

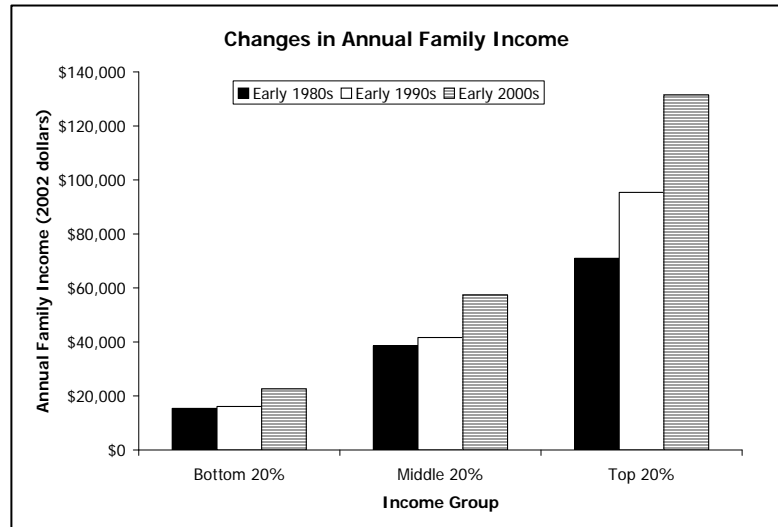
## The Long-Term Trend in Minnesota: Increasing Income Inequality

An analysis of recent Census Bureau data shows that the financial rewards from strong economic growth since the early 1980s were not broadly shared.<sup>1</sup> The incomes of the poorest fifth and middle fifth of Minnesota families grew about half as much as the wealthiest fifth since the early 1980s. This resulted in growing income inequality over the same time period. In the early 1980s, the richest fifth of Minnesotans had incomes that were four and a half times as large as the bottom fifth. But by the early 2000s, the richest fifth of Minnesotans had incomes that were nearly six times as large as the bottom fifth.

Since the early 1980s:

- The average incomes of the poorest fifth of Minnesota families grew 47 percent, or \$7,171, after adjusting for inflation.
- The average income of the middle fifth of Minnesota families grew 49 percent, or \$18,847.
- The average income of the richest fifth of Minnesota families grew 85 percent, or \$60,449.
- Tight labor markets at the end of the 1990s meant that Minnesota's low-, middle-, and high-income

families saw their incomes increase at the about the same rate between the early 1990s and early 2000s. However, national data suggests that income inequality is now once again on the rise.



## Wage Inequality is the Primary Cause of Income Inequality

For most Minnesota families, the primary source of income is their work (rather than investments).

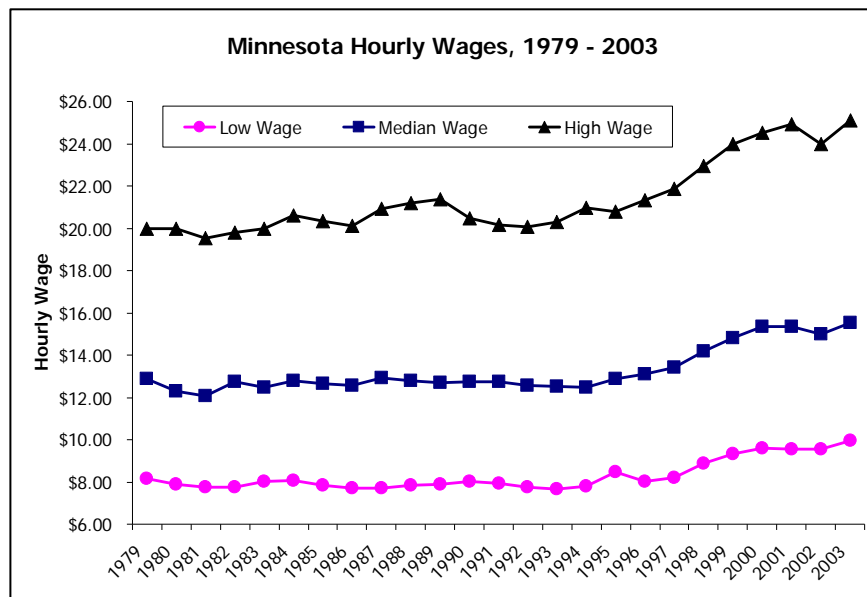
Therefore it is not surprising that trends in income inequality mirror wage trends in the labor market.<sup>2</sup>

- Wage inequality in Minnesota increased during the 1980s, as the wages of high-wage workers grew while all others fell. In fact, after adjusting for inflation, hourly wages for low-wage workers were 3.2 percent lower at the end of the decade than at the beginning, and hourly wages for median-wage workers were 1.6 percent lower.<sup>3</sup> Only by increasing the number of hours worked could Minnesota families get ahead.
- In contrast, during the 1990s, wages for all Minnesota workers rose, particularly during the latter part of the decade when a tight labor market meant that more of the benefits of economic growth were shared.
- Wage growth since 2000 has slowed dramatically compared to the increases in wages seen at the end of the 1990s. Stagnant wages for middle- and low-wage workers since 2000 appears to confirm that inequality in wages is again on the rise.
- As a result of these wage trends, the gap between low-wage workers and high-wage workers was larger in the early 2000s than it was at the beginning of the 1980s.

