

INCOME INEQUALITY IN NEW JERSEY: The Growing Divide and Its Consequences

The Inaugural Annual Report from the
Legal Services of New Jersey Poverty Research Institute

July 2012



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Legal Services of New Jersey Poverty Research Institute

Legal Services of New Jersey heads a statewide system of seven non-profit corporations that provide free legal assistance in civil matters to low-income people in all 21 counties. The Poverty Research Institute (PRI) was established by LSNJ in 1997 to create greater public awareness of poverty's scope, causes, consequences, and remedies, as a way to help alleviate some of the legal problems of those living in poverty, and thereby help meet LSNJ's core mission of addressing those legal problems. It is the first and only entity exclusively focused on developing and updating information on poverty in the state. LSNJ's PRI conducts systemic research on the incidence, effects and other aspects of poverty—as well as the relationship among poverty, work, and public policy—and makes its findings available to the public.

Information on PRI can be found at www.lsnj.org/PRI. For further questions, please email pri@lsnj.org or call 732-572-9100. To submit comments or ideas in response to this report, please email pri@lsnj.org.

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Introduction

Overview

For many years, Legal Services of New Jersey's Poverty Research Institute (PRI) has documented the extent and consequences of poverty in New Jersey, while also illuminating contributing factors and possible solutions. With this report, we return to the challenge of income inequality, which increased in New Jersey and nationally over the last decade. We provide available data concerning the increase in income inequality from 2000 to 2009, showing how the income gap between the highest and lowest fifths ("quintiles") of the state's population has widened. More than three-quarters of the additional income generated for New Jersey households during this decade went to the top 20 percent of households.

While PRI has published prior, episodic studies on inequality, this report inaugurates a planned new annual series of inequality audits. In so doing, we acknowledge that income inequality—as distinguished from measures of poverty—is itself inherently important. Especially in a very high-cost state like New Jersey, income inequality and the increase of income and wealth in the highest fifth of households can be a major factor in driving the cost of living still higher, putting essentials further beyond the reach of those with lower incomes.

New Jersey's experience tracks that of the country as a whole. National studies pinpoint an upswing in income inequality in the United States since the late 1970s. By 2007 the income gap between the well-to-do and the hard-pressed was larger than at any period since the 1920s. Although during the period of the Great Recession the size of the income gap slightly and briefly decreased, it increased again in 2010 and remains strikingly large historically. Other studies note growth in wealth inequality during the past three decades, which is even more pronounced than the gaping income disparities.

Studies increasingly confirm our intuitive sense that income inequality is harmful, inhibits opportunities and, ultimately, is likely to be detrimental to the well-being of families in the lower income groups.¹ As the middle class shrinks and the number of people living in poverty or near-poverty increases, their chances of climbing the ladder of economic success is likely to diminish. That, in turn, increases the likelihood that not only they, but also their children in the future, will have diminished lives in which they are more likely to experience substandard health care, inferior childcare, food insecurity, housing instability, poor education, and other indicia of inadequate resources.

The bulk of income gains between 2000 and 2009 have been to the one-fifth of households with the largest incomes, who are now pulling in more than half of all income. Even within that group there was disparity; its prime beneficiaries have been those in the top one percent of all incomes. Furthermore, female-headed households, blacks or African Americans, Hispanics, and people with a high school education or less were disproportionately represented in the 20 percent of households with the lowest incomes. The conditions of these groups could become even more precarious. With already high and increasing poverty levels among these groups, their standards of living may be

headed for further decline, consistent with decreased opportunities for moving up and escaping the ranks of the impoverished.

Research Approach

Unlike past Poverty Research Institute Poverty Benchmarks reports, which focus primarily on people with low incomes who live in poverty, this report examines the full distribution of income groupings in New Jersey. Using U.S. Census data, it shows how income distribution in New Jersey changed over the last decade and compares how different socio-demographic groups fared and to what extent each group's share of total income changed.

To analyze changes in income distribution in New Jersey, this study draws on data from the housing and population records of the 2000 and 2009 American Community Survey PUMS database. Because the PUMS data set provides a sample of all the actual data variables collected in the annual American Community Survey, it allows the building of tables not provided in the Census Bureau's annual American Community Survey data releases. In addition, to portray trends in income at the national level, the report draws on a number of widely accepted sources²—the Congressional Budget Office³ and the World Top Incomes Database. Missing is data on wealth inequality in New Jersey. Unfortunately, reliable and easily accessible data also are not available at the state level. This study does, however, draw on research produced by the Economic Policy Institute⁴ to show changes in wealth inequality in the United States.

A number of alternative measures can be used to calculate income inequality. Three categories, in particular, are most common:⁵ a. shares of income—for example, the percentage of income held by the top quintile; b. ratios—for example, the ratio of income at the top quintile to that of the bottom quintile; and c. one-number summary statistics—for example, the Gini coefficient.⁶ In order to highlight differences and compare groupings within the population by income, this report uses the first two measures only. The Gini coefficient does not lend itself to this type of analysis.

Report Organization

After a summary of the principal findings, the report first examines the existing evidence on how income inequality matters: the ways in which the sheer fact of the inequality, and particularly the breadth between the highest and lowest groups, exacerbates the conditions and hardships of poverty. Detailed presentation and analysis of each of the findings then follows, and the report concludes with a section on the evidence pertaining to possible remedial actions.

Acknowledgements

Allan Lichtenstein, director of LSNJ's Poverty Research Institute, researched and authored this report. PRI staff Shivi Prasad and Anjali Srivastava provided review and advice. LSNJ editor emeritus Harvey Fisher edited the final version. Sue Perger, indomitable head of LSNJ's print and web publications, handled the layout and final edits.

Melville D. Miller, Jr., President and General Counsel
Edison, New Jersey
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Principal Findings and Conclusions

➤ *This study shows that in New Jersey income inequality increased during the last decade:*

Only the Top Quintile Gained Income Share

- The top income quintile—one-fifth of the state’s households with the highest incomes—was the only group to increase income share between 2000 and 2009:
 - Between 2000 and 2009, the income share of those 20 percent of households with the highest incomes increased from 48.6 percent to 50.2 percent; all others, the bottom 80 percent, lost income share.
 - In fact, the top one percent of households reaped the bulk of this increase in income share.

The Top Quintile Gained the Bulk of the Additional Income Generated

- 77 percent of all the additional household income generated in New Jersey between 2000 and 2009 accrued to the top 20 percent or richest households.
- Total household income held by each of the bottom or poorest two quintiles decreased between 2000 and 2009.

Mean Household Income Only Increased for the Highest Income Earners

- Within the top 20 percent, the increase in the average income alone of the top one percent far outstripped that of any other income group:
 - Mean household income increased by 22 percent for the richest households between 2000 and 2009, and by almost 5 percent for the richest quintile.
 - On the other hand, it declined for the bottom, second, and middle quintiles.

Widening Income Inequality is Disproportionately Increasing for Already Vulnerable Groups

- As income inequality increased, its impact was disproportionately higher for the already vulnerable groups in society. Within the bottom household income quintile, the share of female-headed households, blacks or African Americans, Hispanics, and people with lower levels of education grew by far more than it did for married-couple families, white non-Hispanics, and people with university education.

Growing Income Disparities between Household Types

- One-third of all the people in the bottom income quintile lived in female-headed households with no husband present in 2009, more than for any other household type.
- In contrast, more than 86 percent of all the people in the top income quintile lived in married-couple families in 2009.
- There were more than five times more people living in households with married-couple families in the top quintile than in the bottom quintile in 2009. On the other hand, there were almost four times more people living in female-headed households with no husband present in the bottom quintile than in the top quintile.

Widening Income Inequality among Racial and Ethnic Groups

- Non-Hispanic blacks or African Americans were disproportionately represented in the bottom income quintile—their share increased from 21.5 percent to 22.1 percent between 2000 and 2009. Moreover, there were more than twice as many non-Hispanic blacks or African Americans in the bottom income quintile than in the top quintile in 2009. Non-Hispanic blacks were the only group to lose share in the top income quintile between 2000 and 2009.
 - Hispanics were also disproportionately represented in the bottom income quintile—their share jumped from 17.3 percent to 26.0 percent between 2000 and 2009. There were almost twice as many Hispanics in the bottom quintile than in the top quintile in 2009.
 - In contrast, non-Hispanic whites made up 74 percent of all the people in the top quintile in 2009—a much higher share than their representation in the total population. There were almost three times more non-Hispanic whites in the top income quintile than in the bottom quintile in 2009.

Substantial Income Disparities between the Highly Educated and the Less Educated

- The growth in economic rewards from greater education was especially striking; the disparity between a graduate or professional degree and all other educational attainment became even more salient. Only the highly educated experienced income rewards—the ratio of the number of highly educated in the top quintile to the bottom quintile increased from nine to 13 times between 2000 and 2009.
- Although the share of the population with less than high school diploma or GED declined in the bottom income quintile, they were still disproportionately represented in the bottom income quintile in 2009.
- Between 2000 and 2009, representation in the top income quintile increased for the more educated and decreased for the less educated. The proportion of the population 18 and over with at least an associate's degree increased in the top income quintile from a combined 57.1 percent to 63.1 percent.

- *Research shows that income inequality is harmful, inhibits opportunities and, ultimately, is likely to be detrimental to the well-being of families in the lower income groups:*

The Size of the Income Gap between Rich and Poor Matters Most

- Wilkinson and Pickett, two British researchers, found that the Index of Health and Social Problems they developed is strongly related to the amount of inequality within each state in the United States—the greater income inequality, the higher the score on the Index of Health and Social Problems. The index is composed of a number different social indicators (level of trust; mental illness, including drug and alcohol addiction; life expectancy and infant mortality; obesity; children’s educational performance; teenage births; homicides; imprisonment rates; and social mobility).

Growing Income Inequality Has Negative Social Consequences

- Research commissioned by the Sage Foundation, which examined the social consequences of increasing income inequality in a number of different areas, found that over time families with lower incomes, in contrast to those with higher incomes, are increasingly at a disadvantage in the educational preparation of their children.
- Other research shows a strong positive relationship between income segregation and family income inequality. The rich and the poor became increasingly isolated in their particular neighborhoods as income inequality increased.

Higher Income Inequality is Related to Lower Intergenerational Mobility

- Research shows that in countries such as the United States and the United Kingdom, which have relatively less intergenerational mobility across generations, have relatively higher income inequality. At the same time, countries such as Finland, Norway, and Denmark with relatively higher intergenerational mobility have less income inequality. The rise in income inequality in the United States could reduce intergenerational mobility even further in the future, thereby limiting the opportunities of people with low incomes even more.

Wealth Inequality Also Matters

- A study conducted by the Insight Center for Community Economic Development suggests that “widening wealth gaps run parallel to diverging outcomes for children of different races, which negatively affects their adult lives.”

- *Given the magnitude of prevailing income disparities in New Jersey and the growing evidence that income inequality not only has negative consequences for people in the lower income quintiles but also exacerbates their circumstances, this report recommends that state government conduct an income inequality impact review when considering the consequences of a policy proposal.*

Income Inequality Matters

Variations in income levels make a difference to a family's quality of life. There is broad agreement that people with low incomes fare worse than those with higher incomes across a number of social indicators. For example, children growing up in families with low incomes are more likely than children living in families with high incomes to get substandard health care, inferior child care, and poor quality education.

