# The Effect of Political Outcomes across the United States on Income Equality

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ABSTRACT

The purpose of this paper is to test the relationship between a specific measure of inequality and political outcomes across the United States. To test this relationship, I run regressions with the Gini coefficient of the U.S. states across a 40-year time span against which political party was in control of that state's governorship and legislature. I find some evidence that Democratic governors are associated with declining inequality. However, as additional financial and demographic control variables are included, the sample size becomes smaller and the results are not significant.

## INTRODUCTION

On December 4th, 2013, during his address to the Center for American Progress at the Town Hall Education Arts Recreation Campus in Washington, D.C., President Barack Obama stated it was the "defining challenge of our time." To what was he referencing? He was talking about the nation's duty to make sure the economy, "works for every working American." As a consequence of this speech, the topic of income inequality and how it affects the "American Dream" was revived across the nation. It also sparked many debates and conversations about income inequality and its impact on the American people. The President continued his speech by relaying that the top 10 percent of income earners went from taking in one-third of the total national income in 1979 to now claiming over half of that same total. He further noted the average CEO used to make "20 to 30 times the income of the average worker." Now, the average CEO makes 273 times more than the average worker. Finally, President Obama stated that a family in the top 1% has a net worth that is "288 times higher than the typical family, which is a record for this country."

Some other disconcerting facts concerning income inequality can be seen in Figure 1 provided by CBPP.org. In it, one can see how the income gains of the top 1% and the top 20% of all income earners in the United States has grown significantly greater relative to the bottom 80% since 1980. While the Great Recession of 2008 is seen taking away a large portion of the pre-2008 gain, there is still a significant gap present. More specifically, one can see how the top 1% has responded significantly more positively than other income quintiles post-2008. The article further states how "the increase in the average income of the top 1 percent of households from 1979 to 2010 was four to five larger than that of the middle 60 percent and bottom fifth." Data like these show how great income disparity truly is, and why it has been at the focal point of many financial and economic policy discussions for the past few years.

**Figure 1**
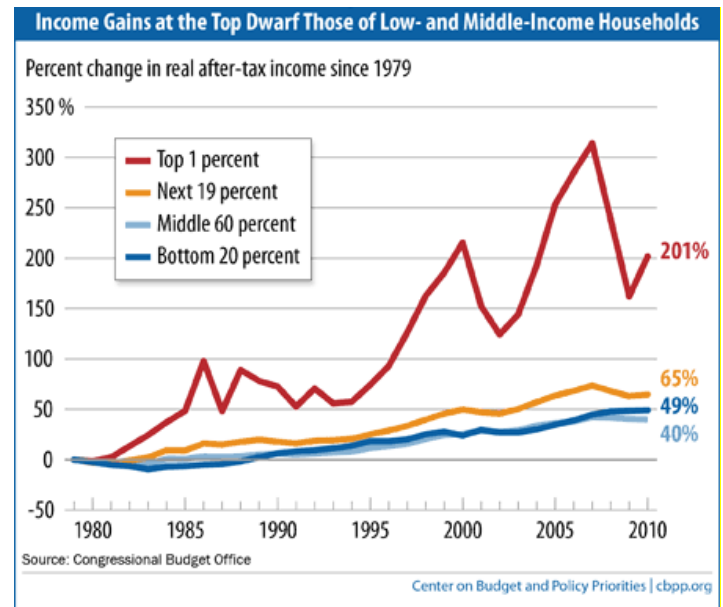


But what does all of this mean? Why is there a negative sentiment around income inequality? To help answer that question, Quintana and Royuela (2014) outlined five basic mechanisms where income inequality can have a negative effect on long-term economic growth:

*1.  Socio-political instability and risk of violent conflict [become more prevalent], which translates into uncertainty of property rights and reduces investment and growth (Alesina and Perrotti 1996).*

*2.  According to the political economy approach, either high inequality leads to higher redistributive pressure, which in turn may lead to economic distortions and disincentives (Alesina and Rodrik 1994; Perrson and Tabellini 1994) or [it] leads the rich to lobby to prevent efficient redistribution policies from being implemented (Saint-Paul and Vardier (1996); Benabou (2002); Acemoglu and Robinson (2008).*

*3.  The credit-market imperfections approach predicts that higher inequality reduces the capacity of many individuals to invest when capital markets are imperfect and set-up costs are large.*

