BUDGET CONNECTION$

A Connecticut Voices for Children
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Pulling Apart in Connecticut:

An Analysis of Trends in Family Income

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I. Introduction

Connecticut's exceedingly strong economy in the late 1990s did not lift all boats equally. For the poorest 40% of Connecticut's families, inflation-adjusted ("real") family income is less today than it was in the late 1980s – it is harder for these families to make ends meet. Income growth for Connecticut's middle 20% of families was very modest (less than 2% over the entire decade). Only the wealthiest 40% of Connecticut families saw significant real income gains in the 1990s. In fact, over the 1990s, the *increase* in the average annual income of Connecticut's wealthiest 20% of families ($31,635 – from $149,558 to $181,194/year) was 1.6 times *more than* the average *total* annual income of Connecticut's poorest 20% of families ($19,351/year).

As data in this report show,[1] Connecticut's trends in family income over the 1990s differed from those in the majority of states and from national trends – both in the *direction* of the changes and in their *magnitude*. Connecticut's 1990s trends also differed from its trends over the 1980s, when families of *all* income levels shared in the state's economic growth. For example, over the 1990s:

- Connecticut was one of only 13 states where the real incomes of the **poorest 20% *fell***. In all other states, the poorest 20% enjoyed real income gains. Nationally, the income of the poorest 20% *increased* by $1,601 (12.3%).

- Connecticut was one of only 10 states where the real income of the **second-to-poorest 20% also *fell***. In all other states, families enjoyed real income gains and the average increase nationally was $2,698 (9%).

[1] This report is produced in partnership with the Economic Policy Institute and the Center on Budget and Policy Priorities, and is released concurrently with their national report, *Pulling Apart: A State-by-State Analysis of Income Trends* (April, 2002). Unless otherwise indicated, data presented in this Connecticut report, including in its tables, charts and figures, are taken from the EPI/CBPP report or from other related data provided by EPI/CBPP. CT Voices is a state partner in EPI's Economic Analysis and Research Network (EARN).

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- In only 6 states did families in the **middle 20%** fare worse than in Connecticut. The real income gain for Connecticut families in the middle 20% was one-fifth the national average ($1,019 in Connecticut, compared to $4,935 nationally).

- Connecticut was one of only 2 states (the other being Massachusetts), where the bottom fifth lost economic ground, while the top fifth gained ground. Over the 1990s, the average real income of Connecticut's poorest 20% of families *declined* by nearly a fifth – by $4,674 (19.4%). During the same period, the average real income of Connecticut's wealthiest 20% of families *increased* by more than a fifth – by $31,635 (21.2%).

- The *income gap* between the richest 20% and the poorest 20% of families grew most in Connecticut (followed by Oregon and New York). Connecticut's richest 20% of families had an average income in the late 1980s that was six times as large as the bottom 20%. By the late 1990s, the richest fifth had an average income more than 9 times as large as the poorest fifth.

Income inequality recently has merited considerable attention not only in the United States, but also throughout the world.[2] Christopher Jencks writes, "The economic gap between rich and poor has grown dramatically in the United States over the past generation and is now considerably wider than in any other affluent nation. This increase in economic inequality has no recent precedent…The last protracted increase in economic inequality occurred between 1870 and 1910."[3] With income inequality on the rise, more study is needed to determine both the causes of increasing income inequality and also its consequences. This report contributes to this discussion by describing trends in family income over the last two decades in Connecticut, with a primary focus on Connecticut's striking increase in inequality during the 1990s.

II. Some Economic Context[4]

Connecticut's growing income inequality can only be understood in the context of its overall economy. While the data presented here cover two decades, it is the changes that have occurred in Connecticut's economy during the 1990s that are particularly salient to a discussion of its growing income disparities.

Over the course of the 1990s, Connecticut thrived in its transition to the "New Economy" that places a particularly high value on a well-educated workforce. The state added thousands of high-tech jobs that pay very well, and diversified its economic base. Incomes, particularly at the upper end, were further aided by investment income, as the explosive growth of the so-called "dot-coms" spurred an unprecedented expansion of the stock markets. The Milkin Institute ranked Connecticut fourth highest in the nation on its 2001 *New Economy Index*, and the Corporation for Enterprise

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[2] A number of NGOs and educational research centers have examined inequality, including the United Nation's World Income Inequality Database (http://www.undp.org/poverty/initiatives/wider/wiid_download.htm#download), the World Bank (http://www.worldbank.org/poverty/inequal/), and the University of Texas Inequality Project (http://utip.gov.utexas.edu/).

[3] C. Jencks, Does Inequality Matter? *Daedalus* (Winter, 2002), p. 49.

[4] For a more comprehensive discussion of Connecticut's economic context, see S. Geballe, *As Good As It Gets? A Year-End Summary Of Economic And State Budget Changes*, (Connecticut Voices for Children, 2001), and S. Geballe and D. Hall, *The State of Working Connecticut, 2001*, (Connecticut Voices for Children, 2001). Both reports are available at www.ctkidslink.org.

Development placed Connecticut on the "honor roll" of its annual *Development Report Card for the States 2001*.

Not all Connecticut residents shared equally in this economic expansion, however. The growth of high tech, high wage jobs was accompanied by the continued erosion of traditional manufacturing employment (a loss of 101,600 jobs between February 1989 and March 2000), and the creation of thousands of service jobs (more than 117,000 over this same period), many of which were lower-wage. Essentially, the "floor" for Connecticut's lower-income earners was lowered over the course of the decade.

While definitive trends are probably difficult to identify at this point, early evidence suggests that Connecticut's low-income earners have been hit particularly hard by the recent (albeit short) recession. As Connecticut continues through this period of economic uncertainty, those Connecticut residents left behind in the 1990s are at risk of losing even more economic ground.

The structural changes in Connecticut's economy – to an increasingly two-tiered economy of those who have benefited greatly from the economic expansion of the 1990s and those who have actually lost economic ground over this same period – suggests the need for some government intervention – through policy changes and budget re-allocations – help our lowest-income families meet their essential expenses.

III. Connecticut Family Income Trends

This report examines trends in family income over the past two decades. Average family income is determined for each of three time periods – 1978-1980, 1988-1990, and 1998-00 – and for each of five income quintiles – from the poorest 20% of families to the wealthiest 20%.[5] Importantly, the Census data used in this report do not capture significant sources of income growth at the very top of the income spectrum.[6] Examination of other sources of data on changes in family income show that these Census data *underestimate* the growth in income inequality.[7] However, they are used in this report, despite this limitation, because they remain the only source of data on state-specific trends in income for all 50 states.

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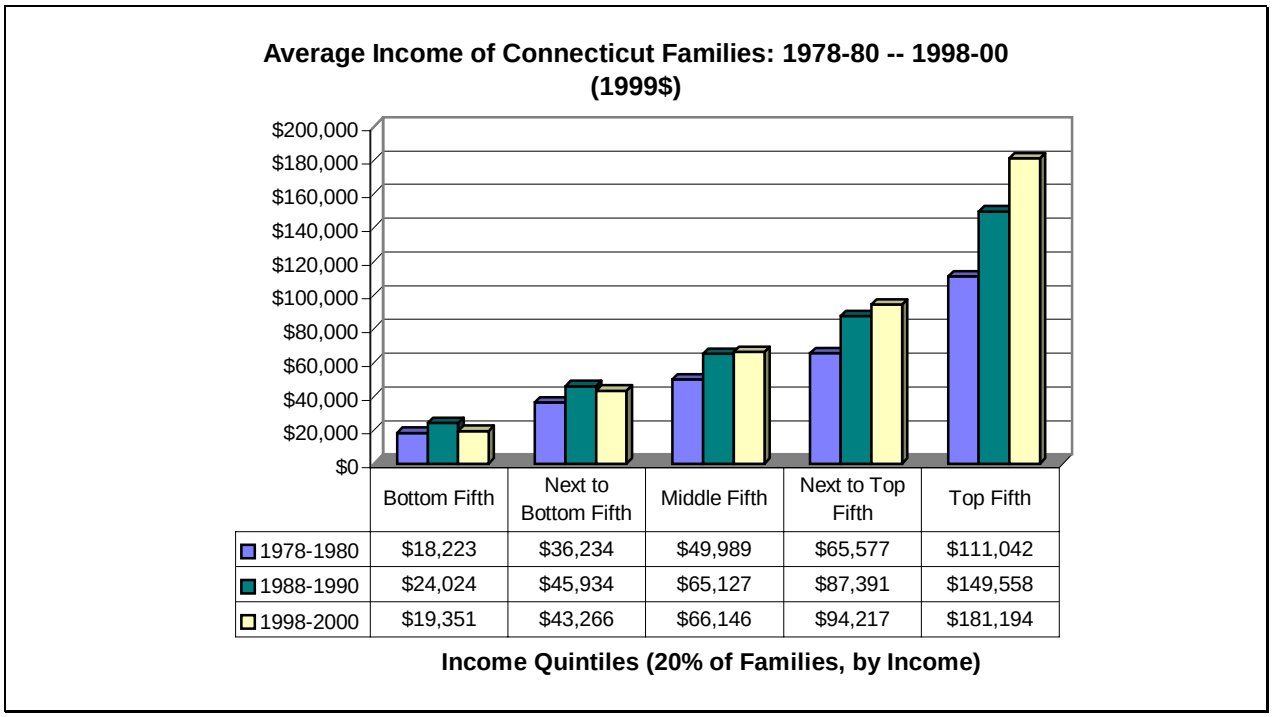
[5] The EPI/CBPP report uses three years of pooled data from the Census Bureau's March Current Population Survey (CPS), to ensure that data for all states is statistically significant. Note that these data compare similar periods in the economic cycle –all peaks in their respective decade's economic cycles. In the interest of simplifying these data, they will be referred to hereafter by the final year of the period, hence 1980, 1990, and 2000. All dollar figures presented here are CPI-U adjusted to 1999 dollars. The report uses before-tax family income, which includes not only wages and salaries, but also other sources of cash income such as interest income and cash benefits (including veterans assistance, welfare payments, and child support income). These income data do not include the effects of state and federal tax systems. Hence the impact of initiatives such as the earned income tax credit is not reflected. In addition, the data about family incomes at the higher end *understate* actual incomes, as they do not include capital gains income, while data about family incomes at the lowest end do not reflect non-cash benefits such as food stamps, school lunches, and housing subsidies.

[6] Not included in the Census Bureau's data on family income is capital gains income (which was one of the main sources of income growth for high income households during the recent economic expansion). In addition, the Census Bureau (for confidentiality reasons) records only part – rather than all – of the income of individuals at very high income levels. Income that exceeds the Census Bureau's "top code" is not reported; only the "top code" amount is reported.

[7] See, e.g., Congressional Budget Office, *Historical Effective Tax Rates, 1979-1997;* I. Shapiro, R. Greenstein, & W. Primus, *Pathbreaking CBO Study Shows Dramatic Increases in Income Disparities in the 1980s and 1990s* (Center on Budget and Policy Priorities, May 31, 2001). For example, Census data show a 11.6% growth in income in the nation's top 5% of household between 1993-97, while CBO data, which includes capital gains income (among other adjustments), shows income growth of 33.7%.

Changes in "real" family income over the 1980s and 1990s. As shown in Table A2 (Appendix), while all Connecticut families enjoyed significant income gains in the 1980s, Connecticut saw considerable growth in income inequality over the course of the 1990s. This was fueled both by a large decline in the average inflation-adjusted ("real") income of its poorest 20% of families, and a significant gain among its wealthiest 20%.

The divergent paths of Connecticut's highest income families, as compared to most other Connecticut families over the course of the 1990s can be seen in Figure 1 below. During the 1990s the bottom 40% of Connecticut families lost ground, not only in relative terms, but also in absolute terms. The average real income of Connecticut's poorest 20% of families fell by 19.4% (-$4,672), and average real income of the next to poorest quintile of families dropping 5.8%.[8] Even Connecticut's middle-income families experienced only very modest income growth of 1.6%, compared to a growth of 21.2% ($31,635) on average for the wealthiest quintile of families.



	Bottom Fifth	Next to Bottom Fifth	Middle Fifth	Next to Top Fifth	Top Fifth
1978-1980	$18,223	$36,234	$49,989	$65,577	$111,042
1988-1990	$24,024	$45,934	$65,127	$87,391	$149,558
1998-2000	$19,351	$43,266	$66,146	$94,217	$181,194

Figure 1

Notably, over this same period, the real hourly wages of Connecticut's workers reflected a similar pattern, as the following chart illustrates. "Low wage workers" saw an increase in wages between the late 1970s and late 1980s, only to see those wages eroded in the 1990s, while the wage increases of "high wage workers" translated into steady income gains throughout the two decade period.[9]

[8] Note that because these data are based on averages of family income groups, variations within the groupings may be masked. Also, there is every expectation that individual families can move either up or down into a different income quintile over the time period studied here.