With the increase in income inequality, we began by examining the research concerning the consequences of income inequality, as distinguished from the harm and hardship from simply living in poverty.

Size of the Gap between Rich and Poor Matters Most

While there is broad consensus that income inequality has risen significantly over the last 30 years, and while much research shows a correlation between income inequality and various social indicators, there is less agreement about the causal connection between income inequality and negative social outcomes.

Perhaps the most forthright argument in favor of the connection between income inequality and negative social outcomes has been by Wilkinson and Pickett.⁷ They argue that the size of the gap between the rich and the poor matters most and “that differences in average income or living standards between whole populations or countries don’t matter at all, but income differences within those same populations matter very much indeed.” Wilkinson and Pickett collected data on a number of different social indicators—level of trust; mental illness, including drug and alcohol addiction; life expectancy and infant mortality; obesity; children’s educational performance; teenage births; homicides; imprisonment rates; and social mobility—which they then combined to form an Index of Health and Social Problems. Negative outcomes in mental health, physical health, drug and alcohol addiction, infant mortality, and so on, they found, are more likely in places where income inequality is greater.

Applying their thesis to the United States, they found that the Index of Health and Social Problems was strongly related to the amount of inequality within each state—the greater the income inequality, the higher the score on the Index of Health and Social Problems. On the other hand, there was no clear relation between the index and average income levels when looking across states.

A report sponsored by the Joseph Rowntree Foundation concludes that “there is certainly some evidence that it [size of the income inequality gap] does have such an effect.”⁸ The author of the report writes that “while this effect may look small in statistical terms, it is highly significant in terms of the number of lives involved.”⁹

Growing Income Inequality Has Negative Consequences

Other studies have also found evidence for a connection between income inequality and negative social consequences. For example, research commissioned by the Sage Foundation that examined

the social consequences of increasing income inequality in a number of different areas, including education, health, working conditions, neighborhood quality, family functioning, and political participation, found within the area of education that over time families with lower incomes, in contrast to those with higher incomes, are increasingly at a disadvantage in the educational preparation of their children. In instances in which education depends on the ability to pay—at the beginning and end of the educational process—wealthier families in the top income quintile spend substantially more on preschool child care than families from the bottom quintile.¹⁰ Similarly, students from wealthier families have been able to increase their enrollment in higher education more rapidly than those from families with low incomes.¹¹ In the area of working conditions, research on changes in the labor market showed that inequality in benefits, workplace safety, and nonstandard shift work have all widened roughly at the same time that earnings inequality has increased.¹²

In a different research project, Tara Watson examined the relationship between rising income inequality and residential choice in American metropolitan areas between 1970 and 2000.¹³ She found a strong positive relationship between income segregation and family income inequality. As income inequality increased, neighborhood segregation by income rose. The rich and the poor became increasingly isolated in their particular neighborhoods. Her results suggested that if income inequality had not increased, neighborhoods would have become less segregated by income over this time period.

Higher Income Inequality is Related to Lower Intergenerational Mobility

Comparative studies show that Americans value equality of opportunity highly. But cross-country research also shows that there is less intergenerational mobility in the United States than in Canada and several European countries.¹⁴ Children growing up in America are less likely than their contemporaries in Canada and various European countries to move up on the income distribution ladder. This research also shows more “stickiness” at the top and bottom of the earnings ladder in the United States than in these other countries. Moreover, research that examined mobility over a worker’s career found that there is less upward mobility for working individuals with low incomes in America than in other countries.

In a recent presentation, Alan Krueger, chairman of the Council of Economic Advisors, built on this research to argue that as income inequality increases in the United States the prospects for intergenerational mobility are likely to decrease.¹⁵ He showed that countries such as the United States and the United Kingdom, which have relatively less economic mobility across generations, have relatively higher income inequality as measured by the Gini coefficient. On the other hand, countries such as Finland, Norway, and Denmark with relatively higher intergenerational mobility have less income inequality.

Krueger suggests that as a result of the current high levels of income inequality, it is possible that intergenerational mobility will become even lower in the United States in the future. Using what he calls the “Great Gatsby Curve” to make a rough forecast, Krueger shows that the rise in income inequality could indeed reduce intergenerational mobility even further in the future, thereby increasing the likelihood that opportunities for children of families with low incomes will be even

more limited in the future—“the fortunes of one’s parents seem to matter increasingly in American society.”¹⁶

Wealth Inequality Also Matters

Similarly, there is research that contends wealth inequality matters. The results of a study conducted by the Insight Center for Community Economic Development suggest that “widening wealth gaps run parallel to diverging outcomes for children of different races, which negatively affects their adult lives.”¹⁷ Households of color are more likely than their white counterparts to have few, if any, assets. Children growing up in vulnerable households of color with fewer assets are likely to have less chance than white children to develop opportunities that will allow them to realize their potential.

Limit the Increase of Income Inequality

Overall, while broad agreement on the relationship between income inequality and negative social consequences has yet to be reached, the conclusions of Christopher Jencks may provide for now an appropriate benchmark: “My bottom line is that the social consequences of economic inequality are sometimes negative, sometimes neutral, but seldom . . . positive. . . . All things considered, the case for limiting inequality seems to me strong but not overwhelming.”¹⁸ Given that, the issue is how to confront and mitigate growing income inequality and the accompanying negative social consequences.

Income Inequality: Analysis and Findings

The empirical analysis is divided into three sections:

1. The first section provides a brief description of the changes in income and wealth inequality in the United States. By presenting a historical perspective on the changes in income inequality, it provides a context for the subsequent analysis of income inequality in New Jersey.
2. The second section describes the broad changes in income inequality in New Jersey over the last decade, showing how the top fifth garnered most of the gains in income, while the bottom two fifths slid back.
3. The third section highlights the groups in New Jersey that benefitted from increasing income inequality and those that lost ground. It provides greater detail on the variations in the distribution of income by household composition, race and ethnicity, and education.

Both Income and Wealth Inequality Have Increased in the United States

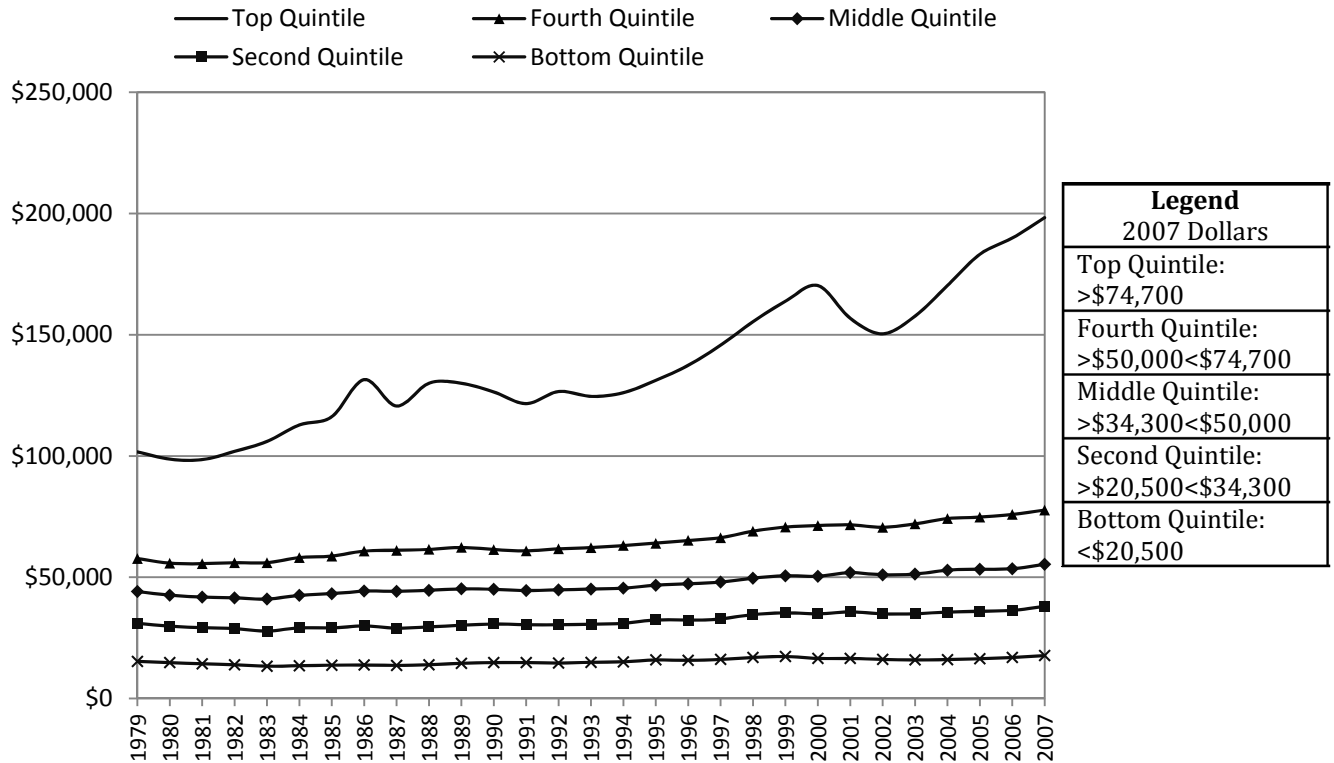
Income Inequality in the United States Has Increased Sharply over the Last 30 Years

Income inequality in the United States has risen dramatically since 1979 with most of the gains accruing to the top income quintile. According to the calculations of the Congressional Budget Office, the top income quintile was the only group to increase its after-tax household income share in the last 30 years. While the share of after-tax household income accruing to this quintile rose from 42.4 percent in 1979 to 52.5 percent in 2007, it declined for each of the other four quintiles. The share of the bottom income quintile declined from 6.8 percent in 1979 to 4.9 percent in 2007, while the declines for the second, middle, and fourth quintiles went from 12.3 percent to 9.4 percent, 16.5 percent to 14.1 percent, and 22.3 percent to 20.0 percent, respectively.

Similarly, the increase in the average after-tax income for the top quintile was most striking, rising from \$101,700 in 1979 to \$198,300 in 2007, a 95 percent increase measured in 2007 dollars. In contrast, the increase in the average after-tax income for each of the four remaining quintiles was much more modest (see figure 1). At the bottom quintile, average after-tax income grew from \$15,300 in 1979 to \$17,700 in 2007, a 16 percent increase. For the second quintile it increased from \$31,000 to \$38,000, for the middle quintile from \$44,100 to \$55,300, and for the fourth quintile from \$55,700 to \$77,700—increases of 23 percent, 25 percent, and 35 percent, respectively. Overall, average after-tax income for all households during this period rose from \$49,300 to \$76,400, an increase of 55 percent.

