INCOME INEQUALITY IN NEW JERSEY

December 2014

The Growing Divide and its Consequences

LSNJ
Just Justice

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

Income Inequality in New Jersey:

The Growing Divide and Its Consequences

A New Report
From the Legal Services of New Jersey
Poverty Research Institute

December 2014

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About Legal Services of New Jersey and Its Poverty Research Institute

Legal Services of New Jersey (LSNJ) heads the 48-year-old statewide Legal Services system, providing free essential legal aid in civil matters to low-income people in all 21 counties. LSNJ created the Poverty Research Institute (PRI) in 1997 to assemble data and other information that would assist in its mission of providing civil legal aid. Such information can pinpoint the location, demographics, and other aspects of poverty, helping fashion more effective and efficient legal responses and solutions. Periodically, as a public service, LSNJ publishes reports and statistics gleaned from this data to enhance public awareness of poverty's scope, causes, consequences, and remedies. Greater knowledge about poverty makes more likely public policy decisions that reduce its extent and effects, and thereby ultimately also serve LSNJ's core mission. PRI is New Jersey's first and only entity exclusively focused on developing and updating information on poverty in the state.

To offer comments or ideas in response to this report, please email ***pri@lsnj.org***. For information on LSNJ itself, go to ***www.lsnj.org***. To donate and support LSNJ's work, go to ***https://www.lsnj.org/SupportOurWork.aspx***. To volunteer your time to assist LSNJ, go to ***http://www.lsnj.org/Volunteer.aspx***.

Overview

In the aftermath of national reaction to police actions in Ferguson, New York City, Cleveland, and other municipalities across the country, many seek to understand what led us here. Distinct from the particulars of specific police encounters, the outcries express a widely shared sense of injustice and inequity, in a word unfairness. Income and wealth inequality can serve as fairness indicators in the minds of those without resources. This sense of fairness constitutes the core of why most Americans—and New Jerseyans—believe that inequality matters.

The report examines the current state of income inequality in New Jersey, using the most recent available Census data. It finds that income inequality has continued to increase even after the 2007-2009 recession. Mirroring much highlighted national trends,[1] New Jersey income inequality has worsened markedly since the advent of the new millennium.

Income inequality, along with wealth inequality, the real cost of living, and a broad range of poverty data, is one of four critical clusters of information measuring the extent of disadvantage and deprivation in our society and our state. Together with more detailed data on several component factors—particularly housing segregation, nutrition, health, education and employment—that are at once both causes and effects of poverty, these clusters tell us much about current social and economic opportunity, equity, and deprivation.

Legal Services of New Jersey's Poverty Research Institute (PRI) has regularly addressed three of these information clusters; the fourth, wealth inequality, remains unaddressed to date because state specific information is far less accessible. PRI's last income inequality report was released in July 2012; the most recent Real Cost of Living report was released in May 2013; and the latest *Poverty Benchmarks*, the broad poverty data report, was released in September 2014. All are available at ***www.lsnj.org/pri***.

Research Approach

Following a familiar research framework, New Jersey household incomes were divided into five identically sized strata, or "quintiles." The report examines changes in the share of income accruing to each quintile, changes in the total income accruing to each quintile, and the percentage change in total income accruing to each quintile for three periods: before the recession, during the recession, and since the recession. In addition, the report details the changes in income inequality by race and ethnicity. Using U.S. Census data, it shows how income distribution in New Jersey has changed since the conclusion of the recession 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, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013 American Community Survey PUMS databases. 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 published American Community Survey data releases.

The analysis divides the total household population into five equal quintiles. The top quintile is broken down further by distinguishing the top 10%, the top 10% to the top 5%, the top 5%, and the top 1%. The income thresholds of each group are shown in the table below.

Income Group Thresholds in 2013

Top 1%	$557,000 and above
Top 5%	$265, 000 and above
Top 10% to Top 5%	$197,00 to $264,999
Top 10%	$197,000 and above
Top Quintile	$140,000 and above
Fourth Quintile	$87,600 to $139,999
Middle Quintile	$53,800 to $87,599
Second Quintile	$26,800 to $53,799
Bottom Quintile	$26,799 and below

Source: PUMS 2013

It should be noted, however, that because the Census codes income data in order to shield the identities of particular respondents, reliable information for the top 1 percent is not available. As a result, this report focuses on the top twenty percent and the top five percent.

As noted, this report solely addresses income inequality, and offers no analysis of wealth inequality. Wealth refers to the total assets of a household minus any debt owing on the assets. For example, it would include the value of a home less the amount remaining on a mortgage or loan. Wealth inequality is much greater in the United States than income inequality.[2]

A number of alternative measures can be used to calculate income inequality. Three categories, in particular, are most common:[3] *shares of income*—for example, the percentage of income held by the top quintile; *ratios*—for example, the ratio of income at the top quintile to that of the bottom quintile; and *one-number summary statistics*—for example, the Gini coefficient.[4] In order to highlight differences and compare subgroups within the population by income, this report uses the first two measures only. The Gini coefficient does not lend itself to this type of demographic analysis of such subgroups.

Poverty and Inequality

Inequality, be it income or wealth, measures the relative positions of different population groups. Poverty, on the other hand, is a measure of the degree of deprivation of individuals or groups of people. Both measures convey essential information, and both have independent significance. That observed, there is undeniably correlation: people in poverty constitute nearly all those in the lowest income quintile, and most of the bottom half of those in the second-lowest quintile. See generally *What Is Poverty?*, LSNJ PRI, (September 2014).

Report Organization

After this introductory section and a brief summary of the study's principal findings, the report's first main section briefly examines why inequality is of consequence. Part two presents the report conclusions, with sections generally corresponding to the principal findings highlighted at the outset.

While this report's primary thrust is to present research, not advance particular remedial strategies, we conclude with a few observations to help frame a conversation about possible strategic response to widening inequality.

Acknowledgements

Allan Lichtenstein and Shivi Prasad, senior researchers and co-directors of LSNJ's Poverty Research Institute, carried out the research, developed the findings, and constructed the graphic presentations. All of us collaborated on the report narrative. Sue Perger, head of LSNJ's publications, performed the layout; Laurel Ives of New York designed the cover; and Harvey Fisher, head of LSNJ's communications, assisted in the editing.

For Legal Services of New Jersey

Melville D. Miller, Jr.
President
Edison, New Jersey
December 2014

Principal Findings

1. The Income Gap Between the Top Twenty Percent of Households and All Other Income Groups Has Widened Since the End of the Recession.

- **The two bottom household quintiles have experienced a continuous decline in average and median income since 2009.**
- **Only the top twenty percent of households has begun to experience a growth in income in the post-recession period.**
- **The income gap between the top twenty percent and the bottom twenty percent has widened steadily since 2009.**
- **The increase in average and median income of the top 5 percent far exceeds that of any other household group.**
- **The income gap between the top 5 percent and the bottom and middle of the income spectrum has widened since 2009.**

2. The Share of Income Held by the Top Twenty Percent Has Increased Steadily, while the Share of Income for the Bottom Eighty Percent has Declined Steadily.

- **The gap in income share between the top twenty percent and the bottom eighty percent has been widening steadily since the end of the recession.**
- **Only the top quintile has gained income since the end of the recession.**
- **The divergence in total income between the bottom and top income quintiles was larger in 2013 than at any time since 2000.**
- **Within the top twenty percent of households, all groups have benefitted from the upward shift in income.**

3. Racial and Ethnic Disparities in Income Inequality Have Been Increasing in New Jersey Since the Recession.

- **Declines in median household income have been disproportionately larger for Blacks and Hispanics than for White non-Hispanic households since the recession.**
- **White and Asian non-Hispanic households have garnered a disproportionately larger share of total household income than either Black non-Hispanic or Hispanic households.**
- **Household income is distributed more evenly among Black non-Hispanic and Hispanic households than among White and Asian non-Hispanic Households.**
- **The gap between the top and bottom quintiles has been growing for White non-Hispanic, Asian non-Hispanic households and Black households, but decreasing for Hispanic households since the end of the recession.**

Part One—Why Income Inequality Matters

Abundant recent analysis expounds upon the broad negative macroeconomic and social consequences of substantial and widening income and wealth inequality. Of particular note are the sweeping perspectives offered in Joseph Stieglitz's *The Price of Inequality* (2012) and Thomas Piketty's *Capital in the Twenty-First Century* (2014). Regardless of one's particular economic or political views, there can be little disagreement that wide and worsening inequality poses at least some threat to a nation's stability and growth, though there unquestionably is much difference of opinion at the margins of the discussion about the precise implications and seriousness of the increasing gap.

Similarly, much published work advances theories about possible causation of this widening divide. Examination of such contrasting theories is outside the scope of this investigation.

Of more direct pertinence for this report are the microeconomic and social effects of inequality—the consequences at the individual, human level. As noted earlier, the overarching result of persistent and widening inequality is a perceived and experienced sense of unfairness on the part of those not at the top of the economic ladder. Such sentiments can produce disequilibrium and dysfunction, and may be presumed to add fuel to the post-Ferguson demonstrations across the nation.

Beyond this sense of unfairness, numerous studies document many other palpable effects. Some of the more recent include the following:

A. Differences in Various Social Indicators

Variations in income levels make a difference to a family's quality of life. Families with low incomes fare worse than those with higher incomes across a number of social indicators.

Research commissioned by the Sage Foundation found that over time families with lower incomes are increasingly at a disadvantage in the educational preparation of their children. When education depends on the ability to pay, families in the top income quintile are able to spend substantially more on preschool child care than families from the bottom quintile.[5] Similarly, students from families with higher incomes have been able to increase their enrollment in higher education more rapidly than those from families with low incomes.[6]

These findings are supported by the research of Sean Reardon, who contends that the children of the rich are not only performing better in school than their peers from middle-class and poor families, but that their test scores are increasing more rapidly. The academic gap between rich students and middle-class students is growing "because rich students are increasingly entering kindergarten much better prepared to succeed in school than middle-class students."[7] "High-income families are increasingly focusing their resources on their children's cognitive development and educational success," thereby increasing the likelihood of their children's future economic success.

In a different research project, Tara Watson examined the relationship between rising income inequality and residential housing choice in American metropolitan areas between 1970 and 2000.[8] 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 period.

Perhaps the most forthright argument in favor of the connection between income inequality and negative social outcomes has been asserted by Wilkinson and Pickett.[9] 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, "there is certainly some evidence that it [size of the income inequality gap] does have such an effect."[10] 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."[11]

B. Differences in Social Mobility Opportunities

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.[12] 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.

Alan Krueger built on this research to argue that as income inequality increases in the United States the prospects for intergenerational mobility are likely to decrease.[13] 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."[14]

While much research still needs to be done to assess whether rising income inequality has been harmful, there appears to be some evidence that it does. A cautious approach, thus, seems to be in order. To quote a New York Times reporter, Eduardo Porter, "Still, the most solid case to be made for adopting policies to resist the continued widening of the income gap may not depend on unassailable evidence of harm. It may rely, instead, on simple caution."[15]

Part Two—Specific Findings Concerning Income Inequality in New Jersey

1. The Income Gap between the Top Twenty Percent of Households and All Other Income Groups Has Widened since the End of the Recession.

