The History of Economic Inequality in Illinois

1850 – 2014

March 4, 2016

Frank Manzo IV, M.P.P.
Policy Director
Illinois Economic Policy Institute
www.illinoisepi.org

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

EXECUTIVE SUMMARY

This Illinois Economic Policy Institute study is the first ever historical analysis of economic inequality in Illinois.

Illinois blossomed from a small agricultural economy into the transportation, manufacturing, and financial hub of the Midwest. Illinois has had a history of sustained population growth. Since 2000, the state's population has grown by over 460,000 individuals. As of 2014, 63 percent of Illinois' population resides in a metropolitan area and 24 percent have a bachelor's degree or more – both historical highs.

The share of Illinois' population that is working has increased over time. Today, 66 percent of Illinois' residents are in the labor force, up from 57 percent just five decades ago. Employment in Illinois has shifted, however, to a service economy. While one-third of the state's workforce was in manufacturing in 1950, the industry only employs one-in-ten Illinois workers today. As manufacturing has declined, so too has the state's labor movement: Illinois' union coverage rate has fallen by 0.3 percentage points per year since 1983.

The decade with the lowest property wealth inequality and lowest income inequality in Illinois was generally the 1960s. In these years, the Top 1 Percent of homes were 2.2 times as valuable as the median home and the Top 1 Percent of workers earned at least 3.4 times as much as the median worker. By contrast, as of 2014, the Top 1 Percent of homes were 6.7 times as valuable as the median home price and the Top 1 Percent of workers earned *at least* 14.3 times as much as the median worker in annual income. In addition, the annual income gap between the average Caucasian white worker and the average African-American worker had declined after 1960, but the trend reversed course in 1980. Today, white Caucasians earn 40 percent more in wage and salary income than their African-American counterparts, a level not seen since the dawn of the Civil Rights movement.

The rise in economic inequality has been driven by capital's increasing share of the Illinois economy over recent decades. In 1980, 63 percent of total state economic output went to Illinois workers, while capital's share was 31 percent. By 2013, however, labor compensation declined to 56 percent of Illinois' GDP and capital increased to 38 percent of the state's economy. Since 1980, Illinois has experienced a 0.2 percentage-point annual redistribution of wealth, on average, from labor to capital. The rate of capital growth has also exceeded both economic growth and the worker wage increases in Illinois every decade.

In total, approximately 7 percent of the state's GDP has been redistributed from labor to capital, the share of Illinois' workforce covered by a union has fallen by over 11 percentage points, worker income inequality has increased by 173 percent, and property wealth inequality has increased by 92 percent in Illinois since 1980. Structural changes in the national economy, exorbitant hikes in CEO pay, the declining real value of the minimum wage, the long-term decline in unionization, and political shifts resulting in financial deregulations and tax cuts that have primarily benefited the wealthy have all played roles in these changes.

Inequality can have real economic consequences. 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. Meanwhile, inequality has been shown to lower life expectancy and may increase the level of crime. As inequality rises, aggregate wellbeing falls, resulting in lower levels of happiness.

While Illinois cannot completely counter national economic trends, the state government and local governments can take steps to reduce inequality. Facilitating union organizing, improving the quality of public infrastructure, increasing investment in early childhood education and higher education, supporting worker training programs, raising the minimum wage and indexing it to inflation, implementing a progressive income tax, expanding the earned income tax credit (EITC), cracking down on employee misclassification, relaxing zoning restrictions, and ending residential segregation are all policy solutions that Illinois could enact.

Economic inequality in Illinois has increased to levels not seen in decades. Extreme income and wealth disparities can have significant negative effects on economic and social activity. This rise in inequality is likely to be at least partially responsible for Illinois' recent bouts of population stagnation and sluggish economic growth.

The history of economic inequality in Illinois has been one of compression followed by divergence. From extreme inequities in the 1800s, the Industrial Revolution, urbanization, and unionization built a strong middle class. Over recent decades and especially since the 1980s, however, income disparities have widened. Looking forward, Illinois' residents must decide whether they want to live in a state with continued divergence or a state with greater equality. Solutions are available to generate broad-based prosperity for all.

TABLE OF CONTENTS

ABOUT THE AUTHOR

Frank Manzo IV, MPP is the Policy Director of the Illinois Economic Policy Institute (ILEPI) and a lifelong Illinois resident. He earned a Master of Public Policy from the University of Chicago Harris School of Public Policy, a Bachelor of Arts in Economics and Political Science from the University of Illinois at Urbana-Champaign, and an Advanced Certificate of Labor Studies from the University of Illinois. He specializes in labor market analysis, economic development, infrastructure investment, the low-wage labor force, and public finance. He can be contacted at fmanzo@illinoisepi.org.

INTRODUCTION

Illinois Before 1850

Although Illinois officially became the 21st U.S. state in 1818, economic activity had been occurring within the state's territory for decades. Jean Baptiste Point du Sable established a trading post at the present-day location of Chicago in 1779. After the Treaty of Paris was signed in 1783, Illinois became a part of U.S. boundaries, increasing the number of pioneers and farmers settling on the land. A coal mine opened in Jackson County by 1811, land offices to oversee public land sales were opened 1813, the first newspaper in Illinois – the *Illinois Herald* – began publication in 1814, and the first bank in the state was chartered in 1816. At the time of statehood, the population of Illinois was 34,620 residents (Illinois History Timeline, 2015).

The next three decades were a period of significant expansion, laying the foundation for Illinois' role as the financial and intermodal transportation center of the Midwest. In 1833, the United States had acquired the last remaining Native American lands in Illinois. The City of Chicago was founded in 1837. A year earlier, construction began on the Illinois and Michigan Canal– linking Lake Michigan to the Mississippi River– and on the Galena and Chicago Union Railroad. Both of these transportation networks were completed in 1848, the same year that the Chicago Board of Trade was officially organized.

Although the Illinois and Michigan Canal helped bring "greater economic activity by reducing transport costs," it was a financial failure (Hughes & Cain, 2003). Construction of the canal is an early example of economic inequality in Illinois. The heartrending treatment of Irish immigrants working to build the canal was captured in song by Kevin O'Donnell (2013):

> "Say farewell to famine boys! It's off to 'Americay'
> To work as a navigator for ninety cents a day
> And hope to dig a fortune by the time they reach LaSalle
> On the Illinois and Michigan Canal.
>
> Ten thousand Irish 'navvies' reached out across the land
> And they picked their way through the mud and clay and moved it all by hand
> While the tyrant canal foreman worked poor 'Paddy' without pay
> As he dreamed about his family in a country far away
>
> And though many tried, thousands died longing to be free
> Where the Bluestem prairie grasses grew as far as you could see
> When the locks were finally opened they tailed up the cost
> With no mention of how many lives were lost…"

The Illinois and Michigan Canal became obsolete almost immediately, superseded by the railroads. In 1850, the federal government made a 3.75 million-acre land grant to Illinois, Alabama, and Mississippi to construct the Illinois Central Railroad. This massive government subsidy ushered in Chicago as the hub of the country's railroad system (Hughes & Cain, 2003).

Agricultural, rail construction, and nascent manufacturing and financial opportunities brought hundreds of thousands of people to Illinois. By 1850, the state's population had blossomed to over 850,000 inhabitants, and only two-fifths of these residents were born native to Illinois (Figure 1). Nearly 150,000 people born in New England and the "Middle States"– Pennsylvania, New York, New Jersey, and Delaware– relocated to Illinois. Over 100,000 migrants each from territories in the Northwest and from Europe also populated Illinois. Migration from Southern states further accounted for 16.2 percent of the state's population in 1850. According to economic historians, the "relatively heavy concentration of individuals from the South" provides an "obvious origin" for the "Southern" politics of Illinois (Hughes & Cain, 2003).

Figure 1: Estimated Illinois Residents in 1850 by Area of Birth

Area of Birth:	Illinois	New England and Middle States	South	Northwest	Europe	Total
Share	40.4%	17.6%	16.2%	12.9%	12.9%	100.0%
Estimated	343,977	149,852	137,932	109,834	109,834	851,429

Source(s): Hughes & Cain, 2003. American Economic History. *Sixth Edition. Pp. 165.*

Outline of the Research Report

This Research Report by the Illinois Economic Policy Institute (ILEPI) is the first ever historical analysis of economic inequality in Illinois. The remainder of the study is presented in three sections. First, the labor market of Illinois is investigated from 1850 to the present day. Demographic, employment, unionization, and educational attainment information over time is evaluated. Second, economic inequality data are presented and analyzed for the state, including the allocation of property wealth, the distribution of income, and the division of capital and labor. Finally, a discussion section explores the implications of rising economic inequality in Illinois. The causes and economic costs of inequality are examined before ten potential policy options to mitigate inequality are offered. The report concludes by recapping key findings and considering the future course of the Illinois economy.

THE LABOR MARKET OF ILLINOIS

The Demographics and Urbanization of Illinois: 1850 – 2014

Illinois has had a history of sustained population growth. From just over 850,000 residents in 1850, the population of Illinois increased tenfold over the next century, to an estimated 8.78 million people in 1950. Substantial growth continued for the next five decades, as the state population reached 12.42 million residents in 2000. The state gained over 460,000 residents from 2000 through 2014 (Figure 2).

The racial and ethnic composition of Illinois has shifted considerably over time due to U.S. migration, immigration from other countries, and changes in social norms– such as, for instance, the modern acceptance of interracial marriages. Prior to 1900, more than 98 percent of the state's official population was Caucasian white. Over 9-in-10 individuals in Illinois were Caucasian white all the way through 1950. The decade with the highest total *number* of Illinois residents stating that their race or ethnicity was white alone was 1970, when more than 9.22 million white residents lived in the state. Today, approximately 8.01 million people, or 62.2 percent of the state's population, report that they are white, non-Latino (Figure 2).