*4.  The market size approach emphasizes the relevance of the middle class and the risks of lower aggregate demand, derived from a higher proportion of population with lower purchasing power and the fact that lower income groups tend*

*to have higher propensity to demand local products (Murphy, Schleifer and Vishny (1989; Todaro (1997).*

*5. Finally, the endogenous fertility approach highlights the link between higher inequality and higher fertility rates, which in turn reduces growth (Barro 2000; Ehrhart (2009).*

The purpose of this paper is to determine whether political outcomes affect income inequality in America. It is meant to highlight the issue of income inequality in a single nation using similar research compiled at the national level across varying time series data samples. My hypothesis is that political outcomes have considerable influence over the income inequality present in a particular region. This is potentially a controversial opinion because the United States of America is becoming increasingly polarized in the realm of national politics.

My work adds to the current literature on economic development, financial sector development, and income inequality through my inclusion of political outcomes and how U.S. politics across states can influence income inequality. Unlike many previous analyses that looked into the factors affecting income inequality, my work is solely based on domestic variables. I believe that examining inequality within one country adds to the reliability of my analysis because it decreases the possibility for incorrect inferences resulting from a variety of correlations between nations with different governing bodies, histories, tax structures, and financial market development.

The rest of my proposal is organized as follows. In section 2, I provide an account of the major publications and essays covering methods of relevance to my own analysis. In section 3, I present my data set, the specific reasoning behind my use of certain variables, and where I found my data. In section 4, I present the data methodology and the econometrics necessary to accurately analyze my regression analysis. In section 5, I explain what my regression analysis produces and how it impacts either the adoption or rejection of my hypothesis. Finally, in section 6, I provide concluding remarks that touch on the overall takeaway of this paper and how it can be improved upon in future studies of a similar nature.

## LITERATURE REVIEW

Some of the earliest work in the field of income inequality and its relationship with economics and finance can be found in Kuznets (1955), where he famously develops the inverted U-shaped relationship between economic development and income inequality, which is now known as the "Kuznets curve." Kuznets contends that rural areas are more equal than urban areas because from industrialization through urbanization, a society becomes more unequal. One factor contributing to this belief is that "after the early turbulent phases of industrialization and urbanization have passed," the population that was once "immigrant" becomes "native" and as such, their chances "for securing greater income shares" increases. Kuznets continues by stating, "in democratic societies, the growing political power of the urban lower-income groups also increases and led to a variety of protective and supporting legislation," which counters the initial negative effects of industrialization and urbanization affecting "the broad masses." This paper is essential to my research concerning income inequality because of its discussion of the inverted U-shaped curve and how there is a negative relationship between financial development and income inequality. The paper by Kuznets (1955) laid the foundation for many income inequality based papers that followed.

As research developed, inquiries into the how the size of the economy and the financial sector influenced income inequality began to emerge. These studies include Galor and Zeira (1993) and Greenwood and Jovanovic (1990). Whereas the former seeks to determine whether there was a link between income distribution and macroeconomics through an investment in human capital, the latter looks to show that at different levels of financial market development, different levels of income inequality are observed. The significance of Galor and Zeira's (1993) work is how they build on the initial connection observed by Kuznets (1955). Their

data show not only that there was a high correlation between wealth and equality, but that "countries with greater income per capita had a more equal distribution of income and smaller wage differentials." They state how this is very similar to Kuznets' (1955) postulation that the distribution of income is flexible to changes in the development of a country, where "income tends to be more equally distributed in developed than in less-developed countries." Greenwood and Jovanovic (1990) also find results relating to that of Kuznets (1955) in the sense that they conclude different income inequality levels reflect stages of development across nations. In the beginning, growth is slow due to a lack of organization through the exchange mediums. They continue to explain how, "as income levels rise, financial structure becomes more extensive, economic growth becomes rapid, and income inequality across the rich and poor widens." Towards the end of the maturation process, the stabilization of income across individuals begins to take form as a higher growth rate (relative to the early stage) also begins to materialize. This is similar to the inverted U-curve hypothesized by Kuznets decades earlier.

