



KEYSTONE
RESEARCH
CENTER

Pulling Apart in Pennsylvania:

The Incomes of Pennsylvania

Families Since the 1970's

Howard Wial

Keystone Research Center
412 North Third Street • Harrisburg, PA 17101
Phone: 717-255-7181 • Fax: 717-255-7193

Briefing Paper 98/3

Pulling Apart in Pennsylvania: The Incomes of Pennsylvania Families Since the 1970's

This briefing paper documents both bright and dark sides to the economic fortunes of Pennsylvania families since the 1970s.

The bright side is that Pennsylvania is a relatively prosperous state and the fruits of its prosperity are slightly more equally distributed than in the United States as a whole. The dark side is that, during two decades of rising inequality across the nation, family income inequality has grown more in Pennsylvania than in all but a handful of states.

It is by now old news that Pennsylvania's working families were devastated from the late 1970s to the mid-1980s. This briefing paper shows that the period since the middle 1980s has not treated poor and middle-income families much better. Only affluent Pennsylvania families are benefiting substantially from the state's prolonged economic "recovery."

It is imperative that state policy focus now on how to create economic growth that benefits all Pennsylvania families. If we don't confront this task with official unemployment below 5 percent and into our seventh year of economic expansion, when will we? This paper proposes that Pennsylvania raise its minimum wage and make its tax system fairer to low- and middle-income families. It also proposes that Governor Ridge organize a summit on rising inequality and that the state legislature establish a permanent Pennsylvania commission on growth with equity.

The tables and figures in this paper detail income trends for families with children in Pennsylvania and nationally. The highlights:

- The average income of Pennsylvania families with children exceeds the national average by nearly 8 percent.
- However, the richest 20 percent of Pennsylvania families now earn \$37,128 more than in the late 1970s, while middle-income families earn only \$2,177 more. The poorest 20 percent of families now earn \$3,235 less.
- From the 1970s to the 1980s and from the 1980s to the 1990s, Pennsylvania was one of the ten states in which income inequality grew the most.
- In the late 1970s, Pennsylvania was in the one third of states with the most equitable family income distributions (whether equity is measured by comparing the income of rich to poor families or the income of rich to middle-income families). By the mid-1990s, Pennsylvania had slipped into the bottom half of states by both measures of family income equity.
- In the Northeast since the late 1970s, family income inequality between the rich and the poor and between the rich and the middle class grew faster in Pennsylvania than in all but two other states (New York and Connecticut).
- If Pennsylvania's family income distribution were as equal today as it was in the late 1970s, middle-income and poor families would each have almost \$6,000 more to spend. By contrast, even if all the cash assistance now received by welfare recipients were eliminated and used to lower state income taxes, a family of four would receive less than \$300. Despite claims to the contrary, it is not welfare spending but rising inequality that has put the squeeze on working families.

The data here report the pre-tax incomes of families with children under 18 years of age. These data cover the years 1978-1980, 1985-1987, and 1994-1996. Family incomes are adjusted for inflation and expressed in 1997 dollars (i.e., the buying power of incomes at 1997 prices).¹

The Average Income of Families In Pennsylvania and the United States in the 1970s, 1980s, and 1990s

- The average inflation-adjusted income of Pennsylvania families grew by more than 18 percent between the late 1970s and the mid-1990s, while the average income of all American families rose by only about 11 percent (Table 1).

- All across America from the 1940s to the 1970s, economic growth narrowed income gaps between the rich, middle class, and poor. Since the 1970s, in both Pennsylvania and the entire United States, the gap between the rich and the rest of the population grew.

- Throughout the last two decades, Pennsylvania family incomes pulled apart faster than those of families throughout the United States (Figure 1 and Tables 2 and 3.)

- The richest fifth of Pennsylvania families gained ground faster than their counterparts nationally, while the poorest fifth of Pennsylvania families lost ground faster than the poorest fifth of families throughout the nation.

- Since the late 1970s, the incomes of the richest 20 percent of Pennsylvania families grew faster than those of their counterparts in all but five other states (Massachusetts, Connecticut, New York, New Jersey, and Indiana). The incomes of Pennsylvania's poorest fifth fell faster than those of their counterparts in all but 14 other states and faster than those of the poorest fifth in all Northeastern states except Connecticut and New York.

