

PULLING APART: Income Gap Widening in New Jersey

Economic growth in New Jersey over the past 20 years has not been broadly shared by the state's residents because the wealthiest have seen their incomes rise at a much greater pace than anyone else. In other words, the income inequality gap in New Jersey continues to widen and in some respects at a faster rate than in most of the nation.

This information comes from a national report jointly released in Washington today by the Center on Budget and Policy Priorities and Economic Policy Institute. The report, *Pulling Apart: A State by State Analysis of Income Trends*, is one of the few that examines the growth of inequality in all 50 states, using US Census Bureau data to compare income from the late 1980s to the present time.

"These disturbing trends are especially important as the state faces serious budget decisions," said NJPP President Jon Shure. "Choices the Governor and Legislature face on cutting services or raising revenues can help to widen or narrow the income gap. This is the time to preserve services that help low- and middle-income families and make the tax system fairer."

TOP TO BOTTOM

Information on income disparity is calculated by dividing a state's population into five equal parts

Among the report's key findings:

- New Jersey is one of only three states where the average yearly income of the top 5% grew by an average of more than \$100,000 since the late 1980s. The others were New York and Massachusetts.
- New Jersey is one of 10 states with the largest overall increase in income disparity since the late 1980s. It ranks ninth in growth of inequality between the top and bottom, and seventh in growth of inequality between the top and the middle.
- When the ratio of income between the top 5% and bottom fifth is measured, New Jersey is one of 10 states with the widest gap.

and then comparing income trends for each group. The report also separates out the top 5%, which illustrates the striking differences between the very wealthiest and the rest.

New Jersey's picture is stark indeed. Since the late 1980s, the average yearly income of New Jersey's bottom fifth rose by 10.4%, to \$23,260 from \$21,066. During the same period, the yearly income of the top fifth rose by 44.8%—to \$175,011 from \$120,854. New Jersey is one of 37 states where the income of the top fifth grew faster than that of the bottom fifth.

The rate of income growth for New Jersey's bot-

tom fifth was just below the overall US average of 11.1%, while income growth for New Jersey's top fifth was well over the US average of 36.1%.

As for the top 5% in New Jersey, their average income rose to \$327,628 from \$171,680. That is an increase of 90.8%. This was far above the average US growth of 59.8% for that income group. In fact, among 11 large states the report analyzed, New Jersey's top 5% had the highest increase in income.

Another way to measure income inequality is by the ratio of one group's income to another. The top fifth in New Jersey makes 7.5 times what the bottom fifth made. That is the 14th highest ratio in the US. The growth in ratio of income between the top and bottom fifths in New Jersey was the ninth highest of any state.

The top 5% in New Jersey makes 14.1 times the bottom fifth—the fifth highest ratio in the US. New Jersey's top 5% has an average yearly income of \$327,628—highest in the US

TOP TO MIDDLE

These growing disparities between the highest and lowest-income New Jerseyans are serious, but the full story is even more troubling because the gap is not just between rich and poor. The income gap between the richest and those

in the middle of income distribution also continues to widen.

Those in New Jersey's middle fifth saw their income rise to an average of \$67,308 from \$58,957, or 14.2%. That was only slightly better than the bottom fifth and far less than the 44.8% increase enjoyed by the top fifth since the late 1980s. This makes New Jersey one of 35 states where the income of the top fifth grew faster than that of the middle fifth during this period.

New Jersey's top fifth makes 2.6 times more than the middle fifth, the 17th highest ratio in the US.

CAUSES

Pulling Apart discusses several causes of growing income inequality. The largest factor is the unequal growth in wages: those already at the top continue to make bigger gains than those in the middle or at the bottom. Reasons for uneven wage growth include high unemployment, globalization, loss of well-paying manufacturing jobs and growth of low-paying service jobs; fewer workers represented by unions; and the eroding value of the minimum wage.