Figure 2: Estimated Illinois Residents by Racial or Ethnic Identification, 1850-2014

Year	Total Population (Estimated)	Caucasian White (Share)	African American (Share)	Caucasian White (Estimated)	African-American (Estimated)	Other Races/ Ethnicities (Estimated)
1850	851,429	99.0%	0.8%	842,915	6,811	1,703
1860	1,703,003	99.5%	0.3%	1,694,488	5,109	3,406
1870	2,529,482	98.7%	1.2%	2,496,599	30,354	2,529
1880	3,079,088	98.5%	1.4%	3,032,902	43,107	3,079
1890	N/A	N/A	N/A	N/A	N/A	N/A
1900	4,819,820	98.0%	1.8%	4,723,424	86,757	9,640
1910	5,621,509	97.8%	2.1%	5,497,836	118,052	5,622
1920	6,486,072	97.1%	2.7%	6,297,976	175,124	12,972
1930	7,628,997	95.0%	4.3%	7,247,547	328,047	53,403
1940	7,880,678	94.5%	4.9%	7,447,241	386,153	47,284
1950	8,779,184	91.5%	7.4%	8,032,953	649,660	96,571
1960	10,080,320	87.8%	10.2%	8,850,521	1,028,193	201,606
1970	11,110,285*	83.0%	13.6%	9,221,537	1,510,999	377,750
1980	11,427,409*	78.0%	14.6%	8,913,379	1,668,402	845,628
1990	11,430,602*	75.0%	14.7%	8,572,952	1,680,298	1,177,352
2000	12,417,190	67.8%	14.9%	8,418,855	1,850,161	2,148,174
2010	12,869,259	63.6%	14.3%	8,184,849	1,840,304	2,844,106
2014	12,880,580	*62.2%*	*14.1%*	*8,011,721*	*1,816,162*	*3,052,697*

*Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets. *Estimates provided by U.S. Census Bureau, 2000. "Resident Population and Apportionment of the U.S. House of Representatives."*

The African-American population of Illinois experienced two relative booms. Prior to the Civil War, an estimated 5,109 African Americans lived in the State of Illinois, or just 0.3 percent of the population. A decade later, after the Civil War had ended, the state's African-American population increased to over 30,000. A continued, steady rise in black residents occurred through 1940, when African Americans accounted for about 5 percent of Illinois residents. After World War II, there was a mass migration of rural African Americans in the South to the urban centers of the North. Greater job availability and better wages in Illinois and similar states caused this "Great Migration" (Hughes & Cain, 2003). The number of African Americans in Illinois increased by 263,507 individuals from 1940 to 1950, by 378,533 individuals from 1950 to 1960, and by 482,806 individuals from 1960 to 1970, when a total of 1.51 million Illinois residents reported that they were black alone. The decade with the highest total *number* of African-American residents in

Illinois was 2000, when nearly 1.85 million black residents lived in the state and accounted for 14.9 percent of the population. Today, approximately 1.82 million people, or 14.1 percent of the state's population, report that they are African American, non-Latino (Figure 2).

The final column in Figure 2 presents the number of residents in Illinois who did not report that they were Caucasian white or African American. This group includes all other racial and ethnic identifications, including Latinos and Latinas, Asians and Pacific Islanders, Native Americans, and those with more than one race. The largest single-decade increase in this racial classification was 1990 to 2000, with a growth of 970,822 persons. Today, approximately 3.05 million Illinois residents, or 23.7 percent of the state's population, report that they identify with a race or ethnicity other than white alone or black alone.

The post-Civil War economic history of Illinois could be characterized through the lens of increasing urbanization (Figure 3). In the 1800s, Illinois specialized in livestock, wheat, and corn agriculture. However, better agricultural efficiency, the Industrial Revolution, and greater economies of scale and reduced transportation costs from concentrating production in one area all contributed to urbanization in Illinois (Hughes & Cain, 2003). In 1850, approximately 68.7 percent of the people of Illinois resided on a farm. Fifty years later in 1900, only 27.4 percent lived on a farm. Five decades after that, farmers comprised just 8.6 percent of the Illinois population. Only 102,968 residents of Illinois (0.8 percent) live on a farm today.

Figure 3: Estimated Illinois Residents by Farm Residence and Urban Status, 1850-2014

Year	Total Population (Estimated)	Lived on a Farm (Share)	Lived in an Urban Area (Share)
1850	851,429	**68.7%**	N/A
1860	1,703,003	60.5%	**2.1%**
1870	2,529,482	52.9%	2.4%
1880	3,079,088	46.5%	3.4%
1890	N/A	N/A	N/A
1900	4,819,820	27.4%	6.4%
1910	5,621,509	21.3%	10.3%
1920	6,486,072	17.2%	13.3%
1930	7,628,997	13.2%	17.1%
1940	7,880,678	12.5%	24.2%
1950	8,779,184	8.6%	28.2%
1960	10,080,320	7.1%	36.1%
1970	11,110,285*	3.1%	N/A
1980	11,427,409*	2.8%	51.8%
1990	11,430,602*	1.8%	N/A
2000	12,417,190	1.0%	56.0%
2010	12,869,259	0.8%	59.0%
2014	12,880,580	**0.8%**	**63.3%**

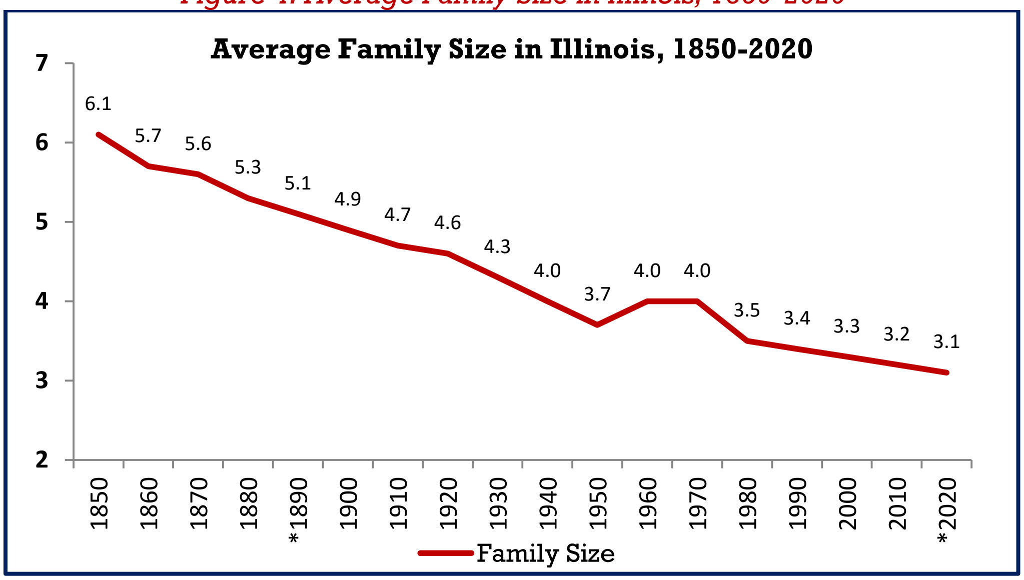
Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey *datasets. *Estimates provided by U.S. Census Bureau, 2000. "Resident Population and Apportionment of the U.S. House of Representatives."*

The City of Chicago was located right in the heart of the "farm belt," the region of the country from Ohio to Nebraska where the food industry dominated market activity. The Chicago Board of Trade, chartered in 1848, quickly became the largest commodities exchange in the world and Chicago became the center of the meatpacking industry. By 1900, approximately 6.4 percent of the state's residents lived in an urban area. Notably, Upton Sinclair's *The Jungle* was published in 1906, portraying the harsh working conditions and exploitation of immigrant laborers in the urban meatpacking industry of Chicago. The classic American novel "stimulated demand for laws regulating the meat industry" (Zinn, 2003).

Urbanization increased exponentially throughout the 1900s (Figure 3). In 1950, nearly fifty years after *The Jungle*, the state was 28.2 percent urbanized. Metropolitan living subsequently doubled over the next fifty years, with an estimated 56.0 percent of the state's population located in a city or a suburb by 2000. Today, approximately 63.3 percent of the state resides in an urban area. While the state has gained about 460,000 residents since the new millennium, the population of cities and suburbs in Illinois increased by over 1.20 million people from 6.95 million residents in 2000 to 8.15 million in 2014. Rural parts of the state, therefore, have lost about 736,000 residents since 2000. This is partially due to population loss from rural areas but also because some regions were reclassified as "urban" by the Census Bureau starting in 2012.

It is worth noting the dramatic drop in the size of the average Illinois family over time, as changes in household composition can impact economic inequality. In 1850, the average Illinois family had 6.1 members. By 1900, the average family size in Illinois had declined to 4.7 members. Family size dropped to 3.7 members in 1950 before a post-war uptick occurred in 1960 and 1970. However, the Baby Boom generation appears as a minor blip to the overall trend depicted in Figure 4. The average family size was 3.3 members in Illinois by 2000 and is expected to decline to 3.1 members per family by 2020. The decreasing size of the Illinois family is due to an array of social and economic factors, including a drop in the percentage of married residents, the increase in the share of women who are educated and working, and the overall decline of the agricultural industry– which once required large families with many children who could serve as additional farmhands.

Figure 4: Average Family Size in Illinois, 1850-2020



*Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets. *Projections based on historical trend. Note that the average family size in Illinois was 3.1 in Illinois in 2014.*

Employment in Illinois: 1850 – 2014

Changes in economic conditions dictated the demographic shifts and urbanization of Illinois. The post-Civil War Industrial Revolution triggered significant growth in the manufacturing sector and brought millions of workers into the labor force. In 1860, only 50.7 percent of the state's population was either employed or actively looking for a job and just 5.7 percent of those with jobs were employed in the manufacturing industry. By 1960, 57.1 percent of residents were in the labor force and 31.6 percent of all jobs in Illinois were in manufacturing. Today, 65.5 percent of Illinois residents are in the labor force (Figure 5).

The increase in the labor force boosted consumer spending and the manufacturing boom brought more goods to the market. As a byproduct, the demand for sellers and financiers to facilitate economic activity rose. Accordingly, retail trade and the financial and business services sectors grew considerably as a share of total employment in the state. From 1860 to 1960, the retail share of employment went from 5.8 percent to 15.7 percent and the business and finance share increased from 1.6 percent to 7.1 percent. Meanwhile, agriculture declined from 59.2 percent of the economy to just 4.2 percent over that time (Figure 5).