- Since the mid-1980s, the incomes of the richest 20 percent of Pennsylvania families grew faster than those of

Table 1:
Average Incomes of Families With Children in Pennsylvania and the United States (in 1997 dollars)

	1978-80	1985-87	1994-96	% change, 1978-80 to 1994-96
Pennsylvania	\$ 45,873	\$ 46,974	\$ 54,367	+18.5%
United States	\$ 45,555	\$ 47,141	\$ 50,470	+10.7
PA as % of U.S.	100.7%	97.7%	107.7%	

Figure 1:
The Average Incomes of the Richest, Middle, and Poorest Fifths of Pennsylvania Families with Children, Late 1970s to Mid-1990s

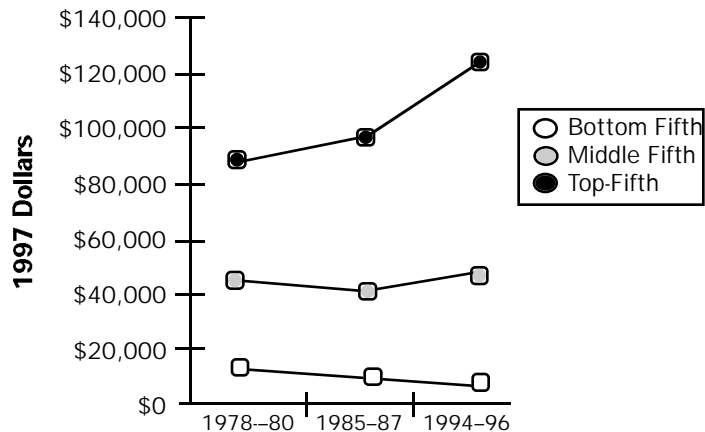


Table 2:
Average Incomes of Families With Children in Pennsylvania, by Fifths of the Income Distribution (in 1997 dollars)

	1978-80	1985-87	1994-96	% change, 1978-80 to 1994-96	% change, 1985-87 to 1994-96
Bottom Fifth	\$ 13,747	\$ 11,521	\$ 10,512	-23.5%	- 8.8%
2nd Fifth	\$ 30,456	\$ 28,431	\$ 28,303	- 7.1	- 0.5
Middle Fifth	\$ 42,493	\$ 42,147	\$ 44,670	+ 5.1	+ 6.0
4th Fifth	\$ 55,261	\$ 57,393	\$ 63,813	+15.5	+11.2
Top Fifth	\$ 87,409	\$ 95,376	\$124,537	+42.5	+30.6

their counterparts in all but two other states (Indiana and Iowa). The incomes of Pennsylvania's poorest fifth fell faster than those of their counterparts in all but 13 other states (including several other Northeastern states). The poorest fifth of families actually became richer in 26 states during this period, but not in Pennsylvania.

- The middle fifth of Pennsylvania families has gained slightly since the 1980s, while the middle fifth of all American families became slightly poorer. However, the gains of Pennsylvania's middle class families were too small to keep the middle fifth from falling further behind the top fifth.

**Table 3:
Average Incomes of Families With Children in the United States, by Fifths of the Income Distribution (in 1997 dollars)**

	1978-80	1985-87	1994-96	% change, 1978-80 to 1994-96	% change, 1985-87 to 1994-96
Bottom Fifth	\$ 11,759	\$ 9,529	\$ 9,254	-21.3%	- 2.9%
2nd Fifth	\$ 27,709	\$ 25,612	\$ 24,724	- 7.6	- 3.5
Middle Fifth	\$ 41,434	\$ 41,111	\$ 40,721	- 1.7	- 0.9
4th Fifth	\$ 56,147	\$ 58,420	\$ 60,150	+ 7.1	+ 3.0
Top Fifth	\$ 90,728	\$101,035	\$117,499	+29.5	+16.3

The Relative Prosperity of Rich, Middle-Income and Poor Families

The last section separately examined trends for each fifth of the family income distribution. This section looks more closely at the relative prosperity of rich, middle-income, and poor families. It analyzes three measures of relative prosperity: the ratio of the income of rich families and that of less affluent families; the share of total family income that went to each fifth of families; and the share of the increase in family income over the past one and two decades that went to each fifth of families.