The critical approach to the link between income inequality and economic development follows these papers through the work of Fields (1999). Fields' research was conducted as a background paper for the World Development Report in 2000. It is rich with information and insight into previous research. He notes that in Ahluwalia (1976), it is stated that a use of cross country data fails to examine the historical context of those respective countries; but, because time series data were limited, this is why so many, including Kuznets, used cross country data. While this conclusion is intuitive, it parallels why I choose to use an intra-country data set (I touch on this more when I review Partridge and Levernier (1996)). Fields then references papers highlighting the income inequality and economics relationship for Asian, African, Latin American, and other transition economies (Eastern Europe) around the world. He concludes that "income inequality is no more likely to rise or fall when economic growth is high than when economic growth is low or negative." This is essential to state because the following reviews focus on financial market data as opposed to vast economic measures.

Clarke, Xu, and Zou (2006) test the relationship between financial intermediary development and income inequality by extending the work of Deininger and Squire (1996) and Lungberg and Squire (2000). Their research concentrates on two main variables, the credit to the private sector by financial intermediaries over GDP (private credit) and claims on the nonfinancial domestic sector by deposit money banks divided by GDP (bank assets). Clarke, Xu, and Zou's paper also touches on how, over time, the views and biases surrounding the impact of the financial sector have revolved around the belief that there is a negative relationship between financial development and income inequality. That is, when there is more financial development, income inequality decreases. This hypothesis is called the "inequality-narrowing hypothesis of financial development." At the conclusion of their analysis, which was a pure cross-sectional analysis using panel data over five-year periods, they found "a significant negative coefficient on the measures of financial intermediary development once we [they] controlled for endogeneity." In other words, they found the inequality-narrowing hypothesis to be true. It is important to point out limitations of their results because of their use of the Gini coefficient as a unit of measurement of income inequality. They state that the Gini coefficient fails to "explore the impact that a higher level of financial intermediary development has on the income level of a specific quintile." That is, the Gini does not account for the distribution of incomes within each quintile, it only captures the total inequality across all quintiles.

Perhaps the most relevant paper to my thesis is Partridge, Levernier, and Rickman's (1996) paper exploring trends in U.S. income inequality using panel data from U.S. states. One unique feature of this paper is that it uses single nation regional data. They believe this provides a huge benefit to their research because, "although institutions vary across regions and states, the underling legal framework and social norms are similar enough to allow reasonable estimates of the impact of specific variables." This belief is central to why I chose to study states within the United States of America, as opposed to

analyzing data across different nations with developed market economies. Among other things, Partidge, Levernier, and Rickman point out how "very advanced states of economic development may increase income inequality." The other factors they tested for, such as international immigration, the share of female-headed households, the metropolitan share of state population, labor force participation rates, and female participation rates are of importance as far as providing an understanding of potential independent variable selection.

Picketty and Saez (2014) further refute the Kuznets Curve in the article they titled "Inequality in the Long Run." In this article they state that Kuznets was incorrect in his postulation that "inequality first rises with economic development when new, higher-productivity sectors emerge… but then deceases as more and more workers join the high-paying sectors of the economy." Instead, they believe that specific to the early 20th century, "the compression of incomes occurred primarily because of the fall of top capital incomes induced by the world wars, the Great Depression, and the regulatory and fiscal policies developed in response to these shocks." They follow this statement by saying they believe Kuznets', "overly optimistic theory of natural decline in income inequality in market economies largely owed its popularity to the Cold War context of the 1950s as a weapon in the ideological fight between market economy and socialism." This does not diminish the quality of Kuznets work; instead, it provides a historical context. Many have already refuted Kuznets' claims, but the work he did in this field is still a cornerstone of how the research developed into the modern theories we observe and test today.

Finally, one of the more recent and most comprehensive papers is that of Jauch and Watzka (2012). In it, they find a negative relationship between the size of financial market development and income inequality using the Gini coefficient. Their main independent variable is the "ratio of private credit over GDP [or gross domestic product]" and their main dependent variable is "the Gini coefficient of income distribution within countries." One of the things they touch on, which goes back to an earlier section of this paper, is how "excessive inequality may lead to social unrest and political instability." They also state that income inequality may have its advantages from an incentive point of view. If everything were to remain equal, they explain, regardless of effort, there would be no "incentive to incur extra efforts for the production of goods and services, and the economy would suffer." I mention this in order to reinforce the overarching issue of income inequality and how, as a society, we have not yet learned how to best deal with its complications and intricacies.