Figure 1: Average Income Has Almost Doubled for the Richest 20 Percent, But Grown Much More Modestly for the Rest of the Population Over the Last 30 Years

Average After-Tax Income for All Households, by Income Category, United States: 1979 to 2007 (2007 Dollars)

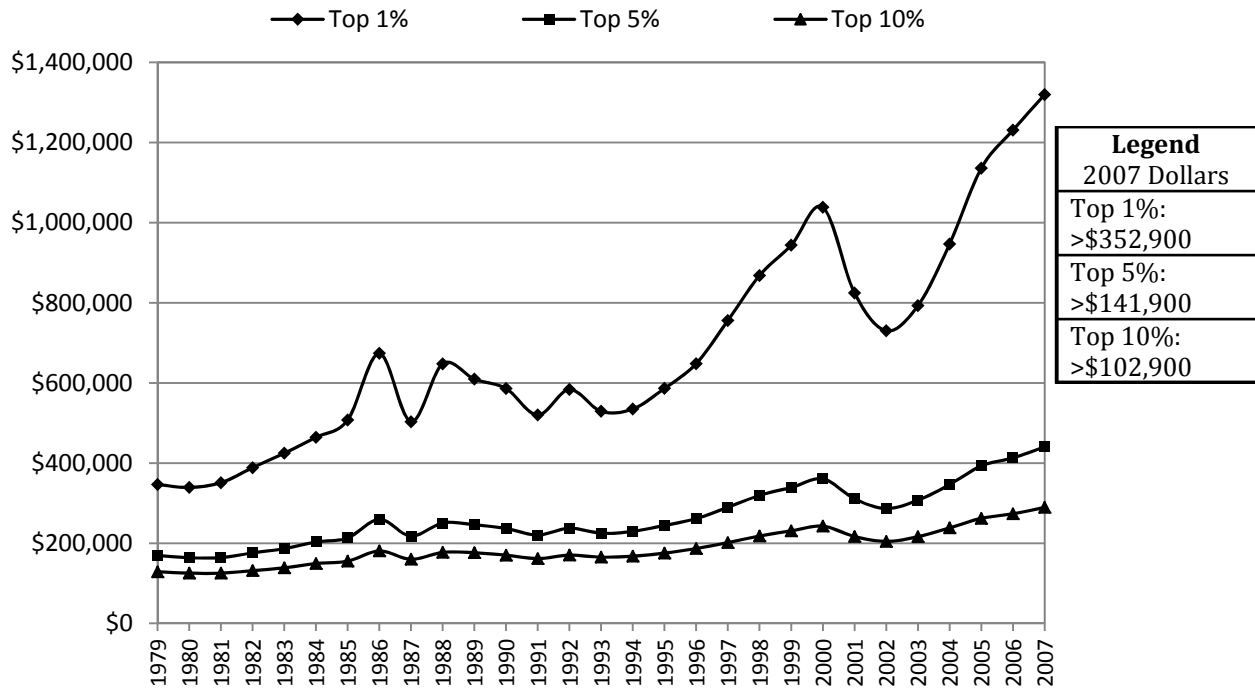


Source: Congressional Budget Office. Retrieved from: www.cbo.gov/publications/collections/collections.cfm?collect=13

As striking as the rise in average after-tax income has been for the top 20 percent, the most dramatic increase in average after-tax income accrued to the top one percent of households (see figure 2). Between 1979 and 2007, average after-tax income for the top one percent in 2007 dollars increased from \$346,600 to \$1,319,700, a 281 percent rise. The increases for the top five and 10 percent, while substantial, were more modest—from \$169,600 to \$440,500, or a 125 percent increase, and from \$128,700 to \$289,300, or a 160 percent increase, respectively.

Figure 2: Increase in Average Income for the Richest One Percent Far Outpaced that of Other High Income Groups

Average After-Tax Income for Top Household Income Categories, United States: 1979 to 2007 (2007 Dollars)

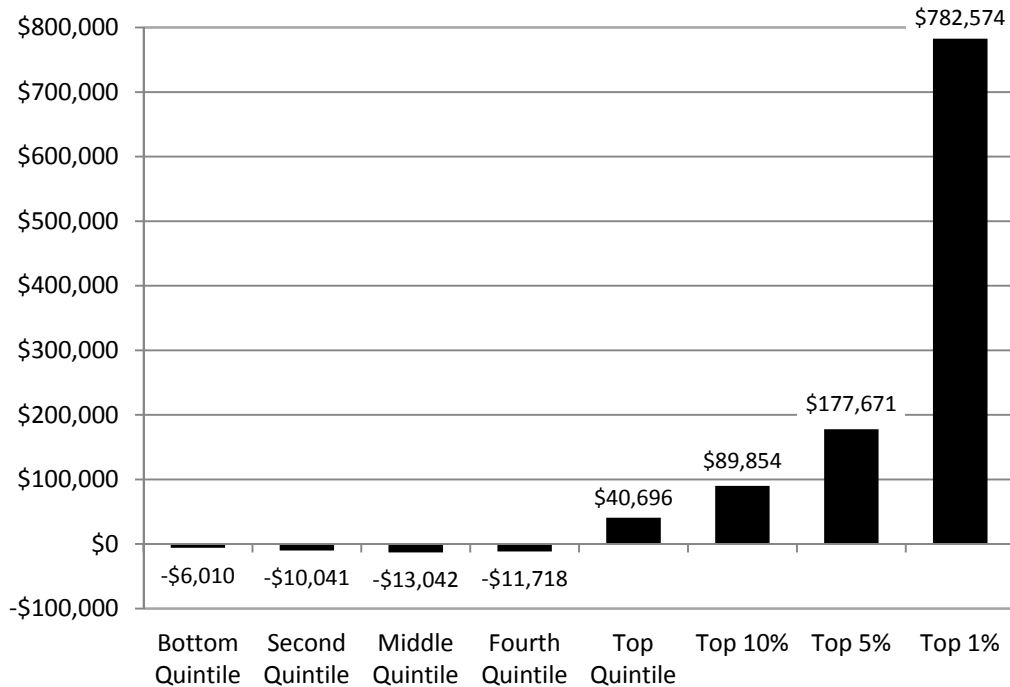


Source: Congressional Budget Office. Retrieved from: www.cbo.gov/publications/collections/collections.cfm?collect=13

The Center for Budget and Policy Priorities calculated the disparities between the actual changes in average after-tax household income and the changes that would have occurred if all income quintiles had increased by the overall average increase of 55 percent for all households over the 1979 to 2007 period (see figure 3). While the actual percentage increases for the bottom four quintiles were considerably lower than the overall average increase, the percentage increases of the top quintile as well as the top ten percent, top five percent, and top one percent were substantially greater than the overall average. This translated into negative amounts in constant dollars for the bottom four quintiles, while the top quintile and top 10, five and one percent had absolute gains. For example, the average income for the bottom quintile grew by \$6,010 less than it would have if it had increased by the overall average of 55 percent. In 1979, the average income for the bottom quintile was \$15,300; in 2007, it was \$17,700. If average income for this income group had grown by 55 percent over this period, it would have been \$23,710 in 2007. On the other hand, average income for the top one percent grew by \$782,574 more than it would have if it had grown by the overall average of 55 percent, an especially dramatic increase. In 1979, the average income for this income group was \$346,600; by 2007, it had grown to \$1,319,700.

Figure 3: Income Gains of Highest Income Groups Have Been Disproportionately Large Over the Last 30 Years

Change in Average Income between 1979 and 2007 Compared to the Change if All Income Quintiles had Equal Growth Since 1979 (2007 Dollars)



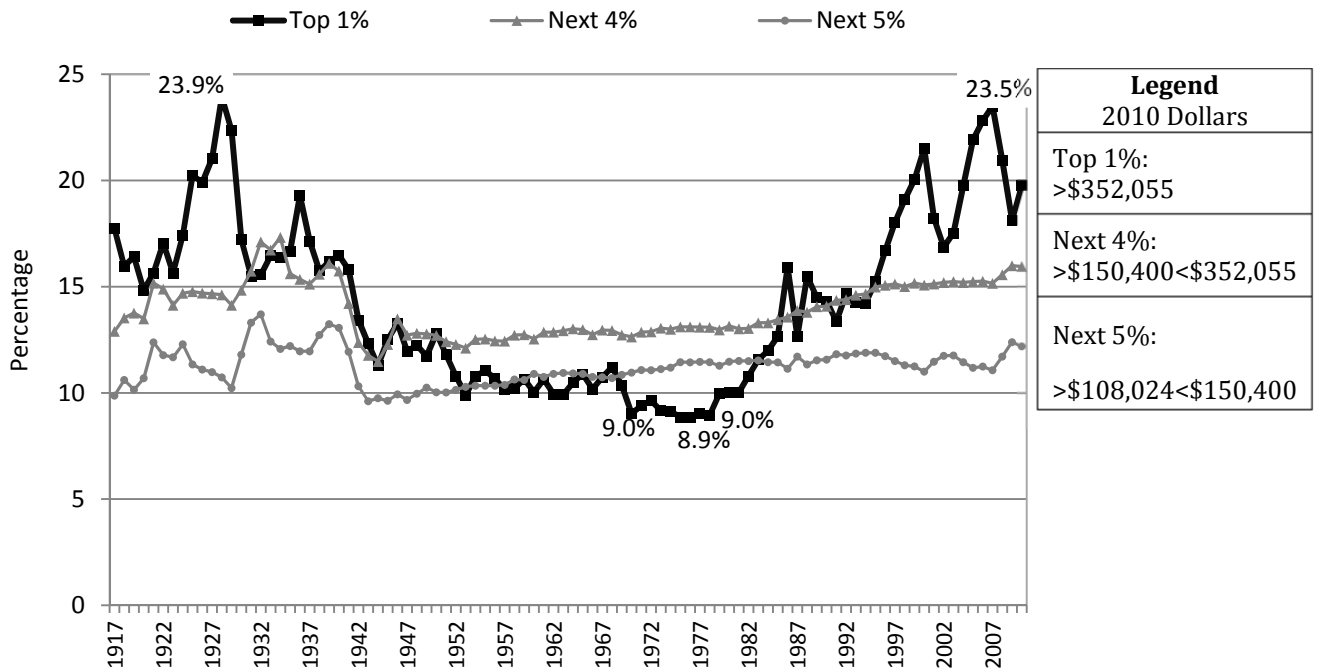
Source: Center on Budget and Policy Priorities based on Congressional Budget Office Data. Retrieved from: www.offthechartsblog.org/category/poverty-and-income/income-inequality/page/3/

The magnitude of income inequality and the extent to which most of the gains in the last 30 years has accrued to families with the highest incomes can be viewed best by examining family income data dating back to 1917.¹⁹ These show that income inequality has reached disproportions last experienced in the years just preceding the Great Depression. From mid-1920s to 1940 the income share of the top 10 percent fluctuated around 45 percent, peaking in 1928 at 49.3 percent. During WWII the share of the top 10 percent declined substantially and was as low as 32.5 percent in 1944. Thereafter it stayed fairly stable, oscillating around 33 percent until 1980 when it began increasing slowly. Over the last 25 years, the share of the top 10 percent increased steadily and by 1998 surpassed its pre-war level of 45.5 percent. By 2007, the top 10 percent share of 49.7 percent, including capital gains, was at a higher level than any other year since 1917.