The Rising Ratio of Rich Family Income to that of Less Affluent Families

- The ratio of the incomes of the richest to the poorest families remains smaller in Pennsylvania than nationally. In 1994-96, the average family income of Pennsylvania's richest fifth was 11.8

**Table 4:
Ratio of Average Income of Richest Fifth of Families With Children to That of Poorest Fifth of Families with Children, Pennsylvania and United States**

	1978-80	1985-87	1994-96	% change, 1978-80 to 1994-96	% change, 1985-87 to 1994-96
Pennsylvania	6.4	8.3	11.8	+86.3%	+43.1%
United States	7.7	10.6	12.7	+64.6	+19.7

**Table 5:
Ratio of Average Income of Richest Fifth of Families With Children to That of Middle Fifth of Families with Children, Pennsylvania and United States**

	1978-80	1985-87	1994-96	% change, 1978-80 to 1994-96	% change, 1985-87 to 1994-96
Pennsylvania	2.1	2.3	2.8	+35.5%	+23.2%
United States	2.2	2.5	2.9	+31.8	+17.4

times the average income of families in its poorest fifth; in the U.S. as a whole, this ratio was 12.7.

- The ratio of the incomes of rich to middle-income families is also slightly smaller in Pennsylvania than in the nation as a whole (2.8 versus 2.9).
 - But the ratio of the average incomes of rich and poor families has grown faster in Pennsylvania than in the nation as a whole. The same is true of the gap between the richest and middle fifths (Tables 4 and 5.)
 - Between 1978-80 and 1994-96, the ratio of the average income of the top fifth of families to that of the bottom fifth grew by 86.3 percent in Pennsylvania but by only 64.6 percent nationally. Between 1985-87 and 1994-96, this top-to-bottom ratio rose more than twice as fast in Pennsylvania (43.1 percent increase) as in the nation as a whole (19.1 percent increase).
 - Between 1978-80 and 1994-96, the ratio of the average income of the top fifth of families to that of the middle fifth increased by 35.5 percent in Pennsylvania, compared with 31.8 percent nationally. Between 1985-87 and 1994-96, the corresponding figures were 23.2 percent for Pennsylvania and 17.4 percent for the entire United States.
 - The gap between the richest and poorest fifths of families in Pennsylvania grew faster than that in
- all but five other states between the 1970s and 1990s and between the 1980s and 1990s. In the Northeast, the growth of inequality between the richest and poorest families in Pennsylvania was exceeded only by that in New York and Connecticut.
- The gap between the richest and middle fifths of families in Pennsylvania grew faster than that in all but eight other states between the 1970s and 1990s and all but six other states between the 1980s and 1990s. In the Northeast, the growth of inequality between the richest families and the middle class in Pennsylvania was exceeded only by that in New York and Connecticut since the 1970s and only by that in New York and Delaware since the 1980s.
 - In 1978-80, Pennsylvania ranked 39th among the states in the size of its top-fifth-to-bottom-fifth average income ratio (i.e., it was in the most equitable quarter of states by this measure). In 1994-96, it ranked 21st.
 - In 1978-80, Pennsylvania ranked 38th among the states in the size of its top-fifth-to-middle-fifth average income ratio. In 1994-96, it ranked 15th (i.e., Pennsylvania was in the most inequitable third of states by this measure).

The Share of Total Family Income Received by Each Fifth of the Income Distribution

- The share of total Pennsylvania income that went to the richest fifth of families rose from just over 38 percent in 1978-80 to just under 46 percent in 1994-96 (Figures 2 and 3). Over the same period, the top fifth's share of total U.S. income rose more slowly, from less than 40 percent to more than 46 percent.
- The bottom fifth's share in Pennsylvania fell from 6 percent in 1987-80 to just under 4 percent in 1994-96 (Figures 2 and 3). During this period, the bottom fifth's share in the United States fell more slowly, from just over 5 percent to less than 4 percent.
- The middle fifth's share in Pennsylvania fell from less than 19 percent in 1987-80 to more than 16 percent in 1994-96 (Figures 2 and 3). During this period, the middle fifth's share in the United States fell slightly more slowly, from just over 18 percent to just over 16 percent.