[9] Note that the apparent moderation of shifts in both low and high wages, compared to the shifts in corresponding family income categories, reflects different methodology. While family income averages are based on the average of *all* family incomes in the quintile, the low wage data is based on the wage of the hypothetical earner at the 20th and 80th

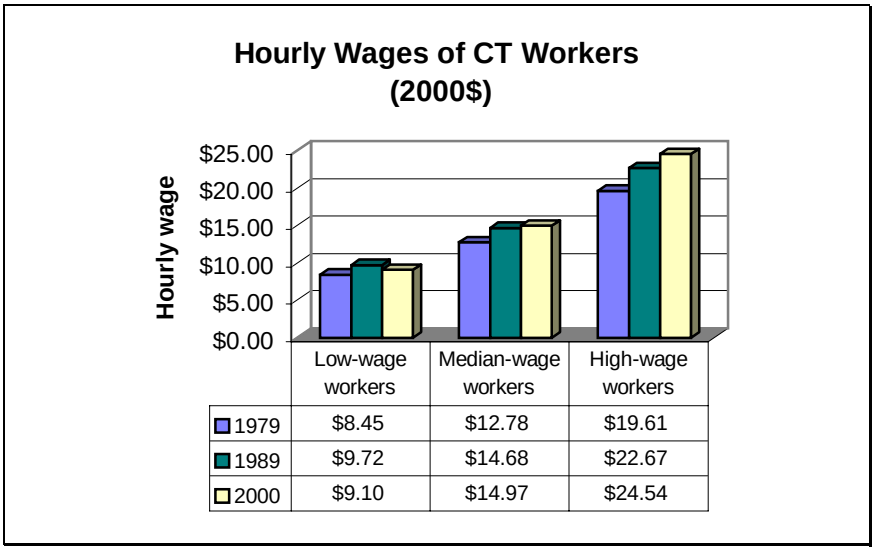


Figure 2: Source: S. Geballe & D. Hall, *The State of Working Connecticut, 2001*.

Changes in share of total family income. Another way of looking at income inequality is to determine how Connecticut's total family income is *shared* among the five income groupings. As illustrated in the following pie charts, the differing rates of growth (or decline) of real family income for the various family income quintiles over the last two decades has altered the distribution of income among them. This shift in income share occurred almost entirely in the 1990s, resulting from the simultaneous growth of the income share enjoyed by Connecticut's highest income families and the decline of the income shares held by its poorest 60% of families.

Specifically, Figures 3, 4, and 5 show the shifting proportions of income enjoyed by each family income quintile over the course of the last two decades. Figures 3 and 4 show that over the 1980s there was very little redistribution of family income share among quintiles – the wealthiest income quintile gained 1% of the total income, while the second lowest quintile lost 1% of the total. The big shift occurred during the 1990s, with the wealthiest quintile gaining 4% of the total family income, at the expense of the bottom three quintiles. Only the second to wealthiest quintile remained constant in its share of the total family income over the course of the two decades.

percentiles, respectively. By definition then, fully 20% of CT wage earners earn less than the "low wage", while fully 20% of high wage earners earn more than the "high wage".

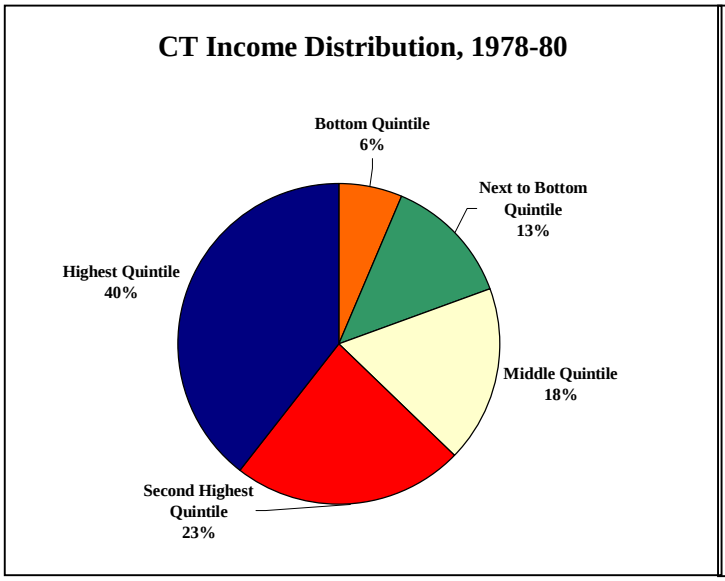


Figure 3

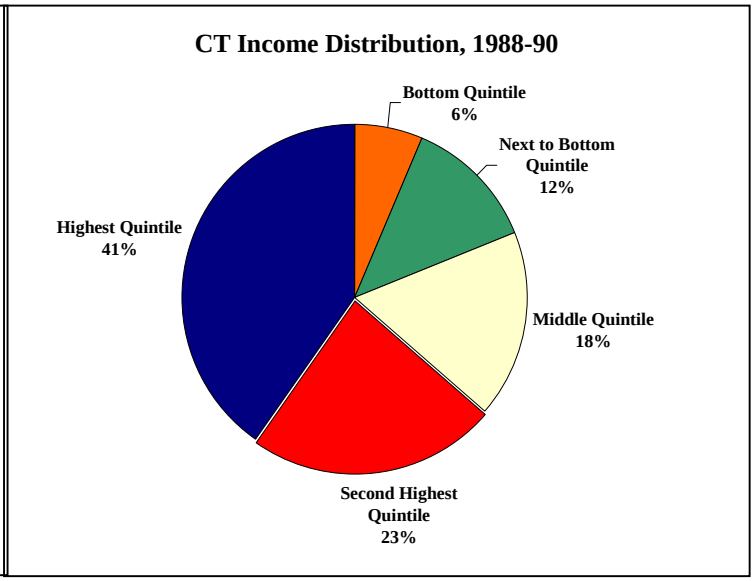


Figure 4

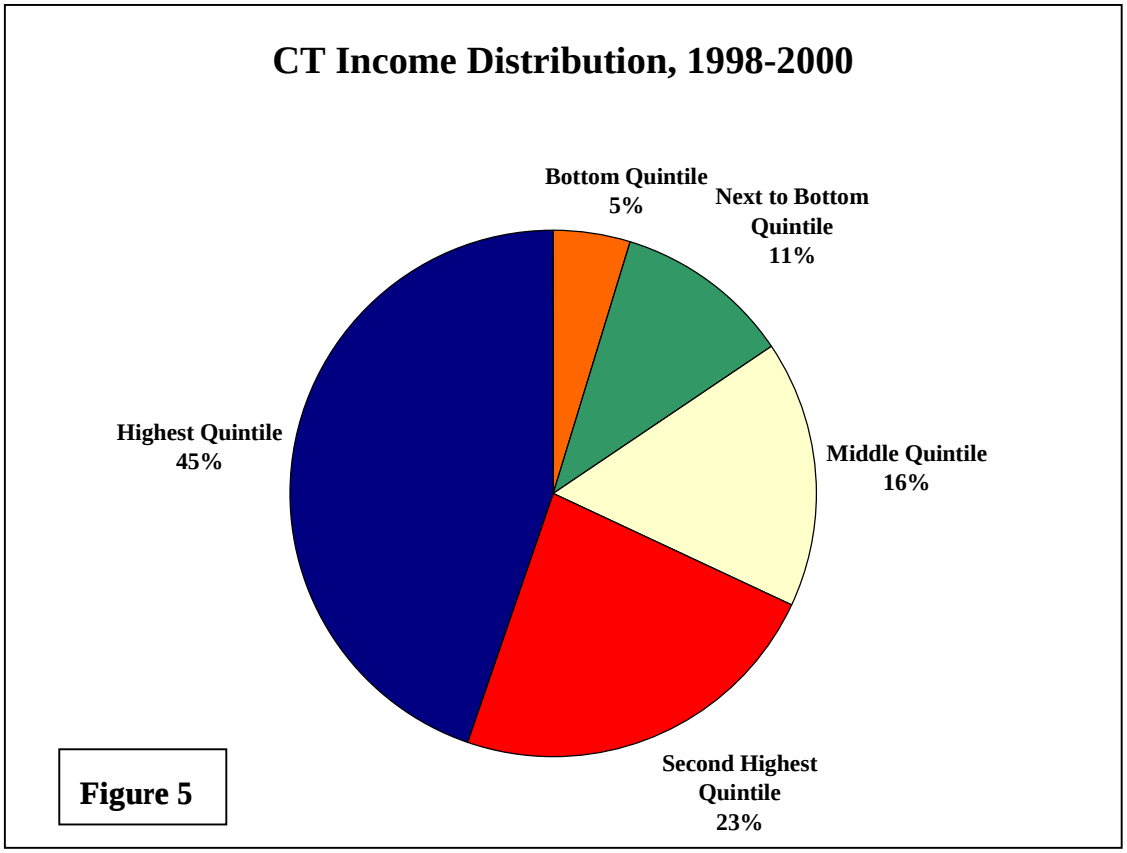


Figure 5

Changes in income ratios. Yet another way to demonstrate changes in income inequality is by income ratios. The "top-to-bottom" ratio (calculated by dividing the average family income of the richest 20% of Connecticut families by the average family income of the poorest 20% of families) has grown significantly over the course of two decades – from 6.1 to 9.4 (with virtually all of the growth occurring during the 1990s). While the growth in the "top-to-middle" ratio (the ratio of the average income of the richest 20% of families to the middle 20%) has not been as pronounced, the 23% increase in the ratio over two decades signals a "pulling apart" as well between Connecticut's middle income families and its wealthiest families. Again, virtually all of this growth in inequality occurred during the 1990s.

Connecticut Income Ratios: 1980 -- 1990 – 2000[10]		
	Top to Bottom Ratio	**Top to Middle Ratio**
1978-1980	6.1	2.2
1988-1990	6.2	2.3
1998-2000	9.4	2.7

IV. How Does Connecticut Compare?

Comparing Income and Income Distribution Across States. To more fully understand income inequality in Connecticut, it is instructive to compare Connecticut to other states and the nation.[11] The table below presents data from the late 1990s that compares average family income and income shares in Connecticut to those in other states and to the national average. Importantly, it shows that *despite* the great growth in inequality in Connecticut over the 1990s, Connecticut's current distribution of income is comparable to other states and the nation; it is Connecticut's recent trend of *increasing* income inequality that is particularly troublesome.

Income Inequality in Connecticut and Select States (1999$)									
Income Quintile	**CT**	**MD**	**MA**	**NJ**	**NY**	**PA**	**RI**	**VT**	**US**
Average Income ($), by Population Quintile (20% grouping)									
Q1	19,351	20,909	15,740	18,950	12,639	16,547	16,981	15,328	14,618
Q2	43,266	45,366	37,261	42,225	31,699	35,357	37,957	33,012	32,721
Q3	66,146	65,842	60,579	64,604	51,709	53,588	57,851	48,759	51,164
Q4	94,217	92,467	87,549	93,319	77,876	76,237	82,058	68,678	74,573
Q5	181,194	180,796	165,729	182,665	161,858	146,317	151,188	131,029	145,985
Proportion (%) of total income for each Population Quintile (20% grouping)									
Q1	5%	5%	4%	5%	4%	5%	5%	5%	5%
Q2	11%	11%	10%	11%	9%	11%	11%	11%	10%
Q3	16%	16%	17%	16%	15%	16%	17%	16%	16%
Q4	23%	23%	24%	23%	23%	23%	24%	23%	23%
Q5	45%	45%	45%	45%	48%	45%	44%	44%	46%

Note that Connecticut's average incomes are higher than neighboring states and national averages in virtually every income category. Only lower income families (bottom two quintiles) in Maryland, and the wealthiest families in New Jersey, have incomes that are higher than those in Connecticut. However, despite this variation in income ranges, the share of total income each quintile enjoys – as

[10] These ratios are determined by comparing the incomes of the quintiles corresponding to the top, middle, and bottom quintiles of the population.

[11] While this comparison focuses primarily on neighboring states, a few others are included for comparative purposes.

seen in the lower portion of the chart – is remarkably similar. That is, Connecticut's income inequality in the late 1990s – as measured by the share of total family income each quintile enjoys -- is similar to that of neighboring states.

Comparing Changes in Family Income Across States. Appendices A1-A5 present the changes in average family income for each quintile over the 1990s – for the nation as a whole, as well as for all states and the District of Columbia.

What is most striking about these five charts is that *only* Connecticut's wealthiest 20% of families fared better than the national average over the 1990s. Fully 80% of Connecticut's families *lost* economic ground as compared to national averages, and the poorest 40% of Connecticut families fared dismally.

- Figure A1 shows that Connecticut's **poorest 20%** of families *lost more economic ground than the poorest families in any other state*, suffering real income losses of $4,672 (-19.4%). In fact, Connecticut's income decline in the bottom quintile was nearly 4 times more than the next worst state – Massachusetts – whose poorest families suffered a decline of $1,190 (-7%). Indeed, Connecticut was one of *only 13 states* where the real incomes of the poorest 20% *fell*. In all other states, the poorest 20% enjoyed real income gains. Nationally, the income of the poorest 20% *increased* by $1,601 (12.3%).