Economic growth does not guarantee rising living standards for all – the key is ensuring that the benefits of growth are shared. Wages have been relatively stagnant in recent years because the benefits of economic growth are not accruing to the workers who helped create it.

In the current economic recovery, a much greater share of economic growth has gone to corporate profits than in previous recoveries, and a smaller share has gone to workers.

- In the past eight business cycles, the share of corporate income growth going to corporate profits averaged 21 percent, while an average of 79 percent of corporate income growth went to worker compensation.
- This pattern is reversed in the current business cycle; 85 percent of corporate income growth has gone to corporate profits and only 15 percent to workers.

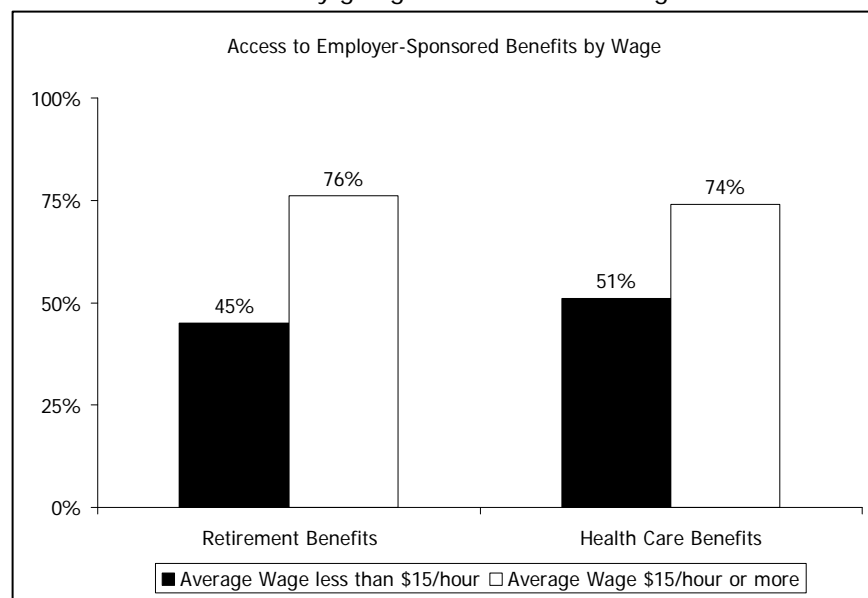


Higher profits mean higher stock prices, but most of these gains go to upper-income Americans. Most families own no more than a few thousand dollars worth of stocks. In fact, the bottom 80 percent of Americans own less than 11 percent of all stocks. The majority of workers rely on wages, not stock prices, to determine family income.

### Income Inequality Impacts A Family's Quality of Life

Income inequality due to stagnant wage growth is exacerbated by other factors that determine a family's quality of life. The decreasing availability and value of employer-sponsored benefits — especially health insurance and retirement — increases costs for working Minnesotans. Reduced access to employer-sponsored benefits and increased costs force workers to pay the costs of health care and retirement savings out of their own pockets or face economic risk by going without benefits altogether.

The lowest-wage workers have the fewest options. In 2003, only 45 percent of private sector workers nationally earning less than \$15 per hour had access to employer-provided retirement benefits and 51 percent had access to health care benefits. In contrast, among workers earning more than \$15 per hour, 76 percent had access to employer-provided retirement benefits and 74 percent had access to health care benefits.<sup>4</sup>



Income inequality and reduced job quality means that working families struggle to make ends meet. In its most recent *Cost of Living in Minnesota* research, the JOBS NOW Coalition finds that the annual cost of meeting basic needs for a two-parent family of three in the Twin Cities metro area with one parent earning wages is nearly \$32,000. To cover these costs, a worker must earn an hourly wage of about \$15.25 an hour. Forty-five percent of the jobs in the metro area pay less.<sup>5</sup>

## **Policy Choices Can Narrow the Gap**

Income trends show that economic growth alone does not reduce income inequality. Moreover, there is no evidence that the current economic recovery relieved the economic instability of struggling families. Policy choices that can decrease income inequality or alleviate its devastating effects on low-income Minnesotans include:

- Policies that address labor market inequities, such as state minimum wages or a focus on job quality in economic development and employment and training efforts.
- Tax policies that ensure that all Minnesotans are paying their fair share to support government services and that help struggling families make ends meet.
- Policies that increase the incomes and living standards of low-income families, such as child care assistance, subsidized health care, and access to higher education and skills training.

