, presented in Chapter 2, builds on some national-level political explanations for inequality to the extent that it pivots on partisanship and public policies; but it goes further to recognize, incorporate, and connect the diversity of these political factors across states and over time. I argue that changes in the partisan composition of state governments, and related policy shifts, are a fundamental determinant of changes in state-level inequality.

After outlining this theory in Chapter 2, I turn to empirical tests in Chapter 3. Using a new panel dataset for the states from 1970-2005 and a set of time series error correction models, I establish a strong over time relationship between the partisan composition of state governments and changes in market inequality between 1970 and 2005. Controlling for economic and demographic factors, I find that changes in income shares for the top 10% and top 1% and the

Gini coefficient are significantly and negatively related to increases in Democratic control of state government, while increases in Republican control are positively and significantly related. Governors and state legislatures each have significant, independent effects, and they matter in combination; the results suggest that inequality decreases, or rises by relatively less, under unified Democratic government and increases when Republicans gain control of both the Governorship and legislature. Overall, my findings in Chapter 3 demonstrate that state-level government partisanship is a key explanation for over time patterns of inequality in the states. Further, because the dependent variable is *market* or pre-tax and pre-transfer inequality, states influence the distribution of incomes even before redistribution. Building on the work of Kelly and Witko (2012), I also find that higher union membership consistently relates to decreasing inequality, suggesting that, like government partisanship, unions are an important institution for inequality. Additionally, increases in per capita income and per capita investment income, as well as in the percent of the population with college degrees, relate to increasing income disparity at the state level.

In Chapter 4, I further scrutinize my theory by identifying policy mechanisms which connect the party in power with market inequality outcomes. If changes in market inequality really are a function of who is in power, we should also see shifts in relevant policies when government partisanship changes, and these policy shifts should have significant effects on inequality. Indeed, I find that increases in Democratic control are associated with increases in state public sector employment, as well as state minimum wages. Increases in both of these policy variables, in turn, significantly relate to declining or diminished growth of inequality. These findings provide further support for my theory that the parties' different policy approaches are consequential for pre-tax and transfer income inequality.

In Chapter 5, I reconsider the role of redistributive policies, which were previously shown to have little relevance for state-level outcomes (e.g. Barrilleux and Davis 2003). In contrast to these previous findings, I find that state public welfare spending is an additional mechanism by which state governments affect inequality, in this case post-tax and transfer inequality. To be sure, the effect is quite small, which further suggests that we focus on the ways that governments influence income inequality besides income transfers and taxes. Still, the combined findings of Chapters 4 and 5 shows that the policy decisions of the parties in state government significantly impact pre- and post-redistribution income inequality. I conclude in Chapter 6 by discussing the implications of these findings and suggest avenues for further research.

The overall findings of this dissertation contribute to literatures with explicit state-level emphases. In general terms, I provide additional evidence that partisanship is a meaningful predictor of policy and outcomes, even across diverse states, which is relevant for a variety of studies of state policy choices and outcomes. In terms of state-level inequality specifically, I add to a small body of state-level inequality studies which points to political, not just economic and demographic, explanations for such differences (e.g. Freund and Morris 2005, Langer 2001, Kelly and Witko 2012). More specifically, I believe I am the first in this subfield to connect state-level partisanship, policies, *and* inequality, and I study these relationships over a longer period of time.

Although the states are at the core of this project, my findings hold implications for our understanding of U.S. inequality more broadly. This dissertation demonstrates that U.S. inequality is not simply a function of broader national or global economic trends, or even political decisions made at the national-level. Rather, I show that state governments and state policies play a critical role in the story of U.S. inequality. By taking a state-level view, I

acknowledge the substantial heterogeneity in U.S. inequality that has been largely overlooked, and provide an explanation that matches this variation we observe in the states and over time. This approach illuminates relationships that cannot be accurately captured with an aggregate national focus, highlighting important and consequential policy differences between states that take us beyond the typical focus on the White House or Washington, DC. My analyses point to new political features – state government party control and several state-legislated policies – that are absent from national-level studies but are clearly integral to the distribution of income in the U.S. Further, I show how these features relate to one another, establishing empirical connections between partisanship and policy changes, *and* between policy changes in shifts in inequality. With empirical evidence to support this causal chain, I shed new light on the specific political mechanisms which make government so important to the story of U.S. income inequality. We see *how* partisanship matters and can say with some more empirical certainty that changes in our political system are fundamental determinants of changes in inequality throughout the past four decades. In more specific terms, the increasing presence of Republicans in state governments, and accompanying declines in Democratic control, have had significant consequences for income disparity.

***U.S. Income Inequality: A View from the States***

The significant and increasing variation in inequality, depicted above in Figure 1.1, is, of course, the central concern of this project. Before turning to my attention to explanations for this variation in Chapters 2 and 3, I devote the remainder of this chapter to describing patterns in state inequality during the past several decades, specifically the concentration of income at the

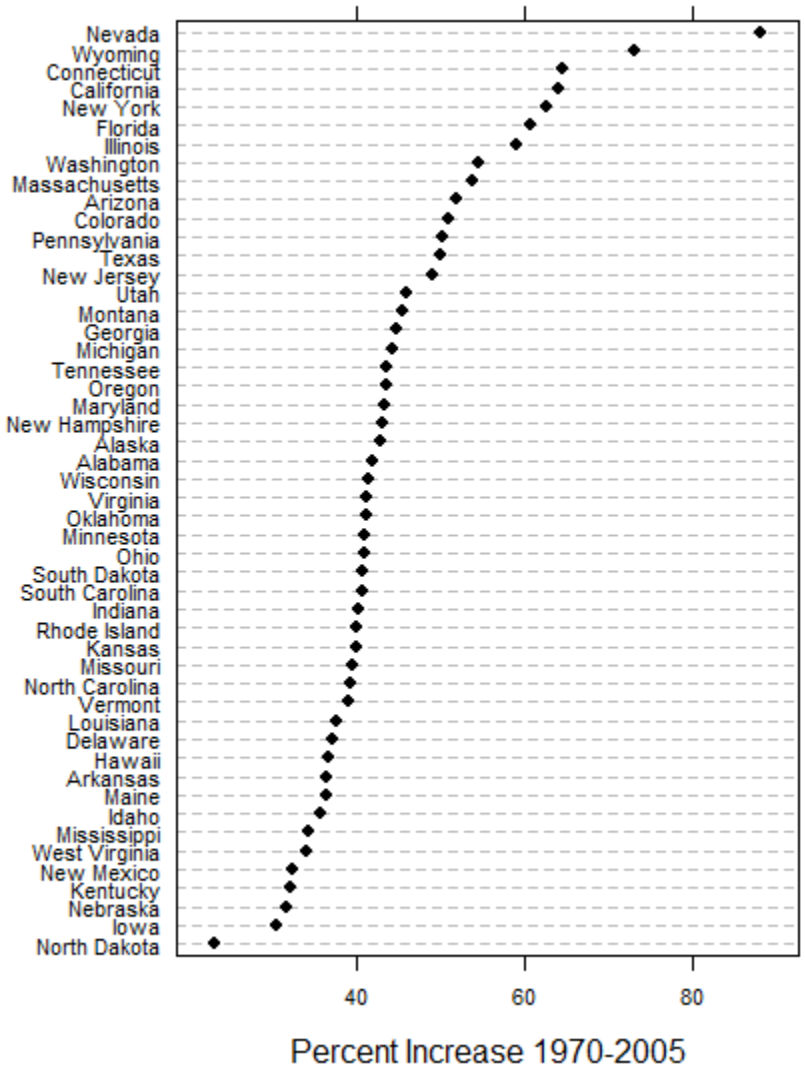
top of the income distribution.[1] This discussion provides further evidence that state-level differences during this time are considerable, while also giving us a better sense of the nature of the variation to be explained.

*Variation in the Rise of Income Inequality across States*

Figure 1.2 below charts the percentage change in the states' top decile income shares between 1970 and 2005.[2] The states are ordered from largest to smallest increase. During this time, each state experienced an increase in the concentration of income, but the extent of these increases differs markedly between states. At the lower end, North Dakota and Iowa's top decile gained by 23% and 30% respectively, while Nevada's gained by 88% and Wyoming's by 73%. Put another way, the top 10% of earners in North Dakota captured about 32% of income in 1970 and 39% in 2005. While this is a significant increase, it is dwarfed by gains in Nevada, where the top decile increased their share from about 28% in 1970 to 53% of total state income in 2005. Even considerable increases like Nevada's, however, seem small compared with the enormous gains for the top 1%. Their shares increased by between 101% (in Delaware) and 253% (in Wyoming) during this time.

[1] The data in this section come from Frank (2008, 2009) and will be discussed further in chapter three. Future chapters will also consider the Gini coefficient along with these top share measures of inequality.
[2] Similar patterns are observable for the Gini coefficient – which increased by between 20% and 48% during this period - and top 1% percent income share. See Appendix A, Figures A1 and A2.

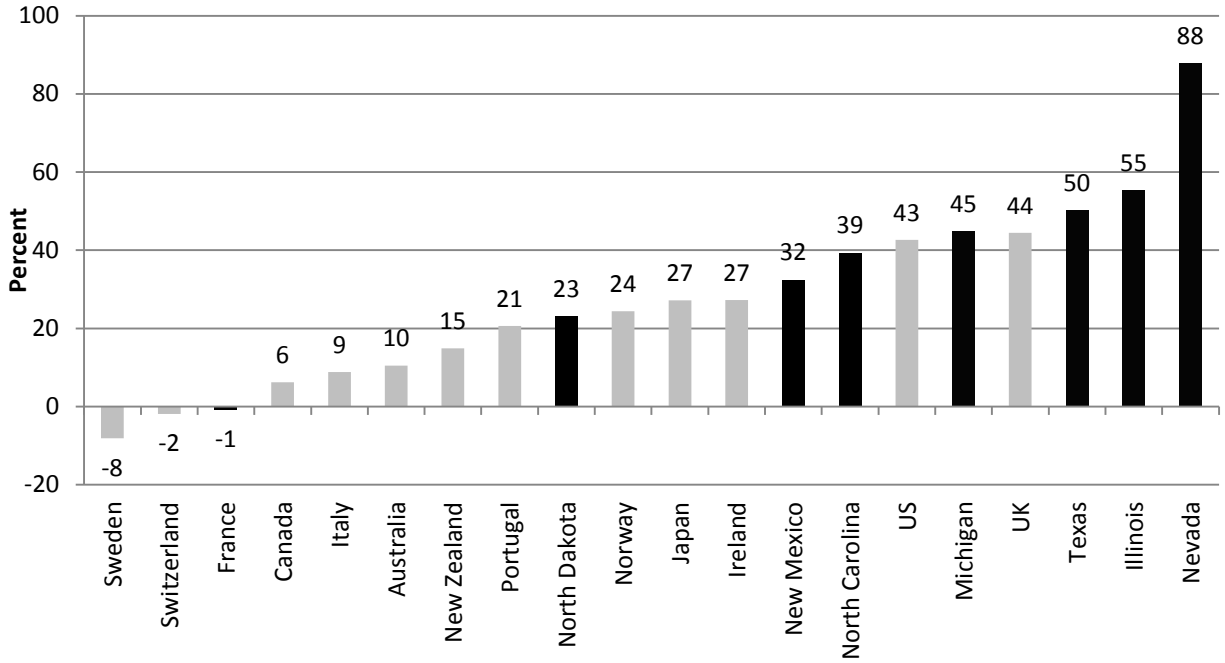
**Figure 1.2 Percentage Increase in State Top Deciles' Income Shares, 1970-2005**




One way to make the significance of state differences clearer is to compare them to differences between countries. Figure 1.3 below shows the percentage change in the top decile's income share between 1970 and 2005 again, but this time for select states along with several countries. Notice that state variation is comparable to cross-national variation, and in some cases the differences between states are much larger than those between countries. Michigan and the UK both experienced about a 44% increase – from about 28% shares to 41% shares - in the top

decile's income share between 1970 and 2005 (as did Georgia, not pictured). North Dakota and Norway had smaller increases of just around 23%, with their top decile shares shifting from 32% and 31% to 39% and 38% respectively.

**Figure 1.3 Percentage Change in Top Deciles' Income Shares, 1970-2005**



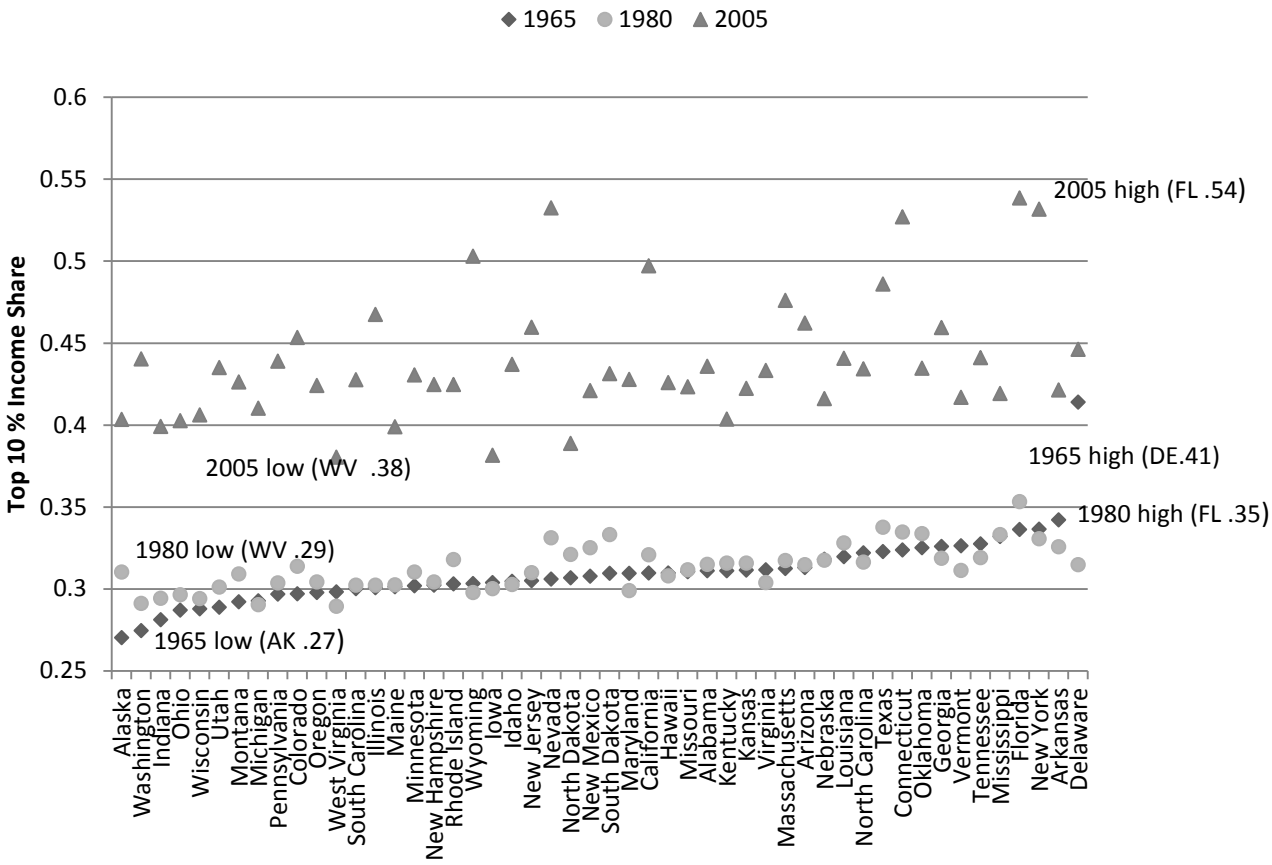

Notes: Country data from Top Shares Database. Of countries for which data are available in these years, Sweden has the largest decrease over this time period. Data for Switzerland begins in 1971, Italy in 1974, Ireland 1975, and Portugal 1976. Among the states, North Dakota and Nevada experienced the smallest and largest gains respectively. New Mexico ranks 5th, North Carolina 15th, Michigan 36th, Texas 39th, Illinois was 45th.

*Differences in the Levels of Inequality across States*

Figures 1.2 and 1.3 show that the extent to which inequality has increased over the past several decades clearly varies significantly in the states. Accordingly, the *levels* of inequality also look increasingly different in the states over time. For example, when we compare top decile income shares in 1965, 1980, and 2005 in Figure 1.4 below, we see that while states tended to cluster together in 1965 and 1980, there is noticeably more variation between the states by 2005. In 1980, there was about a six percentage point difference between the most unequal and most

equal states. But, as displayed previously in Figure 1.1, the difference between the most unequal and most equal state increased over time and by 2005 it was about 16 percentage points.

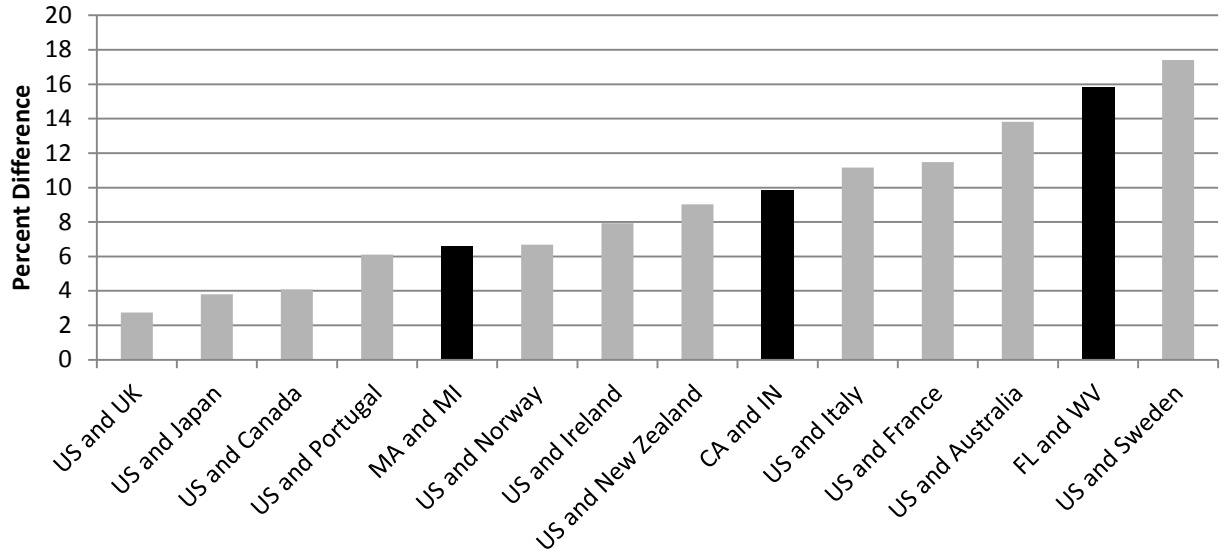
**Figure 1.4 State Top Deciles' Income Shares: 1965, 1980, and 2005**




Not only is this 2005 range between states greater than the difference between U.S. inequality in 1965 and in 2005, which was about 12 percentage points, it is also larger than the differences between the United States and many other countries, including the UK, Japan, Canada, Portugal, Norway, Ireland, New Zealand, Italy, France, and Australia. Moreover, this 16 percentage point range between states is just shy of the 17.4 percentage point difference between the U.S. and Sweden, which is the greatest cross-national inequality gap in the available data.

Figure 1.5 displays these differences in the top decile's income share between the U.S. and other countries and between select U.S. states for 2005. On the right, notice that the difference between Florida and West Virginia surpasses nearly all cross-national comparisons and rivals that between the U.S. and Sweden. Moreover, other state differences, depicted with solid black bars, are comparable to cross-national differences as well.

**Figure 1.5 Differences in Top Deciles' Income Shares between US and Other Countries and between States, 2005**




Notes: Country-level data from Top Shares Database. The Gap between the US and Sweden is the largest and the gap between the US and UK the smallest in the available 2005 data. Among the states, Florida and West Virginia have the largest difference. Michigan is ranked 10th and Massachusetts 43rd in 2005. Indiana is the 5th

*Geographic Trends in Inequality*

When it comes to explaining these inequality differences between states, one of the first explanations we might look to is region. If we map state top decile income share in 1970 and 2005, some regional trends do emerge. For example, notice in the top half of Figure 1.6 that the top decile's share in 1970 is generally lower in Midwestern states and somewhat higher in the South. But there are differences within regions too, and these are somewhat more pronounced in

2005. Neighboring Southern states, Alabama, Georgia, and Florida, fall into different categories in both of the maps below. And between 1970 and 2005, Illinois pulls away from its neighboring Midwestern states. It appears from looking at these snapshots that differences in inequality between states, as well as over time changes, are not simply a function of region.

If we narrow the scope of states, we can compare annual trends in inequality for the full time period and see the extent of intra-regional differences. Figure 1.7 charts the rise in the concentration of income for four pairs of states, one in each Census region, between 1970 and 2005. For each pair, inequality for states within the same region – Connecticut and Pennsylvania in the Northeast, Nevada and New Mexico in the West, Illinois and Indiana in the Midwest, Virginia and West Virginia in the South– increased by significantly different amounts. While Nevada's top decile's share in 1970 was lower than that of New Mexico, as well as the top share for the U.S. as a whole (gray line), note that it far surpassed both of these by 2005. Similarly, in the Midwest, Illinois and Indiana has lower inequality than the overall U.S. in 1970, yet, by 2005, Illinois' top decile's share was greater than the U.S. share, and Indiana's was noticeably lower. These patterns further suggest that over time changes in state-level inequality cannot be explained away by region.

**Figure 1.6 Geography of State Top Decile Income Shares, 1970 and 2005**

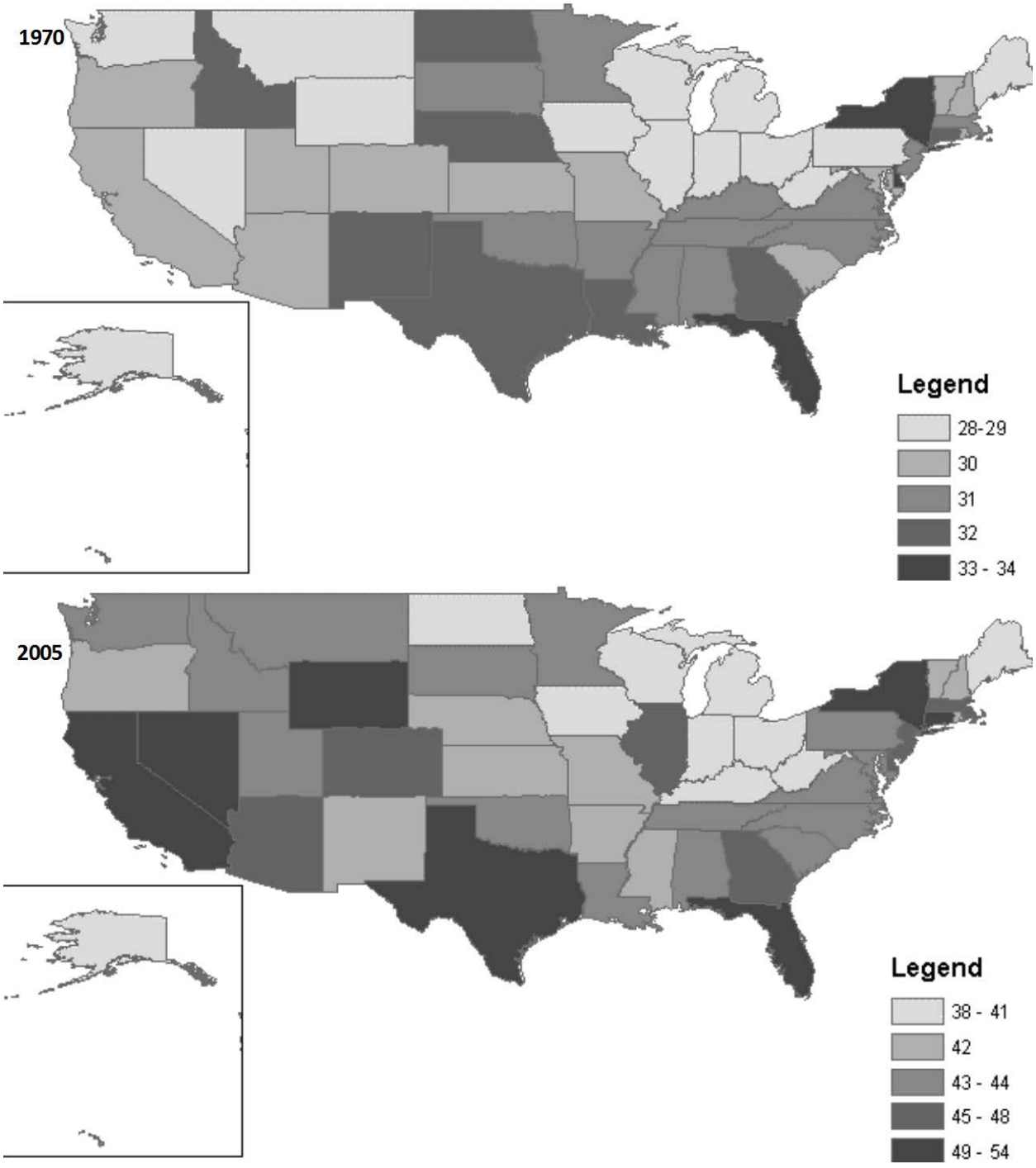
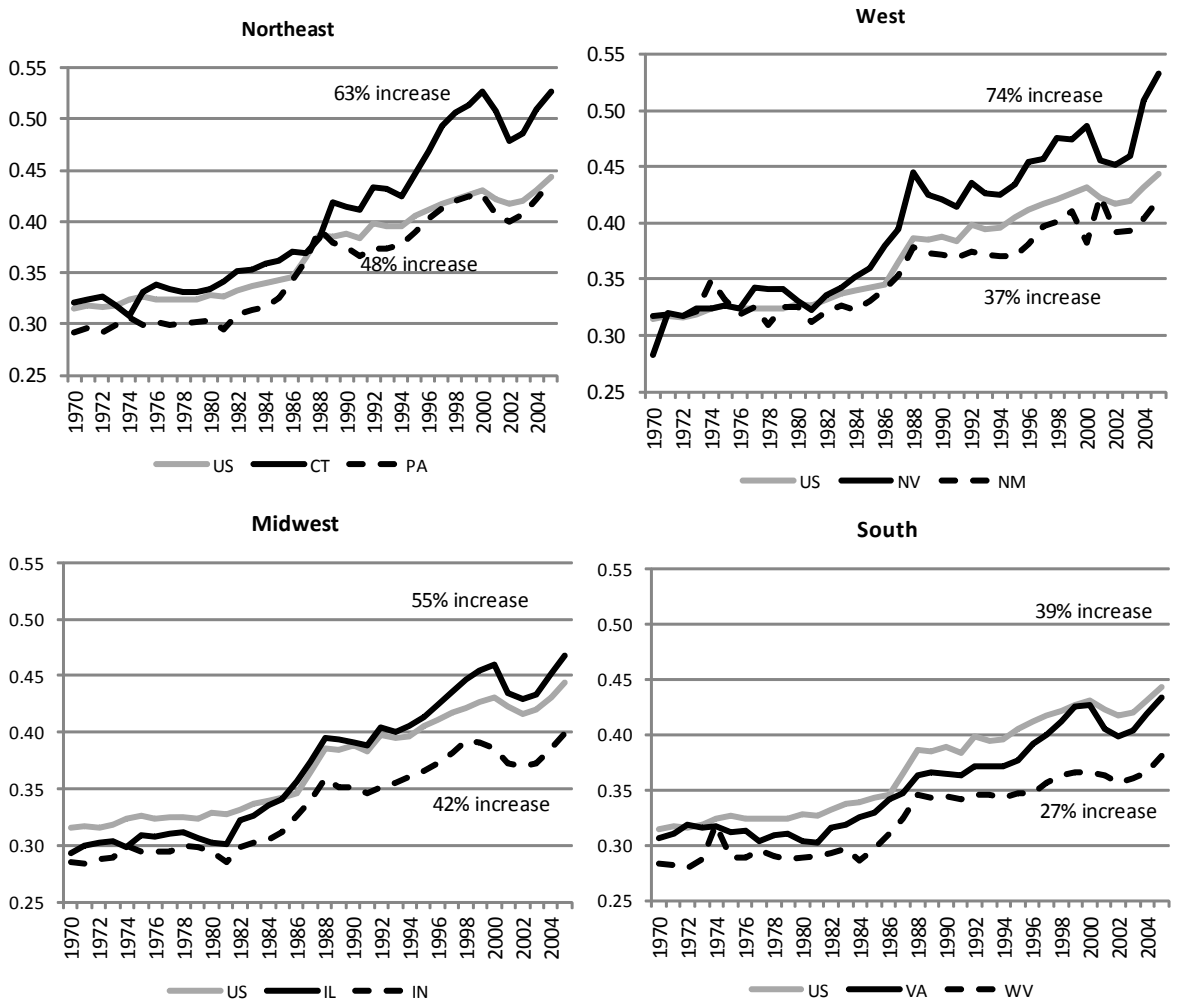


**Figure 1.7 Annual Increases in Top Decile's Income Share, 1970-2005, by Regional Pairs**




## *Conclusion*

It should by now be clear that there is substantial variation in states' experiences with income inequality. The magnitudes of these state-level differences are on par with differences between the U.S. and many other countries, as well as the growth of U.S. inequality over the past 40 years. Moreover, we find that even states in the same region have taken different paths. What, then, explains differences in inequality in the states over time? This is, of course, the primary question addressed in the following chapters. I begin by presenting my theory in Chapter 2.

## CHAPTER 2
## THE PARTISAN POLITICAL-ECONOMY IN THE STATES: A THEORY OF STATE INEQUALITY

In Chapter 1, we saw that by a number of measures, there are significant differences in income inequality in and among the states since 1970. State-level differences in income inequality are comparable to cross-national differences, and they are not simply explained by region. Several decades ago, many scholars argued that variation in state-level inequality was explained by demographic and economic patterns (Aigner and Heins 1967, Al-Sammarie and Miller 1967, Bishop et al 1992, Conlisk 1967, Nelson 1984, Nord 1984, Sale 1974). But there is more to state variation than that. Along with sorting citizens such that the demographic and economic profiles of states vary, federalism also divides citizens into separate *political* entities, where they are subject to different policies and politics (Mettler 1998, 2000; Peterson 1995; Soss 2001). The central argument of this dissertation is that these political factors in the states are consequential for income inequality.

In this chapter, I develop a theory for inequality grounded in state political characteristics. I argue that the partisan composition of state governments explains a substantial amount of over time variation in income inequality in the states. This theory rests on the different economic approaches of the Republican and Democratic Parties, which should have different effects on the distribution of income. In general, Democratic policies are more likely to target lower and middle income groups and involve more government intervention in the economy. We expect such policies to reduce income differences. Republican policies, on the other hand, typically appeal to higher income groups and business and favor less economic intervention or regulations. In view of these approaches, I theorize that, controlling for economic and demographic characteristics, we should observe decreasing or relatively smaller increases in

inequality under Democratic state governments and increasing inequality under Republicans.

This state-level argument builds on political explanations offered for national inequality. In an extensive literature on income inequality, some scholars argue that growing income differences are a function of political or policy decisions (Bartels 2008, Hacker and Pierson 2010, Kelly 2009), not just the inevitable outcome of economic restructuring. Within this politically-oriented literature, some have established a relationship between the partisanship of the President (Bartels 2008, Kelly 2009) or Congress (Volscho and Kelly 2012) and patterns of inequality. Up to this point, these explanations have not discussed the role of party control at the state level. Similarly, even though there is considerable political variation across states, politics is absent from the older state-level studies of inequality referenced above, and some more recent state-level analyses (e.g. Fruend and Morris 2005; Langer 2001) do not address parties. This is a critical oversight. States set many more policies than the federal government and they have acquired additional authority over time, beginning with "New Federalism" under Nixon and continuing in the 1990s with the "devolution revolution" (Nathan 1996, 2006). At the same time, the parties have polarized along economic lines (McCarty, Poole, and Rosenthal 2006), making partisanship even more relevant for economic approaches and outcomes. In sum, during the period of interest, state governments have considerable control over policy and economic outcomes and their political decisions are likely to reflect the economic approach of the party in power. We have good reason to extend our consideration of partisanship and inequality to the state level.

By incorporating state-level party control, I offer a more complete picture of the mechanisms which produce inequality. As discussed in Chapter 1, understanding the mechanisms of inequality is important because it is one of the most pressing economic issues in

the U.S. today. Understanding *political* causes of inequality is particularly important because these mechanisms, unlike economic ones, are not "automatic" or "inevitable" (Bartels 2008). Political decisions are made by individuals and parties in power. By studying these political factors, we can learn more about what actions – or lack thereof - influence inequality, rather than just being subject to demographic and economic chance.

A full consideration of political factors cannot end with Presidents or Congress. Such a national focus "reflects an unreal vision of the nature of modern government and politics" (Freeman and Rogers 2008, 205). There are 50 state governments with thousands of legislators making policy decisions that can affect economic outcomes within states and on a national scale. My theory considers the partisanship of these governments and, by doing so, expands what we know about state and national inequality. To this end, I will show in this chapter that over time patterns in state-level government partisanship track with inequality trends in several states *and with national inequality trends*, arguably better than national party control does.

In the following section, I begin by discussing the relationship between politics and inequality established at the national level. I then turn my attention to state politics literature to explain the significance of political variation in the states. My partisan theory for state inequality incorporates both of these literatures. In this theory section, I explain how and why we should expect differences in the partisan composition of state governments to affect inequality in the states over time. This theory is grounded in economic differences between the parties, and I discuss this partisan model and the related historical context. I conclude this chapter with a descriptive overview of state government partisanship and some empirical analysis of how these patterns relate to income inequality during the period of interest.

### *Politics and the Distribution of Income: National-Level Connections*

Although many studies of U.S. inequality emphasize economic factors, there is evidence that politics play an important role as well. Some scholars point to specific policy changes which underlie larger economic trends. In the policy-oriented accounts by Hacker and Pierson (2007, 2010) and Levy and Temin (2007), for example, the economic trends related to inequality, like the relative rise of the financial industry, shifts in technology, and the decline of labor unions, are intertwined with actions taken, or not taken, by government. And there are more explicit statements about the importance of politics as well. Students of politics argue that rising U.S. inequality is not "simply a 'natural' economic phenomenon" (Hacker and Pierson 2007, 2) or "an economic reality" tied to "market forces" (Bartels 2008, 30); it is influenced by what government does or does not do (Hacker and Pierson 2007, 2).

Perhaps the most visible or obvious relationship between the government and the income distribution is through redistributive policies. The distribution of income can be made more equal through progressive taxation and income transfer policies, like social assistance or even tax credits. However, government also plays an important role before taxes and transfers. Jacobs and Soss (2010) explain that, even prior to these adjustments, "government policies structure labor markets and labor bargaining, corporate governance and executive compensation, and the operation of financial markets" (346). Similarly, Hacker and Pierson (2007) argue that, "government actually has an enormous range of tools for affecting the distribution of earnings before taxes and benefits take effect" (170). Rather than "simply redistribute what labor and financial markets produce" government policies affect economic outcomes by actually "*structure[ing]* those markets" in the first place (Hacker and Pierson 2010, 169-170). Kelly (2009) refers to government's pre-tax and transfer role as "market conditioning," or situations in

which private market decisions that can be readily observed are influenced by government action" (18).

We can find numerous examples of government's market conditioning role. Volscho and Kelly (2012) explain: "Firms' decisions in hiring and compensating their employees are influenced by many government activities—from payroll taxes, to government contracts, tax credits, workplace safety rules, and environmental regulation" (681-2). Similarly, public education and job training programs affect workforce skills and employability (Kelly 2009, 19; Volscho and Kelly 2012). Through these various market policies, "programs that are not explicitly redistributive can nonetheless influence distributional outcomes" (Kelly 2009, 41). Indeed, Kelly's (2009) analysis shows that U.S. market or pre-tax and transfer inequality is affected by government. What's more, he concludes that while redistribution is "clearly the most explicit mechanism that the government uses to reduce inequality….political dynamics have a *greater* impact on distributional outcomes" through the market conditioning mechanism (Kelly 2009, 161, emphasis added).

Some scholars of politics and inequality have focused on the role of partisanship in particular. Both Bartels (2008) and Kelly (2009) find that partisan control of government, specifically the President's party, affects inequality outcomes. Kelly (2009) finds that inequality, measured by the aggregate income ratio of the top quintile to the bottom two quintiles, declined by .16 during Democratic presidencies and increased by .30 under Republicans (99). Similarly, Bartels (2008) shows that the incomes of the bottom 80% of families grew more rapidly under Democratic presidents than under Republican presidents. Under Republican Presidents, on the other hand, lower and middle income families' incomes lagged behind those of the rich. He argues that these differences stem from different macroeconomic policies of the parties. I will

return to these underlying policy differences later in this chapter.

Others have connected inequality outcomes with partisanship in Congress. Somewhat anecdotally, a 2012 study by the Institute for Policy Studies shows that the party affiliation of Senators and members of Congress partly explains their voting records on a list of recent inequality-related bills (Anderson et al 2012). Volscho and Kelly (2012) show that there is a significant relationship between the percentage of Democrats in Congress and the share of income captured by the top 1% of the income distribution. They conclude that shifts in Congress to the Republican Party between 1949 and 2008 contributed to increases in top share inequality.

In summary, government and policies affect the income distribution, even before overt redistribution through taxes and transfers. As well, there is evidence that partisanship explains inequality outcomes at the national level. Explanations for inequality at the state level should also address the role of politics and especially partisanship. Indeed, the considerable policymaking jurisdiction of state governments, discussed further below, give us reason to believe politics will have an even greater effect in the states. With this in mind, I turn to state politics and policy.

***Variation in State Policies***

The state politics literature provides the foundation we need to connect political characteristics with inequality in the states. As will become clear below, while there is extensive research on the causes and effects of state policy choices, few have addressed these in relation to income inequality. Still, this literature provides three important premises: 1. State policies vary significantly; 2. Political variables can help explain these different policy choices; 3. Different state policies lead to different distributional outcomes. Each of these will be explained below. I will use this foundation, along with what we know from the national level inequality literature, to

build a partisan political explanation for state inequality.

It is not difficult to find policy differences between the states. States vary in their policies toward labor (Freeman and Rogers 2007); tax codes, including whether or not they even have a state income tax; criminal laws (e.g. death penalty); restrictions on abortion and reproductive health care; environmental regulations; health policies, including expansions of Medicaid for certain groups or universal plans like in Massachusetts; and even their policies regarding voting (e.g. voter ID laws, felony voting rights), to name just a few.

These differences are, of course, a function of federalism – indeed, of a "strongly decentralized" brand of federalism that gives American states significant governing and policymaking power (Freeman and Rogers 2007, 207). While states have always had jurisdiction over the vast majority of governing or policy areas, per the Constitution and the 10th Amendment, the balance of power between the national and state governments shifts in different historical periods. Of particular interest for this study is the period since the late 1970s, when the "pendulum of national social policy swung away from Lyndon Johnson's Great Society," towards the states (Nathan 2008, 17). Beginning with Nixon's New Federalism, a concerted effort was made to devolve more control to the states, such as through revenue sharing and block grants (Nathan 2006). This trend accelerated under Reagan, when states responded to domestic spending cuts by "increasing the funding of programs in areas in which the federal government had become less active" (Nathan 2008, 17). Although his emphasis is on eventual outcomes, rather than policy, Brace (1991) found that between 1968 and 1985, state political characteristics played an increasingly important role in state economic outcomes in each of three successive time periods (1968-1973, 1974-79, 1980-1985). This suggests that during the period when variation in inequality was increasing, states were also becoming increasingly autonomous

entities, able to influence their own economic outcomes through political factors. Under Clinton, the "Devolution Revolution" – exemplified by the 1996 welfare reform that replaced AFDC with state-run Temporary Assistance to Needy Families - brought more discretion to the states in the mid-1990s. Even more recently, Freeman and Rogers (2007) emphasize that we are witnessing an era of "progressive federalism" in which states are the primary innovators in a variety of policy areas, such as environmental regulations, education reforms, health care, and election and voting reform. Again, such state-lead innovation has produced a range of policy outcomes across states (Freeman and Rogers 2007).

A broad literature considers the variation in state policy choices that accompanies U.S. federalism (Grey 1996). Scholars seek to explain different policy choices with demographic factors like race and ethnicity (Hero and Tolbert 1996); economic resources, such as state income or revenues (Fellowes and Rowe 2004, Tweedie 1994); and political variables, including political culture (Elazar 1984), public opinion (Berry et al 1998, 2007, 2010; Erikson, Wright, and McIver 1993; Lax and Phillips 2009; Schneider and Jacoby 2006; Wright, Erikson, and McIver 1987), and policy diffusion across or within states (Karch 2007, Shipan and Volden 2006). For example, following the devolution of welfare programs to the state-level, explanations such as these were applied to state welfare (TANF) policy choices (Fellowes and Rowe 2004; Soss et al 2001; Lieberman and Shaw 2000). Studies which show that political variables explain state policy choices are, of course, especially significant for this project. These findings push back against earlier arguments that state policies are explained only by socioeconomic differences in the states (e.g. Dye 1966). Most importantly, along with the political variables listed above, this literature provides evidence that partisanship affects state policy outcomes. This characteristic will be discussed in detail in the next section.

So far, it is clear that state policies vary significantly and that political characteristics can explain some of these different policy choices. It is also the case that policy variation is consequential for outcomes in the states, including economic ones. That is, when states adopt different policies, there are visibly different outcomes. For example, Newman and O'Brien (2011) show that state taxes have a significant effect on state mortality rates, property and violent crime rates, high school completion, and births to unmarried mothers (Newman and O'Brien 2011, 102). Others show the effects of state policy choices on state outcomes ranging from abortion rates (Blank et al 1996), to poverty (McKernan and Ratcliffe 2006), to pay and employment rates (Card and Krueger 1994, 1995, 2000; Neumark and Wascher 2000). In short, the policies that states make have significant effects, intended or otherwise.

There is reason to think that state policies also influence inequality outcomes, but there are few instances of this relationship being tested. Some recent state politics literature that does consider inequality uses it primarily as the context in which to explore political representation of income groups (Gilens, Lax, and Phillips 2011; Flavin 2010; Rigby and Wright 2011). These representation scholars suggest that there may be variation in government responsiveness to different incomes groups by state. For example, Flavin (2010) shows that the underrepresentation of lower income groups varies from state to state. Rigby and Wright (2011) also find different patterns of representation of income groups in rich states compared with poor states. Income differences, then, explain *political* inequality. Others show the effects of income inequality on political variables like state turnout and votes (Xu and Garand 2010; Galbraith and Hale 2008).

These are important facets of state-level inequality which point to significant relationships between income differences and political outcomes, but they do not directly address

how politics or policies can explain inequality in the first place. And, again, early studies of state inequality pivoted on demographic and economic differences in the states, not political ones (Aigner and Heins 1967, Al-Sammarie and Miller 1967, Bishop et al 1992, Conlisk 1967, Nelson 1984, Nord 1984, Sale 1974). Since these earlier studies, a few scholars have investigated the relationship between state policies and inequality, with mixed results. On the one hand, Freund and Morris (2005) find a positive relationship between state lotteries and the concentration of income in the states for 1976-1995. Over a similar time period, Langer (2001) shows that states with more "demand-side" economic development policies - defined as promoting research and development, technology, and exportation - have lower income inequality compared with those which adopt "supply-side" policies, which consist of offering tax abatements and capital subsidies.

On the other hand, Barrilleaux and Davis (2003) found that state welfare policies did *not* generally influence the concentration of income, at least during the period of study, the 1980s. Barrilleaux and Davis's examination of redistributive policies echoes some previous state-level arguments about politics and inequality that focused on explaining redistribution (Fry and Winters 1970; Plotnick and Winters 1985, 1990). However, as discussed above, there are many ways the government influences the income distribution besides redistribution, and evidence that these policies have an even greater effect on U.S. inequality than redistributive ones (Kelly 2009). When Kelly and Witko (2012) take this "market conditioning" role of government into account, they find that left party power, unions, and the minimum wage are associated with lower market inequality in the states. These findings show that political arguments regarding national or cross-national inequality – in their case Power Resources Theory - can be applicable at the state level. They also show that, in the face of some mixed findings for the effect of state

redistribution on inequality, state policies can directly influence the distribution of income in the first place. This gives us further reason to investigate the relationship between state politics and market inequality. I suggest we can learn more about this relationship by incorporating state government party composition.

### *A New Explanation: The Partisan Political-Economy and Inequality in the States*

As reviewed above, national inequality literature establishes a relationship between the President's (Bartels 2008, Kelly 2009) and Congress's (Volscho and Kelly 2012) partisanship and levels of inequality. In Bartels' (2008) work in particular, this finding is informed by the partisan model (Hibbs 1977; Tufte 1978). According to the partisan model, "the macroeconomic policies pursued by left- and right-wing governments are broadly in accordance with the objective economic interests and subjective preferences of their class-defined core political constituencies" (Hibbs 1977, 1468). This, of course, means that the parties have distinct policy positions or platforms, which align with their constituencies' interests. Bartels' (2008) argument is grounded in the association of Democratic administrations with policies to reduce unemployment and promote income growth for the lower and middle classes and, by contrast, the association of Republican administrations with a limited government role in the economy and a focus on inflation over unemployment (Hibbs 1977; Tufte 1978; Bartels 2008). It follows that these economic policy differences translated into different income growth patterns under Democratic versus Republican Presidents, and more unequal incomes under Republicans (Bartels 2008).