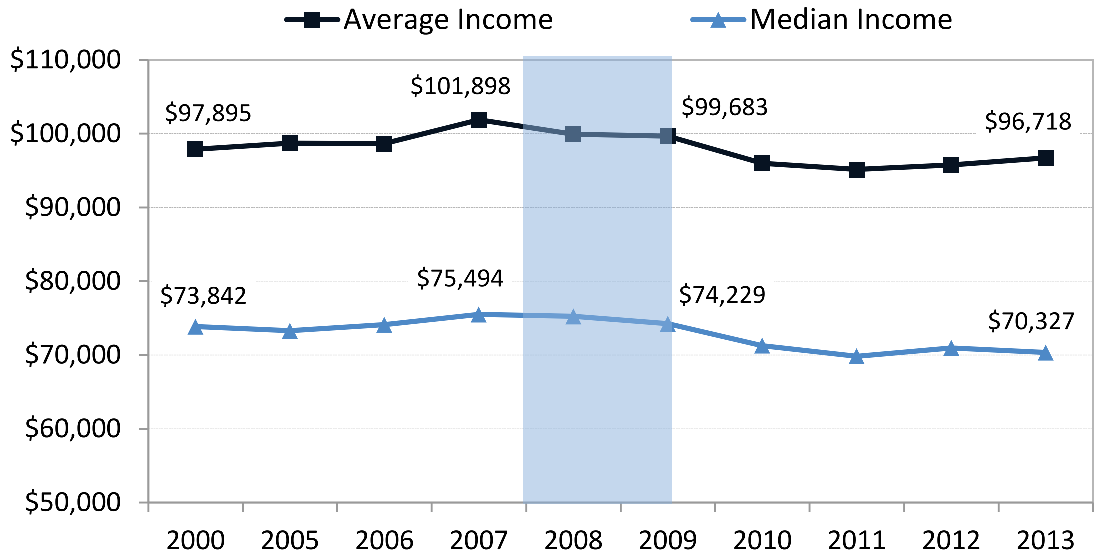
Since the conclusion of the Great Recession, average and median income has declined steadily for the two bottom household quintiles, reaching new lows in 2013. The decrease in average household income has been disproportionately greater for the bottom twenty percent of households than for the any of the other four household quintiles. In contrast, only the average income of the top twenty percent of households has begun to recover in the post-recession period. With the decline in average income of the bottom twenty percent of households and the return to growth in average income of the top twenty percent of households since 2009, the income gap between the top and the two bottom groups has widened.

Average and median household income was lower in 2013 than at the end of the recession.

Before breaking out the total household population into quintiles to consider how the income of each household quintile varies over time, it is important to review overall income trajectory since 2000. In 2013, both average and median income for all households (adjusted for inflation) were lower than in 2009, at the conclusion of the recession, and considerably lower than the 2007 level before the recession, (see figure 1.1). In addition, both average and median household income were lower in 2013 than they were in 2000.

During the business cycle preceding the Great Recession (2000 to 2007), both average and median household income grew, peaking in 2007 at $101,898 and $75,494, respectively. After the outbreak of the Great Recession, in late 2007, both average and median income declined. Although the recession officially ended in July 2009, average and median household incomes declined in 2010 and again in 2011. In 2012, they both rose slightly but both were still below the 2009 levels. In 2013, average household income rose slightly again, while median household income declined. As of 2013, average household stood at $96,718 and median household income at $70,327, indicating rising income inequality. The ratio between average and median household income, which was 1.33 in 2000, rose to 1.35 in 2007 and still further to 1.38 in 2013.

Figure 1.1: Median & Average Household Income, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars; Shaded Area Denotes Recession

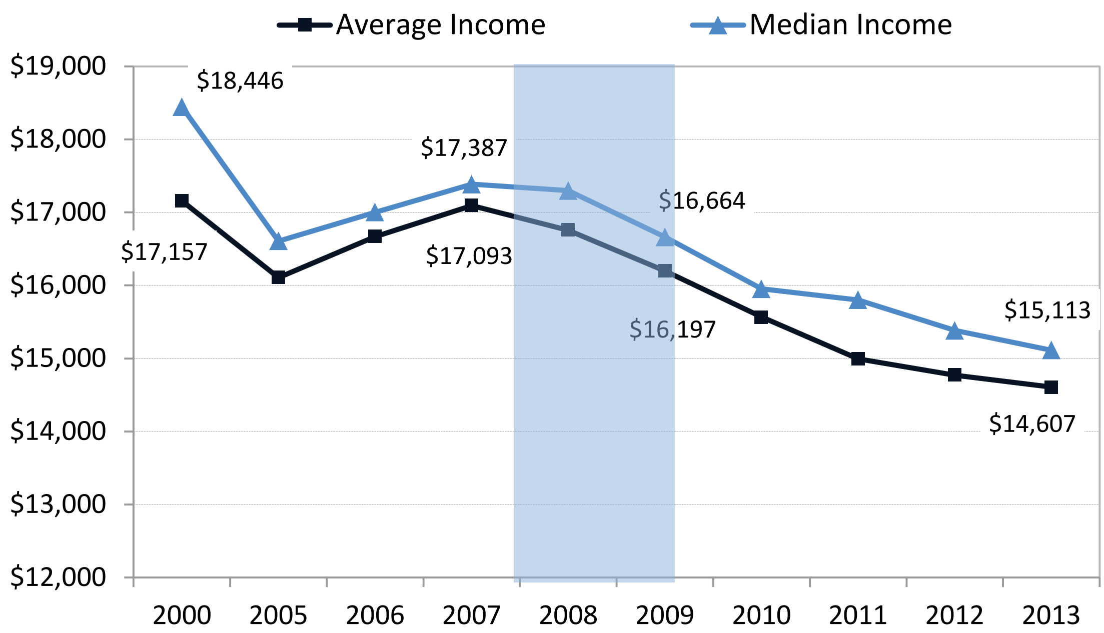
The two bottom household quintiles have experienced a continuous decline in average and median income since 2009.

The two bottom household quintiles have endured a steady decline in income since 2009 (see figures 1.2, 1.3 and table 1.1). While average and median household income for the bottom twenty percent of households was already lower going into the recession than in 2000, and declined during the recession, both have continued to decline steadily since 2009, reaching their lowest levels in 2013.

The periodic decreases in average income of the bottom twenty percent were disproportionately larger than for any other household quintile. From 2000 to 2007 average income declined minimally—by 0.4 percent (see figure 1.5). During the recession there was a further 5.2 percent decline, and after the recession an even larger decrease of 9.8 percent. Overall, from 2000 to 2013 average income for the bottom twenty percent of households declined from $17,157 to $14,607, a decrease of $2,550, or 14.9 percent.

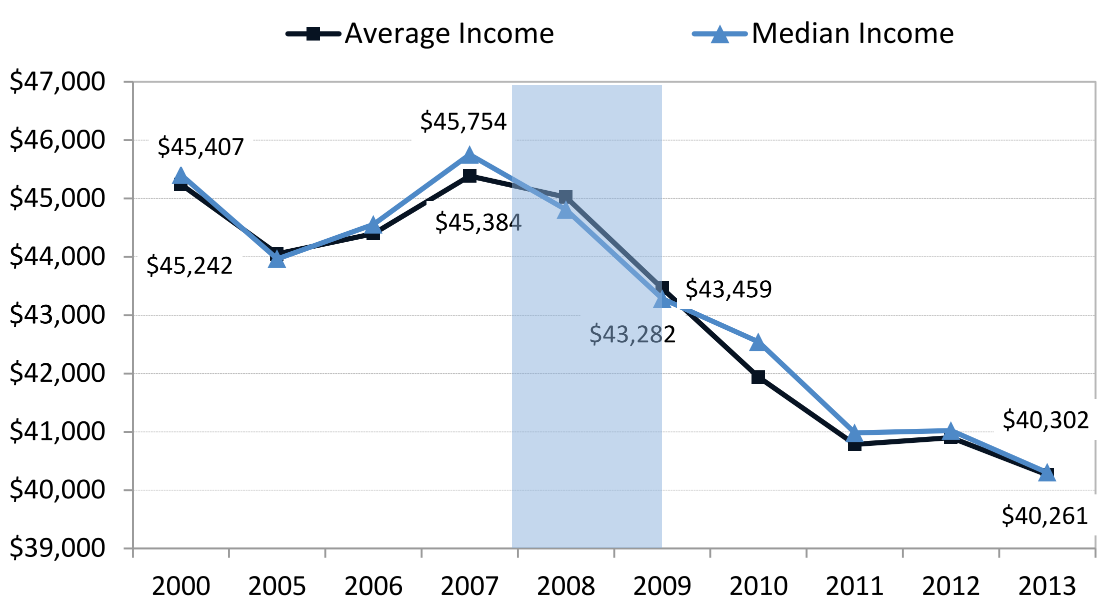
While the second household quintile benefitted from a slight rise in average household income in the period leading up to the recession thereafter average household income declined by 4.2 percent during the recession, and a further 7.4 percent after the conclusion of the recession. Between 2000 and 2013 average income for the second quintile declined from $45,242 in 2000 to $40,261 in 2013, a decrease of $4,981 or 11.0 percent.

Figure 1.2: Median & Average Household Income for the Bottom Twenty Percent of Households, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars; Shaded Area Denotes Recession

Figure 1.3: Median & Average Household Income for the Second Twenty Percent of Households, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars; Shaded Area Denotes Recession

Table 1.1: Change in Average Household Income by Quintile Before and After the Great Recession, New Jersey

	Bottom 20 Percent	Second Fifth	Middle Fifth	Fourth Fifth	Top 20 Percent
2000	$17,157	$45,242	$74,740	$114,430	$237,264
2005	$16,108	$44,051	$73,778	$114,138	$244,198
2006	$16,668	$44,397	$74,094	$114,601	$242,068
2007	$17,093	$45,384	$75,681	$117,065	$253,184
2008	$16,758	$45,024	$75,188	$115,265	$246,428
2009	$16,197	$43,459	$74,553	$114,973	$248,112
2010	$15,567	$41,936	$71,631	$112,233	$238,080
2011	$14,996	$40,785	$70,490	$111,531	$237,593
2012	$14,772	$40,900	$70,977	$111,700	$240,355
2013	$14,607	$40,261	$70,200	$111,316	$244,575
2000 to 2007	($64)	$143	$940	$2,635	$15,920
2007 to 2009	($896)	($1,925)	($1,128)	($2,092)	($5,071)
2009 to 2013	($1,590)	($3,198)	($4,352)	($3,657)	($3,537)
2000 to 2013	($2,550)	($4,981)	($4,540)	($3,114)	$7,312

Source: PUMS 2000, 2007, 2009, 2013
Note: 2013 Dollars

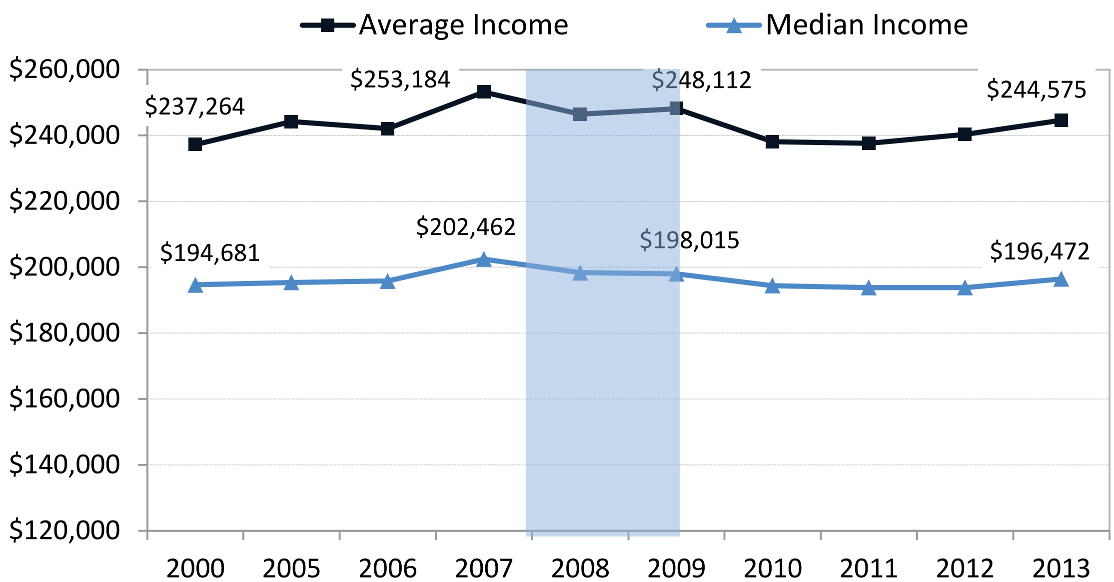
Only the top twenty percent of households has begun to experience a growth in income in the post-recession period.