## DATA

In my study I focus on the Gini coefficient as my dependent variable. In the study of income inequality, there are multiple data measurements available pertaining to the schools of thought that were instrumental in developing them. One could use the Theil-index, which is a measure of economic inequality providing, ideally, a number summarizing the "discrepancies between the distribution of income and the distribution of population between groups." One of the advantages of this measure is how its decomposability allows one to identify the "shares of overall inequality attributable to between-region and within-region variability." This lends itself to being a very valuable cross-regional analysis data tool, and it is one that I would like to include in future analyses. Another measure is the Palma ratio. This is a relatively new ratio where one assesses the ratio of the top 10% income earners in a society and the bottom 40%. Inequality.org explains how if a Palma ratio goes from 2 to 3 in a society, "households in the top 10 percent have gone from making double the income of that society's poorest 40 percent to making triple the bottom 40's income share."

The most common measure, however, is the Gini. Developed by an Italian statistician and sociologist, Corrado Gini in his 1912 paper "Variabilità e mutabilità" (Variability and Mutability), the Gini is the dependent variable I am using to test my hypothesis. With this variable, the coefficient varies between 0, which reflects complete equality, and 1, which reflects complete inequality. The World Bank explains that "the Gini coefficient can be easily

represented by the area between the Lorenz curve and the line of equality." I have attached Figure 2 in this paper for reference to the Lorenz Curve and the line of equality.

**Figure 2**



Lorenz Curve of Income Distribution
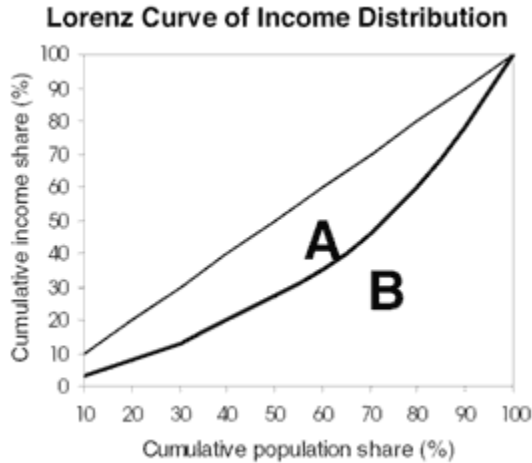
Advantages of the Gini in relation to this paper are most notably seen in how one can use it as a direct variable of comparison between populations of different sizes. The range of populations between the states of the United States is less than that of the range of populations between nations, nonetheless, the Gini allows us to make that comparison without skewing the data to make it appear that states with larger populations are more inherently equal or unequal than smaller states, and vice versa. The intuitive nature of the Gini, with its simple measurement mechanism makes it an easy to understand variable.

On a state level, the political variables are the political party of the governor of each state and which party is in control of each house of the respective state legislature. The political data was retrieved from general internet searches, city council webpages, Wikipedia, and political websites mentioning the politician's party or tenure. The two party system we have in America keeps the data limited as far as variations are concerned. The governors could either be Democratic, Republican, or from a third party. The state legislatures on the other hand, could have both chambers controlled by either party or be split with each party controlling one chamber. While the influence wielded by those offices varies across the nation, I believe they are a sufficient measurement of political outcomes for each state across the nation.

Regarding other independent variables, the overwhelming majority of them are from the U.S. Census Bureau, the Bureau of Labor Statistics, and the Federal Deposit Insurance Corporation. The Gini data come from the U.S. Census Bureau. The Census Bureau only had data on state-level Gini's going back to 1976, so that set the parameters for the rest of the data collection as far as the time frame is concerned. I retrieved my tax rate information from taxfoundation.org and taxpolicycenter.org. The specific tax rate I used was a unit of measurement used by taxfoundation.org called the "combined state-local tax burden shouldered by the residents of each of the 50 states." On their website, they discuss how they calculate this variable by dividing the total amount paid in taxes of each resident in that state by the state's total income. This gives what they, and I, believe is a more accurate measurement of how the taxpayers are impacted by the state in which they live.

One shortfall of the data is that the Gini is the only measure of income inequality available at the state level. It would be preferable to also use a Palma ratio, but as the Gini is the standard in this field of research, I do not believe that I am compromising the integrity of the analysis by using the Gini.