Figure 4 breaks out the share of income accruing to the top 10 percent into the top percentile, the next four percent, and the bottom half of the top 10 percent over the last 90 years. It highlights the extent to which the top one percent of families captured an increasingly larger share of the income gains. While the shares of the bottom two groups have remained more or less constant since the end of WWII, the share of the top percentile has fluctuated significantly. It grew from about 18 percent in 1917 to a peak of almost 24 percent in 1928, declining to almost 10 percent in 1953, and then hovering around 10 percent for almost 30 years, before rising to a high of 23.5 percent in 2007. Although the share of the top one percent declined during the Great Recession, in 2010 it once again increased, climbing to a level of 19.8 percent.

Figure 4: The Richest One Percent of Income Earners Have Garnered an Increasing Share of Total Income Since the 1970s

Distribution of Income Share, Including Capital Gains, United States: 1917 to 2010



Source: The World Top Incomes Database.
Retrieved from: <http://g-mond.parisschoolofeconomics.eu/topincomes/>

Wealth Inequality Is Even Larger Than Income Inequality

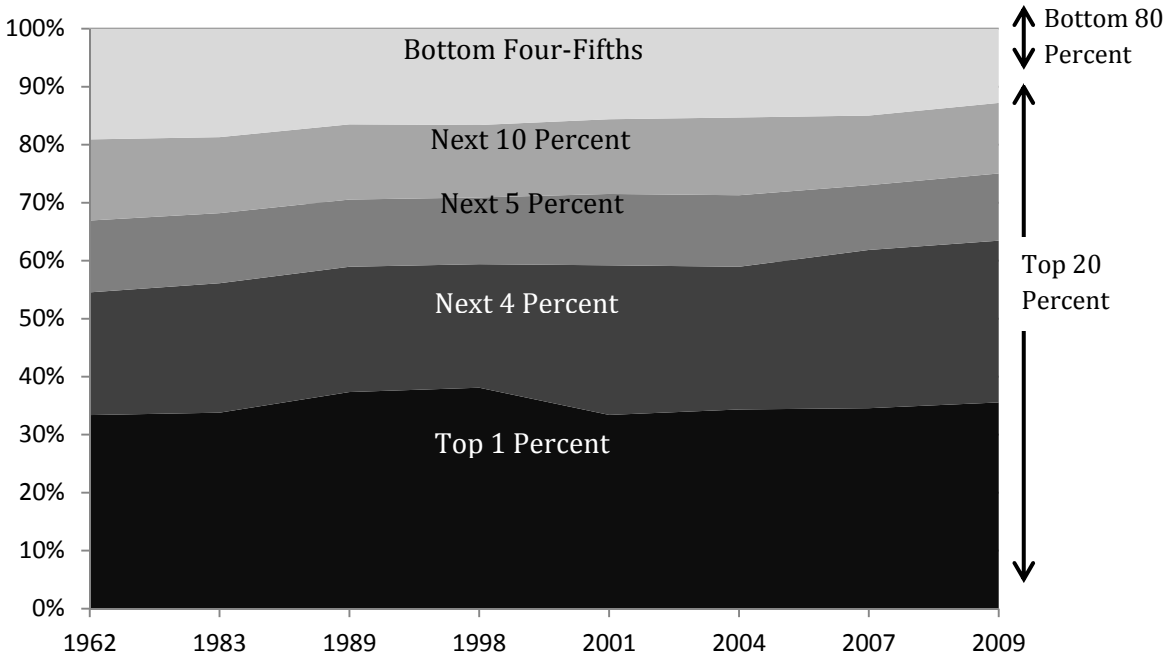
Wealth inequality is more severe than income inequality. Although there was an overall reduction in wealth during the Great Recession, the bottom four-fifths of households was affected relatively more than the top fifth. Moreover, within the top fifth, wealth concentration has increased, with the share of wealth held by the top one percent increasing since the end of the recession.

Edward N. Wolff, who has done extensive work on the issue of wealth, has shown that between 1983 and 2007 both mean and median net worth (wealth)²⁰ grew by a larger percentage and at a substantially larger rate than mean and median income.²¹ The share of total wealth held by the top fifth of households grew from 81.3 percent in 1983 to 85 percent in 2007, while that for the bottom four-fifths declined from 18.7 percent to 15 percent.²² The share of the top one percent, which peaked at 38.1 percent in 1998, dropped to 34.6 percent in 2007.

During the period of the Great Recession, a large amount of wealth was lost. While the wealth of the top fifth of American households declined considerably, the decline in wealth for the remaining four-fifths was even greater (see figure 5). As a result, the top fifth of American households increased its share of total wealth, reaching 87.2 percent in 2009, while the bottom four-fifths declined to 12.8 percent. The share of the top one percent also grew, reaching 35.6 percent in 2009.

Figure 5: The Wealthy Have Been Increasing Their Share of the Total Pie

Distribution of Wealth by Wealth Group: 1962 to 2009



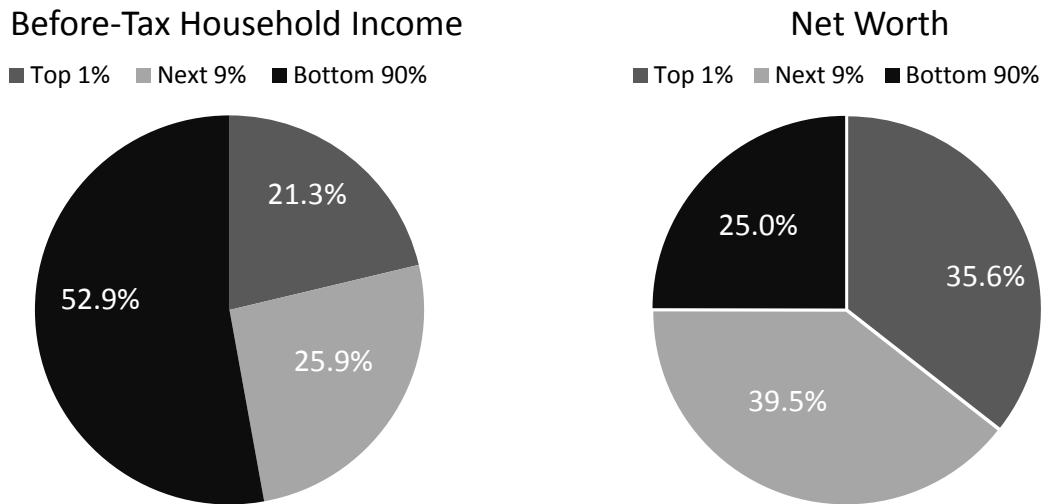
Source: Wolff (2010) [Wolff, Edward. 2010. Unpublished Analysis of the U.S. Federal Reserve Board, Survey of Consumer Finances and Federal Reserve Flow of Funds, prepared for the Economic Policy Institute].

Figure 6 compares the distribution of wealth and income in 2009. It shows that wealth is even more concentrated than income. The left-hand pie-chart, which depicts the distribution of before-tax household income in 2009, shows that the top one percent of households received 21.3 percent of household income, the next 9 percent received 25.9 percent, and the bottom 90 percent received 52.9 percent. The pie-chart on the right depicts the distribution of net worth or wealth in 2009—the top one percent held 35.6 percent of all the wealth, a much larger share than the 21.3 percent of income received by the top one percent. The next 9 percent held 39.5 percent, also much larger than 25.9 percent of income received by the next 9 percent. On the other hand, the bottom 90 percent held 25 percent, a much smaller share than the 52.9 percent of income received by the bottom 90 percent of households.²³

As large as the disparities are in the distribution of wealth, racial disparities in wealth are even greater.²⁴ Differences in median wealth, which were large during the 1990s and early 2000s, climbed sharply in 2009 after the Great Recession. While the median wealth for both whites and blacks declined considerably, the proportionate decrease was far greater for black households. Their median wealth was just \$2,200, compared with \$97,900 for white households. Similarly, the difference in average wealth was also sizeable, with average wealth of black households declining by a larger percentage than that for white households in the period after the Great Recession. While average wealth for black households declined from \$131,300 in 2007 to \$83,100 in 2009—a decrease of 37 percent—the decline from \$697,900 to \$499,500 for white households was only 28 percent.

Figure 6: Wealth is Even More Concentrated than Income

Distribution of Before-Tax Household Income and Wealth: 2009



Source: Sylvia A. Allegretto. (2011 March 23). The State of Working America's Wealth, 2011. Economic Policy Institute Briefing Paper: #292.

Rising Income Inequality in New Jersey in the Last Decade

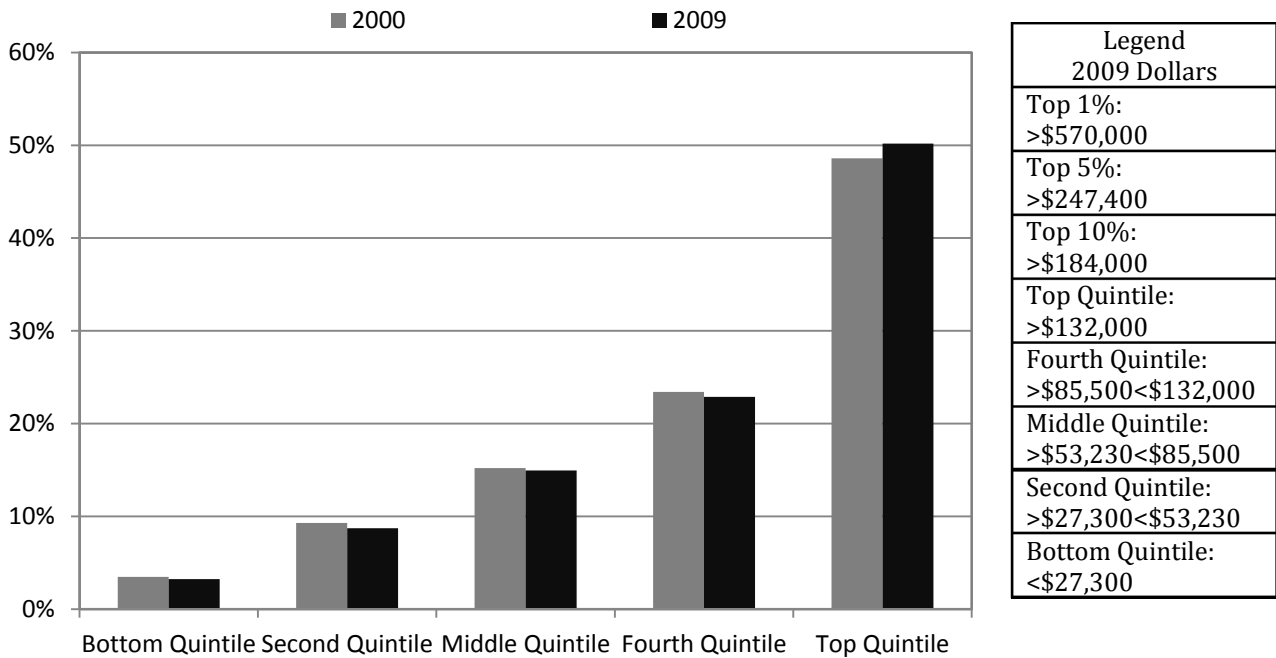
Patterns similar to those in the United States have prevailed in New Jersey over the last decade. Income inequality has increased, with the highest income group gaining income share, in contrast to all the other income groups, which have lost income share. Figure 7 divides the population into five income groups. The entire increase in income inequality between 2000 and 2009 has come from an increase in the share of income held by households in the top quintile, while the income shares for the bottom four quintiles declined. More specifically, when the top quintile is broken down into smaller components, it is in fact the top one percent of households that has reaped the bulk of the increase in income share.

