The Iowa Policy Project
20 E. Market St. • Iowa City, Iowa 52245 • (319) 338-0773
www.iowapolicyproject.org

February 2014

IPP POLICY SNAPSHOT

The Rich Get Richer

Top Incomes in Iowa, 1917-2011

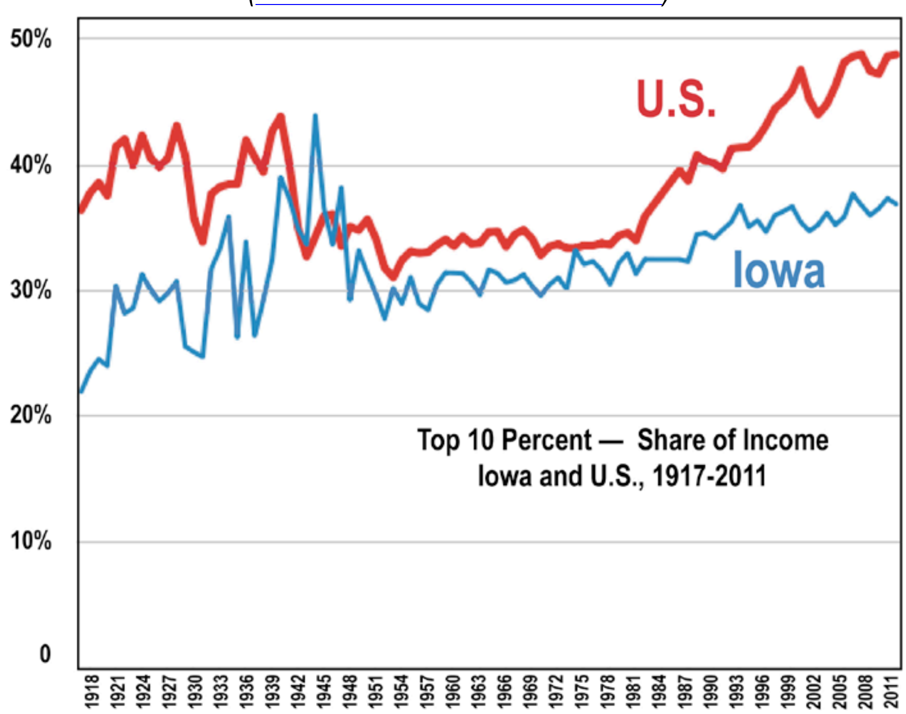
By Colin Gordon

The last generation has been marked by growing inequality. In part, this reflects real losses for working families. As labor standards wither and real wages stagnate, those at the lower end of the income spectrum are struggling to get by. And, in part, this reflects the disproportionate gains made by the wealthiest Americans — especially as constraints on executive pay, progressive taxation, and regulation of financial services have weakened in recent years.

See more at www.iowapolicyproject.org and www.epi.org

The pioneering work of Thomas Piketty and Emmanual Saez uses tax return data to trace the arc of national inequality: A long historical curve that starts high in the early years of the 20th century (with the top 10 percent claiming about half of all income and the top 1 percent claiming about one-fifth), drops precipitously with the political innovations of the New Deal, and then climbs again — returning, by 2012, to its early century heights — as those innovations are dismantled. In a new paper for the Economic Analysis Research Network, *The Increasingly Unequal States of America*, Mark Price and Estelle Sommeiller have followed this methodological lead and developed estimates for top incomes shares, from 1917 through 2011, for American states and regions. This allows us to zero in on patterns of income distribution for Iowa, against a regional and national backdrop.