## DATA METHODOLOGY

I estimate the relationship between political outcomes and income inequality using the following specification:

$$Gini_{i,t} = \alpha_i + \delta_t \\ + \beta_1(political\ party\ (state\ executive))_{i,t-1} \\ + \beta_2(political\ party\ (state\ legislature))_{i,t-1} \\ + \beta_3(state\ minimum\ wage)_{i,t-1} \\ + \beta_4(state\ union\ membership\ rate)_{i,t-1} \\ + \beta_5(state\ tax\ burden)_{i,t-1} \\ + \beta_6(\log of\ the\ state\ revenue\ per\ capita)_{i,t-1} \\ + \beta_7(controls)_{i,t-1}$$

where $\alpha_i$ represents the dummy variable for each state, $\delta_t$ represents my time dummy, and each of the following variables are included as regressors. Political party is a dummy variable equal to 0 if the Republican Party is in control and 1 if the Democratic Party is in control. This applies to both the state executive and state legislative variables. My independent variables were as follows: state minimum wage, state union membership rate, state tax burden, and the log of the state revenue per capita. Table 1 summarizes the aforementioned variables.

The null hypothesis I test is that political party has no significant effect on income inequality. Thus, a significant coefficient on either $\beta_1$ or $\beta_2$ would allow me to reject this null hypothesis, with positive coefficients suggesting that Democratic governors or state legislatures are associated with increasing inequality, and negative coefficients suggesting that Democrats are associated with decreasing inequality.

I include a variety of controls in my regressions, and. For example, some regressions include a time dummy. With the time dummy, I am controlling for changes in income inequality across the United States. This negates the general upward or downward trend of income inequality over time and instead, focuses on how each state's level of income inequality changes irrespective of national trends. As I correct for clustering by state, I am able to show how what happens in each state is built off that state's history; they are not all independent observations. In some of the regressions, independent variables are lagged to reduce endogeneity concerns. Thus, the primary question being addressed is, do changes in political parties imply changes in income inequality?

**Table 1**

| Dependent Variable | |
|---|---|
| Gini | sole dependent variable & measurement of income inequality |
| **Indepent Variables** | |
| Legparty | which party was in control of the state legislature |
| Gparty | which party was in control of the state governorship |
| Minwage | the minimum wage of each state |
| Union | the percentage of each state's total workforce in a union |
| Taxrate | the tax "burden" of the residents in each state |
| Lrev | the logarithmic value of the state's revenue per capita |

As can be seen in Tables 2, 3, and 4, there is a mixture of these control variables throughout the data experimentation process. These tables show regression estimates of the Gini coefficient on the minimum wage of each state, the percentage of union membership present in the state, the state tax rate, and the revenue of each state per capita. The control variables also include year dummies, and some regressions include state level fixed effects, or they have clustering of the standard errors of the regressions, or they have lagged variables, or some combination thereof. Estimated coefficients are the top number presented in the tables and *t*-statistics are reported in parentheses below that. *,**,*** indicate significance at 10%, 5%, and 1% levels, respectively.

## Table 2

| | Dependent Variable: Gini | | | | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| Legislative Party | 0.0016 | 0.0007 | 0.0036 | 0.0000 | -0.0029 |
| | (0.51) | (0.30) | (1.19) | (0.02) | (-1.38) |
| Governor Party | -0.0068 | -0.0042 | 0.0019 | -0.0009 | -0.0081 |
| | (-2.04)** | (-1.27) | (-0.21) | (-0.74) | (-2.44)*** |
| Minimum Wage | | 0.0055 | | | |
| | | (5.15)*** | | | |
| Union Membership | | -0.0005 | | | |
| | | (-1.07) | | | |
| State Tax Burden | | 0.5526 | | | |
| | | (2.67)*** | | | |
| Year Dummies | No | No | Yes | Yes | No |
| State Effects | Yes | Yes | Yes | Yes | Yes |
| Lagged variables | No | No | No | No | No |
| Observations | 1651 | 658 | 1651 | 1651 | 1651 |
| $R^2$ | 0.0112 | 0.0166 | 0.4575 | 0.4514 | 0.0057 |

\* = significant at 10% level
\*\* = significant at 5% level
\*\*\* = significant at 1% level