Our consideration of the role of parties need not be limited to the national level or to Presidential macroeconomic policies. Cusack (1997) explains economic differences between parties in broader terms:

> Lower income groups and labor in general are seen as favoring a large and active state. This is a state heavily engaged in regulating the market and using public finances to equalize the outcomes of market operations. Upper income groups and capital in general are depicted as aiming to minimize the role of the state in shaping market operations and outcomes. These latter groups are particularly concerned to limit the size of the state and its control over society's financial resources. Parties competing for votes orient their programs to serve these different interests; they will act to implement these programs if and when they come into government (375-6).

In American politics, "The Republican Party is viewed as a coalition of business and upper-income voters, who favor lower taxes, less government spending and minimal economic regulation. The Democratic Party is viewed as the party of labor, favoring economic redistribution via higher taxes, social welfare spending and regulation" (Ansolabehere et al 2006, 98). We expect government to play a more limited role in the economy under Republicans – aligning with the party's economic conservatism - and a more active role under Democrats. This economic cleavage is traceable to the New Deal era (Sundquist 1983) and, as I will explain further below, has become increasingly relevant since the 1970s.[3]

Importantly, partisan economic policy differences are applicable and observable at the state level. In his 1949 study of Southern politics, V.O. Key posited that party control was an important factor in government provision of services. Some initial tests by Dye (1966) suggested that party control did not impact state policy outputs, socioeconomic differences did; however, research since then indicates that partisanship often matters. For a variety of policy areas, studies show that partisanship of Governors and in state legislatures have significant effects on state policy choices (e.g. Boushey and Leudtke 2011; Fellowes and Rowe 2004; McFarlane and Meier

[3] In recent years, there is some debate about the relevance of this economic model for voting behavior (see Ansolabehere et al 2006 and Appendix C); however, even if some groups vote according to moral or cultural rather than economic positions (Frank 2004, Gelman 2008), it remains the case that the parties' actions still represent these different economic constituencies and approaches. Indeed, cultural arguments emphasize that these voters may act against their economic interests because "the two major parties really do stand for different economic policies" (Gelman, Kenworthy, and Su 2010, 1213). These different approaches to economic policy are my main concern. I suggest these partisan policy differences are what lead to different inequality outcomes, depending on the party in power.

2001; Medoff et al 2011; Shipan and Volden 2006). From a different angle, Cox, Kousser, and McCubbins (2010) show that majority parties in state legislatures influence legislative outcomes by controlling the agenda. The relevant implication is that party control often matters for policy outputs.

Within this state literature, scholars find that party affects state economic policies and outcomes in particular. Alt and Lowry (1994, 2000) identify "systematic partisan differences" in state spending under Democrats and Republicans (Alt and Lowry 1994, 812). Similarly, Garand (1985, 1993) found consistent differences between state party control and state spending priorities. Several others show that partisanship influences redistributive policies in the states (Dye 1984, Plotnick and Winters 1990, Rom 1996). Caplan (2001) and Reed (2006) establish a connection between state parties and tax burdens. For instance, the latter shows that, between 1960 and 2000, tax burdens were higher when Democrats controlled the state legislature (Reed 2006). There is also evidence that voters also have different policy expectations for the two parties at the state level; they expect more government services and spending under Democrats (Lowry, Alt, and Ferree 1998).

These findings regarding party differences at the state level are helpful for a few reasons. First, they show that, like at the national level, partisanship affects state policy choices. Second, they show that party matters *in a similar* way in the states. The economic policy choices of the Democratic and Republican parties at the state level are consistent with their traditional economic policy positions outlined in the partisan model above. In general, Democrats take a more active government role in the economy and Republicans favor a smaller public sector.

We can apply this understanding to state policies that affect the income distribution. While Presidents set macroeconomic policies, it is clear from the state policy literature that states

are policymakers too. Indeed, “for every law passed by Congress, state legislatures pass several hundred” (Freeman and Rogers 2007, 209). And state governments set many policies which can impact inequality, including a variety of so-called “market conditioning” policies (Kelly 2009) that should affect the pre-tax and transfer income distribution. Such policies include job training programs, (Freeman and Rogers 2007), economic development policies (Langer 2001, Witko and Newmark 2010), and education assistance or spending (Goodspeed 2000), each of which falls under state jurisdiction and can impact incomes within states. Many policies that have been linked with rising U.S. inequality have state-level counterparts. National-level literature argues that the erosion of collective bargaining rights and unions contributed to rising inequality (Hacker and Pierson 2010; Levy and Temin 2007). State policies, like “right-to-work” laws, can weaken or strengthen unions or collective bargaining rights within states. National literature also points to the declining real value of the federal minimum wage (Bartels 2008, Levy and Temin 2007). Most states also set minimum wages (Kelly and Witko 2012) and these vary from state to state and over time. Hacker and Pierson (2010) in particular point to the increasing power of organized business interests as a critical contributor to rising U.S. inequality. Historically, the *states* are responsible for most of the important laws and regulations that governed corporations, banks, and insurers (Robertson 2013, 7; Bashevkin 1996). In terms of redistribution, states have their own tax systems, with vary degrees of progressivity (Davis et al 2009), and discretion over many transfer policies, like welfare (TANF).

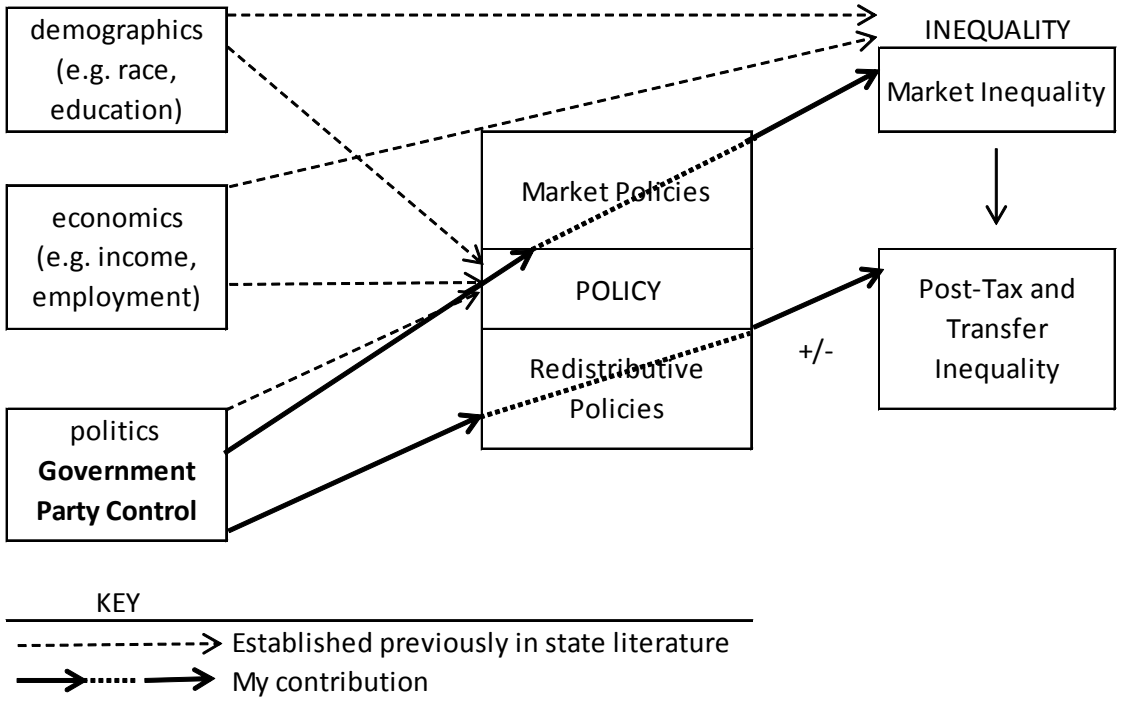
These state policy choices should reflect the party composition in state government, specifically the different economic approaches of the two parties, and lead to different income distributions depending on who is in office. Under Democratic government, we expect a more active government role in the economy, and the implementation of policies that represent labor

and the lower and middle classes should tend to reduce income differences. By contrast, when Republicans have greater control, we expect less government intervention in the economy or fewer regulations. This more conservative approach - and related policies which appeal to higher income individuals and business interests – should tend to increase income differences, or at least allow them to go unmitigated. Furthermore, the effects of these different economic approaches should matter even before redistribution through the market-oriented policies like those listed above. In summary, we should observe decreasing or diminished growth of inequality under Democratic state government and increasing inequality under Republican state government.

Figure 2.1 diagrams this explanation and its place in the literature. As discussed above, the state politics literature establishes relationships between demographic, economic, and political variables, including party control, and state policies in general. These relationships are shown with dashed arrows in the figure below. Earlier state inequality literature established relationships between demographic and economic variables, like state income and racial composition, and variation in inequality between the states in particular. These connections, also shown with dashed arrows from the far left to far right of the figure, will be tested and updated in the next chapter. We know that certain policies affect inequality in the states (e.g. Fruend and Morris 2005, Kelly and Witko 2012, Langer 2001), but, again, some tests of these relationships have produced mixed findings, leading to some uncertainty about the existence or direction of relationship between policy and state inequality, particularly where state redistribution is concerned (e.g. Barrilleux and Davis 2003). The role of government party control in increasing or mitigating inequality has only been studied at the national level (Bartels 2008, Kelly 2009, Volscho and Kelly 2012). My contribution, shown with the sets of bold arrows in Figure 2.1, is

not only to bring tests of government party control to the state level, but also to establish relationships between factors that were previously considered separately: party control, public policies, and state-level inequality. And while I will primarily focus on market policies and inequality, depicted towards the top of the figure and covered in chapters 3 and 4, I will also consider state redistribution in chapter 5. This unifying approach sheds new light on earlier mixed findings about the relationship between political factors and state inequality. Through these analyses, I will show that state government party control, operating through both market policies and redistributive policies, is a key explanation for changes in inequality at the state level.

**Figure 2.1 Factors that Influence Inequality: Situating the Partisan Theory of State Inequality**




### *Party Realignment and Polarization*

In this dissertation, I am interested in explaining changes in inequality over time beginning in 1970, which is commonly regarded as a turning point for increasing inequality in

the U.S. My analyses will extend to 2005, based on the available data, which are discussed further in the next chapter. The longitudinal nature of this work requires that we consider some historical context. In particular, given their primary role in this theory, we should take note of some changes in the parties during this time period: the realignment of the South and ideological polarization of the parties.

The theory I have outlined pivots on economic policy positions of the Democratic and Republican parties. In general, these economic positions were established during the Great Depression and New Deal, with FDR and Democrats promoting government intervention in the economy and redistribution (Sundquist 1983). It was also during this time that "tight bonds were formed between organized labor and the Democratic party" and business organizations aligned with the Republicans (Sundquist 1983, 217).

However, there were some important shifts in the parties after the New Deal, most substantially in the South. Through the 1950s and into the late 1960s, the South was effectively a one party state with Democrats holding the vast majority of state and local offices (Key 1949). During this time, elections in the South, in particular support for the Democratic Party, were driven by racial attitudes (Black 1971). Poole and Rosenthal (2008) show that, in Congress, race and economic issues occupied separate dimensions through the New Deal into the 1960s (140). As such, there was some heterogeneity within the parties on economic issues, particularly between Southern and Northern Democrats (Poole and Rosenthal 2008).

Realignment in the South began in the 1960s and 1970s as Republicans gained among conservative white voters, who disagreed with the Democratic Party's positions on civil rights. And with the passage of the Voting Rights Act of 1965, the number of registered African-American voters increased dramatically in the South. These gains went predominantly to the

Democratic Party (Sundquist 1983, Poole and Rosenthal 2008, 315-16). 1968 is generally regarded as the end of the "Solid South" and the beginning of the two- party state in the South (Frederickson 2001).

With this shift, the economic division between the parties became even more relevant and continued to grow in importance. Early in the 1970s, class voting was evident in rim states, especially Texas and Tennessee, as well as in the Deep South, in the election of Jimmy Carter as Governor of Georgia, Dale Bumpers as Governor of Arkansas (1970) and Edwin W. Edwards as Governor of Louisiana (1972). These Democratic candidates were elected by a combination of support from African-Americans and lower-income whites (Sundquist 1983, 373-4). Jewett (2001) finds that a positive, significant effect of state per capita personal income on the percentage of Republicans in Southern state houses between 1946 and 1995. In fact, income is "the most important predictor" of state legislative partisanship in that study (Jewett 2001, 473). Brewer and Stonecash (2001) find that the class cleavage became an increasingly important predictor of voting behavior in the South since 1952, with affluent whites moving to the Republican Party. Overall, economic interests came to have greater relevance than racial ones. By about 1980, racial and economic issues had converged to the same dimension in the public (Carmines and Stimson 1989). Similarly, these two dimensions converged in Congressional voting, and differences between Northern and Southern Democrats on economic issues diminished (Poole and Rosenthal 2008, 142, 315-316). To the extent that such differences between states or regions remain, it is also the case that *within* states, we can expect the Democratic Party to have a more liberal program than the Republicans in that state.

A second and related trend is the ideological polarization of the parties. Indeed, Southern realignment is regarded as a contributing factor to polarization (McCarty, Poole, and Rosenthal

2006; Poole and Rosenthal 2008), as the differences between the parties became unidimensional. Since about 1970, the parties have grown more ideologically uniform and polarized, particularly along the economic dimension (McCarty, Poole, and Rosenthal 2006; Layman et al 2006). The ideological shift of the Republican Party towards a more economic libertarian position (Hacker and Pierson 2005) contributed to the increasing polarization of the parties on economic or class lines (McCarty, Poole, and Rosenthal 2006; Stonecash and Mariani 2000; Stonecash 2000). This shift is especially important because it exacerbated economic policy differences between the parties, along with the economic differences between the parties' constituencies.

These trends are applicable at the state level too, as "state parties are increasingly organizational and ideological franchises of the national parties" (Shor, Berry, and McCarty 2010). While data on polarization of the parties in the states is relatively scarce, especially for earlier years, Shor and McCarty (2011) were able to create ideological measures of state legislatures since the mid-1990s. With these data, they show that, like Congress, the vast majority of voting in state legislatures falls along a single dimension (Shor and McCarty 2011, 533), at least in recent years. Moreover, just as the parties have polarized in national politics, there is evidence that polarization also exists at the state level (Shor, Berry, and McCarty 2010; Shor and McCarty 2011), although with some variation from state to state.

In the context of the South's realignment and ideological polarization of the parties, partisanship is a more meaningful indicator of economic positions. Whereas previous economic policy decisions or coalitions may have cut across party lines – uniting progressive Republicans with liberal Democrats in the New Deal, or dividing liberal and conservative Southern Democrats – we expect increasingly clear party division on such issues from about 1970 onward. This makes party an important explanation or indicator of economic policy positions during the

time period of interest. We have good reason to expect Democrats and Republicans to make distinct economic policy choices. Furthermore, recall that states also acquired greater policymaking responsibility (Nathan 1996, 2006) and became increasingly "autonomous economic domains" (Brace 1991) with the ability to shape their own economies. That is, not only did party positions polarize, parties in state government became better able to make and implement policies. Thus, we expect the different policy choices made by Democrats and Republicans in office to have observable effects on distributional outcomes. We expect changes to Democratic party control to coincide with decreasing or diminished growth of inequality and increasing power of Republicans to relate to increasing inequality.

***Variation in Party Composition of State Governments***

My argument predicts that shifts in party control or composition of state government influence patterns of inequality in the states. As such, it is helpful to get a sense of how this feature of state governments varies during the relevant period, 1970-2005. This overview shows that there is considerable variation in partisan composition of state legislatures and Governorships between the states and in the states over time. We will also see that, on the whole, Democratic control of state governments has diminished over time, while unified Republican and divided government have become more prevalent. According to my theory, these descriptive patterns hold important implications for state inequality, which I will begin to explore in the next section. The partisanship data utilized here and in subsequent chapters are provided by Klarner (2013).

Looking first at state legislatures, the percent of Democrats ranged from just 13% to 100% in the lower house and from 9% to 100% in the upper house.[4] The series of maps in

[4] This analysis excludes Nebraska, which has a unicameral, nonpartisan legislature.

Figures 2.2 - 2.4 below shows the percent of Democratic legislators in the lower house for the first, last, and middle time points (1970, 1987, and 2005).[5] The strongly Democratic South is clear in Figure 2.2. Southern states like South Carolina, Mississippi, Alabama, and Louisiana were solidly Democratic in 1970, but Republicans made considerable gains in these states over time with the realignment of the South, as displayed in Figures 2.3 and 2.4. Other Southern states outside the Deep South, however, break with this trend; Delaware, Tennessee, and West Virginia had a *greater* percent of Democratic legislators in some recent periods.

Outside the South, Democrats held similar percentages of seats in most states in 1970, in the 26-50% range (Figure 2.2). Unlike the overall weakening of the Democratic Party in the Deep South, states within these other regions display some different over time trends. In 1987 (Figure 2.3) and 2005 (Figure 2.4), we see both gains and losses for Democrats in states within the same region compared with 1970; although states where Democrats gained seats tended to be Northeastern and Western (Pacific) states, while Republican gains were concentrated in Western Rocky Mountain and Plains states. By 2005, Massachusetts had the most Democratic lower house followed by Hawaii and Rhode Island, while Idaho, Wyoming, Utah, and the Dakotas had the fewest Democrats in office.

[5] See Appendix B, Figure B1 for a dot plot of the percent of Democratic legislators in state lower houses for 1970, 1987, and 2005.

**Figure 2.2 Percent of Democratic State Legislators, Lower House, 1970**

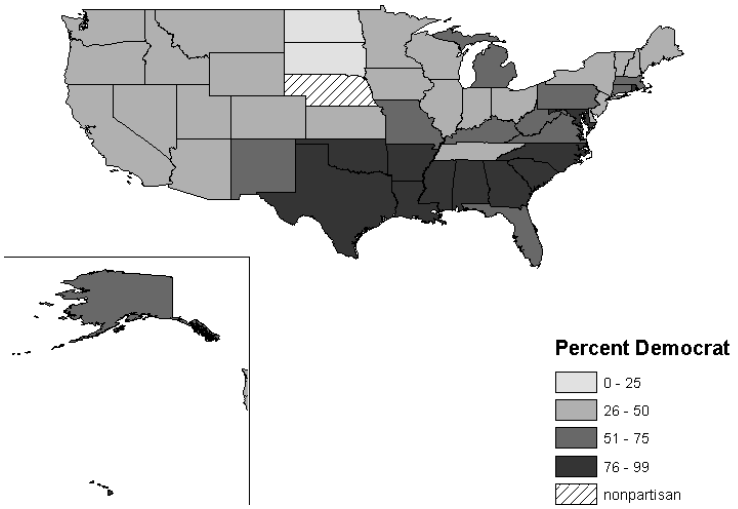



**Figure 2.3 Percent of Democratic State Legislators, Lower House, 1987**

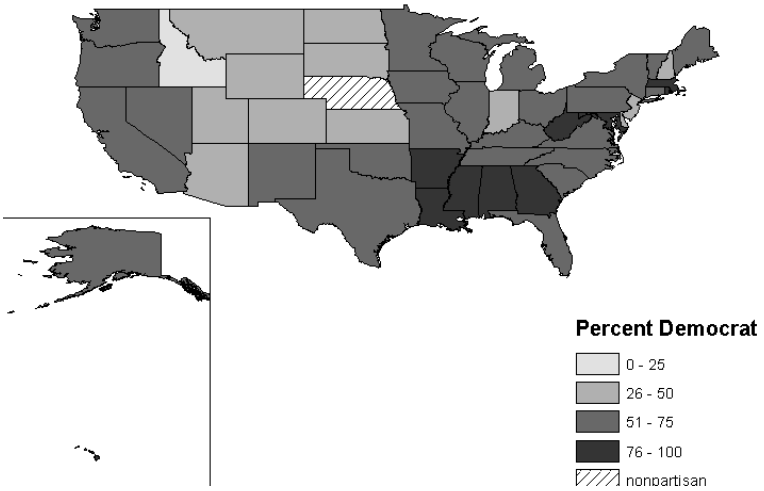
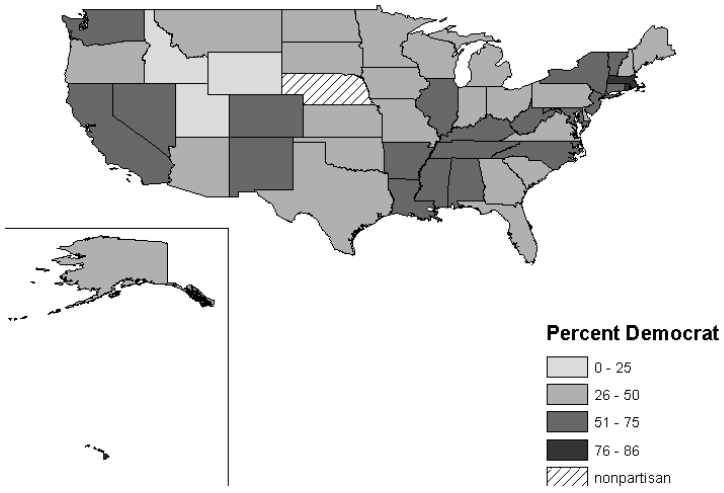



**Figure 2.4 Percent of Democratic State Legislators, Lower House, 2005**



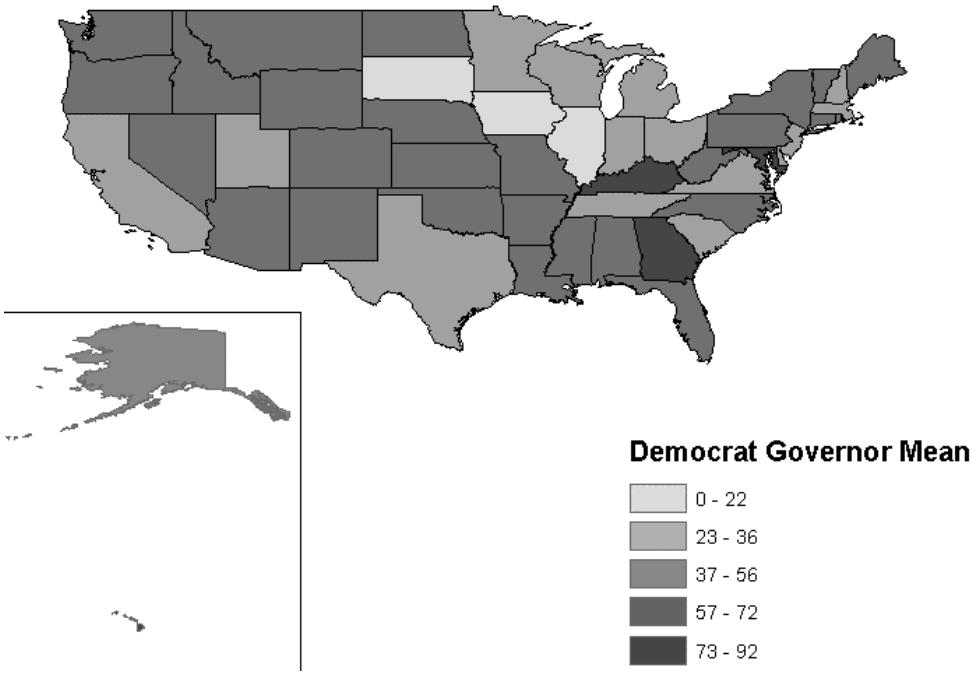
Many states, especially outside the Deep South, did not experience steady gains for one party or another during this time. From election to election, party control often shifts between the Democrats and Republicans. For example, if we look at Democratic House control in the Northeast at 10-year points – 1970, 1980, 1990, and 2000 - only one state, New York, became more Democratic at each time point, and fluctuating party control is especially prevalent if we look at the Midwestern states.[6] Overall, we observe considerable variation in partisan composition of state legislatures between the states and in the states over time.

Such variation is observable for party control of Governors' offices as well. Figure 2.5 maps the average score for Democratic Governors for each state between 1970 and 2005.[7] During this time, Illinois and Iowa were the least Democratic, having a Democratic Governor less than 20% of the time. At the other extreme, Maryland had a Democratic Governor for 33 of the 35 years covered. Across states, the median number of years for Democratic control of the Governorship during this period was about 20 years. Notice that states which we typically think of as "blue states" in national politics today - like California and Massachusetts – have relatively low means in terms of Democratic control of the Governorship. Each of these states had a Republican Governor for more than half of this period. In fact, California ranks seventh with just 13 years of Democratic control, or 36%. This observation serves as a useful reminder that party control or composition at the state-level can differ from our expectations based on recent national elections or representation. The tendency to think of states as solidly "red" or "blue" ignores heterogeneity within states in any given year, as well as over time variation. According to my argument, party composition influences distributional outcomes through the partisan economic

[6] See Appendix B, Figures B2 to B5 for the percent of Democratic legislators in each state's lower house for 1970, 1980, 1990, and 2000, grouped by region.
[7] The Democratic Governor variable is a dummy (1=Democrat). I simply took the average by state to get the statistics for Figure 2.5. See Appendix B, Figure B6 to see the Democratic Governor average by state as a dot plot.

policy choices made by Democrats and Republicans in office. Thus, when we consider these patterns over time, rather than with cross-sectional snapshots, we should expect to see a relationship between changes in partisan composition and inequality, even in the same state.

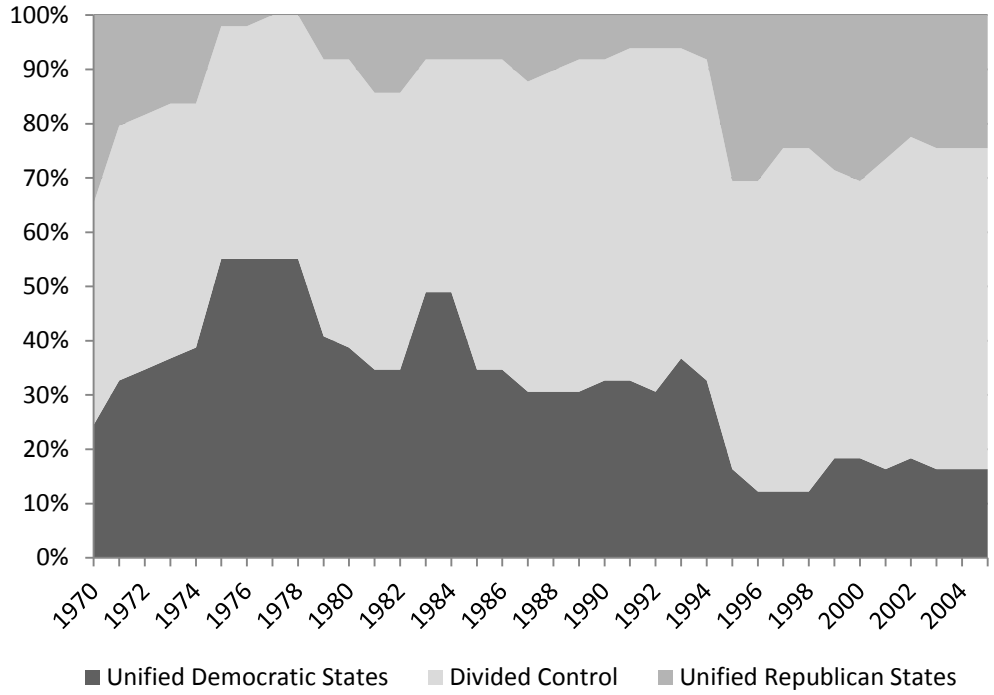
**Figure 2.5 Democratic Governors by State, Average for 1970-2005**




Even with this heterogeneity, though, it is worth noting some aggregate trends. In particular, while party control of Governorships and state legislatures certainly fluctuates from election year to election year, it has become much less common to see overwhelming Democratic control of state governments, especially since the mid-1970s. This is at least partly because of the South's realignment and accompanying Republican gains. Along with this Southern trend, notice that in Figures 2.2 through 2.4, there are fewer states in the top category - 76 or more percent Democratic legislators –in later years, indicating a decline of solidly Democratic state legislatures. Similarly, the number of unified Democratic governments, in which the party controls the Governorship as well as both legislative houses, has declined. The

Democratic Party's diminishing control is clear in Figure 2.6, which displays the over time trends in partisan control of state governments for 1970-2005.

**Figure 2.6 Proportions of Unified Democratic and Unified Republican Governments, 1970-2005**




The proportion of state governments under total Democratic control generally decreases over time, while Republican control becomes more common, although a majority of states have had divided government since about 1985. In sum, there are noticeable fluctuations in government party composition over time in the states, but, in the broadest sense, the overall trend is of decreasing Democratic and increasing Republican presence in state governments. If Republican control and economic policies tend to increase inequality, while Democratic control mitigates it, as my argument suggests, we should observe an overall trend of increasing inequality. Indeed, as we will see in the next section, there are expected over time fluctuations in both party control and inequality, but the overall trends of increasing Republican control and

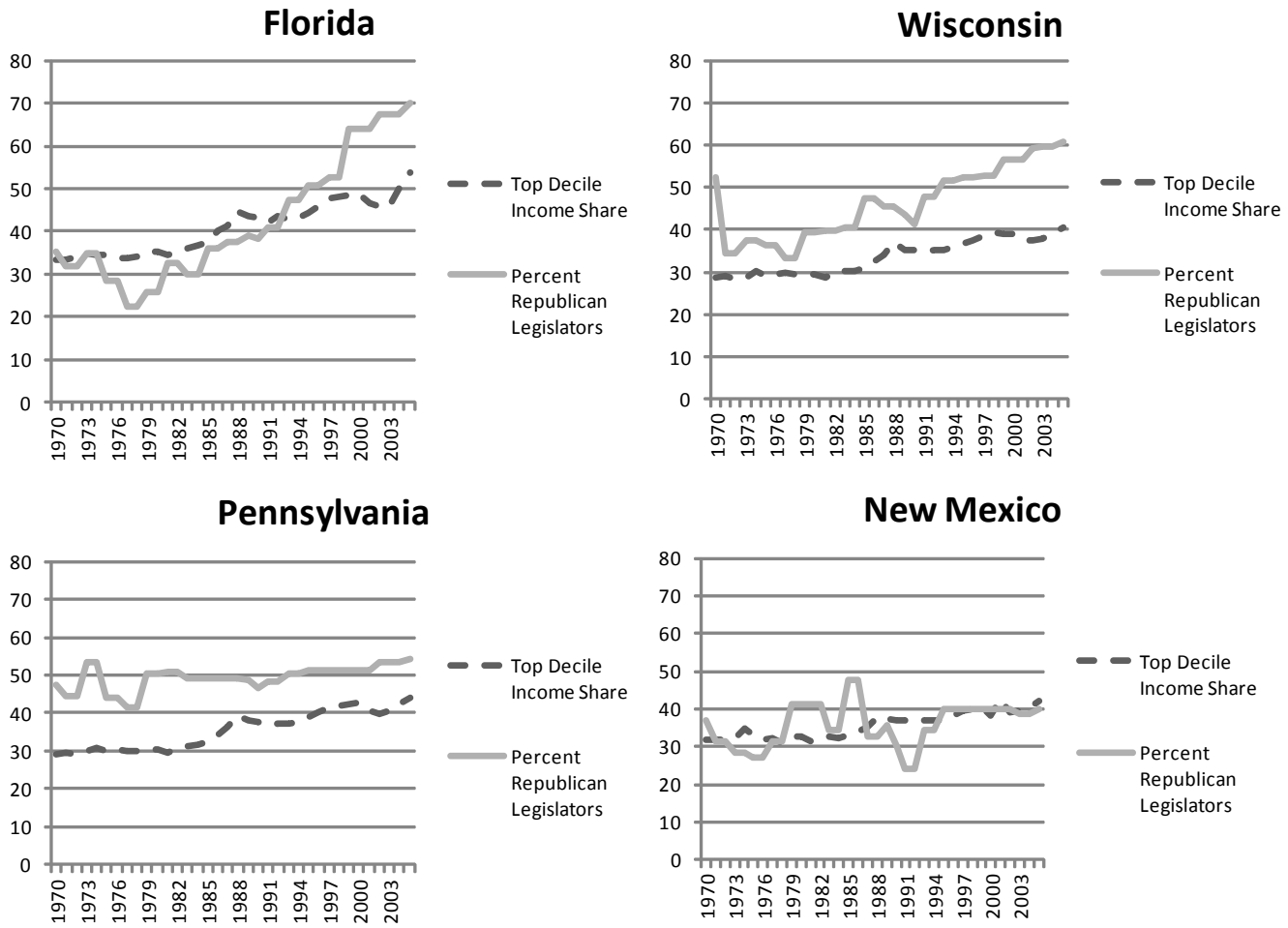
increasing inequality are also clear.

***Over Time Party and Inequality Trends***

According to the theory outlined in this chapter, the over time changes in state-level party composition highlighted in the previous section have implications for income inequality. Because of their different economic positions and policies enacted, we expect income inequality to increase under Republican governments and decrease or increase by relatively less under Democratic control. As a first cut, I plot over time trends in inequality and partisanship for four states, one in each Census region. Figure 2.7 below shows the top decile's income share in Florida, Wisconsin, Pennsylvania, and New Mexico along with the percent of Republican state legislators in the lower house for each year from 1970 to 2005. I follow many previous state-level studies by focusing on the lower house of the legislature in these analyses and will explore additional measures in future chapters.[8]

[8] Lower houses are relatively large compared with upper houses and they nearly all have two-year terms (Folke et al 2011). This means we can expect changes in legislators and party control around the same time across states. Because of their smaller size and typical staggered four-year terms – only half the seats are up for election every two years – party percentages in the upper house are a relatively "noisy" measure (Folke et al 2011).

**Figure 2.7 Inequality and Republican Legislators in Four States**




The states depicted in Figure 2.7 have the expected positive correlations between the percent of Republican legislators in the lower house and the percentage of income going to the top 10%, with a higher percentage indicating a more unequal distribution of income.[9] Notice that the percent of Republican legislators in Florida about doubled between 1970 and 2005 and the state experienced some of the largest gains for the top decile, about a 60% increase. Gains for Republicans and for the top decile were much less drastic in Wisconsin; Republican legislators picked up about 15% more seats and the top decile increased their income share by 4%, a

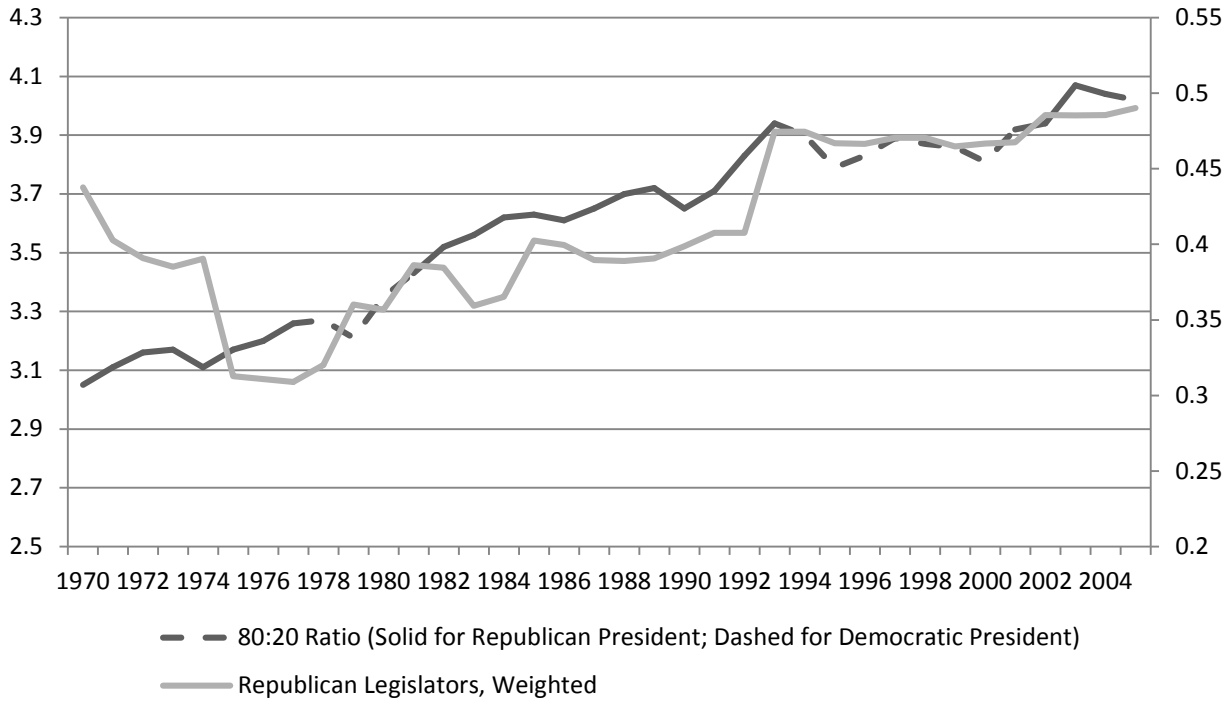
[9] Correlations are r=.57 for Pennsylvania, r=.90 for Florida, r=.86 for Wisconsin, and r=.21 for New Mexico.

considerable gain but still much less than in Florida. In all four states, Republican losses tend to coincide with decreases or a leveling off of the top decile's share. The correlations between these trends are, of course, not perfect, but we should not expect party to be the only explanation for trends in inequality. The general patterns for these states suggest that party is among those explanations and deserves further consideration. Subsequent chapters will move beyond these four optimal states and apply empirical scrutiny to the relationship changes in between state partisan composition and inequality.

In Figure 2.8 below I also consider how partisan composition in state governments may relate to *national* inequality trends. Bartels (2008) argues that policy differences between Republican and Democratic Presidents help explain rising income inequality in the U.S. over time. He shows (in his Figure 2.2) that income inequality, measured with the ratio of the 80$^{th}$ income percentile to the 20$^{th}$ income percentile, increased more under Republican Presidents than Democrats. But we can also observe a strong over time relationship between state partisan control and U.S. inequality. Figure 2.8 replicates Bartels' figure of the *national* 80:20 ratio trend, adding state data for the percent of Republicans in state legislatures for 1970-2005. The state legislators trend is the percent of state legislators that are Republican in each state for each year, weighted by state population share, and aggregated. To display Bartels' argument, the 80:20 ratio line is solid when there is a Republican President in office and dashed under Democratic Presidents. As in the state figures above, there is an overall positive relationship between the 80:20 ratio and Republican legislators. The 80:20 ratio tends to increase – denoting greater income inequality - when Republicans gain seats and decrease when Republicans lose seats to Democrats. The correlation between inequality and Republican state governments is strong at

r=.77.[10] In addition, the overall increase in inequality is what we would expect to observe in view of the decrease in Democratic control of state governments and accompanying increase in Republican presence in state governments displayed in this and the previous descriptive section.

**Figure 2.8 National 80:20 Percentile Income Ratio and Republican State Legislators, 1970-2005**




The patterns in these figures are consistent with our expectations of increasing inequality under Republican government and decreasing or diminished growth of inequality under Democratic government. This is true for the individual states above and for the comparisons between *state* partisanship and *national* income inequality trends in Figure 2.8. Of course, these analyses are just a first step. We have 46 more states to consider, as well as alternative

[10] I use the 80-20 ratio for income inequality here to be comparable with Bartels' work. To be consistent with my state figures, and because U.S. income inequality is marked especially by a pulling away of top earners and some argue that the 80:20 ratio does not capture these considerable gains at the very top of the income distribution (Hacker and Pierson 2010), I also plot the relationship between Republican state government and the percent of income capture by the top ten and top one percent nationally (data from Alvaredo et al Top Shares Database). The patterns and correlations are similar. Indeed the relationship between inequality and Republican government is even stronger for the top one percent measure (and r=.82). See Appendix B for these figures, as well as for the relationship between Republican Governors (weighted aggregate) and top 10% and top 1% percent income shares, and for discussion of the South.

explanations and control variables to incorporate. Nevertheless, the correlations do give us further reason to think that state partisanship matters for inequality, and to investigate the partisan theory presented in this chapter. In Chapter 3, I turn to a more systematic and rigorous testing of the relationship between changes in state party control and inequality.

# CHAPTER 3
# POLITICAL AND ECONOMIC DETERMINANTS OF CHANGES IN STATE-LEVEL INEQUALITY

The attention paid to rising U.S. inequality by media, academics, policymakers, and even popular movements like Occupy Wall Street can obscure the fact that this trend is not uniform throughout the country. While some states and localities are facing noticeably high and rising concentrations of income among the rich, for others, inequality is less remarkable. As shown in Chapter 1, these state differences are on par with those between the U.S. and other countries. To cite just one recent example, while the Gini index for the entire country increased significantly between 2010 and 2011, sub-nationally just 20 states experienced significant increases in inequality during this time (Noss 2012). This is not by chance; I argue that we can systematically explain the significant variation in income inequality in the states over time.

In Chapter 2, I proposed that differences in the partisan composition of state governments are an important, and previously overlooked, determinant of state-level variation in inequality. According to my partisan argument, the different sets of policies implemented by the two parties lead to different income distributions, depending on who is in office. This argument accepts that there are exogenous factors that increase inequality – several economic shifts, for example, will be discussed below - yet, it is also reasonable to expect that the party in power, through their policies, moderate this effect. Given the economic liberalism of the Democratic Party and conservatism of the Republicans, we should expect the concentration of income to decrease or increase by relatively less under Democratic state government and to increase under Republicans. Some preliminary analyses in Chapter 2 were consistent with this theory. In this chapter, I more rigorously test this theory, exploring multiple measures of partisanship and

inequality and controlling for additional explanations.

I begin by discussing some of these alternative explanations for inequality in the states, including demographic differences and economic and policy shifts at the national level. In the latter case, I explain how national-level trends that underlie inequality may have different effects in different states. I present a series of hypotheses to capture these trends. Next, I discuss the data and models needed to test my partisan theory and additional hypotheses. In the analysis sections, I model the determinants of three separate inequality measures for the states between 1970 and 2005. The chapter concludes with a discussion of these results, which show that political, economic, and demographic factors explain variation in inequality at the state level over the period of interest. Most importantly, these results are consistent with my partisan theory. I find a significant, negative relationship between increases in Democratic control and changes in inequality and a significant, positive relationship between increases in Republican control and changes in inequality, suggesting that income inequality decreases, or its growth diminished, when Democrats gain power and increases with Republican control. These findings apply to both top income shares and the Gini coefficient and are present if we consider the independent effects of Governors and state legislators, or the influence of unified Democratic or unified Republican government. In sum, changes in the partisan composition of state help explain over time patterns of inequality in the states.

***Previous Explanations: Economic and Demographic Patterns***

Before I turn to the more recent literature on U.S. inequality, it is helpful to review how earlier studies explained differences in inequality in the states. Previous state-level work identified a number of demographic and economic factors that explained variation in pre-tax income inequality across states, including family income (Bishop, Formy, and Thistle 1992; Sale

1974), educational attainment (Al-Sammarie and Miller 1967; Bishop, Formy, and Thistle 1992; Conlisk 1967; Sale 1974), the proportion of non-white population (Aigner and Heins 1967; Al-Sammarie and Miller 1967; Conlisk 1967; Sale 1974), mean state income, the percent of the population over age 65, the percent urban (Nelson 1984), and the percent unemployed (Al-Sammarie and Miller 1967; Conlisk 1967). In general, higher inequality was associated with states with older populations (percent over 65), larger non-white populations, lower state income, higher percent urban, and lower educational attainment. These variables explained differences between states at certain points in time, but these studies generally did not speak to changes in inequality over time.

In my analyses below, I follow these earlier studies by including several demographic control variables; however, to build a more complete set of explanations for state inequality, I also incorporate research from the national level. Rising U.S. inequality has received considerable attention by political scientists (Bartels 2008; Hacker and Pierson 2010; Jacobs and Skocpol 2004; McCarty, Poole, and Rosenthal 2006) sociologists (Morris and Western 1999) and economists (Danziger and Gottschalk 1995; Gottschalk and Danziger 2005; Levy and Temin 2007; Picketty and Saez 2003, 2006). This literature does not offer one explanation for increasing inequality over the past 30 to 40 years, but there are some common themes. In particular, at least some of the blame is attributed to larger economic shifts. Levy and Temin (2007) explain that "for over a decade, the economist's primary explanation for income inequality has been skill-biased technological change" (7). The core of this argument is that "technology, perhaps augmented by international trade, is shifting demand toward more skilled workers faster than labor supply can adjust" (Levy and Temin 2007, 7). Market forces reward high skill workers, while those with fewer skills will have fewer opportunities; this results in

increased inequality in earnings (Levy and Temin 2007, 7).

Some scholars emphasize related policy actions (or inactions) that underlie these economic trends. Levy and Temin (2007) argue that the effects of globalization and technological change on inequality are amplified by an institutional shift from the "Treaty of Detroit," based on a high minimum wage, progressive taxes, and collective bargaining, to the "Washington Consensus," which is characterized by deregulation and tax cuts. Similarly, Hacker and Pierson (2010) explain that policy changes like the decline of tax progressivity at the top of the income distribution, including favorable tax treatment of hedge funds (carried interest loophole); a failure to update industrial relations policy, which contributed to declining unions; a failure to monitor and impose limits on executive pay; and financial deregulation have shifted power from labor towards organized business interests and employers and contributed to greater inequality (Hacker and Pierson 2010). These policy-focused arguments are an important reminder that, even when we discuss these broad economic trends, government plays an important role. They also point to some national policy changes that, along with economic changes, may be relevant for state inequality: financial deregulation, weakening unions, and reduced tax progressivity.