The top twenty percent of households, unlike the other four household quintiles, has been the only household group to begin to experience a rise in income in recent years. Although the average income of the top twenty percent of households stood at $244,575 in 2013, lower than the $248,112 at the end of the recession, it was higher than the $237,593 low mark in 2011 (see figure 1.4).

The absolute dollar declines in average income during and after the recession were larger for the top twenty percent of households than for the other household quintiles; however, the percentage decreases were smaller (see table 1.1 and figure 1.5).

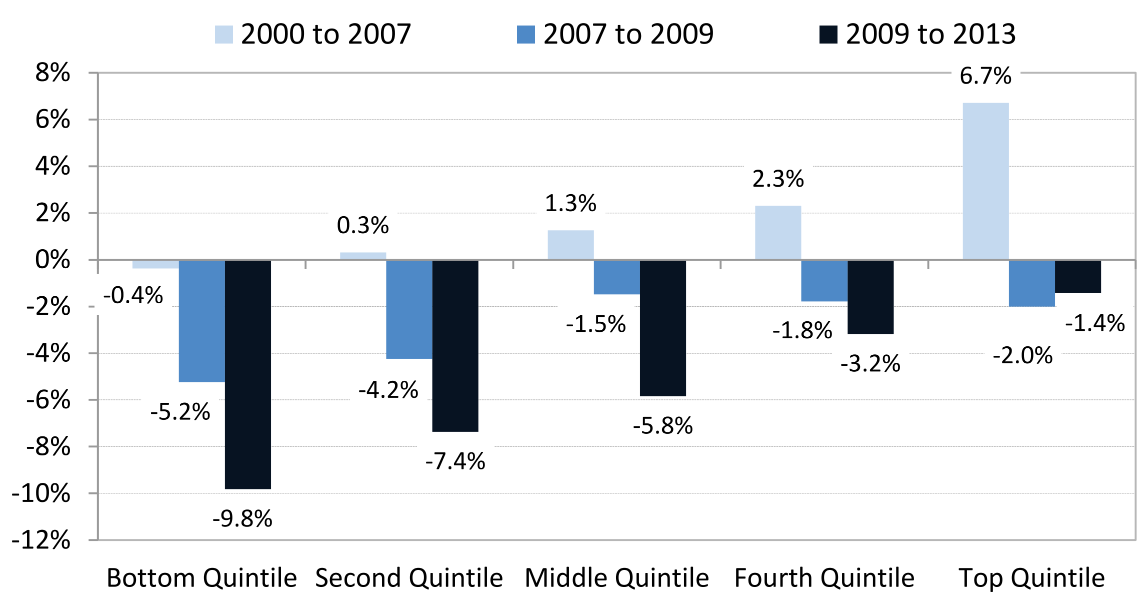
Median household income for the top twenty percent of households has also begun to recover, climbing from a low of $193,846 in 2011 to $196,472 in 2013.

Figure 1.4: Median & Average Household Income for the Top Twenty Percent of Households, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars; Shaded Area Denotes Recession

Figure 1.5: Percentage Change in Average Household Income by Quintile Before and After the Great Recession, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars

The income gap between the top twenty percent and the bottom twenty percent has widened steadily since 2009.

With the decline in average income of the bottom twenty percent of households and the return to growth in average income of the top twenty percent of households since 2009, the income gap between the two groups has widened. One method to evaluate variations in the size of the gap and thereby to assess changes in income equality is to calculate the "80/20 ratio." This statistic divides the income threshold above which a household earns more than 80 percent of all other households by the income threshold below which only 20 percent of all households fall.

This statistic shows that income inequality has grown consistently in New Jersey (see table 1.2). In 2000, the income threshold of the top twenty percent of households was more than 4.56 times larger than the income threshold of the bottom twenty percent of households. This ratio grew to 4.65 times in 2007, at the onset of the recession, widened further during the recession to slightly more than 4.84 times in 2009 and then increased still further to 5.22 times in 2013.

Table 1.2: Ratio of 80th Income Threshold to 20th, 40th, & 60th Income Thresholds, New Jersey

	80/20	80/40	80/60
2000	4.56	2.43	1.54
2005	4.72	2.44	1.56
2006	4.66	2.44	1.54
2007	4.65	2.46	1.56
2008	4.55	2.42	1.54
2009	4.84	2.48	1.54
2010	4.98	2.55	1.60
2011	5.10	2.56	1.60
2012	5.10	2.60	1.59
2013	5.22	2.60	1.60

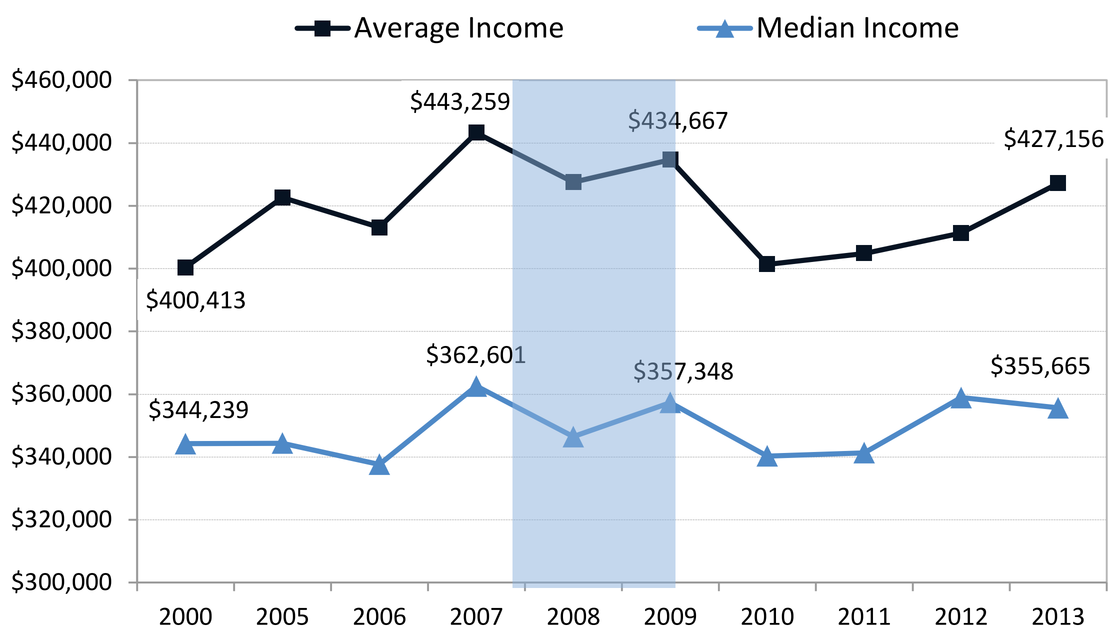
Source: PUMS 2000, 2005 to 2013

Similarly, the gap between the top twenty percent of households and the second twenty percent and middle twenty percent has grown since 2000, with the "80/40 ratio" and the "80/60 ratio" reaching 2.6 times and 1.59 times in 2013, respectively.

The increase in average and median income of the top 5 percent far exceeds that of any other household group.

A closer examination of the top twenty percent of households shows that within that group the increase in average income since 2000 was primarily a consequence of the substantial increase in income of the top 5 percent in the pre-recession period. Unlike the lower quintiles, both average and median household income have been increasing for the top five percent of households since 2010, although it has yet to return to the pre-or post-recession levels of 2007 and 2009 (see figure 1.6 and table 1.3).

Figure 1.6: Median & Average Household Income for the Top Five Percent of Households, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars

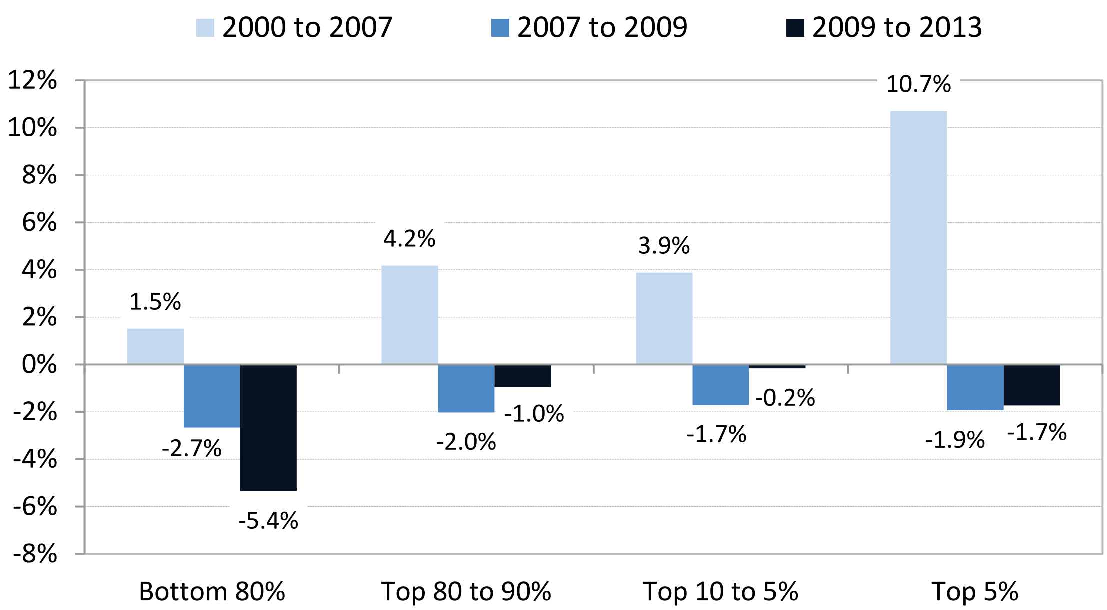
Between 2000 and 2007, average household income for the top 5 percent grew by $42,846 or 10.7 percent, more than two and a half times greater than for the top twenty percent as a whole (see figure 1.7 & table 1.3). Despite declines in average household income for this group of $8,592 during the recession and another $7,511 since the recession, from 2000 to 2013 average household income for the top five percent of households rose by $26,743, or 6.7 percent above the 2000 level.