- Figure A2 shows that Connecticut was one of only 10 states in which the real income of the **second-to-poorest 20%** of families also *fell*, and Connecticut's decline ($2,668) was second worst in the nation (to Massachusetts). In all other states, families enjoyed real income *gains* and the average increase nationally was $2,698 (9%).

- Figure A3 shows that the middle 20% of families in all states enjoyed real income gains over the 1990s, but in only 6 states did families in the **middle 20%** *fare worse* than in Connecticut. The real income gain for Connecticut families in the middle 20% was one-fifth the national average ($1,019 in Connecticut, compared to $4,935 nationally).

- Figure A4 shows that even among the **next to wealthiest 20%** of families, Connecticut's progress through the 1990s was *below the national average*, with a real income growth of $6,827 in Connecticut compared to $8,664 in real income growth nationally.

- In contrast to the bottom 80% of families, Figure A5 shows that Connecticut's **wealthiest 20%** of families enjoyed a real income *gain* of $31,635, *well above* the national average gain of $25,116 and *greater than* all but 12 states and the District of Columbia.[12]

One notable trend apparent in Appendices A1-A5 is the tendency for Connecticut's neighboring states to have similar rankings, suggesting that many of the economic trends causing Connecticut's growth in income inequality were experienced regionally.[13]

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[12] Because Connecticut is a small state, this report does not include data on income growth in the top 5%. A comparison of Table 7 and Table 7A in EPI/CBPP's *Pulling Apart* report shows that the rate of income growth in the top 5% of families consistently exceeded the rate of income growth in the top 20% among the states compared. In Massachusetts, for example., the top 20% of families gained 13.5%, while the top 5% gained 17.5%. In New York, the top 20% gained 20.7%, while the top 5% gained 28.4%. These income gain differences would be even greater if the CPS data included capital gains income, and was not top-coded, see note 6.

Comparing Income Ratios Across States. Appendices A6 and A7 show that the ratio of the average income of Connecticut's top 20% of families to that of the bottom 20% ("top-to-bottom ratio") and the ratio of the average income of Connecticut's top 20% of families to that of the middle 20% of families ("top-to-middle ratio"), as of the late 1990s, showed inequality *somewhat less* than the national average. Connecticut's "top to bottom" ratio is 9.4, compared to a ratio of 10.0 for the nation. Connecticut's "top to middle" ratio of 2.7 is slightly less than the 2.9 national ratio. Note, however, that both Connecticut ratios exceed those in the majority of other states. Connecticut's top-to-bottom ratio exceeds that of 30 other states; its top-to-middle ratio exceeds that of 29 other states. Clearly, national averages are skewed upward by the high inequality in highly populous states such as California, Texas, and New York.

Comparing Changes to Income Ratios Across States. Comparisons over time, showing trends in growing income inequality, are also important. Appendix A8 shows that Connecticut *leads the nation* in its growth in income inequality during the 1990s, as measured by the change in the top-to-bottom income ratio. Connecticut's wealthiest 20% of families moved from having 6.2 times the average income of its poorest 20% of families, to having 9.4 times the income. Concurrently, the top-to-bottom income ratio nationally increased by a modest 0.7 (one-fifth Connecticut's ratio increase of 3.1).[14]

Although Connecticut's growth in top-to-middle inequality has not been as great as its growth in top-to-bottom inequality, Appendix A9 shows that the growth in the income divide between the average incomes of Connecticut's wealthiest 20% of families and its middle income families is double that experienced nationally, and places Connecticut *fifth highest* among states in the growth of income inequality between its middle and highest income families.

The Gini Coefficient and the Lorenz Curve: Another Way to Compare Inequality Across States. For cross-community comparisons, it is useful to have a single number as a measure of income inequality. One such measure is the Gini coefficient.[15] In a community with income that is totally equally distributed, the Gini coefficient would be 0. Alternatively, in a community in which one person had all the income and all others none, the coefficient would be 1. Thus, the closer the coefficient to 1, the greater the level of income inequality.

As shown in the table below, New York's inequality exceeds both the national average and all comparison states (including Connecticut). New Jersey and Massachusetts are more unequal than the nation, while Connecticut, Maryland, Pennsylvania, Rhode Island, and Vermont are slightly less unequal.

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[13] Appendices A1-A5 show that Connecticut's five neighboring states fall within twelve rankings of Connecticut in the lowest quintile; in the second quintile, four neighbors within six rankings; in the middle quintile, four neighbors fall within five rankings of Connecticut; and in the top quintile, three neighboring states fall within five rankings. Only in the next to highest quintile are Connecticut and its neighboring states not closely ranked.

[14] As seen in Appendix A8, the District of Columbia has experienced the most growth in the income divide between the top 20% of families and the bottom 20% of families.

[15] Although Gini coefficients are widely used to measure income inequality, other indices also are used to express income inequality . The ***squared coefficient of variation*** is more sensitive to high incomes, while the ***variance of logs*** is more sensitive to low incomes. Because the ***Gini*** is equally sensitive to variances of income distribution throughout the income range, it is used here.

Income Inequality in Connecticut and Select States, 2000									
	CT	MD	MA	NJ	NY	PA	RI	VT	US
Gini Coefficients	0.37	0.36	0.38	0.38	0.41	0.37	0.36	0.36	0.38

In addition, the Lorenz curve can be used to illustrate income inequality. Figure 6 below compares Connecticut's income inequality to the nation's during the three year period 1998-2000. Consistent with the very similar Gini Coefficients (.37 in Connecticut, vs. .38 nationally), the respective Lorenz curves are virtually indistinguishable, with the US curve falling only slightly further from the "income equality line". These data indicate that in the late 1990s, income inequality in Connecticut was marginally less than in the United States as a whole.

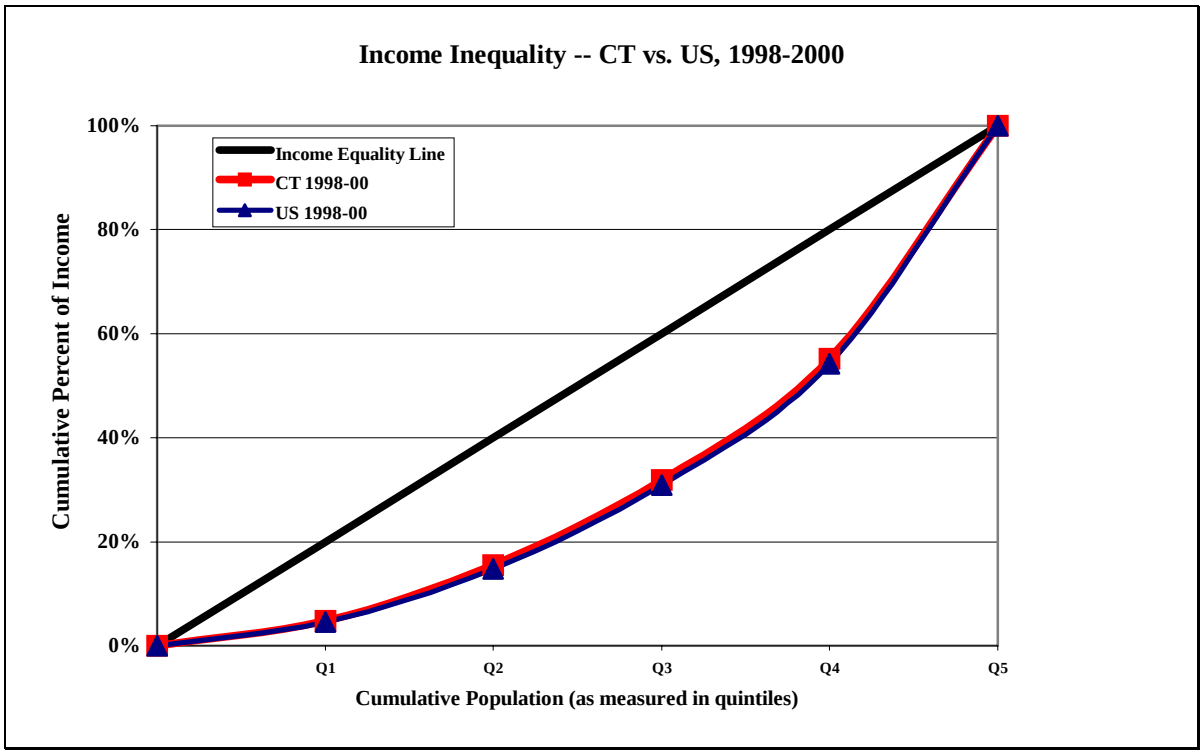

Figure 6: Connecticut/United States Lorenz Curves[16], 1998-2000

Changes in Income Inequality Over Time. Gini Coefficients and Lorenz curves can also be used effectively to document changes in inequality over time. The Gini coefficient for Connecticut

[16] The Lorenz curve is a graphical representation of the Gini coefficient. The horizontal axis plots the cumulative percentage of the population studied, starting with the poorest, and ending with the richest. The vertical axis plots the cumulative percentage of income associated with the points on the horizontal axis. In a totally egalitarian society, the Lorenz curve would be represented by the solid black line – where each 20% of the population has 20% of the income. As inequality rises, the lines graphing deviation from equality move further from the "income equality" line, towards the bottom right corner. See "Brief Graphical Summary of Gini Coefficient and Equivalence Scale," http:/www.wider.unu.edu/wiid/ginieq.htm.

changed dramatically over the last two decades -- increasing by 17%, from .31 in 1980 to .37 in 2000, with *all* of the increase in inequality over the 1990s.

Connecticut Gini Coefficients[1]		
1978-1980	1988-1990	1998-2000
0.31	0.31	0.37

Similarly, as Figures 7 through 9 depict, Lorenz curves confirm that virtually all of Connecticut's increase in inequality occurred during the 1990s, fueled by the concurrent erosion of real incomes among low income families and the growth of incomes among Connecticut's wealthiest families.

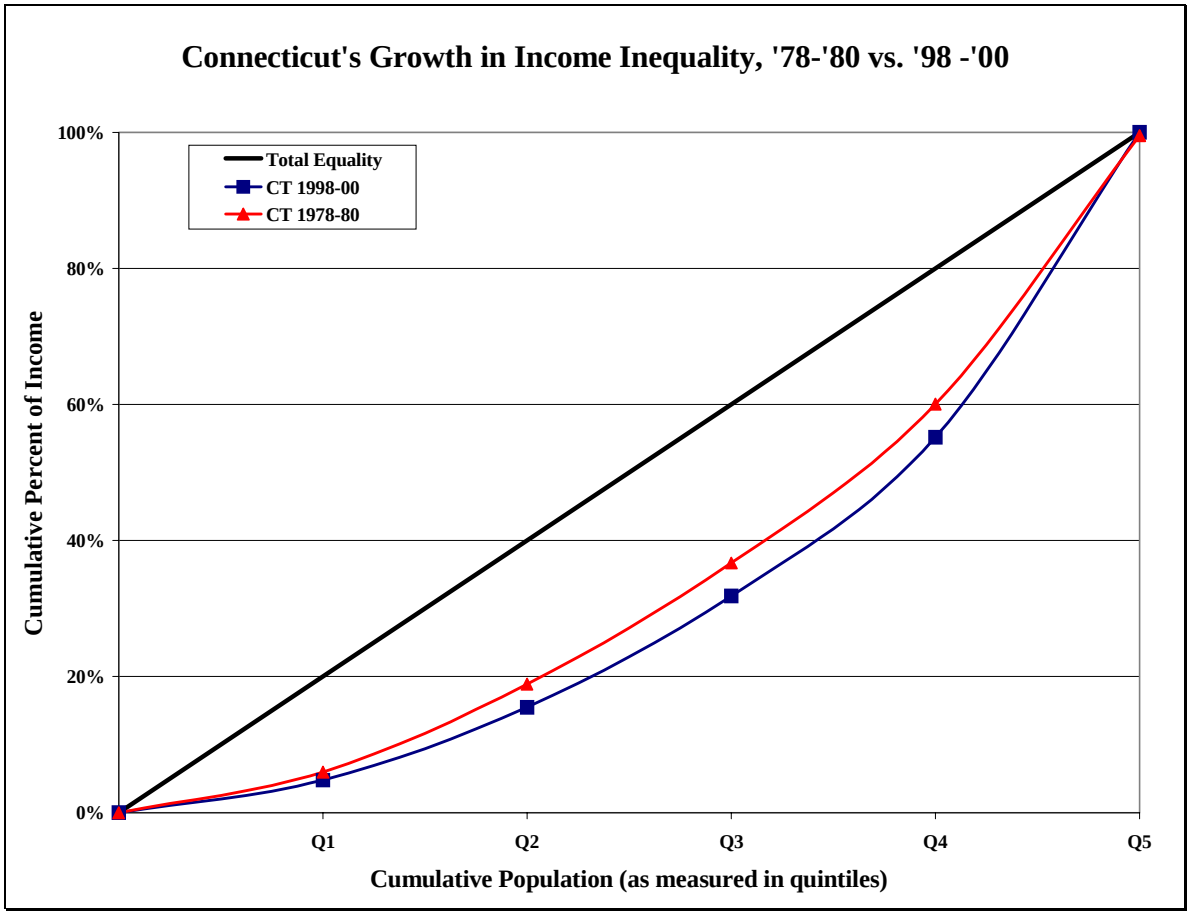

Figure 7

In Figure 7 above, the line with triangle markers represents Connecticut's family income distribution in the late 1970s (corresponding to the Gini coefficient of .31), while the line with square markers represents the distribution in the late 1990s (corresponding to a Gini of .37). The later income distribution clearly diverges to a greater extent from the perfectly equal distribution denoted by the solid and straight black line.