To translate these national economic and policy arguments about inequality at the national level to the state level we need to consider that states have different structural and demographic profiles. Because of the related economic advantages (Porter 2000), states tend to have concentrations of employment in certain industries. For instance, about 4% of jobs in Nevada and Wyoming are classified as manufacturing jobs (in 2005) while nearly 20% are classified as manufacturing jobs in Indiana. New York has a high concentration of financial jobs. And the characteristics of state workforces vary accordingly, such as in terms of education

(Berube 2012) or skill level and union membership. Instead of assuming that economic and policy shifts that are linked to U.S. inequality will have a homogenous effect across states, then, we should expect that they will actually affect states differently. To this end, I propose several specific hypotheses which explore these trends and related characteristics at the state level.[11]

*De-industrialization*

The share of employment in the manufacturing sector has declined markedly and steadily since 1950 (Morris and Western 1999) and there is evidence that this de-industrialization contributes to higher income inequality. De-industrialization is marked by a shift from manufacturing jobs, which are typically middle class, to the service sector, where there are some high paying and several low paying jobs (Gustaffson and Johansson 1997; Levy and Murnane 1992; Morris and Western 1999, 638). The implication is that this widening gap between jobs and compensation – the movement from many jobs in the middle of the distribution to some closer to the top and some closer to the bottom - contributes to income inequality. The *de-industrialization hypothesis* predicts that states experiencing greater de-industrialization, or losses in manufacturing employment, will have greater increases in inequality.

*Financial Deregulation*

While manufacturing jobs have declined, inequality literature also highlights changes in the finance industry. According to arguments by Levy and Temin (2007) and Hacker and Pierson (2010) in particular, the growth and deregulation of the finance industry is a key contributor to rising U.S. inequality. Levy and Temin (2007) show that compensation per full time employee in the finance, insurance, and real estate industry grew at similar rates to other industries

[11] Some argue that along with the trends I discuss here, immigration has contributed to the increase in income inequality in the U.S. See Appendix E for further discussion of this issue, as well as unemployment. In both cases, the results presented in this chapter are equivalent to those which include controls for immigration and unemployment.

(manufacturing, services, retail trade and automobile) before 1970, but accelerated beginning in the mid-1980s (35). They relate this sector's growth to reduced tax rates and a lack of government oversight or regulation (37). Hacker and Pierson (2010) argue that the "gradual shredding of the post-New Deal rulebook for financial markets" is one reason for increasing inequality. The authors cite Philippon and Reshef's (2009) work, which establishes a relationship between deregulation and the rise of wages in the financial sector. Overall, these arguments suggest that the rise of earnings in the financial sector relative to other sectors, aided by deregulation, has contributed to greater income differences in the U.S. The *financial deregulation hypothesis* predicts that as wages in this industry pull away from others, we will observe greater increases in state-level inequality where there are greater increases in financial employment.

*Labor Unions*

Along with shifts in employment and wage patterns in these specific industries, changes in employment relations, namely the strength of labor unions and collective bargaining rights, are commonly included among the top explanations for rising inequality. The general economic argument is that labor unions compress the wage distribution (Bradley, Huber, Moller, Nielsen & Stephens 2003; Hicks 1999; Huber & Stephens 2001, Moller, Bradley, Huber, Nielsen & Stephens 2003; Morris and Western 1999). Therefore, as unions have become weaker, income inequality has increased. Levy and Temin (2007) and Hacker and Pierson (2010) suggest that the decline of unions is a function of certain policy changes that have undermined labor and their bargaining power. Further, Hacker and Pierson (2010) stress the *political* role of organized labor – they impact the development of social policies - beyond their economic wage bargaining role. Research by Freeman (1993) attributed about 21% of the rise in wage inequality to declining

union density. Similarly, Kelly (2009), building on power resources theory, establishes a relationship between the strength of labor unions and lower market inequality in the U.S. Recently, Kelly and Witko (2012) established a relationship between unions and inequality at the state level as well. According to the *union hypothesis*, we should see increasing inequality in states where union density is relatively low or declining.

*Education and Skill-Biased Technological Change*

As mentioned above, one of the main economic arguments about rising inequality is that it results from skill-biased technological change (Berman et al 1994; Krueger 1993; Levy and Temin 2007). In such accounts, inequality results when the market rewards those with higher skill levels. Lower skill workers, on the other hand, fall behind. Related research on education shows that increased returns to post-secondary education in particular contribute to higher inequality (Lemieux 2006). In this scenario, the benefits of post-secondary education have increased and the earnings of those with a college degree pull further ahead of those without a college education. Educational attainment is of course among the demographic characteristics that vary between state populations. The *returns to education hypothesis* predicts a positive relationship between higher concentrations of college degree holders and state inequality.

*Capital Income*

While many of the above explanations focus on changes in earnings from salaries and wages, there is also evidence that changes to another type of income – capital income, including dividends, capital gains, and business income – explain a significant amount of U.S. income inequality (Hungerford 2011). In fact, Hungerford (2011) shows that between 1996 and 2006, changes in capital gains and dividends were the largest contributor to increasing income inequality. Capital income makes up a much larger share of total income for higher income

groups than lower income groups. For instance, in 2006, capital income accounted for less than 1% of total income for the bottom 80% of the income distribution. By contrast, the top 5% of the income distribution made 28% of their income from capital and the top .1% made 52% of theirs from capital income (Hungerford 2011, 5). In other words, the distribution of this type of income is very unequal and it has also become more unequal over time as "the income of tax filers at the top of the income distribution pulled away from those at the bottom" (Hungerford 2011, 5).

It is also worth noting that the tax treatment of capital income became increasingly preferential compared with rates for ordinary income. For instance, under the rates established under Bush, capital gains and dividends income was taxed at a 15% rate compared with the top rate of 35% for other (wage and salary) income. Even considering pre-tax and transfer inequality, tax policies are still relevant because they can affect individual behavior (e.g. Feenberg and Poterba 1993). Scholars of national inequality like Hacker and Pierson (2010), Picketty and Saez (2003), and Levy and Temlin (2007) point to reductions in the progressivity of the tax code, including provisions affecting investment income (e.g. capital gains and dividends rates), as among the top contributors to rising national inequality. Finally, capital income also relates to other trends and policies which are highlighted by inequality scholars, including CEO compensation, which has increased dramatically compared with worker compensation (Mishel and Sabadish 2012; Mishel, Bivens, Gould, and Shierholz 2012), and failures to enact stock option regulations and update securities regulations (Hacker and Pierson 2010). The relationship between capital income and national inequality suggests we will observe a positive relationship between higher concentrations of investment income and state-level inequality, particularly in view of the dramatic variation in capital income across states (Hodge 2003). This *capital income hypothesis*, along with the four previous hypotheses derived from the inequality literature guide

the statistical models developed and tested in this chapter. First, I turn to the dependent variable.

***Measuring State-Level Inequality***

The way we measure income inequality as a dependent variable may have implications for the conclusions we draw about its causes. One important distinction to make is between pre-tax and transfer inequality, or market inequality, and post-tax and transfer inequality. While the most obvious relationship between government and income inequality may be through redistributive politics like income transfers and taxation, which is measured by post-tax and transfer income inequality, I consider how government affects the income distribution *prior* to such actions. In doing so, I follow arguments by Hacker and Pierson (2010) and Kelly (2009), outlined in the previous chapter, that government impacts the income distribution by affecting the market itself, for example through labor market policies and regulatory policies, not just by redistributing income after the fact. Again, Kelly (2009) finds that these market mechanisms have a greater impact on inequality than redistributive ones. As well, Hicks and Swank (1992) find that redistribution through taxes and transfers has a relatively small effect on the income distribution in the U.S. compared with other advanced democracies. And we have some reason to think that redistribution matters even less for states. For instance, Barrilleux and Davis (2003) found no connection between state redistributive policies and inequality and Peterson (1995) emphasizes the limited redistributive capacity of states, due to the mobility of labor and capital.

In sum, because of the relatively small impact of redistribution in the U.S. and the countless ways government and policies can impact the market before redistribution, I am first and foremost interested in explaining variation in pre-tax and transfer income inequality in this chapter. Post-tax and transfer inequality, however, is not completely overlooked; I will turn to a discussion and analysis of this measure of inequality in Chapter 5. Pre-tax and transfer inequality

data, utilized in this chapter and in Chapter 4 are available in a panel of annual state-level income inequality measures created by economist Mark Frank from IRS Statistics of Income data (Frank 2008, 2009). The inequality measures are based on pre-tax adjusted gross income – including wages and salaries, capital income (dividends, interest, rents, royalties), and entrepreneurial income (self-employment, small business, partnerships) - by tax unit.

Even narrowing the dependent variable to market inequality, there are a variety of measures and some disagreement about which is most appropriate. For instance, Hacker and Pierson (2007, 2010) and Bartels (2008) characterize and measure inequality differently. Hacker and Pierson emphasize gains at the very top. The U.S., they argue, has experienced a particular *type* of increasing inequality - "winner-take-all inequality" – which is marked especially by the pulling away of the top 1% (or even .01%) of earners. Indeed, they are explicitly critical of Bartels' measure of inequality, the eighty-twenty ratio - the ratio of income at the eightieth and twentieth income percentiles - because it "leaves out most of the story of rising inequality" (Hacker and Pierson 2010, 162).

The empirical evidence in support of "winner-take-all" inequality is quite convincing. Still, in this chapter I rely on multiple measures of market inequality for the dependent variable. This allows for the possibility that different explanations are more or less relevant, depending on the type of inequality considered. A primary advantage of the Frank dataset is that it includes several measures of inequality. In the analyses below, I first consider the percent of income captured by top shares, which is consistent with "winner-take-all" inequality, or the pulling away of the top of the income distribution (Hacker and Pierson 2010, Jacobs and Skocpol 2005, Picketty and Saez 2003) [12] Specifically, I use the shares of pre-tax and transfer income captured

[12] In addition, Frank emphasizes that due to "truncation of individuals at the low-end of the income distribution" in the IRS income data, like Picketty and Saez (2003), top income shares are the primary indicators of inequality in his

by top 10% and the top 1% of the income distribution. These shares range from zero to one, and a larger income share indicates greater inequality. A related advantage of these data is that they include several types of income, including capital income, which has been shown to be a major component in U.S. inequality (Hungerford 2011), rather than just wage and salary income. This is, of course, especially important for testing my capital income hypothesis. In addition, because they are based on income tax returns, rather than Census income data, we avoid the problems with top-coding of high incomes, which hides variation at the top of the distribution (Hacker and Pierson 2007).

I also use a more general measure of income inequality: the Gini coefficient. The Gini coefficient ranges from zero to one, with zero being perfect equality – everyone has the same income - and one being perfect inequality, with all income being held by one person or household (Cowell 2009; Langer 2001).[13] The Gini coefficient is produced by ranking each unit (e.g. tax unit, household, family) and calculating the cumulative share of income received from lowest to highest income (Langer 2001, 401). The Gini therefore captures the overall degree of income concentration. I include the Gini here in addition to the top shares measures because it is the most popularly used measure of inequality and may be more relevant for certain types of explanations. For instance, we may expect a relationship between capital income and top share inequality, but the effect of variables like de-industrialization, which concerns employment shifts for low and middle income workers, may be better captured by a broader measure like the Gini.

***State Panel Data***

Building from these income inequality data, I constructed a new panel dataset for all 50

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dataset (6).

[13] I multiply these variables by 100 – changing them from proportions to percentages - for ease of interpreting. Rather than range from 0-1, then, both the percent of income captured by top incomes and the Gini coefficient range from 0-100.

states from 1970 to 2005, which includes demographic, political, and economic variables from several different sources. In order to test my partisan theory for state inequality, I need measures of the party composition and control of state government. I use several such variables. First, I use a dummy variable for whether the Governor is a Democrat or not (1=Democrat). Second, I rely on several measures of legislative partisanship, including the percent of Democrats in the lower House of the state legislature and a dummy variable for whether the House is *controlled* by the Democrats.[14] Analysis of these separate variables can tell us about the effects of changes within the legislature and allow us to differentiate between the effects of the two branches. After considering Governors and legislatures independently, I use variables for unified Democratic and unified Republican government, which are dummy variables coded as "1" when the party controls the Governorship and both legislative houses, and "0" otherwise.[15] These unified government variables are more consistent with some state party control literature that measures party control with a dichotomous variable (e.g. Alt and Lowry 2000; Garand 1985; Plotnick and Winters 1990), or similarly, a trichotomous variable (e.g. Medoff et al 2011). These measures better capture the party's overall control of the government, which is clearly important because each of these branches is involved in policymaking, but we lose some of the variation and specificity compared with using the separate Governor and legislature variables. The party control variables are provided by Klarner's (2013) Partisan Balance dataset.

Economic and demographic variables are included to test the other hypotheses. The *financial deregulation hypothesis* predicts that we will observe a positive relationship between inequality and the finance industry, due to its growth relative to others. To capture the strength or activity of the financial sector, I use employment in the financial industry as a percent of total

[14] Nebraska has a unicameral nonpartisan legislature, so it is excluded from these models.
[15] Appendix F includes some additional specifications of the partisan control variables. The results from models with these specifications lead us to the same substantive conclusions presented in this chapter.

jobs in the state.[16] The *de-industrialization hypothesis* predicts that states experiencing greater de-industrialization will experience increases in inequality, as middle class manufacturing jobs are replaced with some high and some low paying ones, mainly in the service sector. I use the percent of manufacturing jobs of total jobs in the state to measure de-industrialization. Both the financial and manufacturing employment variables are constructed using the Bureau of Labor Statistics State and Metro Area database.

According to the *union hypothesis* we should see higher inequality when unions, which have been shown to compress the income distribution and promote more generous social programs, are weaker. Union strength is measured by the percent of union membership in each state in each year from Hirsch and Macpherson's Union Membership and Coverage database. The *returns to education hypothesis* predicts a positive relationship between a high concentration of college degree holders and inequality. The percent of the population with a college degree is constructed with decennial Census data with linear interpolation between Census years.[17] Individual year data were available and used for 1998-2005. Finally, to test the *capital income hypothesis* – which predicts a positive relationship between increases in inequality and capital income - I use per capita dividends income, adjusted for inflation, from the Bureau of Economic Analysis regional database. While capital income technically includes dividends as well as capital gains, and business income, I rely on dividends income only to capture this concept

[16] The category of jobs used is "Finance, Insurance, and Real Estate" through 2001 and "Financial Activities" for 2002-2005 because of change in BLS industry classifications from Standard Industrial Classification (SIC) to North American Industry Classification System (NAICS). While "Finance, Insurance, and Real Estate" is broader than one might hope for a measure of the financial sector, it is the narrowest classification I found over the time period of interest.

[17] By using linear interpolation we lose some information about over time variation. This procedure assumes that change over time is uniform. Still, where individual-level data are not available, interpolation is our best option to captures overall trends for the states, especially because the average change in the interpolated variables from one year to the next is quite small. For instance, the mean increase in college degree rates for a state between 1998 and 1999 was less than one percentage point, compared with the range between states in 1999, which was 21.4 percentage points. Given the small year-to-year change observed where we have individual-year data, it is not likely we lose significant information by interpolating between decennial censuses where it is our only option.

because of data limitations. I include several other demographic variables - percent age 65 and older, African-American population (percent), and Latino population (percent) –as control variables based on previous state inequality literature. [18] Per capita income in constant 2005 dollars is also added for consistency with previous state studies and to addresses Kuznets' (1955) hypothesis that income growth eventually reduces income inequality in developed economies (Nelson 1984, Kim et al 2011). Summary statistics for the variables included in this and subsequent chapters are provided in Appendix A.

***Error Correction Models***

With the full collection of panel data, I am able to analyze the variation in inequality in states and over thirty-five years (1970-2005). I use a set of time series error correction models with fixed effects to examine the determinants of changes in state inequality. Fixed effects control for unobserved differences between the states. Error correction models (ECM) are appropriate here for a few reasons. First, in general, ECMs impose few restrictions compared with other time series models (De Boef and Keele 2008). Second, with respect to these particular data, ECMs are appropriate because the dependent variables are nonstationary and ECMs reduce the possibility of spurious results (De Boef and Keele 2008).[19] Third, the dependent variables in these models – in this case, the measures of inequality – capture *changes.* This feature of the models is particularly important because my interest is in explaining over time shifts in

[18] Per capita personal income is available from the Bureau of Economic Analysis regional data. Percent age 65 and older is available from historical census population estimates (by age group), including decennial censuses and intercensal estimates. Percent African-American, and percent Latino are decennial Census data with interpolation between census years and individual Census data for years 2000 and later. Again, we do lose some precision with interpolation, but since these are mainly control variables and since these variables should not change drastically from year to year and we are most interested in controlling for differences in levels between states, it is a reasonable approach. See Appendix A and references for complete source information.

[19] Im, Pesaran, and Shin (2003) test results show that we cannot reject the null that the panels have unit roots (p-value = 1.000), which indicates that the dependent variables are non-stationary. A significant p-value indicates (.000) we should reject the null hypothesis from the Hausman test that the coefficients estimated by the efficient random effects estimator are the same as the ones estimated by the consistent fixed effects estimator. Fixed effects are therefore appropriate.

inequality in the states. Finally, an ECM is particularly useful for studying the effects of different parties and their policies over time. Such effects may not be felt immediately upon a party coming to power, but rather realized over time as policies are made and implemented. With an ECM, we can examine both the short term, or contemporaneous, and long term impact of each independent variable. Some recent state-level inequality analyses by Kelly and Witko (2012) make use of ECMs for similar reasons.

For the error correction models presented throughout this dissertation, each independent variable has two parameter estimates: the short-term coefficient (differenced variable) and the long-term coefficient (lagged level). A significant coefficient for either estimate suggests that there is a statistically significant relationship between the independent variable of interest and the dependent variable (Kelly and Witko 2012, 421). The short-term coefficient gives us the immediate or contemporaneous effect of the independent variable on the dependent variable. The long-term coefficient is used to determine the total effect of the independent variable on the dependent variable, which begins the *next* year and is fully realized over time. To calculate the magnitude of the total effect - or long term multiplier effect - the long term coefficient is divided by the error correction rate. The error correction rate is given by the coefficient for the lagged dependent variable and indicates how long it takes for the dependent variable to return to equilibrium after a "disturbance" from an independent variable (Pacheco 2010, 164). The lagged dependent variable also accounts for the effects of time. If the long term (lagged level) estimate is not significant, it can be dropped from the model (De Boef and Keele 2008), and the results reported in the following sections reflect this.

***Results: Overview***

I begin by analyzing top shares, or the shares of income captured by the top 10% and the

top 1% of earners. These measures are consistent with accounts of inequality which emphasize gains at the top as the defining attribute of U.S. inequality (Hacker and Pierson 2010; Picketty and Saez 2003). Larger shares for top earners, of course, indicate a greater concentration of wealth, or greater income inequality. Following discussion of the top 10% and top 1% shares, I will turn to the third dependent variable, the Gini coefficient. Throughout the results in this and the following chapters, I report traditional standard errors. Because there is some debate that traditional standard errors may lead to overconfidence with panel data (Beck and Katz 1995), I also estimated the models using panel corrected standard errors, advocated by Beck and Katz (1995), and utilized in other panel studies (e.g. Kelly and Witko 2012; Rueda 2005). In most cases, these results are the same as those reported in the tables below. In those cases where the results differ, it is noted in the discussion and the related results with panel corrected standard errors are included in Appendix H.

Each dependent variable or measure of inequality has three model versions. The three versions of the models differ according to which measure of government partisanship is utilized. Throughout this chapter, version 1 models, located in column 1, include separate variables for the percent of Democratic representatives in the lower house and a dummy variable for Democratic Governors. Version 2 models, located in column 2, include a dummy variable for whether the lower house is *controlled* by the Democrats, as well as the Democratic Governor dummy. Finally, version 3 of the models, located in column 3, include dummy variables for unified Democratic and unified Republican government. I will discuss the results for each dependent variable in turn in the following sections.

***Results: State Top Deciles' Income Shares***

Table 3.1 reports the results for the determinants of changes in the share of income held

by the top 10% of earners.[20] I will begin by discussing the main variables of interest, state government partisan composition, which are included across the top of the table, and then move on to the control variables below. Before turning to the magnitude of these effects, a cursory examination of all three versions of the top decile model suggests that the partisan composition of state governments is an important determinant of changes in state inequality. As expected, I find a significant negative relationship between Democratic Governors and state top decile income share, as well as between the percent of Democratic representatives in the lower house and inequality, both reported in column 1 of Table 3.1. Notice in the second version of the model (column 2) that there is also a significant negative relationship between Democratic *control* of the lower house and the top decile's share. Finally, in the third model version (column 3), I find that having unified Democratic government – a Democratic Governor and a Democratic majority in both houses of the state legislature – significantly decreases the top decile's income share. Similarly, having unified Republican government (column 3) is significantly related to increases in inequality. Together, these findings provide substantial support for my theory that the party composition of state government helps explain variation in state inequality.

[20] See Appendix D for robustness checks with national-level government partisanship variables, Appendix E for discussion and results regarding the South, Appendix F for additional specifications of state government party control, and Appendix G for model versions with additional independent variables. In nearly all cases, the results are robust to these additional tests. There were some changes in the results when I included national-level government partisanship variables (Appendix D). In these models (Table D1), the relationship between Democratic state legislators and the top 1% income share is significant at $p<.10$ rather than $p<.05$ and results for Democratic Governors, which are significant in several instances in this chapter, are no longer significant. Overall, however, partisan composition, particularly of state legislatures, remains a significant determinant of measures of inequality throughout these checks.

**Table 3.1 Political and Economic Determinants of Changes in State Top Deciles' Income Shares, 1970-2005**

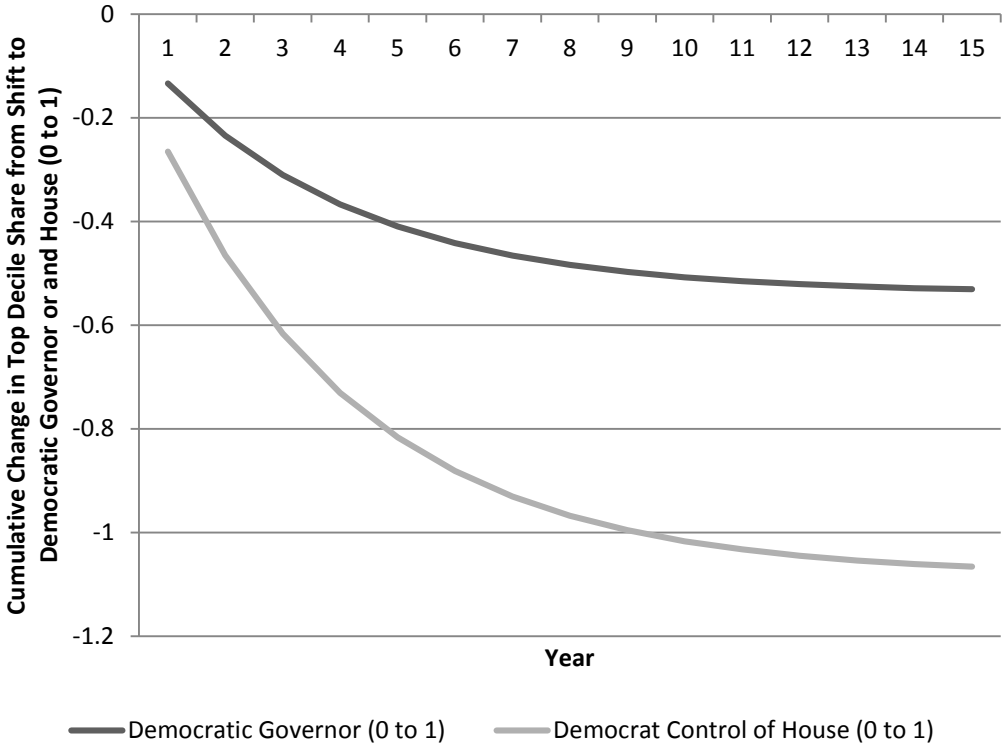
| | (1) Percent Dem. Legis. | | (2) Dem. House | | (3) Unified Dem./Rep. | |
|---|---|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.25* | (0.02) | -0.25* | (0.02) | -0.25* | (0.02) |
| Δ Democratic Governor | -0.08 | (0.08) | -0.08 | (0.08) | | |
| Democratic Governor $_{t-1}$ | -0.13* | (0.06) | -0.18* | (0.06) | | |
| Δ Lower House Democrats | 0.17 | (0.53) | | | | |
| Lower House Democrats $_{t-1}$ | -1.97* | (0.32) | | | | |
| Δ Democratic Control Lower House | | | 0.02 | (0.12) | | |
| Democratic Control Lower House $_{t-1}$ | | | -0.27* | (0.09) | | |
| Δ Unified Democratic | | | | | -0.06 | (0.09) |
| Unified Democratic $_{t-1}$ | | | | | -0.25* | (0.07) |
| Δ Unified Republican | | | | | 0.17 | (0.12) |
| Unified Republican $_{t-1}$ | | | | | 0.26* | (0.09) |
| Δ Union | -0.05* | (0.02) | -0.05* | (0.02) | -0.05* | (0.02) |
| Union $_{t-1}$ | -0.08* | (0.01) | -0.07* | (0.01) | -0.07* | (0.01) |
| Δ African-American | -2.18* | (0.29) | -2.05* | (0.30) | -2.12* | (0.30) |
| Δ Latino | -0.02 | (0.30) | 0.26 | (0.30) | 0.21 | (0.30) |
| Latino $_{t-1}$ | 0.13* | (0.02) | 0.13* | (0.02) | 0.13* | (0.02) |
| Δ Over Age 65 | 0.452 | (0.26) | 0.53* | (0.27) | 0.55* | (0.26) |
| Δ Per Capita Income ($1000s) | 0.24* | (0.04) | 0.242* | (0.04) | 0.26*** | (0.04) |
| Per Capita Income ($1000s) $_{t-1}$ | 0.11* | (0.02) | 0.12* | (0.02) | 0.12* | (0.02) |
| Δ Dividends Income ($1,000s) | 0.62* | (0.13) | 0.62* | (0.13) | 0.63* | (0.13) |
| Dividends Income ($1,000s) $_{t-1}$ | 0.13* | (0.05) | 0.16* | (0.05) | 0.16* | (0.05) |
| Δ College Grads | -0.01 | (0.02) | -0.01 | (0.02) | -0.01 | (0.02) |
| Δ Manufacturing | 0.0932 | (0.05) | 0.07 | (0.05) | 0.07 | (0.05) |
| Δ Finance | -0.91* | (0.18) | -0.92* | (0.18) | -0.89* | (0.18) |
| Constant | 7.54* | (0.64) | 6.08* | (0.59) | 5.82* | (0.57) |
| Observations | 1,691 | | 1,691 | | 1,715 | |
| R-squared | 0.24 | | 0.23 | | 0.23 | |
| States | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

The specific coefficients reported in Table 3.1 indicate that these partisan variables relate to state inequality levels in the long term. This is what we would expect, considering that the effects of policies enacted by different parties should take some time to be realized. Beginning again with column 1, a change to a Democratic Governor corresponds with a reduction in the

share of income held by the top decile by -.13 on a scale of 100 with an observed range of 25% to 54% of income. To put the magnitude of this relationship into context, it is helpful to know that the average change in the top decile's share from one year to the next is only about .30, which makes a decline of -.13 in year one substantively important. But to fully interpret this effect we also need to calculate the long run multiplier, which is done by dividing the long term coefficient (-.13) by the error correction rate (.25), given by the coefficient of the lagged dependent variable. When we incorporate this effect, a change to a Democratic Governor reduces the top decile's income share by -.54, or about half a percentage point. The error correction rate of .25 also tells us how quickly this total effect occurs; about a quarter or -.13, will occur in the next year. The year following that, about a quarter of that remaining effect will occur, such that the effect on the top share is -.10, and bringing the total effect in the first two years to .23 (or about 40 percent) of the total .54 effect. This process continues according to the error correction rate until the full -.54 effect is realized. Figure 3.1 below plots this cumulative effect of a shift to a Democratic Governor, as well as to a Democratic lower house, on the top decile's share.

**Figure 3.1 Cumulative Effects of Government Party Control on State Top Deciles' Income Shares**




Along with a significant relationship between Democratic Governors and this measure of inequality, version 1 of the model (column 1) also includes a significant long term coefficient for the percent of Democrats in the state legislatures. The results indicate that a one unit increase in Democratic legislators relates to a decline of -1.97 in the top 10%'s share. With the long run multiplier, the total effect is -7.91 (1.97/ the error correction rate of .25), again on an observed scale of 25 to 54% of income. Because a one unit shift in the Democratic legislators variable represents a change from no Democrats to all Democrats – the range is zero to one – this very large full effect is not typical. A shift by an average standard deviation for Democratic legislators relates to reduction in the top decile's share by .86.[21] Another way to examine the magnitude of relationship between legislative party control and inequality is to interpret the effects of

[21] The average standard deviation for the Democratic legislators variable is about .11. This is divided by the error correction rate of .25 given by the model to calculate the expected reduction in the top decile's share of .86.

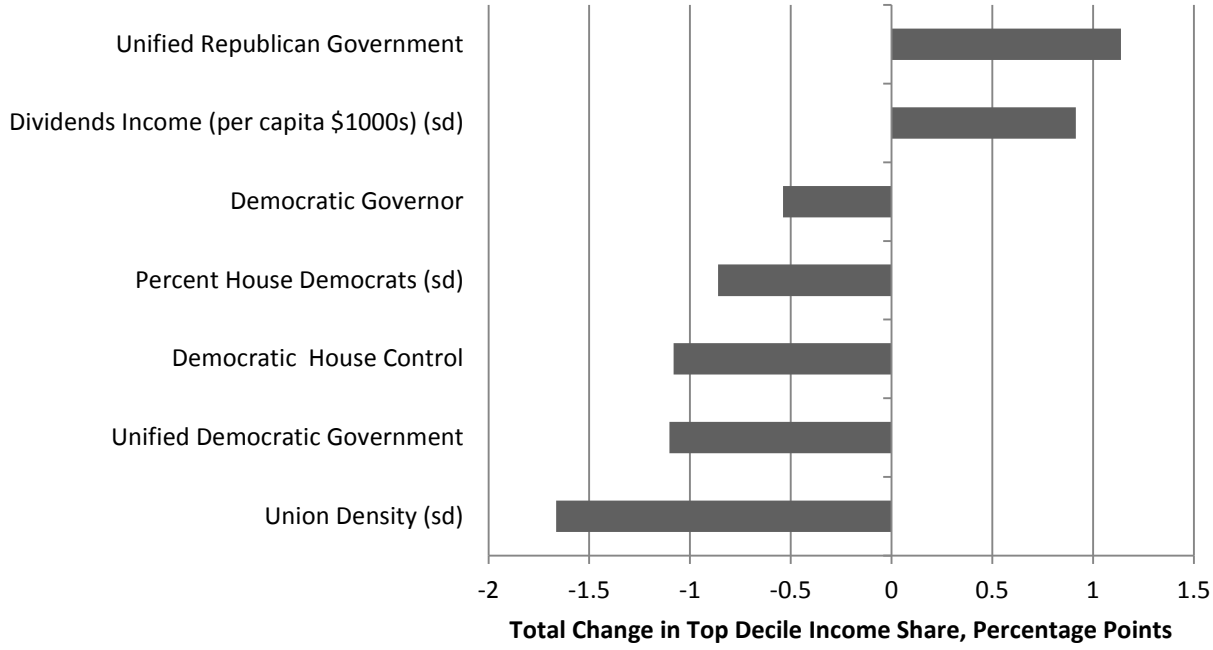
Democratic *control* of the House, rather than the proportion of Democrats, on the top decile's share. In this model, reported in column 2 of Table 3.1, when Democrats gain control of the House, we should expect inequality to decrease by a total of about one percentage point in the long term, given by the long-term coefficient of .27 divided by the error correction rate of .25. This effect is larger than what we see from a shift to a Democratic Governor and also charted above in Figure 3.1.[22]

Finally, if we look at the combined effect of the Governorship and legislatures, included in column 3 of Table 3.1, having a unified Democratic government is associated with a decrease of the top decile's income share by about .25, or a total effect of just over one percentage point with the long run multiplier (.25/ error correction rate of .25). When the Governor and both houses of the state legislature are controlled by the Republican Party, we should expect an *increase* of the top share by more than one percentage point (.26/ error correction rate of .25) in the long term. Again, considering that the average annual change for the top decile's share is .30, the magnitude of these effects are substantively significant. It is interesting to note, though, that the effect of unified control is not much larger than that of party control of the House. It may be that Democratic legislatures or Democratic governors are each more likely to make policy choices that mitigate inequality, but there is no great increase in the number or extent of such policies under unified government that would lead to a greater inequality effect. This makes sense if we consider that governors and state legislatures have different degrees of budgetary control across states and, within states, may have different policy priorities (Dometrius and Wright 2010). As such, legislatures may matter more in some states and governors more in others and we may not necessarily observe a much larger effect by combining the two. The

[22] Democratic control of the house is significant at only the $p<.10$ level if this model is estimates with panel corrected standard errors, rather than traditional standard errors. See Appendix H for these results. The results for the remaining partisan variables are unchanged with panel corrected standard errors.

magnitudes of the relationships between the partisanship variables and top decile shares, along with select other variables from version 1 of the top decile model, are plotted for comparison in Figure 3.2 below. Magnitudes correspond to a shift from 0 to 1 for dummy variables and a one standard deviation increase for continuous variables, denoted with (sd) in the figure.

**Figure 3.2 Magnitudes of Effects of Select Variables on State Top Deciles' Income Shares**




Along with significant findings for party composition, we also observe a significant negative relationship between union membership rates and inequality across model versions, which supports the *union hypothesis*. An increase in union density is significantly related to a decrease in the concentration of income at the top. As discussed earlier, economic literature suggests that unions contribute to lower inequality by increasing the average wage and compressing the distribution of income, and that declining union density partly explains why U.S. income inequality has climbed higher. Political arguments, such as by Hacker and Pierson (2010), also suggest unions reduce inequality because they have a positive impact on social programs or social policy generosity. The results here show that this relationship carries over to

the state-level, and they are also consistent with other state-level findings from Kelly and Witko (2012). Because I am looking at top income shares here, this effect may be the result of union strength decreasing CEO and top management compensation, or an indirect effect from changes to lower and middle incomes (Volscho and Kelly 2012, 692). Notice in Table 3.1 that union rates have both short and long term effects across model specifications. In terms of the contemporaneous relationship, a one percentage point increase in union membership is related to a decrease of about -.05 for the top share. Using the results from model version 1 in column 1 of Table 3.1, the total effect is given by the long term coefficient (.08) divided by the error correction rate (.25). A one percentage point shift in union membership therefore corresponds with a total decrease of the top decile's share by about -.32 percentage point. A one standard deviation shift, depicted above in Figure 3.2, corresponds with a decrease of the top decile's share by a substantial 2.77 percentage points.

The results of this first set of models also support the *capital income hypothesis*. Because of the increasingly unequal distribution of capital income, specifically the pulling away of the top of the distribution, I expected higher concentrations of capital income at the state level to contribute to increases in inequality. Indeed, we observe a positive, significant relationship between per capita dividends income and the top decile's income share in the state. Based on these results from model version 1, we expect a one unit increase in per capita dividends income – equivalent to an increase of $1,000 per capita – to increase the top decile's share by about .6 percentage point immediately and another .5 over the next several years.

The *de-industrialization hypothesis* predicts that a decrease in manufacturing jobs in a state would be linked to higher inequality, the rationale being that these middle class manufacturing jobs are replaced with a combination of some high paying and several low paying

service sector jobs (Gustaffson and Johansson 1997; Levy and Murnane 1992). However, the results show that the relationship between the percent of manufacturing jobs in the state and the top 10%'s income share is not significant. This differs from previous findings, which show that a loss of manufacturing jobs correlates with higher inequality (Bernard and Jensen 2000). This difference in results may stem from different measures of inequality. While Bernard and Jensen study wage inequality in particular, my measure includes multiple sources of income.

The results for financial employment are also surprising. Because wages in this industry have grown faster and higher than in others, I expected that states with a high concentration of these jobs would experience increases in inequality, especially in terms of a higher concentration of income at the top. However, the results show a *negative* relationship, which suggests that an increase in the percent of finance jobs relates to declines in inequality. [23] One possible explanation for this surprising results is that we need a narrower measure of the top financial industry positions, one that better captures the highest paying positions or executive compensation in particular (Eissa and Giertz 2009; Kaplan and Rauh 2010; Picketty and Saez 2006). Another possibility is that the growth and deregulation of the finance industry is only relevant for a few states and therefore we fail to see a positive relationship with inequality when we look at all states.[24]

Finally, there are some significant results among the demographic control variables. I find a positive relationship between the percent of the population over age 65 and inequality.

[23] I try two other variable specifications to capture activity in the finance industry as well. The first variable substituted is finance employment in the state as a percent of *total U.S. financial employment* (rather than as a percent of total employment in the state). The results do not change; finance employment is negatively related to inequality. The second variable is the GDP from the finance industry as a percent of total state GDP. The relationship between finance GDP and inequality is often positive, but this variable is not consistently significant, so these findings are only suggestive.

[24] For example, I estimate a reduced model for just New York. The model includes very few observations, but there is a positive and significant result for the percent of finance jobs. In this particular case, then, more financial sector employment correlates with a higher income share for the top 1% and top 10%, but the negative relationship in the model for all states indicates that this does not hold more broadly.

Increases in the concentration of elderly residents tend to relate to increasing inequality, likely because this population has relatively lower incomes, particularly if we do not include Social Security benefits. This finding is consistent with some previous literature (Aigner and Heins 1967; Al-Sammarie and Miller 1967; Conlisk 1967; Nelson 1984; Sale 1974).

Unlike this previous literature, however, we actually observe a negative relationship between the percent of population that is African-American and top share inequality. This is a surprising finding, as many previous (cross-sectional) models find a positive relationship.[25] However, because the relative size of the African-American population has likely not changed much in or between the states over time, it makes sense that this variable does not explain *changes* in inequality over time in my model, even if income differences remain. Indeed, the inclusion of state fixed effects in these models would mask any cross-sectional relationship between state African-American population and income inequality. However, we do see the importance of ethnicity as a predictor of inequality; an increasing Latino population is associated with increasing inequality (in the long term). This is what we would expect if the Latino population is overrepresented in lower income categories.

Per capita income is positively related to increases in top decile shares, suggesting that income growth contributes to higher levels of inequality. This contrasts with some older studies, which found that higher state incomes related to lower inequality (e.g. Al-Sammarie and Miller 1967; Conslick 1967). The positive relationship found here suggests that higher state income reflects a "concentration of opportunities for high-income workers…offsetting opportunities for the lower strata" (Nelson 1984, 855). It is also consistent with the overall account of U.S. inequality in the past several decades, in which gains in income go disproportionately to the top.

[25] Levernier et al (1995) is an exception. They find no significant relationship between the size of the black population and state inequality when including regional effects.

Increases in income are not spread evenly throughout the distribution; rather, they are concentrated at the top of the distribution and contribute to increasing inequality. Based on model version 1 in column 1, each $1,000 increase in per capita income corresponds with an immediate increase in the top decile's share by .24 and a total increase by .44 (.11/error correction rate of .25).

***Results: State Top 1% Income Shares***

If we want to look at "winner-take-all" (Hacker and Pierson 2010) or top share (Picketty and Saez 2003) income inequality, the percent of state income going to the top 1% is an even more appropriate dependent variable. Results for changes in the top 1% share are reported in Table 3.2 and are similar to those for the top decile. Most importantly, we see that the partisan control variables have significant long term effects on the top 1%'s share of income, with Democratic control negatively related to changes in the concentration of income across model versions.

**Table 3.2 Political and Economic Determinants of Changes in State Top 1% Income Shares, 1970-2005**

| | (1) Percent Dem. Legis. | | (2) Dem. House | | (3) Unified Dem./Rep. | |
|---|---|---|---|---|---|---|
| Top One Percent Share $_{t-1}$ | -0.31* | (0.02) | -0.30* | (0.02) | -0.31* | (0.02) |
| Δ Democratic Governor | 0.01 | (0.11) | -0.01 | (0.11) | | |
| Democratic Governor $_{t-1}$ | -0.09 | (0.08) | -0.15 | (0.08) | | |
| Δ Lower House Democrats | -0.63 | (0.68) | | | | |
| Lower House Democrats $_{t-1}$ | -2.43* | (0.42) | | | | |
| Δ Democratic Control Lower House | | | -0.23 | (0.15) | | |
| Democratic Control Lower House $_{t-1}$ | | | -0.36* | (0.11) | | |
| Δ Unified Democratic | | | | | -0.08 | (0.12) |
| Unified Democratic $_{t-1}$ | | | | | -0.24* | (0.10) |
| Δ Unified Republican | | | | | 0.22 | (0.16) |
| Unified Republican $_{t-1}$ | | | | | 0.36* | (0.12) |
| Δ Union | -0.06* | (0.02) | -0.06* | (0.02) | -0.06* | (0.02) |
| Union $_{t-1}$ | -0.08* | (0.01) | -0.08* | (0.01) | -0.08* | (0.01) |
| Δ African-American | -1.41* | (0.39) | -1.25* | (0.39) | -1.49* | (0.40) |
| Δ Latino | 0.20 | (0.39) | 0.53 | (0.39) | 0.53 | (0.39) |
| Latino $_{t-1}$ | 0.12* | (0.02) | 0.11* | (0.02) | 0.11* | (0.02) |
| Δ Over Age 65 | 1.26* | (0.33) | 1.38* | (0.34) | 1.39* | (0.34) |
| Δ Per Capita Income ($1000s) | 0.35* | (0.05) | 0.36* | (0.05) | 0.37* | (0.05) |
| Per Capita Income ($1000s) $_{t-1}$ | 0.09* | (0.02) | 0.10* | (0.02) | 0.11* | (0.02) |
| Δ Dividends Income ($1000s) | 0.64* | (0.16) | 0.64* | (0.16) | 0.65* | (0.16) |
| Δ College Grads | 0.02 | (0.03) | 0.02 | (0.03) | 0.026 | (0.03) |
| College Grads $_{t-1}$ | 0.05* | (0.02) | 0.06* | (0.02) | 0.06* | (0.02) |
| Δ Manufacturing | -0.13* | (0.06) | -0.16* | (0.06) | -0.15* | (0.06) |
| Δ Finance | -0.88* | (0.23) | -0.89* | (0.23) | -0.86* | (0.22) |
| Constant | 2.35* | (0.65) | 0.71 | (0.57) | 1.20 | (0.68) |
| N | 1,689 | | 1,689 | | 1,713 | |
| R-squared | 0.22 | | 0.21 | | 0.21 | |
| States | 49 | | 49 | | 49 | |

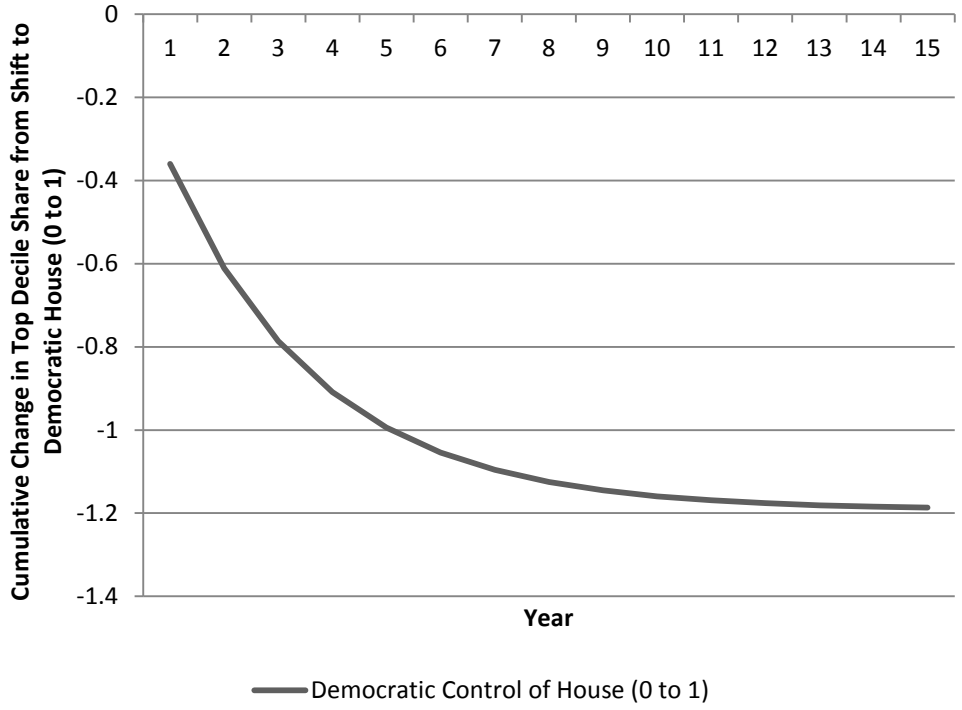
Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

Beginning with model version 1 in Table 3.2, we see that an increase in the percentage of Democrats in the state legislature significantly and negatively relates to changes in the top share. For an average standard deviation increase in Democratic legislators, we expect a total effect of about -.86 on the top 1%'s share. In the next column, model version 2, the results suggest that

Democratic control of the House relates to a reduction in the top 1%'s share of about 1.2 percentage points on the 100 point scale with an observed range of 5% to 28% of income. This magnitude is given by dividing the long term coefficient of .36 by the error correction rate of .30. Note that this relationship is comparable in magnitude to the results in the top decile model, and the speed of the effect, which can be calculated with the error correction rate, is also similar. This cumulative over time change in the top share from a switch to Democratic control of the House is plotted in Figure 3.3. As for the effect of partisanship on the top decile's share (Figure 3.2), it takes several years for the full effect to be realized, but again the majority of this effect occurs in these first several years. The effect begins with a -.36 decrease in the top 1%'s share the year after a change to a Democratic house (year one), given by the long-term coefficient, and continues at the error correction rate of .30 in subsequent years.[26]

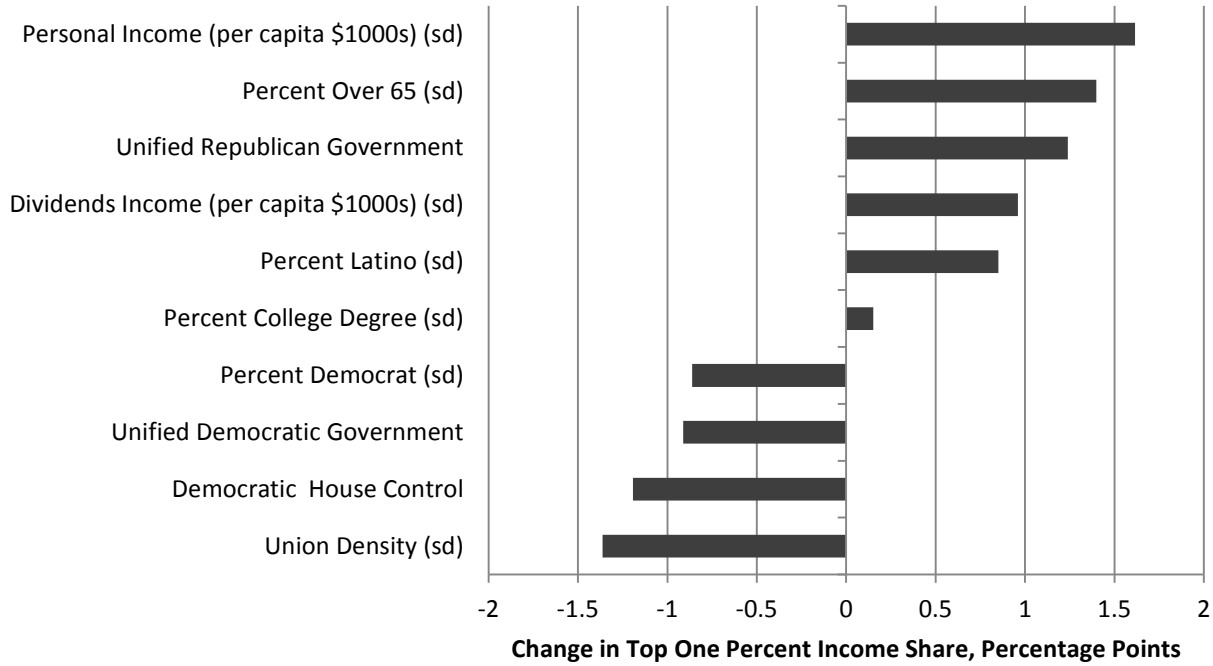
[26] Democratic control of the house is significant at only the p<.10 variable if this model is estimates with panel corrected standard errors, rather than traditional standard errors. See Appendix H for these results. The results for the remaining partisan variables are unchanged with panel corrected standard errors.