Figure 5: Labor Force Participation and Industry of Employment in Illinois, 1850-2014

Year	Labor Force Participation (Rate)	Agriculture (Share)	Construction (Share)	Manufacturing (Share)	Retail (Share)	Finance and Business (Share)	Professional Services (Share)	Public Administration (Share)
1850	**44.7%**	**68.5%**	5.8%	7.1%	**4.9%**	1.8%	**2.6%**	**0.3%**
1860	50.7%	59.2%	4.8%	**5.7%**	5.8%	**1.6%**	7.3%	3.7%
1870	50.7%	52.1%	5.5%	7.7%	7.3%	1.9%	3.3%	0.6%
1880	52.3%	44.4%	4.6%	9.3%	9.6%	2.2%	3.6%	0.7%
1890	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1900	55.3%	25.7%	5.5%	12.8%	12.6%	4.7%	4.2%	1.1%
1910	57.4%	19.8%	6.5%	20.9%	15.1%	3.9%	4.8%	1.8%
1920	57.7%	14.2%	**4.6%**	25.4%	14.7%	6.1%	5.2%	2.6%
1930	57.0%	11.4%	6.9%	25.3%	15.2%	8.1%	6.2%	2.4%
1940	53.7%	9.1%	**7.8%**	26.7%	18.4%	5.8%	7.3%	3.5%
1950	56.3%	6.9%	5.1%	**32.2%**	17.1%	6.4%	7.7%	4.7%
1960	57.1%	4.2%	5.1%	31.6%	15.7%	7.1%	10.3%	4.8%
1970	57.9%	2.1%	5.0%	29.8%	17.3%	8.7%	15.8%	5.6%
1980	63.9%	2.1%	5.2%	25.6%	17.4%	11.0%	18.2%	**5.7%**
1990	**66.4%**	2.0%	5.4%	19.2%	18.2%	14.3%	20.3%	5.3%
2000	65.4%	**1.6%**	5.9%	16.4%	17.9%	**16.3%**	23.1%	5.0%
2010	66.2%	1.7%	6.1%	12.6%	18.5%	15.9%	26.4%	4.6%
2014	65.5%	1.9%	5.7%	12.0%	**18.8%**	16.0%	**27.2%**	4.1%

Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets.

Initially fueled by manufacturing, Illinois' urban movement has continued even as industrial production has declined (Figure 6). The peak decade for industrial production in Illinois was 1950, which followed the extraordinary output needs associated with World War II and its aftermath. Demand for factory hands rose substantially, causing manufacturing earnings to increase by more than 80 percent (Hughes & Cain, 2003). For Illinois in 1950, an estimated 32.2 percent of all workers in the state were employed in the manufacturing sector. In that year, just 7.1 percent of the population was employed in the financial and business sectors and 10.3 percent were employed in the professional services industry.

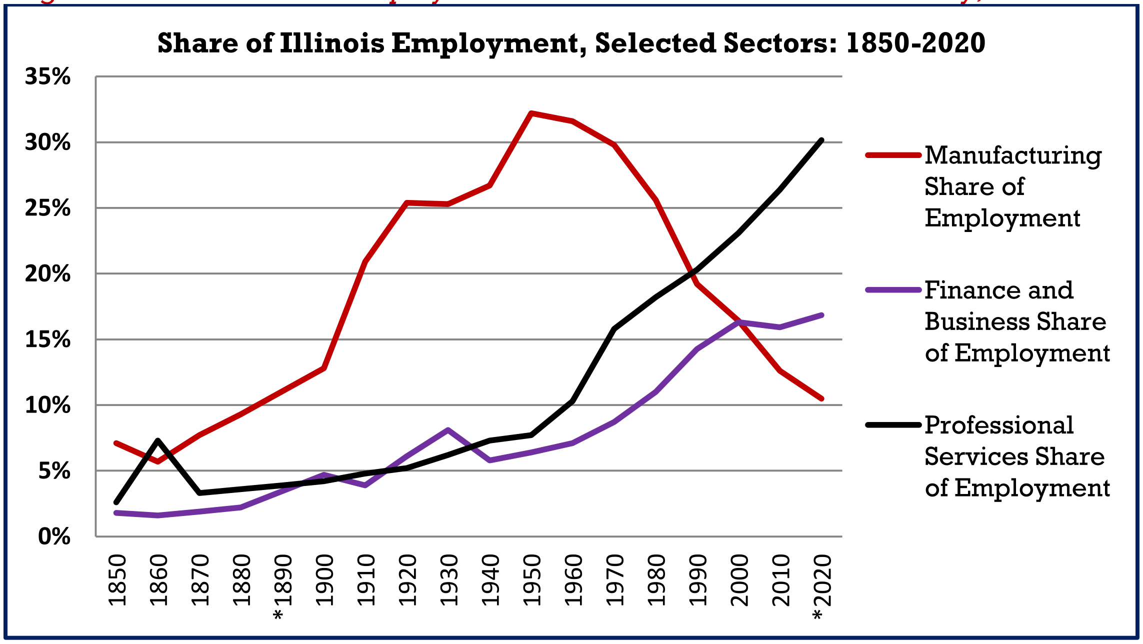
Growth in the business, financial, and professional services have been a major factor in continuing urbanization in the state. Today, just 12.0 percent of the state's workers are employed in manufacturing while the business and financial share has increased to 16.0 percent and the professional services share has increased to 27.2 percent (Figure 6). Middle-class manufacturing jobs in Illinois have been lost or outsourced to lower-paying states and countries, replaced by high-salary business and professional services jobs and low-wage retail jobs, a polarization which has contributed to increased economic inequality.

Construction, the most unstable industry and the most reliant on business cycle conditions, has actually been the most consistent sector to offer middle-class job opportunities. The construction share of the economy was at its maximum in 1930 and 1940 due to government investment programs to combat the Great Depression, particularly the Civilian Conservation Corps (CCC) and the Works Progress Administration (WPA), which put people to work constructing new sewer, water, sidewalk, road, and other public projects. In every other year, construction has consistently accounted for 5 to 6 percent of total jobs in the state (Figure 5).

Finally, public administration has comprised only a small share of all jobs in Illinois. In 1900, approximately 1.1 percent of Illinois workers were employed in public administration jobs. Fifty years later in 1950, after New Deal policies were enacted across the country, the public administration share rose to 4.7 percent.

Public administration employment in Illinois peaked in 1980, at 5.7 percent, before declining to 4.1 percent today, a level not seen since the 1940s (Figure 5).

Figure 6: Share of Illinois Employment in Selected Sectors of the Economy, 1850-2020



*Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets. *Projections based on historical trends.*

The Labor Movement in Illinois: 1877 – 2015

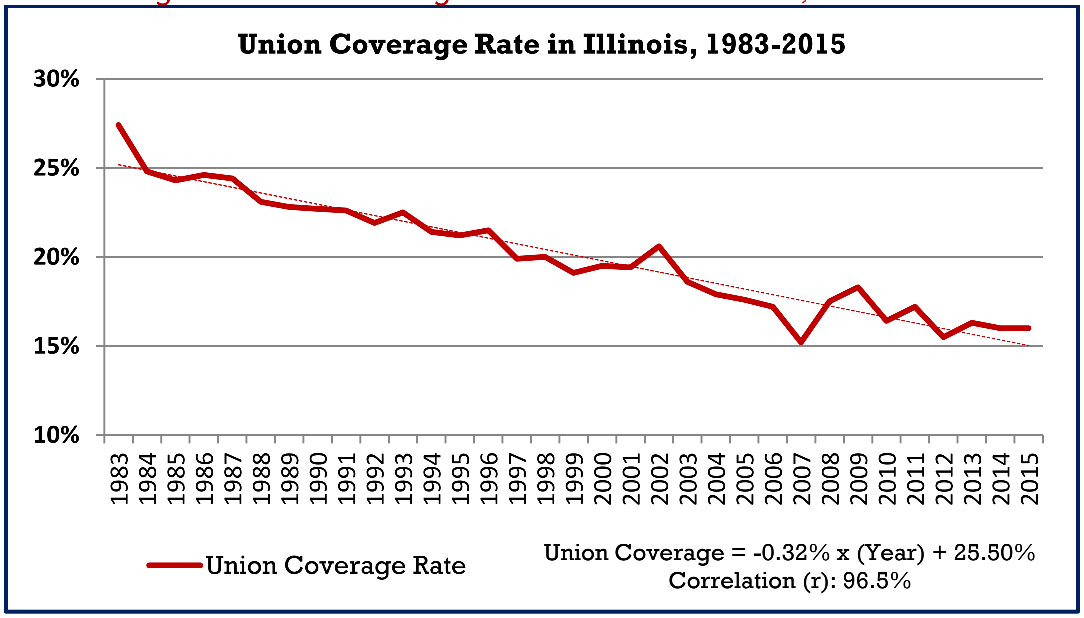
Organized labor has always played an integral role in the Illinois economy.

The early years of the labor movement in Illinois were bloody. In 1877, crowds of workers in Chicago "marched through industrial neighborhoods, shutting down factories and calling for an end to low wages and harsh conditions" (Babson, 1999). The Mayor ordered police officers to fire on the crowds, causing an eruption of fighting across the city that left over 30 people dead. Another two individuals supporting an eight-hour workday were killed by Chicago police in 1886. The following day, at Haymarket Square, a bomb exploded at a protest rally and killed both police and demonstrators. Four labor leaders were accused, convicted, and hanged for the events– including one, Albert Parsons, who prosecutors acknowledged was not even at the Haymarket but was nevertheless executed for making "inflammatory" statements. In addition, another 30 Chicagoans were killed in 1894 when 14,000 U.S. soldiers and Illinois National Guardsmen forcibly broke the national Pullman railroad strike and placed more than 700 union leaders under arrest. In 1937, Chicago police fatally shot 10 striking steelworkers and their families during a peaceful Memorial Day rally (Babson, 1999).

There was a relatively sustained period of labor peace in Illinois after the Great Depression. The National Labor Relations Act (NLRA) was passed in 1935, which set the structure and rights of organized labor, provided workers the right to organize and bargain collectively, forbid employers from interfering in organizing drives, and represented "democracy at work" (Hughes & Cain, 2003). Three years later in 1938, the Fair Labor Standards Act improved working conditions, established the minimum wage, mandated time-and-a-half overtime pay, and curtailed child labor. During this period until 1980, manufacturing accounted for over 25 percent of total jobs in the state, contributing to a burgeoning labor movement. Overall union membership peaked in the 1950s, with more than one-third of workers belonging to a union.

