



Pulling Apart

Wisconsin's Growing

Income Inequality

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C O W S
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Pulling Apart: Wisconsin's Growing Income Inequality

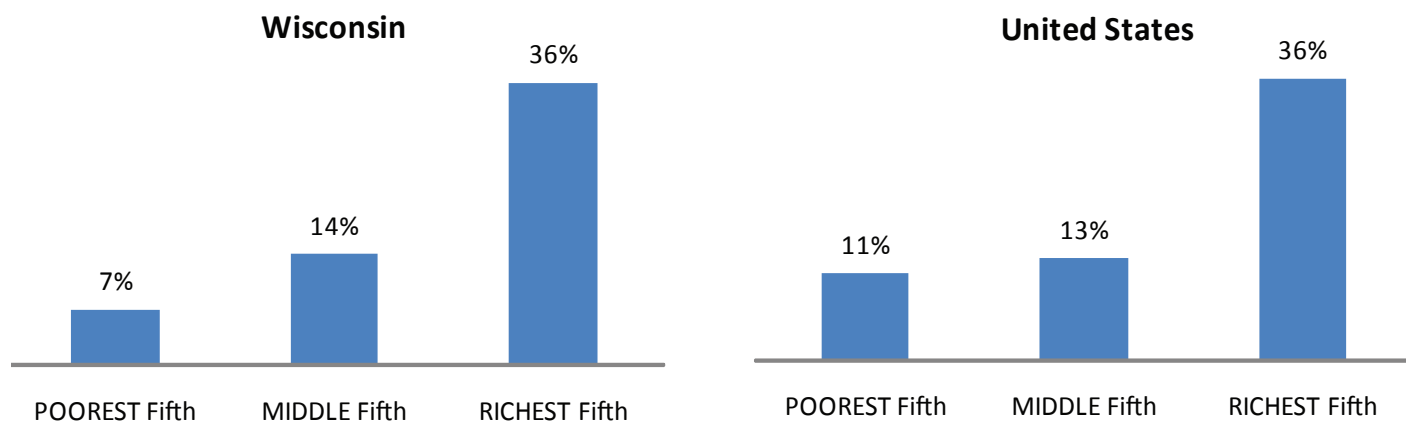
Inequality continues to grow in the United States, producing an ever-widening chasm between the rich and poor. Though consistently more equal than other states, Wisconsin does not stand apart from this trend. Indeed, since the late 1980s, Wisconsin's richest residents experienced dramatic increases in inflation-adjusted income, while gains for middle- and lower-income Wisconsinites were sluggish. In this report, we provide an overview of analysis by the Economic Policy Institute and the Center on Budget and Policy Priorities. Their report, *Pulling Apart, a State-by-State Analysis of Income Trends*, shows that from the late 1980s (1987-89) to the mid 2000s (2004-06), the average real income of the lowest-income families in Wisconsin grew by just 7 percent, while the average real income of the highest-income families grew nearly five times faster, up 36 percent.

Pulling Apart, a State-by-State Analysis of Income Trends, released April 9, 2008, analyzes trends in income and inequality within each state over the last two decades. Using Current Population Survey data from the US Census Bureau, the report provides data on earnings changes for households (two or more related people living together) in key income "quintiles" (20 percent) of the state's population. Throughout the report, all income values are inflation adjusted and expressed in 2005 dollars. Here we focus on their results for Wisconsin.

Figure 1 below summarizes the income trends for Wisconsin and the United States. Growing inequality is clear. Wisconsin's poor and middle-income residents have gained little over the past 17 years, with income rising only seven and 14 percent respectively, once inflation is taken into account. Over the same period, Wisconsin's richest residents made substantial strides forward in income, ending the period 36 percent ahead in inflation-adjusted income. As in the United States, the rising tide that has lifted the earnings for those with money has left middle and lower-income families in the state behind. Indeed, Wisconsin family income for the poorest quintile has grown lethargically compared to national family income for that group. Wisconsin's poorest families only saw a seven percent increase in income, compared to 11 percent increase nationally over the period. Up until

Figure 1

Income Changes Late 1980s to Mid 2000s, by Income Quintile



Source:
Pulling Apart, Economic Policy Institute and Center on Budget and Policy Priorities, 2008.

the early 1980s, economic growth secured income growth for families across the spectrum. The current inequality trend directly contradicts the pattern for previous generations in this state and nation.

For more information on data and methods, and results for all 50 states and the nation, see *Pulling Apart: A State-by-State Analysis of Income Trends*: www.cbpp.org/4-9-08sfp.htm.

