I. Executive Summary

Income inequality has worsened in Ohio and the United States, both over the past decade and over the past two decades.

Between the early 1980s and the early 2000s, the incomes of the highest-income families climbed substantially, while middle- and lower-income families saw only modest increases in income in both Ohio and the U.S. Low unemployment in the late 1990s led to relatively broad-based wage growth, but this ended in the wake of the 2001 downturn and was not enough to reverse the tide of growing inequality. Real wages for low- and moderate-income families have now begun to decline.

The recession's impact on poor and middle-income families lasted longer than usual, particularly in Ohio which added just 3,600 jobs during 2005, a gain that amounts to less than a tenth of one percent in a job market that includes more than 5 million Ohioans. As of December 2005, Ohio's job levels remained 172,800 jobs (3.1 percent) below the level at the beginning of the recession, more than three and a half years earlier in March 2001.

While the national trend toward increasing inequality has received widespread coverage, less attention has been focused on how this trend has varied by state. This analysis examines trends in income inequality in the U.S. and Ohio over the past two business cycles.

Income Inequality Increased in Most States, including Ohio, Over the Last Two Decades

Across the nation, income gaps between the rich and the poor, the rich and the middle, and the very rich and everyone else, have grown substantially over the past two decades:

♦ In 38 states, including Ohio, income growth among high-income families dwarfed that among low-income families between the early 1980s and the early 2000s. The average income of the richest fifth of families increased by $42,884 (57.6 percent), from $74,394 to $117,277. This is roughly an increase of $2,040 a year.

♦ The average income of the poorest fifth of Ohio families increased by $3,186, from $15,030 to $18,216. This is roughly an increase of $150 a year.

♦ The average income of the middle fifth of families increased by $10,305, from $37,387 to $47,692. This is roughly an increase of $490 a year.

♦ Much of the increase for low and middle-income workers can be attributed to increases in hours of work. For example, married couple families with children increased their work hours by more than 16 percent between 1979 and 2002.

♦ The very wealthy (top five percent) had the sharpest income growth. The average income of the richest five percent of families increased by $91,608, from $103,567 to $195,175 in Ohio between the early 1980s and the early 2000s. This is roughly an increase of $4,360 a year.

♦ In the United States as a whole, the poorest fifth of families had an average income of $16,780 in the early 2000s, while the top fifth of families had an average income of $122,150, more than seven times as much. Ohio earnings in the early 2000s were less unequal, with the top quintile earning $117,300, 6.4 times the bottom quintile earnings of $18,200.

♦ In the early 1980s, there was no state in which the average income of high-income families was as much as 6.4 times larger than the average income of low income families. By the early 2000s, 32 states, including Ohio, had “top to bottom” ratios of 6.4 or greater.

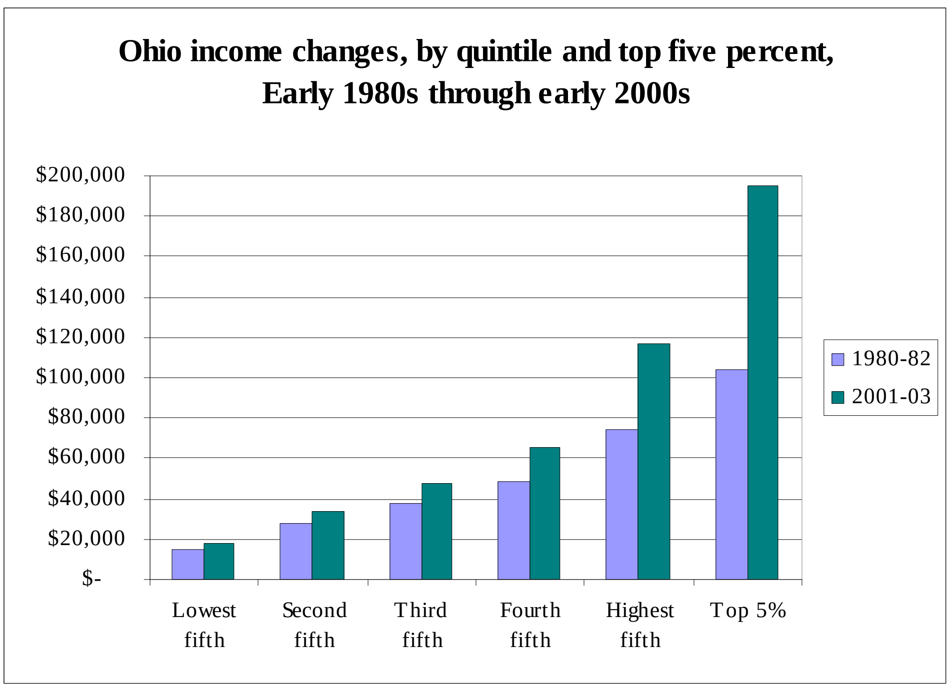
♦ By the early 2000s, the average incomes of the top five percent of families nationally were 12 times the average incomes of the bottom 20 percent. Ohio’s top five percent, on average, earned 10.7 times as much as the average family in the lowest quintile.