Figures 8 and 9, below, compare Connecticut's family income distribution in the late 1970s to that in the late 1980s (Figure 8) and its distribution in the late 1980s to that in the late 1990s (Figure 9).

This clearly shows that the growth in family income inequality in Connecticut occurred nearly entirely in the second decade of comparison, unlike the trend in many other states.

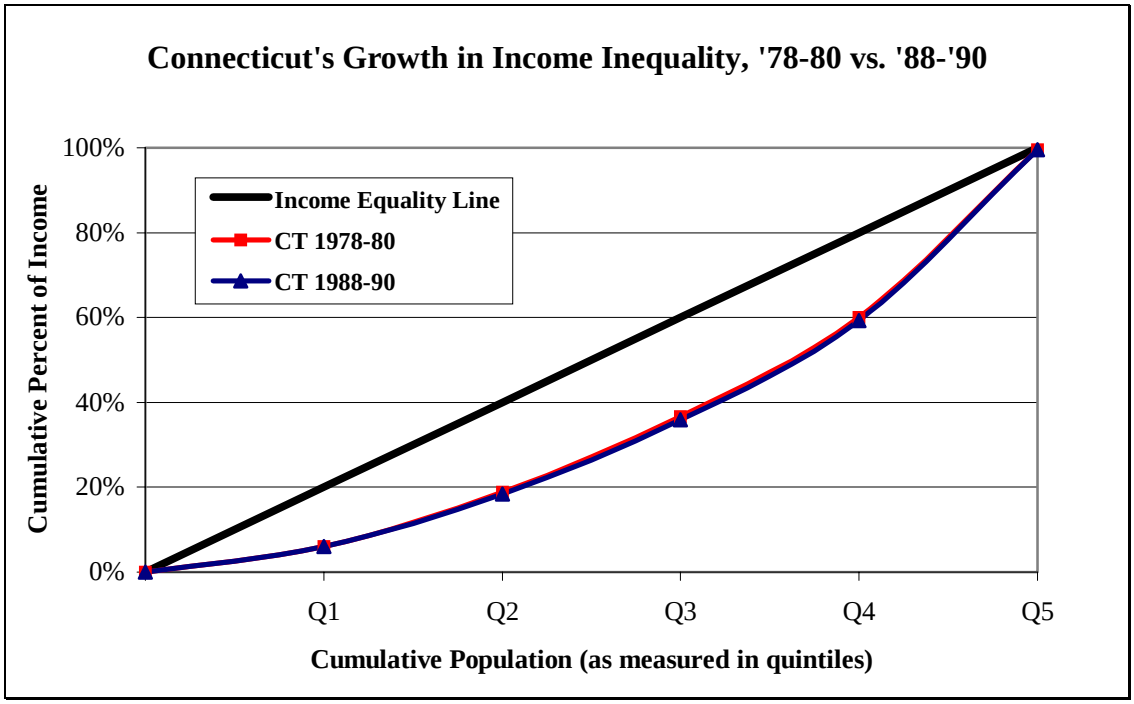

Figure 8

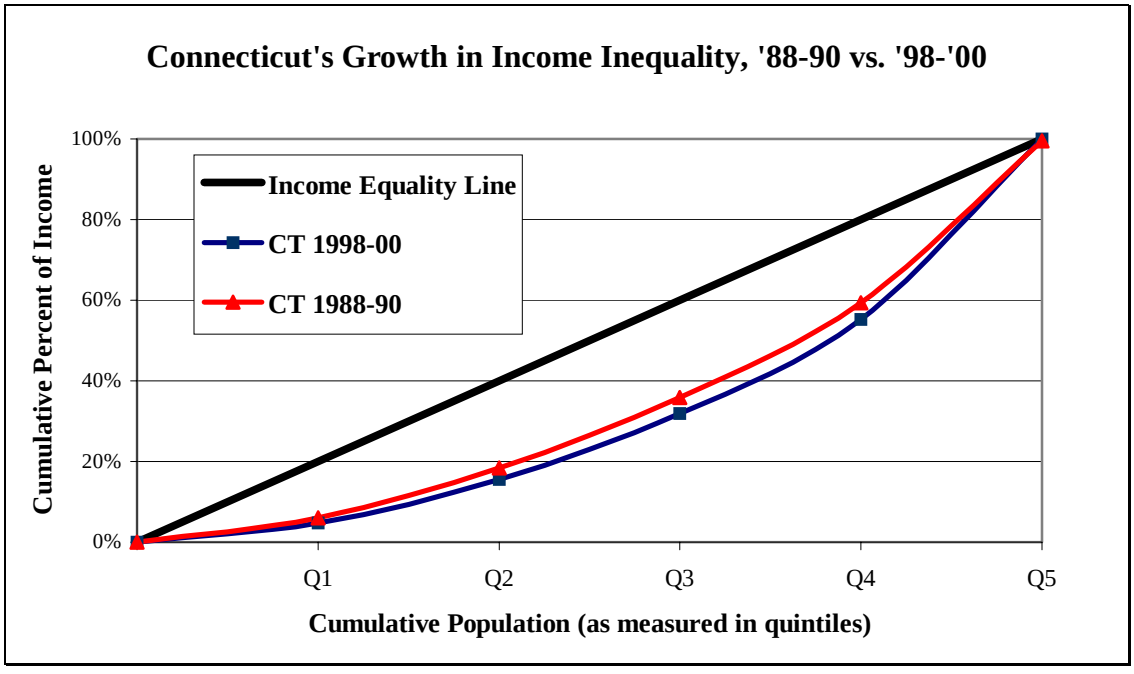

Figure 9

Comparing Connecticut to the Developed World. Increasingly, Connecticut, like all other states in the United States, is competing in a global economy. As labor and capital become increasingly mobile, jurisdictions compete to offer the best 'packages' for business growth. These

include not only 'standard of living' factors, as measured by criteria such as purchasing power parity, but also a wide range of 'quality of life' factors, that include less easily quantifiable factors such as social cohesion and a sense of community, factors that are gravely compromised by growing income inequality.

Several international studies have compared the degree of income inequality in developed countries.[17] These international studies provide some reassurance that the negative effects of income inequality can be addressed through responsible public policy. Oxley, et al, note that across almost all of the 13 OECD countries studied, taxes and government transfers taken together reduced income inequality, "offsetting the effect of growing inequality in market incomes."[18]

The table to the right indicates that during the mid 1990s, income inequality in the United States was fairly typical in terms of "market" incomes – that is, the incomes that resulted from market forces alone. The US market income Gini of .455 placed the U.S. 7th among 12 OECD nations.[19] After including the effects of both government transfers and taxes, however – inequality in "disposable income" (income remaining after taxes and transfer payments) – the US slips dramatically in relation to the other nations, falling to 12th of 13 nations.

OECD Country	Gini Coefficients	
	Market Income	Disposable Income
Denmark, 1994	0.42	0.217
Sweden, 1995	0.487	0.23
Finland, 1995	0.392	0.231
Netherlands, 1994	0.421	0.253
Norway, 1995	0.399	0.256
Japan, 1994	0.34	0.265
Germany, 1994	0.436	0.282
Canada, 1994	-	0.284
Belgium, 1995	0.545	0.299
Australia, 1993/94	0.463	0.306
United States, 1995	0.455	0.344
Italy, 1993	0.51	0.345

Source: Oxley et al, "Income Distribution and Poverty in 13 OECD Countries", 94.

While these data are not directly comparable to the Ginis presented here for Connecticut, a number of observations merit attention. The impact of taxes and transfers at reducing income inequality in other developed nations is impressive. The United States could do more through these mechanisms to address income inequality. Similarly, Connecticut could use taxes and transfers to greater effect.[20] Two current proposals in Connecticut that would moderate the degree of income inequality include establishing a refundable state earned income tax credit for low income working families, and imposing a 1% state income tax surcharge on Adjusted Gross Income that exceeds $1 million/year.

[17] E.g. A.B. Atkinson et al, "Income Distribution in OECD Countries: Evidence from the Luxembourg Income Study", *Income Distribution in OECD Countries*, OECD Social Policy Studies, #18, 1995; Howard Oxley et al, "Income Distribution and Poverty in 13 OECD Countries", *OECD Economic Studies, #29*, 1997.

[18] Oxley et al, at p. 73.

[19] A market level Gini for Canada was not calculated. There are no state level data that correspond precisely to the data shown here. However, Connecticut's Gini in the late 1990s (.37) was similar to that of the United States (.38) when using CPS data for both.

[20] Note that the CPS data upon which this study is primarily based includes transfer income, but not the effects of tax policies.

V. The Significance of Connecticut's Growing Income Divides

Connecticut's income divides – between its wealthiest families and its poorest, and also between its wealthiest families and its middle income families – are the largest they have been in decades. Unlike past economic expansions, Connecticut's booming economy in the late 1990s *expanded* these divides. Not only did *all* Connecticut families fail to *gain* real income in this expansion, as had been true in earlier expansions, two-fifths of Connecticut's families actually *lost* economic ground, and the middle fifth just held its own.

Now, with a downturn in the economy and the accompanying rise in unemployment, the 40% of Connecticut families who lost real income over the 1990s risk losing even more economic ground.

The consequences of growing income inequality. Connecticut's growing income divides pose a challenge to the state in a variety of ways:

- *The divides undermine Connecticut's ideals.* Economic growth skewed in favor of the wealthiest Connecticut residents undermines the ideal that *all* families that contribute to the state's economic growth should benefit from it. Connecticut's poorest 40% of families were an essential part of Connecticut's labor force in the 1990s, but received *none* of the gains from the state's strong economy.

- *The divides result in more children living in poverty*. The 19.4% decline in income among Connecticut's poorest 20% of families – reducing their real income from $24,024 in the late 1980s to $19,351 in the late 1990s (in 1999 dollars) – means that many more Connecticut children are living at, or near, poverty than a decade ago. Research consistently shows that poverty has significant short- and long-term harmful effects on children's development. Children who grow up in poverty have poorer health, higher rates of learning disabilities and developmental delays, and poorer school achievement. They also are far more likely to be unemployed as adults than children who were not poor.[21]

- *The divides result in poorer health outcomes.* Income inequality is linked to poor health outcomes, *across* the income spectrum. Recent epidemiologic research suggests that income inequality causes a *shift* in the income/life expectancy curve, so that almost *everyone* in a community pays the costs of inequality. Income inequality is associated not only with higher overall death rates, but also with higher rates of dying from heart disease, cancers, homicide, and infant mortality.[22]

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[21] See, for example, Federal Reserve Bank of New York, "Unequal Incomes, Unequal Outcomes? Economic Inequality and Measures of Well-Being," *Economic Policy Review* 5(3) (September, 1999); G. Duncan, J. Brooks-Gunn (eds.), *The Consequences of Growing Up Poor* (New York: Russell Sage Foundation, 1997); The Future of Children, *Children in Poverty* (Stanford, CA: Center for the Future of Children at the David and Lucile Packard Foundation, 1997).[available at www.futureofchildren.org].

[22] See generally I. Kawachi, B. Kennedy & R. Wilkinson, *Income Inequality and Health* (New York: The Free Press, 1999); K. Lochner et al, "State-Level Income Inequality and Individual Mortality Risk: A Prospective, Multilevel Study," *American Journal of Public Health* 91(3):385-391 (2001)(showing that individuals living in high income-inequality states were at increased risk of mortality, compared with individuals living in low income-inequality states, and that near-poor whites had the greatest increase in mortality risk); I. Kawachi, "Letting the Gini out of the Bottle: Making Sense of the Evidence on Income Inequality, Social Cohesion, and Health," (March 11, 2002). [www.ksg.harvard.edu/inequality/Seminar/Papers/Kawachi.ppt.]
Christopher Jencks is less willing to attribute poor health outcomes to income inequality, yet his own research on the rich democracies participating in the Luxembourg Income Study (LIS), flies in the face of his reservations. Jencks found

- *The divides cause greater difficulty finding affordable housing.* Economic growth can lead to more demand for housing and, consequently, to higher housing prices. When the incomes of Connecticut's poorer families are falling as the economy grows, these families are less likely to be able to afford adequate housing, resulting in increased use of shelters and homelessness.

- *The divides result in increased geographic disparities and reduced social cohesion.* As Connecticut's income divides have grown, the geographic stratification of the state has, as well. When wealthier families leave Connecticut cities, there is less contact and familiarity with the problems faced by families who are poorer. Social cohesion within Connecticut diminishes, as does public support for government investments in programs and services serving the needs of others.