Increasing Income Inequality in Wisconsin and the US

Trends in average real (inflation-adjusted) income for each fifth of the income distribution provide a good yardstick for measuring inequality. The national story of increasing inequality is well documented: from the late 1980s to the mid 2000s, the average real income of the poorest fifth of families grew by just \$1,814, or 11 percent. Over that same period, the richest fifth of families experienced a 36 percent income increase, with gains of \$35,027. At the very top of the income distribution—the richest five percent of the population—the story is more extreme. Income at the very top grew by nearly 60 percent (See Table 1).

Wisconsin mirrors these national trends (See Figure 2 and Table 2). From the mid 1980s to the mid 2000s, the average real income of Wisconsin families in the bottom fifth of earnings grew only 7 percent (or \$1,369). Income at the middle of the income distribution in Wisconsin grew somewhat faster but was still rather

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Table 1a

US Average Income (2005 dollars)

	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Late 1980s	16,303	44,650	97,104	138,093
Late 1990s	18,575	49,785	121,087	191,658
Mid 2000s	18,116	50,434	132,131	220,700

* Income is post-tax and includes the value of the EITC, and the cash value of food stamps, subsidized school lunch, and housing subsidies.

Table 1b

Change in Average Income (Dollar changes in bold are statistically significant at the 90% level.)

Long-term change: Late 1980s to Mid 2000s

	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Dollar Change	1,814	5,784	35,027	82,607
Percent Change	11.1%	13.0%	36.1%	59.8%
Annual Dollar Change	107	340	2,060	4,859

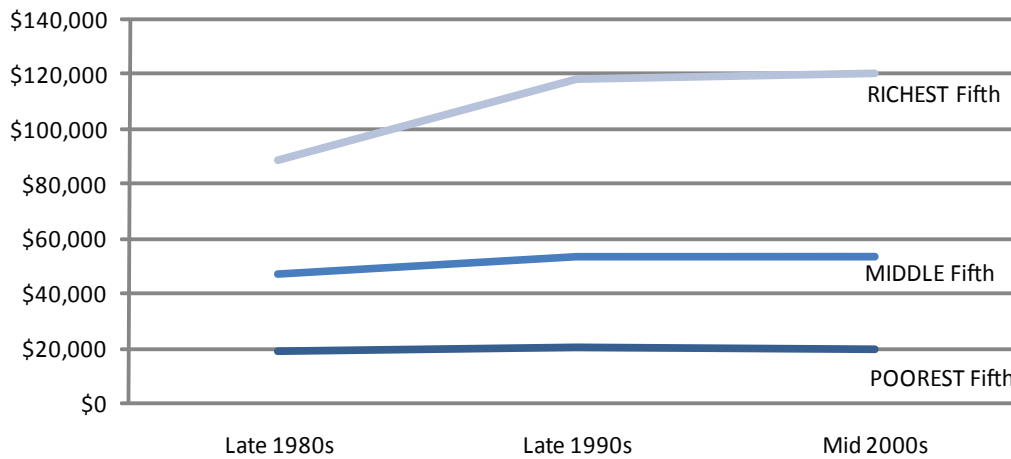
Source:

Pulling Apart, Economic Policy Institute and Center on Budget and Policy Priorities, 2008.

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Figure 2

Average Wisconsin Family Income, Late 1980s to Mid 2000s, by Income Quintile



Source:
Pulling Apart, Economic Policy Institute and Center on Budget and Policy Priorities, 2008.

Table 2a

Wisconsin Average Income (2005 dollars)

	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Late 1980s	18,704	46,706	88,840	NA
Late 1990s	20,553	53,576	118,226	NA
Mid 2000s	20,073	53,288	120,440	198,767

* Income is post-tax and includes the value of the EITC, and the cash value of food stamps, subsidized school lunch, and housing subsidies.

