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The Rise of Wage Inequality in Illinois

In Two Graphs

A Higher Road for a Better Tomorrow
ILLINOIS ECONOMIC POLICY INSTITUTE
ILEPI

Frank Manzo IV
Policy Director

Illinois Economic Policy Institute
www.illinoisepi.org
(708) 375-1002

THE RISE OF WAGE INEQUALITY IN ILLINOIS: IN TWO CHARTS

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Inequality in Illinois

Inequality is on the rise. In the first ever historical analysis on the topic for the state, the Illinois Economic Policy Institute found that economic inequality in Illinois has risen to levels last seen in the Great Depression. The widening income disparity has been driven by the redistribution of wealth from labor to capital. In 1980, 63 percent of total state economic output went to Illinois workers, while capital's share was 31 percent. By 2013, labor compensation declined to 56 percent of Illinois' GDP and capital increased to 38 percent of the state's economy. (Manzo, 2016).

Income inequality in Illinois has particularly increased in the past few years. From 2009 to 2012, earnings for the top 1 percent increased by 34.5 percent, while incomes grew by just 0.2 percent for the bottom 99 percent of workers in Illinois. As a result, Illinois has become the 8th-most unequal state in America (Sommeiller & Price, 2015).

Potentially the biggest threat to the economy derived from economic inequality is that poorer Americans spend a larger share of their incomes in the economy. Extreme income inequality can reduce overall consumer demand and limit equality of opportunity, with the poor having fewer resources to spend in the economy or invest in themselves. By making the rich richer and the rest of Americans poorer, the redistribution of wealth to the top has implications on national consumer demand. Meanwhile, inequality has been linked with lower life expectancy and reduced satisfaction. As inequality rises, aggregate wellbeing falls, resulting in lower levels of happiness.

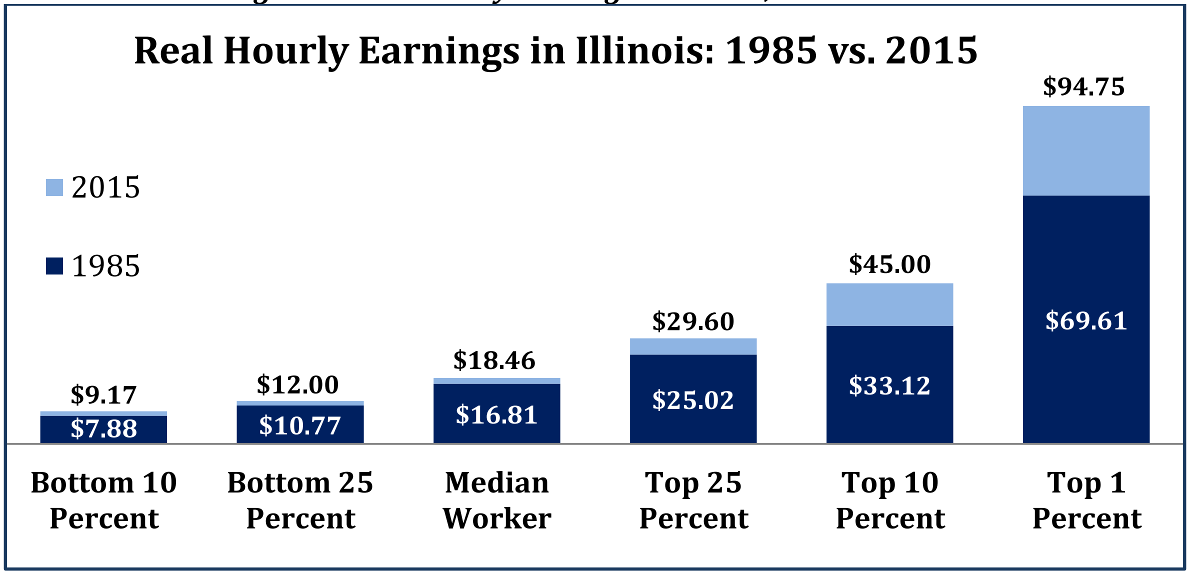
Two Charts

Hourly earnings of all Illinois workers have increased since 1985, even after adjusting for inflation. However, the Top 10 Percent and Top 1 Percent have experienced substantially greater jumps in earnings compared to lower- and middle-income workers (Figure 1). The hourly wage of the Bottom 10 Percent of workers has only increased by $1.29 per hour over the past 30 years, while the Top 1 Percent have seen an increase of at least $25.14 per hour. In addition, the median Illinois worker has experienced an hourly pay growth of $1.65 per hour from 1985 to 2015. Overall, wages have not increased substantially for lower- and middle-class Illinois workers during the past 30 years.

Wage inequality has escalated in Illinois:

- The Top 1 Percent took home at least *783 percent* more per hour than the Bottom 10 Percent and *314 percent* more per hour than the median worker in 1985.
- Three decades later in 2015, The Top 1 Percent now earns over *933 percent* more per hour than the Bottom 10 Percent and *413 percent* more than the median worker.