Figure 2:
Pennsylvania Income Distribution,
Families With Children, 1978-80

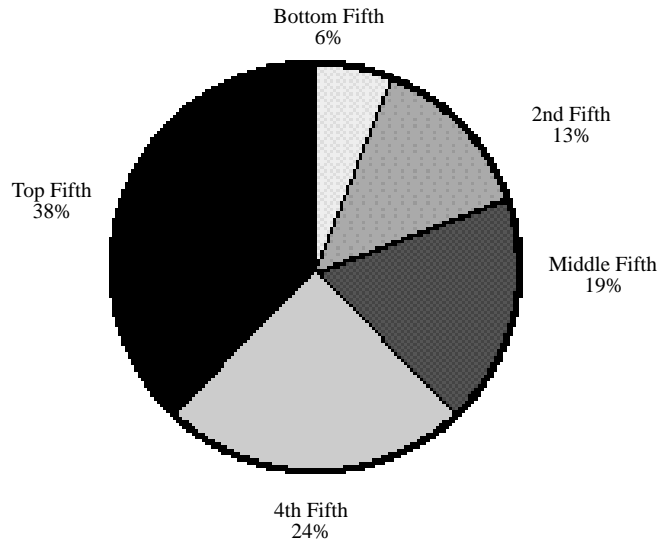
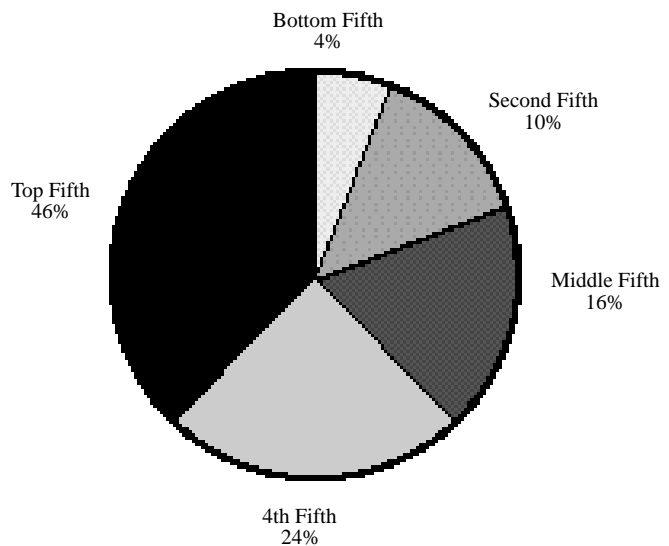


Figure 3:
Pennsylvania Income Distribution,
Families With Children, 1994-96



The Share of the Increase in Total Family Income Received by Each Fifth of the Income Distribution

Another way to look at the changing distribution of income is to consider how much of the *increase* in total family income since the 1970s and the 1980s went to the richest families.

- Between the late 1970s and the mid-1990s, families in the top fifth of the income distribution received 89 percent of the increase in total family income in Pennsylvania (Figure 4).
- Between 1985-87 and 1994-96, families in the top fifth received 69% of the increase in total family income (Figure 5).

Figure 4:
The Share of the Increase in Total Family With Children Income Received by Each Fifth of Pennsylvania Families, 1978-80 to 1994-96