Since the 1980s, the union coverage rate has steadily declined in Illinois (Figure 7). Growth in service occupations– which include jobs as diverse as teachers, accommodations workers, nurses, journalists, janitors, and actors– has shifted the occupational makeup of the labor movement. In 1983, 27.4 percent of Illinois' workers were covered by a collective bargaining agreement. By 2015, union coverage for Illinois workers had fallen to 16.0 percent. Despite a few years in which union density marginally increased, the union coverage rate has declined by an average of 0.3 percentage points per year since 1983 in Illinois.

Figure 7: Union Coverage Rate and Trend in Illinois, 1983-2015



Source(s): Hirsch & Macpherson, 2015. "Union Membership and Coverage Database from the CPS." Unionstats.com.

Educational Attainment in Illinois: 1960 – 2014

The people of Illinois have become better educated over time (Figure 8). In 1960, the share of the population with a high school degree or more was 43.2 percent, including 4.6 percent of the population with at least a bachelor's degree. Both levels of educational attainment have increased every decade since 1960. By the turn of the millennia, fully 71.5 percent of the Illinois population had at least a high school degree or equivalent and 17.7 percent of the population had earned a bachelor's degree or an advanced degree. Today, 76.0 percent of Illinois residents have a high school degree or equivalent and 23.5 percent have a bachelor's degree or more.

Figure 8: Estimated Illinois Residents by Educational Attainment, 1960-2014

Year	Total Population (Estimated)	High School Degree or More (Share)	Bachelor's Degree or More (Share)	High School Degree or More (Estimated)	Bachelor's Degree or More (Estimated)
1960	10,080,320	**43.2%**	**4.6%**	4,355,620	464,979
1970	11,110,285*	47.1%	6.7%	5,232,944	744,389
1980	11,427,409*	57.0%	10.4%	6,513,623	1,188,451
1990	11,430,602*	67.9%	14.5%	7,761,379	1,657,437
2000	12,417,190	71.5%	17.7%	8,878,291	2,197,843
2010	12,869,259	74.2%	21.5%	9,548,990	2,766,891
2014	12,880,580	**76.0%**	**23.5%**	9,789,241	3,026,936

*Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets. *Estimates provided by U.S. Census Bureau, 2000. "Resident Population and Apportionment of the U.S. House of Representatives."*

While the state has gained about 460,000 residents since 2000, the number of residents with a bachelor's degree grew by almost 830,000. Mathematically, the number of Illinois residents without a bachelor's degree has thus declined by nearly 370,000 people since 2000.

ECONOMIC INEQUALITY IN ILLINOIS

Property Wealth Inequality: 1850 – 2014

Economic evidence indicates that the distribution of income and the distribution of wealth grew more unequal from the end of the colonial period to the time of the Civil War (Hughes & Cain, 2003). In analyzing decades, economist Robert Margo notes that there was "a widening of the wage structure in favor of white-collar labor and periods of stagnation in real wages" for blue-collar workers in the early-to-mid 1800s. For example, real wages for Midwestern white-collar clerks who kept records and managed manufactured supplies grew by 23.7 percent from 1831-1840 to 1851-1860. The equivalent real wage growth for "common labor" in the Midwest was only 9.3 percent over that time (Margo, 1992). By 1860, the top 10 percent of all wealth holders in the United States held more than 70 percent of the nation's total wealth (Lindert, 2000). The concentration of wealth to the top "ceased after the Civil War" (Hughes & Cain, 2003).

Economic data in Illinois generally corroborate this conclusion. Figure 9 presents estimates on the number of property-owning families in Illinois and values of that property, unadjusted for inflation. In the mid-to-late 1800s, only about 12 percent of families in Illinois owned property. From 1850 to 1870, the value of the median property-owning family's home and land increased by 200 percent, from $800 to $2,400. Meanwhile, the Top 1 Percent of owners saw the value of their property grow by over 650 percent, from $6,600 in 1850 to $50,000 in 1870.

Property value data were not available from the Civil War to the Great Depression, but ownership grew significantly. Only 11.7 percent of Illinois' families owned property in 1870; approximately 38.4 percent owned homes by 1930. The Great Depression subsequently devastated the housing market in Illinois. From 1930 to 1940, the median home value dropped by 50.0 percent. However, Illinois' home ownership rate boomed after World War II to over two-thirds of all families by the 1990s. The post-war decade with the greatest amount of wealth accumulation at the top was from 1970 to 1980, when home values for the Top 1 Percent increased by 300.0 percent compared to an increase of 155.6 percent for the median owner. The values of the Top 1 Percent of owned homes have risen faster than those for the typical home since 1980 (Figure 9).

Figure 9: Property or Home Ownership Rate and Distribution of Values in Illinois, 1850-2014*

Year	Property Ownership (Rate)	Average Value of Home or Property	Median Value of Home or Property	Value of Home or Property: Top 10 Percent	Value of Home or Property: Top 1 Percent
1850	12.0%	$1,183	$800	$2,500	$6,600
1860	12.0%	$3,468	$1,500	$6,000	$33,000
1870	11.7%	$5,159	$2,400	$10,000	$50,000
1930	38.4%	$7,658	$6,000	$15,000	$49,000
1940	39.8%	$3,661	$3,000	$7,000	$20,000
1950	N/A	N/A	N/A	N/A	N/A
1960	47.3%	$16,238	$16,250	$30,000	$35,000
1970	46.6%	$23,758	$22,500	$42,500	$50,000
1980	53.7%	$63,239	$57,500	$112,500	$200,000
1990	65.9%	$103,550	$85,000	$187,500	$400,000
2000	68.6%	$168,657	$137,500	$350,000	$875,000
2010	66.3%	$257,736	$200,000	$450,000	$1,250,000
2014	63.4%	$243,366	$180,000	$450,000	$1,200,000

*Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets.*Note: Property valuations in the 19th Century were based on the value of any real estate owned by the respondent, including property encumbered by a lien, mortgage, or other debt.*

Figure 10 translates the property and home value data of Figure 9 into inequality ratios. 1860 and 1870 were the most unequal decades on record in terms of the distribution of property wealth in Illinois. The value of the Top 1 Percent's property was *at least* 54 times higher than the property wealth of the average Illinois resident. Among only property owners, a family in the Top 1 Percent held property that was at least 22 times more valuable than the median owner. This vast inequality artificially pulled up the "average" property value: in 1860, the median landowner's property was only 43 percent as valuable as the average property value.

By contrast, the decades with the lowest wealth inequality in Illinois occurred a century later. In 1960, the value of the median homeowner's house was 100 percent as valuable as the average home, indicating that the average was driven by a strong, middle-class economy. In 1960 and 1970, the Top 10 Percent of homes only cost about 1.9 times as much as the median home. Similarly, a family in the Top 1 Percent owned a home that was at least 2.2 times more valuable than the median owner.

Since about 1980, property wealth inequality has risen substantially in Illinois (Figure 10). By 2014, the price of the median homeowner's house was just 74 percent as valuable as the average, principally due to the housing prices of the Top 1 Percent. Whereas a family in the Top 1 Percent owned homes that were at least 2.2 times as valuable as the median owner in 1970, the ratio of the Top 1 Percent to the median was 6.7 times in 2014. The inequality ratio of the Top 10 Percent to the median increased from 1.9 in 1970 to 2.5 in 2014. Today's levels of housing wealth inequality in Illinois have not been seen since the Great Depression era.

Figure 10: Property Wealth Inequality Ratios in Illinois, Among All Residents and Owners, 1850-2014

Year	Per Capita Home or Property Value	Ratio: Top 1% vs. Per Capita	Ratio: Median vs. Average (Property Owners)	Ratio: Top 10% vs. Median (Property Owners)	Ratio: Top 1% vs. Median (Property Owners)
1850	$194	34.03	0.68	3.13	8.25
1860	$608	54.24	**0.43**	4.00	**22.00**
1870	$921	**54.27**	0.47	**4.17**	20.83
1930	$1,781	27.52	0.78	2.50	8.17
1940	$915	21.85	0.82	2.33	6.67
1950	N/A	N/A	N/A	N/A	N/A
1960	$4,059	**8.62**	**1.00**	**1.85**	**2.15**
1970	$5,404	9.25	0.95	1.89	2.22
1980	$18,110	11.04	0.91	1.96	3.48
1990	$29,449	13.58	0.82	2.21	4.71
2000	$51,041	17.14	0.82	2.55	6.36
2010	$78,050	16.02	0.78	2.25	6.25
2014	$74,986	16.00	0.74	2.50	6.67

*Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets. *Note: Property valuations in the 19th Century were based on the value of any real estate owned by the respondent, including property encumbered by a lien, mortgage, or other debt.*

Wage and Salary Income Inequality: 1960 – 2014

While the previous exploration considered the value of property assets owned by a family, this section investigates the inequality of annual incomes earned by individuals. Data on worker wages and salaries are scarce prior to 1960s. Figure 11 thus displays the distribution of wage and salary incomes in Illinois since 1960, unadjusted for inflation.

During the period of analysis, the civilian labor force in Illinois increased from 4.0 million workers to 6.5 million workers. From 1960 to 2014, the wage and salary income of the median worker increased by a multiple of 14.2, from $2,250 to $32,000. Conversely, the minimum earnings amount for an individual to be in the Top 1 Percent has increased by a multiple of 59.6, from $7,650 in 1960 to $456,000 today. The decade with the greatest divergence of income inequality was from 1990 to 2000, when the minimum annual income of the Top 1 Percent increased by 183.0 percent compared to a wage increase of just 41.2 percent for the median worker (Figure 11).

Figure 11: Estimated Workers and Distribution of Incomes in Illinois, 1850-2014

Year	Civilian Labor Force (Estimated)	Average Wage and Salary Income	Median Wage and Salary Income	Wage and Salary Income: Top 10 Percent	Wage and Salary Income: Top 1 Percent
1960	4,003,081	$4,156	$2,250	$3,950	$7,650
1970	4,515,850	$6,394	$5,550	$12,050	$27,050
1980	5,579,860	$12,630	$10,405	$25,005	$54,305
1990	5,876,160	$22,199	$17,700	$44,000	$112,000
2000	6,458,228	$34,069	$25,000	$65,000	$317,000
2010	6,360,322	$42,058	$30,000	$85,000	$376,000
2014	6,518,327	$46,144	$32,000	$95,000	$456,000

Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets.