Table 2b

**Change in Average Income
(Dollar changes in bold are statistically significant at the 90% level.)**

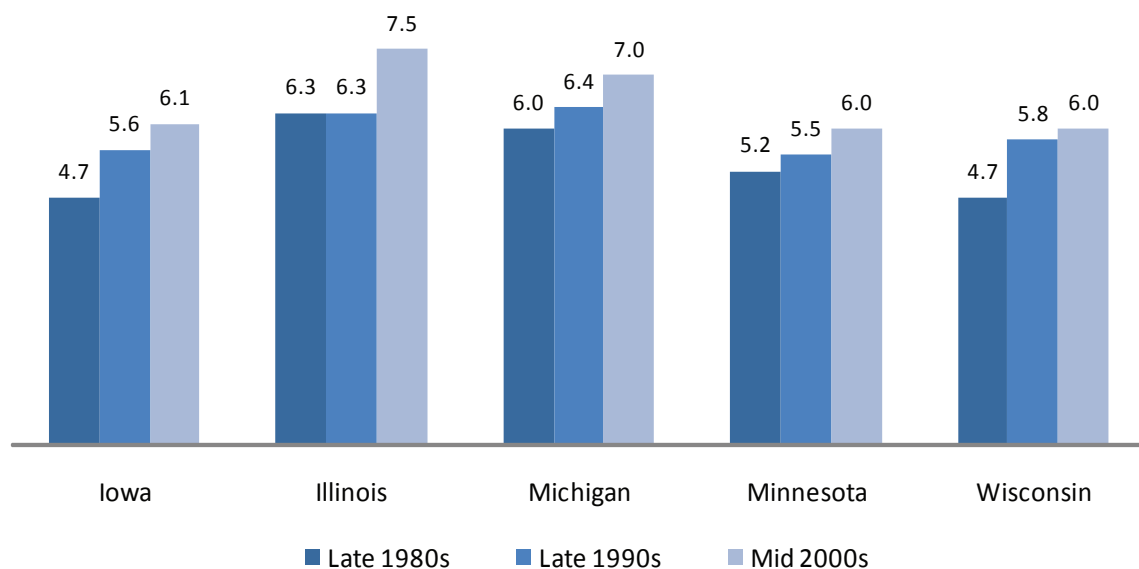
Long-term change: Late 1980s to Mid 2000s

	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Dollar Change	1,369	6,583	31,600	NA
Percent Change	7.3%	14.1%	35.6%	NA
Annual Dollar Change	81	387	1,859	NA

Source:
Pulling Apart, Economic Policy Institute and Center on Budget and Policy Priorities, 2008.

Figure 3

Inequality in the Midwest Ratio of Richest to Poorest Income Quintiles



Source:

Pulling Apart, Economic Policy Institute and Center on Budget and Policy Priorities, 2008.

sluggish, with income up only 14 percent (\$6,583) over the 17-year period. At the same time, families in the top income quintile saw their average income rise nearly 36 percent (\$31,600), to \$120,440.

Wisconsin's Income Inequality in the Regional Context

Wisconsin has traditionally had among the lowest levels of income inequality in the nation. Even after posting increases in inequality over the last twenty years, only ten states have more equal income distribution. Figure 3 shows the ratio of the income of the richest fifth of families to the poorest fifth of families. In the late 1980s, Wisconsin and Iowa posted the most equal income distribution, with the income of the richest fifth of families at 4.7 times the income of the poorest fifth of families. At that time, Illinois posted the most unequal income distribution; their richest families brought in 6.3 times the income of the poorest families in the state. Inequality has grown throughout the Midwest, and Wisconsin is no exception. Wisconsin has now reached inequality levels comparable to those of the most unequal states in the late 1980s. Those states, perhaps especially Illinois, have become even more unequal over the last 17 years. Wisconsin still looks relatively more equal than states in the region, but inequality is growing throughout the region, as in the country.

Wisconsin has traditionally prided itself on its relatively high level of equality, but our strong equality appears to be on the wane. In this data, Wisconsin ranks as the 11th most equal state (comparing the ratio of top to bottom quintiles) falling from the fifth most equal in the late 1980s. Over the past two decades, the benefits of the state's economic growth have been increasingly concentrated on our wealthiest residents. Our proud legacy of equality, and the joint commitment to building a strong state which that equality helped undergird, is in serious and troubling decline. Together, we need to pursue strategies to ensure that Wisconsin's economic growth is more widely shared.

Wisconsin Can Choose a Different Course

This report makes clear that Wisconsin remains among the most equal states in the nation, but our inequality is growing. While there is no magic bullet to rectify the situation—any more than there was a single cause—a number of steps can be taken to put Wisconsin on a course of continued high levels of economic equality.

Raise the Minimum Wage and Index it to Keep up with Inflation

In 2006, Wisconsin's minimum wage rose to \$6.50 an hour, the second of a two-part increase that began a year earlier, when the state minimum wage was increased from \$5.15 (then the federal minimum wage) to \$5.70 an hour. The increases were an important step toward boosting earnings for the lowest-paid workers in the state. However, Wisconsin can do more. By raising the minimum wage and adjusting it annually to keep pace with inflation, we can build a wage floor that rises along with prices. 10 states already annually adjust their minimum wage for inflation. Further, Wisconsin should strengthen resources devoted to enforcing the minimum wage.

Build the Skills and Education of Wisconsin's Workforce

Education and skill development can improve wages, productivity, and the state's competitive position. State and local governments in Wisconsin can help workers and employers alike by increasing the focus within the workforce development system on educational attainment and skill development.

Wisconsin can help lower-income adults advance their education and improve their chances of climbing the economic ladder—and at the same time help employers find badly needed skilled workers—by:

- expanding need-based financial aid for higher education to fully cover need in the state and creating additional resources of financial aid for working adults who are more likely to be part-time students;
- building stronger programs for working adults that connect basic education with real occupational skills;
- investing in more worksite delivery of basic and occupational skills training;
- putting a much greater emphasis on the most effective education and job training services within the W-2 program; and
- ensuring that a significant proportion of Workforce Investment Act resources go toward training in skill shortage areas.