Table 1.3: Average Household Income by Income Group for the Top Twenty Percent Before and After the Great Recession, New Jersey

	Top 80 Percent to Top 90 Percent	Top 10 Percent to Top 5 Percent	Top 5 Percent
2000	$163,174	$222,077	$400,413
2005	$165,200	$221,908	$422,636
2006	$165,702	$221,775	$413,148
2007	$169,982	$230,686	$443,259
2008	$166,689	$224,639	$427,531
2009	$166,548	$226,717	$434,667
2010	$164,691	$219,865	$401,387
2011	$163,231	$218,303	$404,824
2012	$164,316	$218,670	$411,303
2013	$164,956	$226,350	$427,156
2000 to 2007	$6,808	$8,608	$42,846
2007 to 2009	($3,433)	($3,968)	($8,592)
2009 to 2013	($1,592)	($367)	($7,511)
2000 to 2013	$1,782	($4,273)	$26,743

Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars

Figure 1.7: Percentage Change in Average Household Income by Income Group for the Top Twenty Percent of Households Before and After the Great Recession, New Jersey



Source: PUMS 2000, 2007, 2009, 2013
Note: 2013 Dollars

The income gap between the top 5 percent and the bottom and middle of the income spectrum has widened since 2009.

Applying a "95/20 ratio" to examine the disparity in income between the top 5 percent of households and the bottom twenty percent, as well as a 95/40 ratio and a 95/60 ratio to evaluate income disparities between the top five percent and the middle income brackets, it is apparent that inequality has been growing. The 95/20 ratio increased from 9.06 times in 2009 to 9.89 times in 2013, while the 95/40 ratio grew from 4.65 times to 4.93 times. The 95/60 ratio increased from 2.89 times in 2009 to 3.02 times in 2013.

Table 1.4: Ratio of 95th Income Threshold to 20th, 40th, & 60th Income Thresholds, New Jersey

	95/20	95/40	95/60
2000	8.41	4.49	2.85
2005	8.55	4.42	2.83
2006	8.34	4.37	2.76
2007	8.56	4.53	2.87
2008	8.34	4.43	2.82
2009	9.06	4.65	2.89
2010	8.99	4.61	2.88
2011	9.23	4.64	2.89
2012	9.26	4.71	2.88
2013	9.89	4.93	3.02

Source: PUMS 2000, 2005 to 2013

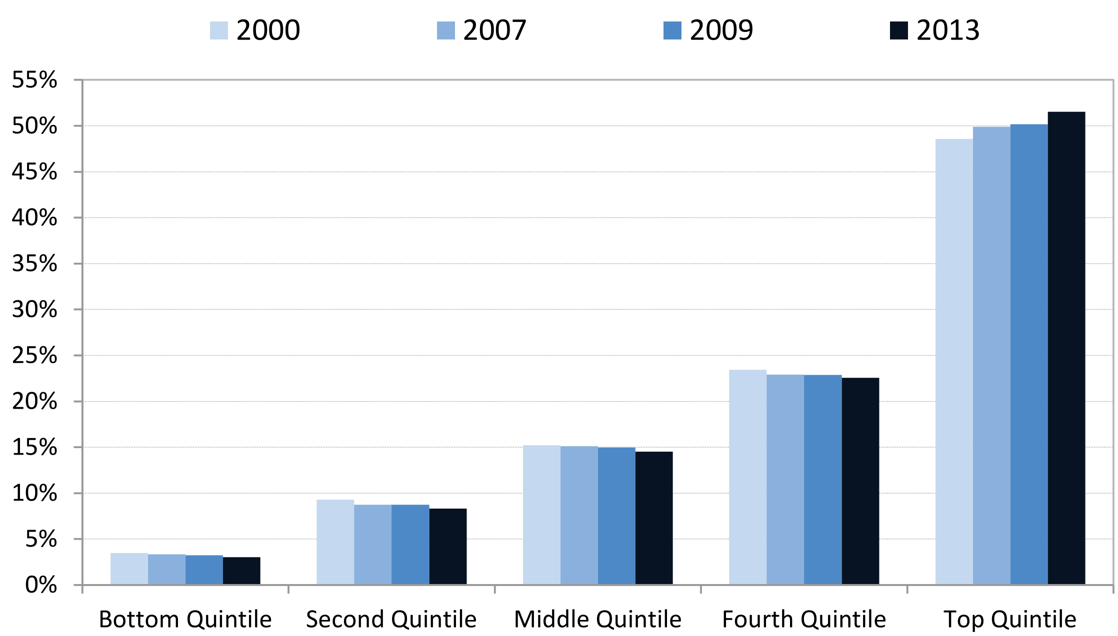
2. The Share of Income Held by the Top Twenty Percent Has Been Increasing Steadily, While the Share of Income for the Bottom Eighty Percent Has Been Declining Steadily.

Since the end of the recession, the share of total income accruing to the bottom twenty percent of households has steadily diminished, while the share of total income accruing to the top twenty percent has expanded. Moreover, the difference in the share of income held by the top twenty percent of households and the bottom twenty percent was greater in 2013 than in any year since 2000.

The gap in income share between the top twenty percent and the bottom eighty percent has been widening steadily.

Although the recession ended in July 2009, the share of income accruing to the top fifth of households reached its highest level in 2013, while it declined to the lowest levels for the four other household groups (see figure 2.1). The gap between the top twenty percent of households and the bottom, second, and middle quintiles has been widening slowly.

Figure 2.1: Share of Household Income by Income Quintile, New Jersey



Source: PUMS 2000, 2007, 2009, & 2013

Although the top fifth's share of total income fell slightly during the recession, it rose again in 2009. Since the conclusion of the recession, it regained its upward trajectory and in 2013, the top twenty percent received more than 51 percent of all household income.

In contrast, the bottom, second, middle, and fourth quintiles have lost income share since 2000. In 2013, the bottom fifth received just 3.0 percent of the total income produced in the New Jersey economy, down from 3.5 percent in 2000. At the beginning of the recession, its share was 3.4 percent and this declined to 3.3 percent at the conclusion of the recession.

Similarly, the income share of the second quintile declined from 9.3 percent in 2000, to 8.8 percent in 2007, to 8.7 percent in 2009 and, thereafter, to 8.3 percent in 2013. The middle quintile's share was 14.5 percent in 2013, shrinking from 15.2 percent in 2000, to 15.1 percent in 2007, to 15.0 percent in 2009. The income share of the fourth quintile declined from 23.4 percent in 2000 to 22.9 percent in 2007, remained steady at 22.9 percent in 2009 and then declined to 22.6 percent in 2013.

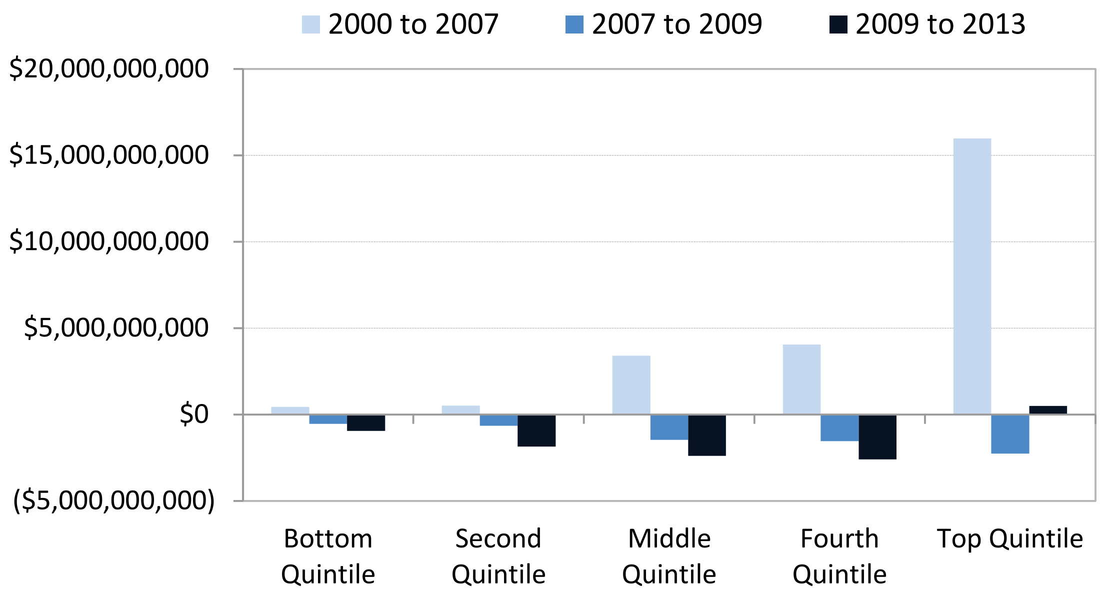
Only the top quintile has gained income since the end of the recession.

Since the end of the recession, the total income held by the four bottom household quintiles has decreased. In contrast, total income has increased only for the top quintile. While the four bottom quintiles all gained income before the recession, the gains were not sufficient to offset the subsequent income decreases sustained during the recession and since the end of the recession. In contrast, the income gains of the top twenty percent of households since the end of the recession, together with the huge increase in total income prior to the recession, have resulted in an overall increase in total income for this group.

Between 2000 and 2007, total income held by the bottom four quintiles increased slightly (see figure 2.2). During the recession, however, the trend reversed and total income declined for each household group. The decreases in total income continued after the conclusion of the recession. As of 2013, total income accruing to each of the bottom four quintiles was at its lowest level since 2000.