The bottom quintile, which held 3.5 percent of all household income in 2000, saw its share decline slightly in 2009. Similarly, the second, middle, and fourth quintiles experienced small declines, while the share of the top quintile rose from 48.6 percent in 2000 to 50.2 percent in 2009.

In 2009, the top 10 percent captured one-third of all household income, the top five percent a little more than one-fifth, and the top one percent 7.4 percent. More than three-quarters of the increase in the top quintile's share can be attributed to the top one percent.

Figure 7: Only the Top Quintile Gained Income Share in the Last Decade

Distribution of Household Income Share, New Jersey: 2000 and 2009 (2009 Dollars)



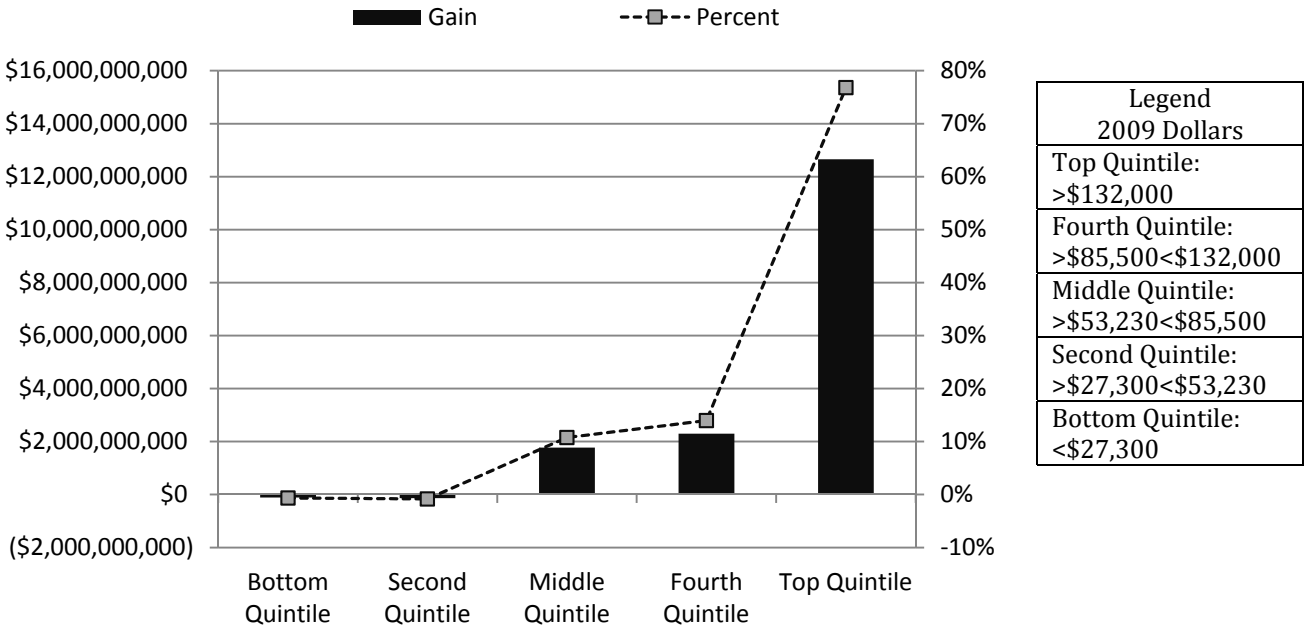
Source: American Community Survey: PUMS 2000 & 2009

Figure 8 shows the total dollar amount as well as the percentage that accrued to each income group of the additional income generated between 2000 and 2009. The left axis depicts the change in real 2009 dollars in total household income that accrued to each income group, while the right axis shows the percentage of the total additional income gained between 2000 and 2009 for each of the income groups. Between 2000 and 2009, the bottom and second quintiles in fact lost ground; the total household income that accrued to each of these two groups in real 2009 dollars decreased slightly. The middle and fourth quintiles experienced moderate gains in total household income. On the other hand, the total household income that accrued to the highest quintile grew substantially. Of the overall increase in total household income produced between 2000 and 2009, the top quintile reaped 77 percent of the increase, the fourth quintile 14 percent, and the middle quintile 11 percent. On the other hand, total household income for each of the bottom two quintiles decreased by almost one percent each.

Disaggregating the 77 percent figure that accrued to the top quintile shows that 27 percent went to the top one percent, 17 percent to the next 4 percent, 13 percent to the next 5 percent, and 21 percent to the next 10 percent.

Figure 8: The Richest 20 Percent Reaped more than Three-Quarters of All the Additional Income Generated between 2000 and 2009

Change in Total Household Income and Percentage Accruing to Each Income Group of Total Additional Income Gained between 2000 and 2009, New Jersey (2009 Dollars)

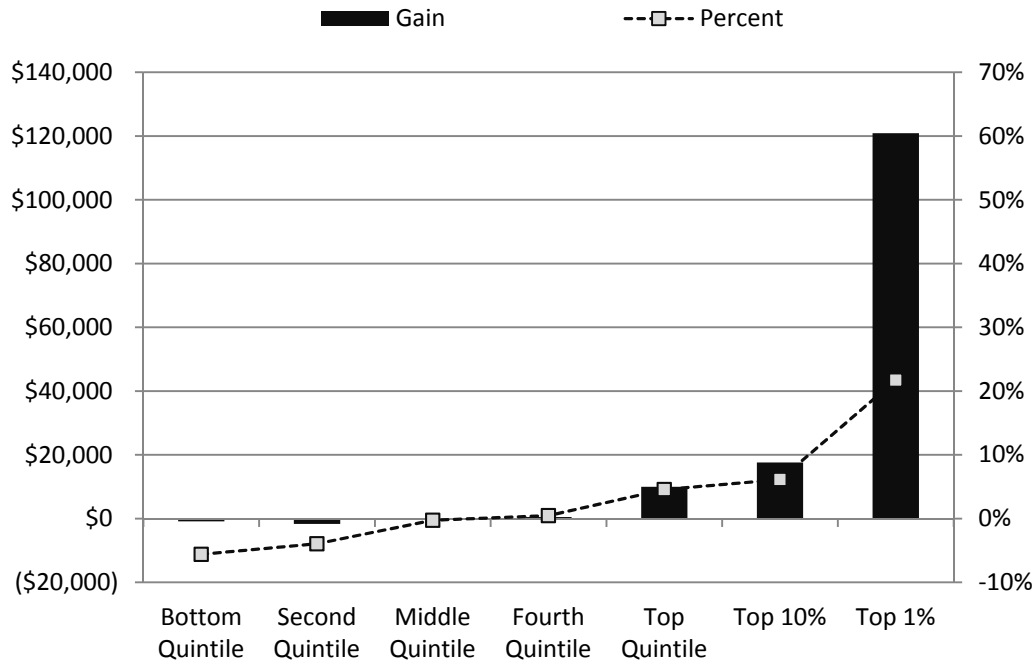


Source: American Community Survey: PUMS 2000 & 2009

The bottom two income quintiles lost ground not only in aggregate income but also experienced a decline in mean household income between 2000 and 2009 (see figure 9).²⁵ In addition, mean household income declined for the middle-income quintile. While the increase in mean household income for the fourth quintile was marginal, the increase for the top quintile was 4.6 percent. The top 10 percent experienced a slightly larger increase in mean household income of 6.1 percent, while the top one percent experienced by far the largest increase—21.7 percent, almost \$121,000 in 2009 dollars.

Figure 9: Mean Household Income Only Increased for the Highest Income Earners

Absolute and Percentage Change in Mean Household Income between 2000 and 2009, New Jersey (2009 Dollars)



Source: American Community Survey: PUMS 2000 & 2009

Growing Income Divergence between Social and Demographic Groups in New Jersey

This section examines variations in income inequality in New Jersey, specifically in relation to household composition, race and ethnicity, and education. In addition to showing changes in the shares of the income quintiles between 2000 and 2009, it compares the change in the ratio of the top income to the bottom income quintile.

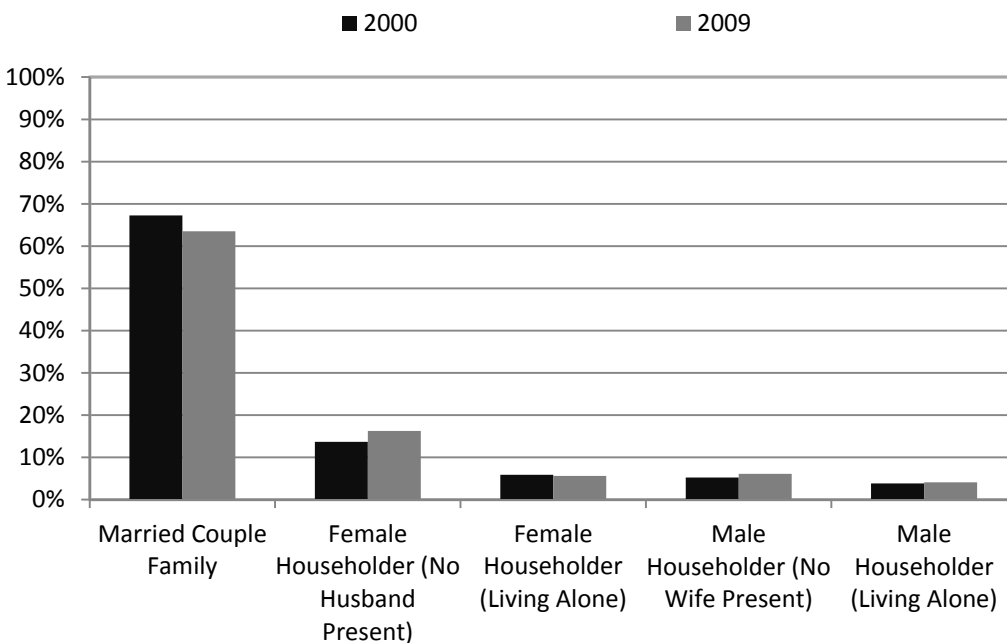
Growing Income Disparities between Household Types

Ongoing changes in family structure and household composition in the United States over the last four decades have resulted in significant changes in the distribution of household types. The number of people living in single-person households, homes with unrelated adults, or in families made up of single mothers, has been steadily increasing, while the number living in the traditional married-couple family household has been declining. These changes, together with factors such as growing women’s employment, have had direct bearing on changes in the distribution of income and the increase in income inequality over this period. As Leslie McCall and Christine Percheski have noted: “There is strong support for the hypothesis that increases in single mother families and decreases in married couple families have increased income inequality. . .”²⁶

In New Jersey during the decade of the 2000s, changes in household composition were accompanied by a reduction in the share of people living in married-couple families and an increase in the share living in female-headed households (see figure 10). Proportionately, fewer people were living in married-couple families, while the percentage of people living in female households with no husband present increased. The share of the married-couple families declined from 67.3 percent in 2000 to 63.5 percent in 2009. On the other hand, the share of people living in female-headed households increased from 13.7 percent to 16.3 percent.

