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ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

PAYCHECK$ and POLITICS

Arkansas Advocates for Children & Families
Issue 39: August 2006

Income Inequality in Arkansas:

The Rich Get Richer and the Poor Get Poorer

by Rich Huddleston

Summary

Over the past two decades, the benefits of economic growth have been skewed heavily in favor of Arkansas' wealthiest families. Income inequality is shown by dividing the population into five categories by income level with 20 percent in each. By doing so, the research shows:

- From the early 1980s to the early 2000s, adjusted for inflation, the average incomes for Arkansas' poorest 20 percent of families grew by just $2,864 (26 percent), while the incomes of the wealthiest 20 percent of families grew by $36,508 (61 percent).
- In the early 2000s, the richest 20 percent of Arkansas families had average incomes that were 6.9 times that of the poorest 20 percent of families, up from a ratio of 5.4 to 1 in the early 1980s.
- In the early 2000s, the richest 20 percent of families had average incomes that were 2.6 times that of middle-income families, up from a ratio of 2.1 to 1 in the early 1980s.
- In the early 2000s, the income gap in Arkansas between the richest 20 percent of families and that of the poorest 20 percent was the 21st largest in the nation. The gap between the richest and middle-income families was the 11th largest.
- Income inequality would have been much worse without government programs and taxes. Without these programs, the gap between our richest and poorest families would have been nearly 11 to 1, compared to 7 to 1 with these programs.

Recent increases to the minimum wage and expansion of government programs have helped reduce this gap some, but more needs to be done. Arkansas should consider changes, such as adopting a state earned income tax credit or a food sales tax rebate, to improve fairness and reduce inequality.

Introduction

John F. Kennedy once said that "a rising tide lifts all boats." However, while the U.S. and Arkansas economies have grown significantly over the past two decades, the wages for all working families have not grown, especially for low income families. In fact, the rich are becoming richer, and the poor are becoming poorer. These trends raise critical issues for our society, including: to what extent have low- and middle-income families benefited from economic growth? Why does inequality matter for families: And what, if anything, should we do about it?

Income Inequality Increases between the Poor and Rich

National economic trends show economic growth has primarily benefited our wealthiest families. Income inequality can be shown by dividing families into 5 categories by income level with 20 percent in each. From 1979 to 2001, the after tax income of the poorest fifth (20 percent) of families rose 9 percent, the income of the middle fifth rose 17 percent, while the income of the top fifth of families rose an eye-popping 139 percent, according to the Congressional Budget Office.[1]

In Arkansas, the trend was the same. The average income of the poorest fifth of families increased by $2,864, from $11,024 in the early 1980s to $13,888 in the early 2000s – an increase of $135 a year. In contrast, incomes for the richest fifth increased by $36,508 from $59,927 to $96,435 – an increase of $1,740 a year.[2] The richest Arkansans saw an increase nearly 13 times greater than that of our poorest families.

One measure of the income gap between rich and poor is the ratio of the average income of the top income group to the bottom group, and the second measure is of the top group to the middle income group. The ratios confirm that inequality is rising:

- In 2001–03, the average income of the top fifth of Arkansas families ($96,435) was 6.9 times that of the bottom fifth of Arkansas families ($13,888). In 1980-82, this same ratio was only 5.4.
- In 2001–03, the average income of the top fifth of Arkansas families ($96,435) was 2.6 times that of the average income of the middle fifth of Arkansas families ($36,608). In 1980–82, this same ratio was only 2.1.

The reason for the growing gap in income inequality is that the wages earned by low- and middle-income families have not kept pace with the much faster growing wages and incomes of higher income families. Wages have eroded for the 70 percent of workers with less than a college degree. This erosion is the result of a number of economic factors including: globalization, longer periods of high unemployment, the declining manufacturing base and the expansion of low-wage service jobs, and the lower real value of the minimum wage. Another factor is the increase in the number of single parent families who must live on one family income rather than two incomes. At the upper end, wealthier families have benefited from growing investment incomes over the past 2 decades.

Government Policies Reduce the Gap

Income inequality would have been much worse without government programs and taxes, according to a study by the Center on Budget and Policy Priorities and the Economic Policy Institute. Their analysis used adjusted income measures to account for the impact of government programs such as food stamps, subsidized school lunches, housing vouchers, and taxes (including the Earned Income Tax Credit). It also included income from capital gains, the income resulting from the sale of an asset such as a house or stocks and bonds.

According to the CBPP/EPI study, the 2001–03 pre-tax income (income before government programs) of the top fifth of Arkansas families was $127,795, compared to $11,499 for the bottom fifth of Arkansas families.[2] This represents a ratio of 11 to 1. After government programs, the average income of the top fifth of Arkansas families was $96,435, compared to $13,888 for the bottom fifth, a ratio of nearly 7 to 1.