Another cause of inequality is expansion of investment income, fueled in part by a rise in corporate profits that help shareholders, but not workers. Because of data limitations, *Pulling Apart* does not include capital gains income,

AVERAGE INCOMES OF NEW JERSEY FAMILIES

	1987-89	1998-00	2004-06	GROWTH, 1987-89 TO 2000-04
Lowest 20%	\$21,066	\$22,202	\$23,260	10.4%
Second 20%	42,585	42,511	45,080	5.9
Third 20%	58,957	61,454	67,308	14.2
Fourth 20%	75,743	82,995	90,638	19.7
Highest 20%	120,854	153,184	175,011	44.8
Highest 5%	171,680	257,459	327,628	90.8

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from US Census Bureau's Current Population Survey. In 2005 dollars.

meaning that the actual income gaps are likely even larger than the report states.

Government policies also play a role in the widening inequality gap. Deregulation, weakening of the social safety net, failure to raise the minimum wage and tax changes all work to help accelerate the growth of inequality.

STEPS NEW JERSEY SHOULD TAKE

While federal policies deserve much of the blame for income inequality, there are things states can do to ease the problem. Specific steps that would help in New Jersey include:

- Raise the state minimum wage and automatically increase it yearly to adjust for the rising cost of living. New Jersey's Minimum Wage Commission in December recommended an increase this year to \$8.25 an hour from the current \$7.15, and called for raising it annually so it never falls below half the state average wage.
- Increase the threshold for paying state income tax. Today, New Jersey families owe no state income tax if they earn less than \$20,000. Increasing that to \$30,000 would help those families advance economically and it would build on the progress made last year when the state Earned Income Tax Credit was expanded.
- Revisit state income tax cuts. The state income tax cuts of 1994-96 continue to deprive the state of much-needed revenue and worsen the impact of a state and local tax system that requires low- and middle-income households to pay a higher percentage of their income in taxes than the wealthiest households pay. Some progress was made when the state income tax was increased in 2004 on incomes over \$500,000. The logical next step is to adjust upward the tax brackets for other six-figure households.
- Improve education, skills training and work

readiness. A recent report by NJPP and the Center for Women and Work at Rutgers University, *Climbing the Ladder: How to Invest in New Jersey's Working Families*, offered a number of key recommendations. They included restoring eligibility for New Jersey FamilyCare health coverage to more parents; expanding eligibility for state subsidized child care and providing funding to eliminate waiting lists; making more adult education courses available; helping welfare recipients become self-sufficient instead of just finding a job; and making county colleges more affordable and accessible to low-income working adults.

WHY IT MATTERS

From the end of World War Two to the 1970s, everyone's income in the US grew at about the same yearly rate. The changes came in the 1970s, when income and income growth became increasingly concentrated among the relatively small group of highest income households. Studies have shown income inequality leads to poor health outcomes, and widening disparity in such areas as affordable housing and educational opportunity.

Economist Robert Frank has written recently of the stresses on lower- and middle-income households caused by the consumption patterns of the wealthiest. In his recent book, *Falling Behind*, Frank noted, for example, that the median size of houses built in the US has grown significantly since 1980 even though real family income has changed little. He wrote, "Increased spending at the top of the income distribution has...raised the cost of achieving goals that most middle-class families regard as basic."

In assessing the income inequality situation, Frank observed, "When market forces cause

inequality to grow, public policy in most coun-

tries pushes in the opposite direction. That was also once the pattern in the United States. But more recently, we have responded by cutting taxes for the wealthy and reducing services for the needy. Historians will someday struggle to explain this puzzling reversal.”

Policymakers in New Jersey and the nation can ill afford to stand by and watch income unequal-

ity continue to worsen.

The entire **Pulling Apart** report by the Economic Institute and the Center on Budget and Policy Priorities can be viewed at: <http://www.cbpp.org/secure/4-9-08sfp.htm>.

New Jersey Policy Perspective

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