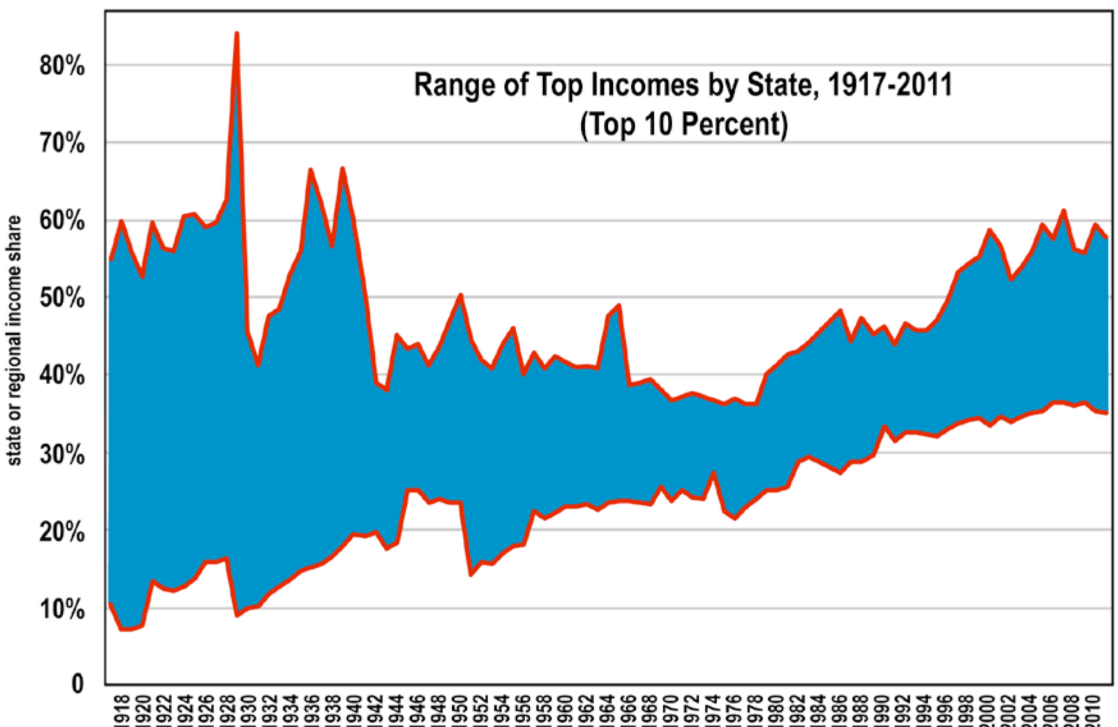
Figure 1. Iowa Inequality Rises, Though Not as Quickly as U.S. Rate
(*INTERACTIVE VERSION ONLINE*)



Like most of the less urbanized and less populated states in the West and Midwest, Iowa (Figure 1) shows less concentration of income at the top in the early decades. But overall, the arc of inequality — from state to nation — is remarkably consistent. Again, this is especially true in the middle years of the last century, when strong federal policies trumped (or overcame) the economic and political differences among the states. In more recent years, the top income shares for Iowa trend upward — but not as steeply as the national trends. Among those states whose top earners have pulled furthest ahead, local growth in financial services (NY, CT, NJ, IL) or information technology (MA, CA, WA) seems to be the driving force.

Next, we illustrate inequality trends across all states. In Figure 2, the blue area represents the top 10 percent's income across all states, with with the red lines marking the top and bottom of that range (in 1928, for example, the top 10 percent's share ranged from about 15 percent of state income in the most equitable state to over 80 percent in the most unequal). Where the blue area is wider, the variation across states is greater (pre- Depression and pre-World War II). Where the overall trend goes down, the top 10 percent take a smaller share of income — inequality is lessening — and where the trend rises, they take a greater share (late 1970s to present).

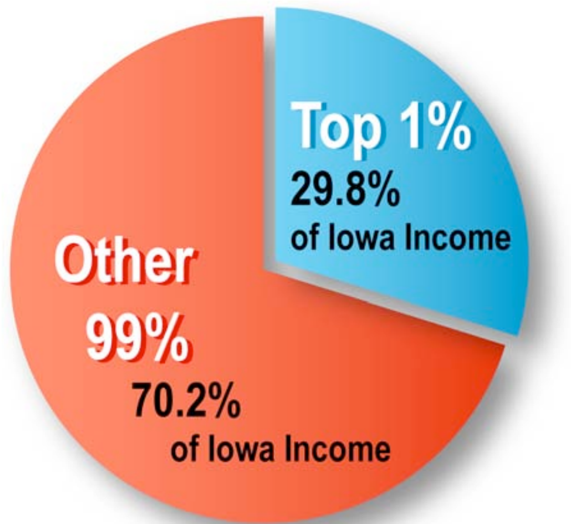
Figure 2. Widening Inequality in States as Rich Take Greater Share
(*INTERACTIVE VERSION ONLINE*)