**Figure 3.3 Cumulative Effect of Government Partisanship on State Top 1% Income Shares**




The partisanship results also hold for unified Democratic and unified Republican governments, reported in column 3. Full Democratic control is significantly and negatively associated with changes in the top share, while Republican government is positively and significantly related to inequality. Specifically, we expect a change to a unified Democratic government to correspond to a decrease in the top 1%'s share by about .9, while unified Republican government relates to an increase of about 1.24 percentage points. As above, these total effects are given by the significant long term coefficients for the unified government variables, divided by the error correction rate for the model. The magnitudes of these effects and select other variables from Table 3.2, provided by model version 1, are plotted for comparison in Figure 3.4. For dummy variables, the magnitudes correspond to a shift from 0 to 1, while those for continuous variables correspond to a one standard deviation shift (sd).

**Figure 3.4 Magnitudes of Effects of Select Variables on State Top 1% Income Shares**




Moving to our control hypotheses, note that across the top 1% models, higher union rates are again negatively and significantly related to changes in inequality, and this relationship exists both contemporaneously and in the long term. Each percentage point increase in union membership corresponds with a total decrease of the top 1%'s share by.26 (-.08/error correction term of .31). Unlike in the top decile models, the results for manufacturing employment here match our expectations; an increase in manufacturing jobs – a movement counter to de-industrialization - is related to decreasing inequality in terms of the top 1%'s income share. Specifically, for each percentage point increase in manufacturing employment, we expect the top 1%'s share to decline by .13 to .16, depending on the specification.

Although union rates and manufacturing employment, along with party control, conform to expectations, we continue to observe a surprising positive relationship between financial

employment and top share inequality in this set of models.[27] This result is perhaps even more unexpected here given the popular association of Wall Street with the concentration of wealth held by "the 1%." However, summary statistics on the occupations of the national top 1% shed some light on this negative result. Bakija et al (2012, 22) find that while top earning finance professionals have experienced the fastest income growth compared with top earners in other occupations, the finance industry is not the only one represented in the top 1%. According to these findings, for 2005, just about 14% of the top one percent were employed in finance-related occupations, while the largest percentage – 31% – were *non-finance* executives, managers, and supervisors. Medical professions account for more nearly 16% of the top one percent occupations and lawyers also made up a significant percentage (8.4%) (Bakija et al 2012, 35). This heterogeneity of occupations of top earners may partly explain why we do not see the expected relationship between finance employment and inequality at the state level.

Many of the remaining control results for the top 1% models in the lower half of Table 3.2 are consistent with those in the top decile models. The percent of African-Americans is negatively related to changes in the top 1%'s income share, as it was for the top decile's share. Similarly, there is a positive relationship between the percent Latino and the top 1%'s share. And we also see positive effects for the percent of the population over 65 and per capita personal income. One significant difference between these findings and the top decile models is a positive and significant relationship between the percent of people with college degrees and changes in the top 1%'s share. This finding supports the *returns to education hypothesis* and will be discussed further in the following section.

[27] This surprising result does not appear to be a function of multicollinearity in the model. Correlations between the financial employment are other independent variables are low, typically less than r=.10. The correation between changes in financial employment and changes in manufacturing employment is somewhat higher than others at r=-.29, but the results do not change if I omit manufacturing employment.

***Results: State Gini Coefficients***

My third set of models explores the determinants of changes in the Gini coefficient, the most common measure of inequality. The Gini is a broader measure of inequality than the top income share variables above; nevertheless, the results displayed in Table 3.3 are similar to those for the previous models. Like in those models, the results of the Gini models, listed in the top rows of Table 3.3, are consistent with my partisan theory. Shifts to Democratic officeholders are significantly and negatively related to changes in inequality, while increases in Republican power coincide with increasing inequality. Beginning with model version 1, a full unit increase in the percent of Democratic legislators is associated with a decrease in the Gini by about eight percentage points (2.21/.27) on an observed scale of 40 to 72 out of 100. Put another way, for an average standard deviation increase in Democratic legislators, we expect the Gini to decrease by about .9.

Similarly, in the second model specification, listed in column 2, a shift to Democratic control of the House is associated with a reduction of the Gini by nearly a percentage point as well (.24/.27).[28] In both models that include the Democratic Governor dummy – versions 1 and 2 – a change to a Democratic Governor is significantly associated with a reduction of the Gini by more than half a percentage point; we expect reduction by .59 percentage point (.16/error correction rate of .27) according to the first specification and .81 percentage point reduction (.22/error correction rate of .27) in the second. As in previous models, when we consider them separately, the effect of partisanship of the legislature is greater than that for the Governor. The cumulative effects for both of these partisanship variables on changes in the Gini are plotted by

[28] Democratic control of the house is not significant if this model is estimates with panel corrected standard errors, rather than traditional standard errors. See Appendix H for these results. The results for the remaining partisan variables are unchanged with panel corrected standard errors.

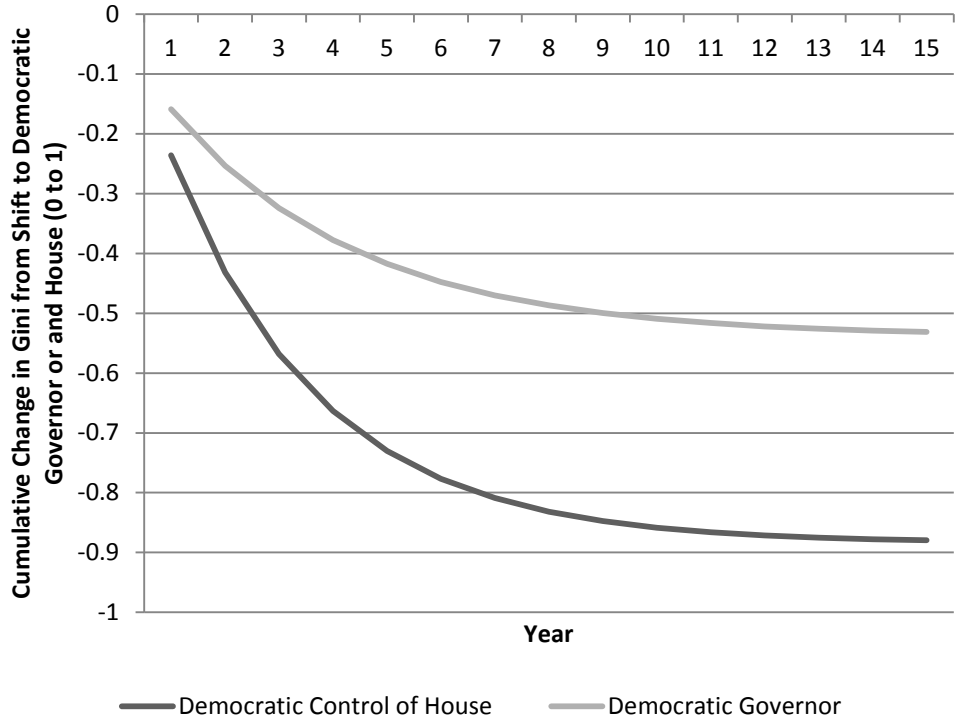
year in Figure 3.5. Once again, these partisanship effects take several years to be fully realized, but note that vast majority of the negative effect on the Gini occurs in the first several years.

**Table 3.3 Political and Economic Determinants of Changes State Gini Coefficients, 1970-2005**

| | (1) Percent Dem. Legis. | | (2) Dem. House | | (3) Unified Dem./Rep. | |
|---|---|---|---|---|---|---|
| Gini $_{t-1}$ | -0.27* | (0.02) | -0.27* | (0.02) | -0.27* | (0.02) |
| Δ Democratic Governor | -0.08 | (0.11) | -0.11 | (0.11) | | |
| Democratic Governor $_{t-1}$ | -0.16* | (0.08) | -0.22* | (0.08) | | |
| Δ Lower House Democrats | -0.73 | (0.69) | | | | |
| Lower House Democrats $_{t-1}$ | -2.21* | (0.42) | | | | |
| Δ Democratic Control Lower House | | | 0.04 | (0.15) | | |
| Democratic Control Lower House $_{t-1}$ | | | -0.24* | (0.11) | | |
| Δ Unified Democratic | | | | | -0.05 | (0.12) |
| Unified Democratic $_{t-1}$ | | | | | -0.25* | (0.10) |
| Δ Unified Republican | | | | | 0.34* | (0.16) |
| Unified Republican $_{t-1}$ | | | | | 0.42* | (0.12) |
| Δ Union | -0.05* | (0.02) | -0.05* | (0.02) | -0.05* | (0.02) |
| Union $_{t-1}$ | -0.08* | (0.02) | -0.07* | (0.02) | -0.07* | (0.02) |
| Δ African-American | -1.24* | (0.40) | -1.13* | (0.40) | -1.18* | (0.40) |
| African-American $_{t-1}$ | -0.14* | (0.05) | -0.17* | (0.05) | -0.16* | (0.05) |
| Δ Latino | -0.28 | (0.40) | 0.08 | (0.39) | 0.05 | (0.39) |
| Latino $_{t-1}$ | 0.07* | (0.02) | 0.06* | (0.02) | 0.06* | (0.02) |
| Δ Over Age 65 | 0.86* | (0.34) | 0.91* | (0.34) | 0.93* | (0.34) |
| Δ Per Capita Income ($1000s) | -0.14* | (0.05) | -0.14* | (0.05) | -0.14* | (0.05) |
| Per Capita Income ($1000s) $_{t-1}$ | 0.09* | (0.02) | 0.09* | (0.02) | 0.09* | (0.02) |
| Δ Dividends Income ($1000s) | 1.03* | (0.16) | 1.06* | (0.16) | 1.05* | (0.16) |
| Dividends Income ($1000s) $_{t-1}$ | 0.31* | (0.07) | 0.35* | (0.07) | 0.35* | (0.07) |
| Δ College Grads | 0.15* | (0.03) | 0.15* | (0.03) | 0.15* | (0.03) |
| Δ Manufacturing | 0.20* | (0.07) | 0.18* | (0.07) | 0.19* | (0.06) |
| Manufacturing $_{t-1}$ | -0.03* | (0.02) | -0.05* | (0.02) | -0.05* | (0.02) |
| Δ Finance | -0.90* | (0.23) | -0.91* | (0.23) | -0.88* | (0.23) |
| Constant | 15.18* | (1.29) | 14.12* | (1.28) | 13.89* | (1.25) |
| N | 1,691 | | 1,691 | | 1,715 | |
| R-squared | 0.20 | | 0.19 | | 0.20 | |
| States | 49 | | 49 | | 49 | |

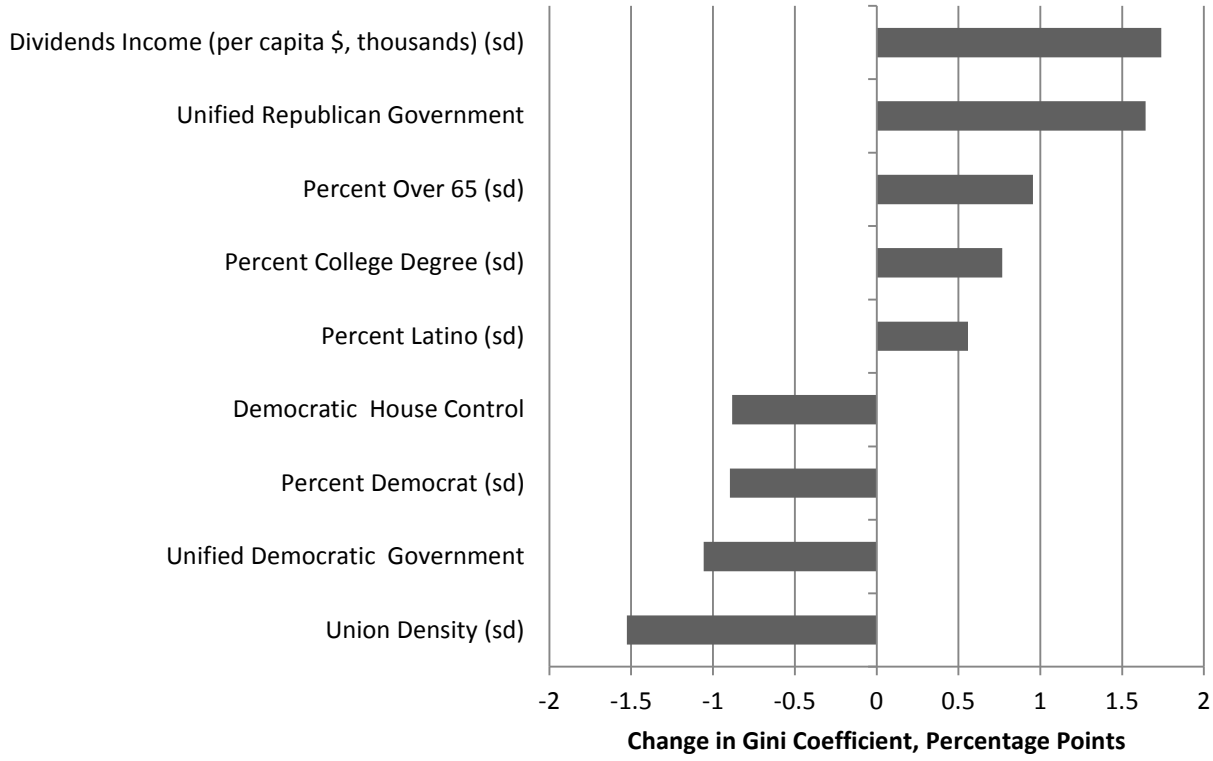
Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

**Figure 3.5 Cumulative Effects of Government Partisanship on State Gini Coefficients**




Model version 3 of Table 3.3 reports the results if we consider the partisanship of the Governor and legislature together, in terms of instances of unified Democratic or Republican governments. In this third column, we see that a change to a unified Democratic government is associated with the Gini decreasing by just over one percentage point, as indicated by the long term coefficient (-.25) and error correction term (.27). Shifting to unified Republican government relates to an increase in the Gini by about 1.5 percentage points (.42/.27). The magnitudes of the relationships between these party variables and changes in state Gini coefficients are graphed in Figure 3.6. Also included are the coefficients for several other variables from the first version of the Gini model from Table 3.3. For dummy variables, the magnitudes correspond to a shift from 0 to 1, while those for continuous variables correspond to a one standard deviation shift (sd).

**Figure 3.6 Magnitudes of Effects of Select Variables on Gini Coefficient**




The results for the demographic control variables in the Gini models are also similar to those in the top share models, with positive, significant relationships for Latino and elderly populations and per capita income and a negative relationship for the percent of African-Americans in the state. Union rates are also related to decreases in the Gini coefficient. In this case, using the results of model version 1, the long term coefficient (-.08), divided by the error correction rate of .27 suggests we can expect a total decrease of the Gini by about .30 for each percentage point increase in union membership. This finding supports the *union hypothesis* once again. And we continue to see a negative contemporaneous relationship between finance jobs and inequality, contrary to expectations.

The results for manufacturing employment are somewhat difficult to interpret in the Gini models. Manufacturing employment did not generally have a significant relationship with

changes in the top decile's income share, but we saw in the previous section that an increase in manufacturing employment related to decreases in the top 1%'s income share. This was what I expected based on the relationship between de-industrialization and inequality (*de-industrialization hypothesis*). Similarly, in Table 3.3 above, manufacturing employment negatively and significantly relates to changes in the Gini coefficient in the long term. However, there is also a contemporaneous positive relationship, which suggests that an increase in the percentage of manufacturing employment relates to an *increase* in inequality. Given the conflicting results, we cannot draw any firm conclusions about the relationship between manufacturing employment and these measures of inequality. This relationship is perhaps better captured in narrower studies of wage inequality.

Although many of the other results besides manufacturing employment are consistent across the three dependent variables, one other notable difference is the relationship between the percent of college degree holders and changes in inequality. This variable did not have a significant effect in the top decile model, but we saw that an increase in the percentage of college degree holders significantly related to increases the top 1%'s income share. Similarly, the coefficient for college degree holders is positive and significant for all three of the Gini models in Table 3.3.[29] These latter findings support the *returns to education hypothesis.* Others have argued that inequality has increased because changes in technology lead to a market that rewards those with certain skills and levels of education and penalizes those with lower skill levels. In these accounts, those better equipped for the changing economy are able to pull ahead of others, thereby increasing inequality (Berman et al 1994; Krueger 1993; Levy and Temin 2007); With

[29] Because of a very high correlation between per capita personal income and the percent of the population with college degrees (r=.84), as well as between dividends income and the college educated population, I omit these income variables and re-examine the top decile model. When doing so, a higher concentration of college degree holders relates to higher inequality in this model as well.

respect to education in particular, Lemieux (2006) finds that the returns to post-secondary education have "increased sharply while returns to lower levels of education remained relatively unchanged" (2). Those with college degrees have a greater advantage and their earnings further outpace those without degrees. The positive relationship I find between concentrations of college degree holders and inequality in the states is what we would expect based on these findings, and is consistent with some other state studies (Levernier et al 1995; Volscho 2005). My results suggest that each percentage point increase in college graduates in the state population coincides with a .15 increase in the Gini.

It is interesting to note that this finding contrasts with those about the relationship between education and income inequality in the 1950s-1970s. For example, Sale (1974) found that higher educational attainment in states related to lower inequality. Here we see that focusing on post-secondary education and considering more recent data leads us to a different conclusion: that increases in educational attainment promote inequality. Golden and Katz (2010) provide a somewhat different perspective on this relationship. They argue that *slowdowns* in educational attainment contribute to an increase in the college wage premium after 1980 – a greater wage gap between those with and without a college degree - and thereby to rising inequality. From this perspective, the problem is not that there are more people with college degrees, it is that there are *too few* with college degrees. Their work suggests that expanding college education will reduce inequality. Still, as it stands now, it appears that the college wage premium fosters a positive relationship between college degree rates and higher inequality.

***Conclusion***

Using data for the states from 1970 to 2005, this chapter improves upon previous studies of variation in state inequality by examining new variables, as well as over time changes in state

inequality, and draws some new conclusions. First, the findings above provide some additional support for some existing explanations for inequality. Consistently, I find a negative relationship between union rates and inequality in the states. Stronger unions appear to keep wages and income more equal at the state level. This relationship holds across dependent variables and matters in both the short and long term. Similarly, increases in college degree rates related to increases in the Gini coefficient and top 1% share. These findings lend support to arguments that higher returns to college education help explain rising inequality (e.g. Lemieux 2006). Individuals with college degrees are rewarded while those without degrees fall further behind. The positive relationship between changes in dividends income and changes in state-level inequality is consistent with analyses that show that trends in capital income (Hungerford 2011), and related policy changes (e.g. Hacker and Pierson 2010) can explain rising U.S. inequality in recent years. In sum, these several national-level explanations for inequality do extend to or have implications for the states.

While some of my findings support these national-level arguments, testing these relationships at the state level also reveals the importance of considering sub-national patterns. When the factors which help explain inequality like unions or college degree holders or investment income are unevenly distributed throughout the U.S., we will also observe differences in inequality. Still, other state-level findings conflict with the national-level inequality story. For instance, I found that increases in the concentration of finance jobs in the states did not related to increases in inequality. At this point, we can only conclude that while the deregulation and growth of the financial industry may be an important explanation for inequality in the U.S. more generally, or even for particular states, this explanation does not extend to the state level, at least with respect to employment patterns. The results for manufacturing

employment did not consistently support the argument that de-industrialization or a loss of manufacturing jobs contributes to a lower Gini coefficient or top decile income share, although there was evidence that an increase in manufacturing employment relates to decreases in the top 1%'s share.

These findings regarding employment variables bring up an important point about income inequality in the U.S. In the first part of this chapter, I argued that the concentrations of employment in the finance and manufacturing industries in the states were important because of some broader economic shifts in these areas. In the case of the financial industry, this was the increase in these wages relative to those in other industries, a trend that some argue was aided by deregulation. In the case of manufacturing, the argument was that middle class manufacturing jobs were replaced with some high-paying jobs and many low-paying jobs, likely in the service sector. Notice that both of these trends deal with changes to wages and salaries or labor income. However, we have evidence that other types of income, namely capital income, play a greater role than labor income in income inequality in the U.S. (Hungerford 2011). Indeed, in the models in this chapter, dividends income was consistently and positively related to increases in state-level inequality, while the results of the employment variables were opposite of expectations or unreliable. These findings lend further support to the argument that trends in U.S. income inequality are largely driven by changes to non-wage and salary income. This also suggests that tax and regulatory policies which affect capital income deserve our attention.

Although many economic (and demographic) variables are significant determinants of state-level inequality, this is certainly not just an economic story. After all, even variables categorized as economic or demographic controls or explanations, like unions and educational attainment (college degrees) are affected by national and state policies. The federal government

provides assistance for higher education through grants, loans, and tax credits (Mettler 2011) and states play an even larger role by funding public universities. States also make policies which promote or hinder unions and collective bargaining, such as "right-to-work" laws, which I will discuss further in Chapter 4. We might also expect the employment variables to be a function of state political characteristics. For example, Grant and Wallace (1994) found that between 1970 and 1985, manufacturing growth in the states was related to social wage policies and the state political context. A recent study by Gordon and Herzenberg (2012) found that between 1948 and 2011, manufacturing jobs were gained under Democratic Presidents and lost under Republican Presidents. It is possible that my results for manufacturing, which sometimes differed from the expected negative relationship with inequality, are a function of a relationship between (Democratic) partisanship and the manufacturing industry.

Beyond these underlying political factors, I have also established a direct connection between government and inequality by showing that state government partisan composition explains a significant amount of variation in market inequality in the states. My findings suggest that both the concentrations of income at the top of the distribution and the Gini coefficient significantly decrease under Democratic governments and increase under Republicans. This relationship is observable when we examine Governors and state legislatures separately, or the effects of having a unified Democratic or unified Republican government. These findings are consistent with my theory that the different sets of policies pursued by the two parties in state government - with Democrats representing lower and middle income groups and favoring more government activity in the economy and Republicans representing higher income groups and business interests and less government intervention – help explain over time differences in income inequality in the states. In the next chapter, I turn to some policy mechanisms which

connect the parties in government to inequality outcomes.

# CHAPTER 4
# PARTISANSHIP, POLICY MECHANISMS, AND MARKET INEQUALITY

The primary argument advanced in this dissertation is that political factors help explain trends in U.S. income inequality. In the previous chapter, I demonstrated that there is a strong over time relationship between the party composition of state governments and changes in levels of inequality in the states. This is an important finding that shows that inequality is not only a function of economic or demographic patterns; however, it does not tell us *how* parties influence inequality. For differences in government partisanship to systematically lead to different inequality outcomes, the parties must *act* differently in office. In Chapter 2, I theorized that this relationship pivots on the parties' distinct economic approaches. After all, governments cannot "legislate a particular amount of inequality… they must rely on the design and implementation of policy to accomplish any degree of redistribution" (Rueda 2008, 351). Now that I have established the empirical relationship between partisanship and inequality, I further scrutinize my theory by identifying policy mechanisms which make this relationship possible. In doing so, I follow Rueda's (2008) strategy for examining the relationship between partisanship and inequality in OECD countries in two steps.

Identifying which policy actions systematically vary between the parties and also explain differences in inequality is a large task. Party platforms by their nature bundle many policies, and a common theme of this project is that states are active policymakers with considerable cross-state and over time policy variation. Still, if the relationship I have established between party and inequality is a function of who is in power, we should observe shifts in certain policies when the partisan balance changes, and these shifts should also influence the level of inequality. Two such policies are public sector employment and minimum wage laws. Following statistical analysis of

these policy mechanisms, I turn to a case study of a third policy area: collective bargaining legislation, namely state right-to-work laws.

Public sector employment and minimum wage laws deserve our attention for a few reasons. First, through both public employment and minimum wage laws, governments have the capacity to affect *market* inequality. This is because these policy tools influence pre-tax and pre-transfer incomes. Alesina, Baqir, and Easterly (2000) argue that public employment can be viewed as a type of "redistributive device" through which politicians can affect the income distribution without explicit tax or transfer policies. Although they refer to public employment as "redistributive," there is a clear distinction between this policy and traditional redistributive techniques like income-based social assistance programs. Similarly, Kelly (2009) and Kelly and Witko (2012) include the minimum wage among a set of "market-conditioning" policies, or policies through which "government influences the distribution of incomes…by affecting a variety of decisions made in a market context, prior to redistribution" (Kelly and Witko 2012, 415).

It is important to examine market policies because, based on previous empirical findings (Barrilleux and Davis 2003, Kelly 2009, Kelly and Witko 2012, Langer 2001) and states' limited capacities for redistribution compared with the national government (Peterson 1995), I argued that market conditioning is likely to be the primary mechanism by which states affect inequality. In line with this argument, the analyses in chapter three established a relationship between party in government and *market* inequality. Therefore, any possible policy mechanisms must also influence market inequality. Although market conditioning may be the primary tool for states, we should not rule out redistributive tools. These policies, while not appropriate for the design of this chapter, will be explored in Chapter 5 in conjunction with post-tax and transfer inequality.

Of course, there are many policies and government actions which affect the labor market and incomes. Government regulations and economic development policies like tax incentives (Langer 2001) impact firm hiring, compensation, and location decisions; public education and job training programs influence workforce skill-levels and earnings (Kelly 2009, Volscho and Kelly 2012); and legislation can weaken or strengthen unions or bargaining rights (Kelly and Witko 2012). I investigate public employment and minimum wages for three main reasons.

First, public employment and state minimum wage policies are two of the most *direct* ways state governments affect pre-tax and pre-transfer incomes. In the first case, government sets wages and conditions for public employment (Rueda 2008). In the second, the government actively shapes the income distribution when it sets or raises the minimum wage, in effect establishing or raising the wage floor or guaranteeing a minimum income. In both cases, the path to influencing the distribution of incomes is straightforward. By contrast, policies which influence workforce skills, such as education or job training, or regulations that influence firm decisions are relatively indirect. Especially in the case of education, there may be a considerable time lag between the policy and economic outcomes. As such, it would be difficult to observe or measure the effects of these policies on inequality. In the same vein, to be consistent with previous analyses, we need to choose policies for which state data are available from the 1970s to present. Public employment and state minimum wages meet this critical requirement.

Second, the parties' distinct economic approaches are reflected in both of these policies. Democrats are associated with larger public sectors and (higher) minimum wage laws, while the Republican Party traditionally favors a smaller public sector and fewer regulations on the market or businesses. Obviously the parties must have different positions on these policies if they are to serve as mechanisms that lead to different inequality outcomes depending on the party in power.

Moreover, it is important that these policies capture the broader economic approaches of the parties, as I argue that is the distinction driving inequality differences.

Finally, in the U.S., significant actions in these policy areas take place at the state level. As I will elaborate below, state public employment vastly outnumbers that of the federal government. States enacted minimum wage laws before the federal government set a national standard and, in more recent years, they have responded to federal inaction by enacting or amending their own laws (Freeman and Rogers 2007; Kelly and Witko 2012). There is also significant variation in these policies across states and over time. In other words, to fully understand the effects of public employment and minimum wage laws on U.S. inequality, we cannot rely on federal data or laws, which give an incomplete picture. States are the proper unit of analysis for these policies.

This chapter proceeds as follows. I begin by discussing how public sector employment and minimum wages each relate to government partisanship and to inequality. This review establishes the framework for each policy to serve as a mechanism between government and inequality. Based on these theoretical considerations and existing literature, I present two hypotheses for each policy. The first set of hypotheses posits that party composition will affect these policies, while the second connects policies to inequality. If both sets of hypotheses are supported, I will have additional evidence for my theory of partisan inequality in the states. In the analysis section, I examine each of the hypotheses in turn. I find that public employment and state minimum wages depend on the presence of Democrats in government; both increase when Democrats gain control of additional seats in the lower House, majority control of the House, control of the full legislature, and additional branches of the state government. And increases in public sector jobs and minimum wages significantly relate to decreases in inequality. Together,

these findings suggest that these policies serve as mechanisms connecting partisanship with inequality in the states. Similarly, a brief case study of state right-to-work legislation suggests that state union policies are influenced by partisanship and relate to distributional outcomes. While this is not meant to be an exhaustive study of all such policies, these findings give additional support to my theory that the parties and their policies are consequential for inequality.

***The Public Sector***

The first policy mechanism I investigate is public sector employment in the states. Public sector jobs include education services (teachers, staff), "protective services (including police officers, fire fighters, and correctional officers), higher education, health care (including nurses and other workers at public hospitals and clinics), and transportation (including road maintenance workers and bus drivers)" (McNichol 2012). More important than the types of jobs, however, is the sheer number of public sector jobs under the purview of states. The majority of public sector jobs in the U.S. are at the state (and local) level, and therefore influenced by state government budgets.[30] Between 1970 and 2011, the average number of civilian federal government employees was 2,919,524, while state and local public employees averaged 15,344,881, meaning that state and local government accounts for an average of 84% of total public employment in the U.S. during this time (BEA). State and local public employment is also significant in comparison with other industries. In 2011, for example, it was 11% of total employment in the U.S., roughly equal with the health care industry, and larger than manufacturing (7%), retail trade (10%), and finance and insurance (5%) (BEA). Federal public employment was just about 1%. The dominance of state-level public employment compared with

[30] For example, state governments provide grants to localities for public schools, thereby influencing educational services employment.

federal public employment clearly shows that the relationship between the public sector and inequality is best studied at the state level. Notice also that state public employment is greater than employment in the two industries on which inequality literature often focuses - manufacturing and finance. As such, it is reasonable to expect this industry to play a significant role.

Within states, public employment is a significant feature of state budgets and total employment. About a third of state and local general spending goes to salary and wages for public employees, and compensation costs are higher once other benefits like pensions and health insurance are taken into account (McNichol 2012). During the 1969-2006 period for which these data are available, public employment as a percent of total state employment ranged from about 8% to 17% of total jobs in the state (BEA). In all states, then, public sector employment makes up a considerable amount of spending and employment, but there is also a substantial amount of variation between the states over time.

We have good reason to think that variation in public employment relates to the partisanship of state government. The economic policy approaches of the Democratic and Republican parties include clear positions on the proper size of the public sector, with the Republicans favoring smaller government and privatization. We expect the public sector to be larger under the Democratic Party than the Republican Party. Some recent trends support this. For example, in 2011, 11 states that went Republican in the 2010 midterm elections were responsible for 40.5 of public job losses (Covert and Konczal 2012).[31] As well, the comparative literature provides some evidence of this relationship. For instance, Cusack's (1997) analysis of 16 OECD countries over three decades shows that the strength of left parties increases the size of

[31] These states were Alabama, Indiana, Maine, Michigan, Minnesota, Montana, New Hampshire, North Carolina, Ohio, Pennsylvania, and Wisconsin.

the public sector while the strength of the right reduces it (392).

If public employment is to serve as a mechanism, the relationship between party and the size of the public sector is just one half of the explanation. We also have to consider how public employment relates to inequality. Public employment can serve a "redistributive" (Alesina et al 2000) or "social equity function" (Hill 1998, Lobao and Hooks 2003). In general, wages in the public sector tend to be more equal (Starr 1989), with many government employers capping salaries for senior workers and paying lower-skilled workers more than they would earn in the private sector (Peters 1985; Volscho and Fullerton 2005, 1327). As such, we expect areas with greater public employment to also have lower income inequality. In addition, some argue that the government may actively seek to "shelter residents from private market forces" through public employment (Lobao and Hooks 2003, 520). This further suggests public employment can be a tool for inequality reduction (Volscho and Fullerton 2005). Similarly, the greater equality of wages in the public sector also underlies arguments that privatization – reducing the size of the public sector by contracting to private providers – will increase inequality (Starr 1989). In the U.S., state and local governments are responsible for the vast majority of privatization efforts (Gerber, Hall, and Hines 2004, 3). Once again, changes to public sector employment – here in the form of declines due to privatization – and the effects on inequality are most relevant sub-nationally.

Although scholars have not examined the state level, findings from cross-national and the city and county levels are in line with these theoretical considerations; public sector employment contributes to lower inequality. Rueda (2008) finds more equality when there are higher levels of government employment in OECD countries (378). Lee (2005) finds that public sector explanations are associated with better distributional outcomes in democratic countries. In the

American context, Alesina, Baqir, and Easterly (2000) show that public employment is higher in cities that have more income inequality using data for 1990 and 1991. And Volscho and Fullerton (2005) find that metropolitan statistical areas (MSAs) with greater government sector employment had lower earnings inequality in 2000. Several others have shown that this relationship exists historically or over time. Lobao (1990) establishes it in the 1970s and Sheets, Nord, and Phelps (1987) for the 1980s. Lobao and Hooks (2003) show that larger public sectors reduced inequality in U.S. counties for 1970, 1980, and 1990. Similarly, Moller et al (2009) found that between 1970 and 2000 inequality at the county level was relatively low when public employment is expansive (1091). Overall, we have a strong foundation for the two relationships required for this two-step theory: 1. between partisanship and state public sector employment and 2. between public sector employment and inequality.

***State Minimum Wages***

The state minimum wage is the second labor market policy I expect to serve as a mechanism between government partisanship and state inequality. The federal minimum wage was first set by the Fair Labor Standards Act in 1938, but several states enacted minimum wage laws even earlier. Massachusetts was the first state to enact a state minimum wage in 1912 and, although they were enforced to varying degrees, 16 states had passed minimum wage laws by 1920 (Theis 1991). More recently, as the federal minimum wage has declined in real value and devolution has increased state policymaking power, states have been more active in this policy area (Freeman and Rogers 2007). As of January 1, 2013, in addition to being subject to the federal minimum wage, 45 states have state minimum wage laws. These laws divide into several categories: five states have no state minimum wage, four have minimum wages that are lower than the federal minimum wage, 22 have state minimum wages equal to the federal minimum

wage, and 19 (plus DC) have wages set higher than the federal minimum (DOL 2013a). [32] State minimum wages in 2013 range from $5.15/hour in Georgia and Wyoming to $9.19/hour in Washington. Among the 19 states with wages above the federal minimum, the average rate is about $8.00, compared with the federal minimum of $7.25. Rates for these states range from just above the federal law of $7.25 in Colorado ($7.50) to the highest state minimum wage of $9.19/hour in Washington, nearly $2.00 above the federal minimum. States with minimum wages below the federal minimum include Wyoming ($5.15), Minnesota ($5.25 for small employers, $6.15 for larger employers), Arkansas ($6.25), and Georgia ($5.15) (DOL 2013a). In these four states, and in the five states without their own minimum wages, the federal minimum wage applies to employees under the Fair Labor Standards Act. [33]

Because the federal minimum wage law prevails when state minimum wages are lower or do not exist, in effect, the primary difference between states is whether the minimum wage is equal to or higher than that set by the federal government. However, we can use the full range of minimum wage laws in the states, even those that are unenforced because they are lower than federal standards, to study states' policy choices. It is the law on the books, whether used in practice or not, that we expect to reflect the states' political characteristics, as I will discuss below. In addition, even among the 19 states with wages above the federal minimum, there is considerable variation in their current rates, as well as over time changes to examine. We can exploit this variation over time and between states, to more fully assess how this policy relates to

[32] The 19 states with higher state minimum wages are Alaska, Arizona, California, Colorado, Connecticut, Florida, Illinois, Massachusetts, Maine, Michigan, Missouri, Montana, Nevada, New Mexico, Ohio, Oregon, Rhode Island, Vermont, Washington, and the District of Columbia. There is no state minimum wage in Alabama, Louisiana, Mississippi, South Carolina, or Tennessee. State and federal minimum wages are equivalent in Delaware, Iowa, Idaho, Indiana, Kansas, Kentucky, Maryland, Nebraska, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Dakota, Texas, Utah, Virginia, West Virginia, and Wisconsin. Wyoming, Minnesota, Arkansas, and Georgia have rates below the federal minimum (DOL 2013a).

[33] In Georgia, the lower state wage applies to any employment that is not covered by the Federal Fair Labor Standards Act (DOL 2013a).

inequality in the U.S.

The minimum wage is, "above all else," a political issue (Levin-Walderman 1998, 774) and we have clear partisan expectations for state minimum wage policies. Setting or raising a minimum wage involves government intervention in business decisions and the economy. This clearly aligns with the Democratic Party's economic approach and conflicts with the economic conservatism of the Republican Party. Moreover, the primary beneficiaries of minimum wage policies, labor, are part of the Democratic Party's coalition, while its primary opponents, businesses, are affiliated with Republicans.

At the national level, legislative actions of the two parties – and voting behavior of their members (Bloch 1980, 1993) – align with these theoretical predictions. In general, the minimum wage has expanded when Democrats controlled the White House and Congress, while Republican presidents and legislators have typically blocked increases (Bartels 2008, 245). After several increases in the 1960s and 70s, the minimum wage was not increased once during Reagan's two terms (DOL 2013b). Reagan was strongly opposed to the minimum wage, citing it as causing "more misery and unemployment than anything since the Great Depression" (Waltman 2000, 44). In the 1990s, Clinton faced Republican opposition when trying to raise the federal minimum wage. He succeeded in 1996 by offering some concessions "to soften opposition from small business and Republicans, who had battled the wage increase and argued that it would kill jobs" (Richter and Gerstenzang 1996). More recently, the Federal minimum wage was raised under a Democratic controlled Congress. The 2007 Fair Minimum Wage Act of 2007 was proposed by Democratic Representative Miller and supported by every Democratic member (with four not voting) (Library of Congress). And in the 2012 Presidential election, Obama campaigned on increasing the federal minimum wage (Obama 2012).

We also observe partisan division over the minimum wage at the state level. As anecdotal evidence, in late 2012, New Jersey Republican and Democratic state legislators were divided over increasing the state minimum wage, with Republicans opposing it on the grounds it would hurt business (Fitzgerald 2012; Farrell 2012). Similarly, earlier in 2012, a bill passed by the New York State Assembly to increase the state minimum wage stalled in the Republican-controlled Senate (Weaver 2012). More systematic state-level studies also show that party affects minimum wage policies. Waltman and Pittman (2002) examine cross-state differences in minimum wage in 1999 and find that when Democrats have greater control in the legislature, states are more likely to have minimum wages higher than the federal minimum wage.[34] Zavodny's (1996) model of state minimum wages between 1979 and 1993 shows that state minimum wages are higher than the federal minimum wage when Democrats have greater control in government. She finds positive, significant effects for Democratic governors, the percent of Democrats in the lower house, and the percent of Democrats in the upper house (63-67). Thompson (2011) finds that Democratic legislative control helps explain the passage of minimum wage laws in the states between 1997 and 2006. In particular, the likelihood of passing a bill to increase the minimum wage increases when Democrats control both chambers of the legislature and with each additional percentage of seats held by Democrats during this period (Thompson 2011, 64).

It is clear that state minimum wages, like public employment, are a partisan issue. The second step is to take into account the effect of minimum wages on inequality. Although minimum wages directly affect only a small percentage of workers, they "also have an indirect

[34] Waltman and Pittman's (2002) party variable is coded as 1 if the Republicans controlled both houses of the legislature from 1990 to 1996; coded as 2 if the Republicans controlled both houses in every term but one, coded as 3 if control was split between the parties; coded as 4 if Democrats controlled both houses in all but one term; and coded as 5 if the Democrats controlled both houses during the entire period.

ratcheting effect on the overall wage structure as wages above the minimum are changed to retain the relative ranking of occupational positions within hierarchies" (DiNardo and Lemieux 1996; Morris and Western 643), or a "ripple effect" (Card and Krueger 1995). As such, we expect higher minimum wages to reduce income differences by raising incomes at several levels of the lower part of the distribution. Several scholars argue that the erosion of the real value of the national minimum wage has contributed to rising inequality in the U.S. (Bartels 2008; DiNardo and Lemieux 1996; Levy and Temin 2007; Lee 1998; McCarty, Poole, and Rosenthal 2006) and others have called for increasing the minimum wage as a way to reduce inequality (Bernstein, McNichol, and Nicholas 2008). Similarly, cross-national studies find that higher minimum wages relate to lower inequality (OECD 1998; Rueda 2008).

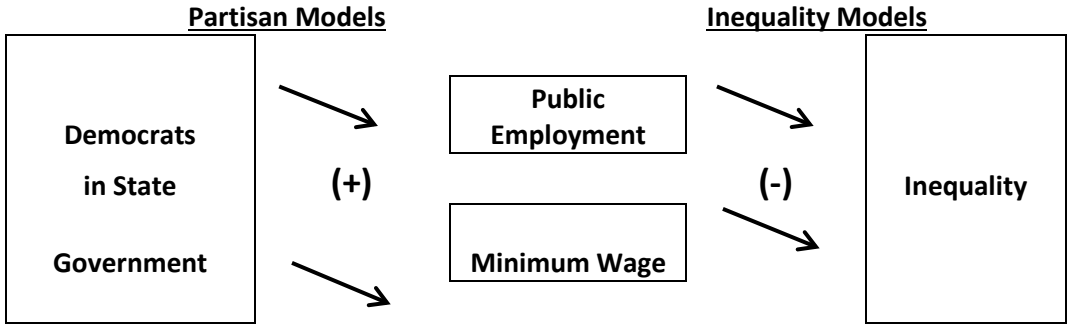
In the American state context, Kelly and Witko (2012) show that since 1994, "states with a higher effective minimum wage had smaller increases in inequality" (423). Volscho (2005) studied the relationship between state minimum wages and state Gini coefficients of family income every 10 years from 1959-1999 and found that state minimum wages reduce inequality. These findings offer a solid foundation for studying the connection between minimum wages and inequality; however, I also depart from this previous work by tracing minimum wage laws back to the party in state government. With these two components together, I have positioned state minimum wages as a mechanism that is affected by partisanship and, in turn, affects inequality.

***Policy Mechanism Hypotheses***

The theory presented in Chapter 2 argues that party composition in state government affects inequality in the states. In this chapter, I divide this theory into two parts by placing public employment and state minimum wage laws between party and inequality as examples of policy mechanisms. The two previous sections give us clear theoretical guidance for doing this.

In both cases, we have good reason to believe that the policies are 1. affected by party and 2. affect inequality. This leaves us with two sets of hypotheses to test, depicted in Figure 4.1 below. First, on the left-hand side of the figure, I hypothesize that Democratic state government will promote increases in public sector employment (H1) and higher minimum wages (H2). The second set of hypotheses, on the right side of Figure 4.1, concern the effect of the policy variables on inequality. I expect that increases in public sector employment (H3) and minimum wages (H4) will contribute to lower inequality. For my partisan theory of inequality to be supported, I need evidence in line with both sets of hypotheses.

**Figure 4.1 Hypothesized Relationships between Government Partisanship, Policies, and Inequality**




***Policy Mechanism Data and Models***

Testing these hypotheses requires multiple models, which are outlined in Table 4.1 and described below. The first set models, listed in the top half of Table 4.1, is used to test the effect of party composition on the policies of interest. The main independent variable of interest is, of course, party in government. I use several versions of this variable, listed in the second row of Table 4.1. The first measure of government partisanship I use is the percent of Democrats in the

lower house of the state legislature.[35] In addition to the percent of Democrats in the House, I also include models for whether the Democratic Party holds the majority (1=yes, 0=else) and for whether the Democratic Party controls *both* legislative houses (1=yes, 0=else). In the case of public employment, this variable is slightly different. Because public employment is a budget issue, the variable is a dummy for whether Democrats have a budgetary supermajority in states where this is required. If no supermajority is required, the variable simply denotes (majority) control of the legislature. For all models with the legislative partisanship variables, I also include a Democratic Governor variable (dummy, 1=Democrat).