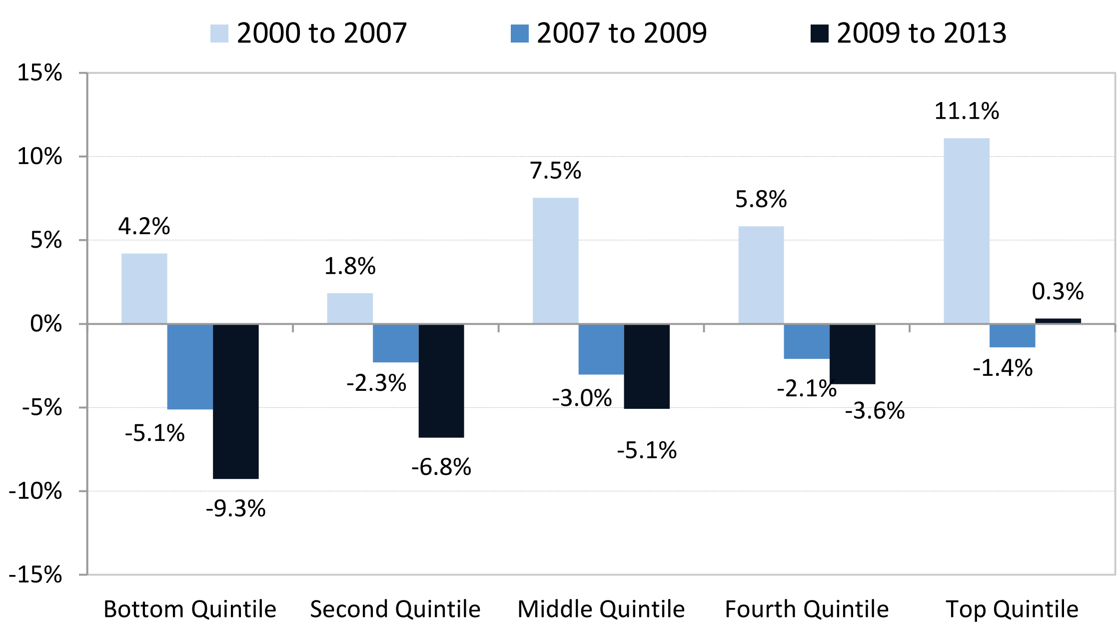
Since the recession, the losses of the bottom twenty percent have been disproportionately larger than for any other quintile—a 9.3 percent decrease in total income (see figure 2.3). Between 2000 and 2013, total income of the bottom twenty percent declined by 10.3 percent. The second quintile's total income has decreased by 6.8 percent since the recession and by 7.3 percent since 2000. The middle quintile experienced a 5.1 percent decrease in income since the recession and an overall decrease of 1.0 percent since 2000. The fourth quintile's loss since the recession has been 3.6 percent, while the decrease since 2000 has been minimal—less than 0.5 percent.

Figure 2.2: Absolute Change in Household Income by Quintile, New Jersey



Source: PUMS 2000, 2007, 2009, & 2013
Note: 2013 Dollars

Figure 2.3: Percentage Change in Household Income by Quintile, New Jersey



Source: PUMS 2000, 2007, 2009, & 2013

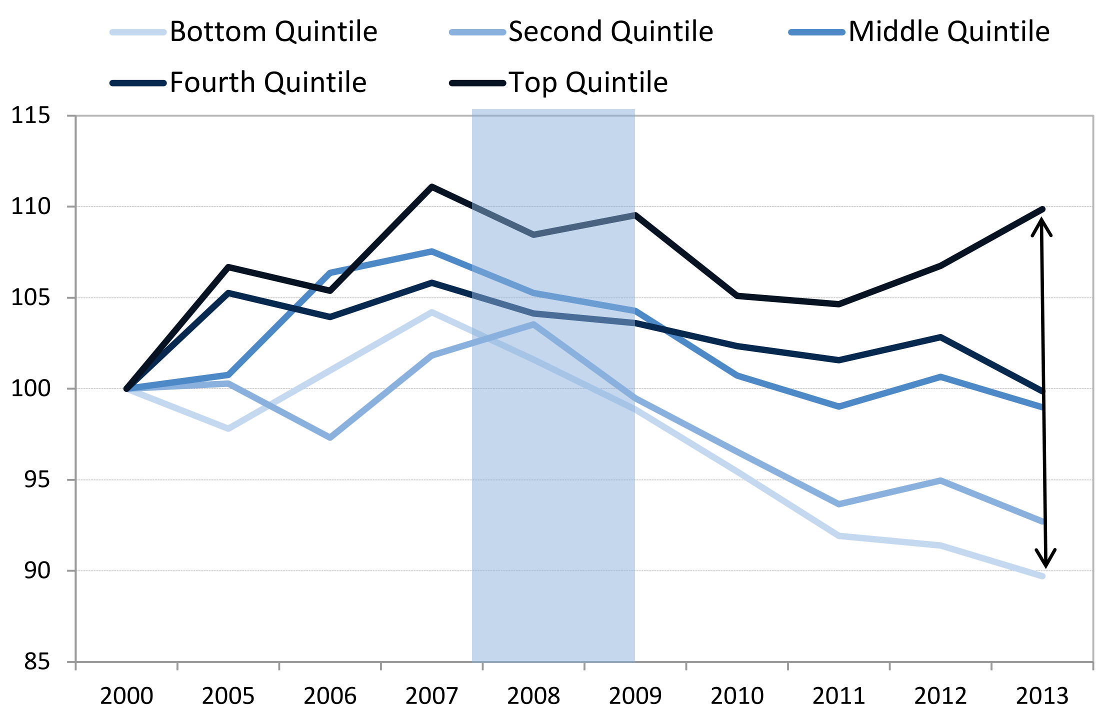
In contrast, the top twenty percent's more than 11.0 percent income gain between 2000 and 2007 provided it with more than enough cushion to withstand the income losses incurred during the recession. Moreover, since the conclusion of the recession total income for this group has again increased. Overall, total income held by the top twenty percent has increased by 9.9 percent since 2000.

The divergence in total income between the bottom and top income quintiles was larger in 2013 than at any time since 2000.

Income divergence between the top and bottom quintiles was largest in 2013. While total income accruing to the bottom quintile was lower in 2013 than in any year since 2000, the income accruing to the top quintile was larger in 2013 than in any year since 2000.

In the chart below, total income for each quintile is indexed at 100 in 2000. While the index for the top quintile stood at 109.9 in 2013, it declined to 89.7 for the bottom income quintile, a difference of 20.2 points (see figure 2.4). In 2007, at the outset of the recession the difference between the top and bottom quintiles was 6.9 points. In 2009, at the conclusion of the recession, it rose to 10.7 points.

Figure 2.4: Absolute Total Household Income by Quintile Relative to 2000, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars; Shaded Area Denotes Recession

The growth in income inequality can also be shown by the growth in the ratios between the top quintile and the bottom four quintiles. While the total income held by the top quintile was about 14 times that held by the bottom quintile in 2000, it increased to 14.9 at the outset of the recession, jumped to 15.5 at the conclusion of the recession, and then increased to 17.1 in 2013.

Similarly, the ratio of the income held by the top quintile to the second quintile rose from 5.2 times in 2000 to 6.2 times in 2013, while the ratios between the top and the middle quintile and fourth quintile increased from 3.2 times and 2.1 times in 2000 to 3.6 times and 2.3 times in 2013, respectively.

Table 2.1: Ratio of Household Income for Top Quintile to the Other Three Quintiles, New Jersey

	Bottom Quintile	Second Quintile	Middle Quintile	Fourth Quintile
2000	13.95	5.22	3.19	2.07
2007	14.87	5.70	3.30	2.18
2009	15.46	5.75	3.36	2.19
2013	17.09	6.19	3.55	2.28

Source: PUMS 2000, 2007, 2009, & 2013

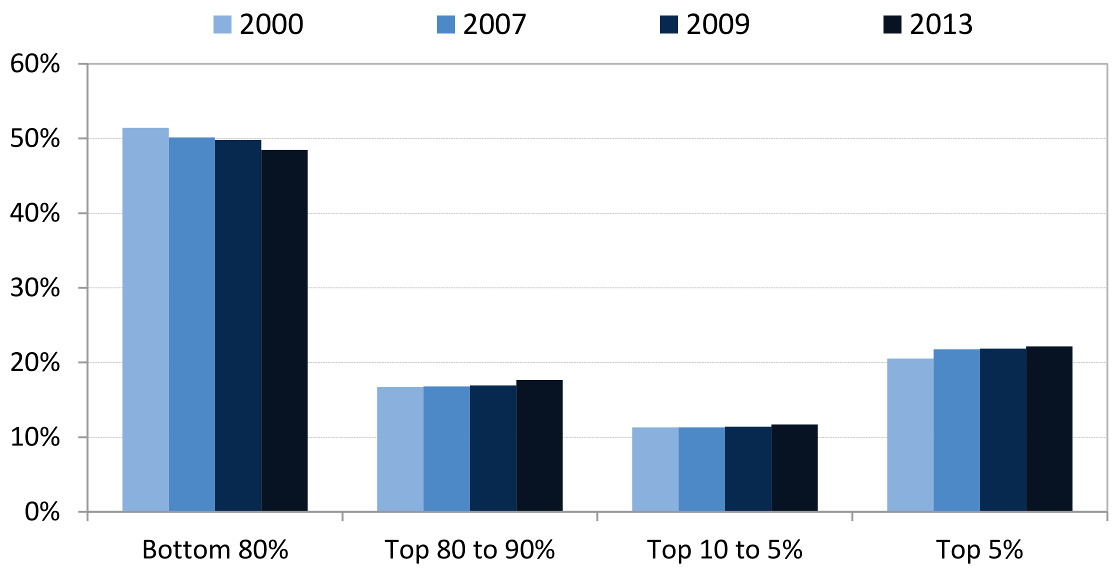
Within the top twenty percent of households, all groups have benefitted from the upward shift in income.

Since the end of the recession, the income share of the different groups making up the top twenty percent of households has been growing, while the share of the bottom eighty percent has decreased (see figure 2.5). Between 2009 and 2013, the share of income accruing to the lower decile (top 80 percent to 90 percent) increased from 17.0 percent to 17.7 percent of total. The share accruing to the next 5 percent (top 10 percent to top 5 percent) grew from 11.4 percent to 11.7 percent, while the share of the top 5 percent increased from 21.9 percent to 22.2 percent.

In 2013 the income levels of the households in the various top income groups were well above their 2000 levels. The large income gains made in the pre-recession period have more than made up for the losses suffered by these groups during the recession as well as the slight decline experienced by the top 5 percent since the recession (see figures 2.6 and 2.7). The income accruing to the three groups making up the top twenty percent was 9.3 percent, 7.4 percent, and 11.7 percent higher in 2013 than they had been in 2000, respectively. Nevertheless, the annual level of income received by the top 5 percent was still slightly less in 2013 than it had been in 2009, although the two other groups have surpassed their 2009 levels.

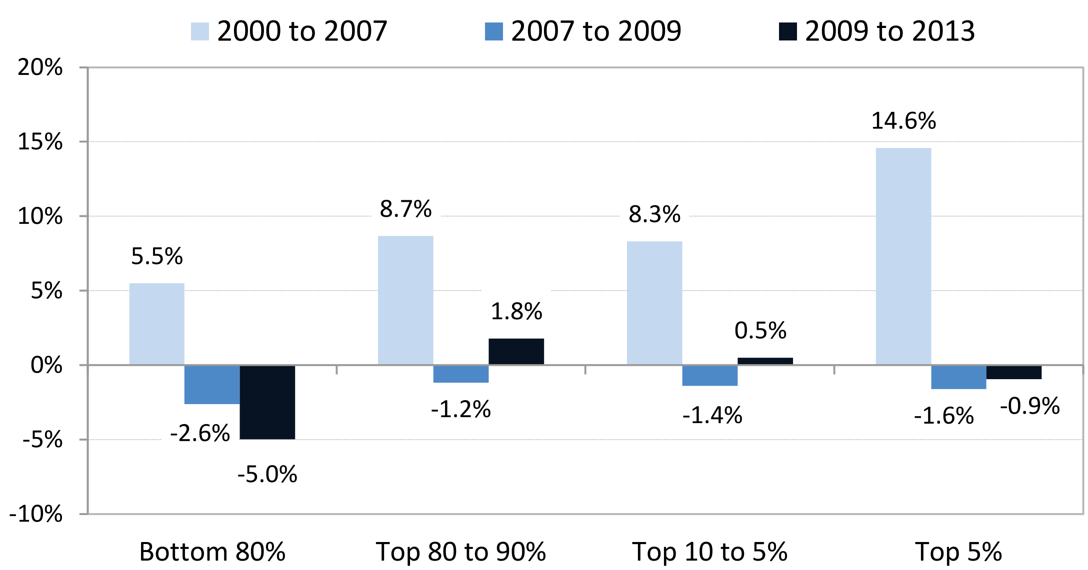
In contrast, the total income accruing to the bottom 80 percent of households was 2.4 percent lower in 2013 than it had been in 2000 and 5.0 percent lower than it was at the end of the recession.

