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Income inequality intensifies over past two decades Ohio families in top five percent earn 10.7 times more than those in bottom quintile

The gap between the highest-income families and poor and middle-income families grew significantly between the early 1980s and the early 2000s in Ohio, the U.S. and most other states, according to a new study by the Center on Budget and Policy Priorities and the Economic Policy Institute. The study is one of the few to examine income inequality at the state level.

Incomes of the country's richest families climbed substantially over the past two decades, while middle- and lower-income families saw more modest increases. This trend is in marked contrast to the broadly shared increases in prosperity between World War II and the 1970s.

While income inequality declined following the bursting of the stock and high-tech bubbles in 2000, early national-level data suggest that inequality began growing again in 2003. Incomes at the top rebounded strongly from the stock market correction, while the negative effects of the recent recession on low- and moderate-income families lasted longer than usual, particularly in Ohio where the job market has not yet rebounded from the recession.

The study is based on Census income data that have been adjusted to account for inflation, the impact of federal taxes, capital gains, and the cash value of food stamps, subsidized school lunches, and housing vouchers. The study compares combined data from 2001-2003 with the early 1980s and early 1990s, periods chosen as comparable low points of their respective business cycles, although the 1980s recession was particularly deep. The study divides families into fifths or quintiles, and also looks at the top five percent. Its findings include:

◆ In Ohio and 37 other states, the incomes of the bottom fifth of families grew more slowly than the incomes of the top fifth of families between the early 1980s and the early 2000s. In Ohio the incomes of the richest grew by an average of \$42,884 (57.6 percent) to \$117,277, while the incomes of the poorest grew by only \$3,186 (21.1 percent) to \$18,216.

◆ In Ohio and 38 other states, incomes of the middle fifth of families grew more slowly than incomes of the top fifth of families between the early 1980s and the early 2000s. A middle income Ohio family earned \$47,692 after taxes in 2001-03, \$10,305 more than a middle income family earned in the early 1980s in Ohio.

◆ Within the top fifth of families, the wealthiest families enjoyed the highest income growth over the past two decades. In Ohio, the income of the top 5 percent of families rose by \$91,608 (88.5 percent) to \$195,175. Families in the top five percent now earn more than ten times more than families in the bottom twenty percent.

◆ Income growth among middle and low-income families is largely the result of growth in hours worked. Both two-parent and single-parent families with children increased their work hours significantly over the period studied.

◆ In the early 2000s, the **richest fifth** of families earned 6.4 times what the **poorest fifth** earned, on average, up from 4.9 times as much in the early 1980s. The **richest fifth** earned 2.5 times what the **middle fifth** earned, up from 2.0 times as much in the early 1980s. The richest **five percent** earned 10.7 times more than the poorest fifth, and 4.1 times as much as the middle fifth, up from 6.9 and 2.8 respectively in the early 1980s.

Income inequality increased rapidly during the 1980s. Low unemployment in the late 1990s produced relatively broad-based wage growth, but this growth ended with the 2001 economic downturn. Wages for low- and moderate-income families have since declined. The recovery from the downturn has not been strong enough to generate income gains among low- and middle-income families, particularly in Ohio which added a paltry 3,600 jobs in 2005 and still has more than 3 percent fewer jobs than it had before the 2001 recession.

Growing Inequality Has Costly Consequences

“Growing income inequality harms this nation in a number of ways,” said Jared Bernstein, Senior Economist, Economic Policy Institute and co-author of the report. “When income growth is concentrated at the top of the income scale, the people at the bottom have a much harder time lifting themselves out of poverty and giving their children a decent start in life. Today’s unprecedented gap between the growth of the typical family’s income and productivity is our most pressing economic problem.”

States Can Partially Offset Trend Toward Larger Income Gaps

The biggest cause of rising income inequality over the past two decades has been erosion of wages for the 70 percent of workers with less than a college education. That erosion, in turn, reflects long periods of high unemployment, globalization, the shift from manufacturing jobs to low-wage service jobs, immigration, the weakening of unions, and the decline in the minimum wage. More recently, even college-educated workers have experienced real declines in wages, in part because of offshore competition.

While many of these economic factors are largely outside the control of state policymakers, “there’s a lot that states can do to mitigate the effects of increasing inequality,” Elizabeth McNichol, Senior Fellow, Center on Budget and Policy Priorities and co-author of the report said. Possible steps include raising the state minimum wage, strengthening supports for low-income working families, and reforming the unemployment insurance system. In addition, states can pursue tax policies that partially offset the growing inequality of pre-tax incomes.

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The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. The **Economic Policy Institute** is a nonprofit, nonpartisan think tank that seeks to broaden the public debate about strategies to achieve a prosperous and fair economy. **Policy Matters Ohio** is an Ohio-based economic research institute.

The full national report is available under here: http://www.epi.org/content.cfm/studies_pulling_apart_2006

A shorter Ohio report is available under embargo here: http://www.policymattersohio.org/pulling_apart_2006.htm

You can read an Ohio fact sheet here: <http://www.policymattersohio.org/pdf/1-26-06-sfp-fact-oh.pdf>