Government programs have helped level the playing field in Arkansas. Without them, the top to bottom ratio would have been 11 to 1, the 6th largest income gap in the nation. After the impact of taxes and programs, Arkansas had the nation's 21st highest income gap ratio at 6.9 to 1, slightly below the national average of 7.1 to 1. Even after taxes and government programs, the richest 20 percent of families received 44 percent of all income, compared to just 6 percent for the bottom 20 percent.

Income Trends for Arkansas Families

1980-82 to 2001-03, by Fifths of Families

	Average Income (in 2002 Dollars)			Change in Average Incomes			
	1980-82	1990-92	2001-03	1980-82 to 2001-03		1990-92 to 2001-03	
Fifth of Families				$ Change	% Change	$ Change	% Change
Top 20%	$59,927	$76,565	$96,435	$36,508	60.9	$19,870	26.0
4th 20%	$37,328	$43,833	$51,471	$14,143	37.9	$7,638	17.4
Middle 20%	$28,125	$31,869	$36,608	$8,483	30.2	$4,739	14.9
2nd 20%	$20,387	$22,785	$25,192	$4,805	23.6	$2,407	10.6
Bottom 20%	$11,024	$12,224	$13,888	$2,864	26.0	$1,664	13.6

Note: Incomes are after the impact of taxes and other government programs.

Source: "Pulling Apart: A State-by-State Analysis of Income Trends," Center on Budget and Policy Priorities and Economic Policy Institute, January 2006.

Many People Do Not Move Up

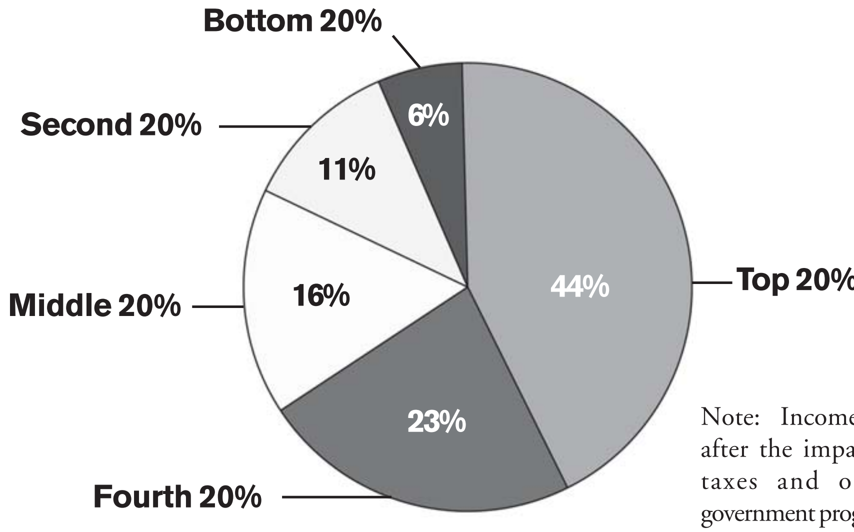
Some dismiss these trends by arguing that inequality is not a problem because people simply move up the income ladder over the course of their lives. However, there is not as much income mobility as commonly believed.

For example, according to one study, the sons of fathers in the bottom three-quarters of the socioeconomic scale were much less likely to move up the income ladder in the 1990s than in the 1970s.[3] In 1973, 23 percent of the sons of fathers from the bottom three-quarters eventually moved up to the top quarter. By 1998, only 10 percent of sons from the bottom three-quarters were able to move up to the top quarter.

In the 1970s, 49.1 percent of families in the second poorest fifth moved into a higher group. By the 1990s, only 46.8 percent of those from the second poorest group were able to move up – not a great mobility rate for low-income workers.[3]

Share of Arkansas Income Received

by Fifths of Arkansas Families, 2001-03



Note: Incomes are after the impact of taxes and other government programs.

Source: AACF estimates based on data from "Pulling Apart: A State-by-State Analysis of Income Trends," Center on Budget and Policy Priorities and Economic Policy Institute, January 2006.

The Impacts of Inequality

Some observers are not all that concerned about rising income inequality. After all, the root of the American dream is that no matter where you start your life, or no matter what your family's economic background, you can move to the top by hard work. Our economic system is based on the idea that those who create economic growth should benefit from it.

Most people don't care about income inequality just because it is a concept used by economists and others to describe who is winning and who is losing in today's economy. Inequality is important, however, when it has real consequences for the day–to–day lives of real people. As a new book by Demos recently pointed out, people "care deeply…about work that doesn't pay enough to pay the rent; the exploding numbers of the uninsured; the wave of corporate backsliding on pensions and retirement benefits; the growing class divide in higher education; the syndrome of middle-class working parents with no time for their children (to say nothing of church, the PTA, or the volunteer fire department); and the routinized brazen power of money over the political process." [4]

When the gains from economic productivity are skewed upwards to our richest families, low- and middle-income families are less likely to benefit from overall economic growth. Rising inequality reduces social unity, trust in our state and national governments and other institutions, and participation in the democratic process. It also increases the discrepancies in political influence.

