Geographic Inequality in Social Provision and Redistribution in the U.S. States 1994-2018

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In recent years, "inequality" has received an extraordinary amount of attention in political, policy, and academic circles. In the U.S. the conversation has been overwhelmingly national in scope with a focus on inequalities of income and wealth, and differentials in access to remunerative employment, quality schooling, safe neighborhoods, and affordable health insurance. This national focus misses another enormously consequential axis of American inequality, one that has received inadequate attention in contemporary academic and policy circles – that is inequality by geography, specifically inequality across the 50 U.S. states. The landmark work of Raj Chetty and his colleagues has provided a wealth of evidence that geography matters – where a child is born, or where an economically-vulnerable family lands, for whatever reason, shapes their wellbeing, and ultimately their life chances (Chetty et al. 2014; Chetty et al. 2016; Chetty et al. 2018).

Policy scholars have long studied cross-state policy variation, including both levels and trends, often leveraging this variation as a methodological tool for policy evaluation. Yet state-to-state policy variation is rarely conceptualized as a form of inequality per se. In our view, that is precisely how it should be viewed. As Wildavsky (1985) famously observed thirty years ago, "federalism means inequality." In this paper we shine a spotlight on just how federalism leads to inequality. To do so, we focus on the consequences of having a largely decentralized safety net: inequalities in social provision and inequalities in poverty and inequality reduction. In doing so we highlight the importance of including discussion about the territorial scale of government responsible for provision in current policy and academic debates.

In the first part of this paper, we provide a descriptive analysis of the magnitude of cross-state variation in social provision using a unique dataset that captures two key dimensions of safety net policies – generosity of benefits and inclusiveness of receipt – across 10 critical programs that comprise many of the key safety net policies for economically marginalized families. In previous work, we have demonstrated that there is substantial variation across states at levels equal to or greater than variation across the European countries that have been recognized as having different welfare regimes (Bruch, Meyers, and Gornick 2016), and that policies in which states are provided with more discretion have greater cross-state inequality in provision, and this cross-state inequality has increased for some programs as a result of the welfare reforms in the mid-1990s (Bruch, Meyers, and Gornick 2018). The analysis in this paper updates those analyses and examines the extent to which we see increases in cross-state inequality from 1994 to 2018 (divergence) or decreases (convergence).

In the second part of the paper, we turn to the distributional consequences of having a largely decentralized safety net focusing on cross-state inequalities in poverty and inequality reduction. We ask two questions. First, what is the extent of variation in how much states reduce poverty and inequality among working aged households with children? And, second, has the amount of and/or cross-state variation in redistribution changed over time? To answer these questions, we

conduct two analyses. We conduct a descriptive analysis using the CPS ASEC and NBER's TAXSIM from 1990 to 2018 to estimate the contributions of four redistribution policy mechanisms: centralized/federal transfers, federal taxes, decentralized/state transfers, and state taxes.

Market and disposable inequality vary widely across the U.S. states. In preliminary work, we find that states vary widely not only in their initial, market-based levels of poverty and inequality, but in the extent of poverty and inequality reduction (Bruch and Meyers 2016), see Figure 1.

Most importantly, we find that states vary in which of the redistributive mechanisms reduces inequality the most. For example, in the case of decentralized transfers the inequality reduction due to this mechanism varies from 0.02 to 0.05 Gini points (see Figure 2). Examining the redistribution of each of these four redistributive mechanisms, we also find that the amount of inequality and poverty reduced by decentralized transfers and state taxes has declined over time (not shown).

Economic inequality, insecurity, and poverty are not just national issues. There is substantial regional, state, and local variation in the extent and magnitude of inequality, insecurity, and poverty. The analyses in this paper provide strong evidence of the increasing importance of the decentralized structure of social policies, and provide much needed insight into how the various redistributional mechanisms operate across the 50 U.S. states.

Figure 1. Market and Disposable Income Inequality for Households with Children, 2012

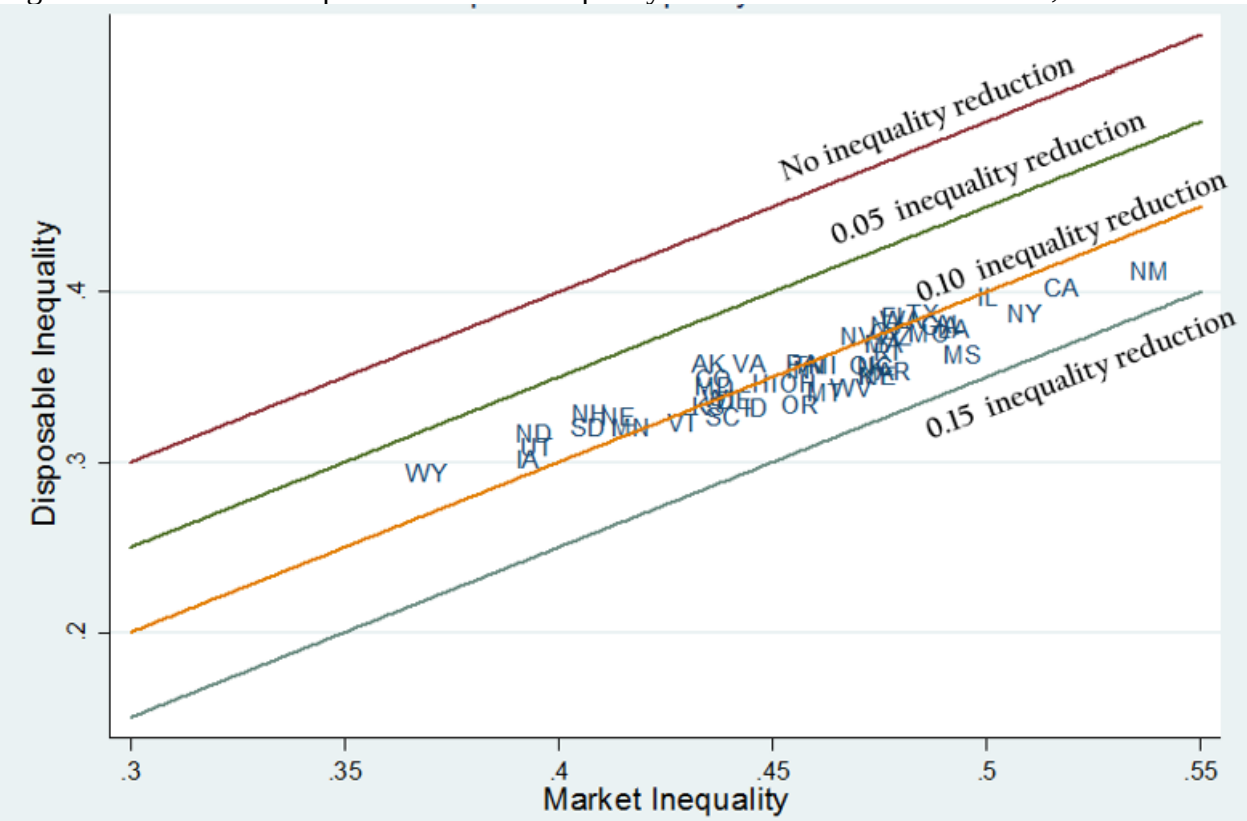


Figure 2. Income Inequality Reduction for Working-Aged Households with Children, 2012

