Research Brief

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Income Gap Between Rich and Poor Widening in California

Income inequality—a measure of how the income pie is divided among all members of society—has increased dramatically in the United States over the past 30 years.

To determine whether California trends mirrored those of the nation, Deborah Reed, Melissa Glenn Haber, and Laura Mameesh analyzed annual changes in income distribution from the late 1960s through 1994. Using five measures of inequality, 26 definitions of income, and two data series (the Current Population Survey and the Census), the researchers compared income levels and trends in California with national and regional levels and trends. Their findings, presented in *The Distribution of Income in California*, provide the most comprehensive picture ever assembled on income inequality in California.

Inequality Growing Faster in California

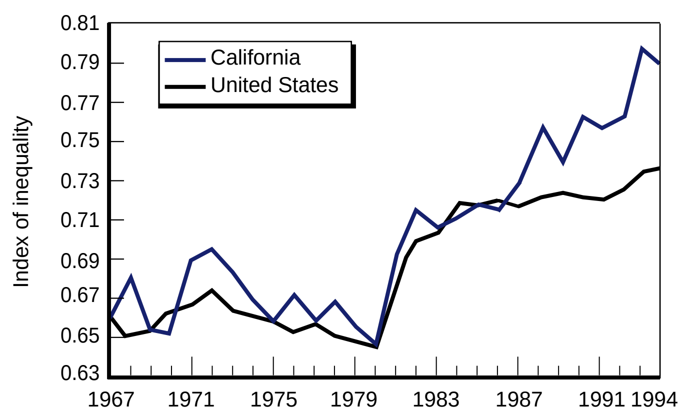
At both the state and national levels, the widening income gap results from real earnings growth at the top of the income range and an absolute decline at the bottom. Until the late 1980s, the trends in the state and the nation were remarkably similar. However in 1987, income inequality began to expand more rapidly in California—not because the rich have grown richer in California than in the rest of the nation, but because, as a group, the poor have become poorer.

The expanding gap between rich and poor in California is further highlighted by comparing the trendlines with those of other states. In 1969, 20 states had higher household income inequality and male earnings inequality. By 1989, only five states had higher household income inequality, and only two had higher male earnings inequality.

Household Income

As shown in Figure 1, household income inequality was similar for California and the nation in most of the years studied, fluctuating in the 1970s and advancing strongly since then. In both the state and the nation, inequality increased more rapidly during economic recessions. However, the recessions of the early 1970s and 1990s hit California much harder than the nation as a whole (as reflected in the larger increases in inequality shown in the figure).

Figure 1—Household Income Inequality in California and the Nation



SOURCE: Authors' calculations from the March *Current Population Survey.*

NOTE: Household income is adjusted for household size and weighted by person. Statistics in this figure are not affected by inflation.

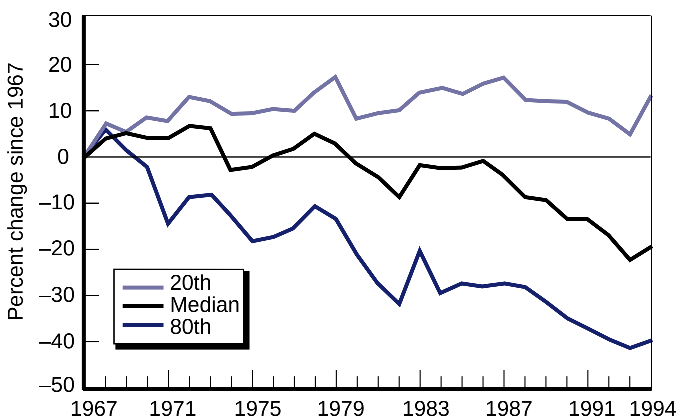
In the late 1980s, household income inequality began to increase faster in California than in the nation as a whole, remaining higher for more consecutive years than ever before.

Annual Earnings of Male Workers

Labor income is the largest component of household income and, as might be expected, revealed many of the same patterns as household income over the past 30 years. It is important to look at both measures of inequality because trends in household inequality are complicated by changes in family size and marriage behavior. In contrast, labor income inequality measures the disparity of income among individuals rather than families and is not directly affected by changes in household structure. Although household income may be a better indicator of general economic well-being, labor income provides a clearer picture of changes in the economy.

Figure 2 shows how much the distribution of annual earnings has widened among male workers in California. The middle trend line of the graph shows the percentage change in real, inflation-adjusted median male earnings since 1967. The lower line shows the decline of male earnings at the 20th percentile, the income level that separates the bottom 20 percent of earners from the top 80 percent. The upper line shows earnings at the 80th percentile.

Figure 2—Change in Real Annual Earnings for Males in California, by Income Percentile



SOURCE: Authors' calculations from the March *Current Population Survey*.

NOTE: Statistics in this figure are adjusted for inflation.

A long, steep decline in earnings among low-income and poor male workers has contributed strongly to household income inequality in California.

As reflected in the figure, median male earnings fell 20 percent between 1967 and 1994. This 20 percent decline represents a drop in median male earnings from $31,252 to $25,000 in real 1994 dollars. At the 20th percentile, male earnings fell 40 percent from $17,316 in 1967 to $10,400 in 1994. In 1967, a man at the 80th percentile earned $44,345, about two and a half times what a man at the 20th percentile earned. By 1994, male earnings at the 80th percentile had increased 13 percent to $50,000, about five times what a man at the 20th percentile earned in that year. This comparison of earnings of men in the upper-middle to the lower-middle of the distribution is one measure of inequality. By this measure, male earnings inequality increased by 88 percent between 1967 and 1994.

Considering the Implications

Income inequality is particularly disturbing when it is fueled by a decline in the income of poor individuals and households. This is the pattern that has characterized the increasing inequality in California over the past three decades.

It is important to note, however, that the results of this study do not indicate that people who were poor in the past have necessarily gotten poorer. The data for this analysis are cross-sectional (snapshots of those in income groups in each year) not longitudinal, and therefore do not follow the fortunes of specific families or individuals over time. What the analysis does tell us is that the poor in 1994 were considerably worse off than the poor in 1967. Moreover, as income falls at the bottom of the distribution, a greater percentage of people fall below the official poverty line. In other words, more Californians are poor today than were poor in the late 1960s.

The distribution of income across a population is relevant to many policy domains, including economic development, tax and transfer programs, public sector employment, education and training, and workforce productivity. To develop policies that can promote equity and opportunity, as well as efficiency, in the California economy, legislators and other public officials need to understand the forces underlying the state's growing inequality. In a follow-up study, the institute's researchers will identify these forces and assess their relative effects on income distribution in California.

This research brief summarizes a report by Deborah Reed, Melissa Glenn Haber, and Laura Mameesh, The Distribution of Income in California. *The report may be ordered by calling (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, nonpartisan research on economic, social, and political issues that affect the lives of Californians.*

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