**Table 3**

| | (6) | (7) | (8) | (9) | (10) |
|---|---|---|---|---|---|
| | Dependent Variable: Gini | | | | |
| Legislative Party | -0.0005 | -0.0020 | -0.0002 | -0.0026 | 0.0000 |
| | (-0.42) | (-2.01)** | (-0.27) | (-1.26) | (0.01) |
| Governor Party | -0.0018 | -0.0032 | -0.0021 | -0.0079 | -0.0010 |
| | (-1.30) | (-2.01)** | (-1.87)* | (-2.36)** | (-0.76) |
| Minimum Wage | 0.0014 | | | | |
| | (1.29) | | | | |
| Union Membership | | -0.0059 | -0.0006 | | |
| | | (-15.19)*** | (-1.14) | | |
| State Tax Burden | | | | 0.7424 | 0.3496 |
| | | | | (2.08)** | (1.49) |
| Year Dummies | Yes | No | Yes | No | Yes |
| State Effects | Yes | Yes | Yes | Yes | Yes |
| Lagged variables | No | No | No | No | No |
| Observations | 897 | 1065 | 1065 | 1602 | 1602 |
| $R^2$ | 0.4518 | 0.0163 | .02296 | 0.0116 | 0.4404 |

\* = significant at 10% level
\*\* = significant at 5% level
\*\*\* = significant at 1% level

**Table 4**

| | Dependent Variable: Gini | | | |
|---|---|---|---|---|
| | (11) | (12) | (13) | (14) |
| Legislative Party | 0.0023 | 0.0029 | -0.0022 | -0.0003 |
| | (1.25) | (1.60) | (-1.05) | (-0.30) |
| Governor Party | -0.0009 | 0.0001 | -0.0061 | 0.0008 |
| | (0.71) | (0.06) | (1.86)* | (0.60) |
| | | | | |
| Minimum Wage | 0.0009 | -0.0018 | | |
| | (1.02) | (-0.77) | | |
| Union Membership | -0.0017 | -0.0014 | | |
| | (-1.54) | (-1.26) | | |
| State Tax Burden | -0.0394 | -0.0020 | | |
| | (-0.15) | (-0.01) | | |
| State Rev. Per Capita | -0.0014 | 0.0003 | | |
| | (-0.47) | (0.07) | | |
| | | | | |
| Year Dummies | No | Yes | No | Yes |
| | | | | |
| State Effects | Yes | Yes | Yes | Yes |
| Lagged variables | No | No | Yes | Yes |
| | | | | |
| Observations | 339 | 339 | 1602 | 1602 |
| $R^2$ | 0.0055 | 0.0008 | 0.0017 | 0.4353 |

\* = significant at 10% level
\*\* = significant at 5% level
\*\*\* = significant at 1% level

## RESULTS

The results of these regressions suggest that Democrats are associated with reducing inequality across the United States more than Republicans. This can be observed in Tables 2, 3, and 4 as many estimated coefficients are negative, and some significantly so. The fact that they are mostly negative shows that Democrats, as opposed to Republicans, have a hand in decreasing income inequality. When viewing the estimated coefficients of the governor party and the legislative party side by side, it appears that the magnitudes for the governor party values are larger. This implies that Democratic governors are more influential in reducing income inequality in their respective states than the state legislatures.

Under the specifications of a control with clustering of state variables in regression 1 (Table 2), we see the first instance of a significant *t*-statistic with the governor party. With a fixed effects regression added to the analysis, as seen in regression 5 (Table 2), we see, once again, a significant *t*-statistic with the governor party. With the inclusion of union membership as an independent variable in regression 7 (Table 3), we still observe a significant *t*-statistic with the governor party, but we also see a significant *t*-statistic with the legislative party and the union membership variables. When a year dummy was added, as seen in regression 8 (Table 3), the governor party still had a significant *t*-statistic. In regression 9 (Table 3), using the same control of a fixed effects regression and clustering of state variables without the year dummy control, we see a significant *t*-statistic with the governor party and state tax burden variable. The last observable significant *t*-statistic is in regression 13 (Table 4). This observation shows a significant *t*-statistic with the governor party under the controls of a fixed effects regression, clustering of state variables, and lagged variables.

In an additional robustness test, I did a logistical transformation on the Gini variable which made its range anywhere from negative infinity to positive infinity, instead of from 0 to 1. This transformation had minimal effect on my results. Many of the *t*-statistics had either a miniscule (less than 0.1) fluctuation or no change at all.

Hence, Democrats, specifically Democratic governors, seem to be more closely associated with decreasing income inequality than do Republican governors or the state legislatures. While some of the significant negative coefficients would suggest rejecting my null hypothesis of no relation between political party and income inequality, the results are overall somewhat inconclusive. That is, a number of the estimated coefficients are not significant, thus there is only somewhat limited evidence that Democratic politics are associated with reductions in income inequality.