Figure 1: Real Hourly Earnings in Illinois, 1985 vs. 2015

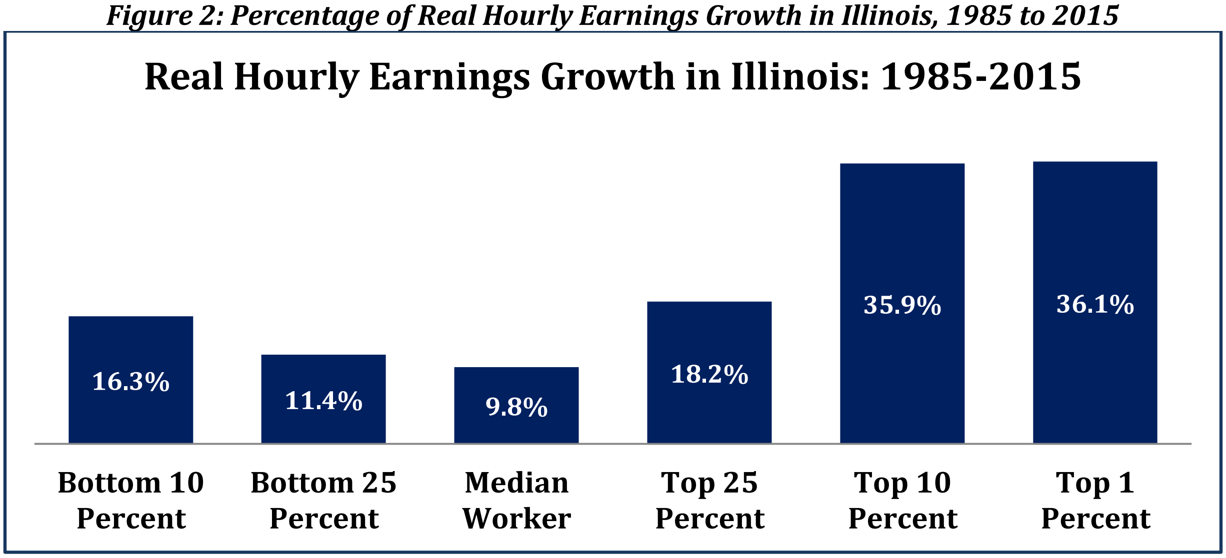


Source: CEPR (2016) – CPS ORG Uniform Extracts for 1985, 1995, 2005, and 2015.

The rich have gotten richer while middle-class Illinois residents have been left behind (Figure 2). Figure 2 shows the percentage growth of hourly earnings by income level in Illinois from 1985 to 2015. The hourly wage of the median worker has only increased by 9.8 percent over the last 30 years. Meanwhile, the Top 10 Percent and the Top 1 Percent of workers have experienced wage gains of about 36 percent.

In addition, the median worker has seen the smallest growth in hourly wages in Illinois. Hourly earnings grew at a faster rate for both the Bottom 10 Percent and the Bottom 25 Percent of workers than for the median worker from 1985 to 2015. This reinforces the story of a "middle-class squeeze." While the income disparity has widened, the middle class has been shrinking in Illinois.

Figure 2: Percentage of Real Hourly Earnings Growth in Illinois, 1985 to 2015



Source: CEPR (2016) – CPS ORG Uniform Extracts for 1985, 1995, 2005, and 2015.

Reasons for the Rise in Inequality

Economic inequality has increased to levels not seen in decades, characterized by significant gains at the very top of the income distribution. Extreme income disparities can have negative effects on the economy by reducing consumer spending, polarizing opportunities, stagnating intergenerational mobility, worsening health outcomes, increasing criminal activity, and decreasing happiness.

The declining real value of the minimum wage is one reason inequality has risen since the 1980s. Raising the minimum wage would benefit the low and middle socioeconomic classes, redistributing wealth from the Top 1 Percent. The Pew Research Center found that the federal minimum wage has lost approximately 8.1 percent of its purchasing power since 2009 due to inflation (Desilver, 2015). Increasing the state's minimum wage and pegging it to inflation would reduce income inequality – especially for women – while also increasing consumer demand and growing the economy.

As wages have stagnated, capital has increased in Illinois. Capital has captured a larger share of the Illinois economy over recent decades and the rich have gotten richer as a result. The rise of capital in Illinois noticeably began in 1980. By 2013, labor compensation of all forms declined to 55.6 percent of Illinois' GDP, a 7 percentage-point drop since 1980. Capital's share of the state's economy, on the other hand, increased by 7 percentage points (Manzo, 2016).

The long-term decline in unionization has been a significant contributor to the growth in income inequality. Unions have been found to raise wages most for lower- and middle-income workers and to reduce inequality in the national economy by as much as 10 percent (Freeman, 1996). A comprehensive multi-nation study by the International Labour Organization finds that "a growing number of studies attribute the rise in wage inequality in the countries to the decline in union density and influence" (ILO, 2015). Western and Rosenfeld (2011) also estimate that the decline of unionization rates fully explains a fifth to a third of the growth in inequality in America because unions equalize the wage distribution by instituting norms for fair pay.

Illinois' flat income tax has also burdened the lower-class and the middle-class, increasing inequality. Illinois currently has the 5th-most unfair tax system in the country (ITEP, 2015). As a result of the current flat tax system, the Bottom 20 Percent of non-elderly taxpayers pay 13.2 percent of their incomes in state and local taxes while the Top 1 Percent in Illinois pay just 4.6 percent of their incomes to state and local governments (ITEP, 2015). Income taxes could be raised on rich households and lowered for poor and middle-class families with a graduated income tax system.

Trends in the labor market have led to increased inequality in Illinois. The rise in inequality in the state is likely at least partially responsible for Illinois' recent bouts of population stagnation and sluggish economic growth, among other factors. Illinois' lawmakers can– and should– take steps to reduce inequality and counter the middle-class squeeze.

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