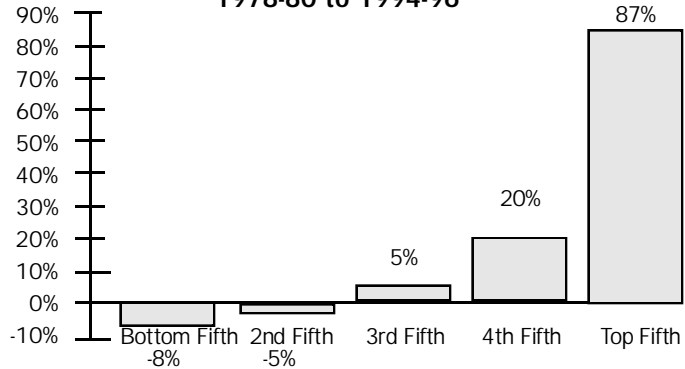
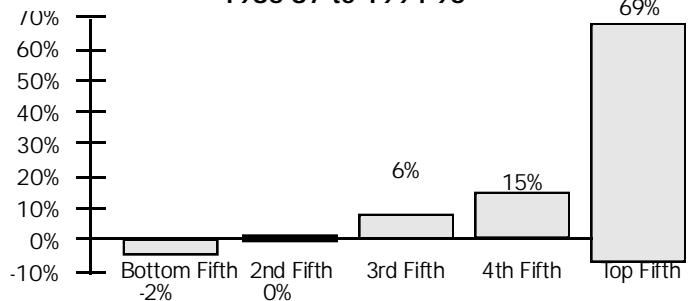


Figure 5:
The Share of the Increase in Total Family With Children Income Received by Each Fifth of Pennsylvania Families, 1985-87 to 1994-96



Low- and Middle-Income Families Have Lost Up To \$6,000 Per Year Due To Rising Inequality

As a result of rising inequality, low- and middle-income Pennsylvania families have lost substantial amounts of money since the 1970s.

- If the incomes of Pennsylvania families in 1994-96 had been distributed as they were in 1978-80,
 - the income of the poorest fifth of families would have averaged \$ 5780 (or 60 percent) more (in 1997 dollars) than it actually did in 1994-96,²
 - the income of the middle fifth of families would have averaged \$ 5691 (or 12.7 percent) more than it actually did in 1994-96,
 - the income of the top fifth of families would

have averaged \$ 20,944 (or 16.8 percent) less than it actually was in 1994-96.

- **The income gains that low- and middle-income Pennsylvania families would experience if the family income distribution were as equal today as it was in the late 1970s dwarf any savings that they could possibly reap as a result of cutbacks in welfare expenditures.** If all Pennsylvania cash assistance grants in 1997-98 had been eliminated and the funds distributed equally to all families in the Commonwealth, a family of four would have gained less than \$300 (in 1997 dollars).³ While Pennsylvania’s middle class and working poor have been struggling, spending on welfare programs is not the reason why.

Changing Course

Keystone Research Center's annual reports on *The State of Working Pennsylvania* identify many of the factors that have driven the growth of income inequality in Pennsylvania over the past two decades:⁴ the shift of employment from high-wage manufacturing to lower-wage service jobs, the fact that the minimum wage (despite recent increases at the federal level) has not kept pace with the growth of average income in Pennsylvania or the nation as a whole, declining unionization, deregulation and the globalization of production (both of which put downward pressure on the wages of low-paid workers), and the weakening of the social safety net provided by such programs as welfare and unemployment insurance. Taken together, these factors have made it easier for employers to compete by cutting wages and benefits rather than by raising productivity and quality.

The State of Working Pennsylvania 1997 also outlined a policy program intended to reorient business strategy towards improving economic performance, and income equity.⁵ Implementing a comprehensive reform program will, of course, take both a good deal of time and the flexibility to adapt policies based on progress along the way. What could Pennsylvania do immediately, and easily, to take advantage of continued economic expansion and change course? We suggest three simple steps.

1. MORE EQUITABLE TAX POLICY

Pennsylvania's tax system does little to offset the gap between rich, middle-class, and poor families. Indeed, until very recently, Pennsylvania was one of ten states that taxed the poorest fifth of families at a rate more than double that of the richest one percent.⁶ Earlier this year, Governor Ridge and the state legislature took a step towards greater equity by raising the income (or "tax forgiveness") threshold below which less affluent taxpayers pay no state income tax or have their tax burden reduced. Now, however, the Governor has proposed that future income tax increases

require a supermajority of the state legislature. This would sharply reduce prospects for promoting greater equity through the state tax system. Instead,

- Pennsylvania should lower income taxes on working families in one or both of the following ways: by establishing a personal exemption or standard deduction in the state income tax; or by raising the threshold below which families are eligible for tax forgiveness.
- If additional tax rate cuts are enacted, they should be made in the state sales tax and local wage taxes (both of which take a larger share of the incomes of the poor than of higher-income families) rather than in the state income tax (which, because of the tax-forgiveness program, takes a lower share of the incomes of the poorest families as compared to richer families).