Figure 12 translates the annual income data of Figure 11 into income inequality ratios. In general, 1960 and 1970 were the decades with the greatest equality of income in Illinois. In 1960, the Top 1 Percent of workers earned at least 3.4 times as much as the median worker; the Top 10 Percent earned just 1.8 times as much as the typical worker. However, the median worker only earned 54 percent as much as the average employee, due mainly to racial and gender inequalities discussed below. This disparity experienced a correction in 1970, when the median worker earned 87 percent as much as the average– indicating that Illinois' middle class strengthened from 1960 to 1970.

Income inequality is now higher in Illinois following the Great Recession than it has been at any time over the past 50 years (Figure 12). The Top 1 Percent in Illinois earned *at least* 14.3 times as much as the median worker in 2014, compared to just 3.4 times in 1960. Similarly, the Top 10 Percent's wage and salary income is now 3.0 times as much as the median worker's income, up from a multiple of 1.8 over 50 years ago. Whereas the median worker earned 87 percent as much as the average worker in 1970, a declining middle class in the state has lowered the median-to-average ratio to 69 percent.

Figure 12: Income Inequality Ratios in Illinois, Among All Workers, 1960-2014

Year	Ratio: Median vs. Average (Workers)	Ratio: Top 10% vs. Median (Workers)	Ratio: Top 1% vs. Median (Workers)
1960	**0.54**	**1.76**	**3.40**
1970	**0.87**	2.17	4.87
1980	0.82	2.40	5.22
1990	0.80	2.49	6.33
2000	0.73	2.60	12.68
2010	0.71	2.83	12.53
2014	0.69	**2.97**	**14.25**

Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets.

Figure 13 examines income inequality by race and gender in Illinois over time. Note that these estimates are not necessarily apples-to-apples comparisons in that they do not account for hours worked, occupation, level of education, or other factors. In 1960, the average Caucasian white worker earned 44 percent more per year than the average African-American worker. This annual earnings gap declined over time until white employees earned 23 percent more than black workers in 1980. However, since 1980, the trend reversed course. White Caucasians in Illinois today earn 40 percent more in wage and salary income than their African-American counterparts, a level not seen since the dawn of the Civil Rights movement in the 1960s (Figure 13).

Indeed, for African-Americans in Illinois, the words of Martin Luther King, Jr. resonate as deeply today as they did when he spoke to the Service Employees International Union (SEIU) Local 1199 in 1968 (King et al., 1986):

> "The problem is not only unemployment. It's under- or sub-employment. People who work full-time jobs for part-time wages. Most of the poor people in our country are working every day, but they're making wages so inadequate that they cannot even begin to function in the mainstream of the economic life of the nation. We look around and we see thousands and millions of people making inadequate wages every day."

Conversely, male-to-female income inequality has declined (Figure 13). In the 1960s, 1970s, and 1980s, men in Illinois took home double the amount that women earned– or over 100 percent more. The average male worker in Illinois today earns 48 percent more than the average female worker over one year. Once again, these estimates are not necessarily apples-to-apples comparisons over time. Nevertheless, the data suggest that income inequality is growing between Caucasian white workers and African-American workers but shrinking between male workers and female workers.

Figure 13: Income Inequality Ratios in Illinois, Among Workers by Race and Gender, 1960-2014

Year	Income Inequality: Caucasian white vs. African-American	Income Inequality: Male vs. Female
1960	**1.44**	2.01
1970	1.29	**2.19**
1980	**1.23**	2.08
1990	1.35	1.83
2000	1.38	1.66
2010	1.42	1.50
2014	1.40	**1.48**

Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets.

Capital vs. Labor: 1970 – 2013

Capital has captured a larger share of the American economy over recent decades. As a result, the rich have gotten richer. "Since 1980," economist Thomas Piketty writes, "income inequality has exploded in the United States. The upper decile's share increased from 30-35 percent of national income in the 1970s to 45-50 percent in the 2000s – an increase of 15 points." (Piketty, 2014). Inequality of compensation has played a key role, but so has stock market euphoria and high capital gains (Piketty, 2014). Illinois has not been immune to these national trends.

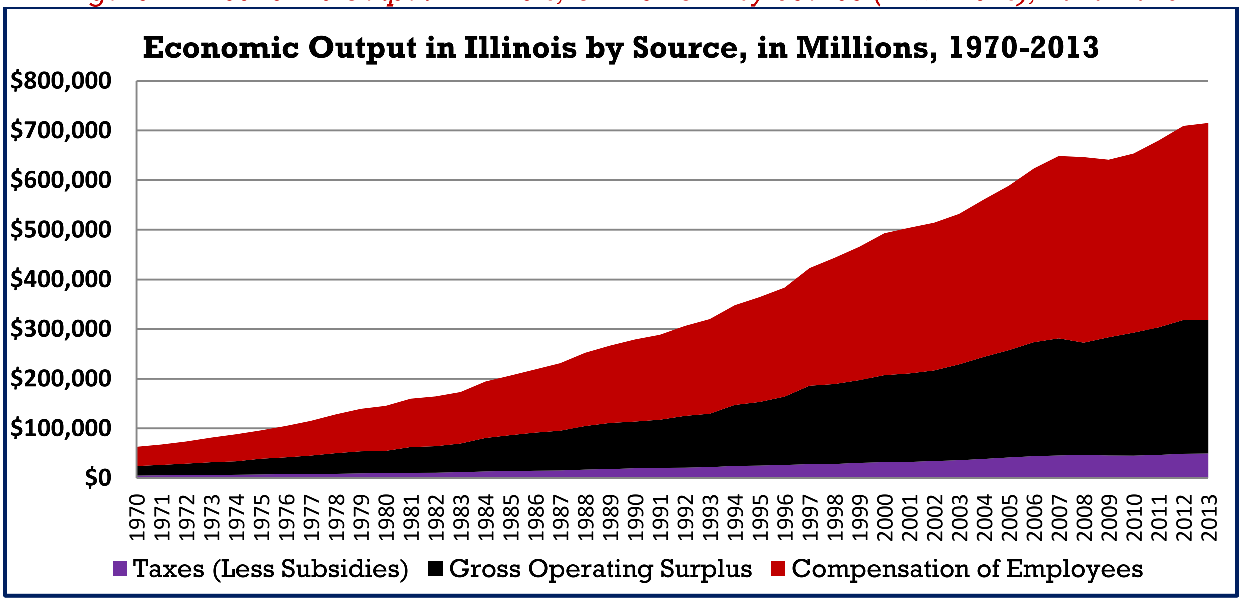
In this section, *capital* is defined by "gross operating surplus" values reported by the Bureau of Economic Analysis (BEA) at the U.S. Department of Commerce. "Gross operating surplus" includes owner's income, corporate profits, capital gains, dividends, consumption of fixed capital (e.g., depreciation and aging of machines), and business transfer payments– especially for financial insurance. In all civilizations, capital "provides housing… [and] serves as a factor of production in producing other goods and services" (Piketty, 2014).

Labor is defined by "compensation of employees" values reported by the BEA. "Compensation of employees" includes wages, salaries, commissions, tips, bonuses, contributions to pension and insurance plans, and employer contributions for government social insurance programs. Note that labor includes income for everyone, from low-wage employees to chief executive officers (CEOs) who earn 373 times the amount of their average rank-and-file worker (AFL-CIO, 2015).

Finally, *taxes (less subsidies)* include all taxes on production and imports, such as general sales taxes and property taxes. It includes all state and local taxes, licenses and fees, and federal taxes. The value subtracts out subsidies provided to private businesses or to government enterprises to avoid double counting certain items in the calculation of gross domestic product (GDP).

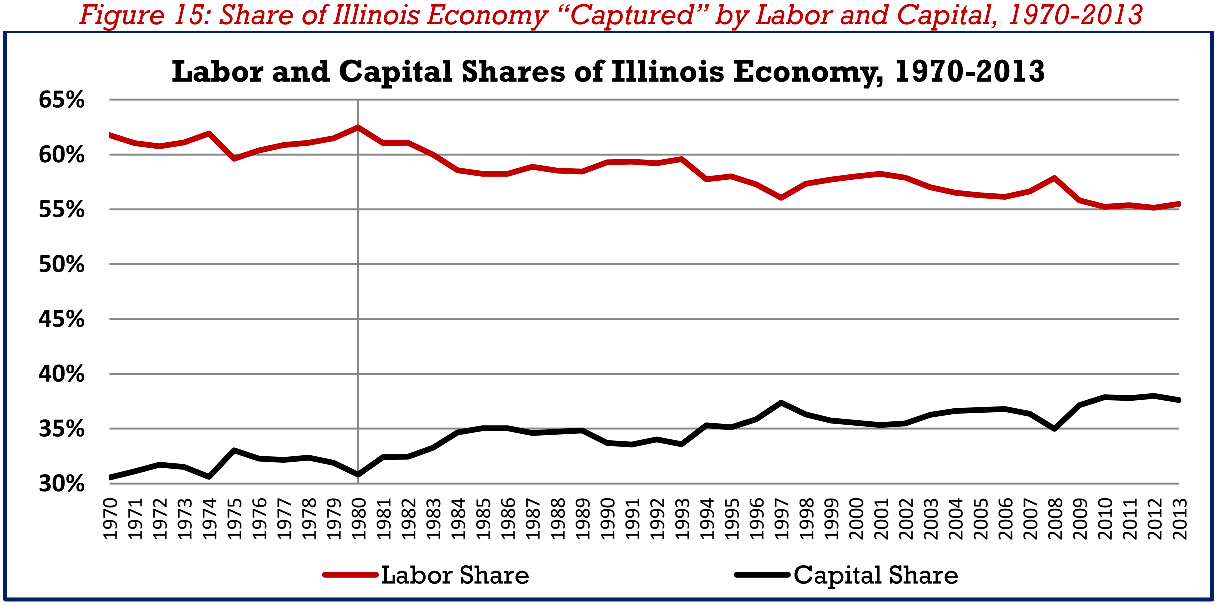
Figure 14 presents data on the total size of the Illinois economy from 1970 to 2013 reported by the Bureau of Economic Analysis. As the graph illustrates, there has been a steady increase in economic output from 1970 through 2013. In 1970, the size of Illinois' economy was $62.8 million (in 1970 dollars). By 2013, Illinois' GDP totaled $715.2 million in current dollars– an average economic growth rate of 5.8 percent, not adjusted for inflation. Capital, however, has captured a larger share of Illinois' GDP over time (Figure 14).[1]

Figure 14: Economic Output in Illinois, GDP or GDI by Source (in Millions), 1970-2013



Source(s): BEA, 2016. "Regional Data: GDP & Personal Income." U.S. Department of Commerce.