Factors contributing to growing inequality. As is true in other states, and the nation as a whole, a few factors have contributed to Connecticut's growing income divides. Primary among these is the growth in wage inequality, with wages among the state's lowest and middle-income wage earners stagnating or declining over the last two decades, as wages of the very highest paid employees have grown significantly.[23] Factors contributing to this growth in wage inequality include the decline in manufacturing jobs and expansion of low-wage service jobs, immigration and globalization, and the weakening of labor market institutions (e.g. lower real value of Connecticut's minimum wage as compared to the 1970s, and fewer and weaker unions).[24]

In addition, Connecticut's growth in inequality is partially explained by an even greater inequality in the distribution of assets that generate investment income – dividends, interest, and capital gains. For example, nationally the top 1% of wealth holders has typically held in excess of 25% of total household wealth, but about 9% of total household income.[25] Federal income tax data from the late 1990s show that capital gains realizations reported by Connecticut residents increased a dramatic 37% *per year* because of major stock market activity and gains. The Governor's *Midterm Budget Adjustments FY 2002-03* notes, "The state has never seen such vigorous growth from year to year or that many years of growth in capital gains-related taxes." (p. 6). Importantly, because the family income data used in this report does not include capital gains income, this report captures only *some* of the income-inequality effects of asset-inequality in Connecticut.

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that life expectancy rose less rapidly in countries experiencing the most rapid inequality growth. He found, "Countries that restrained the growth of economic inequality…were dominated by political parties that felt either politically or morally obligated to protect the interest of their less affluent citizens. Such countries may have done all sorts of other things that made people live longer, like reducing the work week or ensuring that more people got the health care they needed." Christopher Jencks, "Does Income Inequality Matter", in *Daedalus*, Journal of the American Academy of Arts and Sciences (Winter 2002), p. 60. Few advocates of greater income equality would oppose such elements of a public policy agenda.

[23] See S. Geballe & D. Hall, *The State of Working Connecticut 2001* (CT Voices for Children, 2001).

[24] Connecticut's unionization rate is slightly higher than the national average. In 2001, the most recent year for which such data are available, the national rate of unionization was 13.5% -- the rate in Connecticut was 15.8%. Notable, however, is the rate of decline in Connecticut. While the national rate of unionization has declined by 9.4% since 1995, in Connecticut, the decline over this period is more than double that – 21.8%. More significant than the decline in unionization, *per se*, is the loss of manufacturing jobs that are typically more likely to be unionized. Replacing unionized manufacturing jobs that pay enough to allow a family to achieve self sufficiency with minimum wage service sector jobs invariably contributes to growing income inequality.

[25] E. Wolff, *Top Heavy* (New York: The New Press, 1995), p. 27. By comparison, Connecticut's top 1% of state income tax filers reported more than 27% of the state's total adjusted gross income in 1999. CT Department of Revenue Services, *1999 Personal Income Tax Statistics.*

A third factor that might explain some of Connecticut's increased income inequality is an increase in the number of families headed by a single parent, since these families generally have lower incomes than two-earner families. Between 1990 and 2000, the proportion of Connecticut children living with both parents fell by 3.6% (from 72.5% to 68.9%), while the proportion of children living with just one parent increased from 20% to 20.9%.[26]

Differing access to higher education also contributes to growing income inequality. A recent study in the Federal Reserve Bank of Boston's *New England Economic Review* by Katherine Bradbury notes that "the payoff to education has risen steeply in recent decades, and…the rise in payoff accounts for a significant fraction of the increase in overall wage [and hence income] inequality." [27] Only those Connecticut residents with college degrees saw real wage increases in the last two decades.[28]

VI. The Role of Government In Addressing Connecticut's Income Divides

As international comparisons make evident, much inequality in the distribution of income results from economic forces outside the direct control of state and national policymakers. These comparisons also show, however, that governments can mitigate the effects of increasing inequality in market incomes, and reduce – rather than exacerbate – the current trends towards increasing inequality.

Christopher Jencks notes that:

> The United States is unusually unequal partly because it makes little effort to limit wage inequality: the minimum wage is low, and American law makes unionization relatively difficult. In addition, the United States transfers less money to those who are not working than most other rich democracies.[29]

The growth of income inequality in Connecticut over the course of the 1990s is not only a sign that Connecticut faced some difficult times – including the continued erosion of a solid manufacturing core and its replacement with hundreds of lower-paying service sector jobs – but also a "red flag" signaling the need for greater government intervention. Connecticut is a state of great wealth. The gains enjoyed by Connecticut's wealthiest families over the past decade are but one manifestation of that wealth. Connecticut can afford to ensure that as the wealthy gain, so too do those at the bottom of the income spectrum. What Connecticut **cannot** afford, is to invite the erosion of social cohesion, to exacerbate the pulling apart between what are increasingly "two Connecticuts."

The causes of income inequality point to solutions. For example, tax policy, such as the adoption of a refundable state earned income tax credit, can be used to increase the family incomes of those in lower income groups, thus reducing the income inequality gap. An increased state minimum

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[26] United States Census Bureau, Census data. Note, some children may live in families in which there are two wage-earners who are not their parents (either both – because the child lives with grandparents or foster parents, or one – because the other wage-earner is not related to the child). These children are not reflected in the data cited here, but *are* included in the CPS data used in this family income report.

[27] Katherine Bradbury, "Education and Wages in the 1980s and 1990s: Are All Groups Moving Up Together?", *New England Economic Review* (2002), p. 19.

[28] See S. Geballe, *The State of Working Connecticut 2000* (CT Voices for Children, 2000).

[29] Christopher Jencks, "Does Inequality Matter?" in *Daedalus: Journal of the American Academy of Arts and Science*, Winter 2002, 53. Ironically, Connecticut boasts a minimum wage that is among the highest in the nation.

wage can help bring up the wage "floor." Concerted efforts to ensure that all persons have access to affordable education and training not only allow them to make full use of their potential and reduces income inequality, but reap a wide variety of social and economic returns on that investment.

Connecticut has before it a variety of policy options that could reduce the state's growing income divides. These include adoption of tax policies that generate tax revenues from those who can best afford additional tax burdens, while providing assistance to lower and middle-income families who are losing economic ground.

Connecticut's continued prosperity depends on affirmative state action to help bridge Connecticut's growing divides. These measures must include expanding access to health care[30] and housing that is affordable, increasing the supply of high quality and affordable child care, expanding access to affordable higher education and training that allows all Connecticut residents to achieve their full potential and maximize their contributions to Connecticut's economic health, and a more effective economic safety-net for those who are unable to earn a self-sufficiency wage (either permanently, or temporarily).

[30] The association between health and income runs in both directions. Not only are those with higher incomes likely to be more healthy, but those who are healthy are more likely to have adequate incomes. Sally Satel and Theodore Marmor write, "the so-called healthy worker effects…suggests…that health may determine income. After all, people who are healthier are more likely to hold jobs and to work competitively, activities that help them advance both their social and economic positions and, in turn, protect their health." S. Satel & T. Marmor, "Does Inequality Make You Sick?", in *Weekly Standard*, July 16, 2001.

Appendices:

Figure A1: Change in Average Real Income of Bottom Fifth of Families: 1990 to 2000

Figure A2: Change in Average Real Income of Second Fifth of Families: 1990 to 2000

Figure A3: Change in Average Real Income of Middle Fifth of Families: 1990 to 2000

Figure A4: Change in Average Real Income of Next to Highest Fifth of Families: 1990 to 2000

Figure A5: Change in Average Real Income of Top Fifth of Families: 1990 to 2000

Figure A6: Ratio of Average Incomes of Top and Bottom Fifths of Families, 2000

Figure A7: Ratio of Average Incomes of Top and Middle Fifths of Families, 2000

Figure A8: Change in Ratio of Average Incomes of Top and Bottom Fifths of Families, 1990 to 2000

Figure A9: Change in Ratio of Average Incomes of Top and Middle Fifths of Families, 1990 to 2000.

Table A1: CT Family Income Ranges, 1998-2000

Table A2: CT Real Family Income Changes by Quintile, 1980-1990, and 1990-2000.

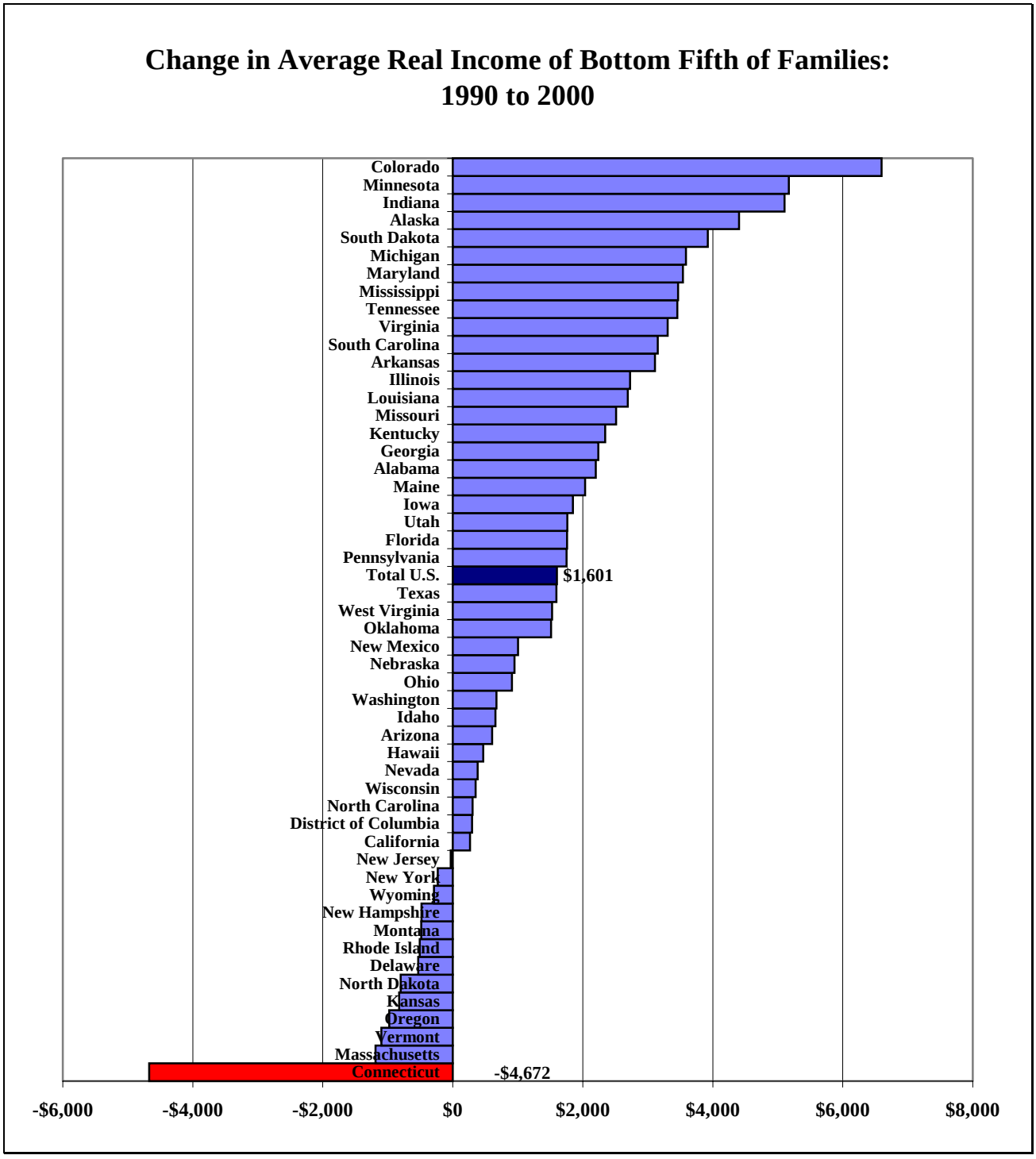
Change in Average Real Income of Bottom Fifth of Families:
1990 to 2000
Colorado
Minnesota
Indiana
Alaska
South Dakota
Michigan
Maryland
Mississippi
Tennessee
Virginia
South Carolina
Arkansas
Illinois
Louisiana
Missouri
Kentucky
Georgia
Alabama
Maine
Iowa
Utah
Florida
Pennsylvania
Total U.S.
$1,601
Texas
West Virginia
Oklahoma
New Mexico
Nebraska
Ohio
Washington
Idaho
Arizona
Hawaii
Nevada
Wisconsin
North Carolina
District of Columbia
California
New Jersey
New York
Wyoming
New Hampshire
Montana
Rhode Island
Delaware
North Dakota
Kansas
Oregon
Vermont
Massachusetts
Connecticut
-$4,672
-$6,000
-$4,000
-$2,000
$0
$2,000
$4,000
$6,000
$8,000