Across the full sweep of the last century, the pattern is telling. Into the 1930s, inequality is stark and the variation across states is fairly dramatic. Once the policies of the New Deal — collective bargaining, retirement and unemployment security, financial regulation, progressive taxation — were entrenched, the income share claimed by top earners fell and the variation across states shrank. But as those policies came under attack (beginning in the 1970s), inequality rose again and the variation across states widened. Perhaps the most striking pattern here is how similar state patterns are to those of nation as a whole. To examine this in more detail, the online version of this graph permits sorting by different top income shares (1 percent, 5 percent, 10 percent) and for any time range.

While the gap is not as stark in Iowa as it is in many other states, it is still wide — and getting wider. Between 1979 and 2007 (just before the start of the recession), the top 1 percent of earners in Iowa saw their real incomes more than double, while the rest of Iowans saw gains (over nearly 20 years) of just 23.7 percent. Across this span, the top 1 percent in Iowa claimed almost one-third (29.8 percent) of all income gains. (Figure 3)

Figure 3. Fraction of Income Growth Captured by Top 1 Percent in Iowa, 1979-2007



The still-unfolding story is how much these gaps widened across the last business cycle, and especially during the first two years of the recovery. In 38 of the 50 states overall income grew over 2009-2011, but in 17 of those states *only* the incomes of the top 1 percent grew — and the bottom 99 percent actually lost ground. In seven more states, the top 1 percent captured over half of all income growth. The distribution was not quite as stark in Iowa, where the 1 percent saw their real incomes grow by 10 percent over 2009-11 — about three times the rate of income growth (3.8 percent) for the bottom 99 percent. During the recovery, the top 1 percent in Iowa claimed about a quarter (24.6 percent) of all income gains.

In relative terms, patterns of inequality in Iowa are not nearly as harsh as they are in many other states. As of 2011 (the most recent year for which state-level data is available), only two states (Alaska and Hawaii) boasted smaller "top-to-bottom" ratios between the average income of the top 1 percent (about $659,000 in Iowa) and the average income of the bottom 99 percent. This is largely a reflection of our flattened income structure: the median income in Iowa (about $50,000) ranks in the middle of the pack, the average income of Iowa's top 1 percent ranks 42nd, smaller than that of all but nine other states.

The national debate over inequality has been a little like conversation about the weather: A few claim it's not so bad (all evidence to the contrary); some claim it is entirely natural, and that we should just live with it; and many of those who lament the widening divide seem to concede that not much can be done about it.

The historical pattern of inequality — in Iowa and elsewhere — suggests that this is not the case. While demographic and economic differences generate different patterns of income distribution from state-to-state, the common historical trajectory is more telling. Inequality is high during eras of light financial regulation and lax labor standards (before the 1930s and after the 1970s). But it narrows when public policies make an effort to sustain the bargaining power of ordinary Americans, and regulate the ambitions of the richest among us.

Colin Gordon, *Ph.D. (History), Professor, Department of History, University of Iowa, is a Senior Research Consultant for the Iowa Policy Project. He has authored or co-authored several IPP reports, including most in the State of Working Iowa series, to advance effective and accountable policies that help working families. Among these are Wage Theft in Iowa, and Not Your Father's Health Insurance: Discount Medical Plans and the Health Care Crisis.*

The Iowa Policy Project *is a nonpartisan, nonprofit public policy research organization based in Iowa City. Reports are at www.iowapolicyproject.org. IPP is a member of the Economic Analysis Research Network.*