How the U.S. States are Tackling Inequality – and What More Can be Done

William W. Franko, West Virginia University
Christopher Witko, Pennsylvania State University-Main Campus

Economic inequality is a growing problem that has attracted more public and media attention in recent years. Many look to the national government to provide policy solutions to this problem, but Congress has done little to help and when the usually gridlocked contemporary Congress has managed to make substantial policy changes – such as the tax cuts passed at the end of 2017 and the Bush tax cuts in the early 2000s – the changes have typically made inequality even worse. Evidence shows that the Bush cuts led to higher inequality and the recent tax cuts are almost certain to do the same.

So why rely on the federal government? History suggests those concerned about inequality should look elsewhere – mainly, the states. In our new book, *The New Economic Populism: How States Respond to Economic Inequality*, we show that over the last few decades a number of states have actively sought to address inequality using a wide variety of policy tools.

Why the States?

The authors of the U.S. Constitution established many institutional "veto points" in the federal government, making it difficult for the national government to act. As we argue, during periods of rapid economic change, winners who manage to control one or two federal veto points can use their growing resources to stymie policies that would threaten their position. When federal obstruction or gridlock happens, however, states can sometimes act. Throughout American history – during the debate over internal improvements, in the era of rapid industrialization after the Civil War, and in the early years of the Great Depression – it was the states that initially innovated during periods of rapid economic change. The federal government sometimes later adopted and generalized policies previously enacted in states.

Here is why this dynamic unfolds: At least some states are better positioned to respond to the downsides of rapid economic changes, because their residents or businesses may face more severe disadvantages. Their elites may care about these problems more, or given states may have institutional rules – such as ballot initiatives – that make it easier for supporters of policy change to circumvent veto points. For these reasons, we are not surprised that, even though the U.S. federal government has been hesitant to fight rising inequalities, certain states have responded – perhaps, as in past periods, creating models that can spread to other states and the federal government.

Although growing inequality itself does not directly cause governments to take remedial actions, we argue that increased public concern about inequality does create some incentives for remedial actions. Today, American public awareness of inequality is rising in tandem with objective trends. In turn, as we show, states with left-leaning governments and citizens and strong unions, are more likely to be concerned about and respond to inequality. And in some states, citizen initiatives can facilitate government responses to inequality because such ballot measures allow the public, unions, and left-leaning politicians to circumvent veto points in legislatures or the governor's office.

The Fortune of State-Level Measures to Reduce Inequality

Though relatively few elected officials have made tackling inequality a top priority, steps to mitigate inequality are often included in debates over taxes, the minimum wage, and other policies. We examine how the forces discussed above – public concern, union strength, left politicians – are associated with changes to state top marginal tax rates, minimum wage increases, and adoptions of an Earned Income Tax Credit in the 50 states from 1987 to 2012. These policies were selected because research has demonstrated that each of them is associated with reduced economic inequality. Our results show that:

- Both public awareness of inequality and government liberalism are associated with higher top marginal tax rates.

- Larger minimum wages are more likely in states where the public is aware of growing inequality – and in states with left-leaning governments, strong initiative options, more liberal publics. States are also more likely to act when it has been a longer time since the federal government increased the national minimum wage.

- Awareness of inequality and strong unions are associated with adoptions of a state-level Earned Income Tax Credit program – and, importantly, conservative and liberal states were equally likely to take this step.

Clear-Cut Implications for Addressing Economic Inequality

Our findings have important implications for activists and politicians. In this era, we show, focusing efforts on state governments can pay larger dividends than efforts to move federal legislation. Furthermore, our results suggest specific tactical lessons:

- Some policies over which the states have a lot of control – including the minimum wage and the Earned Income Tax Credit – are very popular with the public. Even conservative state governments and politicians can be pushed to support such measures.
- States with rules allowing policymaking by ballot initiative are especially promising arenas for efforts aimed at enacting policies to reduce economic inequality.
- Discussing the implications of state-level policies for reducing inequality can increase support among voters, regardless of possibilities for immediate legislative victories.

Even though our research tracks well-known policies, activists should also experiment with new local and state-level policies to address inequality – such as Portland, Oregon's "CEO tax," which places a surcharge on companies that pay their CEO more than 100 times their average worker. As the history of U.S. politics clearly reveals, responses to social change and inequalities do not always happen first at the national level. When national efforts are stymied, reformers can often make headway in subnational arenas.

Read more in William W. Franko and Christopher Witko, *The New Economic Populism: How States Respond to Economic Inequality* (Oxford University Press, 2017).