Figure 2.5: Share of Household Income by Income Group in the Top Quintile, New Jersey



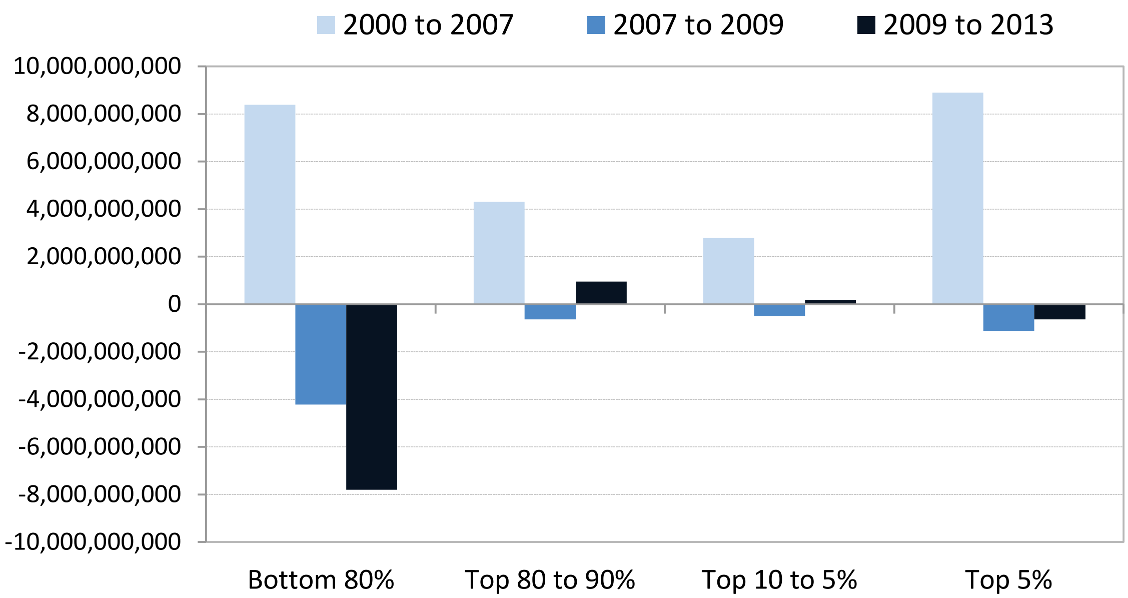
Source: PUMS 2000, 2007, 2009, & 2013
Note: 2013 Dollars

Figure 2.6: Percentage Change in Household Income by Income Group, New Jersey



Source: PUMS 2000, 2007, 2009, & 2013

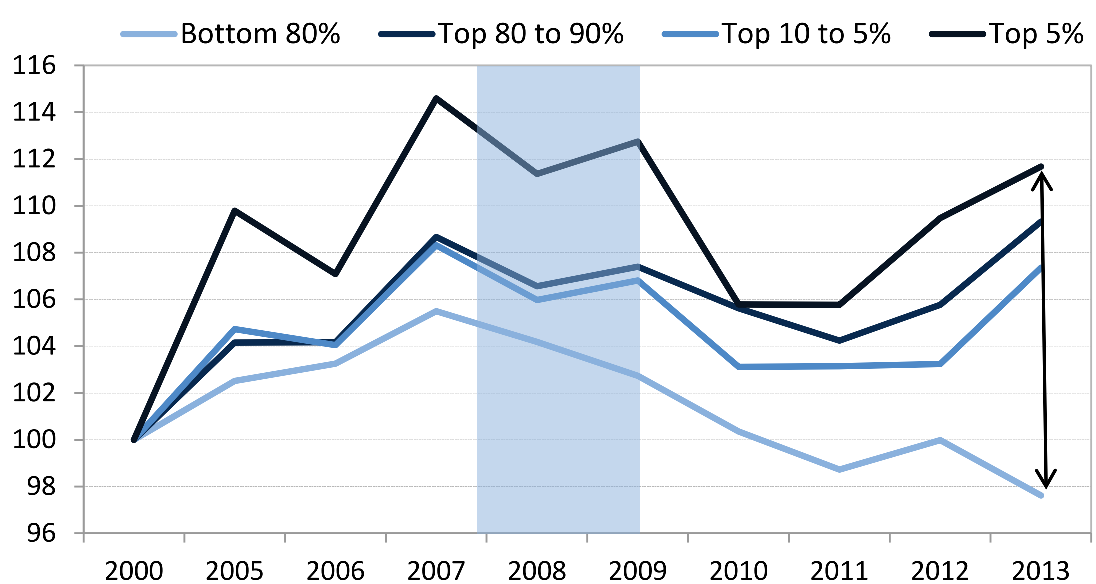
Figure 2.7: Absolute Change in Household Income by Income Group, New Jersey



Source: PUMS 2000, 2007, 2009, & 2013
Note: 2013 Dollars

As a result, in 2013 the gaps between the bottom 80 percent and the three top household groups were wider in 2013 than in any other year since 2000 (see figure 2.8).

Figure 2.8: Absolute Household Income by Income Group Relative to 2000, New Jersey



Source: PUMS 2000, 2007, 2009, & 2013
Note: 2013 Dollars

3. Racial and Ethnic Disparities in Income Inequality Have Been Increasing in New Jersey Since the Recession.

Racial and ethnic disparities in income inequality have increased in New Jersey since the end of the recession. When viewing the population as a whole, a disproportionately larger share of total income accrues to White and Asian non-Hispanic households than to Black non-Hispanic or Hispanic households. Although the share of total income held by White non-Hispanic households has declined since 2000, the differential between their share of total income and their representation in the total population has grown because their representation in the population has decreased by a larger percentage. The converse is true for Black non-Hispanic and Hispanic households. Their representation in the population is larger than their share of total income, and the differential has increased.

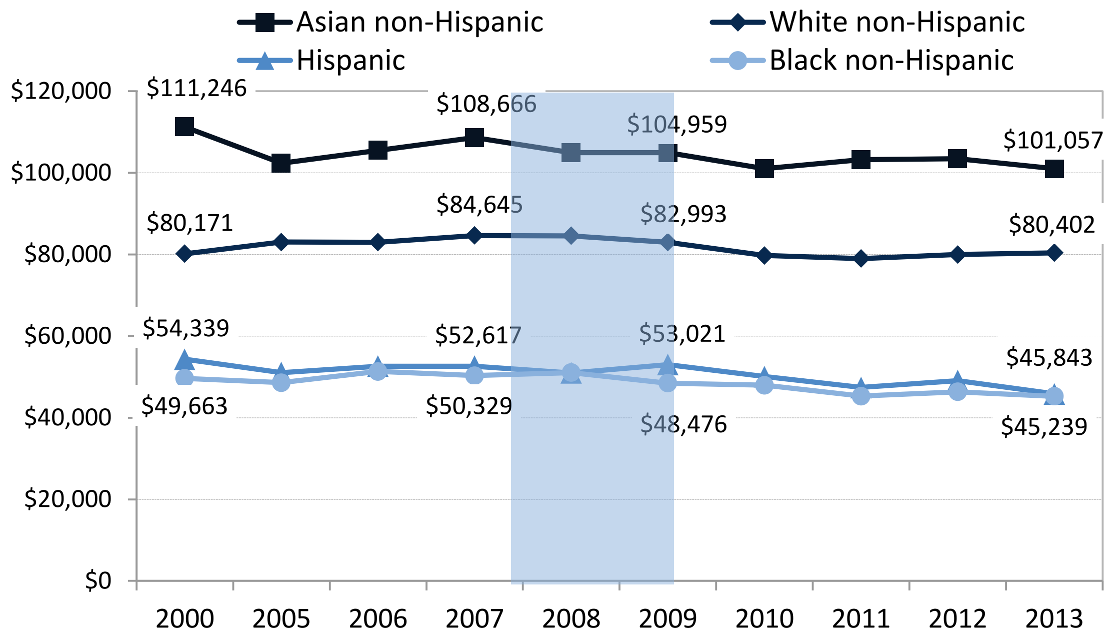
Similarly, when dividing the population into income quintiles, White and Asian non-Hispanic households make up a disproportionately larger share of the top quintile and a disproportionately smaller share of the bottom quintile. In contrast, Black non-Hispanic and Hispanic household representation is disproportionately much larger in the bottom quintile than the top quintile. As a result, household income is distributed more evenly among Black non-Hispanic and Hispanic households than it is among White and Asian non-Hispanic households.

Declines in median household income have been disproportionately larger for Blacks and Hispanics than for White Non-Hispanic households since the recession.

Before examining racial and ethnic disparities in income inequality, it is important to review income trajectory for each racial or ethnic group. Median household income has declined for the major racial and ethnic groups since 2000. These declines in median income, however, have been disproportionately larger for Black and Hispanic households than for White non-Hispanic households. As a result, income disparities between White non-Hispanic households, on the one side, and Black non-Hispanic and Hispanic households, on the other, have widened. Moreover, the divergence has increased since the conclusion of the Great Recession. Non-Hispanic Black and Hispanic median household income as a share of White non-Hispanic household income declined to its lowest level in 2013.

Median household income for White non-Hispanic households, which stood at $80,171 in 2000, increased during the business cycle prior to the recession to reach a high of $84,645 in 2007 (see figure 3.1). Coming out of the recession, median household income for White non-Hispanic households fell to $82,993 in 2009. Thereafter, it continued to decrease, reaching a low of $79,013 in 2011. In 2012, it rebounded slightly, and rose again in 2013 to $80,402.

Figure 3.1: Median Household Income by Race & Ethnicity, New Jersey



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars; Shaded Area Denotes Recession

Black non-Hispanic households experienced only minimal gains between 2000 and 2007; their median household income increased from $49,663 to a high of $50,329. During the recession median income for Black households fell to $48,476 in 2009. Since the recession median income has continued to decline, reaching a low of $45,239 in 2013.