2. RAISE THE STATE MINIMUM WAGE

Six states, but not Pennsylvania, now have minimum wages above the federal level. A higher minimum wage could reduce income inequality substantially. Each 25-cent increase in the minimum wage would raise the earnings of a full-time minimum-wage worker by \$520 per year.

- Pennsylvania should raise its minimum wage above the federal level.

3. A PERMANENT COMMISSION ON GROWTH WITH EQUITY

Pennsylvania's public and private sector leaders should recognize the growth of income inequality as a major problem and as a movement away from the Commonwealth's tradition of broadly shared prosperity.

- Governor Ridge should convene a summit meeting of state and local political leaders,

the state's congressional delegation, and its business, civic, labor, religious, and academic leaders to explore the causes of this problem and develop potential solutions.

The pressures driving inequality are powerful and the political strength of those harmed by inequality is weak. This is part of why the issue of inequality is often swept under the rug. It is also why we need a way to ensure that the issue gets sustained, serious attention.

- After the initial summit, the state legislature should establish a permanent Commission on Growth with Equity.

Governor Ridge and leading legislators have increasingly recognized that economic development, while shaped by state policy, is rooted in sub-state economic regions. In these regions, decisions that influence prospects for widely shared prosperity are made every day and every month - by employers, industry associations, local government, unions and other

stakeholders. Over the past two decades, rising inequality has manifested itself in all of the state's major economic regions, although to different degrees. A contributing reason for this is that none of Pennsylvania's major regions has a clear overall strategy for promoting growth that benefits all segments of its population. To remedy this,

- The legislature or the State Department of Community and Economic Development should fund regional dialogues on how to achieve growth with equity. These dialogues should seek participation from a broad cross-section of the community, including the working families and demographic groups that have been hit hardest by inequality.

The great potential of political democracy is its ability to force debate and action that make social progress serve people generally. It is past time for Pennsylvania to take advantage of this potential.

FOOTNOTES

1 The data presented here are from the March Current Population Surveys for each three-year period. Adjustment for inflation was done using the Gross Domestic Product Price Deflator for Personal Consumption Expenditures, a consumer price index published by the U.S. Department of Commerce. This briefing paper is based on Kathryn Larin and Elizabeth C. McNichol, *Pulling Apart: A State-by-State Analysis of Income Trends* (Washington, DC: Center on Budget and Policy Priorities, 1997), which tabulates data for all 50 states as well as for the United States as a whole. The pooling of data for three consecutive years in each decade increases the reliability of the estimates. Because the average size of families with children has changed very little over the past two decades, the trends reported in this briefing paper would still hold if the data were adjusted for family size.

2 This number is equal to [(average income of all families in 1994-96) x (average income of poorest fifth in 1978-80)] / (average income of all families in 1978-80)] - (average income of poorest fifth in 1994-96). The other numbers in this section are calculated similarly.

3 Calculation based on Table 121 in Pennsylvania State Data Center, 1998

Pennsylvania Abstract: A Statistical Fact Book (Middletown: Penn State Data Center, 1998).

4 Stephen Herzenberg with Lesley Nearman, *The State of Working Pennsylvania* (Harrisburg: Keystone Research Center, 1996), pp 54-60.; Stephen Herzenberg and Howard Wial, *The State of Working Pennsylvania 1997* (Harrisburg: Keystone Research Center, 1997), pp. 13-14.

5 For a more comprehensive analysis of the rise of inequality throughout the United States and the types of national and state policies that would be necessary to achieve a new era of postindustrial prosperity that benefits the vast majority, see Stephen A. Herzenberg, John A. Alic, and Howard Wial, *New Rules for a New Economy: Employment and Opportunity in Postindustrial America, a Twentieth Century Fund Book* (Ithaca: Cornell University/ILR Press, 1998).

6 Herzenberg with Nearman, *State of Working Pennsylvania*, p. 45.