Figure 15: Share of Illinois Economy "Captured" by Labor and Capital, 1970-2013



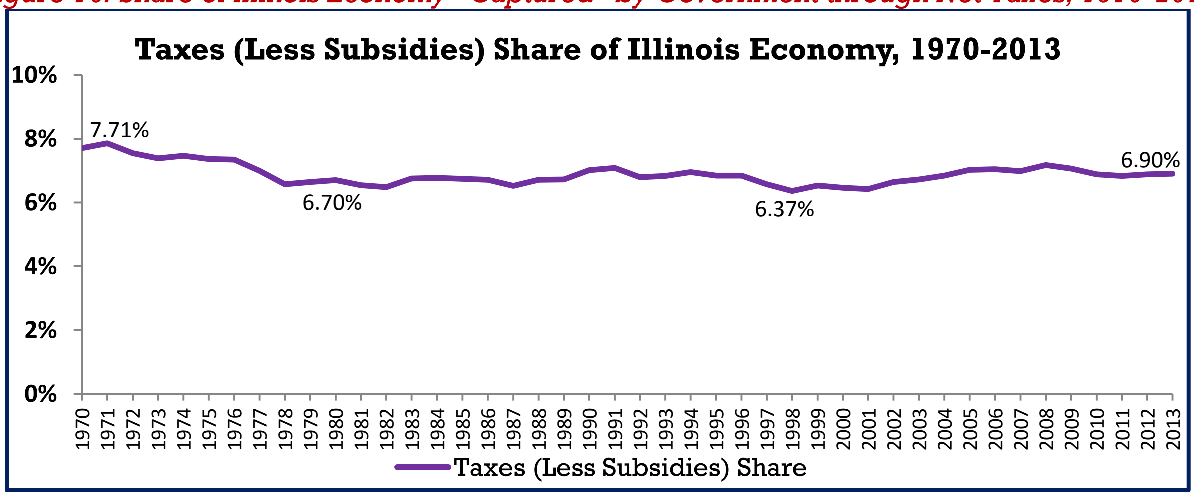
[1]Note that the BEA changed its definition of economic output by state in 1997. From 1970 to 1996, "GDP by state are consistent with U.S. gross domestic income (GDI)." From 1997 onward, "the statistics of GDP by state are consistent with U.S. gross domestic product (GDP)." The change in methodology significantly improved estimates on the size of the economy. For instance, research and development expenditures were reclassified as "capital" (BEA, 2015).

Source(s): BEA, 2016. "Regional Data: GDP & Personal Income." U.S. Department of Commerce.

The rise of capital in Illinois noticeably began in 1980 (Figure 15). Economic data indicate that 62.5 percent of total state economic output went to Illinois workers in 1980. Capital's share of the economy totaled 30.8 percent. By 2013, however, labor compensation of all forms declined to 55.5 percent of Illinois' GDP, a 7 percentage-point drop since 1980. Capital, on the other hand, accounted for 37.6 percent of the Illinois economy in 2013, a 7 percentage-point increase. On average, Illinois has experienced a 0.2 percentage-point annual redistribution of wealth from labor to capital since 1980.

Net state and local taxes, licenses and fees, and federal taxes as a share of the Illinois economy have remained relatively constant over time (Figure 16). The value of taxes minus subsidies provided to private businesses or to government enterprises was 7.7 percent in 1970. Although total tax revenues rose during the 1970s, the economy grew faster than government revenue. By 1980, net taxes accounted for 6.7 percent of Illinois' economy. Since then, government's share of the economy has been fairly consistent. At 6.4 percent, the year in which taxes (minus subsidies) comprised the smallest share of Illinois' economy was 1998. In 2013, net taxes comprised 6.9 percent of total output in Illinois. Any argument that the size of government is the root cause of increased inequality would be severely misguided, particularly for Illinois. The decline in employee compensation can be attributed almost entirely to the rise of capital income.

Figure 16: Share of Illinois Economy "Captured" by Government through Net Taxes, 1970-2013



Source(s): BEA, 2016. "Regional Data: GDP & Personal Income." U.S. Department of Commerce.

In his 2014 book, *Capital in the Twenty-First Century*, Piketty postulates that inequality occurs when the rate of return on capital is greater than the rate of economic growth. In an economy where the former exceeds the latter, wealth accumulates in the hands of the very few– namely, the Top 1 Percent. A potential byproduct of this increased economic inequality is social and economic instability (Piketty, 2014).

Adapting this theoretical framework to Illinois, Figure 17 demonstrates how economic inequality has worsened in the state since 1963. In the 1960s, the annual rate of labor income growth tended to exceed the annual rate of capital growth. Labor and capital both grew in tandem over the next decade, aligning with overall economic growth in the state.

There was a divergence in capital growth compared to labor income growth beginning in the 1980s (Figure 17). From 1980 to 1990, the Illinois economy grew by 6.8 percent. The rate of capital growth, however, was 7.7 percent. This was 1.5 percentage-points higher than the 6.2 percent growth in worker compensation. The rise in capital exceeded the increase in Illinois' GDP over the next decade as well, and the annual rate of capital growth (6.4 percent) was 0.8 percentage points higher than the rate of labor growth (5.6 percent). Despite a significant economic slowdown during 2000s due to two Bush-era recessions, the trend of capital growth surpassing overall economic growth continued. The annual return on capital was 3.5 percent from 2000 through 2010, approximately 1.2 percentage-points higher than the inflation-unadjusted increase in earnings (2.4 percent). While capital and labor have essentially kept pace with each other in the early years of this decade, capital growth (4.3 percent) has marginally exceeded economic growth (4.2 percent).

Figure 17: Annual Growth Rates of GDP, Capital, Labor, and Government in Illinois, by Decade

Period	Annual Economic Growth Rate	Annual Rate of Capital Growth	Annual Rate of Labor Income Growth	Annual Rate of Government Growth (Taxes Minus Subsidies)
1963-1970	6.83%	4.57%	8.05%	7.32%
1970-1980	8.75%	8.86%	8.88%	7.24%
1980-1990	6.75%	7.70%	6.19%	7.24%
1990-2000	5.86%	6.42%	5.62%	4.99%
2000-2010	2.86%	3.52%	2.36%	3.52%
2010-2012	4.17%	4.30%	4.09%	4.11%

Source(s): BEA, 2016. "Regional Data: GDP & Personal Income." U.S. Department of Commerce.

Picketty (2014) utilizes historical data for 20 countries as evidence in support his central thesis. If his conclusion is correct, then the relatively high rate of capital growth may be the main driver of economic inequality in Illinois since the 1980s. In any case, the rise in capital's share of the economy and the increase in inequality is not a coincidence.

DISCUSSION

The Causes of Inequality in Illinois Since 1980

Figure 18 summarizes changes in capital, in labor, and in economic inequality for the State of Illinois since 1980. Over the past three and a half decades, capital has captured a larger share of the economic pie. Approximately 7 percent of the state's GDP has been redistributed from total employee compensation to capital forms of income, including proprietor incomes, corporate profits, technology and machinery, and financial insurance. Meanwhile, the share of Illinois' workforce covered by a labor union has fallen by over 11 percentage points. The result has been a 173 percent increase in income inequality among workers, a 92 percent increase in property wealth inequality among homeowners, and a 14 percent rise in the income disparity between the average white employee and the average black worker since 1980 (Figure 18).

Figure 18: Summary of Capital, Labor, Union Coverage, and Inequality Changes in Illinois Since 1980

Economic or Labor Market Outcome	1980	2013	Percentage Point or Percent Change
Capital's Share of the Economy	30.8%	37.6%	+6.8 points
Labor's Share of the Economy	62.5%	55.5%	-7.0 points
Union Coverage Rate	27.4%*	16.3%	-11.1 points
Income Inequality: Top 1% to Median Worker Ratio	5.22	14.25	+173.0 percent
Wealth Inequality: Top 1% to Median Homeowner Ratio	3.48	6.67	+91.7 percent
Racial Inequality: Average White to Average African-American Income	1.23	1.40	+13.8 percent

*Source(s): Ruggles et al., 2015. Integrated Public Used Microdata Series. American Community Survey datasets; Hirsch & Macpherson, 2015. "Union Membership and Coverage Database from the CPS." Unionstats.com; BEA, 2016. "Regional Data: GDP & Personal Income." U.S. Department of Commerce. *Estimate is a 1983 value of union coverage in Illinois.*

There are many causes of these phenomena. Structural changes in the national economy– such as increased globalization, the shift from manufacturing to a service-based economy, and the polarization of occupations into high-skilled careers and low-skilled jobs– have played key roles (Autor, 2010). Additionally, significant hikes in CEO pay compared to the average worker are a factor (Mishel & Davis, 2015). The problem is that there is no evidence that CEO pay has been based on actual corporate performance. Instead, research has shown that firm size, tenure, and favorable tax code changes are the causes of rising CEO pay (Lin et al., 2013).

Trends in Illinois' labor market have also led to increased inequality. The declining real value of the minimum wage has contributed (U.S. Joint Economic Committee, 2010). In addition, unions have been found to raise wages most for lower- and middle-income workers and to reduce inequality within a workplace by 25 percent (Schmitt, 2008; Freeman, 1996). Nationally, the long-term decline in unionization explains between one-fifth and one-third of the growth in inequality (Western & Rosenfeld, 2011). For Illinois specifically, the correlation coefficient between the union coverage rate and labor's share of the economy was 0.84 from 1983 to 2013. This strong association suggests that declining unionization was likely responsible for a large portion of the redistribution of income from labor to capital. By expending resources to discourage unionization (or threatening to relocate to another state or country), corporate employers in Illinois have contributed to greater inequality in the state.