As in Chapter 3, including separate variables for the legislature and Governor allows us to see their individual effects, or whether one branch is more relevant than another. In another model, I test a party variable that captures the overall control of the state government, specifically the fraction of three elected institutions of state government – the Governorship, the lower House, and the upper House – controlled by the Democratic Party. This variable is an additive scale of Democratic control of three institutions. Following coding by Klarner (2013), 1 = Democratic control of all three institutions, 0 = Republican control of all three institutions, .33 = Democratic control of one institution, Republican control of the other two, etc. As in Chapter 3, the party variables are provided by Klarner's (2013) state partisan balance dataset.

[35] I use the lower house of the legislature here because it is a less "noisy" measure than upper houses (Folke et al 2011). Lower houses are relatively large and they nearly all have two-year terms, so we can expect changes in legislators and party control around the same time across states, compared with upper houses, which are smaller and typically have staggered four-year terms (Folke 2011). To be sure, the upper house is included in additional measures. Not surprisingly, the results are similar across the different partisan measures, as we will see in the results below.

**Table 4.1 Outline of Partisan and Inequality Models**

| | Partisan Models | |
|---|---|---|
| | **Public Sector** | **Minimum Wage** |
| **Dependent Variable** | public employment, percent of total employment | statutory minimum wage |
| **Main Independent Variable(s)** | Percent Democratic legislators (lower house)<br>Majority Democrat legislature (lower house)<br>Democratic legislative control (budget supermajority)<br>Democratic Governor<br>Number of Democratically-controlled branches | |
| **Control Variables** | Government debt/GSP<br>Unemployment rate<br>Growth of real GSP<br>Union membership | Unemployment rate<br>Percent manufacturing employment<br>Per capita income<br>Union membership |
| | **Inequality Models** | |
| **Dependent Variable** | Top Decile's Income Share<br>Gini coefficient | |
| **Main Independent Variable(s)** | public employment, percent of total employment | statutory minimum wage |
| **Control Variables** | Reduced Model:<br>percent African-American, percent Hispanic, percent age 65+, real per capita personal income, percent w college degree<br><br>Expanded Model:<br>Above controls plus percent manufacturing employment, percent finance employment, percent union members, per capita dividends income | |

To assess the relationship between partisanship and the size of the public sector, I use state public sector employment as a percent of total employment as the dependent variable. This is the same dependent variable used by Rueda (2008) in his cross-national study. There are other ways to measure the size of state public sectors, such as with spending (e.g. Alt and Lowry 1994) or government revenues (Lee 2005). However, state public employment is a direct way state government can influence the labor market (Rueda 2008), by setting wages and conditions. Again, these actions are consistent with the "market-conditioning" role of state governments and with the dependent variable, market inequality. As well, public employment accounts for a significant portion of state budgets and state total employment. For these reasons, I focus on

employment rather than spending measures. State public employment data are available from Bureau of Economic Analysis (BEA) regional database.

I also include several control variables, which are listed in the third row of Table 4.1. To account for constraints on the state's ability to fund public employment, I include state government debt, as a percent of state GDP. States faced with high levels of debt may cut public sector jobs. State debt and GDP data are available from the Census of Governments State and Local Finance series accessed through the Tax Policy Center's State and Local Finance Data Query System. I control for union density (percent of union members) using data from Hirsh, Macpherson, and Vroman's Union Stats database. To control for the level of need in the state, I include the unemployment rate, available from the Bureau of Labor Statistics Local Area Unemployment Statistics database. Finally, to be consistent with other models of economic policy, I control for state economic growth with the annual percent change in real Gross State Product, which is compiled from the Bureau of Economic Analysis regional database.

In the minimum wage model, described in the top right-hand column of Table 4.1, the government partisanship variables are again the main independent variables of interest, but the dependent variable is, of course, minimum wage. Previous models of state minimum wages have operationalized this variable in several ways. Waltman and Pittman (2002) and Zavodny (1996) categorize states by whether the state minimum wage is higher or lower than the federal minimum wage. Thomson (2011) examines minimum wage bill passage, with bills coded as "1" when they pass and "0" otherwise. Rather than rely on binary or categorical classifications, I opt to use the statutory minimum wage rate as the dependent variable. Although federal minimum wage prevails when state minimum wages are lower, I rely on the *legislated state* wage because it captures the policy that is actually set by the party in power. This statutory rate is most relevant

for studying how state policies relate to state characteristics, in this case partisanship. It is here we expect the effects of state partisanship to be observable. In the subsequent inequality models, I continue to rely on the statutory wage. In these cases, these state policies serve mainly as proxies or signals of states' policy dispositions, at least for those states with no state minimum wage or wages lower than the federal law. For such states, although the statutory rates are different from the effective rate in the state, the legislated state wage represents state governments' choices, specifically their willingness to intervene in the economy to adjust incomes. This variable choice also follows similar work by Kelly and Witko (2012), who also model the relationship between statutory minimum wages and state inequality. Also following Kelly and Witko (2012), the minimum wage is coded as "0" if states do not have their own minimum wage.

Like the public employment model, the minimum wage model includes a control for state union rates, which have been found to predict state minimum wages (e.g. Thomson 2011) as well as legislative voting behavior on minimum wage bills (Bloch 1980, 1993; Levin-Waldman 1998). I also control for unemployment in this model because a common criticism of minimum wages is that they will increase unemployment. As such, states may be reluctant to set or increase minimum wages when unemployment is relatively high. To account for cost of living differences in the states and over time, I include (nominal) state per capita personal income (BEA). Finally, others have found a relationship between state minimum wage and the manufacturing industry (Thomson 2011, Zavodny 1996). I control for the percent of manufacturing employment of total employment in the state (BEA).

As in Chapter 3, I am interested in over time changes in the states, so the data are treated as panels for each state. I model the effects of party on public employment and on minimum

wage with error correction models with fixed effects to account for omitted state-specific factors.[36] As discussed in the previous chapter, error correction models can be useful for several reasons. First, the dependent variables in these models capture *change* and my primary interest is in how changes in partisanship affect changes in public employment and minimum wage rates (and later, how such change relates to over time changes in inequality). A related advantage is that, although they can be used with stationary data as well (De Boef and Keele 2008), ECMs are appropriate for non-stationary data. Diagnostic tests suggest that both the public employment and minimum wage dependent variables are non-stationary.[37] Thirdly, ECMs allow us to include and differentiate between short and long term effects of our independent variable(s) of interest – here, party composition – on the dependent variable(s). Given the often slow-nature of the policy process, we might expect some delay between a change in party composition and actual passage of policies. Short-term effects are captured with the differenced independent variables (change in each variable), while the long term effect is captured with each lagged independent variable. We also account for time dependence with a lagged dependent variable. In the final models used below, long term coefficients (lagged independent variables) that were not significant in full models have been dropped. Because of data limitations, both of the models begin in 1976 rather than 1970 as in the previous chapter.

We also need models to test the relationships between policies and inequality (H3 and H4). The variables used for the inequality models are listed in the lower half of Table 4.1. Notice that in these models, the main independent variables of interest are the dependent variables from

[36] A significant p-value (.000) indicates we should reject the null hypothesis from the Hausman test that the coefficients estimated by the efficient random effects estimator are the same as the ones estimated by the consistent fixed effects estimator.

[37] The results of the Im, Pesaran, and Shin (2003) test for both dependent variables – public employment and minimum wage - suggest that we cannot reject null of unit roots in the panels (p-values = .999), which indicates that the data are non-stationary.

the previous models: public employment (as a percent of total employment) and statutory minimum wage. The dependent variable is market inequality, measured with the same variables used in chapter three (Frank 2008), although I consider fewer measures here because of the number of models required and the nature of the policies examined. I include the Gini coefficient because it is better suited than top income shares to address changes throughout the income distribution, especially where lower income levels are concerned. This is the case especially for state minimum wage policies. I also include the top decile's income share because it captures the gains at the top which characterize U.S. inequality, and, according to Frank (2008), the top decile's share is the preferred inequality measure in his dataset.[38] Many of the previous control variables from Chapter 3 are utilized in these models as well. In a reduced model, I include mainly the demographic variables: percent of population that is African-American, percent of the population that is Hispanic, percent of the population over age 65, percent of the population with college degrees, and real per capita personal income in 2005 dollars. In expanded models, I add variables for employment in manufacturing and finance, union membership, and per capita dividends income. Along with the previously discussed advantages, diagnostic tests again suggest that error correction models with fixed effects are appropriate for these models. This is also consistent with the inequality models in Chapter 3. As before, I drop the long term versions of the variables if their coefficients were not significant in full models throughout the chapter (de Boef and Keele 2008).

***Results: Partisanship and Public Employment***

Beginning with the models of state public employment in Table 4.2, notice that the

[38] Results for the top 1% are included in Appendix I and are similar to those for top 10%. Increases in public sector jobs are negatively and significantly related to the top 1% share. Increases in state minimum wages are negatively and significantly related to the top 1% share, but also have a positive, significant *contemporaneous* relationship with the top share. This is consistent with the results for the top 10% and not surprising; we expect changes in the minimum wage to affect inequality from the bottom of the distribution – better captured by the Gini – than the top.

several versions of Democratic state government variables across the top of the table have significant, positive coefficients.[39] These results are consistent with my hypothesis that public sectors increase under Democrats. In version 1 of the model, reported in the first column, an increase in the percent of Democrats in the lower house of the state legislature significantly relates to an increase in public employment. Taking into account the long term multiplier, a one unit increase in Democratic legislators relates to about a 1.4 percentage point increase in public sector employment (.18/.128) on an observed scale of 8% to 17% of employment. Because a full one unit shift in this variable is not typically observed in the data, the magnitude of the relationship may be better characterized by a one standard deviation shift, which averages .11 across states. Such a shift in the Democratic legislators variable corresponds with an increase in public sector employment by .15.

[39] See Appendix E for results of party and inequality models for both policies excluding the South. These results are consistent with those reported in this chapter, indicating that these relationships are not driven by regional patterns or differences in partisanship in the South during this period.

**Table 4.2 Relationship Between Government Partisanship and Changes in State Public Employment, 1976-2005**

| | (1) Prc. Democrat | | (2) Democratic House | | (3) Democratic Legis. | | (4) Democratic Govt. | |
|---|---|---|---|---|---|---|---|---|
| Public Sector Jobs $_{t-1}$ | -0.128* | (0.010) | -0.132* | (0.010) | -0.131* | (0.010) | -0.133* | (0.010) |
| Δ Lower House Democrats | 0.121 | (0.116) | | | | | | |
| Lower House Democrats $_{t-1}$ | 0.180* | (0.064) | | | | | | |
| Δ Democratic Governor | 0.028 | (0.016) | 0.029 | (0.016) | 0.029 | (0.016) | | |
| Democratic Governor $_{t-1}$ | -0.002 | (0.011) | -0.001 | (0.011) | 0.003 | (0.011) | | |
| Δ Democratic Control Lower House | | | 0.056* | (0.023) | | | | |
| Democratic Control Lower House $_{t-1}$ | | | 0.077* | (0.017) | | | | |
| Δ Democratic Legislative Control (budget supermajority) | | | | | 0.048* | (0.022) | | |
| Democratic Legislative Control $_{t-1}$ (budget supermajority) | | | | | 0.045* | (0.017) | | |
| Δ Democratic Government Control | | | | | | | 0.104** | (0.032) |
| Democratic Government Control $_{t-1}$ | | | | | | | 0.080* | (0.021) |
| Δ Gov. Debt/GSP (x1000) | 0.001 | (0.006) | 0.001 | (0.006) | 0.001 | (0.006) | 0.001 | (0.006) |
| Gov. Debt/GSP (x1000) $_{t-1}$ | -0.001 | (0.003) | -0.002 | (0.003) | 0.001 | (0.003) | -0.001 | (0.003) |
| Δ Real GSP Growth | -0.015* | (0.002) | -0.015* | (0.002) | -0.015* | (0.002) | -0.015* | (0.002) |
| Real GSP Growth $_{t-1}$ | -0.019* | (0.002) | -0.019* | (0.002) | -0.019* | (0.002) | -0.019* | (0.002) |
| Δ Unemployment | 0.081* | (0.007) | 0.081* | (0.007) | 0.080* | (0.006) | 0.080* | (0.007) |
| Unemployment $_{t-1}$ | 0.001 | (0.004) | 0.001 | (0.004) | 0.002 | (0.003) | 0.001 | (0.004) |
| Δ Union | 0.005 | (0.003) | 0.006 | (0.003) | 0.006 | (0.003) | 0.006 | (0.003) |
| Union $_{t-1}$ | -0.004 | (0.002) | -0.003 | (0.002) | -0.003 | (0.002) | -0.003 | (0.002) |
| Constant | 1.476* | (0.118) | 1.567* | (0.113) | 1.576* | (0.113) | 1.565* | (0.112) |
| N | 1,400 | | 1,400 | | 1,400 | | 1,421 | |
| R-squared | 0.39 | | 0.40 | | 0.39 | | 0.39 | |
| States | 49 | | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

In version 2 of the model, I switch the proportion of Democratic legislators variable with a dummy variable for whether the Democratic Party is the majority or minority party in the lower house (1=majority, 0=else). A switch to a Democratic house (from a 0 to 1) is associated with an increase in public sector employment in the short term by .06 and by a total of .58 with the long run multiplier (.077/.132). The long term effect of Democratic House control, as well as the other independent variables, will occur over time at the rate given by the error correction rate – the coefficient for the lagged dependent variable - which in this case is about .13. This means that

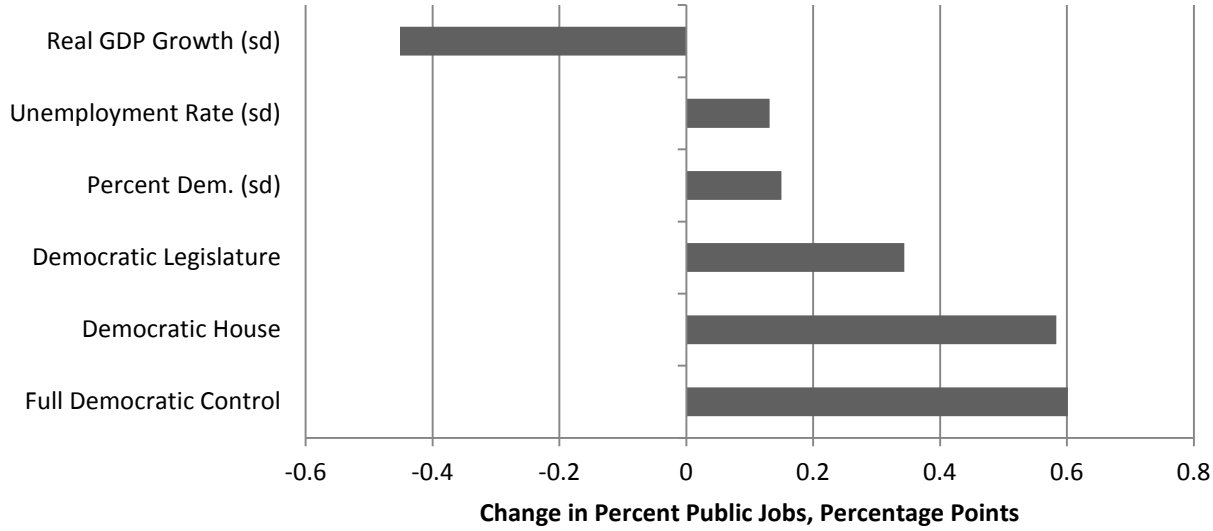
13% of the full effect will occur in the first year, and each year after that, 13% of the remaining full effect will be realized. Error correction rates close to zero denote slower change, so this effect will take several years.

Because public employment is a budget issue for state governments, I consider an additional variable specification for the partisan composition of the legislature in column 3, a dummy variable for whether the Democrats have enough legislators in both chambers to overcome a supermajority requirement for a budget. If no supermajority requirement exists, the variable denotes the majority control (0=else) (Klarner 2013). The results from this third version of the model also support my hypothesis that public sector employment expands under Democratic control. There is an immediate increase in public employment of about .05 percentage points when Democrats have a budget majority or supermajority and a total effect of .34 with the long run multiplier (.045/.131). Surprisingly, this total effect is smaller than the effect of majority control of just the lower house on public jobs.

Finally, in the fourth and final version of the model, I find that increases in overall Democratic control of state governments – measured by the fraction of the Governorship, lower house, and upper house controlled by the Democratic Party – significantly relate to changes in public employment. A full one unit change in this variable – from Democratic control of no branches to Democratic control of all three – coincides with public employment as a percent of total employment increasing by .1 in the short term. This effect seems small, but it is equivalent to a change in thousands of jobs. For example, in 2005, public employment accounted for 729,334 jobs of a total 6,761,906 in Ohio, or about 10.79%. If instead public employment was 10.89% of total employment - the expected increase of .1 – this would mean there were about 7,037 additional public sector jobs in the state. Furthermore, we can incorporate the long run

multiplier for the total effect. Dividing the significant long term coefficient of -.08 by the error correction rate of .133, we expect a total increase in public jobs by .60 for a one unit increase in Democratic control. Figure 4.2 below displays the magnitude of the effects of the percent of Democratic legislators and Democratic control of the lower house, the full legislature (super-majority budget control), and all three elected chambers on public sector jobs, along with select control variables from model version 1 for comparison. For continuous variables, the magnitudes correspond with a one standard deviation shift (sd), while those for dummy variables denote a 0 to 1 change.

**Figure 4.2 Magnitudes of Effects of Government Partisanship on Percent of Public Sector Jobs**




Towards the bottom of Table 4.2, I also find some significant results for the control variables in each of the public employment models. Real state GDP growth is negatively related to public employment, while the unemployment rate is positively related. A one unit increase in state GDP relates to a decline in public employment by about .015 contemporaneously and by .15 (-.019/.128) with the long run multiplier (version 1). A one percentage point increase in the unemployment rate is associated with an increase in public employment by about .08, across

model specifications. These results, also depicted at the top of Figure 4.2 above, suggest that the public sector is expanded in response to an increase in unemployment and a weaker economy. They are also consistent with Alesina's categorization of public employment as a form of "redistribution," which provides another way for governments to transfer income to disadvantaged groups during difficult economic times, as well as with the idea that states respond to levels of need in their populations (Lieberman and Shaw 2000). Surprisingly, union membership did not have significant effects on public employment at the .05 level or lower in any of the models, although some positive short-term coefficients may be indicative of high rates of unionization among public sector workers compared with those in the private sector. State government debt did not have a significant coefficient in any of the models.[40]

***Results: Public Employment and Inequality***

Support for my theory of government partisanship and inequality depends on two sets of hypotheses in this chapter: I predict that inequality-relevant policies will be affected by government partisanship AND I predict that these policies will affect income inequality. For the first policy examined, each of the party models supports the first hypothesis; Increases in Democratic control relate to significant increases in public sector jobs. The next question is, of course, does public employment have a significant relationship with state inequality as predicted by the second hypothesis? The results in Table 4.3 suggest that it does.

In column 1, I begin with a reduced model of the relationship between public employment and changes in top decile shares, which includes just demographic controls. Notice that state public employment is significantly and negatively associated with changes in inequality. There is a significant contemporaneous effect such that a one unit increase in public

[40] The results in Table 4.2 are robust using panel corrected standard errors.

employment relates to a .61 decrease in top decile's income share, which has an observed range of 25 to 54 on a scale of 100. This is a substantively large effect in comparison to the average change of .30 for this variable. Although the average change in public employment from one year to the next is small, the data indicate that it is reasonable to expect a one unit increase or decrease in public employment over a few years. In addition, the significant, long term coefficient of .133, divided by the error correction rate of .226, tells us that there is a total effect of -.57 from a one unit increase in public employment. The error correction rate, or coefficient for the lagged dependent variables (.226), also indicates how quickly this effect will occur. It will begin with a decrease of .13 in the first following year, and about a quarter of the remaining effect will be realized in each successive year. When I add additional control variables from chapter three – reported in column 2 of Table 4.3 - we still see a significant negative contemporaneous relationship between public employment and changes in the top decile's share, however, the long-term relationship does not hold. Thus, there remains some evidence that increases in public employment significantly relate to changes in inequality, but the sensitivity of the results suggests we should be somewhat cautious in this conclusion.

**Table 4.3 Relationship between Public Employment and Changes in State-Level Inequality, 1976-2005**

| | (1) | | (2) | | (3) | | (4) | |
|---|---|---|---|---|---|---|---|---|
| Dependent Variable | Top Decile | | Top Decile | | Gini | | Gini | |
| Top Decile Share $_{t-1}$ | -0.226* | (0.017) | -0.279* | (0.018) | | | | |
| Gini $_{t-1}$ | | | | | -0.212* | (0.017) | -0.280* | (0.019) |
| Δ Public Sector Jobs | -0.605* | (0.140) | -0.485* | (0.139) | -0.048 | (0.193) | 0.209 | (0.190) |
| Public Sector Jobs $_{t-1}$ | -0.133* | (0.053) | -0.001 | (0.055) | -0.158* | (0.073) | -0.005 | (0.077) |
| Δ African-American | -2.118* | (0.306) | -1.935* | (0.295) | -1.272* | (0.420) | -1.111* | (0.406) |
| African-American $_{t-1}$ | -0.045 | (0.053) | | | -0.134 | (0.073) | -0.184* | (0.071) |
| Δ Latino | -0.320 | (0.327) | 0.026 | (0.314) | -0.533 | (0.450) | 0.128 | (0.437) |
| Latino $_{t-1}$ | 0.154* | (0.022) | 0.164* | (0.021) | 0.079* | (0.028) | 0.082* | (0.027) |
| Δ Over Age 65 | 1.378* | (0.273) | 0.923* | (0.273) | 1.657* | (0.378) | 1.239* | (0.372) |
| Over Age 65 $_{t-1}$ | 0.367* | (0.043) | 0.166* | (0.050) | 0.356* | (0.060) | 0.126 | (0.068) |
| Δ Union | | | -0.046* | (0.019) | | | -0.057* | (0.025) |
| Union $_{t-1}$ | | | -0.079* | (0.014) | | | -0.076* | (0.020) |
| Δ Per Capita Income ($1000s) | 0.383* | (0.047) | 0.262* | (0.048) | 0.107 | (0.063) | -0.134* | (0.066) |
| Per Capita Income ($1000s) $_{t-1}$ | 0.112* | (0.021) | 0.108* | (0.020) | 0.094* | (0.026) | 0.0415 | (0.028) |
| Δ College Grads | 0.007 | (0.020) | -0.006 | (0.019) | 0.154* | (0.028) | 0.140* | (0.027) |
| College Grads $_{t-1}$ | 0.054* | (0.017) | | | 0.064* | (0.024) | 0.021 | (0.024) |
| Δ Manufacturing | | | 0.031 | (0.059) | | | 0.216* | (0.080) |
| Manufacturing $_{t-1}$ | | | -0.037* | (0.014) | | | -0.094* | (0.020) |
| Δ Finance | | | -0.851* | (0.176) | | | -0.903* | (0.242) |
| Δ Dividends Income ($1000s) | | | 0.759* | (0.126) | | | 1.285* | (0.172) |
| Dividends Income ($1000s) $_{t-1}$ | | | 0.229* | (0.063) | | | 0.366* | (0.088) |
| Constant | 1.110 | (0.931) | 5.325* | (1.139) | 6.297* | (1.297) | 14.65* | (1.828) |
| N | 1,500 | | 1,500 | | 1,500 | | 1,500 | |
| R-squared | 0.25 | | 0.30 | | 0.13 | | 0.21 | |
| States | 50 | | 50 | | 50 | | 50 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

Moving to columns 3 and 4 of Table 4.3, we see that public employment also has a significant relationship with changes in the Gini coefficient. We expect a one percentage point increase in public sector jobs to coincide with a decrease in state Gini coefficients by about .60 (column 3). It will take several years for this full long-term effect to be realized, but with an error correction rate of about .21, more than one fifth of it will occur in the first year. Unlike for the top decile's share, however, neither the short nor the long term coefficient is significant in the

expanded Gini model with the additional control variables, reported in column 4.[41] Once again, this sensitivity of results suggest we exercise some caution our conclusions about the relationship between public employment and inequality.

In the lower half of Table 4.3, we observe similar results for these control variables as in chapter three. Increases in the elderly population, per capita personal income, the Latino population, and per capita dividends income are positively and significantly related to inequality, while increases in union membership have a significant negative relationship with changes in the top decile share and Gini. We observe an expected negative and significant relationship between manufacturing employment and inequality in the long term (versions 2 and 4), but like some of the models in Chapter 3, there is a conflicting *positive* contemporaneous relationship between increases in manufacturing and the Gini coefficient (version 4).

***Results: Party and Minimum Wage***

The results from the public employment models provide some support for both of my hypotheses. Across specifications, shifts to Democratic government significantly relate to an increase in public employment (H1, Table 4.2), and increases in public employment are associated with decreases in the top decile's share and Gini coefficient (H2) in three of the four inequality models (Table 4.3). Together, these results are consistent with the overall theory that partisan composition influences income inequality through differences in policy. I now turn to the second policy: state minimum wage, beginning with the results for the effect of party control on minimum wage, which are listed in Table 4.4.[42]

[41] Some of the results presented in Table 4.3 are sensitive to whether traditional or panel corrected standard errors are utilized. Appendix H includes the results with panel corrected standard errors. In those results, the percentage of public sector jobs is not significantly related to changes in the Gini coefficient or to changes in the top decile's share in the expanded model. The relationship between public employment and the top decile's share remains significant and negative with either traditional or panel corrected standard errors.

[42] Results are robust using panel corrected standard errors.

**Table 4.4 Relationship between Government Partisanship and Changes in State Minimum Wages, 1976-2005**

| | (1) Prc. Democrat | | (2) Democratic House | | (3) Democratic Legis. | | (4) Democratic Govt. | |
|---|---|---|---|---|---|---|---|---|
| State Minimum Wage $_{t-1}$ | -0.107* | (0.014) | -0.103* | (0.014) | -0.104* | (0.014) | -0.105* | (0.013) |
| Δ Lower House Democrats | 0.024 | (0.207) | | | | | | |
| Lower House Democrats $_{t-1}$ | 0.304* | (0.128) | | | | | | |
| Δ Democratic Governor | -0.015 | (0.030) | -0.014 | (0.030) | -0.014 | (0.030) | | |
| Democratic Governor $_{t-1}$ | 0.022 | (0.021) | 0.024 | (0.021) | 0.026 | (0.021) | | |
| Δ Democratic Control Lower House | | | 0.041 | (0.042) | | | | |
| Democratic Control Lower House $_{t-1}$ | | | 0.068* | (0.033) | | | | |
| Δ Democratic Legislative Control | | | | | 0.049 | (0.056) | | |
| Democratic Legislative Control $_{t-1}$ | | | | | 0.095* | (0.040) | | |
| Δ Democratic Government Control | | | | | | | 0.039 | (0.059) |
| Democratic Government Control $_{t-1}$ | | | | | | | 0.115* | (0.044) |
| Δ PC Income (nominal $1000s) | 0.005 | (0.022) | 0.003 | (0.022) | 0.0034 | (0.022) | 0.004 | (0.022) |
| PC Income (nominal 1000s) $_{t-1}$ | 0.016* | (0.004) | 0.015* | (0.004) | 0.015* | (0.004) | 0.015* | (0.004) |
| Δ Unemployment | 0.031* | (0.012) | 0.031* | (0.012) | 0.031* | (0.012) | 0.032* | (0.012) |
| Unemployment $_{t-1}$ | -0.013 | (0.007) | -0.014* | (0.007) | -0.014* | (0.007) | -0.014* | (0.007) |
| Δ Union | 0.002 | (0.006) | 0.002 | (0.006) | 0.002 | (0.006) | 0.001 | (0.006) |
| Union $_{t-1}$ | -0.007 | (0.005) | -0.007 | (0.005) | -0.008 | (0.005) | -0.008 | (0.005) |
| Δ Manufacturing | 0.057* | (0.021) | 0.060* | (0.021) | 0.061* | (0.021) | 0.061* | (0.020) |
| Manufacturing $_{t-1}$ | 0.009 | (0.005) | 0.010* | (0.005) | 0.010* | (0.005) | 0.0010* | (0.005) |
| Constant | 0.001 | (0.187) | 0.129 | (0.172) | 0.112 | (0.172) | 0.146 | (0.171) |
| N | 1,399 | | 1,399 | | 1,399 | | 1,421 | |
| R-squared | 0.07 | | 0.07 | | 0.07 | | 0.07 | |
| States | 49 | | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

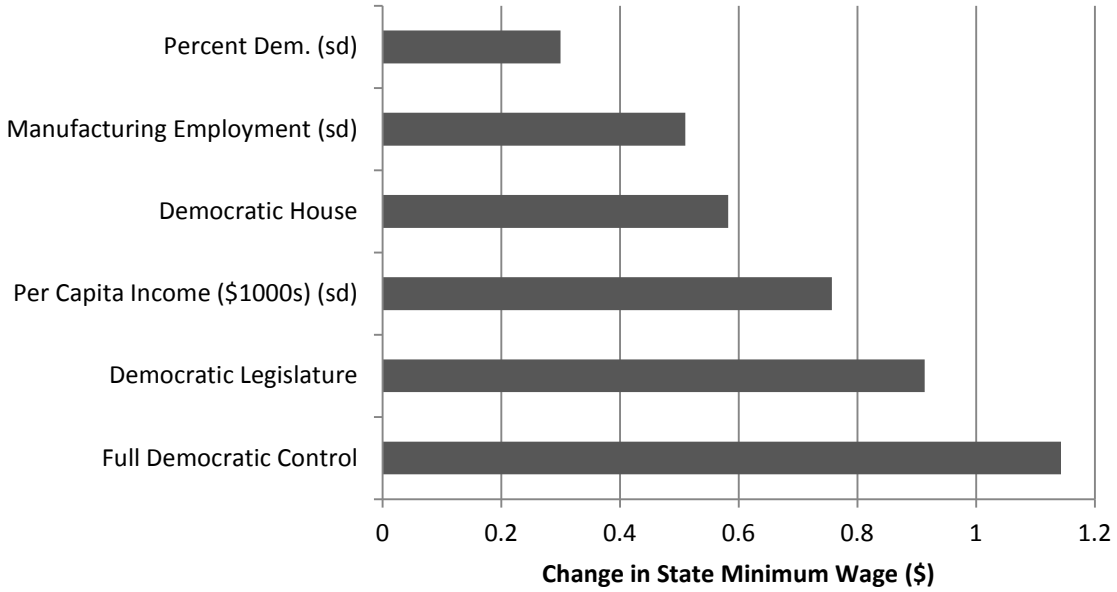
As expected, Democratic influence or control in state government significantly relates to increases in the statutory minimum wage across several versions of the model, reported in the top half of Table 4.4. First, in model version 1, the percent of Democratic legislators in the lower House is a significant predictor of changes in the state minimum wage. A one unit increase in Democratic legislators in the lower house increases the minimum wage by $2.80 in the long term (.304/.107). This is a very large effect considering the range of the state minimum wage through the whole series is from 0 to $7.63. Put another way, these same results suggest a total increase in the minimum wage by 30 cents for an average standard deviation increase in the percent of

Democratic legislators.

Because a party's ability to pass legislation typically depends on whether or not it has majority status, I consider an alternative specification in model version 2: a dummy variable for whether the Democratic Party controls the lower house (0=else). The results of this specification are reported in column 2. When Democrats gain majority status, we expect a total increase in the statutory minimum wage by about 66 cents, with the long run multiplier (.068/.103). The effect is larger when Democrats gain control both houses of the legislature. In this case – version 3 of the model – we expect the statutory minimum wage to increase by about 90 cents, again with the long run multiplier (.095/.104). In all three models, the partisanship of the Governor has no independent effect.

The final version of the model – column 4 – includes a variable for overall Democratic control of the government, or how many of three elected branches – Governorship, lower house, and upper house – are held by the Democratic Party. For each additional branch captured by the Democratic Party, we expect a significant increase in the minimum wage. For a full unit increase in this variable - from no Democratic control and full Democratic control, we expect an increase in the minimum wage by about $1.10 (.115/.105). Although Democratic Governor did not have a significant independent effect in the previous models, it seems that this variable may matter here in combination with the legislative houses. The magnitude of the relationships between changes in the partisanship variables and changes in state minimum wages are compared in Figure 4.3 below. For continuous variables, the plotted change in the minimum wage relates to a one standard deviation shift in the independent variable (sd). Dummy variables correspond to a shift from 0 to 1.

**Figure 4.3 Magnitudes of Effects of Government Partisanship on State Minimum Wages**




Among the control variables, reported at the bottom of Table 4.4, we see that an increase in (nominal) per capita income relates to an increase in the minimum wage. This variable is intended to capture changes in the cost of living in and between states and the positive result makes sense in this context. High income states may adopt higher minimum wages – perhaps higher than federal mandates – to account for relatively higher costs of living. Similarly, as income increases due to inflation, we expect states to increase the minimum wage rate. My results suggest a total increase of about 15 cents for each $1,000 increase in per capita income (.016/.107), as calculated from version 1 of the model and including the long run multiplier. The percent of manufacturing employment is positively related to the minimum wage as well. There is a short-term effect equivalent to a 6 cent increase in the state minimum wage for each percentage point increase in manufacturing employment. In three of the four model specifications, there is a long-term effect of about 10 cents, again with the long run multiplier (.01/.103). Surprisingly, union rates did not have a significant relationship with state minimum

wages in these models. The unemployment rate had a positive short term and negative long term effect on the minimum wage. The latter negative relationship makes sense if we consider that one argument used against minimum wage laws is that it will increase unemployment. A relatively high level of unemployment, then, may make policymakers less likely to adopt or increase the minimum wage.

***Results: State Minimum Wages and Inequality***

Overall, as expected, changes in state minimum wages are positively related to increasing influence of Democrats in state government. Next, I discuss the results for the relationship between state minimum wages and inequality, which are reported in Table 4.5. The relationship between shifts in state minimum wages and changes in the top decile's share, reported in a reduced model in column 1 and the expanded model in column 2, is somewhat muddled. There is indeed an expected negative, significant long-term coefficient in both cases, such that a $1 increase in the minimum wage relates to a reduction of the top decile's share by .26 (-.07/.27, in model version 2) or .33 (-.08/.24 in model version 1), including the long run multiplier. However, note that there is also a contemporaneous positive relationship between the state minimum wage and top decile share in the expanded model (column 2). These opposite findings may stem from the limits of explaining top share income inequality with a policy that targets the lower end of the distribution. Even with the ratcheting effects of the minimum wage, we would expect it to be most relevant in the lower part of the distribution, rather than for top shares. As such, the effects of this policy may be better captured by a broader measure of inequality like the Gini coefficient, which I will discuss next.

In columns three and four of Table 4.5, I use changes in the Gini coefficient for the dependent variable instead of the top decile's share. Here, we see only the expected negative,

significant, long-term coefficient. The coefficient indicates that we would expect the Gini to decrease by nearly one unit (-.209/.22) on a 100 point scale with an observed range of 40 to 72 for each one dollar increase in the statutory minimum wage, according to the results of the reduced model (column 3), or by about .73 (-.198/.271) in the expanded model with the full set of controls (column 4). The magnitudes of these relationships are substantial compared with the average annual change (.34) in the Gini. And in both cases, these full effects are realized relatively quickly; the error correction rates of .22 and .27 indicate that about a quarter of the effect occurs in the next year and will continue at that rate in subsequent years.[43] In sum, both the party and inequality hypotheses (H3 and H4) received some support in the minimum wage models. Combined with the results for the public employment models, we have support for all four hypotheses and my theory that the party composition of state government influences trends in state-level inequality through policy changes.

[43] The results for both the reduced and expanded Gini models are the same when using panel corrected standard errors, rather than traditional standard errors. However, the relationship between the minimum wage and the top decile is no longer significant when using panel corrected standard errors. These alternative results are reported in Appendix H. These findings further suggest that while we can be confident that there is a significant (negative) relationship between changes in the state minimum wage and inequality in terms of the Gini – which captures inequality throughout the income distribution - minimum wages, not surprisingly, are limited in their ability to affect top income shares.

**Table 4.5 Relationship between State Minimum Wages and Changes in State-Level Inequality, 1976-2005**

| | (1) Top Decile | | (2) Top Decile | | (3) Gini | | (4) Gini | |
|---|---|---|---|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.240* | (0.017) | -0.272* | (0.017) | | | | |
| Gini $_{t-1}$ | | | | | -0.220* | (0.017) | -0.271* | (0.018) |
| Δ State Minimum Wage | 0.147 | (0.079) | 0.190* | (0.077) | -0.001 | (0.107) | 0.0521 | (0.104) |
| State Minimum Wage $_{t-1}$ | -0.082* | (0.037) | -0.074* | (0.037) | -0.209* | (0.051) | -0.198* | (0.049) |
| Δ African-American | -2.239* | (0.307) | -2.031* | (0.297) | -1.318* | (0.417) | -1.107* | (0.404) |
| African-American $_{t-1}$ | -0.016 | (0.053) | | | -0.116 | (0.072) | -0.172* | (0.070) |
| Δ Latino | -0.340 | (0.327) | 0.0189 | (0.322) | -0.417 | (0.447) | 0.214 | (0.436) |
| Latino $_{t-1}$ | 0.168* | (0.022) | 0.170* | (0.021) | 0.096* | (0.028) | 0.095* | (0.027) |
| Δ Over Age 65 | 1.242* | (0.270) | 1.011* | (0.268) | 1.490* | (0.371) | 1.252* | (0.362) |
| Over Age 65 $_{t-1}$ | 0.397* | (0.043) | 0.282* | (0.048) | 0.399* | (0.060) | 0.229* | (0.064) |
| Δ Per Capita Income ($1000s) | 0.480* | (0.042) | 0.345* | (0.046) | 0.124* | (0.057) | -0.131* | (0.061) |
| Per Capita Income ($1000s) $_{t-1}$ | 0.121* | (0.021) | 0.102* | (0.022) | 0.121* | (0.025) | 0.061* | (0.028) |
| Δ College Grads | 0.007 | (0.020) | 0.002 | (0.020) | 0.156* | (0.027) | 0.152* | (0.027) |
| College Grads $_{t-1}$ | 0.064* | (0.017) | 0.0401* | (0.018) | 0.084* | (0.025) | 0.0637* | (0.024) |
| Δ Manufacturing | | | 0.0504 | (0.059) | | | 0.188* | (0.079) |
| Manufacturing $_{t-1}$ | | | -0.048* | (0.015) | | | -0.094* | (0.020) |
| Δ Finance | | | -0.876* | (0.178) | | | -0.963* | (0.243) |
| Δ Dividends Income ($1000s) | | | 0.744* | (0.125) | | | 1.246* | (0.169) |
| Dividends Income ($1000s) $_{t-1}$ | | | 0.249* | (0.058) | | | 0.439* | (0.080) |
| Constant | -0.908 | (0.582) | 2.006* | (0.819) | 3.549* | (0.855) | 10.31* | (1.382) |
| N | 1,500 | | 1,500 | | 1,500 | | 1,500 | |
| R-squared | 0.24 | | 0.28 | | 0.14 | | 0.21 | |
| States | 50 | | 50 | | 50 | | 50 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

### *Right-to-Work Laws as a Policy Mechanism*

Up to this point, I have treated government partisanship and unions separately. Indeed, we saw in Chapter 3 that each of these variables have independent effects on several measures of inequality. However, there is also reason to believe that partisanship and union density are related. In addition to setting levels and conditions of public employment and legislating minimum wages, state governments can also impact unions through legislation. And, like these

other policies, we expect government partisanship to play a role in state union laws.

To a certain degree, we expect a reciprocal relationship between the partisanship of government and union strength in states. That is, because unions are a part of the Democratic Party's coalition (Levi 2003), we might expect stronger unions to produce more Democratic state government. At the same time, Democrats are more supportive of collective bargaining rights, so Democratic state governments will likely make policy decisions which contribute to stronger unions (and Republican governments will hinder them). This latter relationship is my interest here. Although there is clear empirical evidence that unions contribute to lower inequality in the states (and at other levels too), we have not yet incorporated the effect of state partisanship and policies on union strength, despite convincing national-level arguments that declining unions are a product of *policy decisions or policy erosion* (e.g. Hacker and Pierson 2010; Levy and Temin 2007). Putting these components together, we can set up a state-level scenario in which 1. Democratic governments pass legislation which contributes to stronger unions, or Republican governments pass legislation which weakens unions; and 2. Subsequent changes in union strength impact changes in state inequality. In other words, like public employment and minimum wage laws above, union policies function as a mechanism between the parties in government and inequality in the states.

State right-to-work laws provide a good illustration of this union law mechanism. Right-to-work laws originate with the Taft-Hartley Act (1947), which was passed by a Republican-controlled Congress and amended the 1935 National Labor-Management Relations Act. Among other provisions, Taft-Hartley made "closed shops" – where hiring is restricted to union members and maintaining union membership is compulsory for employees – illegal. Following its passage, many states adopted right-to-work laws, which give employees in unionized

businesses the ability to opt out of union membership and dues. In states without such laws, "union shops" – which require union membership for employment but where union membership is not required for initial hiring decisions - are permitted (Jacobs and Dixon 2006). Opponents of right-to-work laws argue that by allowing workers to opt out, they create free riders who benefit from union bargaining – unions are required to bargain and process grievances for all workers covered by a contract, not just union members (Jacobs and Dixon 2006) - without contributing dues. This weakens unions because they continue to provide services with fewer resources. Right-to-work supporters argue that such laws protect workers from forced union membership and make the state more attractive to businesses. Overall, right-to-work laws are categorized as weakening labor and benefiting management (Jacobs and Dixon 2006).

Table 4.6 shows the relationship between right-to-work laws and union rates. The states are ordered by their 1970-2005 changes in union rates, with the greatest decrease at the top. States with right-to-work laws cluster at the top of the table; they experienced greatest decreases in union rates between 1970 and 2005. By contrast, the top 17 states in terms of union membership, at the bottom of Table 4.6, do not have such laws. Although the entries merely capture overall relationship, these patterns are consistent with the argument that state policies affect union strength.

**Table 4.6 Relationship between Union Rates and Right-to-Work Legislation**

| | 2005 Union Rate | 1970-2005 Change | Right-to-work law (as of 2005) |
|---|---|---|---|
| Utah | 4.9 | -82.2 | Yes |
| Idaho | 5.4 | -77.4 | Yes |
| Tennessee | 5.4 | -77.3 | Yes |
| South Carolina | 2.3 | -74.7 | Yes |
| Virginia | 4.9 | -70.7 | Yes |
| Arkansas | 4.8 | -69.4 | Yes |
| Indiana | 12.5 | -68.7 | Yes |
| Oklahoma | 5.4 | -67.9 | Yes |
| North Carolina | 3 | -65.9 | Yes |
| Montana | 11 | -65.2 | |
| South Dakota | 6 | -64.3 | Yes |
| Louisiana | 6.5 | -63.7 | Yes |
| Arizona | 6.1 | -63.5 | Yes |
| Georgia | 5.1 | -62.8 | Yes |
| North Dakota | 7.5 | -62.7 | Yes |
| Kansas | 7.1 | -62.4 | Yes |
| Pennsylvania | 13.9 | -61.6 | |
| Kentucky | 9.8 | -61.4 | |
| Florida | 5.4 | -61.2 | Yes |
| Texas | 5.4 | -60.9 | Yes |
| Nebraska | 8.4 | -60.6 | Yes |
| West Virginia | 14.4 | -58.7 | |
| Oregon | 14.7 | -57.9 | |
| Nevada | 13.9 | -57.9 | Yes |
| Colorado | 8.3 | -57.4 | |
| Wyoming | 8.1 | -57.1 | Yes |
| Ohio | 16 | -57.0 | |
| Delaware | 11.9 | -56.6 | |
| Alabama | 10.2 | -55.3 | Yes |
| Iowa | 11.6 | -55.2 | Yes |
| Missouri | 11.5 | -54.9 | |
| Washington | 19.3 | -52.6 | |
| Mississippi | 7.2 | -52.0 | Yes |
| Michigan | 20.6 | -50.6 | |
| New Hampshire | 10.4 | -50.2 | |
| Wisconsin | 16.2 | -49.5 | |
| Minnesota | 15.8 | -49.4 | |

| | | |
|---|---|---|
| Illinois | 16.9 | -49.1 |
| Maryland | 13.4 | -46.8 |
| California | 16.7 | -45.2 |
| Massachusetts | 13.9 | -44.0 |
| Maine | 11.9 | -43.6 |
| New Jersey | 20.5 | -42.7 |
| New Mexico | 8.2 | -42.7 |
| Connecticut | 16 | -38.0 |
| Rhode Island | 16 | -32.8 |
| Vermont | 11 | -31.3 |
| Alaska | 22.9 | -31.0 |
| New York | 26.2 | -20.4 |
| Hawaii | 25.9 | 0.8 |

Sources: Department of Labor 2008; Hirsch, Macpherson, and Vroman 2001

If we take another step back, we can see how partisanship plays a role in the adoption of these policies. Many Southern states passed right-to-work laws immediately after Taft-Hartley in the 1940s and 1950s (NCSL 2013a), but there are more recent adoptions too, including Idaho (1985), Oklahoma (2001), Indiana (2012), Michigan (2012), which brought the total number of right-to-work states to 24. The debate over right-to-work legislation in Idaho in the mid-1980s divided along partisan lines, with support from Republicans and opposition from Democrats (Fick 1986). The law was eventually passed by the Republican legislature over Democratic Governor John Evans' veto (Fick 1986). Indiana's Employees Right to Work Act (IN H1001), enacted in February 2012, was introduced by a Republican representative, passed by Republican majority state Senate and House, and signed by Republican Governor Mitch Daniels (NCSL 2013b). Michigan's law (Senate bill 0116) to establish right-to-work zones passed in December 2012 under Republican control of the state House, Senate, and Governorship and with strong opposition from Democrats and labor, especially the United Auto Workers. Similarly, the highly visible battle over collective bargaining rights in Wisconsin the previous year was fiercely

partisan. In New Hampshire, the Republican legislature passed right-to-work legislation in 2012, but it was vetoed by Democratic Governor John Lynch. Overall, not only are unions influenced by state policies, but there is evidence that the adoption of these policies is influenced by state government party composition.