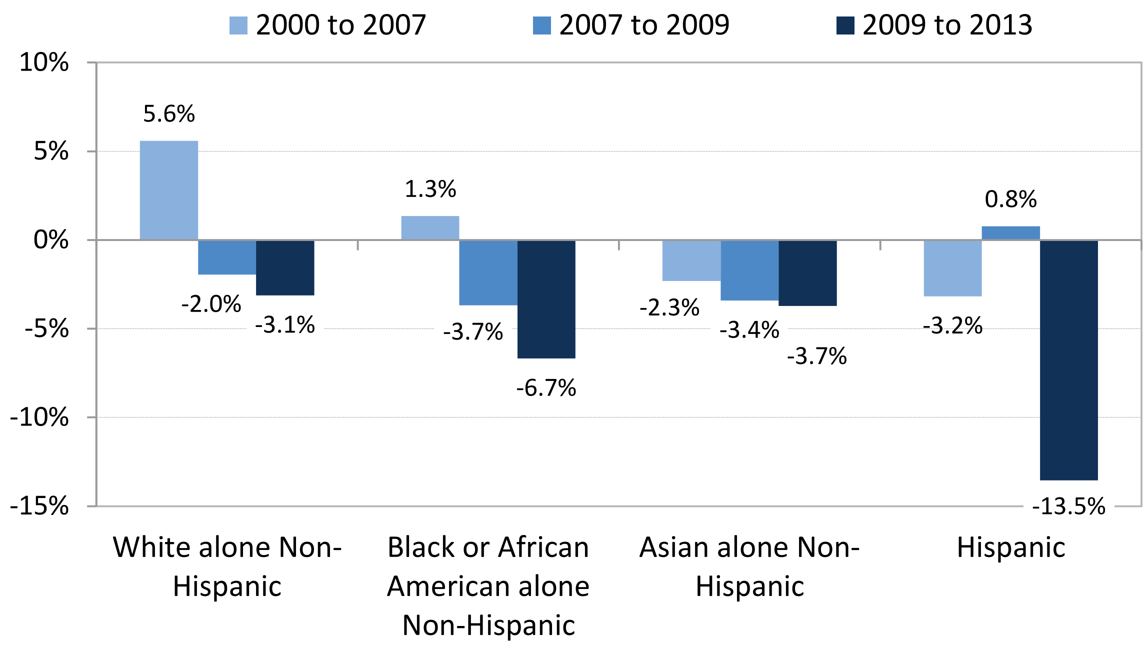
Unlike median income for White non-Hispanic and Black non-Hispanic households, median income failed to rise for Hispanic households in the 2000 to 2007 period, falling from $54,339 in 2000 to $52,617 in 2007. During the recession, however, it increased slightly reaching $53,021 in 2009. After the recession it began to decline again, reaching a new low of $45,843 in 2013.

Since the recession, the decreases in median income have been disproportionately larger for Black and Hispanic households than for either White non-Hispanic or Asian households (see figure 3.2). Overall, between 2000 and 2013, median income of White non-Hispanic households barely declined, dropping slightly more than a quarter of a percent. After rising by 5.6 percent prior to the recession, White non-Hispanic median household income declined by 2.0 percent during the recession and a further 3.1 percent after the recession.

In contrast, Black non-Hispanic median household income grew by only 1.3 percent before the recession, declined by 3.7 percent during the recession and another 6.7 percent after the recession. As of 2013, Black median household income was 8.9 percent below its 2000 level.

Median household income for Hispanic households declined by 3.2 percent in the period leading to the recession, rose just under one percent during the recession, but has fallen by 13.5 percent since the recession. Overall, Hispanic median income is 15.6 percent below its 2000 level.

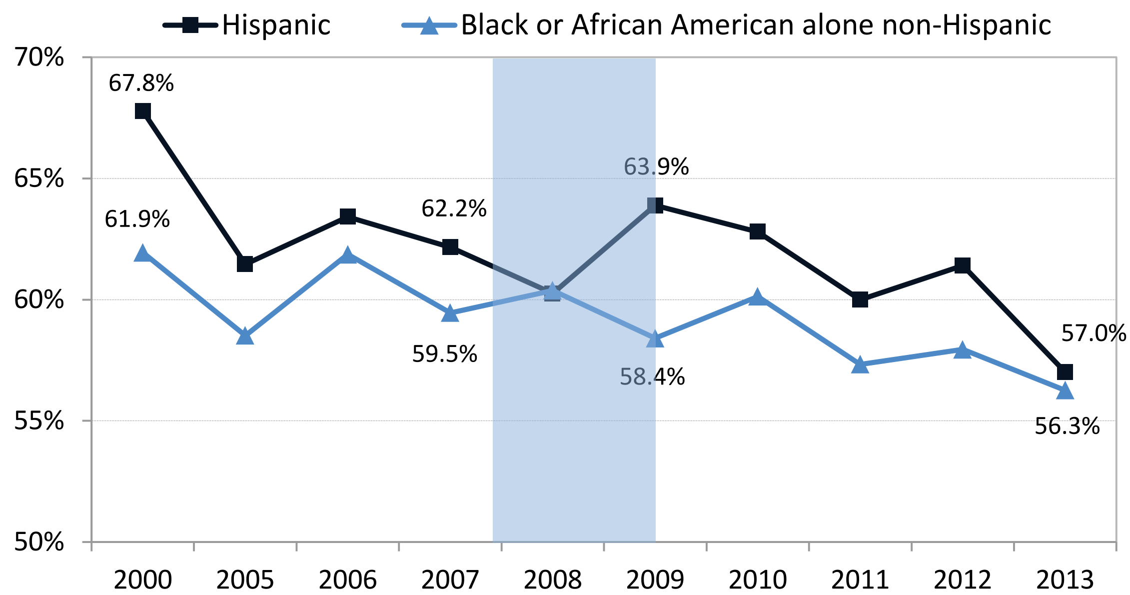
Figure 3.2: Change in Median Household Income by Race & Ethnicity, New Jersey



Source: PUMS 2000, 2007, 2009, & 2013
Note: 2013 Dollars

Black non-Hispanic and Hispanic median household income as a share of White non-Hispanic median household income stood at their lowest levels in 2013—56.3 percent and 57.0 percent, respectively. In 2000, their median household income was 61.9 percent and 67.8 percent of White non-Hispanic median household income, respectively. By 2007, the respective shares had fallen to 59.5 percent and 62.2 percent. In 2009, the relative position of Hispanic households improved slightly, rising to 63.9 percent, while that of Black non-Hispanic households declined further, falling to just 58.4 percent of White non-Hispanic median income.

Figure 3.3: Black Non-Hispanic & Hispanic Median Household Income as a Share of White Non-Hispanic Median Household Income



Source: PUMS 2000, 2005 to 2013
Note: 2013 Dollars; Shaded Area Denotes Recession

White and Asian non-Hispanic households have garnered a disproportionately larger share of total household income than either Black non-Hispanic or Hispanic households.

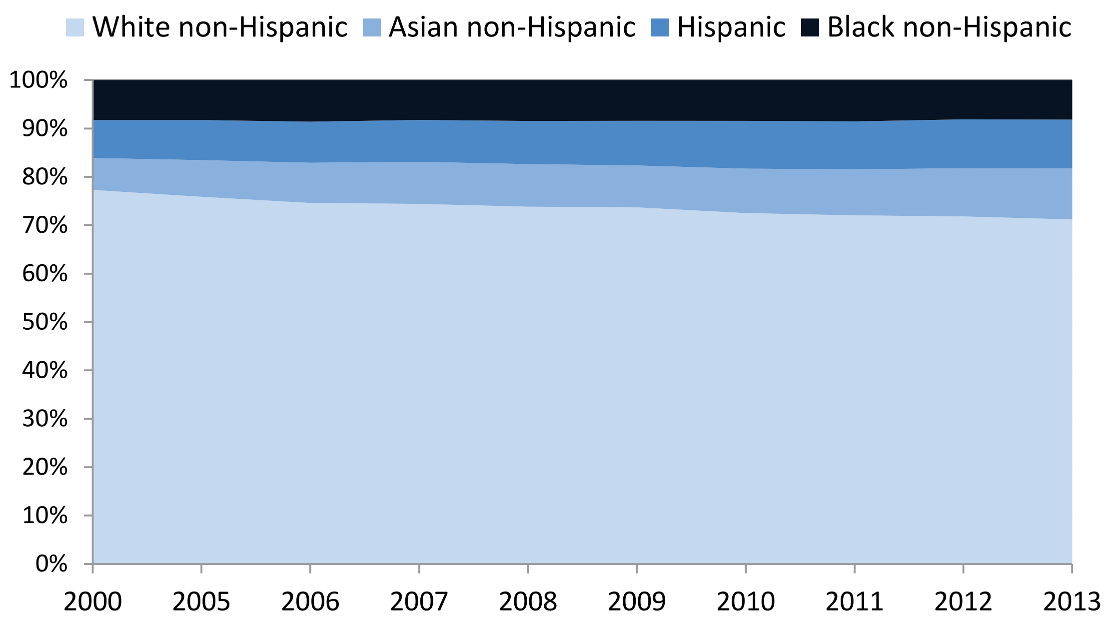
In 2000, 77.3 percent of total income accrued to White non-Hispanic households, while their share of the household population was 72.3 percent, a five-percentage point differential.[16] By 2013, White non-Hispanic households held 71.2 percent of total household income; however, their share of the total household population had declined to 64.0 percent, a 7.2 percentage point differential.

The share of Asian non-Hispanic households has increased steadily, rising from 5.1 percent in 2000 to 7.8 percent in 2013. Likewise, the share of total income accruing to Asian non-Hispanic households increased from 6.6 percent in 2000 to 10.5 percent in 2013, increasing the differential from 1.5 percentage points to 2.7 percentage points.

In contrast, the share of income accruing to both Black non-Hispanic and Hispanic households has consistently been less than their representation in the total household population. While Black non-Hispanic households were 11.6 percent of all households in 2000, only 8.3 percent of total income accrued to them, a 3.3 percentage point differential. By 2013, their share of the total households had risen to 12.9 percent, but their share of total household income had grown to only 8.2 percent, a 4.7 percentage point differential. Similarly, the share of Hispanic households increased from 10.9 percent in 2000 to 15.3

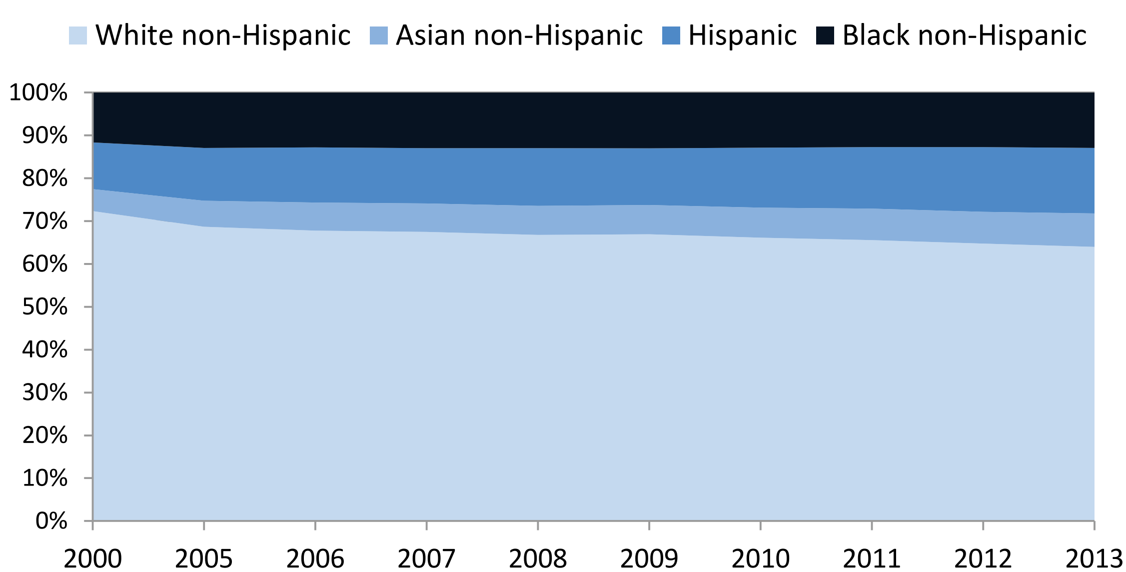
percent in 2013, while their share of total household income grew from 7.9 percent to 10.1 percent, respectively, increasing the differential from a 3 percentage point to a 5.2 percentage point differential.