Figure 10: Percentage of People Living in Female-Headed Households Increased During the 2000s

Distribution of Population by Household Type, New Jersey: 2000 and 2009



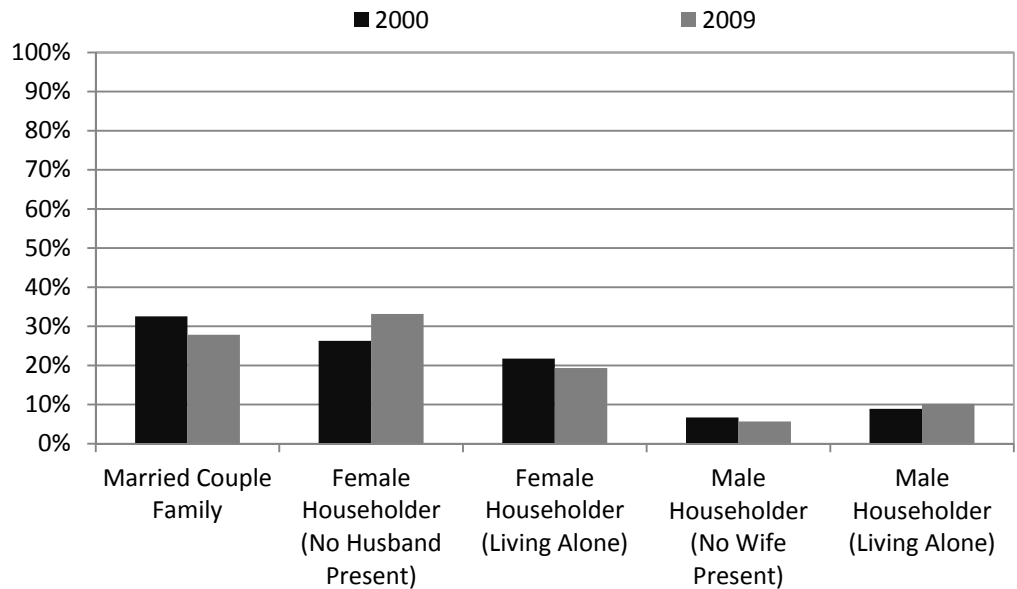
Source: American Community Survey: PUMS 2000 & 2009

In both 2000 and 2009, the share of people living in female-headed households in the bottom income quintile was larger than their representation in the overall population (see figures 10 and 11). The percentage of people living in female-headed households, however, increased in the bottom income quintile between 2000 and 2009 by more than the increase in their share in the overall population. Moreover, the share of people in female-headed households in the bottom income quintile was more than double their share in the overall population in 2009, while for married couple families it was less than one-half.

Between 2000 and 2009, the share of the population in the bottom income quintile living in female-headed households with no husband present increased from 26.3 percent to 33.2 percent, making this group the largest in the bottom income quintile (see figure 11). On the other hand, the proportion of people living in married-couple families decreased from a majority share of 32.5 percent in 2000 to 27.9 percent in 2009, which is a 5.3 percent smaller share than for female-headed households.

Figure 11: Larger Percentage of People Living in Female-Headed Households in Bottom Quintile than in Any Other Household Group in 2009

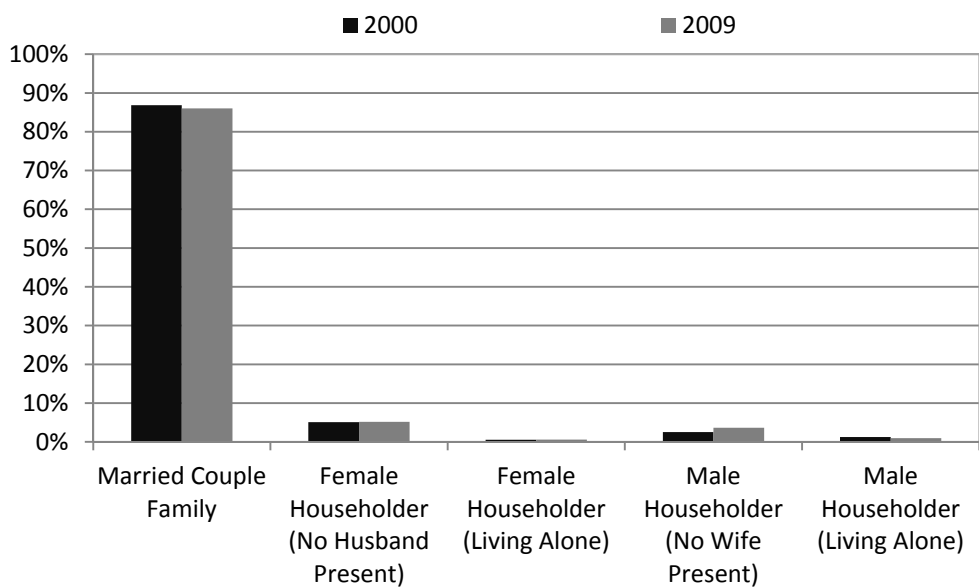
Distribution of Population in Bottom Household Income Quintile by Household Type, New Jersey: 2000 and 2009



Source: American Community Survey: PUMS 2000 & 2009

Figure 12: Almost 90 Percent of the People in the Top Quintile Lived in Married-Couple Families

Distribution of Population in Top Household Income Quintile by Household Type, New Jersey: 2000 and 2009



Source: American Community Survey: PUMS 2000 & 2009

In contrast, by far the largest share of people in the top income quintile lived in married-couple families (see figure 12). More than 86 percent in this income quintile lived in married-couple families in 2009. While the share of people living in married-couple families declined between 2000 and 2009, not only in the bottom quintile as noted above, but also in the second, middle, fourth, and top quintiles, the least decline was in the top quintile. The 0.8 percentage point decline was considerably less than the 5.8 percent, 4.1 percent, and 3.2 percent declines in the other three quintiles, respectively. It was also considerably less than the decline of 3.7 percent in the overall share of people living in married-couple families.

The widening inequality in income distribution between household types and the growing prevalence of people living in female-headed households are highlighted by the changes between 2000 and 2009 in the ratios for the number of people in the top household income quintile to the bottom quintile (see figure 13). Overall, between 2000 and 2009, the ratio for the total population declined slightly from 1.9 to 1.8.

Figure 13: Income Inequality between Household Types Widened in the 2000s

Ratio of Population in Top Household Income Quintile to Bottom Household Income Quintile by Household Type, New Jersey: 2000 and 2009

	2000	2009
Married Couple Family	5.07	5.54
Female Householder (No Husband Present)	0.37	0.28
Female Householder (Living Alone)	0.05	0.05
Female Householder (Not Living Alone)	2.11	1.40
Male Householder (No Wife Present)	0.72	1.14
Male Householder (Living Alone)	0.26	0.17
Male Householder (Not Living Alone)	1.77	1.98
Total	1.90	1.80

Source: American Community Survey: PUMS 2000 & 2009

The ratio of the number of people in the top income quintile living in married-couple families to the number in the bottom income quintile increased between 2000 and 2009, growing from 5.07 in 2000 to 5.54 in 2009. These ratios were considerably larger than the ratios for the overall population. In effect, there were more than five times more people living in married-couple families in the top quintile than in the bottom quintile. Moreover, the disparity in favor of the top quintile grew during the decade of the 2000s.

On the other hand, the opposite was true for people living in female-headed households with no husbands present, where the ratio is less than one. In this case, the decline in the ratio from 0.37 to 0.28 indicated that the number of people living in female-headed households with no husband present in the bottom quintile increased more than in the top quintile. While in 2000 there were

almost three people in the bottom income quintile for every one person in the top quintile in a female-headed household, by 2009 this had increased to almost four people in the bottom income quintile for every one person in the top quintile.

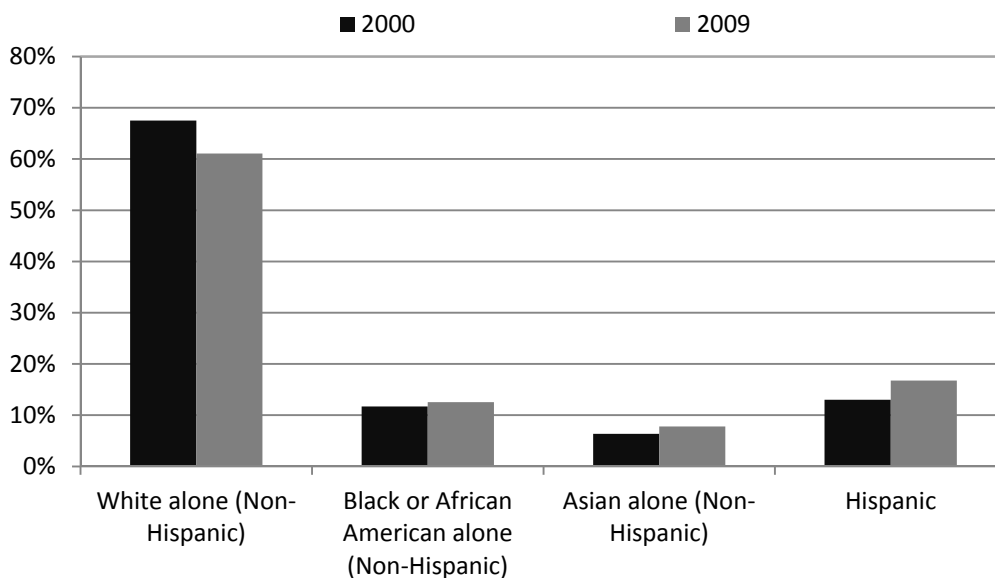
Widening Income Inequality between Racial and Ethnic Groups

Ongoing changes in the racial and ethnic composition of the population of New Jersey during the 2000s have had disparate impacts in the distribution of income for blacks or African Americans and Hispanics or Latinos, on the one hand, and non-Hispanic whites, on the other. As the proportion of the population of minority racial and ethnic origin in New Jersey increased between 2000 and 2009, income inequality between non-Hispanic whites and non-Hispanic blacks or African Americans and Hispanics expanded.

Between 2000 and 2009, the overall share of the non-Hispanic white population declined from 67.5 percent to 61.1 percent, a decrease of about 342,200 people (see figure 14). In contrast, the share of non-Hispanic blacks or African Americans grew from 11.7 percent to 12.6 percent, that of Hispanics from 13.0 percent to 16.8 percent, and that of the non-Hispanic Asian population from 6.4 percent to 7.8 percent. In total, the population of non-Hispanic blacks or African Americans grew by about 108,400 people, the Hispanic population by about 360,400 people, and that of the non-Hispanic Asian population by almost 142,700 people.