♦ Similarly, the income gaps between high-income and middle-income families have grown. In the early 1980s, Alaska was the only state in which the top fifth of families earned more than 2.3 times what the middle fifth earned on average. By the early 2000s, the “top-to-middle” ratio was greater than 2.3 in 36 states, including Ohio.

♦ Inequality did not grow as quickly during the 1990s as during the prior decade (or as quickly as it appears to be growing in the 2000s), but income gaps continued to grow in many states including Ohio. In Ohio, incomes grew more among the top fifth than either among the middle or the bottom fifth during this period, and grew more among the top five percent than among any of the quintiles.

Figure A shows graphically the spiking income inequality in Ohio over the past two decades.

Figure A



Source: Economic Policy Institute/Center on Budget and Policy Priorities analysis of CPS data.

Causes of Rising Inequality

The growth of income inequality is primarily due to growth in wage inequality. Wages at the bottom and middle have been stagnant or have grown only modestly for much of the last two decades while wages of the very highest-paid employees have grown significantly.

Wage inequality stems from long periods of high unemployment, globalization, shrinkage of manufacturing jobs, expansion of low-wage service jobs, immigration, lower real value of the minimum wage and fewer and weaker unions. These factors have eroded wages for workers with less than a college education, who make up approximately the lowest-earning 70 percent of the workforce. Recently, even those with a college education have seen real wage declines, due to bursting of the tech bubble and downward pressure on wages from offshore competition.

Only in the later part of the 1990s was there a modest improvement in this picture. Persistent low unemployment, an increase in the minimum wage, and rapid productivity growth fueled real wage gains at the bottom and middle of the income scale. Yet those few years of more broadly shared growth were not sufficient to counteract the two-decade-long pattern of growing inequality. Today, inequality between low- and high-income families and between middle- and high-income families is greater than it was either 20 years ago or ten years ago.

The expansion of investment income (such as dividends, rent, interest, and capital gains) during the 1990s also increased income inequality, since investment income primarily accrues to those at the top of the income structure.

Government policies have contributed to the increase in wage and income inequality over the past two decades in most states. For instance, deregulation and trade liberalization, the weakening of certain aspects of the social safety net, the lack of effective labor laws regulating the right to collective bargaining, and the declining real value of the minimum wage have all contributed to growing inequality. In addition, changes in federal, state and local tax structures and benefit programs have, in many cases, accelerated the trend toward growing inequality emerging from the labor market. The large increase in corporate profits has also contributed to growing inequality by depressing wage growth and boosting the incomes of investors.

States Can Choose a Different Course

A significant amount of increasing income inequality results from economic forces that are largely outside the control of state policymakers. Ohio's policies, however, can mitigate the effects of these outside forces. Ohio could implement a state minimum wage, implement a state earned income tax credit (EITC), strengthen its unemployment compensation system, particularly for low-wage workers; strengthen its social safety net, and work to make tax policy more progressive. All of these would do much to restore the more equitable distribution of income that existed for much of the latter part of the 20^{th} century.