The relationship between unions, partisanship, and inequality is certainly multi-faceted. Along with wage bargaining, unions play an important political role by influencing social and economic policies which reduce inequality (Hacker and Pierson 2010), and they may do this partly by helping to elect Democrats to state offices. However, unions are also *influenced by* government partisanship through legislative actions. When Republicans had control of state government in the examples above, they passed legislation that weakened unions. Instances such as these, while mainly illustrative, are consistent with the idea that party composition drives inequality, with union laws serving as one mechanism.

***Conclusion***

Inequality in the states is partly driven by economic forces and national policy decisions beyond state control and partly a function of who resides in the state; but controlling for these factors, state government and policies also matter. After establishing a connection between government partisanship and inequality in Chapter 3, I further scrutinized this relationship by examining state policy mechanisms in this chapter. My theory of state inequality hinged on economic policy differences between the parties. The findings in this chapter show that public sector employment and state minimum wages are two such policies that are significantly impacted by partisanship and which, in turn, have significant effects on market inequality. In both cases, an increase in Democratic control – through the percent of Democratic legislators in the house, overall control of the lower house, overall control of the legislature (both houses), and

the number of chambers held (of lower house, upper house, and governorship) – significantly related to increases in the percent of public sector employment and the statutory minimum wage in the states. Increases in public sector employment and increases in the minimum wage each significantly relate to decreases in market inequality in several of the model specifications. Overall, these findings further support the theory that the partisan make-up of state government is consequential for state-level inequality. They illustrate that the different market policies pursued by the two parties are one major avenue for this effect.

It is important to note that this is not meant to be a comprehensive list of state-level inequality policies. While these policies are two of the most direct ways state governments impact incomes, there are many more to investigate. I explored one such additional area at the end of this chapter: state policies that restrict unions. Government can also influence incomes through workforce investment, like job training programs. For instance, under the Workforce Investment Act (1998), states are provided with funds for training and employment programs for adults, dislocated workers, and youth. WIA programs include both short-term employment services and longer-term job training. Programs for longer-term job training in particular are an example of the market-conditioning role of government, with the goal being to "improve earnings potential and employability of workers" (California Senate Office of Research 2011, 3). States and localities have some discretion over where their funds are directed, and there is reason to believe that their choices vary. One study of California's use of WIA funds found that most were being used on short-term employment services, rather than longer-term training to help workers upgrade and gain skill sets; however this varied considerably between localities (California Senate Office of Research 2011). There are documented differences in approaches to workforce development across states as well (Barnow and King 2005).

Along with investigating more specific job training policies, future work might also consider other sub-national wage-setting policies, namely living wage laws. Beginning in the mid-1990s, many localities, mainly metropolitan areas, set living wages, "which require businesses that benefit from government contracts or other forms of public financial assistance to pay wages well above the federal minimum wage" (Holzer 2008). Currently about 120 municipalities have living wage ordinances (Chapman and Thomson 2006). In 2007, Maryland became the first state to set a statewide living wage (Greenhouse 2007) (Baltimore was the first major city to do so in 1994.) The Maryland Living Wage applies to certain employers with contracts with state governments (and some subcontractors) and, as of 2011, was set at $12.49 per hour, or $9.39 per hour, depending on the jurisdiction (Maryland Dept. of Labor). Consistent with our partisan expectations, the bill was sponsored by a Democrat in Maryland's House of Delegates, Del. Herman L. Taylor, Jr. and signed by Democratic Governor O'Malley. A previous version of the bill was vetoed by Republican Governor Ehrlich in 2004. While the primary aim of living wage laws may be to reduce poverty, this policy is also a good example of the market conditioning tools that states can use to affect the distribution of incomes. By raising the wage floor, living wages, like minimum wages, should reduce income differences, even if modestly.

The policies explored in this chapter are also not intended to *replace* the effect of party composition. Along with the many other policies that are bundled into party platforms, the effects of partisanship may extend beyond policy variables. For instance, Volscho and Kelly (2012) suggest that, at the national-level, administrators appointed by Democrats "may more stringently enforce labor laws such as the minimum wage, union election rules, overtime pay, and other forms of labor-related compensation" (682). The relationship between partisan composition of government and the income distribution may partly operate through

administrative channels at the state level too. Partisanship in government matters because it captures a *set* of policies and actions which reflect distinct economic approaches. That public employment and the minimum wage operate as policy mechanisms is an important finding in the study of state-level inequality, but we can continue to unpack this relationship.

# CHAPTER 5
# STATE REDISTRIBUTION RECONSIDERED: PUBLIC WELFARE SPENDING AND POST-REDISTRIBUTION INEQUALITY

In Chapter 4, I showed that the parties in government affect market income inequality through labor market policies, including public sector employment, minimum wage laws, and right-to-work policies. Public employment has been described as "hidden" or "disguised" redistribution by Alesina, Baqir, and Easterly (2000) because it provides an obscured way for government to direct income, compared with more explicit tax-transfer techniques. Kelly (2009) categorizes the minimum wage and other alternatives to redistribution as "market conditioning policies." Whatever the name, the implication is that state governments affect the market distribution of income before making any adjustments with taxation or transfers. That is, the effects of these policy actions, even if funded with tax dollars like in the case of public employment, are visible in pre-tax and transfer incomes.

Of course, state governments also make adjustments after the fact by providing social transfers to supplement incomes and collecting and refunding taxes. Indeed, these explicit redistributive efforts are likely what come to mind when we think of how government affects income inequality. We expect that, once taxes and transfers are taken into account, income inequality will be lower where policies are more generous. However, some previous empirical evidence suggests that these policies actually play a limited role in the states. In particular, Barrilleux and Davis (2003) found that a whole list of state social transfers did not effectively reduce income inequality in the states for the years 1978-1990. In fact, in some cases, more generous policies were related to *higher* inequality.

These findings relate to broader arguments about the limits of state redistribution. Some argue that when states have welfare policy discretion, their policies will reflect a "race to the

bottom" (see Bailey and Rom 2004; Brueckner 2000; Gais and Weaver 2002; Peterson and Rom 1989). In this scenario, rather than meet the needs of citizens, states compete to make social assistance increasingly less generous to avoid attracting needy populations from other states, or becoming a "welfare magnet." Mobility across state lines makes reducing income differences through progressive taxation difficult as well. State governments may find it difficult to raise taxes on high earners for fear that doing so will lead residents or businesses (and their tax revenues) to leave the state (Peterson 1995). And state taxation was made even more difficult by "tax revolt" institutions in some states; including tax and expenditure limitations and supermajority requirements for tax increases (Archibald and Feldman 2006). Indeed, while the federal tax system is progressive, most state tax systems are regressive (Davis et al 2009). These difficulties with state-level tax and transfer redistribution lead Kelly and Witko (2012) to suggest that, "If redistribution were the only mechanism available to influence distributional outcomes, then the states would likely play a minor role in shaping income inequality" (415).

This may be true. Again, in the past several chapters, I have emphasized and found evidence that state governments and policies affect *market or pre-redistribution* income inequality. These findings align with and offer support for previous arguments that the U.S. national and state governments impact inequality in many ways besides explicit redistribution (Hacker and Peirson 2010; Kelly 2009; Kelly and Witko 2012; Langer 2001). But although the challenges of redistribution at the state level are real, we should not rule out this path for state governments to influence the income distribution. After all, even Peterson (1995) noted that, at least compared with local governments, states have *some* capacity for redistribution because it is more costly to move across state lines than between localities to avoid higher taxes (4). Similarly, there is empirical evidence that state redistributive policies do not simply reflect a

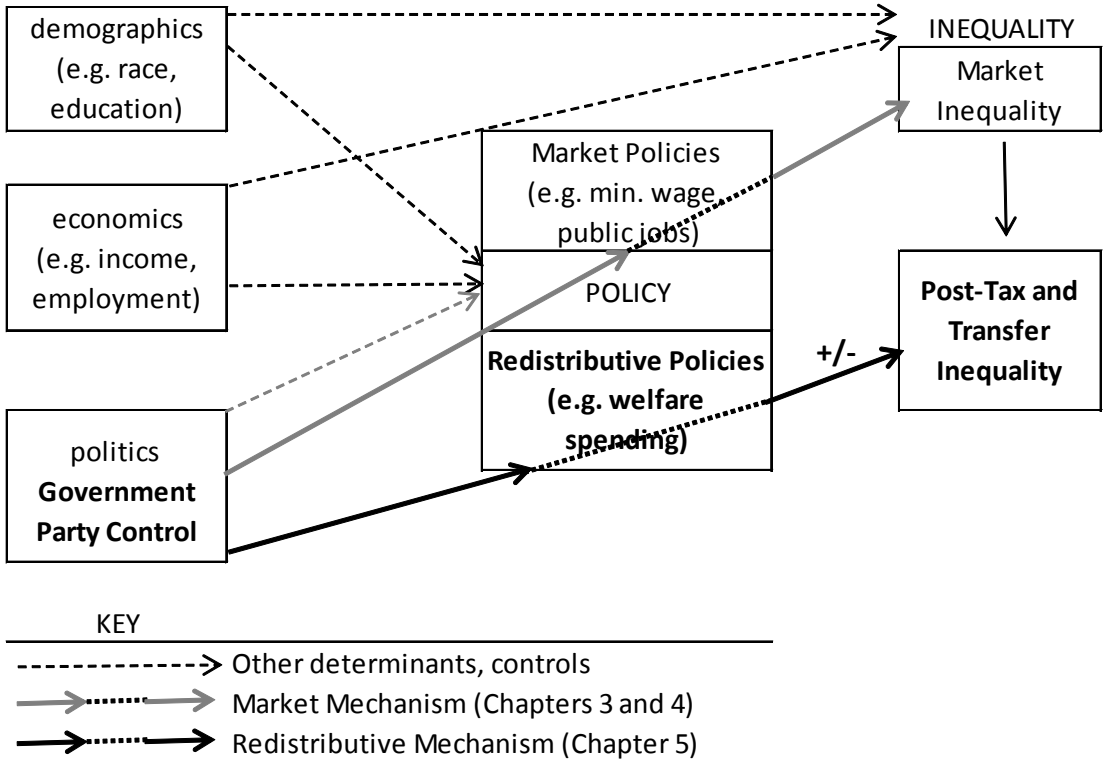
"race to the bottom" in which states increasingly cut benefits (Berry, Fording, and Hanson 2003; Freeman and Rogers 2007; Gais and Weaver 2002; Soss et al 2001). Rather, as discussed in Chapter 2, such policy choices tend to reflect state political, economic, and demographic characteristics, including one factor fundamental to this project: government partisanship. With this in mind, I devote this chapter to examining the connection between one type of redistribution, public welfare spending, and *post-redistribution* inequality in the states. I focus on social welfare because it is comparable to Barrilleux and Davis's (2003) previous state-level work and leave the complexities of redistribution through taxes for future research.

***Theory: Adding the State Redistributive Mechanism***

State redistributive policies fit into the same theoretical framework developed in Chapter 2 and tested in Chapters 3 and 4. While the primary concern and contribution of this project is the relationship I established between government partisanship and market inequality, this does not preclude the investigation of another possible avenue by which state governments could affect inequality: through redistribution. The first path, between government partisanship and market outcomes, is depicted with the top bold arrow in Figure 5.1, a version of which appeared in Chapter 2. The second path, the redistributive mechanism, is shown with the bottom bold arrow in Figure 5.1. In this case, partisanship influences *post-redistribution* inequality through redistributive policies. Note that there is some ambiguity about whether the direction of the relationship between redistributive policies and post-tax and transfer inequality is positive or negative, denoted by the plus and minus signs in the figure below. While we would expect more generous redistributive policies to reduce post-tax and transfer inequality, some previous tests found an unexpected positive relationship. By examining state redistribution in this way, we may discover another way that partisanship matters for inequality, or rule one out. And, while doing

so, this chapter also provides updated analyses of the relationships between government partisanship, welfare spending, and inequality in the states.

**Figure 5.1 Factors that Influence Inequality: Market Conditioning and Redistributive Paths**




There are clear theoretical reasons to think that, like the labor market policies in Chapter 4, state welfare policies may be a "mechanism" between government partisanship and inequality. In the first place, the overall partisan model employed in this project includes distinct party positions on economic redistribution. Redistribution is of course included in the Democratic Party's economic approach, while such policies conflict with the Republican Party's economic conservatism. In line with these theoretical expectations, previous studies find that welfare policies tend to be more generous under Democrats. In his 1984 article, Dye reported that per capita welfare spending increased under Democratic control of the governorship and one or both

houses of the state legislature. Plotnick and Winters (1990) find some evidence that Democratic control of state lower houses predicts a higher cash "welfare package" that includes the maximum AFDC benefit for a family of four, related food stamp benefits, and the average value of Medicaid services for 1968-1977. Brown (1995) shows that party control influences state AFDC spending between 1976 and 1988. More recent consideration of state policy choices after welfare reform found that democratic legislatures made more generous TANF policy choices, in terms of eligibility and flexibility on work requirements (Fellowes and Rowe 2004).

Some of these earlier findings came with qualifications or limits. Party and welfare spending were connected in 20 of 50 states in Dye's (1984) study, and Brown (1995) found that partisanship had a larger effect in certain types of states, those where party cleavages were most similar to class-based New Deal divisions. Also note, however, that these studies only reach into the mid- to late-1980s, with the exception of Fellowes and Rowe's (2004) TANF study. Since states have gained even more welfare policy control since then, it is more likely we will observe significant effects of partisanship on welfare spending if we extend the time period of interest. *I expect that government partisanship will be a significant predictor of redistribution, with increasing Democratic control leading to more generous welfare policies.*

Of course, like in Chapter 4, the connection between partisanship and policy is just the first step. Next we need to consider the relationship between policy – in this case, welfare policies – and inequality. As discussed above, this connection is somewhat tenuous, and the related literature finds mixed results. Freund and Morris's (2005) study of state lotteries – which they describe as a regressive tax, redistributing income upward - found that these policies related to significant increases in state inequality between 1976 and 1995. But, again, studies of social welfare policies in particular, do not find these policies significantly decrease state inequality

(Barrilleux and Davis 2003). It is worth nothing that Barrilleux and Davis's study, while completed in 2003, uses data only through 1990. I expect that when we consider an extended time period, as well as a broader measure of welfare policy described below, our theoretical expectations about redistribution and inequality will be met. That is, *increases in state welfare spending will reduce post-redistribution inequality in the states.*

***Redistribution Data and Models***

To study the role state welfare policies in state inequality trends, we need an appropriate, over time measure. I use state public welfare expenditures, which are available from the Census Survey of State and Local Finances from 1977 to the present. This measure includes AFDC/TANF payments to individuals, state supplements to SSI, state-specific cash assistance programs (e.g. general assistance, home relief, emergency relief), and medical assistance payments to vendors (associated with Medicaid and SCHIP). I adjust the welfare spending variable to account for different levels of need in the population (Clayton and Pontusson 1998). Total expenditures, in real 2005 dollars, are divided by the number of people below the poverty line (Gais and Dadayan 2008).[44] Average public welfare spending per poor person (2005 dollars) during the 1977-2005 period ranges from $196 in Arkansas to $1722 in Hawaii, with a mean of $810 across states. The average change in this variable is -$18.

While these state welfare data include several different programs and do not capture specific policy or program characteristics or rules, the welfare spending variable gives us a good sense of overall welfare expenditures in the state and is consistent with similar literature (Kenworthy and McCall 2005). Moreover, because welfare reform in 1996 replaced Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families

[44] Historical poverty data are available from the Census based on the Current Population Survey, Annual Social and Economic Supplements.

(TANF), it would be difficult to measure specific policy characteristics over the entire time period in which I am interested. In addition, the relatively broad nature of this measure may be especially advantageous in relation to inequality. State public welfare expenditures include programs that reach a wide range of individuals, including, but not limited to, AFDC/TANF recipients. For instance, state spending for programs like Medicaid and SCHIP, which benefit individuals with low incomes who are not technically poor, are also included (Gais and Dadayan 2008). The greater reach of state public welfare expenditures compared with narrower measures like TANF benefit levels means there is greater potential to affect the concentration of income. An additional advantage of these data is that they include programs that are wholly funded and operated by state governments, unlike federal administrative data for specific programs (Gais and Dadayan 2008). This allows us to better investigate the relationship between state characteristics and policy outcomes under control of the states.

To estimate the effect of government partisanship on welfare spending, I use several of the same partisanship variables as in Chapters 3 and 4 (Klarner 2013), including a dummy for whether the Governor is a Democrat and several specifications to capture partisanship of the legislature: the proportion of Democratic legislators in the lower house; a dummy variable for whether the house is *controlled* by Democrats (1=yes); and a variable for Democratic control of both chambers. This latter variable is an additive scale where 1 = Democratic control of both chambers, 0 = Republican control of both chambers, .5 = Democrats control one chamber, Republicans the other, .25 = Republican control of one chamber, split control of the other, .75 = Democratic control of one chamber, split control of the other. Then, I look at the Governor and legislature together. This government control variable captures how many of the three chambers – Governor, upper house, and lower house – are controlled by the Democratic Party. (1 =

Democratic control of all three institutions, 0 = Republican control of all three institutions, .33 = Democratic control of one institution, Republican control of the other two).

I expect other variables to affect welfare spending too and include control variables based on previous state policy literature. This literature indicates that economic and demographic variables can also shape policy choices (Grey 1996). For the effects of the economy and state wealth, I include real economic growth (change in real per capita Gross State Product) and real per capita personal income. I include state debt as a percent of state GSP to account for limits on state resources. I control for the percentages of African-Americans, Latinos, and elderly (percent over age 65) in the state. Previous studies of welfare policies found a relationship between the size of the African-American (Soss et al 2001; Johnson 2003) and Latino (Fellowes and Rowe 2004) state populations and less generous welfare policies. The percent of elderly in a state indicates greater need for social assistance, so we would expect these states to spend relatively more.

I model over time changes in state welfare spending with an error correction model. This is consistent with the market policy models in Chapter 4 and my interest in over time relationships throughout this project. It is also appropriate because the welfare expenditure variable is non-stationary.[45] As in Chapters 3 and 4, I also include fixed effects to account for unobserved state differences. The models begin in 1977 because that is the earliest year for the welfare spending data. I end the analyses in 2005 to be consistent with models in the previous chapters. I also base this time period on the availability of the inequality data employed in the second analysis (1976-2006). Although this means I cover fewer years than in Chapter 3, it is the same time period as for the market policy models in Chapter 4, and still leaves us with about

[45] The combined results of the Im, Pesaran, Shin (2003) (p-value=.0003) and Hadri (2000) (p-value=.000) tests indicate that at least some of the panels are non-stationary.

30 years of data for the time period in which income inequality has increased most substantially.

For my second analysis, state public welfare expenditures per person below the poverty line switches from the dependent to the independent variable. To see how welfare spending affects the income distribution, we of course also need a measure of state inequality. Studying the role of welfare spending raises the questions about the appropriate measure of state inequality. Because my focus in previous chapters has been on market policies, I used market inequality as the dependent variable. However, now that I have turned my attention to welfare expenditures, a measure of state redistributive policy, post-redistribution inequality is the preferable measure. Such a measure is recently available from Kelly and Witko (2012), who used the Census Annual Social and Economic Supplement to create the post-redistribution Gini coefficient for household income for the states from 1976-2006. The measure includes earnings, private retirement income, private pensions, interest, dividends, rents, royalties, estates, trusts, alimony, child support, outside assistance, Social Security, welfare, education support, unemployment, worker's compensation, veteran's benefits, survivor benefits, disability, and SSI (Kelly and Witko 2012, 420). For easier interpretation, I multiply this measure by 100 so that it has a possible range of 0 to 100. The observed range of this Gini is 34 to 51 with a mean of about 41. Higher values indicate more income inequality. While I previously focused on top income shares because of the available data and the top-driven nature of U.S. inequality, this Gini measure is the best available option for post-redistribution inequality over a significant period of time in the states. However, it does mean we should exercise some caution in comparing these results to those in previous chapters, as the measures are built from different income data sources.[46]

[46] In Chapters 3 and 4, market inequality is measured with top shares and the Gini coefficients of pre-tax pre-transfer income. These measures were constructed by Frank (2008) with IRS Statistics of Income tax data. The post-

To be consistent with my previous analyses, as well as Kelly and Witko's models with this Gini measure, I continue to use an error correction model.[47] Once again, I include the same economic and demographic controls utilized in Chapters 3 and 4. Demographic controls include the percent of African-Americans, percent of Latinos, percent of elderly (over 65), percent with college degree, and union membership (percent). Economic controls include the percentages of manufacturing and finance jobs in the state, per capita dividends income (thousands of 2005 dollars), and per capita personal income (thousands of 2005 dollars). Each independent variable in an error correction model has two coefficients, the short term and the long term effect. In the final models included here, I drop the long term versions of the variables if their coefficients were not significant in full models (de Boef and Keele 2008).

***Results: Party and the Determinants of State Welfare Spending***

My first task is to investigate the determinants of changes in state welfare spending to see whether party control has a significant relationship with this policy change, as it did for the market policies in Chapter 4, and as the above theory predicts. These results are reported in Table 5.1. As in Chapter 3 and 4, I begin by testing the effects for Governors and state legislatures separately (versions 1 – 3) and then examine overall government control (version 4). In the first three columns, notice that none of the variables for legislative partisanship have a significant relationship with welfare spending. This clearly contrasts with results in the previous chapters, which showed that the power of Democrats in the legislature significantly related to

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redistribution measure of inequality used in this chapter (Kelly and Witko 2012) is constructed from Census data, which means it may underestimate income inequality at the top of the distribution due to top-coding (Hacker and Pierson 2010). Another difference is that it measures *family* income versus the income of *tax units*, which was used for the market inequality measures. Tax units are individuals or married couples who file a joint tax return, plus all dependents. This may or may not be the same as a "family." The correlations between the post-redistribution Gini and the market inequality measures range from r=.55 to r=.63, so the measures are similar, but not identical.

[47] As Kelly and Witko (2012) note in their analysis, there is evidence that the Gini measure is non-stationary. My own diagnostics of this variable also indicate this. The results of the Im, Pesaran, Shin (2003) and Hadri (2000) tests suggest that at least some of the panels are non-stationary, or have unit roots.

changes in market inequality and market policies (public employment and minimum wage). However, shifts to a Democratic Governor do have a positive, significant relationship with changes in state welfare spending across the first three models. The magnitude of the relationship is similar across these three columns; a shift to a Democratic Governor relates to an increase in welfare spending per poor person of about $107. This full effect includes the long run multiplier and is given by the long-term coefficient (about 30 in model versions 1 through 3) divided by the error correction rate of .28. The error correction rate also tells us how quickly this effect will occur over time. The error correction rate of .28 indicates that, while this effect occurs over several years, we can expect to see it fully realized relatively quickly. Following a shift to a Democratic Governor, 28% of the effect will be realized in the next year. In each subsequent year, 28% of the remaining effect will be realized.

**Table 5.1 Relationship between Government Partisanship and Changes in State Welfare Spending, 1977-2005**

| | (1) Prc. Democrat | | (2) Democratic House | | (3) Democratic Legis. | | (4) Democratic Govt. | |
|---|---|---|---|---|---|---|---|---|
| Welfare Spending $_{t-1}$ | -0.28* | (0.02) | -0.28* | (0.02) | -0.28* | (0.02) | -0.28* | (0.02) |
| Δ Lower House Democrats | -166.30 | (149.30) | | | | | | |
| Lower House Democrats $_{t-1}$ | 14.11 | (98.63) | | | | | | |
| Δ Democratic Governor | 26.32 | (22.55) | 23.68 | (22.37) | 23.28 | (22.38) | | |
| Democratic Governor $_{t-1}$ | 29.90* | (15.59) | 29.98* | (15.49) | 30.36* | (15.48) | | |
| Δ Democratic House Control | | | -29.97 | (30.16) | | | | |
| Democratic House Control $_{t-1}$ | | | 15.74 | (24.44) | | | | |
| Δ Democratic Legislative Control | | | | | -18.25 | (40.12) | | |
| Democratic Legislative Control $_{t-1}$ | | | | | 27.98 | (31.12) | | |
| Δ Democratic Government Control | | | | | | | 13.32 | (43.40) |
| Democratic Government Control $_{t-1}$ | | | | | | | 67.44* | (32.94) |
| Δ Latino | 201.60* | (85.61) | 200.00* | (85.46) | 204.90* | (85.46) | 208.50* | (85.26) |
| Latino $_{t-1}$ | -10.97 | (6.00) | -10.97 | (6.00) | -10.35 | (6.08) | -10.52 | (6.04) |
| Δ Govt. Debt/GSP (x1000) | -12.30 | (7.68) | -12.60 | (7.69) | -12.6 | (7.69) | -13.10 | (7.63) |
| Govt. Debt/GSP (x1000) $_{t-1}$ | -4.74 | (3.73) | -5.05 | (3.73) | -5.04 | (3.72) | -5.79 | (3.67) |
| Δ Real GSP Growth | 2.66 | (2.29) | 2.64 | (2.29) | 2.52 | (2.29) | 2.37 | (2.27) |
| Real GSP Growth $_{t-1}$ | 3.29 | (2.72) | 3.32 | (2.70) | 3.23 | (2.71) | 3.06 | (2.69) |
| Δ PC Income ($1000s) | 15.98 | (13.09) | 15.82 | (13.02) | 15.97 | (13.03) | 17.44 | (12.87) |
| PC Income ($1000s) $_{t-1}$ | -2.30 | (3.90) | -2.22 | (3.839) | -2.46 | (3.83) | -2.05 | (3.78) |
| Δ African-American | 53.16 | (152.40) | 39.71 | (150.00) | 40.07 | (149.90) | 58.57 | (149.60) |
| African-American $_{t-1}$ | -30.08 | (15.66) | -30.56 | (15.67) | -29.72 | (15.67) | -27.70 | (15.60) |
| Δ Over Age 65 | 129.80 | (66.42) | 125.60 | (66.33) | 123.10 | (66.44) | 119.60 | (65.89) |
| Over Age 65 $_{t-1}$ | 10.73 | (10.44) | 10.68 | (10.33) | 10.87 | (10.33) | 9.83 | (10.27) |
| Constant | 458.70* | (185.80) | 462.80* | (161.20) | 448.40* | (162.40) | 432.00* | (159.70) |
| N | 1,161 | | 1,161 | | 1,161 | | 1,176 | |
| R-squared | 0.17 | | 0.17 | | 0.17 | | 0.17 | |
| States | 49 | | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.
* p<0.05, two-tailed.

The final specification for this model, reported in column 4, looks at Governors and legislatures together, or the overall partisan control of government. Here, I find that the number of Democratically-controlled branches significantly relates to changes in welfare spending. A one unit increase in Democratic control relates to an increase in welfare spending (per poor person) by about $240. This full effect is given by the long-term coefficient divided by the error correction rate (67.44/.28). In this case, a one unit increase consists of Democrats gaining control

of all three chambers (Governor, lower house, and upper house), or a switch from a unified Republican Government ("0") to a unified Democratic one ("1").[48] While the legislature did not have an independent effect, it does seem to matter in combination with a Democratic Governor.

Along with the effects of government partisanship, in the lower half of Table 5.1, we see that increases in the percentage of Latino state residents are associated with decreases in welfare spending. Surprisingly, the percent of the population that is African-American is not significant at conventional levels. Several previous studies find that states with larger African-American populations adopt less generous welfare benefits (Howard 1999) or stricter welfare policies (Soss et al 2001, Fellowes and Rowe 2004). However, this relationship does not hold for examining the effect of *changes* in the size of the African-American population, controlling with state fixed effects. It is likely that this variable explains cross-sectional state policy differences more than the policy shifts within states that are modeled here. The positive relationship between the percent of elderly residents and changes in welfare spending is what we would expect based on higher levels of social assistance usage for that population. Economic variables like income, debt, or economic growth do not have short or long term effects.

Overall, as for public employment and minimum wages in Chapter 4, we have some evidence that government partisanship significantly relates to policy changes. The results for the specific party variables, however, indicate that there are some differences in the political actors involved. Here, the party of the Governor clearly has an independent, significant effect on welfare spending, while there are no independent effects from the legislature. By contrast, in my

[48] The results for model version 4, examining the relationship between Democratic control of government and changes in welfare spending, are the same with traditional and panel corrected standard errors. However, the results for model versions 1 through 3 change when using panel corrected standard errors, rather than the traditional standard errors reported in Table 5.1 and discussed above. These results are included in Appendix H. With panel corrected standard errors, a switch to a Democratic Governor is no longer significantly related to changes in welfare spending. We still have some evidence that party control matters, but primarily in terms of overall Democratic control of state governments.

analyses of market inequality and market policies, legislative effects dominated. This difference may be a function of different legislative priorities of Governors and legislatures, even of the same party. Still, Governors and legislatures matter together for welfare spending to the extent that a Democratically-controlled government significantly relates to an increase in welfare spending. The nature of this relationship deserves future consideration. For now, we have evidence that Democratic partisanship increases welfare spending and can move forward to investigate the implications for inequality.

***Results: Welfare Spending and Post-Redistribution Inequality***

The findings from my second analysis, reported in Table 5.2, show that changes in state welfare expenditures do significantly relate to changes in state-level post-tax and transfer inequality. A one dollar increase in welfare expenditures per poor person coincides with a decrease in the Gini coefficient of -.001. The total effect for this variable is calculated by dividing the long term coefficient (.0002) by the error correction rate given by the lagged dependent variable coefficient (.551). Accordingly, we expect a one dollar increase in welfare expenditures to relate to a decrease in the Gini of .0004. The relatively large error correction rate of -.551 indicates that this effect will occur relatively quickly, with more than 50% of decline in the Gini occurring the first year following an increase in welfare spending. The observed range for the Gini measure used in this chapter is from 34 to 51 and the average annual change is .2, so the magnitude of the relationship between welfare spending and inequality found here is quite small. If we consider that a shift to Democratic government control related to a $240 increase in welfare expenditures per poor person in the partisan model above (Table 5.1, version 4), and therefore multiply the estimated effect by 240, the estimated decrease in the Gini would still be less than .10. Even with this adjustment, the effect of welfare spending on the post-redistribution

Gini is modest.[49]

**Table 5.2 Relationship between Welfare Spending and Changes in State Post-Redistribution Gini Coefficients, 1977-2005**

| | | |
|---|---|---|
| Post-redistribution gini $_{t-1}$ | -0.551* | (0.027) |
| Δ Welfare Spending ($ per poor person) | -0.001* | (0.0002) |
| Welfare Spending ($ per poor person) $_{t-1}$ | -0.0002* | (0.0001) |
| Δ African-American | -0.714 | (0.941) |
| African-American $_{t-1}$ | 0.185 | (0.010) |
| Δ Latino | 0.459 | (0.538) |
| Latino $_{t-1}$ | 0.184* | (0.038) |
| Δ Over Age 65 | 0.015 | (0.385) |
| Δ Per Capita Income ($1000s) | -0.068 | (0.071) |
| Δ College Grads | 0.0002 | (0.064) |
| College Grads $_{t-1}$ | 0.113* | (0.026) |
| Δ Union | -0.054* | (0.027) |
| Union $_{t-1}$ | -0.015 | (0.020) |
| Δ Manufacturing | 0.089 | (0.115) |
| Manufacturing $_{t-1}$ | -0.129* | (0.026) |
| Δ Finance | -0.029 | (0.305) |
| Finance $_{t-1}$ | -0.337* | (0.090) |
| Δ Dividends Income (per capita $1000s) | 1.162* | (0.202) |
| Constant | 22.12*** | (1.763) |
| | | |
| N | 1,200 | |
| R-squared | 0.308 | |
| States | 50 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05, two-tailed.

Among the control variables in Table 5.2, we observe some significant relationships with changes in state post-tax and transfer Ginis. Like the models of market inequality in Chapters 3 and 4, changes in the percent of Latino residents are positively and significantly related to

[49] See Appendix H for results with panel corrected standard errors. With panel corrected standard errors, the long-term relationship between welfare spending and inequality is no longer significant, but the contemporaneous relationship remains significant, such that increases in spending correspond with decreases in the Gini.

inequality, as are changes in the percent of college degree holders and per capita dividends income. The latter two results point to a pulling away at the top of the income distribution, while the first result is consistent with the theory that lower incomes among minority residents can increase inequality from the bottom. For each percentage point increase in Latino residents, we expect the Gini to increase by .18 in the next year and have a full effect of .33 (.18/error correction rate of .55). The percent of college graduates also has a significant relationship with shifts in the post-redistribution Gini, specifically a full increase of .21 (.113/.55) for each one percentage point increase in college graduates. For each $1000 increase in per capita dividends income, my results suggest an increase in the Gini by more than one point (1.16).

The effects of union membership are somewhat weaker in this model than on market inequality, suggesting that this variable is more relevant for affecting income levels in the first place, such as through wage bargaining, rather than for redistributive policy. Notice in Table 5.2 that an increase percent of union members significantly relates to a .05 decrease in the Gini contemporaneously. The magnitude of this effect is comparable with those on market inequality, but it just barely meets conventional levels of statistical significance, and we fail to observe the significant long-term relationship found in the market inequality models. Still, the expectation of a negative, significant relationship between union membership and inequality is met.

The percent of manufacturing jobs is negatively and significantly related to changes in inequality in the post-redistribution Gini models. My previous market inequality models produced mixed results for this variable, but the literature suggests that manufacturing jobs should contribute to decreasing inequality, or that the loss of such jobs with de-industrialization should increase inequality. The negative result observed here is consistent with this story; it indicates that an increase in the percent of manufacturing jobs has a mitigating effect on

inequality. According to the results in Table 5.2, we expect the post-tax and transfer Gini to fall by .23 (-.129/.551) for each percentage point increase in manufacturing employment, including the long run multiplier. Finally, we observe a negative result for financial employment. This is consistent with previous models of market inequality, but remains in the opposite direction from expectations.

***Conclusion***

We know from previous chapters that the election of Democrats to state government and their related labor market policies significantly relate to decreases or diminished growth of market inequality. The findings in this chapter suggest that redistribution is an additional path by which partisanship affects inequality. Increases in Democratic control of state governments significantly relate to increases in state welfare expenditures. Such increases in state welfare expenditures are negatively and significantly associated with changes in post-redistribution Gini coefficients in the states. The combined findings of Chapters 4 and 5 therefore suggest that states have multiple avenues for affecting income inequality –through labor market policies *and* redistribution - and that government partisanship is consequential for both.

To be sure, there are some notable differences in the partisanship results in this chapter, namely the failure to find significant independent effects for the legislature. Legislative partisanship had consistent, significant effects in the market inequality models in Chapters 3 and 4, but the presence of Democrats in state legislatures did not independently impact welfare spending here. This is not too surprising considering some of the qualified effects of party in previous state welfare studies (e.g. Dye 1984, Brown 1995), as well as the bipartisan nature of welfare reform in the mid-1990s, although the welfare measure employed here extends beyond AFDC/TANF. Still, government partisanship was a significant determinant of changes in

welfare spending in terms of overall party control of government, further underlining the importance of state governments and their partisan composition for income inequality outcomes.

This chapter also responds to some previous theoretical arguments and empirical evidence that state redistributive policies –and welfare policies in particular (Barrilleux and Davis 2003) – do not significantly influence state inequality. Using more recent data and a broad measure of state welfare effort, I find that redistribution does matter, even if the effect is small. And there are several other state redistributive policies that deserve further study, including tax policies and especially state Earned Income Tax Credits. As of late 2012, 24 states and D.C. had state Earned Income Tax Credits, which supplement incomes for low- and middle-income workers.[50] State EITCs have considerable reach. Nearly two out of five recipients of the federal EITC – there were 27 million in 2009 - live in a state with a state EITC, and recent estimates suggest that more than $2.5 billion is spent on annual state EITC benefits (Williams et al 2010). Given the federal EITC's significant impact on reducing poverty (Athreya et al 2010, CBPP 2013, Holt 2006,) and inequality (Liebman 1998), we should expect state EITCs to also decrease income differences in those states by raising incomes at the lower end the distribution.

While the findings in this chapter provide some impetus to examine EITCs and other tax transfer policies, it remains the case that we must broaden our conception of inequality policies beyond redistribution. My analyses in previous chapters clearly show that state governments impact market inequality *before* redistribution by substantively significant amounts. In view of these previous findings, and the relatively small impact of welfare spending, it is prudent to scrutinize the ways in which state governments shape market outcomes.

[50] These states are Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, and Washington, Wisconsin, plus the District of Columbia. Colorado passed an EITC but it is currently suspended. State EITCs are typically a percentage of the federal EITC, ranging from 4 percent in Wisconsin to 40 percent in DC (TPC 2010).

# CHAPTER 6
# CONCLUSION: FEDERALISM MEANS INEQUALITY?

## *Summary*

Despite popular and scholarly attention to rising income inequality in the U.S., state-level inequality has largely escaped the same intense scrutiny. We have seen, however, that there is substantial variation in inequality at the state level. Indeed, the magnitude of such state differences, highlighted in Chapter 1, rivals the growth of U.S. inequality during the past several decades, as well as cross-national variation. To date, political scientists have suceeded in shining a light on the importance of politics and policy in the often apolitical study of inequality. In response to a largely economic literature, these scholars pushed back against arguments that U.S. inequality is purely an economic phenomenon and made the case that politics has played a central role (e.g. Bartels 2008, Hacker and Pierson 2010, Volscho and Kelly 2012). However, this work fails to address variation in political systems *and* in income inequality at the state level. Changes in national partisanship (e.g. Bartels 2008, Volscho and Kelly 2012) and federal policy shifts (e.g. Hacker and Pierson 2010) cannot tell us why differences in inequality between some states look surprisingly similar to differences between the U.S. and the typical paragon of equality, Sweden, for example. The broad-strokes, national-level arguments offered to this point cannot explain patterns of inequality in the U.S. once we view them at the subnational level.

This dissertation argued that to better understand U.S. inequality we must study and explain it as we actually observe it, as varying between states and over time, not as a uniform national trend. It demonstrated that state-level government partisanship is an important explanation for changes in state inequality, and one which holds implications for the broader pattern of inequality in the U.S. In the preceding chapters, we saw that shifts in the partisan

control of state government significantly relate to over time changes in inequality in the states. Increases in Democratic control of state governments coincide with significant decreases or diminished growth of income inequality, while increases in Republican control, are associated with significant increases in inequality. By exploring several policy mechanisms, I illustrated two overarching ways that this relationship operates. First and foremost, party composition influences market inequality through labor or employment policies, including public employment, the minimum wage, and right-to-work laws. In other words, the partisan make-up of state governments affects the income distribution even *before* taxes and transfers are taken into account. State government partisanship also influences post-tax and transfer income inequality through public welfare spending, although this effect is quite small.

***Implications for the Study of Inequality***

In the broadest sense, the approach and findings of this dissertation advance our understanding of inequality in the U.S. by, first, more accurately characterizing it as a phenomenon that varies significantly across states and time, and second, providing a theory that addresses this variation. This work certainly builds on previous work that highlights political causes of inequality, but with a state-level view it establishes new relationships and findings that were not visible in the aggregate. We now know that state-level partisanship, and related policies, help explain changes in state-level inequality. This adds to the literature on state-level inequality in particular, which has often overlooked political factors, or been characterized by ambiguous or conflicting findings. Here, we see clear and robust relationships between state politics and distributional outcomes. And unlike in some previous state studies, which focused on narrow or specific policies, we have evidence of overarching and systematic relationships between partisanship, policy, and inequality across diverse states. This new set of findings brings

new insight to the study of state inequality and suggests we study the implications of state partisanship for other state policies and outcomes.

We also see the importance of these state-level relationships for national-level outcomes. In Chapter 2, I showed that the partisan composition of state legislatures tracks very closely with national inequality trends, suggesting that the decisions of the parties in state governments contribute to aggregate trends for the U.S. In Chapters 4 and 5, I explained how several state policy decisions –public sector employment, minimum wage policies, right-to-work laws, and public welfare spending – have significant effects on inequality. There are many such policies that cannot be adequately studied at the national-level because states wield policymaking authority, and because policy choices vary between states as a result. In the context of this project, recall that state public employment outnumbers federal public employment by more than 5:1 and one of the key explanations in the inequality literature – union membership rates – varies considerably with state right-to-work laws. As such, the best way to study the effects of policies such as these is to examine how they impact inequality at the state-level. Further, state-level policies should impact aggregate income trends. States and their citizens are, after all, part of the U.S. as a whole and the national income distribution. In these ways, the political decisions and characteristics of state governments are inextricably embedded in the story of U.S. inequality.

As we look to explain changes in the income distribution and related economic patterns in the wake of the Great Recession, we must avoid sweeping explanations that disguise variation and instead continue to incorporate the states. Failing to do so, we risk mischaracterizing critical economic events, and miss opportunities to learn why some states or areas fare better or worse. We benefit from political-economic approaches that embed such events in political systems; however, we also mischaracterize our federal system by ignoring the majority of policies, those

set by the states, and the systematic importance of partisanship in setting those policies. I have provided strong evidence that partisan features of state governments are consequential for distributional outcomes, and we cannot afford to ignore partisanship or the accompanying policy choices if we hope to explain or mitigate inequality in the U.S.

### *Questions for Further Research*

The empirical connections I established between state parties, policies, and inequality provide some more specific guidance for inequality research as well. From a policy perspective, it is clear that we need to consider a range of mechanisms by which states affect income inequality. Although explicit redistribution through taxes and transfers may be the most obvious means of affecting inequality, I provided strong evidence that state politics shape inequality outcomes even before redistribution. We should continue to explore the particular ways that state governments shape the market distribution. This may include studying other state policy and administration decisions, such as those involving job training, education, and business and financial regulations, as well as economic trends under the different parties. Given the available data, I did not explore, for example, patterns of income growth for different income groups under Democratic versus Republican state governments, as Bartels (2008) does with national data. A valuable contribution for future work would be to construct new measures for the states to see if or how such patterns vary in the states.

At the same time, while we need to look beyond redistribution, we should also not rule out the effects of state tax and transfer policies. Previous literature and the theoretical challenges of state-level redistribution (e.g. Peterson 1995) give the impression that these policies do not matter for state inequality in any systematic way, but I provided evidence to suggest otherwise. Although public welfare spending had just a small impact on post-redistribution inequality, this

significant finding shows that state redistributive mechanisms warrant our attention too. In future work, the effects of state taxation deserve particular attention. State tax policies, like the EITC, can be an important part of the safety net, but they are quite varied (Maag 2012), and we know that regressive tax policies in certain states and regions have significant negative effects on a range of state-level social and economic outcomes (Newman and O'Brien 2011). Recently, several states have adopted "millionaire's taxes" on high income earners, which increase the progressivity of state tax systems and should theoretically reduce income differences.[51] While we should keep in mind important differences between the nature of federal and state taxation – namely that states often strive to stay "competitive" with lower tax rates - we can also update our understanding of the effects of state tax policies on inequality by studying new policy developments.

Aside from delving into additional state-level policy mechanisms, there are many more questions to address about the role of partisanship. Now that we know that parties matter, as well as a few ways *how* they matter, we might also wonder: when and where do parties matter the most (or least)? The relationship between partisanship and inequality held in models with all the states and in models of just the non-Southern states (see Appendix E), but there are additional aspects of state contexts to consider. For instance, what roles do other features of state political systems play, such as legislative professionalization (Squire 1992, 2007), polarization (Shor and McCarty 2011), campaign finance regulations (Gross, Goidel, and Shields 2002; Hamm and Hogan 2008), and interest group environment (Gray and Lowery 2001)? We could also further scrutinize the roles of Governors versus legislatures, perhaps with case studies of their interactions on inequality-related policy decisions. Similarly, how does the effect of partisanship

[51] These states include New Jersey (2004), California (2005), Maryland (2008), Hawaii (2009), New York (2009), Wisconsin (2009), Connecticut (2010), and Oregon (2010).

change over time? Has it indeed grown with polarization, as I have suggested in Chapter 2? A next step for understanding the relationship between government partisanship and inequality is therefore to further embed it in state and time contexts.

Another area for future research is the electoral connection between the parties in government and the public. This is important because the parties (or party members) must of course be elected to office before they can have any influence on outcomes. Studies of state-level elections can provide additional insight into how the parties come to power. Among the possible explanations, we expect the public's partisanship to explain electoral outcomes and government partisanship. With new over time, state-level measures of party identification (Enns and Koch 2013), we can test this relationship. In a similar vein, we can also consider the role of public opinion. There are several ways public opinion may matter for the relationship between government partisanship and inequality in the states. One way is that shifts in public opinion, like those in the electorate's partisanship, may cause changes in partisan composition of state governments. Or, in some cases, changes in public opinion may lead to changes in party identities.

However, this public opinion research will have to contend with evidence that voters react to inequality. Kelly and Enns (2010), for example, show that all income groups become more conservative in response to increases in national inequality. We might first ask whether this pattern is observable at the state-level too, and whether it might vary by state context. In addition, we can consider how the public's response to inequality affects partisan control of government, and even subsequent changes in inequality. For example, one possibility is that when inequality increases under Republicans, public opinion will become more conservative. This now even more conservative electorate will continue to elect Republicans to office, creating

a cycle of increasing inequality. Alternatively, if increases in inequality spur more liberal public opinion in some or all states – in line with the Meltzer-Richard (1981) model - we may see Democrats gain power. These scenarios have many moving parts and methodological challenges, but with state-level measures of public opinion (Enns and Koch 2013) and the use of multi-level models (e.g. Shor et al 2008) we can begin to incorporate the public into the partisan political-economy of state inequality.