Figure 14: Percentage of Minorities in the Population Increased during the 2000s

Distribution of Population by Race & Ethnicity, New Jersey: 2000 and 2009



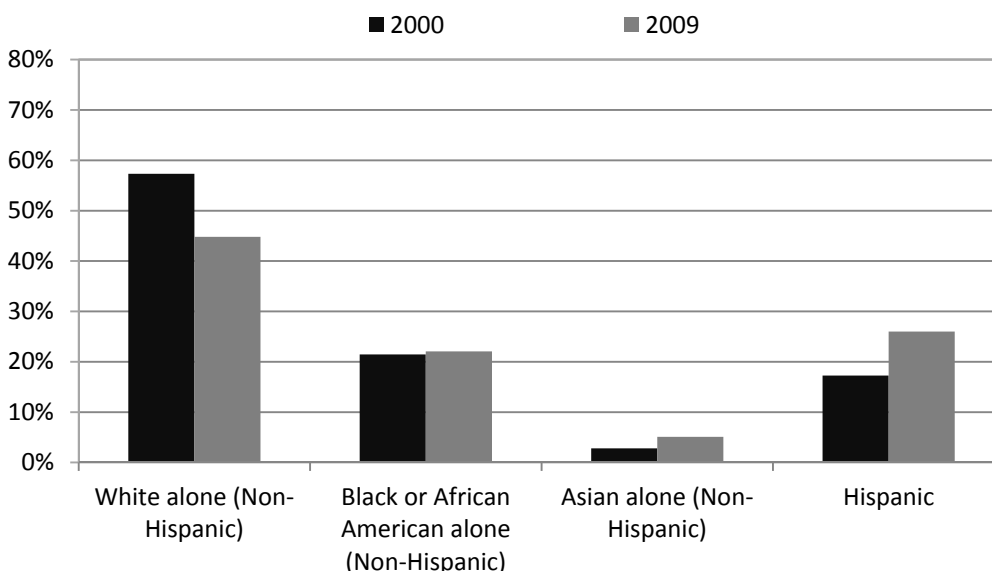
Source: American Community Survey: PUMS 2000 & 2009

With the increase in the non-Hispanic black or African American and Hispanic populations between 2000 and 2009, their disproportionate representation in the bottom income quintile increased. The share of non-Hispanic blacks or African Americans and Hispanics living in households with incomes in the bottom quintile increased from 21.5 percent to 22.1 percent and from 17.3 percent to 26.0 percent, respectively. That amounted to considerably larger shares than their overall

representation in the population (see figures 14 and 15). Overall, 29,000 non-Hispanic blacks or African Americans and about 122,700 Hispanics were added to the bottom income quintile. On the other hand, the share of non-Hispanic whites declined from 57.3 percent to 44.8 percent, a decrease of about 92,600 people. The share of the non-Hispanic Asian population in the bottom income quintile also grew during the decade of the 2000s, with about 33,300 more people being added to this quintile. However, the share of non-Hispanic Asians in the bottom income quintile remained less than their overall share in the population.

Figure 15: The Disproportionate Representation of Blacks or African Americans and Hispanics or Latinos in the Bottom Income Quintile Increased During the 2000s

Distribution of Population in Bottom Household Income Quintile by Race & Ethnicity, New Jersey: 2000 and 2009



Source: American Community Survey: PUMS 2000 & 2009

Although the share of non-Hispanic whites in the top income quintile declined between 2000 and 2009, their representation in this quintile was still much higher than their representation in the overall population (see figures 14 and 16). Non-Hispanic whites made up 73.8 percent of the number of people living in households with incomes in the top quintile in 2009, down from the 76.2 percent in 2000, a decrease of 3,200 people. It should be noted, however, that because of the overall decline in the non-Hispanic white population, this group lost share in all the income quintiles; the decrease in the top income quintile was the smallest decline. Non-Hispanic whites continued to be underrepresented in the bottom three income quintiles and overrepresented in the top two quintiles.

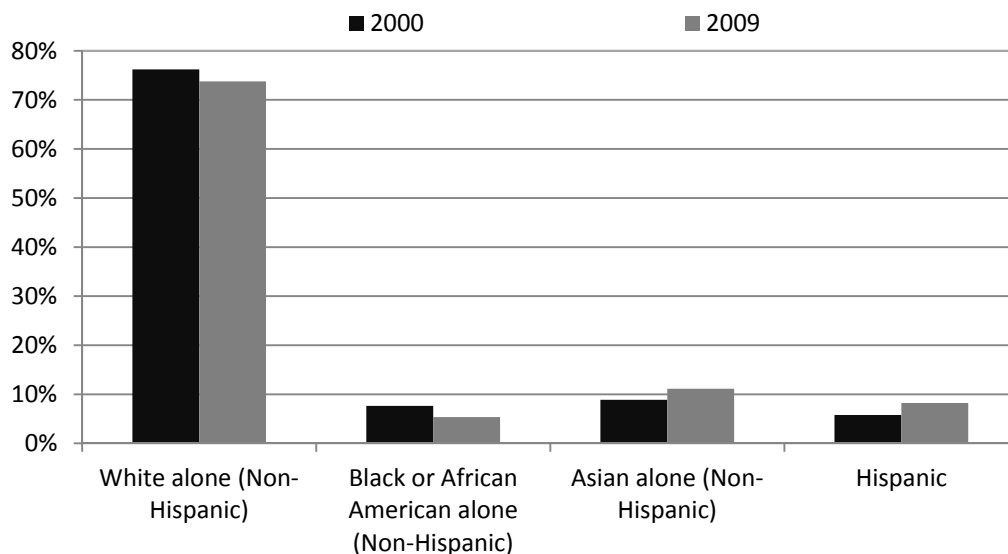
Among the minority racial and ethnic groups, non-Hispanic blacks or African Americans were the only group to lose share in the top income quintile. While the proportion of blacks or African Americans increased in all the other income quintiles, their share in the top quintile declined from 7.6 percent to 5.4 percent, a decrease of about 44,100 people (see figure 16). Non-Hispanic blacks or African Americans in contrast to non-Hispanic whites were underrepresented in the top two quintiles and overrepresented in the bottom three quintiles.

Although Hispanics increased their representation in the top income quintile, adding about 56,000 people to this quintile, their 8.2 percent share in 2009 was still half their share in the overall population. It should be noted that, although Hispanics increased their representation in all the income quintiles, they continued to be overrepresented in the bottom three quintiles and underrepresented in the top two quintiles.

Non-Hispanic Asians also increased their representation in the top income quintile, growing from 8.9 percent to 11.1 percent and adding about 54,500 people. In addition, they continued to be overrepresented in the top two income quintiles and underrepresented in the bottom three quintiles.

Figure 16: Non-Hispanic Whites Continued to be Overrepresented in the Top Income Quintile

Distribution of Population in Top Household Income Quintile by Race & Ethnicity, New Jersey: 2000 and 2009



Source: American Community Survey: PUMS 2000 & 2009

A comparison of the ratios of the number of people in the top household income quintile to the bottom quintile by race and ethnicity underscores the growing income disparities between non-Hispanic whites and the major minority groups (see figure 17). Only the non-Hispanic whites experienced income rewards between 2000 and 2009. While the ratio increased for non-Hispanic whites between 2000 and 2009, it decreased for non-Hispanic blacks or African Americans, Hispanics, and non-Hispanic Asians.

For non-Hispanic whites there were almost three times more people in the top income quintile than in the bottom quintile in 2009. On the other hand, for non-Hispanic blacks or African Americans there were more than twice as many people in the bottom income quintile than in the top quintile. The same was true for Hispanics, with a slightly lower ratio. There were almost twice as many people in the bottom income quintile than in the top quintile. Although for non-Hispanic Asians there were almost four times more people in the top income quintile than in the bottom quintile in

2009, the increase in the number of people in the bottom quintile was greater than the increase in the top quintile, thereby decreasing the ratio between 2000 and 2009.

Figure 17: Income Inequality between Non-Hispanic Whites and Minorities Grew During the 2000s

Ratio of Population in Top Household Income Quintile to Bottom Household Income Quintile by Race & Ethnicity, New Jersey: 2000 and 2009

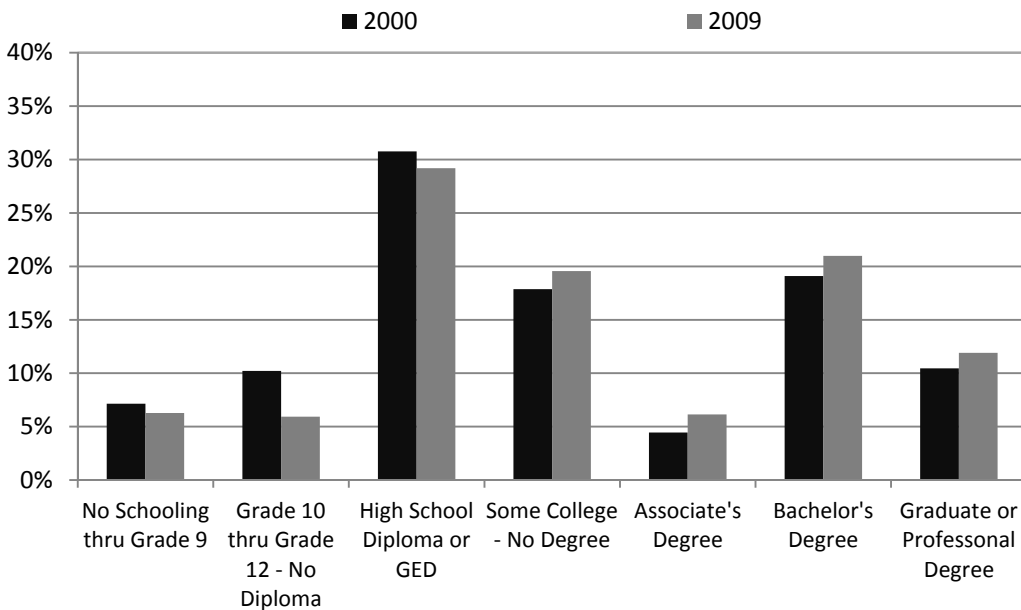
	2000	2009
White alone (non-Hispanic)	2.53	2.96
Black or African American alone (non-Hispanic)	0.68	0.44
Asian alone (non-Hispanic)	5.98	3.91
Hispanic	0.64	0.57
Total	1.90	1.80

Source: American Community Survey: PUMS 2000 & 2009

Substantial Income Disparities between the Highly Educated and the Less Educated

Figure 18: New Jersey’s Adult Population Became More Educated in the 2000s

Distribution of Population 18 Years and Older by Educational Attainment, New Jersey: 2000 and 2009



Source: American Community Survey: PUMS 2000 & 2009

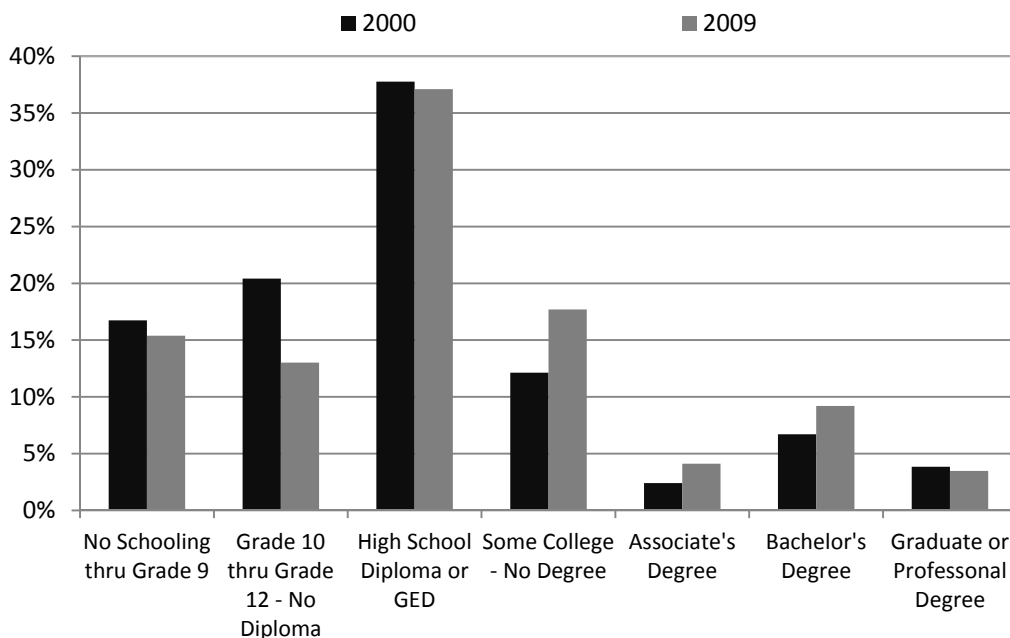
Between 2000 and 2009 the growth in economic rewards from greater education was especially striking. In particular, the disparity between a graduate or professional degree and all other educational attainment became even more salient.