Figure A1

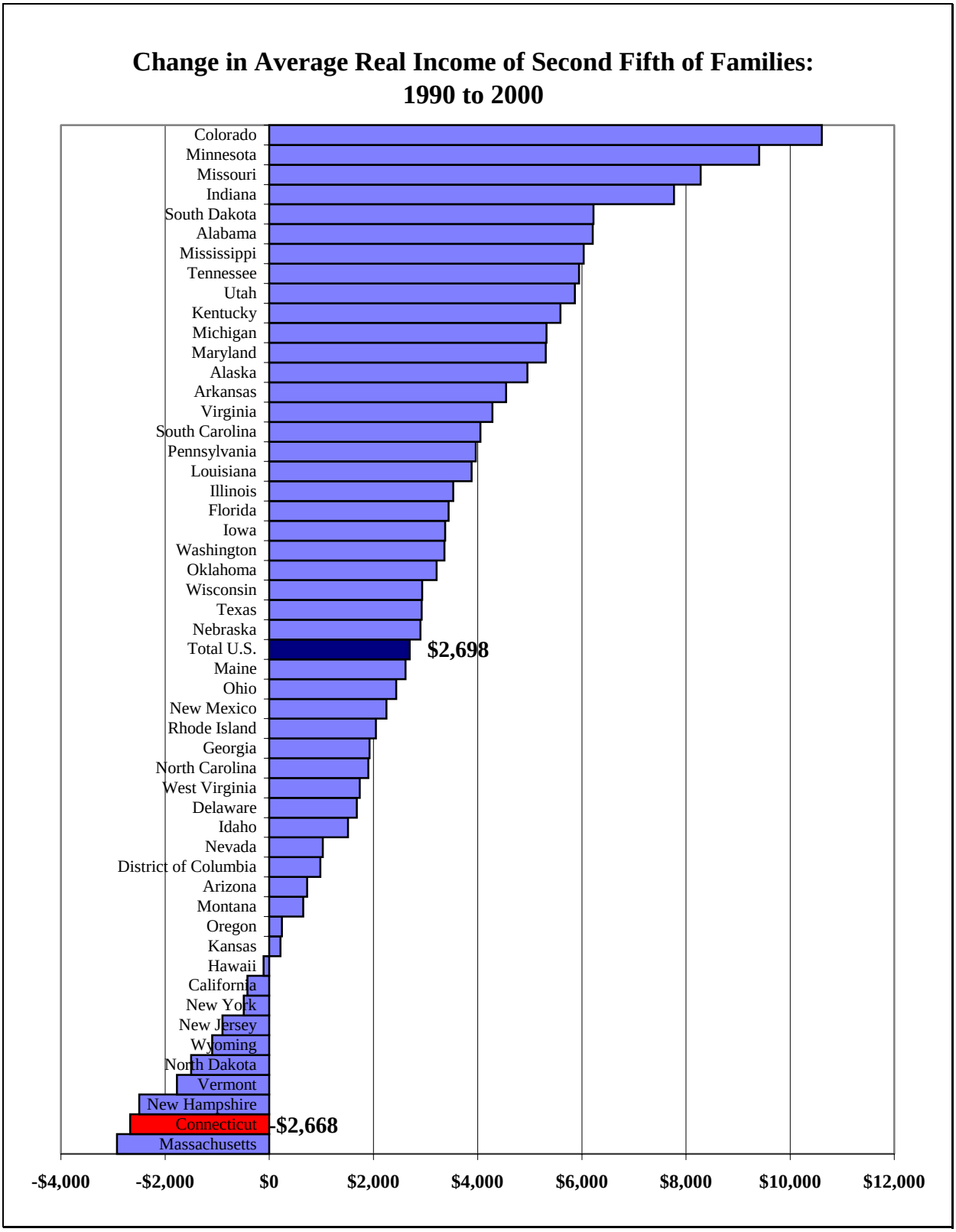
Change in Average Real Income of Second Fifth of Families:
1990 to 2000
Colorado
Minnesota
Missouri
Indiana
South Dakota
Alabama
Mississippi
Tennessee
Utah
Kentucky
Michigan
Maryland
Alaska
Arkansas
Virginia
South Carolina
Pennsylvania
Louisiana
Illinois
Florida
Iowa
Washington
Oklahoma
Wisconsin
Texas
Nebraska
Total U.S.
$2,698
Maine
Ohio
New Mexico
Rhode Island
Georgia
North Carolina
West Virginia
Delaware
Idaho
Nevada
District of Columbia
Arizona
Montana
Oregon
Kansas
Hawaii
California
New York
New Jersey
Wyoming
North Dakota
Vermont
New Hampshire
Connecticut
-$2,668
Massachusetts
-$4,000
-$2,000
$0
$2,000
$4,000
$6,000
$8,000
$10,000
$12,000

Figure A2

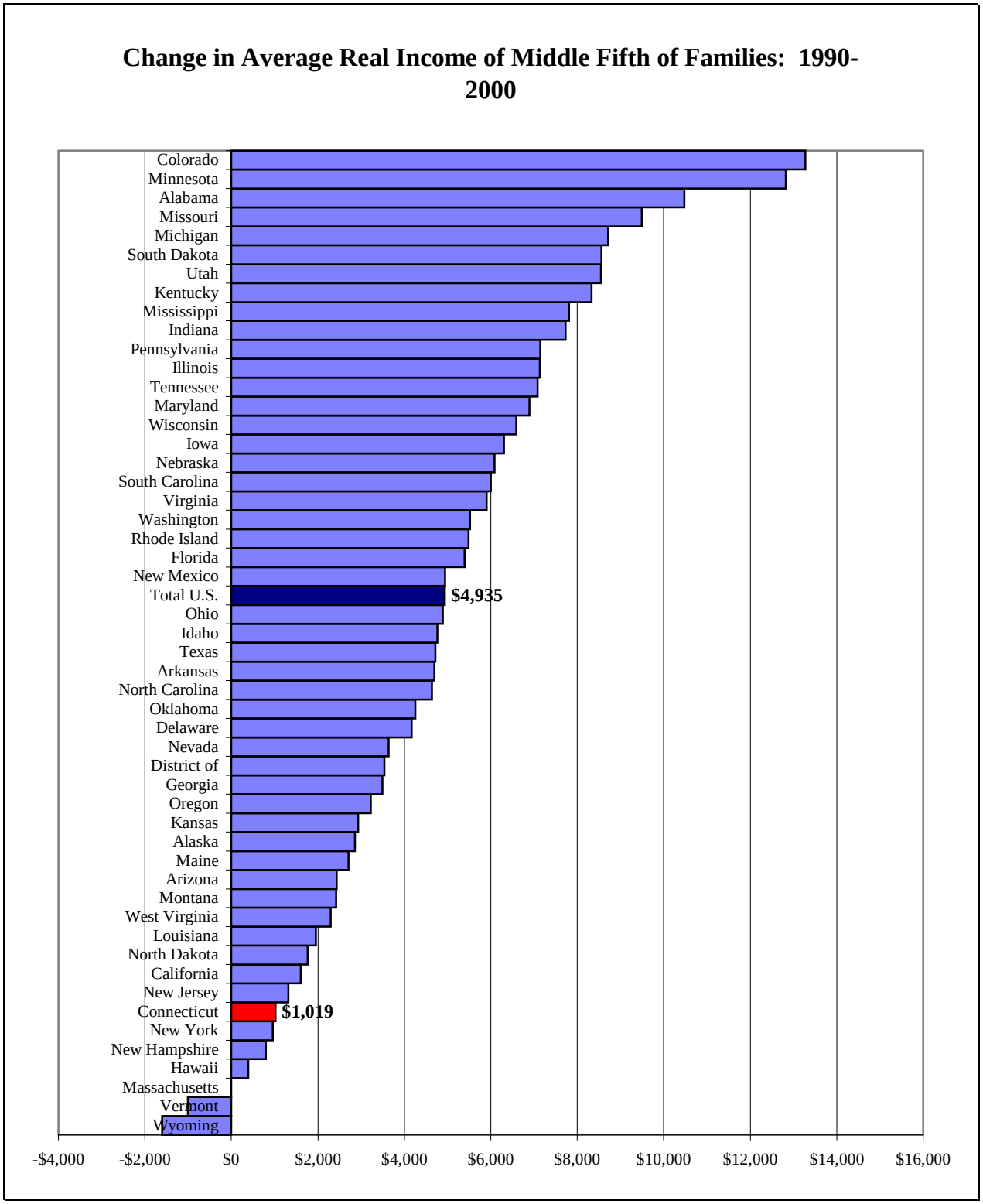
Change in Average Real Income of Middle Fifth of Families: 1990-2000
Colorado
Minnesota
Alabama
Missouri
Michigan
South Dakota
Utah
Kentucky
Mississippi
Indiana
Pennsylvania
Illinois
Tennessee
Maryland
Wisconsin
Iowa
Nebraska
South Carolina
Virginia
Washington
Rhode Island
Florida
New Mexico
Total U.S.
$4,935
Ohio
Idaho
Texas
Arkansas
North Carolina
Oklahoma
Delaware
Nevada
District of
Georgia
Oregon
Kansas
Alaska
Maine
Arizona
Montana
West Virginia
Louisiana
North Dakota
California
New Jersey
Connecticut
$1,019
New York
New Hampshire
Hawaii
Massachusetts
Vermont
Wyoming
-$4,000
-$2,000
$0
$2,000
$4,000
$6,000
$8,000
$10,000
$12,000
$14,000
$16,000

Figure A3

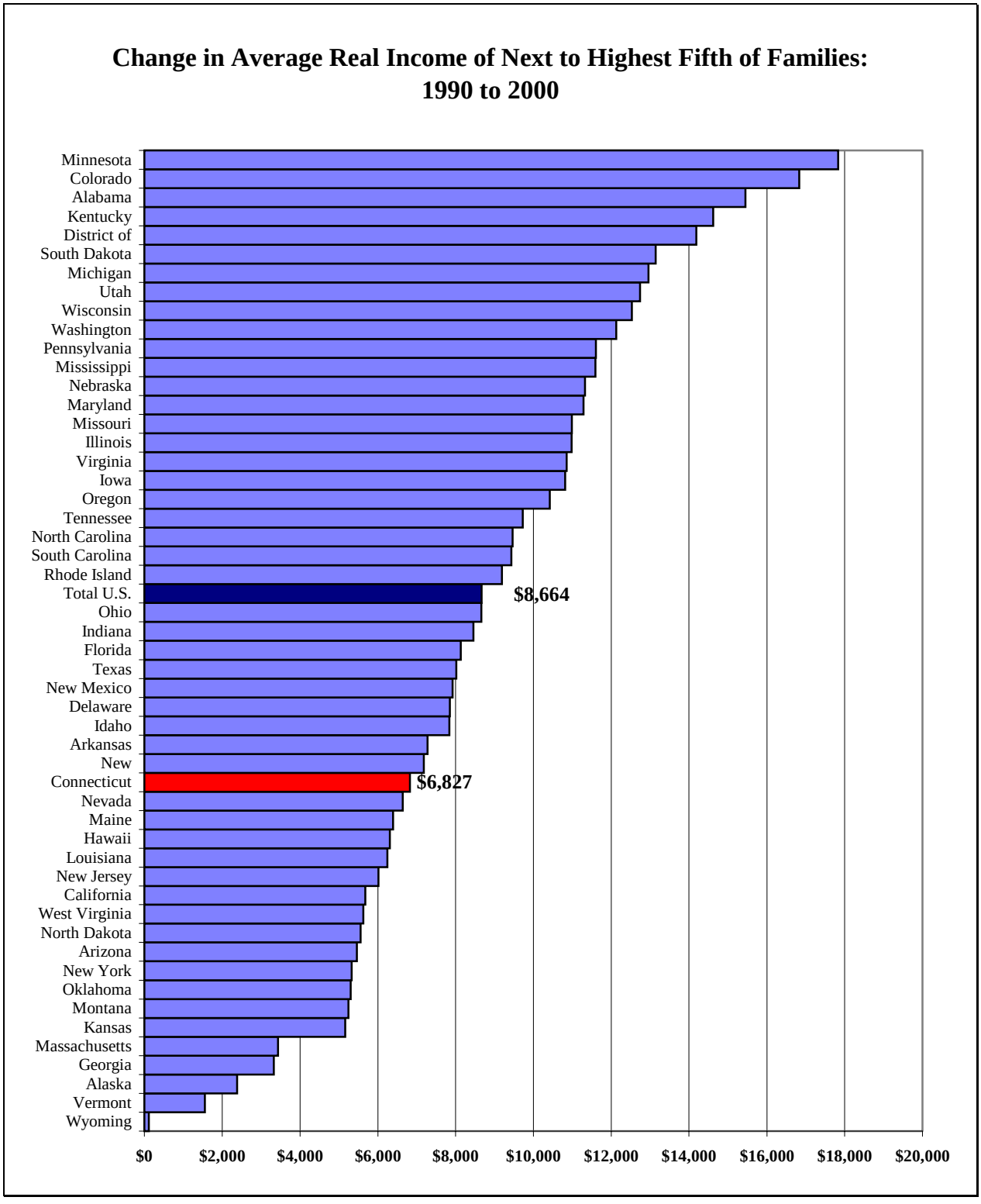
Change in Average Real Income of Next to Highest Fifth of Families:
1990 to 2000
Minnesota
Colorado
Alabama
Kentucky
District of
South Dakota
Michigan
Utah
Wisconsin
Washington
Pennsylvania
Mississippi
Nebraska
Maryland
Missouri
Illinois
Virginia
Iowa
Oregon
Tennessee
North Carolina
South Carolina
Rhode Island
Total U.S.
$8,664
Ohio
Indiana
Florida
Texas
New Mexico
Delaware
Idaho
Arkansas
New
Connecticut
$6,827
Nevada
Maine
Hawaii
Louisiana
New Jersey
California
West Virginia
North Dakota
Arizona
New York
Oklahoma
Montana
Kansas
Massachusetts
Georgia
Alaska
Vermont
Wyoming
$0
$2,000
$4,000
$6,000
$8,000
$10,000
$12,000
$14,000
$16,000
$18,000
$20,000