In the past, Minnesota made some policy choices to close the gap, but budget decisions in recent years have undercut efforts to help low-income Minnesotans.

## **Policies To Address Labor Market Inequities**

In 2005, Minnesota increased the state minimum wage to \$6.15, one dollar higher than the federal minimum wage. An estimated 228,000 Minnesota workers will positively benefit from an additional \$118 million in wages over the course of a year from this change.<sup>6</sup> However, the minimum wage would need to be \$8.98 an hour to have the same buying power as it did at its high point in 1968. Additional increases as well as indexing the state minimum wage for inflation would strengthen the labor market for the lowest-income working families.

## **Tax Policy**

Minnesota also needs to take a second look at the impact of its tax policies on inequality. It is true that Minnesota does better on this measure than most states, and that Minnesotans of all income levels contribute about the same percentage of their income to support state and local government. (The exception is the wealthiest one percent, who contributed nine percent of their incomes in total state and local taxes, while on average Minnesotans contribute 11.3 percent.<sup>7</sup>)

Over time, our state and local tax system is beginning to ask more from moderate-income Minnesotans. Recent decisions to rely more heavily on the property tax and increases in deeply regressive tobacco taxes only make things worse. It's time for a thorough review of tax policy in Minnesota with an eye to restoring tax fairness.

## **Policies That Increase Living Standards for Low-Income Minnesotans**

The third category of policy choices to close the income gap is those that serve to raise the living standards of low-income families. Supports for working families may boost incomes that are too low to support a family, replace lost income during times of unemployment, enable access to higher education or skills training, or fill in part of the gap between what a family earns and what is needed to make ends meet, such as through child care assistance, state-sponsored health care programs, or help paying housing or energy costs. Practically all of these types of work support programs were hit hard in recent legislative budget cuts.

Probably no work support has been harder hit than child care assistance. In the 2003 Legislative Session, funding for child care assistance in Minnesota was cut by a full one-third, or \$86 million, and an

additional \$59 million was cut in the 2005 Session. An estimated 10,000 Minnesota children are no longer receiving child care assistance, due to reductions in eligibility and increases in copayments for participating families.

### **Why Should We Care About Growing Inequality?**

Growing income inequality should be a concern for all Minnesotans. Increasing income inequality contradicts some of our country's most deeply held values. Americans believe that hard work should pay off, that people who work full-time should be able to support their families, and that everyone deserves an opportunity to succeed. As the gap widens, different standards of living mean that people are more distant from each other. This distance undermines a sense of a shared destiny and weakens trust in public institutions. In addition, income inequality fosters a society in which some members have greater influence in the political process than others.

What is needed is a renewed commitment to those policies that reduce the income gap, not just because it's the right thing to do to help low-income families, but because it's the right thing to do for all of us.

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<sup>1</sup> Center on Budget and Policy Priorities and Economic Policy Institute, *Pulling Apart: Pulling Apart: A State-by-State Analysis of Income Trends*, [www.cbpp.org](http://www.cbpp.org). This study compares the incomes of families of two or more persons in 1980-1982, 1990-1992, and 2001-2003. Family incomes are defined following the Census Bureau's definition of income, which includes both earned and unearned income of all family members, which includes capital gains or losses, and then takes into account the impact of federal income taxes including FICA and the Earned Income Tax Credit, and adds the cash value of Food Stamps, subsidized school lunch, and housing subsidies. The impact of state taxes is not included. Family income figures are in inflation-adjusted 2002 dollars.

<sup>2</sup> The information in this section is based on work by the JOBS NOW Coalition and the Minnesota Budget Project as part of a collaborative project, *The State of Working Minnesota 2004-05*. Except where otherwise noted, the data in this section is provided by the Economic Policy Institute (EPI) in connection with its *State of Working America*, [www.epinet.org](http://www.epinet.org).

<sup>3</sup> In this analysis, a low-wage worker earns a lower hourly wage than 80 percent of all workers; a median-wage worker is exactly in the middle, with half of all workers making more and half less; and a high-wage worker makes a higher hourly wage than 80 percent of all workers. EPI analysis of CPS data. Wages are adjusted for inflation and reflect the value of the dollar in 2003.

<sup>4</sup> *National Compensation Survey: Employee Benefits in Private Industry in the United States*, March 2003; BLS Summary 04-02.

<sup>5</sup> JOBS NOW Coalition, *Cost of Living in Minnesota, 2004-2005*.

<sup>6</sup> JOBS NOW Coalition estimates.

<sup>7</sup> Minnesota Department of Revenue, *2005 Minnesota Tax Incidence Study*, [www.taxes.state.mn.us](http://www.taxes.state.mn.us). These figures refer to 2002, the most current year for which data is available.