Finally, Piketty notes that "the reduction of inequality that took place in most developed countries between 1910 and 1950 was above all a consequence of war and of policies adopted to cope with the shocks of war. Similarly the resurgence of inequality after 1980 is due largely to the political shifts of the past several decades, especially in regard to taxation and finance" (Piketty, 2014). In the early 1960s, the highest marginal income tax rate for individuals was 91 percent. By 1988, the highest marginal tax rate declined to 28 percent (Picketty & Saez, 2007). These dramatic tax cuts for the very rich, in addition to other cuts and loopholes benefiting the well-off, have contributed to high levels of inequality in Illinois and across the nation (Huang & Frentz, 2012).

The Economic Reasons to Care about Increased Inequality in Illinois

To be clear, income inequality and wealth inequality are not *necessarily* bad. Workers need incentives to work hard, to invest in their own human capital, and to be entrepreneurial. At some threshold level, however, the marginal benefit from these incentives is less than the marginal costs of declining wages, reduced consumer demand, diminished equality of opportunity, greater social unrest, and additional psychological costs.

Potentially the biggest threat derived from economic inequality is that poorer residents spend a larger share of their incomes in the economy. If the rich get richer while wages are relatively flat or declining for the rest of Illinois, the redistribution of wealth to the top has implications on consumer demand in the state. Multi-source evidence demonstrates that a $10,000 increase in income is associated with 1 to 7 percentage point increase in a household's *savings* rate – meaning that richer families spend less in the economy (Dynan et al., 2004). Furthermore, from 1980 to 2007, consumption inequality mirrored income inequality, as after-tax income inequality increased by 33 percent while consumption expenditures grew more unequal by 17 percent (Aguiar & Bils, 2011). At some point, extreme inequality reduces overall consumer demand, resulting in job losses throughout the economy.

Declining equality of opportunity also poses a serious threat to Illinois' economic growth. With great disparities in income and assets, opportunity is polarized and the poor have fewer resources to invest in their own education or in entrepreneurial activity (Berg & Ostry, 2011; Stiglitz, 2013). Those with less access to opportunities or with credit constraints are disadvantaged in free-market economies. Intergenerational class mobility stagnates, meaning that the talents of many poor and middle-class children in Illinois go unrealized– resulting in economic inefficiencies (Krueger, 2012).

Extreme inequality can also have social repercussions (Piketty, 2014; Stiglitz, 2013). Income inequality has been shown to be correlated with lower life expectancy and higher mortality rates, especially among middle-aged white men (Case & Deaton, 2015). Income inequality also may increase the level of crime in Illinois (Chintrakarn & Herzer, 2012).

Finally, while rising national income is strongly associated with increased national happiness, greater inequality reduces wellbeing. Since 1990, the "inequality of happiness" has worsened by 4 percent nationwide (Dutta & Foster, 2011). Other researchers find that taking a dollar from a rich person and giving it to a poor person typically results in an aggregate wellbeing gain because the benefit to the poor individual exceeds the loss to the rich person (Sacks et al., 2012). Since the goal of economic policy is to maximize happiness, societies *may* be able to become more efficient through policy changes which increase equality.

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. Thus, 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.

Ten Potential Ways to Reduce Economic Inequality in Illinois

Although Illinois cannot completely counter national trends, the state government and local governments can take steps to reduce income inequality and wealth inequality. There are at least ten potential solutions to reduce inequality in the state.

1. FACILITATE UNION ORGANIZING. Unions increase wages for lower- and middle-income workers, reducing inequality (Schmitt, 2008). The long-term decline of union density in Illinois has been strongly associated with increased inequality. By encouraging union membership, mandating that employers post a "protected concerted activities" notice in the workplace, and avoiding ideological pushes for a "right-to-work" law, Illinois can make it easier for workers to unionize.

2. IMPROVE THE QUALITY OF PUBLIC INFRASTRUCTURE. Economic activity depends on quality infrastructure. Transportation infrastructure improvements allow businesses to efficiently bring their product to market, improve worker-to-firm connectivity, reduce transportation costs, and boost economic activity. In addition, the construction jobs directly created by infrastructure investments are well-paying, middle-class jobs in Illinois. Economic research publicized by the International Monetary Fund (IMF) finds that "better infrastructure, both quality and quantity, promotes income equality" (Seneviratne & Sun, 2013).

3. INCREASE INVESTMENT IN PUBLIC EDUCATION, ESPECIALLY EARLY CHILDHOOD EDUCATION AND HIGHER EDUCATION. Economic inequities are the byproduct of inequalities of opportunity. Investments in education can increase economic mobility, boost productivity, and raise the employment rate (Manzo & Bruno, 2015; Heckman & Mosso, 2014). More state funding for public colleges and universities can reduce the "sticker price" of tuition, lowering costs and increasing access for poor and middle-income college students.

4. SUPPORT WORKER TRAINING PROGRAMS. Globalization and the polarization of occupations into high-skilled professions and low-skilled jobs have both made training more important than ever. By retraining workers for the jobs that employers demand, Illinois can reduce income inequality in the state. A 2012 evaluation of registered apprenticeship programs finds that workers participating in an apprenticeship program earn $123,906 more in compensation over their careers on average than nonparticipants (Reed et al., 2012).

5. RAISE THE MINIMUM WAGE AND INDEX IT TO INFLATION. Illinois' minimum wage was last raised in 2010 to $8.25 an hour. This wage floor, if it had been adjusted for inflation, would be $9.15 in 2016 dollars. Previous research finds that a $10 minimum wage would not only restore the purchasing power of the minimum wage, but would increase labor income for Illinois workers by $1.9 to $2.3 billion for intended beneficiaries, reducing income inequality. The $10 minimum wage could subsequently be indexed annually for inflation, expanded to cover employers with two or more employees, and extended to tipped employees (Manzo & Bruno, 2014).

6. IMPLEMENT A PROGRESSIVE INCOME TAX. Illinois currently has the 5th-most unfair tax system in the country (ITEP, 2015). Among the regressive characteristics are a flat personal income tax and a lack of refundable child tax credits. As a result of the current 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 pays 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 to fix the state budget as well as improve funding for antipoverty programs. This measure would require an amendment to the Illinois Constitution.

7. EXPAND THE EARNED INCOME TAX CREDIT (EITC). The EITC reduces tax liabilities for workers based on income level, thus incentivizing work and benefiting the lowest-paid employees most (Marr et al., 2015). The state's earned income credit could be augmented to improve tax fairness. Illinois currently matches 10 percent of the federal credit. The Institute for Illinois' Fiscal Sustainability recommends that Illinois increase its earned income credit to 15 percent of the federal amount (Civic Federation, 2016).

8. CRACK DOWN ON EMPLOYEE MISCLASSIFICATION. Employers who misclassify workers avoid paying payroll taxes and other forms of employee compensation, such as health insurance and workers' comp– which increases proprietor incomes. Meanwhile, workers lose earnings that would otherwise be owed to them. Thus, the rise in employee misclassification has contributed to income inequality (Carré, 2015). Expanding coverage under labor and employment law to workers who are misclassified as "independent contractors" would improve the capital-labor divide in Illinois.

9. RELAX ZONING RESTRICTIONS. Many local zoning regulations artificially increase housing costs and rents by limiting the housing stock. The high price of housing has particularly adverse impacts on low-income families. Easing up on zoning restrictions would lower rents, reducing property wealth inequality (Furman, 2015).

10. END RESIDENTIAL SEGREGATION. Higher levels of racial residential segregation are associated with reduced levels of intergenerational economic mobility (Powell, 2014). Inequality at the top of the distribution correlates with more segregation of the rich, further isolating the poor (Watson, 2009). Steps to reduce racial segregation can help lower racial income inequality.

Each of these options is a policy solution that Illinois or any other state could enact to reduce economic inequality. Significant reductions in income inequality and wealth inequality, however, will require action at a national level by Congress, the Executive Branch, and the Federal Reserve System.

Conclusions

Illinois blossomed from a small agricultural economy into the transportation, manufacturing, and financial hub of the Midwest. Illinois has had a history of sustained population growth, and the state's population has grown by over 460,000 individuals since 2000. As of 2014, 63 percent of Illinois' population resides in a metropolitan area and 24 percent have a bachelor's degree or more – both historical highs.

The share of Illinois' population that is working has increased over time. Today, an estimated 66 percent of Illinois' residents are in the labor force, up from 57 percent just five decades ago. Employment in Illinois has shifted considerably, however, from a manufacturing-based economy to a service-based economy. While one-third of the state's workers were employed in manufacturing in 1950, the industry only employs one-in-ten Illinois workers today. As manufacturing has declined, so too has the state's labor movement. On average, Illinois' union coverage rate has declined by 0.3 percentage points per year since 1983.

In general, the decade with the lowest property wealth inequality and lowest income inequality in Illinois was the 1960s. In these years, the Top 1 Percent of homes were 2.2 times as valuable as the median home and the Top 1 Percent of workers earned at least 3.4 times as much as the median worker. By contrast, as of 2014, the Top 1 Percent of homes are now 6.7 times as valuable as the median home price and the Top 1 Percent of workers now earn *at least* 14.3 times as much as the median worker in annual income. In addition, the annual income gap between the average Caucasian white worker and the average African-American worker had declined after 1960, but the trend reversed course in 1980. Today, white Caucasians earn 40 percent more in total wage and salary income than their African-American counterparts, a level not seen since the dawn of the Civil Rights movement.

The rise in inequality has been driven by capital's increasing share of the Illinois economy. In 1980, 63 percent of total state economic output went to Illinois workers compared to capital's share of 31 percent. By 2013, however, labor compensation declined to 56 percent of Illinois' GDP and capital increased to 38 percent of the state's economy. Since 1980, Illinois has experienced a 0.2 percentage-point annual redistribution of wealth, on average, from labor to capital. The rate of capital growth has also exceeded both economic growth and the growth in employee compensation every decade. For example, despite a significant economic slowdown during the 2000s, the annual return on capital was 3.5 percent while the annual increase in labor income was only 2.4 percent, not adjusted for inflation.

In total, approximately 7 percent of the state's GDP has been redistributed from labor to capital, the share of Illinois' workforce covered by a labor union has fallen by over 11 percentage points, income inequality among workers has increased by 173 percent, and property wealth inequality has increased by 92 percent in Illinois since 1980. Structural changes in the national economy, exorbitant hikes in CEO, the declining real value of the minimum wage, the long-term decline in unionization, and political shifts resulting in financial deregulations and tax cuts primarily benefiting the wealthy have all played roles in these changes.