Figure A4

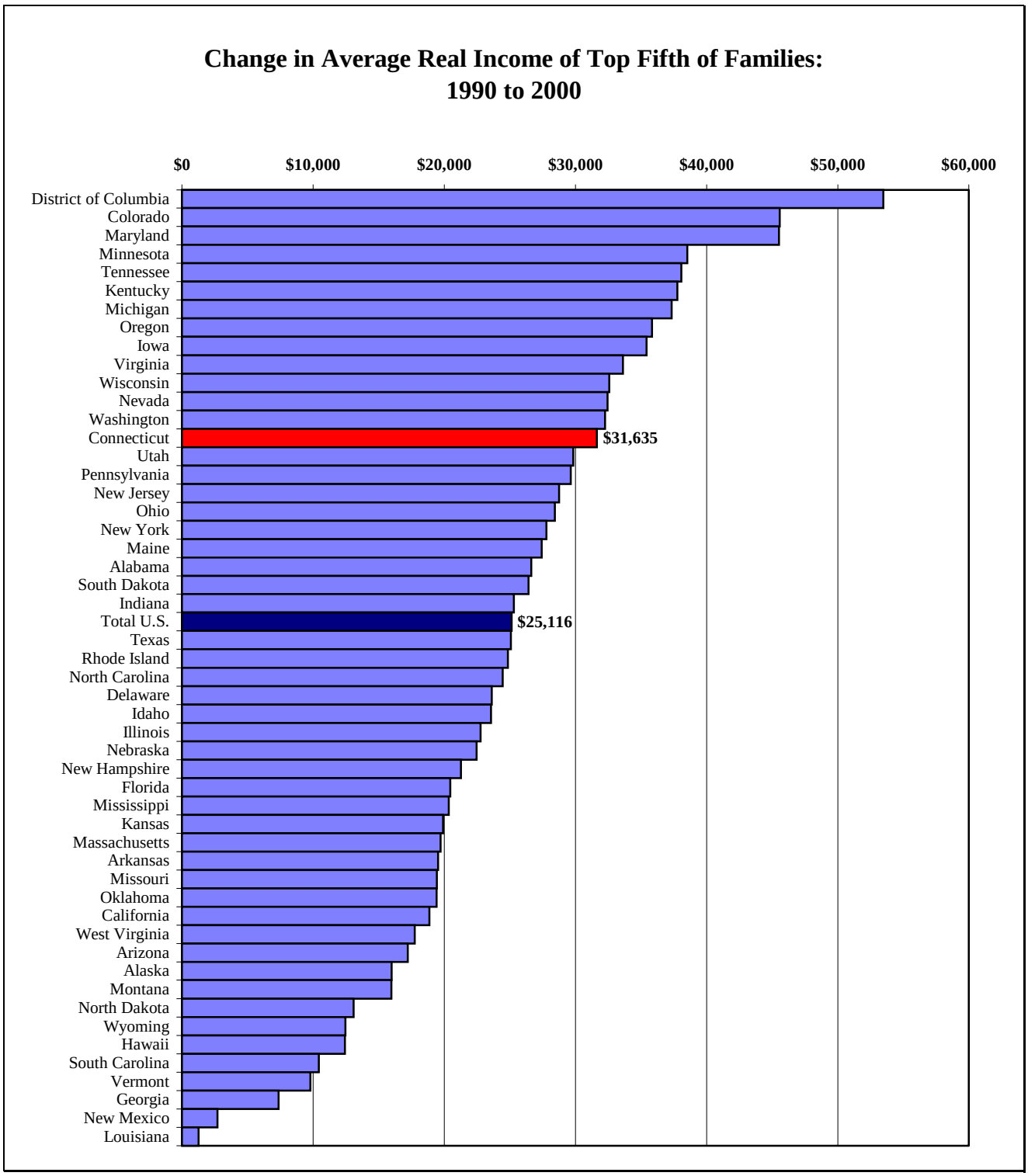
Change in Average Real Income of Top Fifth of Families:
1990 to 2000
$0
$10,000
$20,000
$30,000
$40,000
$50,000
$60,000
District of Columbia
Colorado
Maryland
Minnesota
Tennessee
Kentucky
Michigan
Oregon
Iowa
Virginia
Wisconsin
Nevada
Washington
Connecticut
$31,635
Utah
Pennsylvania
New Jersey
Ohio
New York
Maine
Alabama
South Dakota
Indiana
Total U.S.
$25,116
Texas
Rhode Island
North Carolina
Delaware
Idaho
Illinois
Nebraska
New Hampshire
Florida
Mississippi
Kansas
Massachusetts
Arkansas
Missouri
Oklahoma
California
West Virginia
Arizona
Alaska
Montana
North Dakota
Wyoming
Hawaii
South Carolina
Vermont
Georgia
New Mexico
Louisiana

Figure A5

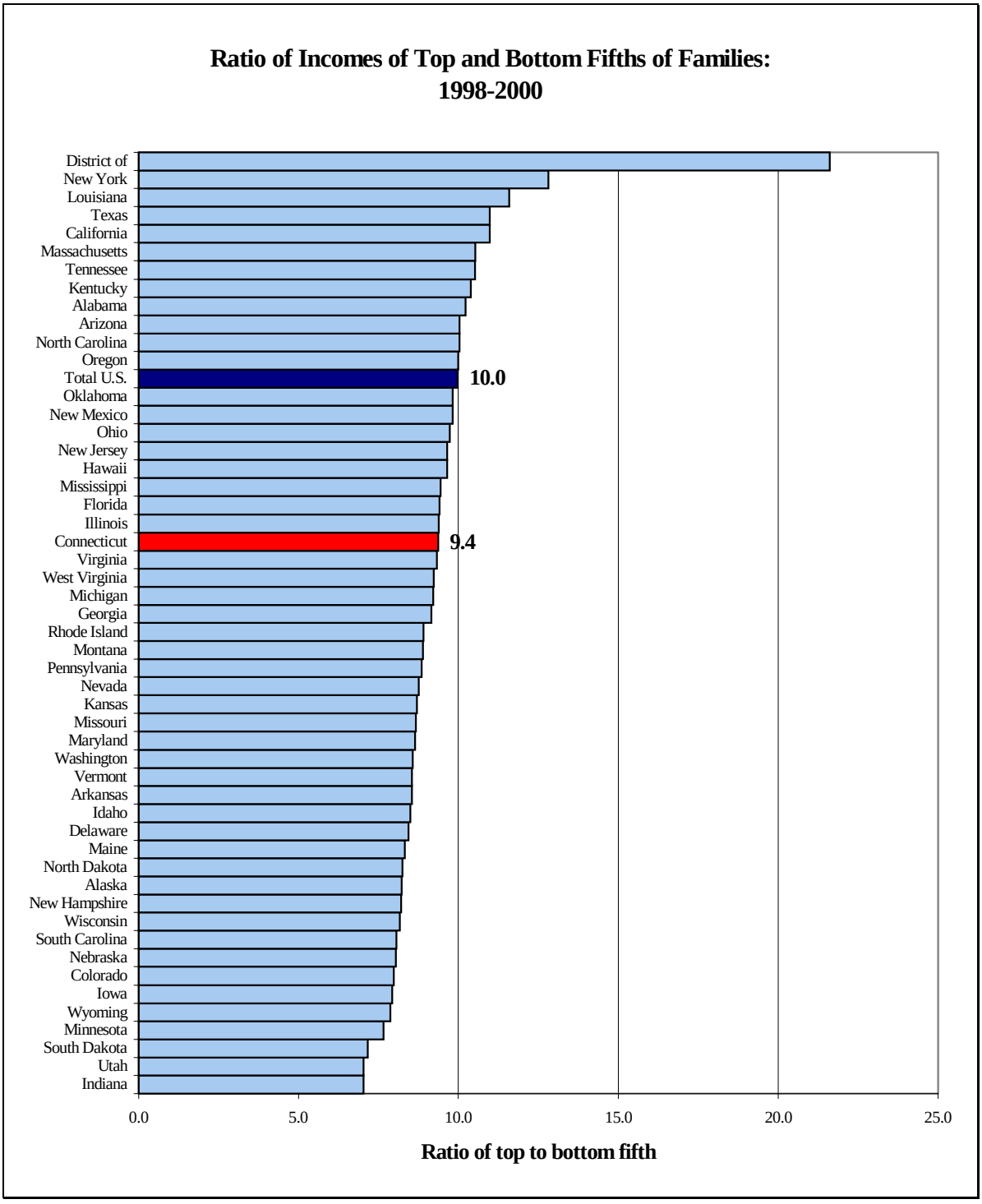
Ratio of Incomes of Top and Bottom Fifths of Families:
1998-2000
District of
New York
Louisiana
Texas
California
Massachusetts
Tennessee
Kentucky
Alabama
Arizona
North Carolina
Oregon
Total U.S.
10.0
Oklahoma
New Mexico
Ohio
New Jersey
Hawaii
Mississippi
Florida
Illinois
Connecticut
9.4
Virginia
West Virginia
Michigan
Georgia
Rhode Island
Montana
Pennsylvania
Nevada
Kansas
Missouri
Maryland
Washington
Vermont
Arkansas
Idaho
Delaware
Maine
North Dakota
Alaska
New Hampshire
Wisconsin
South Carolina
Nebraska
Colorado
Iowa
Wyoming
Minnesota
South Dakota
Utah
Indiana
0.0
5.0
10.0
15.0
20.0
25.0
Ratio of top to bottom fifth

Figure A6

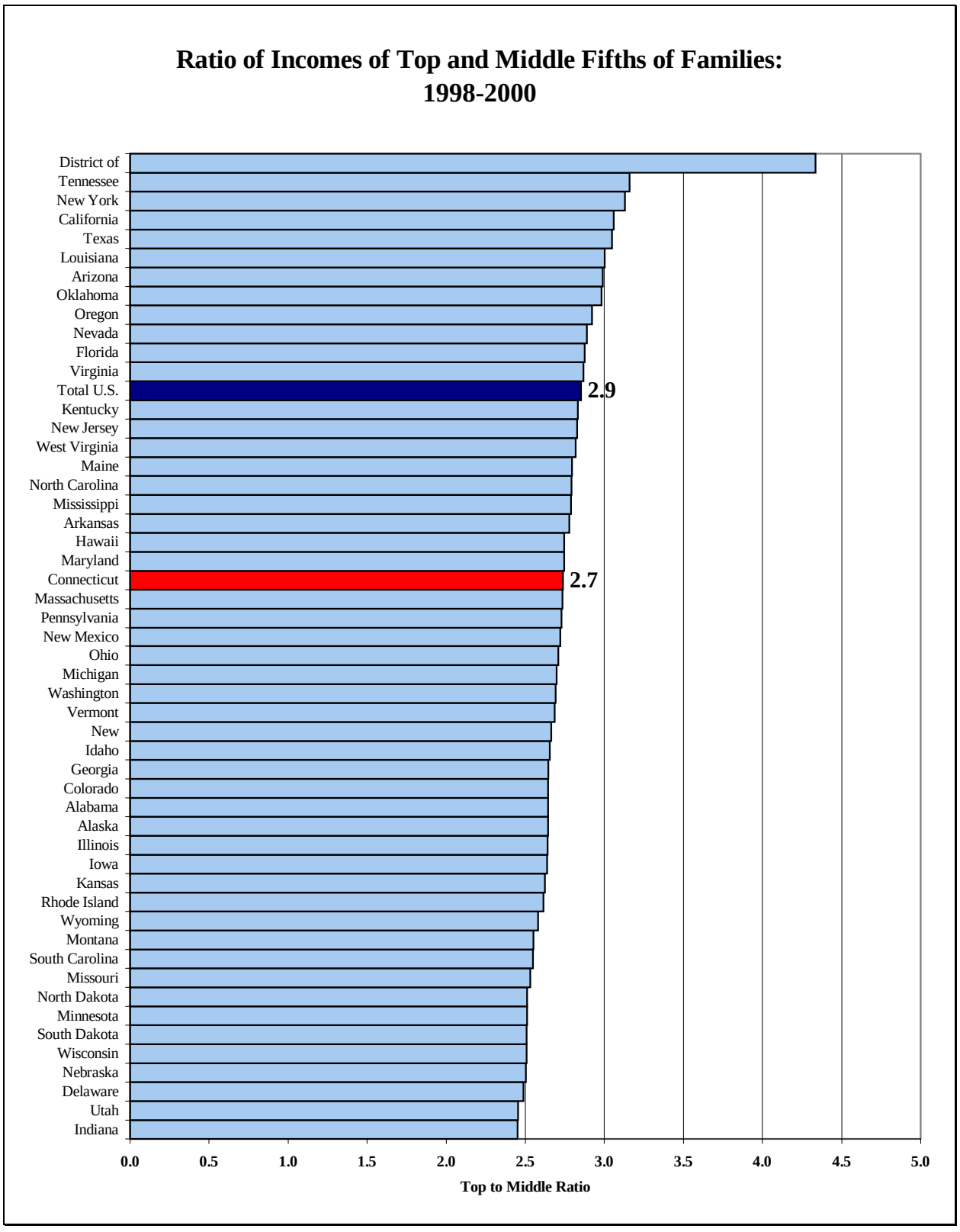
Ratio of Incomes of Top and Middle Fifths of Families:
1998-2000
District of
Tennessee
New York
California
Texas
Louisiana
Arizona
Oklahoma
Oregon
Nevada
Florida
Virginia
Total U.S.
2.9
Kentucky
New Jersey
West Virginia
Maine
North Carolina
Mississippi
Arkansas
Hawaii
Maryland
Connecticut
2.7
Massachusetts
Pennsylvania
New Mexico
Ohio
Michigan
Washington
Vermont
New
Idaho
Georgia
Colorado
Alabama
Alaska
Illinois
Iowa
Kansas
Rhode Island
Wyoming
Montana
South Carolina
Missouri
North Dakota
Minnesota
South Dakota
Wisconsin
Nebraska
Delaware
Utah
Indiana
0.0
0.5
1.0
1.5
2.0
2.5
3.0
3.5
4.0
4.5
5.0
Top to Middle Ratio