***"Federalism Means Inequality"?***

In his 1985 article, "Federalism Means Inequality," Wildavsky concluded with what he described as an inescapable and "compelling truth:" that "federalism and equality of result cannot coexist" (49). His statement was meant broadly, not as a comment on equality of incomes; nevertheless, this dissertation demonstrates that federalism and U.S. income inequality are linked in several important ways. In the first place, state-level changes in partisan control and related policy choices produce variation in income inequality outcomes across states and over time. From a second perspective, we can attribute overall increases in U.S. income inequality to state-level patterns as well. This is because states have a hand in shaping overall national economic outcomes. When *several* states make policy decisions which increase income inequality – or, according to my findings, when Republicans gain control of more state governments – we can expect U.S. income inequality to increase. In both of these ways, yes, federalism means inequality.

As discussed above, these findings raise many questions for future research; but perhaps the most daunting question raised is: what is the appropriate response to these state-level political explanations for inequality? Are we to accept them as an unavoidable product of federalism? Should we be satisfied with unequal outcomes in the states, especially if they reflect voters'

choices about what party to put in power? This answer may depend partly on whether those in power are responsive to or representative of their constituencies. Still, if some states, at some points in time, fail to address income inequality, leaving segments of their populations relatively more vulnerable, it may fall on other states to take care of those worse off. For instance, some states contribute much more into federal coffers than they get out, while others benefit disproportionately from this cross-state redistribution (Tax Foundation 2007). Thus, rising inequality and economic distress in one state may be partly relieved by resources from another. Clearly, the effects of state-level political decisions do not stop at state borders.

Although I began this project with an understanding that federalism produces inequality, and in many ways this is supported by my findings, I will also note in closing that states can play an important role in *mitigating* inequality. In the preceding chapters, we observed that when Democrats gained power in state governments, growth of income inequality was reduced or reversed. State governments and policymakers have the capacity to implement policies that lessen income differences, such as by enacting higher state minimum wages or increasing public employment or welfare spending. There are a myriad of other state policy areas which might have similar effects. And when many state governments are controlled by Democrats and/or implement such policies, we might expect decreasing inequality on a national scale. In this way, the states are not simply a source of problems, holding the blame for rising income inequality; rather, because of their critical policy and governing roles, they can also provide solutions. Indeed, state policy innovations often precede national policy changes or diffuse to other states (Nathan 2008, Zackin 2013). In the area of inequality, states may provide key leadership on economic development policies that reduce income disparity and are traditionally their strength, although the introduction of high-income taxes is a noteworthy state development too. Of course,

the spread of inequality-reducing policies across states seems much less likely than the divergence of states when party control shifts in different directions, or an overall pattern of increasing inequality with Republicans gains in state governments; nevertheless, this prospect sheds new light on Wildavsky's "compelling truth." Federalism may not always "mean inequality," but we cannot understand U.S. income inequality without it.

# APPENDIX A
## Descriptive Statistics

**Table A 1 Variable Summary Statistics**

| Variable | Mean | Std. Dev. | Min. | Max. | Source |
|---|---|---|---|---|---|
| **Inequality Measures** | | | | | |
| Top 10% Income Share | 34.44 | 4.90 | 25.30 | 53.85 | Frank (2008; 2009) |
| Top 1% Income Share | 10.70 | 3.79 | 4.68 | 27.52 | Frank (2008; 2009) |
| Gini Coefficient | 50.84 | 5.70 | 39.89 | 71.56 | Frank (2008; 2009) |
| Post-redistribution Gini Coefficient | 41.41 | 3.13 | 34.17 | 51.07 | Kelly and Witko (2012) |
| | | | | | |
| **Government Partisanship** | | | | | |
| Democratic Governor (dummy) | 0.55 | 0.50 | 0.00 | 1.00 | Klarner (2013) |
| Lower House Democrats (proportion) | 0.58 | 0.18 | 0.13 | 1.00 | Klarner (2013) |
| Lower House Democratic Control (dummy) | 0.65 | 0.47 | 0.00 | 1.00 | Klarner (2013) |
| Democratic Legislative Control (dummy) | 0.63 | 0.43 | 0.00 | 1.00 | Klarner (2013) |
| Democratic Legislative Control, budget supermajority (dummy) | 0.63 | 0.43 | 0.00 | 1.00 | Klarner (2013) |
| Unified Democrat (dummy) | 0.32 | 0.46 | 0.00 | 1.00 | Klarner (2013) |
| Unified Republican (dummy) | 0.15 | 0.36 | 0.00 | 1.00 | Klarner (2013) |
| Democratic Control, proportion of branches | 0.60 | 0.35 | 0.00 | 1.00 | Klarner (2013) |
| Democratic President (dummy, national-level) | 0.33 | 0.48 | 0.00 | 1.00 | Kelly and Witko (2012) |
| Congressional Democrats (percent, national-level) | 0.55 | 0.07 | 0.46 | 0.66 | Kelly and Witko (2012) |
| | | | | | |
| **Policies** | | | | | |
| Public employment (percent total jobs) | 11.62 | 1.58 | 8.17 | 16.93 | Bureau of Economic Analysis |
| Statutory minimum wage (dollars) | 3.1 | 1.82 | 0 | 7.35 | Bureau of Labor Statistics |
| State Public Welfare Spending, per poor person (dollars) | 810 | 662 | 7.91 | 5607 | Census of State and Local Gov. |

| | | | | | |
|---|---|---|---|---|---|
| **Demographic and Economic Indicators** | | | | | |
| African-American (percent of population ) | 9.44 | 9.39 | 0.12 | 42.04 | Census |
| Latino (percent of population) | 6.15 | 8.10 | 0.32 | 46.30 | Census |
| College Degree (percent of population) | 19.24 | 6.10 | 6.70 | 40.40 | Census |
| Over Age 65 (percent of population) | 11.68 | 2.30 | 2.25 | 18.55 | Census |
| Real Per Capita Income (thousands, 2005 dollars) | 25.31 | 6.33 | 9.71 | 48.13 | Bureau of Economic Analysis |
| Per Capita Dividends Income (thousands, 2005 dollars) | 4.39 | 1.76 | 0.88 | 12.33 | Bureau of Economic Analysis |
| Real GDP growth (percent change, calculated with 2005 dollars) | 2.52 | 3.86 | -27.97 | 29.45 | Bureau of Economic Analysis |
| Nominal Per Capita Income (thousands, current dollars) | 19.6 | 8.46 | 5.23 | 48.13 | Bureau of Economic Analysis |
| Union Membership (percent) | 18.09 | 8.65 | 2.30 | 44.80 | Hirsch et al Unionstats.com |
| Finance Jobs (percent total jobs) | 5.32 | 1.27 | 2.88 | 12.38 | Bureau of Labor Statistics |
| Manufacturing Jobs (percent total jobs) | 17.85 | 8.88 | 2.32 | 43.03 | Bureau of Labor Statistics |
| Unemployment Rate(percent) | 5.83 | 1.99 | 2.3 | 17.4 | Bureau of Labor Statistics |

**Figure A 1 Percentage Increase in States' Top 1% Income Shares**

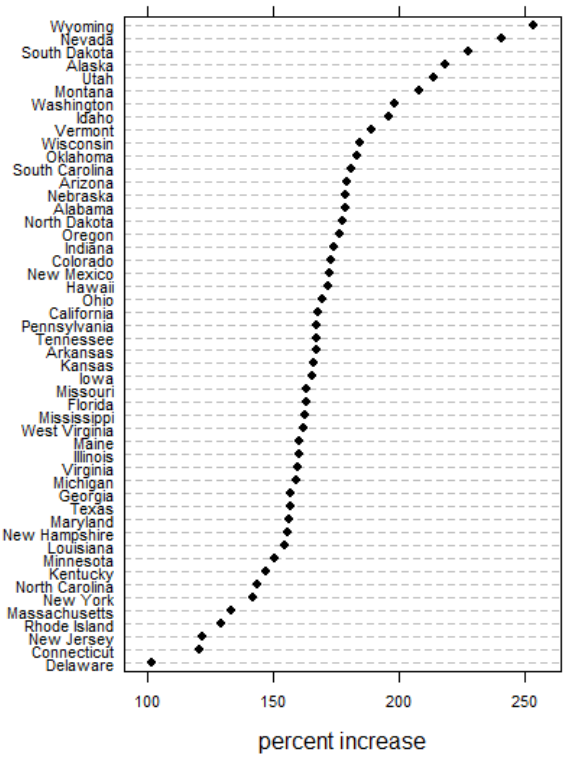
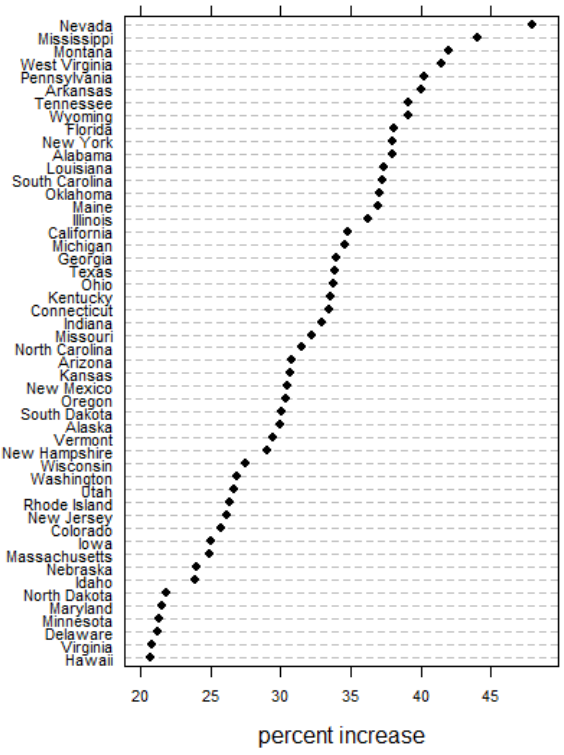



**Figure A 2 Percentage Increase in States' Gini Coefficients, 1970-2005**



## APPENDIX B
## Additional State Government Party Composition and Inequality Figures

In Chapter 2, I presented a series of maps of the partisan composition of state governments in Figures 2.2 – Figures 2.5. Figures B1 through B6 in this appendix provide alternative ways to view these data. Like the maps in Chapter 2, these figures show the over time and between state variation in proportion of Democratic state legislators, including variation within regions, as well as cross-state differences in partisanship of the Governor. Figures B7 through B10 provide alternative graphs of the relationship between national inequality and the percent of Republican state legislators and Governors, aggregated and weighted by state population. The original figure in Chapter 2 – Figure 2.8 - graphs the 80:20 income percentile ratio with partisanship; Figures B7 through B10 use income shares for the top 10 and top 1%.

**Figure B 1 Percent of Democratic Legislators, Lower House: 1970, 1987, and 2005**

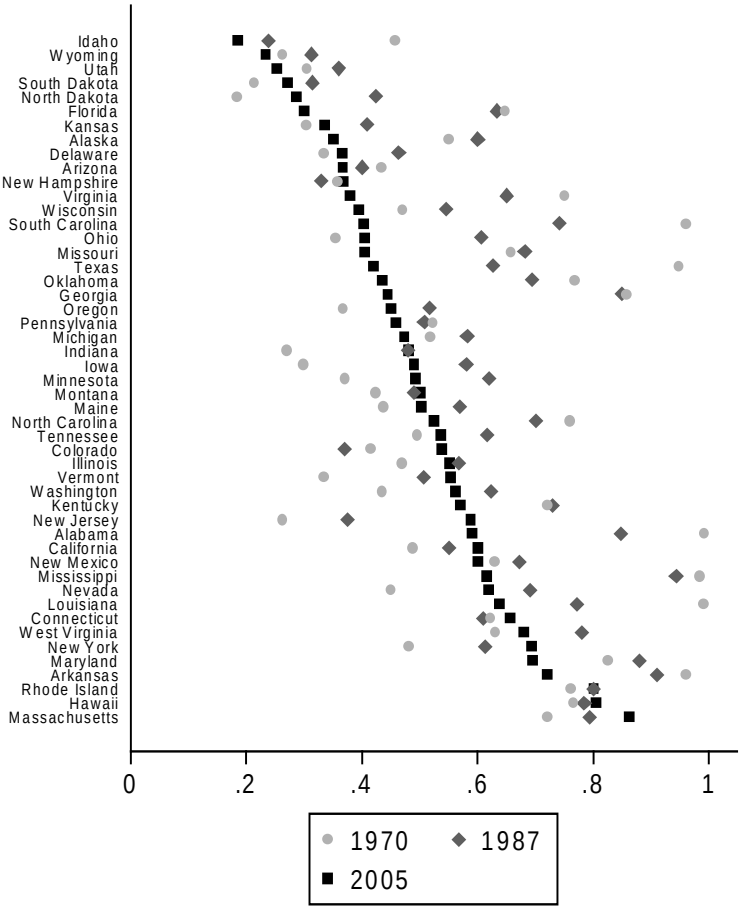



**Figure B 2 Percent of Democratic Legislators, Lower House, 1970 - 2000, Northeast**

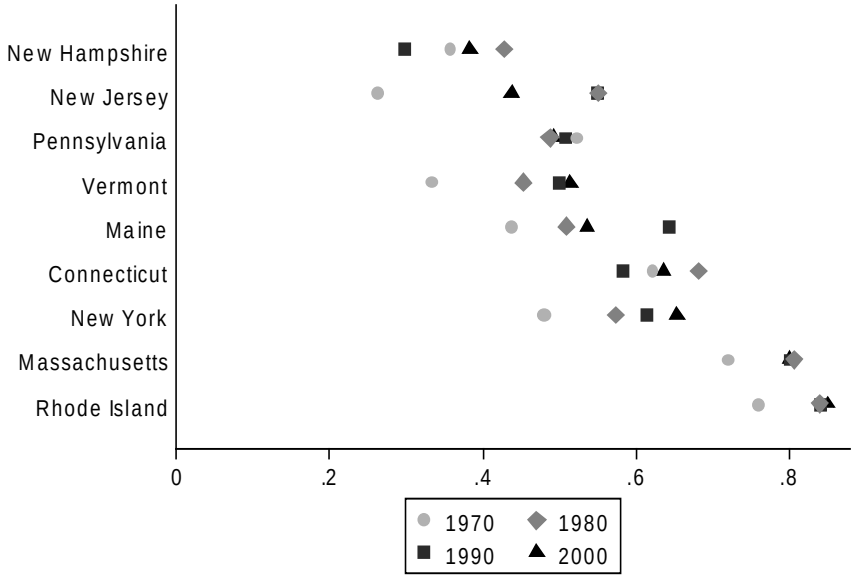


**Figure B 3 Percent of Democratic Legislators, Lower House, 1970-2000, Midwest**

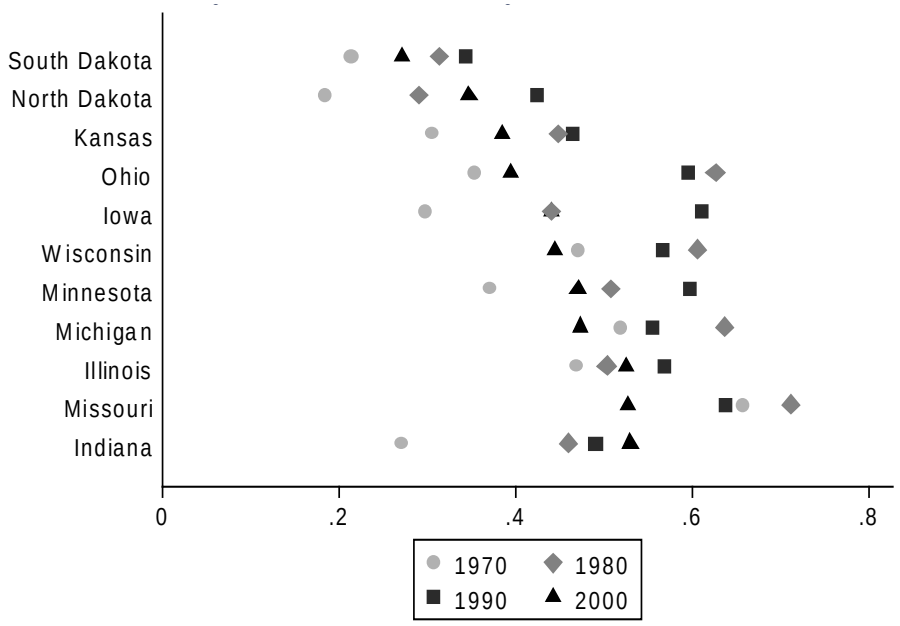



**Figure B 4 Percent of Democratic Legislators, Lower House, 1970-2000, South**

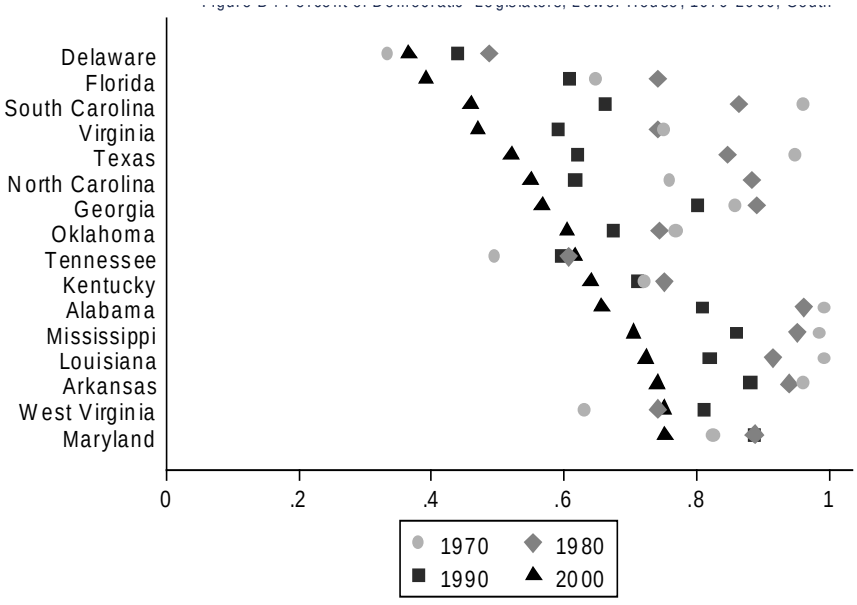


**Figure B 5 Percent of Democratic Legislators, Lower House, 1970-2000, West**

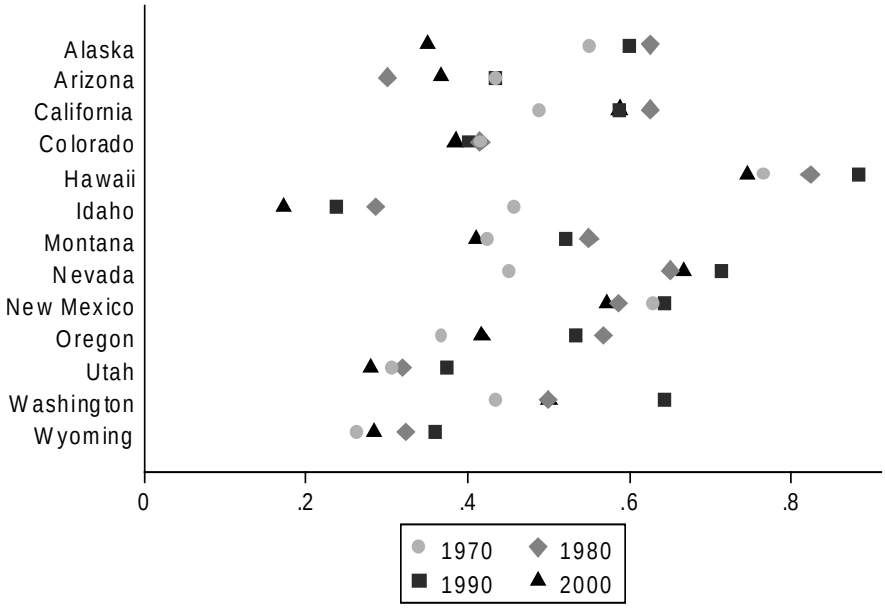



**Figure B 6 Mean of Democratic Governor, 1970-2005**

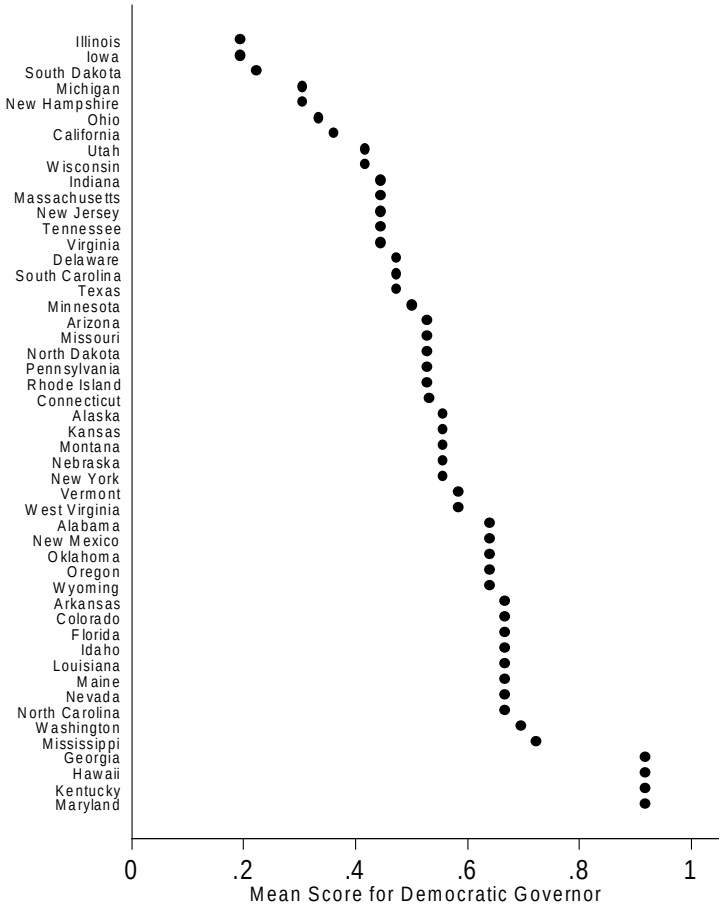


**Figure B 7 National Top Decile Income Share and Republican State Legislators, 1970-2005**

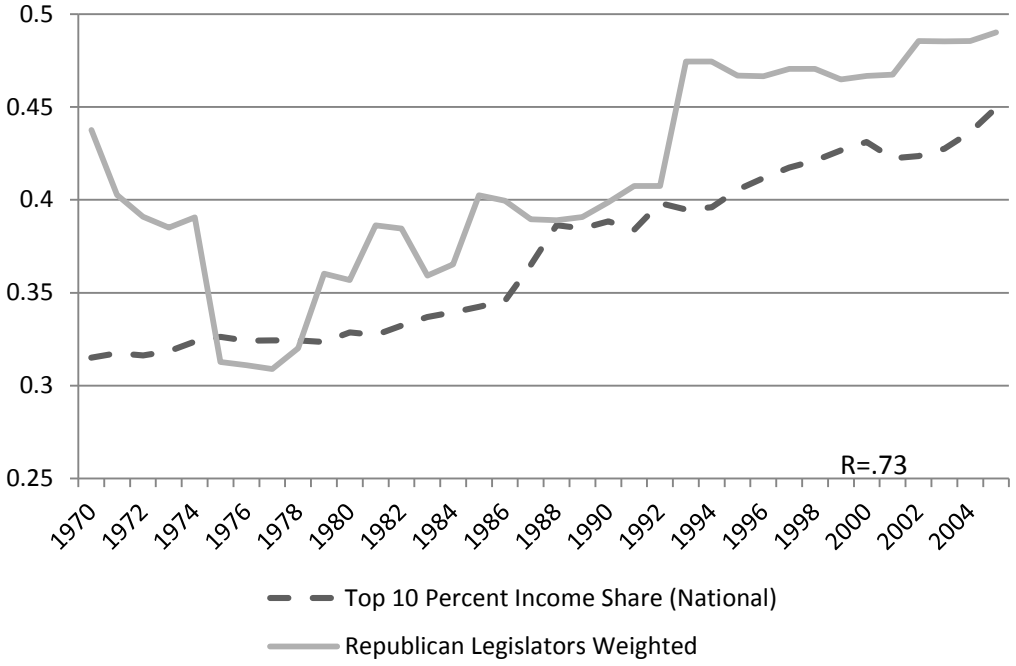



**Figure B 8 National Top 1% Income Share and Republican State Legislators, 1970-2005**

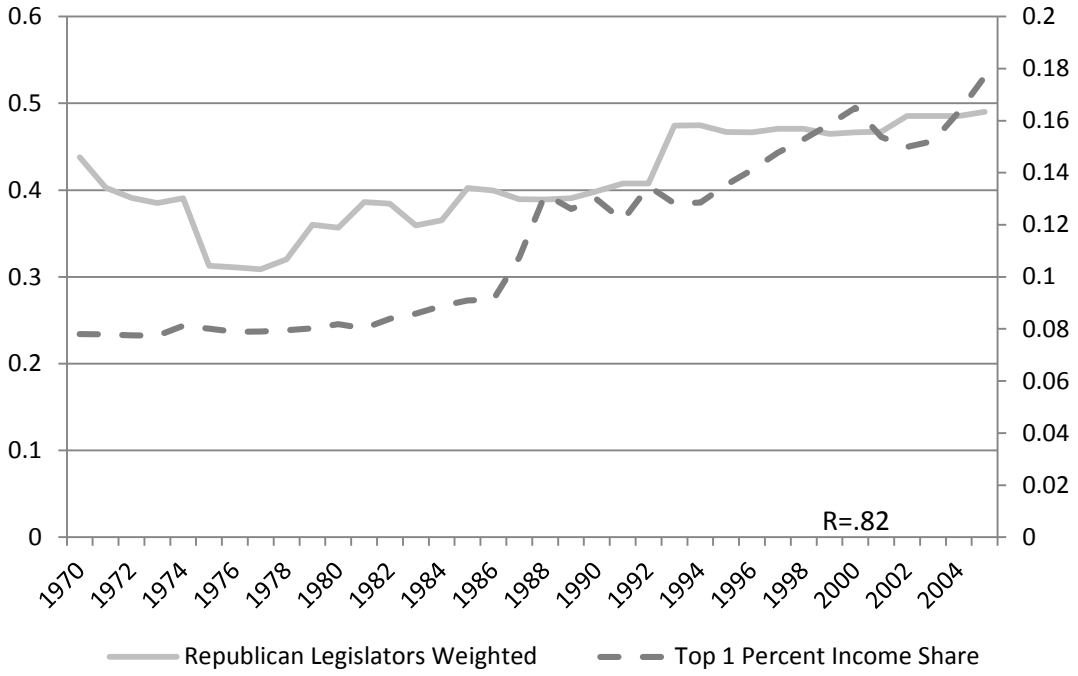


**Figure B 9 National Top Decile Income Share and Republican Governors, 1970-2005**

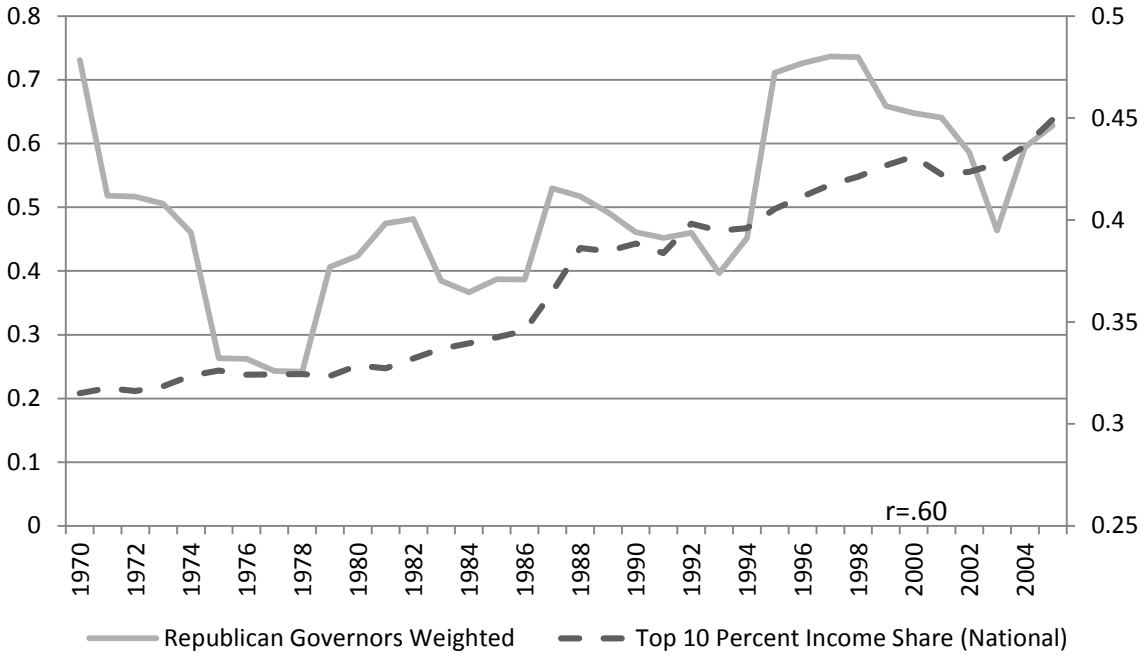
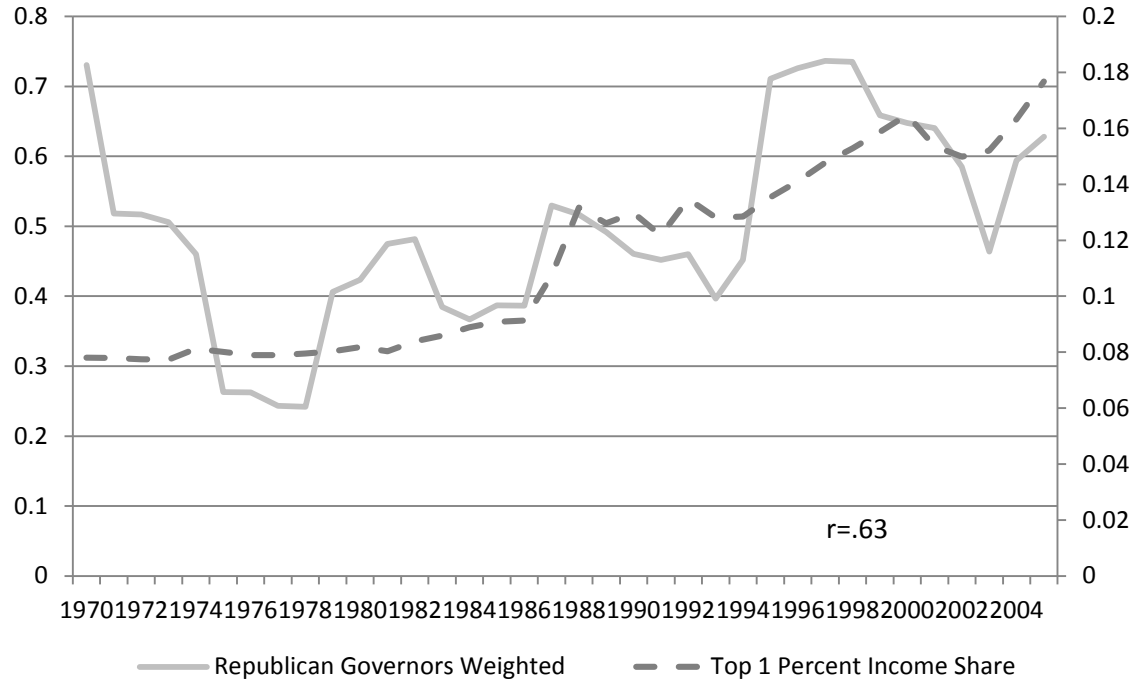


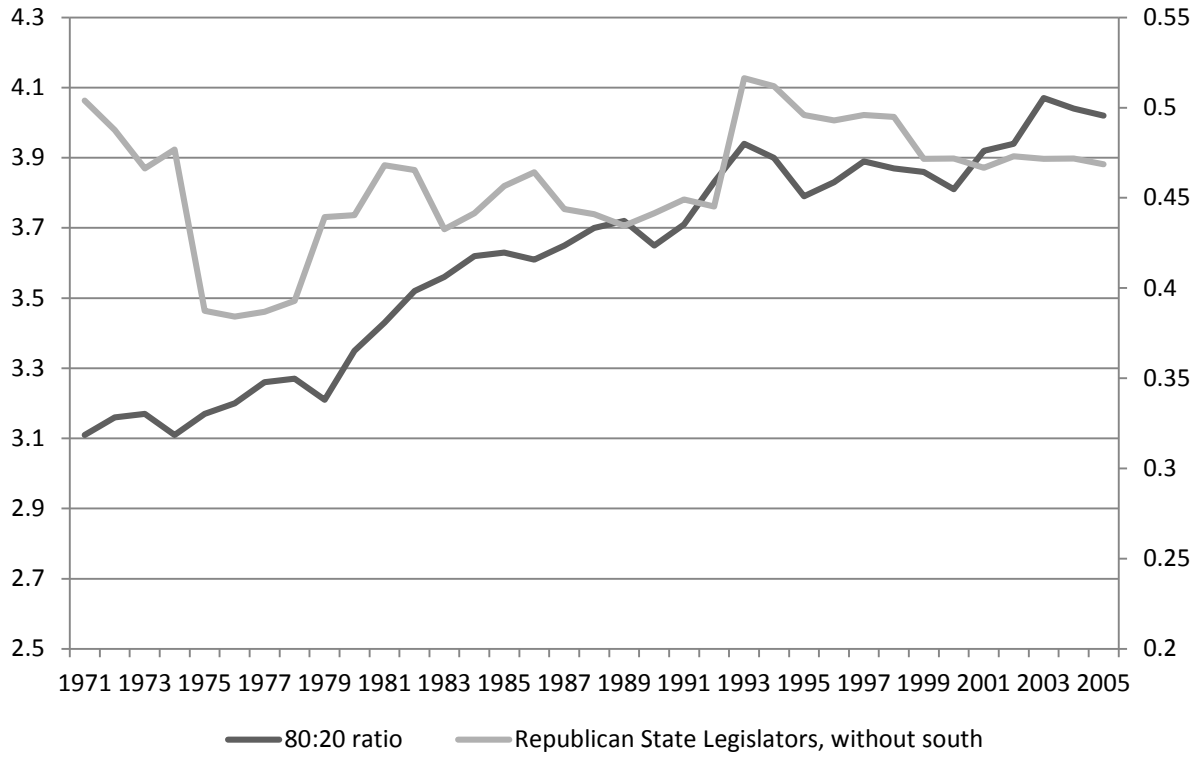

**Figure B 10 National Top 1% Income Share and Republican Governors, 1970-2005**



***The South***

Given the somewhat distinct behavior of the South as it realigned in the early part of the series – becoming more Republican over time as race and economic issues converged – do we still observe the relationship between state partisanship and national inequality if we exclude Southern states? In Figure B11 below I recreate Figure 2.8, without the South. While the correlation between the weighted percent of Republican legislators and the national 80:20 ratio does decrease from r=.77 to about r=.45, there is still a clear positive relationship. This suggests that the realignment of the South along economic lines is an important part of the relationship between state government party composition and inequality, but it is not the *only* component. Partisanship trends outside the distinctive South clearly matter as well.

**Figure B 11 National 80:20 Income Percentile Ratio and Republican State Legislators, Excluding South, 1970-2005**



## APPENDIX C
## Income, Economic Interests, and Public Partisanship

There are a few ways to think about the economic division between the parties.[52] The theory presented in Chapter 2 hinges on the different economic platforms of the parties in government, which are well-established. Of course, according to the partisan model referenced in the main text of Chapter 2, these economic approaches are rooted in the economic interests of distinct constituencies. Observing this difference at the mass level can provide further support for the overall economic model of the parties.

One way to show that the parties are economically distinct in this way is to look at the voting behavior of different income groups. Is there more support among lower and middle income groups for Democratic candidates and more support among upper income groups for Republican candidates? Gelman et al (2010) present empirical evidence that this is the case. Specifically, income has been a good predictor of party support since about the early 1970s, with the rich more likely to vote Republican and the poor more likely to vote Democratic. Although they also find that rich voters in rich states have become more likely to vote Democratic since the 1990s, the economic *policy* platform has not shifted during this time (Gelman 2010). Elsewhere, Ansolabahere et al (2006) and Bartels (2006) find that economic issues, rather than cultural ones, are still the central concern for voters. Similarly, Stonecash et al (2000) find that differences in voting by income have been increasing since the 1970s.

To see how income is relevant in state-level elections in particular, I compared self-reported gubernatorial votes for low, middle, and high income groups for the second half of the 20th century using data from the American National Election Studies (ANES). Table C1 shows

[52] For instance, the polarization literature addresses polarization of the electorate as well as of the parties in government (see Layman, Carsey, and Horowitz 2006).

that there is more support for the Democratic gubernatorial candidate among the low and middle income groups and more support for the Republican candidate in the higher income group.[53] This is a simple analysis, but it suggests that income and economic interest is a basis for party support for state-level offices as well as national ones.

**Table C 1 Income-Based Voting in Gubernatorial Elections, Pooled 1952-1998**

| | Republican | Democrat |
|---|---|---|
| Low Income | 38% | 62% |
| Middle Income | 44% | 56% |
| High Income | 52% | 48% |

Source: American National Election Studies Cumulative File

An alternative approach for examining the parties' economic constituencies is to look at patterns in party identification. Enns and Koch (2013) created over-time state-level measures of party identification and policy mood, a measure of support for more or less government, for each state for 1956-2009. Using these measures, I test the relationship between state personal income and policy mood and the percent of Democratic identifiers in the state. The above analysis of individual-level voting behavior showed higher levels of support for Democrats among low and middle income voters. In this state-level analysis, we should observe a negative relationship between income and the percent of Democratic identifiers. In addition, if it is true that Democrats favor a more active government and Republicans a more limited one, we should see a positive relationship between mood – indicative of support for more government – and the percent of Democratic identifiers.

The state policy mood measure is created using questions for a variety of policy areas

[53] Calculation done with ANES cumulative file. Income groups are divided into tertiles or lower, middle, and upper third. Available gubernatorial election years were 1952, 1958, 1964, 1966, 1968, 1970, 1972, 1974, 1976, 1978,

designed to tap overall support for more or less government.[54] To be sure that this variable mainly captures economic preferences, I re-create the measure and eliminate all questions that might capture a cultural dimension instead, specifically questions pertaining to abortion, the death penalty, and gun control. This is important because of the recent saliency of cultural issues at the state-level (e.g. Barclay & Fisher 2003, Fleischmann & Moyer 2009, Lax & Phillips 2009, Roh & Berry 2008) and some specific arguments that cultural or moral preferences rather than economic ones explain voting behavior in recent years (e.g. Frank 2004). The original mood measure and this alternative measure of economic mood are correlated at r=.69. The economic mood series ranges from about 26 to 91 on a scale of 100, with higher values indicating a more liberal policy mood, or support for more government. The average mood score is 44.

Along with economic mood and per capita personal income in the state, adjusted for inflation, I control for the percent of Democratic identifiers in the previous year. This lagged dependent variable addresses the effect of time and evidence that partisan identity is relatively stable over time (e.g. Green, Palmquist, and Schickler 2002). The percent of Democratic identifiers in the state ranges from about 15 to 79, with a mean of 39. I also control for demographic factors which we know to influence partisanship: race, age, and gender, specifically the percent of African-Americans in the state, the percent of individuals over age 65, and the percent of female residents. Real state GDP is included to account for changes in the state of the economy; Erikson, MacKuen, and Stimson (2002) show that national macropartisanship responds to economic evaluations. Finally, to address the South's realignment, I include an interaction term, created by multiplying a dummy for Southern states by the year. I estimate a

---

1980, 1982, 1986, 1990, 1994, 1998. For the purposes of this basic tabulation, I pool all years together to increase the number of observations. Percent voting Democrat and Republican are out of the two-party vote.

[54] See Enns and Koch (2013) for additional discussion of the creation of the state mood series and specific survey data and questions used.

fixed effects model with these data to control for any omitted state differences.

The results, reported in Table C2, are what we expect if economic interests (income) and preferences (mood) are a basis for partisanship at the state-level. Income is negatively related to the percent of Democrats at the state level, while greater support for more government is associated with a greater percent of Democrats. Both of these results point to the relevance of economic interests and preferences for state-level public partisanship during the period of interest for this dissertation and lend additional support to the partisan model I employ for my theory. When combined with more extensive studies of the voting behavior of different income groups, we have substantial evidence that the parties differ in both their economic policies *and* constituencies, including in the states.

**Table C 2 Determinants of Percent of Democratic Partisans by State, 1970-2005**

| | | |
|---|---|---|
| Percent Democrat t-1 | 0.365* | (0.022) |
| Economic Mood (liberal) | 0.0685* | (0.021) |
| Per Capita Income (2005 $1000s) | -0.200* | (.052) |
| Percent African-American | 0.450* | (0.164) |
| Percent Female | 0.101 | (0.550) |
| State GDP (2005 $1000s) | -.006* | (.002) |
| Percent over Age 65 | -1.504* | (0.166) |
| South x Year | -0.221* | (0.022) |
| Constant | 175.2* | (29.63) |
| | | |
| N | 1,800 | |
| R-squared | 0.623 | |
| States | 50 | |

* p<0.05, two-tailed

Among the control variables, the results for the percent of elderly and percent of African-American residents are also what we would expect; states with higher percentages of African-Americans and smaller elderly populations are also significantly more Democratic. Surprisingly, although a gender gap in partisanship has developed since about 1980, the percent of female

residents is not a significant predictor of the percent of Democratic partisans in the state. The interaction between South and year is negative and significant, indicating that Southern states have become less Democratic over time. This is, of course, consistent with the South's realignment.

## APPENDIX D
## Robustness Checks with National-Level Political Controls

Because my primary interest is in state-level inequality, I limit my models to state-level predictors. Of course, just as I have argued that state-level politics are relevant for national inequality, we expect national-level politics to affect inequality in the states. To be sure that the state partisanship variables are not merely capturing national political trends, I re-estimate state-level inequality models from Chapter 3 with additional controls for the percent of Democrats in Congress and a dummy variable for Democratic Presidents. I reduce the number of state-level control variables, but include those for state demographics and union rates. The results for these models are reported in Table D1 Notice that changes in the proportion of Democratic state legislators continue to have a negative, significant relationship with the changes in the top decile's share, the Gini coefficient, and a negative relationship ($p<.10$) with the top 1%'s share. Electing a Democratic Governor continues to be negatively and significantly associated with changes in the top decile's share. These findings lend additional support to my theory that the actions of the parties in *state legislatures* impact changes in state inequality.

In addition to the significant coefficients for state-level partisanship, we also see a negative, significant relationship between increases in the proportion of Democrats in Congress and changes in inequality in the states in Table D1. This is what we would expect if Democratic officeholders – and their policies – have a mitigating effect on the growth of inequality, and it further illustrates the partisan nature of changes in U.S. inequality. Indeed, the proportion of Congressional Democrats has quite a large effect on the measures of state-level inequality, particularly on the top 1%'s income share, suggesting that *national* partisanship may matters more for this particular type or measure of inequality. This result makes sense if we consider that

national-level regulatory and tax policies are likely especially relevant for top 1% income shares. The top 1% result is also consistent with some previous findings by Volscho and Kelly (2012). They found that rightward shifts in Congress contribute to the growing income share of the top 1% between 1949 and 2008. Still, measures of *state* partisanship have statistically and substantively significant relationships with the top decile's share and Gini coefficient, even controlling for Congressional and Presidential partisanship. Democratic Presidents have a mixed effect; there is a surprising short term positive effect, but a long term negative one that conforms to expectations (Bartels 2008).

**Table D 1 Relationship between State and National Government Partisanship and Changes in State-Level Inequality**

| Dependent Variable | Top Decile | | Top One Percent | | Gini | |
|---|---|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.230* | (0.017) | | | | |
| Top One Percent Share $_{t-1}$ | | | -0.327* | (0.022) | | |
| Gini $_{t-1}$ | | | | | -0.201* | (0.016) |
| Δ Democratic Governor | -0.212* | (0.088) | -0.093 | (0.124) | -0.131 | (0.125) |
| Democratic Governor $_{t-1}$ | -0.135* | (0.061) | -0.047 | (0.085) | -0.130 | (0.086) |
| Δ Lower House Democrats | 0.318 | (0.653) | 0.060 | (0.923) | -0.493 | (0.932) |
| Lower House Democrats $_{t-1}$ | -0.828* | (0.391) | -1.053† | (0.554) | -1.920* | (0.560) |
| Δ Democratic President | 0.755* | (0.081) | 0.635* | (0.115) | 0.196 | (0.116) |
| Democratic President $_{t-1}$ | -0.0223 | (0.066) | -0.345* | (0.089) | -0.467* | (0.090) |
| Δ Congressional Democrats | -3.922* | (1.073) | -8.165* | (1.514) | -4.272* | (1.519) |
| Congressional Democrats $_{t-1}$ | -6.329* | (0.819) | -10.33* | (1.154) | -3.325* | (1.168) |
| Δ Union | -0.0327 | (0.019) | -0.022 | (0.026) | -0.0465 | (0.027) |
| Union $_{t-1}$ | -0.086* | (0.013) | -0.056* | (0.018) | -0.085* | (0.019) |
| Δ African-American | -1.574* | (0.302) | -0.856* | (0.430) | -0.884* | (0.430) |
| Δ Latino | -0.412 | (0.318) | -0.078 | (0.448) | -0.441 | (0.455) |
| Latino $_{t-1}$ | 0.109* | (0.021) | 0.103* | (0.028) | 0.0293 | (0.028) |
| Δ Over Age 65 | 1.062* | (0.275) | 1.461* | (0.389) | 0.517 | (0.393) |
| Δ Per Capita Income | 0.407* | (0.042) | 0.511* | (0.059) | 0.080 | (0.059) |
| Per Capita Income $_{t-1}$ | 0.083* | (0.016) | 0.089* | (0.021) | 0.070* | (0.020) |
| Constant | 11.25* | (0.770) | 8.423* | (0.961) | 13.77* | (1.270) |
| N | 1,447 | | 1,445 | | 1,447 | |
| R-squared | 0.315 | | 0.280 | | 0.154 | |
| States | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05, † p<.10, two-tailed.