Inequality can have real economic consequences. Since poorer residents spend a larger share of their incomes in the economy, extreme inequality reduces overall consumer demand, resulting in job losses. With great disparities, equality of opportunity declines, with the poor having fewer resources to invest in themselves. Meanwhile, income inequality has been shown to lower life expectancy and may increase the level of crime. As inequality rises, aggregate wellbeing falls, resulting in lower levels of happiness.

While Illinois cannot completely shield itself from national economic trends, the state government and local governments can take ten steps to reduce inequality. Facilitating union organizing, improving the quality of public infrastructure, increasing investment in public education– especially early childhood education and higher education, supporting worker training programs, raising the minimum wage and indexing it to inflation, implementing a progressive income tax, expanding the earned income tax credit (EITC), cracking down on employee misclassification, relaxing zoning restrictions, and ending residential segregation are all policy solutions that Illinois could enact. Significant reductions in income inequality and wealth inequality, however, will require action at a national scale.

Economic inequality in Illinois has increased to levels not seen in decades, characterized by significant gains for the Top 1 Percent. Extreme income and wealth disparities can have significant negative effects on economic and social activity, decreasing overall wellbeing. This rise in inequality in the state is likely responsible, at least in part, for Illinois' recent bouts of population stagnation and sluggish economic growth.

The history of economic inequality in Illinois has been one of compression followed by divergence. From extreme inequities in the 1800s, the Industrial Revolution, urbanization, and unionization built a strong middle class. Over recent decades and especially since the 1980s, however, income disparities have widened. Looking forward, Illinois' residents must decide whether they want to live in a state with continued divergence or a state with greater equality. Rising economic inequality is not predetermined or inevitable. Solutions are available to lawmakers and residents to generate broad-based prosperity for all.

BIBLIOGRAPHY AND DATA SOURCES

AFL-CIO. (2015). "Executive Paywatch: High-Paid CEOs and the Low-Wage Economy." American Federation of Labor and Congress of Industrial Organizations.

Aguiar, Mark and Mark Bils. (2011). *Has Consumption Inequality Mirrored Income Inequality?* National Bureau of Economic Research; University of Rochester.

Autor, David. (2010). *The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings*. Massachusetts Institute of Technology; National Bureau of Economic Research; Center for American Progress; The Hamilton Project.

Babson, Steve. (1999). *The Unfinished Struggle: Turning Points in American Labor, 1877–Present*. New York: Rowman & Littlefield Publishers. Pp. 2-4.

BEA. (2016). "Regional Data: GDP & Personal Income." Bureau of Economic Analysis at the U.S. Department of Commerce. Annual Gross Domestic Product (GDP) by State (1963-2013): GDP in Current Dollars, Compensation of Employees, Taxes on Production and Imports Less Subsidies, Gross Operating Surplus.

BEA. (2015). "Gross Domestic Product by State and Metropolitan Area – Supplementary Information." Bureau of Economic Analysis at the U.S. Department of Commerce.

Berg, Andrew and Jonathan Ostry. (2011). *Inequality and Unsustainable Growth: Two Sides of the Same Coin?* International Monetary Fund.

Carré, Françoise. (2015). *(In)dependent Contractor Misclassification*. Economic Policy Institute.

Case, Anne and Angus Deaton. (2015). *Rising Morbidity and Mortality in Midlife Among White Non-Hispanic Americans in the 21st Century*. Proceeding of the National Academy of Sciences of the United States of America.

Chintrakarn, Pandej and Dierk Herzer. (2012). "More Inequality, More Crime? A Panel Cointegration Analysis for the United States." *Economics Letters*, 116(3): 389-391.

Civic Federation. (2016). *State of Illinois FY2017 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*. The Institute for Illinois' Fiscal Sustainability.

Dutta, Indranil and James Foster. (2011). *Inequality of Happiness in US: 1972-2008*. University of Manchester; George Washington University.

Dynan, Karen, Jonathan Skinner, and Stephen Zeldes. (2004). "Do the Rich Save More?" *Journal of Political Econom*y. 112(2). Federal Reserve Board; Dartmouth College; Columbia University.

Freeman, Richard. (1996). "Unionism and the Dispersion of Wages." *Industrial and Labor Relations Review*, 34.

Furman, Jason. (2015). "Barriers to Shared Growth: The Case of Land Use Regulation and Economic Rents." The Urban Institute.

Heckman, James and Stefano Mosso. (2014). *The Economics of Human Development and Social Mobility*. Institute for the Study of Labor; University of Chicago.

Hirsch, Barry and David Macpherson." (2016). "Union Membership and Coverage Database from the CPS." Unionstats.com. State: Union Membership, Coverage, Density, and Employment by State and Sector, 1983-2015.

Hughes, Johnathan and Louis Cain. (2003). *American Economic History*. Sixth Edition. Northwestern University: Addison Wesley. Pp. 119-120, 146, 153, 165, 481, 512, and 552.

Huang, Chye-Ching and Nathaniel Frentz. (2012). "Bush Tax Cuts Have Provided Extremely Large Benefits to Wealthiest Americans Over Last Nine Years." Center on Budget and Policy Priorities.

Illinois History Timeline. (2015). "Important Dates, Events, and Milestones in Illinois." e Reference Desk.

ITEP. (2015). *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* (Fifth Edition). Institute on Taxation & Economic Policy.

King, Corretta Scott; Dexter King; Martin Luther King III, Yolanda King; and Bernice King. (1986). *What Martin Luther King Said about Unions, Unemployment and Economic Justice: Quotations from King's Speeches to Trade Unions*. American Federation of Labor and Congress of Industrial Organizations.

Krueger, Alan. (2012). "The Rise and Consequences of Inequality in the United States." Council of Economic Advisers.

Lin, Dan, Hsein-Chang Kuo, and Lie-Huey Wang. (2013). "Chief Executive Compensation: An Empirical Study of Fat Cat CEOs." *The International Journal of Business and Finance Research*, 7(2). Takming University of Science; Technology and Ming Chuan University.

Lindert, Peter. (2000). "Three Centuries of Inequality in Britain and America." *Handbook of Income Distribution*, 1. Amsterdam: Elsevier Science. Pp. 167-216.

Manzo IV, Frank and Robert Bruno. (2015). *Policies that Support Employment: Investments in Public Education, Investments in Public Infrastructure, and a Balanced State Budget*. Illinois Economic Policy Institute; University of Illinois at Urbana-Champaign.

Manzo IV, Frank and Robert Bruno. (2014). *Minimum Wage, Maximum Benefit: How a $10 Wage Floor Impacts All Workers and the Economy*. Illinois Economic Policy Institute; University of Illinois at Urbana-Champaign.

Margo, Robert. (1992). "Wages and Prices during the Antebellum Period: A Survey and New Evidence." *American Economic Growth and Standards of Living before the Civil War*. Chicago: University of Chicago Press.

Marr, Chuck; Chye-Ching Huang; Arloc Sherman; Brandon Debot. (2015). "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds." Center on Budget and Policy Priorities.

Mishel, Lawrence and Alyssa Davis. (2015). *Top CEOs Make 300 Times More than Typical Workers: Pay Growth Surpasses Stock Gains and Wage Growth of the Top 0.1 Percent*. Economic Policy Institute.

O'Donnell, Kevin. (2013). "Illinois & Michigan Canal – Lyrics." *Deep Is the Well*.

Piketty, Thomas. (2014). *Capital in the Twenty-First Century*. Translated by Arthur Goldhammer. Cambridge, MA: Harvard University Press. Pp. 20, 213, and 294-295.

Picketty, Thomas and Emmanuel Saez. (2007). "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective." *Journal of Economic Perspectives*, 21(1): 3-24.

Powell, John A. (2014). "Six Policies to Reduce Economic Inequality." University of California, Berkeley.

Reed, Debbie, Albert Yung-Hsu Liu, Rebecca Kleinman, Annalisa Mastri, Davin Reed, Samina Sattar, and Jessica Zielger. (2012). *An Effectiveness Assessment and Cost-Benefit Analysis of Registered Apprenticeship in 10 States* (Final Report). Mathematica Policy Research.

Ruggles, Steven, Katie Genadek, Ronald Goeken, Josiah Grover, and Matthew Sobek. (2015). Integrated Public Use Microdata Series: Version 6.0 [Machine-readable database]. Minneapolis: University of Minnesota.

- Samples: 1850 1%; 1860 1%; 1870 1%; 1880 10%; 1900 5%; 1910 1%; 1920 1%; 1930 5%; 1940 1%; 1950 1%; 1960 1%; 1970 1% metro fm1; 1980 5% state; 1990 5%; 2000 5%; 2010 ACS 1.0%; 2011 ACS 1.0%; 2012 ACS 1.0%; 2013 ACS 1.0%; 2014 ACS 1.0%.

Sacks, Daniel, Betsey Stevenson, and Justin Wolfers. (2012). *The New Stylized Facts about Income and Subjective Well-Being*. Institute for the Study of Labor; University of Pennsylvania; University of Michigan.

Schmitt, John. (2008). *The Union Wage Advantage for Low-Wage Workers*. Center for Economic and Policy Research.

Seneviratne, Dulani and Yan Sun. (2013). *Infrastructure and Income Distribution in ASEAN-5: What are the Links?* International Monetary Fund.

Stiglitz, Joseph. (2013). *The Price of Inequality: How Today's Divided Society Endangers Our Future*. First Edition. New York: W.W. Norton & Company. pp. 83-117.

U.S. Census Bureau. (2000). "Resident Population and Apportionment of the U.S. House of Representatives."

U.S. Joint Economic Committee. (2010*). Income Inequality and the Great Recession*. U.S. Congress.

Watson, Tara. (2009). *Inequality and the Measurement of Residential Segregation by Income In American Neighborhoods*. National Bureau of Economic Research.

Western, Bruce and Jake Rosenfeld. (2011). "Unions, Norms, and the Rise in U.S. Wage Inequality." *American Sociological Review*, 76(4): 513-537.

Zinn, Howard. (2003). *A People's History of the United States*. New York: HarperCollins Publishers. Pp. 332.