One of the most important consequences is that it impacts how families at different income levels interact. With growing inequality (especially in the ability to buy more segregated high priced housing), our wealthiest families have increasingly less contact with, and less knowledge of the day–to–day problems faced by low- and middle-income families. This reduces the political will necessary to make the investments needed to deal with those issues. Consequently, even as our nation's ability to pay taxes increases, there is less willingness to make the investment in programs – such as health care, child care, K–12 education, housing, and higher education – that are critical to helping low-income families move up the economic ladder.

Rising income inequality, when accompanied by slow growth in the incomes of our poorest families, impacts the future of our children. Children who grow up in poor families with incomes below the poverty line are more likely to have poorer health outcomes, higher rates of learning disabilities, and poorer educational achievement than non-poor children. As adults they are less likely to be employed and move up the economic ladder.

A recent study by the *New York Times* and data by the Federal Reserve Bank of Boston shows that 75 percent of Americans believe that the chance of moving up the ladder has risen in the last 30 years.[1] The research shows this has not been the case. The poll numbers also indicate that Americans realize the playing field is not level and overwhelmingly support "programs that make special efforts to help people from low-income backgrounds get ahead, regardless of gender or ethnicity."[5]

Ways to Reduce Inequality

While little can be done on the state level about the macroeconomic changes such as globalization and the economic shift to services jobs, states can implement policies and programs to alleviate the effects of income inequality – to give those who need it a hand up. For example states can: increase the minimum wage, strengthen supports for low-income working families, and pursue tax policies that can offset the inequality of pre-tax incomes.

Arkansas has fared well in adopting some of these changes. In a special legislative session in April of this year, the Arkansas General Assembly passed a bill increasing the minimum wage from the federal level of $5.15 an hour (the rate at which a worker working full-time made approximately $10,700 a year) to a higher minimum wage of $6.25 an hour. This increase of $1.10 an hour will add more than $2,200 a year to a full-time minimum wage worker's paycheck, narrowing the gap.[6] While this is a great first step, future increases to the minimum wage should be considered.

Arkansas has not fared as well when it comes to tax changes. Arkansas' state and local tax system is highly regressive, meaning that those who make the least pay the most in state and local taxes (as a percentage of income).[7] The poorest 60 percent of Arkansas taxpayers pay twice as much in state and local taxes than do the richest one percent of Arkansas taxpayers (12 percent of their income versus only 6 percent for the top group).

There are a variety of ways the state could make the tax system more fair for low- and middle-income families including: establishing a state earned income tax credit (EITC); reducing the reliance on sales taxes, especially taxes on groceries, that place a significantly higher burden on low-income working families; and exempting families below the poverty line from paying state income taxes. The state could increase taxes that are more progressive than sales taxes including: raising personal and corporate income or property taxes, restoring the state estate tax, closing corporate income tax loopholes, and raising severance taxes.

Finally, more could be done to provide support for working families. One prime example, although by no means the only one, would be to improve the accessibility and affordability of health care for low- and middle-income families. Arkansas has made significant progress on the health care front for children with the ARKids First program for children with family incomes below 200 percent of the poverty line. As a result of ARKids First and outreach and policy initiatives, the uninsured rate for children has been cut nearly in half – down to 9 percent. However, given the rate at which our private employers are dropping health care coverage or raising the costs for employees, more needs to be done on the health care front for children, especially for kids in the 200–300 percent of poverty range. Similarly, more needs to be done to help parents. While Arkansas recently received federal approval for a Medicaid waiver to establish a limited program for working adults, it is expected to serve no more than 50,000 people, a small population given declining trends in employer provided health care coverage.

By adopting changes to the minimum wage, the tax system, and programs that help low-income families, the income gap between the rich and the poor would lessen and the rising tide would begin to lift all boats. Current government programs have helped reduce this gap some, but more needs to be done to help low-income working families and their children.

References

1. Janey Scott and David Leonhardt, "*Shadowy Lines that Still Divide*," *The New York Times*, May 15, 2005.

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5. New York Times Poll, Class Project, March 3–14, 2005. The breakdown for this question was 84 percent favor, 10 percent oppose, and 6 percent didn't know or didn't answer.

6. See "Workers, Businesses and the Minimum Wage in Arkansas," Arkansas Advocates for Children & Families, *Paychecks and Politics*, Issue 32: December 2005.

7. See "Is it Time for an Arkansas Earned Income Tax Credit?," Arkansas Advocates for Children & Families, *Paychecks and Politics*, Issue 27: December 2004. Also, see "The Impact of 2003–4 Tax Changes on Arkansas Families," Arkansas Advocates for Children & Families, *Paychecks and Politics*, Issue 25: November 2004.

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Funded by the State Fiscal Analysis Initiative (SFAI) project. The views of this report are those of the author and do not reflect that of the funders.