## APPENDIX E
## Results for Non-Southern States Only and Inequality Models with South x Year Dummy

State literature often treats the South as distinct from other regions. We saw in Chapter 2 that the South has experienced the largest partisan shifts in this period of interest, with most states, at least in the Deep South, becoming increasingly Republican as this region realigned. To be sure that this pattern is not driving the effect of partisanship on inequality found in Chapter 3 or on the policies in Chapters 4 and 5, I include versions of the models excluding all Southern states in this appendix. Table E1 reports the results from Chapter 3 without the South. The models in this table are comparable to the version 1 models of Tables 3.1, 3.2, and 3.3. Notice that for each dependent variable, the percent of Democratic legislators continues to have a significant, negative relationship with changes in inequality. This suggests that the significant, over time relationship between partisanship and inequality is not merely a product of the South's distinctive pattern during this time.

**Table E 1 Economic and Political Determinants of Top Decile Shares, Top 1% Percent Shares, and Gini Coefficients for Non-Southern States**

| Dependent Variable | Top Decile | | Top 1 Percent | | Gini | |
|---|---|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.243* | (0.019) | | | | |
| Top One Percent Share $_{t-1}$ | | | -0.310* | (0.024) | | |
| Gini $_{t-1}$ | | | | | -0.280* | (0.020) |
| Δ Democratic Governor | -0.021 | (0.110) | 0.146 | (0.143) | -0.096 | (0.143) |
| Democratic Governor $_{t-1}$ | -0.122 | (0.075) | -0.056 | (0.097) | -0.127 | (0.097) |
| Δ Lower House Democrats | 0.288 | (0.639) | -1.184 | (0.833) | -0.181 | (0.830) |
| Lower House Democrats $_{t-1}$ | -1.730* | (0.461) | -3.021* | (0.603) | -1.700* | (0.605) |
| Δ Union | -0.055* | (0.022) | -0.071* | (0.028) | -0.050 | (0.029) |
| Union $_{t-1}$ | -0.075* | (0.014) | -0.087* | (0.018) | -0.063* | (0.020) |
| Δ African-American | -2.278* | (0.364) | -1.345* | (0.479) | -1.097* | (0.481) |
| Δ Latino | 0.188 | (0.351) | 0.595 | (0.457) | 0.045 | (0.464) |
| Latino $_{t-1}$ | 0.126* | (0.024) | 0.104* | (0.029) | 0.065* | (0.029) |
| Δ Over Age 65 | 0.584 | (0.322) | 1.002* | (0.408) | 0.465 | (0.415) |
| Δ Per Capita Income | 0.234* | (0.046) | 0.322* | (0.060) | -0.156* | (0.060) |
| Per Capita Income $_{t-1}$ | 0.117* | (0.018) | 0.145* | (0.029) | 0.056* | (0.027) |
| Δ Dividends Income | 0.628* | (0.152) | 0.695* | (0.197) | 0.950* | (0.198) |
| Dividends Income $_{t-1}$ | 0.123 | (0.066) | | | 0.461* | (0.090) |
| Δ College Grads | -0.006 | (0.028) | -0.006 | (0.038) | 0.046 | (0.037) |
| Δ Manufacturing | 0.084 | (0.064) | -0.065 | (0.084) | 0.186* | (0.084) |
| Δ Finance | -0.969* | (0.226) | -1.002* | (0.294) | -1.120* | (0.295) |
| Constant | 6.796* | (0.761) | 2.197* | (0.790) | 13.65* | (1.542) |
| | | | | | | |
| N | 1,131 | | 1,129 | | 1,131 | |
| R-squared | 0.240 | | 0.214 | | 0.195 | |
| States | 33 | | 33 | | 33 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

Tables E2 and E3 report the results for the Chapter 4 models excluding Southern states. Table E2 is comparable to the partisan models in Tables 4.2 and 4.4. Even excluding the South, we continue to observe significant, positive relationships between Democratically-controlled legislatures and changes in public employment and the minimum wage, although the overall

explanatory power of the minimum wage model is reduced. Table E3 is comparable to Tables 4.3 and 4.5. Once again, we see that both public employment and the minimum wage continue to have significant, negative relationships with inequality when we consider just non-Southern states.

**Table E 2 Relationships between Government Partisanship and Changes in State Public Employment and State Minimum Wages, Non-Southern States**

| Dependent Variable | Public Sector Jobs | | Minimum Wage | |
|---|---|---|---|---|
| Public Sector Jobs $_{t-1}$ | -0.141* | (0.013) | | |
| State Minimum Wage $_{t-1}$ | | | -0.133* | (0.018) |
| Δ Democratic Legislative Control (budget supermajority) | 0.069* | (0.026) | | |
| Democratic Legislative Control $_{t-1}$ (budget supermajority) | 0.072* | (0.021) | | |
| Δ Democratic Legislative Control | | | 0.054 | (0.064) |
| Democratic Legislative Control $_{t-1}$ | | | 0.122* | (0.048) |
| Δ Democratic Governor | 0.046* | (0.021) | -0.017 | (0.039) |
| Democratic Governor $_{t-1}$ | 0.009 | (0.014) | 0.032 | (0.027) |
| Δ Unemployment | 0.098* | (0.008) | 0.037* | (0.015) |
| Unemployment $_{t-1}$ | 0.007 | (0.005) | -0.024* | (0.009) |
| Δ Union | 0.001 | (0.004) | -0.003 | (0.008) |
| Union $_{t-1}$ | -0.004 | (0.002) | -0.009 | (0.006) |
| Δ Government Debt | -1.14e-06 | (6.90e-06) | | |
| Government Debt $_{t-1}$ | -2.49e-06 | (3.31e-06) | | |
| Δ Real GDP Growth | -0.013* | (0.002) | | |
| Real GDP Growth $_{t-1}$ | -0.015* | (0.002) | | |
| Δ PC Income (nominal) | | | 2.18e-05 | (2.61e-05) |
| PC Income (nominal) $_{t-1}$ | | | 2.06e-05* | (4.66e-06) |
| Δ Manufacturing | | | 0.058* | (0.027) |
| Manufacturing $_{t-1}$ | | | 0.014* | (0.006) |
| Constant | 1.669* | (0.144) | 0.190 | (0.216) |
| N | 936 | | 935 | |
| R-squared | 0.407 | | 0.095 | |
| States | 33 | | 33 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

**Table E 3 Relationships between State Public Employment and State Minimum Wages and Changes in State-Level Inequality, Non-Southern States**

| Dependent Variable | Top Decile | | Gini | |
|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.234* | (0.020) | | |
| Gini $_{t-1}$ | | | -0.227* | (0.020) |
| Δ Public Sector Jobs | -0.711* | (0.174) | | |
| Public Sector Jobs $_{t-1}$ | -0.135* | (0.068) | | |
| Δ State Minimum Wage | | | -0.015 | (0.131) |
| State Minimum Wage $_{t-1}$ | | | -0.179* | (0.068) |
| Δ African-American | -2.316* | (0.370) | -1.198* | (0.494) |
| African-American $_{t-1}$ | 0.166 | (0.103) | 0.167 | (0.138) |
| Δ Latino | -0.038 | (0.394) | 0.048 | (0.526) |
| Latino $_{t-1}$ | 0.150* | (0.027) | 0.083* | (0.034) |
| Δ Over Age 65 | 1.495* | (0.335) | 1.138* | (0.448) |
| Over Age 65 $_{t-1}$ | 0.394* | (0.053) | 0.442* | (0.071) |
| Δ Per Capita Income | 0.375* | (0.055) | 0.095 | (0.066) |
| Per Capita Income $_{t-1}$ | 0.111* | (0.025) | 0.089* | (0.031) |
| Δ College Grads | -0.002 | (0.028) | 0.039 | (0.038) |
| College Grads $_{t-1}$ | 0.032 | (0.022) | 0.058 | (0.032) |
| Constant | 0.013 | (1.026) | 2.760* | (0.896) |
| | | | | |
| N | 1,020 | | 1,020 | |
| R-squared | 0.252 | | 0.131 | |
| States | 34 | | 34 | |

Note: OLS regression coefficients with standard errors in parentheses.
All models include state fixed effects. * p<0.05 two-tailed.

Tables E4 and E5 provide results for the Chapter 5 models for non-Southern states only. The models in Table E4 are comparable to versions 1 and 4 of the partisan models in Table 5.1, which include variables for Democratic Governors and the proportion of Democrats in the lower house (version 1) and the proportion of branches of the government controlled by Democrats (version 4). Without the South, we continue to observe significant positive, relationships between Democratic Governors and Democratically-controlled government and changes in

welfare spending. Similarly, in Table E5, comparable to Table 5.2, welfare expenditures in non-Southern states have a significant, negative relationship with changes in inequality.

**Table E 4 Relationship between Government Partisanship and Changes in State Public Welfare Spending, Non-Southern States**

| | (1) | | (2) | |
|---|---|---|---|---|
| Welfare Spending $_{t-1}$ | -0.275* | (0.025) | -0.279* | (0.025) |
| Δ Lower House Democrats | -82.02 | (204.6) | | |
| Lower House Democrats $_{t-1}$ | 97.68 | (150.7) | | |
| Δ Democratic Governor | 24.71 | (32.68) | | |
| Democratic Governor $_{t-1}$ | 43.68* | (21.94) | | |
| Δ Democratic Government Control | | | 26.25 | (57.86) |
| Democratic Government Control $_{t-1}$ | | | 94.07* | (44.39) |
| Δ Latino | 237.8* | (113.2) | 251.0* | (112.7) |
| Latino $_{t-1}$ | -12.09 | (8.523) | -12.50 | (8.466) |
| Δ Real GDP Growth | 5.741* | (2.733) | 5.593* | (2.708) |
| Real GDP Growth $_{t-1}$ | 6.727* | (3.413) | 6.670* | (3.377) |
| Δ Per Capita Income | 11.12 | (16.31) | 12.24 | (16.00) |
| Per Capita Income $_{t-1}$ | -2.760 | (5.686) | -3.411 | (5.582) |
| Δ African-American | -363.8 | (275.6) | -343.4 | (273.5) |
| African-American $_{t-1}$ | -56.57 | (34.15) | -43.50 | (33.86) |
| Δ Over Age 65 | 123.4 | (88.78) | 101.6 | (87.97) |
| Over Age 65 $_{t-1}$ | 8.254 | (13.75) | 6.062 | (13.58) |
| Constant | 478.9* | (212.6) | 489.5* | (186.7) |
| | | | | |
| N | 777 | | 792 | |
| R-squared | 0.172 | | 0.174 | |
| States | 33 | | 33 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

**Table E 5 Relationship between Welfare Spending and Changes in Post-Redistribution Gini Inequality, Non-Southern States**

| | | |
|---|---|---|
| Post-redistribution gini $_{t-1}$ | -0.547* | (0.033) |
| Δ Welfare Spending | -0.001* | (0.0002) |
| Welfare Spending $_{t-1}$ | -0.0002 | (0.0001) |
| Δ African-American | -1.563 | (1.448) |
| African-American $_{t-1}$ | -0.050 | (0.192) |
| Δ Latino | 0.761 | (0.611) |
| Latino $_{t-1}$ | 0.152* | (0.046) |
| Δ Over Age 65 | 0.342 | (0.446) |
| Δ Per Capita Income | -0.077 | (0.078) |
| Δ College Grads | -0.026 | (0.073) |
| College Grads $_{t-1}$ | 0.167* | (0.032) |
| Δ Union | -0.021 | (0.032) |
| Union $_{t-1}$ | 0.021 | (0.023) |
| Δ Manufacturing | 0.107 | (0.135) |
| Manufacturing $_{t-1}$ | -0.172* | (0.032) |
| Δ Finance | -0.0218 | (0.348) |
| Finance $_{t-1}$ | -0.533* | (0.143) |
| Δ Dividends Income | 1.153* | (0.228) |
| Constant | 23.56* | (2.159) |
| | | |
| N | 816 | |
| R-squared | 0.328 | |
| States | 34 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

Finally, Tables E6, E7, and E8 replicate Tables 3.1, 3.2, and 3.3 with an interaction of the South (dummy) and year. In each case, the results presented in Chapter 3 are robust to including this additional variable to control for the South's realignment. Once again, these results suggest that the over time relationship between government partisanship and the three measures of inequality are not merely a function of the South's realignment, namely Republican gains in the region.

**Table E 6 Political and Economic Determinants of Changes in State Top Deciles' Income Shares, 1970-2005**

| | (1) | | (2) | | (3) | | (4) | |
|---|---|---|---|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.251* | (0.016) | -0.244* | (0.016) | -0.242* | (0.016) | -0.242* | (0.016) |
| Δ Democratic Governor | -0.076 | (0.084) | -0.083 | (0.084) | | | | |
| Democratic Governor $_{t-1}$ | -0.131* | (0.059) | -0.180* | (0.059) | | | | |
| Δ Lower House Democrats | 0.041 | (0.536) | | | | | | |
| Lower House Democrats $_{t-1}$ | -2.189* | (0.367) | | | | | | |
| Δ Democratic Control Lower House | | | 0.028 | (0.116) | | | | |
| Democratic Control Lower House $_{t-1}$ | | | -0.252* | (0.088) | | | | |
| Δ Unified Democratic | | | | | -0.056 | (0.093) | | |
| Unified Democratic $_{t-1}$ | | | | | -0.252* | (0.078) | | |
| Δ Unified Republican | | | | | | | 0.181 | (0.123) |
| Unified Republican $_{t-1}$ | | | | | | | 0.280* | (0.091) |
| Δ Union | -0.052* | (0.018) | -0.052* | (0.018) | -0.055* | (0.018) | -0.054* | (0.018) |
| Union $_{t-1}$ | -0.078* | (0.011) | -0.073* | (0.011) | -0.072* | (0.011) | -0.068* | (0.011) |
| Δ African-American | -2.138* | (0.299) | -2.106* | (0.302) | -2.154* | (0.301) | -2.135* | (0.301) |
| Δ Latino | -0.002 | (0.302) | 0.210 | (0.302) | 0.166 | (0.302) | 0.190 | (0.302) |
| Latino $_{t-1}$ | 0.131* | (0.019) | 0.132* | (0.019) | 0.131* | (0.019) | 0.134* | (0.019) |
| Δ Over Age 65 | 0.453 | (0.261) | 0.531* | (0.265) | 0.468 | (0.262) | 0.503 | (0.263) |
| Δ Per Capita Income | 0.238* | (0.040) | 0.240* | (0.040) | 0.254* | (0.040) | 0.252* | (0.040) |
| Per Capita Income $_{t-1}$ | 0.117* | (0.016) | 0.110* | (0.016) | 0.109* | (0.016) | 0.111* | (0.016) |
| Δ Dividends Income | 0.617* | (0.126) | 0.614* | (0.126) | 0.636* | (0.126) | 0.628* | (0.126) |
| Dividends Income $_{t-1}$ | 0.128* | (0.051) | 0.151* | (0.052) | 0.147* | (0.051) | 0.159* | (0.051) |
| Δ College Grads | -0.004 | (0.020) | -0.006 | (0.021) | -0.006 | (0.020) | -0.005 | (0.020) |
| Δ Manufacturing | 0.095 | (0.050) | 0.0698 | (0.050) | 0.064 | (0.049) | 0.065 | (0.049) |
| Δ Finance | -0.913* | (0.175) | -0.917* | (0.177) | -0.861* | (0.175) | -0.868* | (0.175) |
| South x Year | -0.007 | (0.006) | 0.008 | (0.005) | 0.008 | (0.005) | 0.010 | (0.005) |
| Constant | 12.43** | (3.965) | 1.129 | (3.425) | 1.063 | (3.387) | -0.799 | (3.341) |
| | | | | | | | | |
| N | 1,691 | | 1,691 | | 1,715 | | 1,715 | |
| R-squared | 0.245 | | 0.230 | | 0.230 | | 0.230 | |
| States | 49 | | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

**Table E 7 Political and Economic Determinants of Changes in State Top One Percent Income Shares, 1970-2005, with South x Year Dummy**

| | (1) | | (2) | | (3) | | (4) | |
|---|---|---|---|---|---|---|---|---|
| Top One Percent Share $_{t-1}$ | -0.311* | (0.020) | -0.300* | (0.020) | -0.300* | (0.020) | -0.303* | (0.020) |
| Δ Democratic Governor | 0.010 | (0.109) | -0.011 | (0.109) | | | | |
| Democratic Governor $_{t-1}$ | -0.085 | (0.077) | -0.144 | (0.076) | | | | |
| Δ Lower House Democrats | -0.798 | (0.695) | | | | | | |
| Lower House Democrats $_{t-1}$ | -2.731* | (0.478) | | | | | | |
| Δ Democratic Control Lower House | | | -0.220 | (0.150) | | | | |
| Democratic Control Lower House $_{t-1}$ | | | -0.347* | (0.114) | | | | |
| Δ Unified Democratic | | | | | -0.077 | (0.120) | | |
| Unified Democratic $_{t-1}$ | | | | | -0.242* | (0.100) | | |
| Δ Unified Republican | | | | | | | 0.238 | (0.159) |
| Unified Republican $_{t-1}$ | | | | | | | 0.381* | (0.118) |
| Δ Union | -0.060* | (0.023) | -0.059* | (0.023) | -0.060* | (0.023) | -0.061* | (0.023) |
| Union $_{t-1}$ | -0.081* | (0.014) | -0.076* | (0.013) | -0.078* | (0.014) | -0.076* | (0.014) |
| Δ African-American | -1.348* | (0.391) | -1.320* | (0.394) | -1.565* | (0.401) | -1.519* | (0.400) |
| African-American $_{t-1}$ | | | | | -0.111* | (0.053) | -0.092 | (0.054) |
| Δ Latino | 0.214 | (0.392) | 0.476 | (0.391) | 0.457 | (0.390) | 0.492 | (0.390) |
| Latino $_{t-1}$ | 0.117* | (0.024) | 0.116* | (0.024) | 0.116* | (0.024) | 0.119* | (0.024) |
| Δ Over Age 65 | 1.268* | (0.334) | 1.368* | (0.339) | 1.255* | (0.333) | 1.340* | (0.335) |
| Δ Per Capita Income | 0.352* | (0.052) | 0.353* | (0.053) | 0.361* | (0.052) | 0.362* | (0.052) |
| Per Capita Income $_{t-1}$ | 0.101* | (0.024) | 0.094* | (0.025) | 0.097* | (0.025) | 0.102* | (0.025) |
| Δ Dividends Income | 0.643* | (0.162) | 0.638* | (0.163) | 0.664* | (0.161) | 0.656* | (0.161) |
| Δ College Grads | 0.022 | (0.027) | 0.021 | (0.027) | 0.021 | (0.027) | 0.021 | (0.027) |
| College Grads $_{t-1}$ | 0.049* | (0.021) | 0.053* | (0.021) | 0.069* | (0.021) | 0.056* | (0.021) |
| Δ Manufacturing | -0.125 | (0.064) | -0.157* | (0.064) | -0.160* | (0.063) | -0.155* | (0.060) |
| Δ Finance | -0.884* | (0.225) | -0.887* | (0.228) | -0.828* | (0.224) | -0.846* | (0.224) |
| South x Year | -0.010 | (0.007) | 0.009 | (0.007) | 0.009 | (0.007) | 0.012 | (0.006) |
| Constant | 9.105 | (5.107) | -4.775 | (4.403) | -4.398 | (4.383) | -6.554 | (4.320) |
| | | | | | | | | |
| N | 1,689 | | 1,689 | | 1,713 | | 1,713 | |
| R-squared | 0.218 | | 0.207 | | 0.206 | | 0.208 | |
| States | 49 | | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

**Table E 8 Political and Economic Determinants of Changes in State Gini Coefficients, 1970-2005, with South x Year Dummy**

| | (1) | | (2) | | (3) | | (4) | |
|---|---|---|---|---|---|---|---|---|
| Gini $_{t-1}$ | -0.270* | (0.017) | -0.271* | (0.017) | -0.270* | (0.017) | -0.271* | (0.017) |
| Δ Democratic Governor | -0.080 | (0.110) | -0.103 | (0.110) | | | | |
| Democratic Governor $_{t-1}$ | -0.160* | (0.078) | -0.209* | (0.078) | | | | |
| Δ Lower House Democrats | -0.643 | (0.701) | | | | | | |
| Lower House Democrats $_{t-1}$ | -2.064* | (0.482) | | | | | | |
| Δ Democratic Control Lower House | | | 0.058 | (0.151) | | | | |
| Democratic Control Lower House $_{t-1}$ | | | -0.210 | (0.114) | | | | |
| Δ Unified Democratic | | | | | -0.028 | (0.121) | | |
| Unified Democratic $_{t-1}$ | | | | | -0.244* | (0.101) | | |
| Δ Unified Republican | | | | | | | 0.347* | (0.160) |
| Unified Republican $_{t-1}$ | | | | | | | 0.436* | (0.118) |
| Δ Union | -0.054* | (0.023) | -0.053* | (0.024) | -0.056* | (0.023) | -0.054* | (0.023) |
| Union $_{t-1}$ | -0.080* | (0.015) | -0.078* | (0.015) | -0.078* | (0.015) | -0.071* | (0.015) |
| Δ African-American | -1.273* | (0.401) | -1.276* | (0.403) | -1.334* | (0.403) | -1.275* | (0.401) |
| African-American $_{t-1}$ | -0.140* | (0.054) | -0.161* | (0.054) | -0.169* | (0.054) | -0.151* | (0.054) |
| Δ Latino | -0.295 | (0.399) | -0.069 | (0.396) | -0.117 | (0.396) | -0.080 | (0.395) |
| Latino $_{t-1}$ | 0.0694* | (0.024) | 0.073* | (0.024) | 0.075* | (0.024) | 0.077* | (0.024) |
| Δ Over Age 65 | 0.860* | (0.339) | 0.909* | (0.342) | 0.800* | (0.338) | 0.881* | (0.339) |
| Δ Per Capita Income | -0.143* | (0.053) | -0.144* | (0.053) | -0.134* | (0.052) | -0.138* | (0.052) |
| Per Capita Income $_{t-1}$ | 0.088* | (0.023) | 0.087* | (0.023) | 0.088* | (0.023) | 0.083* | (0.023) |
| Δ Dividends Income | 1.029* | (0.164) | 1.040* | (0.164) | 1.055* | (0.163) | 1.038* | (0.163) |
| Dividends Income $_{t-1}$ | 0.311* | (0.070) | 0.338* | (0.070) | 0.337* | (0.070) | 0.352* | (0.070) |
| Δ College Grads | 0.146* | (0.027) | 0.144* | (0.027) | 0.139* | (0.027) | 0.140* | (0.026) |
| Δ Manufacturing | 0.204* | (0.065) | 0.191* | (0.065) | 0.192* | (0.064) | 0.190* | (0.064) |
| Manufacturing $_{t-1}$ | -0.032 | (0.017) | -0.032 | (0.018) | -0.027 | (0.017) | -0.035* | (0.017) |
| Δ Finance | -0.903* | (0.231) | -0.918* | (0.232) | -0.876* | (0.230) | -0.883* | (0.229) |
| South x Year | 0.005 | (0.008) | 0.020* | (0.007) | 0.020* | (0.007) | 0.022* | (0.007) |
| Constant | 11.76* | (5.487) | 1.341 | (4.861) | 0.745 | (4.779) | -0.540 | (4.711) |
| | | | | | | | | |
| N | 1,691 | | 1,691 | | 1,715 | | 1,715 | |
| R-squared | 0.203 | | 0.196 | | 0.194 | | 0.197 | |
| States | 49 | | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

## APPENDIX F
## Additional Specifications of Government Partisanship for Models of State Inequality

There are several additional ways to specify state government partisanship that were excluded from the main body Chapter 3. I include these additional specifications here in Table F1. The results for these specifications are consistent with those reported in Chapter 3. The first additional specification is Democratic control of both legislative chambers along with a control for Democratic Governor. The Democratic legislature variable is an additive scale of Democratic power in the legislature, coded as 1 = Democratic control of both chambers, 0 = Republican control of both chambers, .5 = Democrats control one chamber, Republicans the other, .25 = Republican control of one chamber, split control of the other, .75 = Democratic control of one chamber, split control of the other. The second additional specification is for full government control, which is an additive scale of Democratic control of three institutions: each chamber of the state legislature and the governor's office. This variable is coded as 1 = Democratic control of all three institutions, 0 = Republican control of all three institutions, .33 = Democratic control of one institution, Republican control of the other two. Like the partisanship variables throughout the main text, these data are coded and provided by Klarner (2013).

**Table F 1 Political and Economic Determinants of Changes in Three Measures of Inequality with Additional Variable Specifications for Government Partisanship**

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dependent Variable | Top Decile | | Top Decile | | Top 1 Percent | | Top 1 Percent | | Gini | | Gini | |
| Top Decile Share $_{t-1}$ | -0.247* | (0.016) | -0.249* | (0.016) | | | | | | | | |
| Top One Percent Share $_{t-1}$ | | | | | -0.308* | (0.020) | -0.308* | (0.020) | | | | |
| Gini $_{t-1}$ | | | | | | | | | -0.263* | (0.017) | -0.270* | (0.017) |
| Δ Democratic Governor | -0.088 | (0.084) | | | -0.020 | (0.109) | | | -0.095 | (0.110) | | |
| Democratic Governor $_{t-1}$ | -0.189* | (0.059) | | | -0.154* | (0.076) | | | -0.196* | (0.077) | | |
| Δ Democratic Legis. Control | 0.067 | (0.152) | | | -0.199 | (0.196) | | | -0.008 | (0.198) | | |
| Democratic Legis.Control $_{t-1}$ | -0.351* | (0.107) | | | -0.594* | (0.138) | | | -0.469* | (0.139) | | |
| Δ Democratic Govt. Control | | | -0.075 | (0.164) | | | -0.169 | (0.212) | | | -0.219 | (0.213) |
| Democratic Govt. Control $_{t-1}$ | | | -0.528* | (0.117) | | | -0.681* | (0.151) | | | -0.654* | (0.152) |
| Δ African-American | -2.066* | (0.299) | -2.097* | (0.298) | -1.258* | (0.390) | -1.316* | (0.388) | -1.208* | (0.400) | -1.165* | (0.398) |
| African-American $_{t-1}$ | | | | | | | | | -0.147* | (0.054) | -0.166* | (0.054) |
| Δ Latino | 0.234 | (0.300) | 0.225 | (0.299) | 0.466 | (0.388) | 0.514 | (0.387) | -0.086 | (0.392) | 0.0435 | (0.392) |
| Latino $_{t-1}$ | 0.125* | (0.019) | 0.126* | (0.019) | 0.105* | (0.024) | 0.108* | (0.024) | 0.056* | (0.024) | 0.0605* | (0.024) |
| Δ Over Age 65 | 0.557* | (0.265) | 0.559* | (0.263) | 1.446* | (0.339) | 1.415* | (0.335) | 1.012* | (0.343) | 0.931* | (0.340) |
| Δ Per Capita Income | 0.243* | (0.040) | 0.253* | (0.040) | 0.358* | (0.053) | 0.360* | (0.052) | -0.128* | (0.053) | -0.140* | (0.052) |
| Per Capita Income $_{t-1}$ | 0.120* | (0.015) | 0.120* | (0.015) | 0.106* | (0.025) | 0.103* | (0.024) | 0.126* | (0.020) | 0.088* | (0.023) |
| Δ College Grads | -0.003 | (0.020) | -0.003 | (0.020) | 0.025 | (0.027) | 0.028 | (0.027) | 0.153* | (0.027) | 0.146* | (0.026) |
| College Grads $_{t-1}$ | | | | | 0.057* | (0.021) | 0.054* | (0.021) | | | | |
| Δ Union | -0.051* | (0.018) | -0.054* | (0.018) | -0.057* | (0.023) | -0.059* | (0.023) | -0.055* | (0.023) | -0.051* | (0.023) |
| Union $_{t-1}$ | -0.071* | (0.011) | -0.071* | (0.011) | -0.074* | (0.014) | -0.078* | (0.014) | -0.078* | (0.015) | -0.071* | (0.015) |
| Δ Manufacturing | 0.074 | (0.050) | 0.0735 | (0.049) | -0.149* | (0.065) | -0.150* | (0.064) | 0.210* | (0.065) | 0.190* | (0.065) |
| Manufacturing $_{t-1}$ | | | | | | | | | | | -0.048* | (0.016) |
| Δ Finance | -0.921* | (0.176) | -0.914* | (0.175) | -0.903*** | (0.227) | -0.883* | (0.224) | -0.935* | (0.232) | -0.908* | (0.230) |
| Δ Dividends Income | 0.624* | (0.127) | 0.641* | (0.126) | 0.648*** | (0.163) | 0.676* | (0.161) | 1.049* | (0.165) | 1.068* | (0.163) |
| Dividends Income $_{t-1}$ | 0.156* | (0.051) | 0.163* | (0.051) | | | | | 0.336* | (0.070) | 0.354* | (0.070) |
| Constant | 6.096* | (0.585) | 6.121* | (0.579) | 0.763 | (0.566) | 0.892 | (0.559) | 12.24* | (1.054) | 14.37* | (1.257) |
| N | 1,691 | | 1,715 | | 1,689 | | 1,713 | | 1,691 | | 1,715 | |
| R-squared | 0.230 | | 0.234 | | 0.210 | | 0.210 | | 0.192 | | 0.195 | |
| States | 49 | | 49 | | 49 | | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

## APPENDIX G
## Additional Independent Variables for Models of State Inequality

There are some additional independent variables in the inequality literature that are not included in my Chapter 3 models of state-level inequality: unemployment rates and immigration. Unemployment rates are included in several models of cross-state inequality in the earlier state literature and Al-Sammarie and Miller (1967) and Conlisk (1967), for example, find a significant relationship between these variables. State unemployment rates are available from the Department of Labor beginning in 1976. I omit this variable from the main models in Chapter 3, which begin in 1970, but as an additional check I include a version of Table 3.1 here with unemployment rates. The results in Table G1 – including the partisanship variables – are consistent with the previous analyses; increases in Democratic control are significantly and negatively related to changes in state inequality. We also see that there is a short term, negative relationship between unemployment and the top decile's share.

While unemployment rates are most common in the earlier cross-sectional state inequality studies, some more recent studies suggest that immigration has contributed to rising income inequality in the U.S. in general. In the political science literature, McCarty, Poole, and Rosenthal (2006) point out that trends in immigration, polarization, and inequality move together. They suggest a number of ways immigration could contribute to inequality; for instance, there may be an increase in policies which contribute to economic inequality if the preferences of low-income immigrants are not reflect in policy because they do not have the right to vote. The basic argument in economic literature is that low-wage immigrant labor drives wages at the bottom of the distribution down, thereby increasing the income gap. However, Card (2009) shows that immigration accounts for just a small share of the increase in U.S. wage

inequality between 1980 and 2000. Because of this small effect, I do not address the implications of immigration for state inequality in the main text of Chapter 3. To be sure, however, I report below the results of a version of Table 3.1 this additional variable: foreign born residents as a percent of the population. These data are available from the decennial Census and interpolated between Census years. The relationships between the government partisanship variables and changes in inequality remain significant when including this additional variable. In addition, the results suggest the change in the percent of foreign born residents does *not* have a significant impact on top share or Gini inequality at the state-level. One reason may be that it is moderately correlated with another demographic control variable in the model, the percent of Latino residents in the state.

**Table G 1 Political and Economic Determinants of Changes in State Top Deciles' Income Shares, with Unemployment, Foreign Born**

| | (1) | | (2) | |
|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.289* | (0.019) | -0.227* | (0.017) |
| Δ Democratic Governor | -0.161 | (0.089) | -0.040 | (0.086) |
| Democratic Governor $_{t-1}$ | -0.165* | (0.063) | -0.100 | (0.062) |
| Δ Lower House Democrats | 0.804 | (0.624) | -0.452 | (0.521) |
| Lower House Democrats $_{t-1}$ | -1.448* | (0.380) | -1.908* | (0.361) |
| Δ Unemployment | -0.107* | (0.038) | | |
| Unemployment $_{t-1}$ | -0.029 | (0.024) | | |
| Δ Foreign-born | | | 0.068 | (0.398) |
| Foreign-born $_{t-1}$ | | | -0.058 | (0.050) |
| Δ African-American | -2.295* | (0.298) | -0.900 | (0.571) |
| Δ Latino | -0.105 | (0.335) | -0.367 | (0.398) |
| Latino $_{t-1}$ | 0.158* | (0.022) | 0.202* | (0.049) |
| Δ Over Age 65 | 0.724* | (0.289) | 0.331 | (0.277) |
| Δ Per Capita Income | 0.269* | (0.055) | 0.219* | (0.039) |
| Per Capita Income $_{t-1}$ | 0.123* | (0.017) | 0.121* | (0.020) |
| Δ College Grads | -0.005 | (0.019) | 0.036 | (0.059) |
| Δ Union | -0.054* | (0.019) | -0.045* | (0.017) |
| Union $_{t-1}$ | -0.103* | (0.014) | -0.055* | (0.012) |
| Δ Manufacturing | 0.077 | (0.064) | 0.064 | (0.055) |
| Δ Finance | -0.970* | (0.182) | -0.422* | (0.194) |
| Δ Dividends Income | 0.681*** | (0.134) | -0.199 | (0.138) |
| Dividends Income $_{t-1}$ | 0.242* | (0.061) | 0.167* | (0.065) |
| Constant | 8.169* | (0.789) | 5.919* | (0.694) |
| N | 1,399 | | 1,452 | |
| R-squared | 0.296 | | 0.191 | |
| States | 49 | | 49 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects. * p<0.05 two-tailed.

## APPENDIX H
## Results with Panel Corrected Standard Errors

Throughout the analyses in the preceding chapters, I report traditional standard errors. Because there is some debate that traditional standard errors may lead to overconfidence with panel data (Beck and Katz 1995), I also estimated the models using panel corrected standard errors, advocated by Beck and Katz (1995), and utilized in other panel studies (e.g. Kelly and Witko 2012; Rueda 2005). This appendix includes those results which differ when using panel corrected standard errors. Table H1 includes such results from Chapter 3. While nearly all the results from this chapter were the same with traditional and panel corrected standard errors, the variable for Democratic control of the House was outside accepted significance levels when using panel corrected standard errors, but significant with traditional standard errors.

**Table H 1 Political and Economic Determinants of Changes in State Inequality with Panel Corrected Standard Errors, 1970-2005**

| | (1) Top Decile | | (2) Top One Percent | | (3) Gini Coefficient | |
|---|---|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.25* | (0.06) | -0.30* | (0.07) | -0.27* | (0.05) |
| Δ Democratic Control Lower House | 0.02 | (0.17) | -0.23 | (0.21) | 0.038 | (0.21) |
| Democratic Control Lower House $_{t-1}$ | -0.27† | (0.16) | -0.36† | (0.20) | -0.24 | (0.18) |
| Observations | 1,691 | | 1,689 | | 1,691 | |
| R-squared | .24 | | .21 | | 0.20 | |
| States | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with panel corrected standard errors in parentheses. Control variables from Tables 3.1 - 3.3 included in models but not reported. All models include state fixed effects. *p<.05, two-tailed, † p<.10.

Tables H2 and H3 below include changed results from Chapter 4, corresponding with Tables 4.3 and 4.5 respectively. With traditional standard errors, originally reported in Table 4.3, the relationship between changes in the percent of public sectors jobs and changes in inequality, as measured by the top decile's share and Gini coefficient, was negative and significant. The results in Table H2 show that those particular results are sensitive – they are not significant with

panel corrected standard errors – and we should be cautious in our conclusions. Similarly, the results in Table H3 caution against concluding that there is a strong, significant relationship between changes in the state minimum wage and the top decile's income share. While this relationship was significant in Table 4.5, it is not with panel corrected standard erros in Table H3. However, we still have strong support for a significant relationship between changes in the minimum wage and inequality as measured by the gini (Table 4.5). These findings were robust with traditional or panel corrected standard errors.

**Table H 2 Effects of Public Employment on Changes in State-Level Inequality, 1976-2005, with Panel Corrected Standard Errors**

| | (1) | | (2) | | (3) | | (4) | |
|---|---|---|---|---|---|---|---|---|
| Dependent Variable | Top Decile | | Top Decile | | Gini | | Gini | |
| Top Decile Share $_{t-1}$ | -0.226* | (0.056) | -0.279* | (0.057) | | | | |
| Gini $_{t-1}$ | | | | | -0.212* | (0.050) | -0.280*** | (0.053) |
| Δ Public Sector Jobs | -0.605* | (0.322) | -0.485† | (0.289) | -0.048 | (0.422) | 0.209 | (0.374) |
| Public Sector Jobs $_{t-1}$ | -0.133 | (0.111) | -0.001 | (0.091) | -0.158 | (0.135) | -0.005 | (0.117) |
| Observations | 1500 | | 1500 | | 1500 | | 1500 | |
| R-squared | 0.25 | | 0.31 | | 0.14 | | 0.21 | |
| Number of Statenbr | 50 | | 50 | | 50 | | 50 | |

Note: OLS regression coefficients with panel corrected standard errors in parentheses. Control variables from Table 4.3 included in models but not reported. All models include state fixed effects. *p<.05, two-tailed, † p<.10.

**Table H 3 Relationship between State Minimum Wages and Changes in State-Level Inequality, 1976-2005, with Panel Corrected Standard Errors**

Table H3 Effects of State Minimum Wages on Changes in State-Level Inequality, 1976-2005, with Panel Corrected Standard Errors

| | (1) Top Decile | | (2) Top Decile | |
|---|---|---|---|---|
| Top Decile Share $_{t-1}$ | -0.240* | (0.057) | -0.272* | (0.055) |
| Δ State Minimum Wage | 0.147 | (0.169) | 0.19 | (0.161) |
| State Minimum Wage $_{t-1}$ | -0.083 | (0.051) | -0.074 | (0.049) |
| | | | | |
| Observations | 1500 | | 1500 | |
| R-squared | 0.25 | | 0.29 | |
| Number of States | 50 | | 50 | |

Note: OLS regression coefficients with panel corrected standard errors in parentheses. Control variables from Table 4.5 included in models but not reported. All models include state fixed effects. *p<.05, two-tailed

Finally, Tables H4 and H5 reported changed results from re-estimating Tables 5.1 and 5.2 with panel corrected standard errors. In Table H4, note that a switch to a Democratic Governor is no longer significantly related to changes in state welfare spending, as it was with traditional standard errors in Table 5.1. These findings weaken our confidence in this relationship, however, a significant relationship between Democratically-controlled government and increases in welfare spending, reported previously in version 4 of the Table 5.1, remains robust and suggests party control does matter. Table H5, corresponding with Table 5.2, shows the relationship between changes in welfare spending and post-tax and transfer inequality. With panel corrected standard errors, the long-term relationship between welfare spending and inequality is no longer significant, but the contemporaneous relationship remains significant, such that increases in spending correspond with decreases in the Gini.

**Table H 4 Effects of Government Partisanship on Changes in State Welfare Spending, 1977-2005, with Panel Corrected Standard Errors**

| | (1) Prc. Democrat | | (2) Democratic House | | (3) Democratic Legis. | |
|---|---|---|---|---|---|---|
| Welfare Spending $_{t-1}$ | -0.28* | (0.05) | -0.28* | (0.05) | -0.28* | (0.05) |
| Δ Democratic Governor | 26.32 | (20.28) | 23.68 | (19.81) | 23.28 | (19.87) |
| Democratic Governor $_{t-1}$ | 29.9 | (17.16) | 29.98 | (16.27) | 30.36 | (16.1) |
| Observations | 1,161 | | 1,161 | | 1,161 | |
| R-squared | 0.184 | | 0.184 | | 0.184 | |
| Number of Statenbr | 49 | | 49 | | 49 | |

Note: OLS regression coefficients with panel corrected standard errors in parentheses. Control variables from Table 5.1 included in models but not reported. All models include state fixed effects. *p<.05, two-tailed

**Table H 5 Relationship between Welfare Spending and Changes in State Post-Redistribution Gini Coefficients, 1977-2005, with Panel Corrected Standard Errors**

| | | |
|---|---|---|
| Post-redistribution gini $_{t-1}$ | -0.551* | (0.060) |
| Δ Welfare Spending ($ per poor person) | -0.001* | (0.0002) |
| Welfare Spending ($ per poor person) $_{t-1}$ | -0.0003 | (0.0002) |
| Constant | 22.12*** | (2.873) |
| N | 1,200 | |
| R-squared | 0.308 | |
| States | 50 | |

Note: OLS regression coefficients with panel corrected standard errors in parentheses. Control variables from Table 5.2 included in models but not reported. All models include state fixed effects. *p<.05, two-tailed.

## APPENDIX I
## Results for Policy Changes and the Top 1%

Table I1 below includes results for the Chapter 4 models of policy changes and changes in inequality using the top 1% income share as the dependent variable. Columns 1 and 2 address the relationship between public sector jobs and inequality, reported in Table 4.3, while columns 3 and 4 address the relationship between state minimum wages and inequality, reported in Table 4.5. Notice that increases in public sector jobs are negatively and significantly related to the top 1% share. This is consistent with the negative and significant relationships between public sector jobs and the other measures of inequality (top decile share and Gini coefficient) reported in Table 4.3. Increases in state minimum wages are also negatively and significantly related to the top 1% share, but have a positive, significant contemporaneous relationship with the top share as well. This is consistent with the results for the top 10% and is not surprising; we expect changes in the minimum wage to affect inequality from the bottom of the distribution – better captured by the Gini – rather than the top. Indeed, we previously saw that state minimum wages had negative, significant relationship with changes in the Gini (Table 4.5).

**Table I 1 Policy Determinants of Changes in State Top 1% Percent Income Shares, 1976-2005**

| | (1) Public Jobs | | (2) Public Jobs (full) | | (3) Minimum Wage | | (4) Minimum Wage (full) | |
|---|---|---|---|---|---|---|---|---|
| Top One Percent Share $_{t-1}$ | -0.332* | (0.022) | -0.346* | (0.025) | -0.341* | (0.022) | -0.336* | (0.025) |
| Δ Public Sector Jobs | -0.828* | (0.195) | -0.757* | (0.197) | | | | |
| Public Sector Jobs $_{t-1}$ | -0.082 | (0.074) | 0.022 | (0.076) | | | | |
| Δ State Minimum Wage | | | | | 0.239* | (0.109) | 0.279* | (0.108) |
| State Minimum Wage $_{t-1}$ | | | | | -0.115* | (0.053) | -0.114* | (0.052) |
| Δ African-American | -1.415* | (0.431) | -1.109* | (0.424) | -1.588* | (0.431) | -1.248* | (0.424) |
| Δ Latino | 0.019 | (0.456) | 0.474 | (0.447) | -0.065 | (0.456) | 0.268 | (0.455) |
| Latino $_{t-1}$ | 0.162* | (0.029) | 0.161* | (0.029) | 0.176* | (0.029) | 0.165* | (0.029) |
| Δ Over Age 65 | 2.120* | (0.385) | 1.934* | (0.388) | 2.048* | (0.379) | 2.024* | (0.380) |
| Over Age 65 $_{t-1}$ | 0.289* | (0.058) | 0.156* | (0.071) | 0.314* | (0.059) | 0.284* | (0.067) |
| Δ Union | | | -0.072* | (0.026) | | | | |
| Union $_{t-1}$ | | | -0.093* | (0.020) | | | | |
| Δ Per Capita Income ($1000s) | 0.476* | (0.065) | 0.397* | (0.068) | 0.604* | (0.060) | 0.501* | (0.064) |
| Per Capita Income ($1000s) $_{t-1}$ | 0.117* | (0.028) | 0.140* | (0.027) | 0.115* | (0.028) | 0.099* | (0.031) |
| Δ College Grads | 0.040 | (0.028) | 0.009 | (0.027) | 0.041 | (0.028) | 0.031 | (0.028) |
| College Grads $_{t-1}$ | 0.115* | (0.024) | | | 0.136* | (0.024) | 0.108* | (0.025) |
| Δ Manufacturing | | | -0.261* | (0.085) | | | -0.219* | (0.085) |
| Manufacturing $_{t-1}$ | | | -0.049* | (0.021) | | | -0.054* | (0.021) |
| Δ Finance | | | -0.923* | (0.250) | | | -0.911* | (0.252) |
| Δ Dividends Income ($1000s) | | | 0.746* | (0.180) | | | 0.733* | (0.178) |
| Dividends Income ($1000s) $_{t-1}$ | | | 0.001 | (0.092) | | | -0.015 | (0.085) |
| Constant | -3.825* | (1.333) | -0.524 | (1.658) | -5.330* | (0.881) | -3.959* | (1.214) |
| N | 1,498 | | 1,498 | | 1,498 | | 1,498 | |
| R-squared | 0.223 | | 0.248 | | 0.220 | | 0.241 | |
| States | 50 | | 50 | | 50 | | 50 | |

Note: OLS regression coefficients with standard errors in parentheses. All models include state fixed effects.

* p<0.05, two-tailed.

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