In the first decade of this century, there was an upward shift towards greater educational attainment for the 18 and over population of New Jersey. The percentage of the population in categories with at least some college but no degree or higher increased from 51.9 percent to 58.6 percent, while the share of the population with a high school diploma or GED or less declined from 48.1 percent to 41.4 percent (see figure 18).

The number of people with some college experience but no degree increased by about 177,100, with an associate’s degree by almost 126,500 people, with a bachelor’s degree by about 194,200, and with a graduate or professional degree by about 133,600. On the other hand, the largest decrease occurred in the grade 10 thru grade 12 with no diploma group, which declined from 10.2 percent to 5.9 percent, a decrease of about 238,600 people.

Figure 19: The Less Educated Population is Disproportionately Represented in the Bottom Income Quintile

Distribution of Population 18 Years and Over in Bottom Household Income Quintile by Educational Attainment, New Jersey: 2000 and 2009



Source: American Community Survey: PUMS 2000 & 2009

With the shift toward greater educational attainment of the 18 and older population, the proportion of the three lower educational attainment groups—no schooling through grade 9, grade 10 through grade 12 with no diploma, and high school diploma or GED—declined in the bottom income quintile (see figure 19). In fact, representation of the three lower educational groups declined across almost all income quintiles between 2000 and 2009. Together these three groups made up 65.5 percent of the bottom quintile in 2009, down from 74.9 percent in 2000. Nonetheless, their shares in the lower

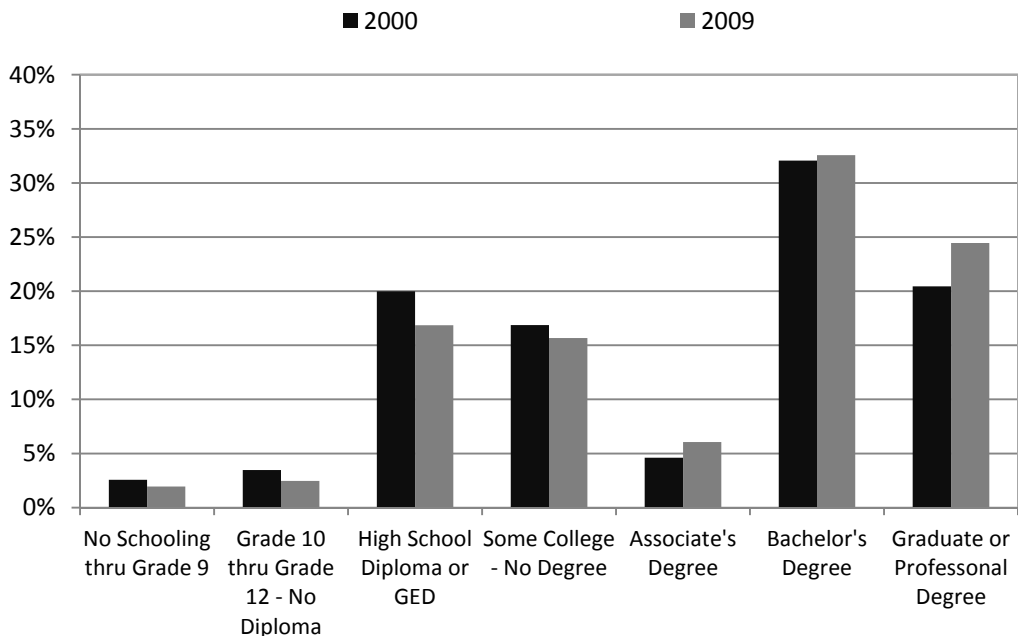
income quintiles remained considerably greater than their shares in the overall population (see figures 18 and 19).

On the other hand, the share of the population 18 and older with at least some college education but no degree increased their representation in the bottom quintile. Nevertheless, they remained underrepresented in the bottom income quintile, compared to their share in the overall population. The one exception, however, was the graduate or professional degree group; its share in the bottom quintile declined slightly—from 3.8 percent to 3.5 percent.

Between 2000 and 2009, representation in the top income quintile increased for the more educated and decreased for the less educated. The proportion of the population 18 and older with at least an associate’s degree increased in the top income quintile from a combined 57.1 percent to 63.1 percent (see figure 20). The largest increase occurred in the graduate or professional degree category; its share of the top quintile increased from 20.4 percent to 24.5 percent, an addition of about 83,400 people. The proportion of the population with a graduate or professional degree in the top quintile was more than double its share in the overall population. In addition, the bachelor’s degree group made up about one-third of the top income quintile and about 36,800 more people entered the top quintile in 2009. Although the associate’s degree group made up only 6.1 percent of the top quintile in 2009, this was an increase over the 4.6 percent in 2000.

Figure 20: The Disproportionate Representation of the More Educated Adult Population in the Top Income Quintile Increased in the 2000s

Distribution of Population 18 Years and Over in Top Household Income Quintile by Educational Attainment, New Jersey: 2000 and 2009



Source: American Community Survey: PUMS 2000 & 2009

On the other hand, each of the four lower educational attainment groups in the top income quintile lost share between 2000 and 2009. The combined share of these categories declined from 42.9 percent to 36.9 percent.

The difference between a graduate or professional degree and all other educational attainment is especially striking when the ratios of the number of people in the top to the bottom income quintile are compared across all educational attainment groups. Only the graduate or professional degree group experienced income rewards between 2000 and 2009. The ratio of the number of people in the top quintile to the bottom quintile increased only for the graduate or professional degree group, between 2000 and 2009, while it decreased for all the other educational attainment groups (see figure 21).

Furthermore, the less educated were disproportionately represented in the bottom income quintile, while the more educated were disproportionately represented in the top income quintile. There were more than four times more people in the bottom quintile than in the top quintile for the no schooling through grade 9 group, and almost three times more people in the lower income quintile than in the top income quintile for the group which completed grades 10 through 12 but did not receive a diploma.

On the other hand, for the higher educational attainment groups—some college but no degree and higher—the imbalance was skewed in favor of the top income quintile. In the case of the bachelor’s degree, although there was a decline in the ratio, there were still more than six times more people in the top income quintile than in the bottom quintile in 2009. However, in the case of the graduate or professional degree group, the imbalance increased from more than nine times in 2000 to almost thirteen times more in 2009.

Figure 21: Income Returns Increased Only for the Very Highly Educated in the 2000s

Ratio of Population 18 Years and Older in Top Household Income Quintile to Bottom Household Income Quintile by Educational Attainment, New Jersey: 2000 and 2009

	2000	2009
No Schooling thru Grade 9	0.27	0.23
Grade 10 thru Grade 12 – No Diploma	0.30	0.34
High School Diploma or GED	0.94	0.83
Some College – No Degree	2.46	1.61
Associate’s Degree	3.39	2.68
Bachelor’s Degree	8.48	6.44
Graduate or Professional Degree	9.43	12.77
Total	1.90	1.83

Conclusions—What the Evidence Suggests

This new report concentrates primarily on establishing baseline New Jersey data from which to monitor income inequality going forward. Consonant with this foundational approach, we will describe briefly the available information concerning remediation efforts intended to address inequality, as distinguished from poverty itself. We do note, however, that recommendations about how to address poverty, such as those contained in prior PRI Benchmarks reports, are of course relevant to income inequality as well. If anti-poverty programs find success, it is likely the income inequality gap will be narrowed.

Some additional measures, designed to address income inequality more directly, are supported by available evidence. For example, research suggests that the intervention of the public sector is a necessary component in any effort to reduce income inequality. A recent report prepared by the Congressional Budget Office, which examined trends in the distribution of household income between 1979 and 2007, provides evidence of the importance of government policies in reducing income inequality. The report found that “although an increasing concentration of market income was the primary force behind growing inequality in the distribution of after-tax household income, shifts in government transfers (cash payments to individuals and estimates of the value of in-kind benefits) and federal taxes also contributed to that increase in inequality.”²⁷ In assessing the effects of transfers and taxes on the distribution of household income, the study found that “the equalizing effect of transfers and taxes on household income was smaller in 2007 (when income inequality was greater) than it had been in 1979 (when income inequality was smaller).”²⁸ It found that the distribution of transfers shifted away from households in the lower part of the income scale, while the equalizing effect of federal taxes declined over this period.

These conclusions were reinforced by research prepared by the Congressional Research Service, which examined changes in income inequality among tax filers between 1996 and 2006.²⁹ This research focused on the role of changes in wages, capital income, and tax policy, particularly in relation to the 2001 and 2003 tax cuts. The study concludes that changes in income from capital gains and dividends were the single largest contributor to rising income inequality between 1996 and 2006, while the effect of changes in wages and salaries seemed to have been minimal. Furthermore, it found that tax policy changes increased income inequality significantly. The equalizing effect of taxes declined between 1996 and 2006.

An international comparison of changes in income inequality and in low-end absolute incomes in the United States and 13 other rich countries points to the importance of government transfers in effecting a reduction in income inequality. This study showed that “where low-end incomes have increased, that typically has been a product of increases in net government transfers.”³⁰ For people of low income in these countries, the key driver of improvements in absolute incomes was shifts in government transfers and taxes. The research commissioned by the Sage Foundation also showed that where public intervention has occurred, social inequalities declined as income inequality increased. For example, research on K-12 public schools, which are available to all citizens irrespective of their ability to pay, found that differences in expenditure per pupil declined in response to court-ordered equalization mandates.³¹ Nevertheless, differences in expenditure

remained large, with wealthy school districts investing much more resources in their programs than poorer districts.

Policy responses to income and wealth inequality need to be designed in a way that not only provide support for people with low incomes, but are also geared towards reducing income and wealth disparities. Given the magnitude of prevailing income disparities in New Jersey and the growing evidence that income inequality itself, not just poverty, increases hardships for people in the lower income quintiles, this report recommends that state government conduct an income inequality impact review when considering the consequences of a policy proposal.

Endnotes

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4. Economic Policy Institute. <http://www.stateofworkingamerica.org/charts/subject/14>
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