Support Working Families

State government can help lessen the burden of income inequality by carefully structuring benefits to lower-income families and individuals to ensure that work pays. Wisconsin has historically been relatively generous in the benefits it provides and has been a leader in developing policies to make work pay. For example, Wisconsin was one of the first states to establish a refundable earned income tax credit for working parents. Nevertheless, the tax and benefits structure in Wisconsin makes it difficult for low-income families to work their way out of poverty.

The recent enactment of BadgerCare Plus is a significant step in the right direction. It helps working families by making health insurance accessible for almost all children and by removing barriers to participation for many parents, including farmers and the self-employed. Now the state needs to promote awareness of the program and should follow through on the second phase of BadgerCare Plus—the statutory commitment (currently not funded) to extend health care coverage to childless adults in households below 200 percent of the poverty level.

Another critical work support for working families is the state's child care subsidy program, Wisconsin Shares. When the state created the W-2 program, it made a commitment to fully fund Wisconsin Shares and avoid creating waiting lists, in order to keep lack of access to child care from becoming a barrier to workforce participation. Steady growth in enrollment has created a shortfall in funding for this program, and the state is considering changes that could result in waiting lists or could cut into the supply of child care providers willing and able to participate. Wisconsin needs to adequately fund the program and maintain this vitally important work support.

Continue to Modernize the Unemployment Insurance System

Unemployment insurance (UI) can be a critical safety net for laid-off workers. Its importance has grown for low-wage workers, now that the former welfare system has been largely dismantled. However, in 2006 only 49 percent of unemployed workers in Wisconsin received any UI benefits. Many low-income workers are ineligible because their jobs are more commonly intermittent, seasonal, and part-time, and less likely to qualify for benefits.

Improvements that should be considered by Wisconsin's Unemployment Insurance Advisory Council include:

- expanding eligibility to individuals available for only part-time work or work on specific shifts;
- correcting an inequity in the state law authorizing benefit extensions during periods of high unemployment, which excludes about half the potentially eligible workers; and
- providing dependent allowances (as about 12 states already do) that help support income of unemployed parents and their families.

Reform Regressive Taxes

Perversely, state and local taxes in Wisconsin increase income inequality rather than reduce it. Analysis of the burden of the combined package of taxes shows Wisconsin's tax structure to be almost regressive (*Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. Institute on Taxation and Economic Policy, 2003). The higher your income, the lower the portion of income paid for taxes.

In Wisconsin in 2002, the richest one percent of taxpayers paid 8.1 percent of their income in state and local taxes, the least by far of any income group, and only 5.9 percent after accounting for the deduction from their federal taxes. By contrast, the poorest 20 percent of taxpayers paid 10.2 percent in state and local taxes in 2002 and got no benefit from the deductibility of state and local taxes. Middle-income taxpayers paid the most, 11.9 percent, or 11.3 percent after accounting for the federal offset.

One progressive element of the state tax system is the Homestead Tax Credit, which helps lessen the burden of property taxes for many low-income homeowners and renters. However, the maximum credit has not been increased since 1991, allowing inflation to substantially erode the program. The state could also do a better job of informing families with children that they are eligible for the credit. Wisconsin should index the credit for inflation and continue working to improve outreach.

Finally, there are other tax system characteristics that place an undue burden on the poor while offering benefits to the rich, including our treatment of capital gains and the exclusion of services from sales tax. Until January 2008, some of the aspects of the tax code that are tilted in favor of the wealthy were balanced a bit by the fact that Wisconsin had an estate tax. However, that tax was allowed to lapse this year. That policy change and the current distribution of the entire package of taxes needs to be examined, as part of a comprehensive review of the adequacy and equity of state and local taxes.

Conclusion

Wisconsin's growth and prosperity are not being equally shared. The rewards of prosperity have been concentrated on the richest 20 percent of families. As a state, this should be of substantial concern, not only because of the slow growth in incomes for the remaining 80 percent of families, but also because increasing disparity comes with substantial social costs.

To prevent a deepening divide between the rich and poor in our state, Wisconsin should pursue a number of strategies:

- raising the minimum wage and indexing it to inflation;
- building the skills and education of Wisconsin's workers;
- adequately funding the child care subsidy program for low-income working families;
- promoting awareness of BadgerCare Plus and expanding it in 2009 to make health insurance available to low-income childless adults;
- continuing to modernizing the unemployment insurance system; and
- reforming regressive taxes.

Taking these steps would help keep Wisconsin's economy growing, and ensure that all residents of the state would benefit from that growth.