Figure A7

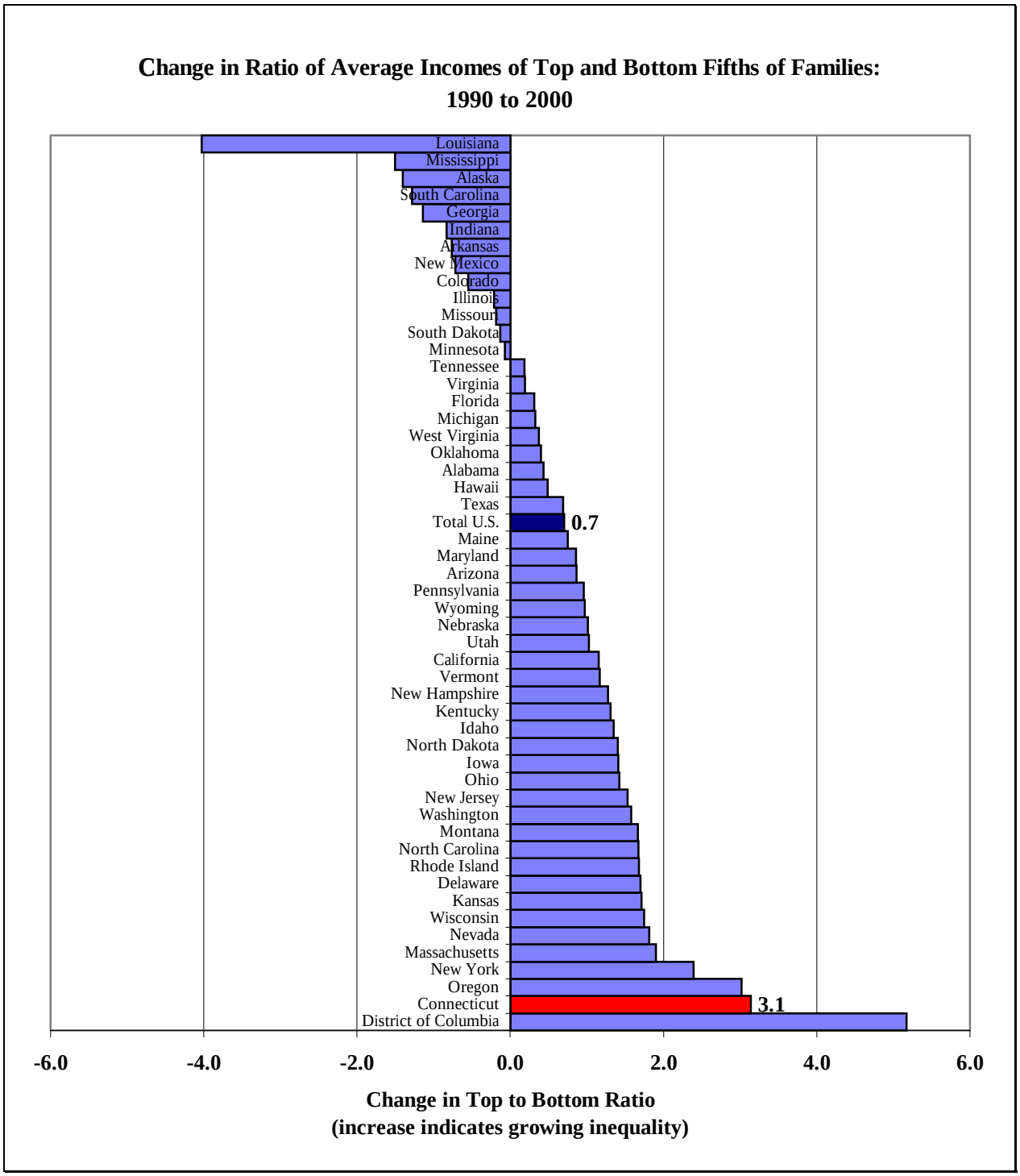
Change in Ratio of Average Incomes of Top and Bottom Fifths of Families:
1990 to 2000
Louisiana
Mississippi
Alaska
South Carolina
Georgia
Indiana
Arkansas
New Mexico
Colorado
Illinois
Missouri
South Dakota
Minnesota
Tennessee
Virginia
Florida
Michigan
West Virginia
Oklahoma
Alabama
Hawaii
Texas
Total U.S.
0.7
Maine
Maryland
Arizona
Pennsylvania
Wyoming
Nebraska
Utah
California
Vermont
New Hampshire
Kentucky
Idaho
North Dakota
Iowa
Ohio
New Jersey
Washington
Montana
North Carolina
Rhode Island
Delaware
Kansas
Wisconsin
Nevada
Massachusetts
New York
Oregon
Connecticut
3.1
District of Columbia
-6.0
-4.0
-2.0
0.0
2.0
4.0
6.0
Change in Top to Bottom Ratio
(increase indicates growing inequality)

Figure A8

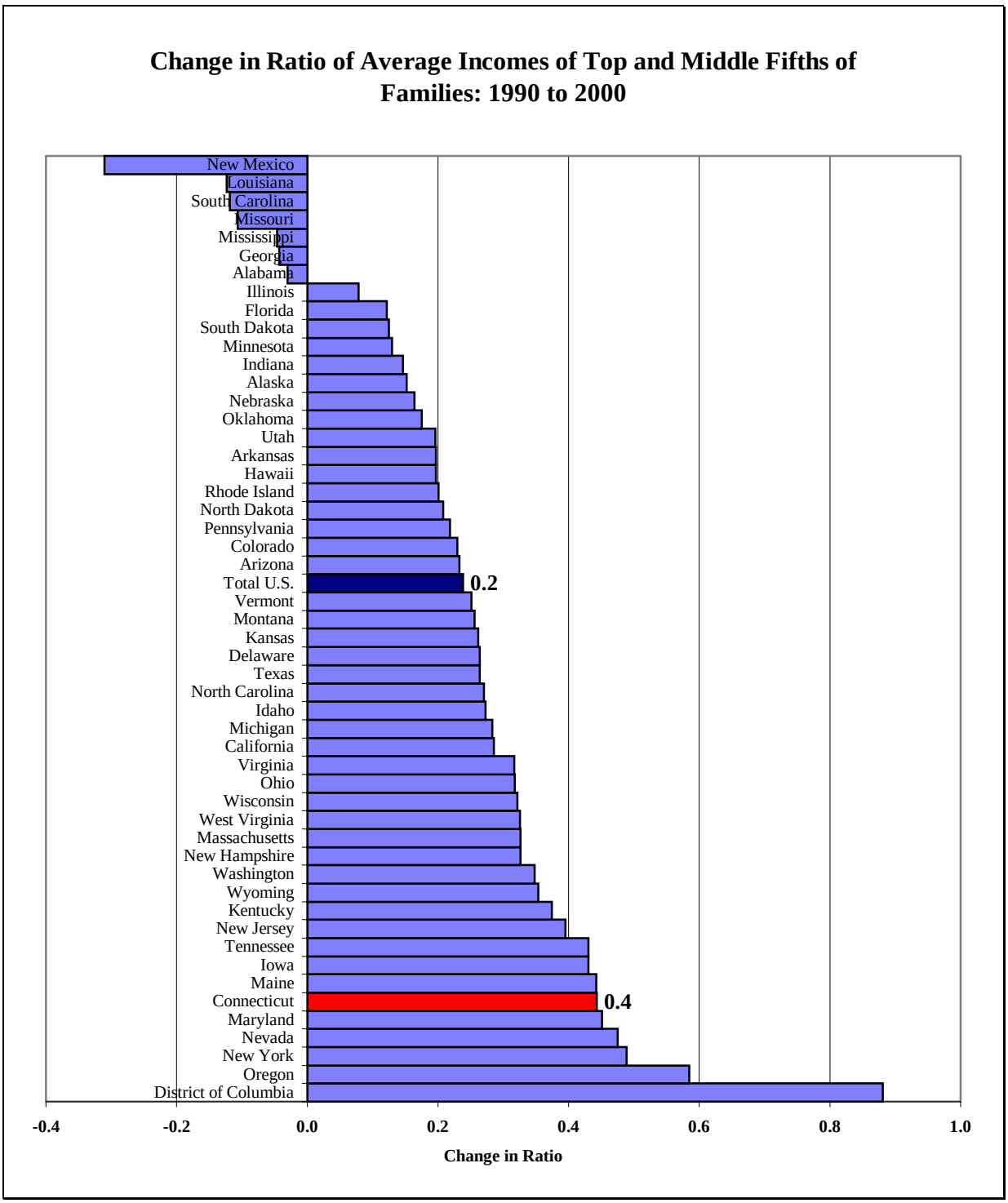
Change in Ratio of Average Incomes of Top and Middle Fifths of Families: 1990 to 2000
New Mexico
Louisiana
South Carolina
Missouri
Mississippi
Georgia
Alabama
Illinois
Florida
South Dakota
Minnesota
Indiana
Alaska
Nebraska
Oklahoma
Utah
Arkansas
Hawaii
Rhode Island
North Dakota
Pennsylvania
Colorado
Arizona
Total U.S.
0.2
Vermont
Montana
Kansas
Delaware
Texas
North Carolina
Idaho
Michigan
California
Virginia
Ohio
Wisconsin
West Virginia
Massachusetts
New Hampshire
Washington
Wyoming
Kentucky
New Jersey
Tennessee
Iowa
Maine
Connecticut
0.4
Maryland
Nevada
New York
Oregon
District of Columbia
-0.4
-0.2
0.0
0.2
0.4
0.6
0.8
1.0
Change in Ratio

Figure A9

CT Family Income Ranges: 1998-2000 (1999$)					
State	Lowest 20%	Second to Lowest 20%	Middle 20%	Next to Highest 20%	Highest 20%
Connecticut	0 - 32,000	32,000 - 54,228	54,228 - 80,200	80,200 - 111,825	111,825 +
Massachusetts	0 - 26,248	26,247 - 49,800	49,800 - 72,218	72,218 - 106,925	106925 +
New Jersey	0 - 31,448	31,447 - 53,162	53,161 - 77,000	77,000 - 113,321	113321 +
New York	0 - 22,433	22,433 - 41,443	41,442 - 63,070	63,070 - 96,000	96,000 +
Rhode Island	0 - 27,670	27,670 - 48,472	48,472 - 67,993	67,993 - 99,000	99,000 +
Total U.S.	0 - 24,328	24,328 - 41,602	41,602 - 61,309	61,309 - 91,163	91,163 +

Table A1: Income Ranges, 1998-2000

Income Quintile	1980-1990		1990-2000	
	$ Change	% Change	$ Change	% Change
Poorest Quintile	$5,801	31.8%	-$4,672	-19.4%
Next to Poorest Quintile	$9,700	26.8%	-$2,668	-5.8%
Middle Quintile	$15,138	30.3%	$1,019	1.6%
Next to Wealthiest Quintile	$21,814	33.3%	$6,827	7.8%
Wealthiest Quintile	$38,516	34.7%	$31,635	21.2%

Table A2: CT Real Family Income Changes by Quintile, 1980-1990, and 1990-2000