Figure 3.4: Share of Household Income Accruing to Each Racial/Ethnic Group, New Jersey



Source: PUMS 2000, 2005 to 2013

Figure 3.5: Share of Households by Racial/Ethnic Group, New Jersey

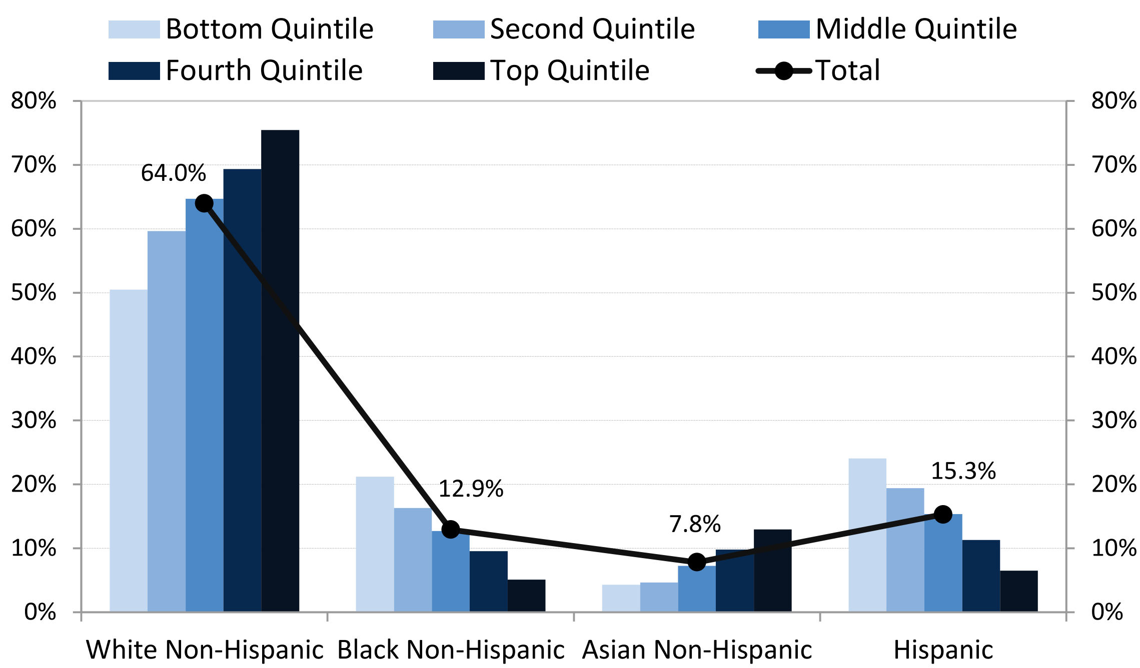


Source: PUMS 2000, 2005 to 2013

Household income is distributed more evenly among Black non-Hispanic and Hispanic households than among White and Asian non-Hispanic households.

White and Asian non-Hispanic households make up a disproportionately larger share of the top three quintiles than their representation in the overall population, while Black non-Hispanic and Hispanic household representation is much larger in the bottom two quintiles than their representation in the overall population. In 2013, for example, White non-Hispanic households were 64.0 percent of all households[17] in the population, yet they made up 75.5 percent of the top quintile and 69.4 percent of the fourth quintile (see figure 3.6). In both cases, their representation in the respective quintile was considerably greater than their overall representation in the population.

Figure 3.6: Distribution of Households in Each Quintile by Racial/Ethnic Group in 2013, New Jersey



Source: PUMS 2013

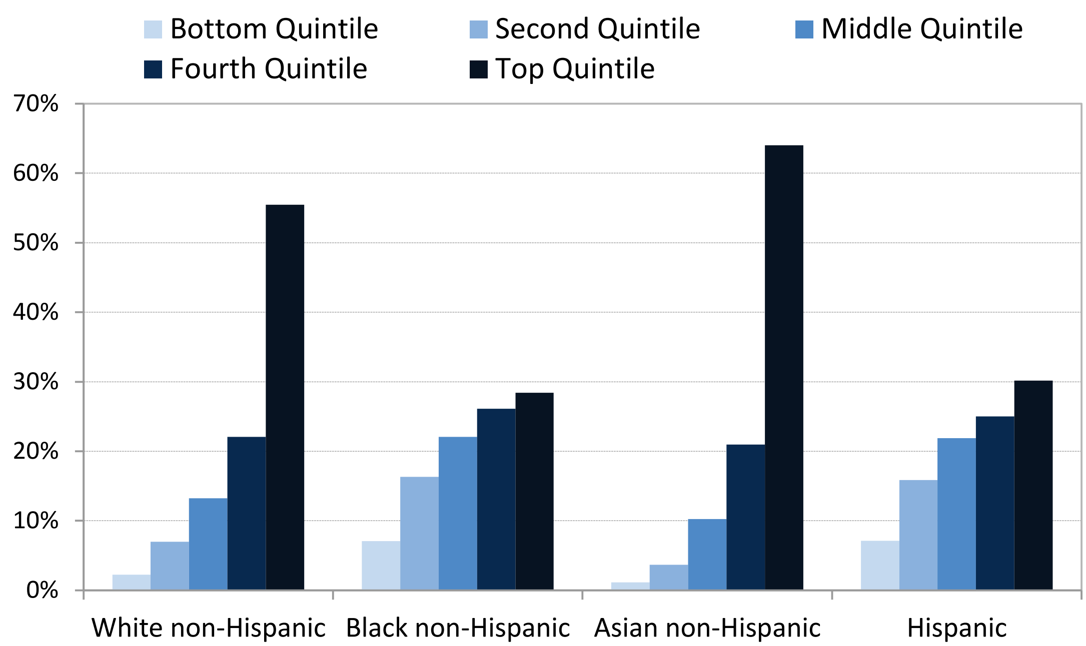
In contrast, Black non-Hispanic households were 12.9 percent of all households but they comprised 21.2 percent of the bottom quintile and 16.3 percent of the second quintile. Similarly, Hispanic households were 15.3 percent of all households, but 24.1 percent of the bottom quintile and 19.4 percent of the second quintile. In these instances, Black non-Hispanic and Hispanic households were disproportionately represented in the bottom two quintiles.

Because of the skewed representation of White non-Hispanic and Asian households in the two top quintiles, more than three-quarters of the total income accruing to White non-Hispanic and Asian households is derived from households in these two quintiles (see figure 3.7). In 2013, for example, 55.5 percent of all White non-Hispanic household income was derived from households in the top quintile, while another 22.1 percent came from households in the fourth quintile. Households in the bottom quintile contributed 2.2 percent of all income, while the contribution of households in the second quintile was 7.0 percent of all income.

In contrast, household income is distributed more evenly among Black non-Hispanic and Hispanic households because of their disproportionately high representation in the bottom three quintiles. In 2013, among Black non-Hispanic households, the bottom quintile contributed 7.1 percent of all income and the second quintile 16.3 percent, while 28.4 percent was derived from households in the top quintile and 26.1 percent from households in the fourth quintile.

Similarly, for Hispanic households in 2013, the contribution of the bottom and second quintiles was 7.1 percent and 15.9 percent of all income, respectively, while the top quintile made up 30.2 percent and the fourth quintile 25.0 percent of all income.

Figure 3.7: Share of Total Income Accruing to Each Racial & Ethnic Group from Each Quintile in 2013, New Jersey



Source: PUMS 2013

The gap between the top and bottom quintiles has been growing for White Non-Hispanic, Asian Non-Hispanic, and Black households, but decreasing for Hispanic households, since the end of the recession.

Income inequality is considerably greater among White and Asian non-Hispanic households than it is among Black non-Hispanic and Hispanic households. Moreover, since the recession, income inequality has been growing among White and Black-non-Hispanic households as well as among Black households, while it has been declining among Hispanic households.

Table 3.1: Ratio between the Bottom Quintile and Top Quintile within Each Racial/Ethnic Group, New Jersey

	White non-Hispanic	Black or African American	Asian	Hispanic
2000	17.10	4.63	44.16	5.08
2005	20.86	3.40	45.00	4.08
2006	19.61	4.08	40.78	3.29
2007	20.38	3.16	44.52	3.78
2008	20.28	3.87	47.32	3.65
2009	21.06	3.54	48.00	4.69
2010	21.05	3.68	42.21	4.78
2011	21.75	4.60	45.09	4.80
2012	22.68	3.83	55.12	4.46
2013	24.97	4.02	57.06	4.25

Source: PUMS 2000, 2005 to 2013

The ratio of the top quintile to the bottom quintile illustrates the extent of the income divide between the bottom and top quintiles. Among White non-Hispanic, Asian non-Hispanic, and Black households, the ratio was higher in 2013 than it was in 2009. In 2009, the top quintile among White non-Hispanic households held 21.1 times the total income held by the bottom quintile. By 2103, this ratio had grown to 25 times. Moreover, income inequality has been growing for this group since 2000, when it was 17.1 times.

Among Black non-Hispanic households, the ratio of the top quintile to the bottom quintile increased from 3.5 times in 2009 to 4.0 times in 2013. This ratio, however, was lower than it had been in 2000, when it was 4.6 times.

In contrast, the ratio has fallen for Hispanic households, declining from 4.7 in 2009 to 4.3 in 2013.

CONCLUSION—WHAT IS TO BE DONE?

Unlike poverty data, which over time frequently correlates with various other indicators such as employment, unemployment, and wages, statistics concerning inequality seem to float on their own, almost untethered. Such perspective would be consistent with that of Piketty, *supra*, who suggests that the post-war period of reversing inequality was itself an aberration, and that continuing inequality is more of a natural state.

As noted, the principal purpose of this report is to present the evidence concerning widening inequality, not prescribe an extensive set of remedies. At first look, few potential strategies would appear to respond to inequality directly, other than broad scale, outright redistributional policies.

Nonetheless, and despite the clear distinction between inequality and poverty discussed at the outset, we would do well to remember the observation that *any* approach or program that has the effect of reducing poverty will tend to diminish inequality as well. With that consequence in mind, it is worthwhile to revisit the review of anti-poverty programs and recommendations offered in LSNJ PRI's *Poverty Benchmarks* series, most recently the September 2014 version. Building on program successes and expanding their search, and adjusting such approaches where weaknesses appear, constitutes a solid first step in reducing inequality.

Endnotes

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[15] Eduardo Porter. 2014. Income Inequality: A Search for Consequences: New York Times. March 25.
[16] The calculations are based on the four groups only and not the total household population of the state.
[17] The calculations are based on the four groups only and not the total household population of the state.