The lack of significance in some of my regressions could also stem from the sample size being too low. When including different control variables into my regressions, my sample size ranges anywhere from 339 observations in regressions 11 and 12 (Table 4), to over 1,600 observations for all but 4 of the remaining regressions (Tables 2, 3, and 4). In Table 5, the severely limited number of Lrev observations is a contributing factor to the regressions having so few observations. That variable was taken from state revenue and expense data I found through the Census Bureau, which was very cumbersome to collect and only feasible to attain for the most recent decade. Another variable that decreased the overall observation count was found in the Legparty data set. Whenever the upper and lower house of that states' legislature is split, it is not an observation I include in the regression. I don't believe either house has more "control" over the affairs of the state, so if the state legislature is split, the fairest way to recognize this is to not include it in my regressions for those years. Similarly, if the governor is an independent candidate or a member of a third party, I do not include it in my regressions for those years either.

Further research, with the inclusion of more variables and greater sample sizes may contribute to more robust results in future studies.

For reference, I have provided Tables 5 and 6. They include summary statistics and a correlation table, respectively.

**Table 5**

| | Mean | sd | p50 (median) | N |
|---|---|---|---|---|
| Gini | 0.4301 | 0.0342 | 0.4285 | 1836 |
| Legparty | 0.9178 | 0.7061 | 1.0000 | 1764 |
| Gparty | 0.5345 | 0.4989 | 1.0000 | 1970 |
| Minwage | 4.7893 | 2.0610 | 5.1500 | 1260 |
| Union | 12.2780 | 5.8105 | 11.4000 | 1275 |
| Taxrate | 0.0961 | 0.0133 | 0.0970 | 1785 |
| Lrev | 1.7847 | 0.3191 | 1.7653 | 450 |

**Table 6**

| | Year | Gini | Legparty | Gparty | Minwage | Union | Taxrate | Revpc | Lrev |
|---|---|---|---|---|---|---|---|---|---|
| Year | 1.0000 | | | | | | | | |
| Gini | 0.6295 | 1.0000 | | | | | | | |
| Legparty | -0.1177 | 0.0815 | 1.0000 | | | | | | |
| Gparty | -0.1631 | 0.0546 | 0.1791 | 1.0000 | | | | | |
| Minwage | 0.9073 | 0.5396 | 0.0163 | -0.0363 | 1.0000 | | | | |
| Union | -0.2469 | -0.1037 | 0.3303 | 0.1313 | 0.0556 | 1.0000 | | | |
| Taxrate | -0.0024 | 0.0574 | 0.1552 | 0.0134 | 0.1357 | 0.3524 | 1.0000 | | |
| Revpc | 0.1686 | -0.1381 | 0.1103 | -0.0266 | 0.2091 | 0.3646 | -0.1466 | 1.0000 | |
| Lrev | 0.1632 | -0.0954 | 0.1179 | -0.0004 | 0.1987 | 0.3448 | -0.0322 | 0.9387 | 1.0000 |

## CONCLUSION

When the President of the United States says that an issue is the "defining challenge of our time," it begs the question of how this came to be and how we can take steps as a nation to correct it through policy. The American Dream… the belief that you can achieve more than previous generations and lead a life with the confidence that you will go on to do things previously unthinkable is what I would argue has led this country into times of innovation, prosperity, and growth. With two political parties vying for the most spots at the table, so to speak, it is important for us to understand how their policies and leadership affects the very thing that so many people have mentioned to pollsters is the most pressing issue of our day and age.

My analysis suggests that Democrats, specifically Democratic governors, are more closely associated with decreasing income inequality than Republican governors or state legislatures. The evidence, however, is not that strong. Overall, the results of my analysis are not sufficiently robust to lead me to draw any overarching conclusions. It is my hope that future studies will find more conclusive results. With ideal data, future analyses could potentially explore:

1. Including immigration rate as a dependent variable. There is significant research being done by individual researchers, as well as by groups like the Federation for American Immigration Reform, to examine the effect immigration has on U.S. income inequality.
2. Instead of using "tax burden" for a measurement, look at how different tax rates, like income, sales, or property taxes impact income inequality separately.
3. Use of the Palma ratio as a measure of income inequality. This is a potentially superior measure of income inequality, and I believe that the research could benefit from its use.

Thus, future work could add to our understanding of the determinants of inequality in the U.S. While the results presented here are somewhat inconclusive, the relationship between political parties and inequality is important to the study of one of the most pressing issues I believe faces the United States today.

## ACKNOWLEDGEMENT

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