

# **Income Inequality and Poverty What Difference Does Policy Make?**

Marcia K. Meyers  
University of Washington  
West Coast Poverty Center

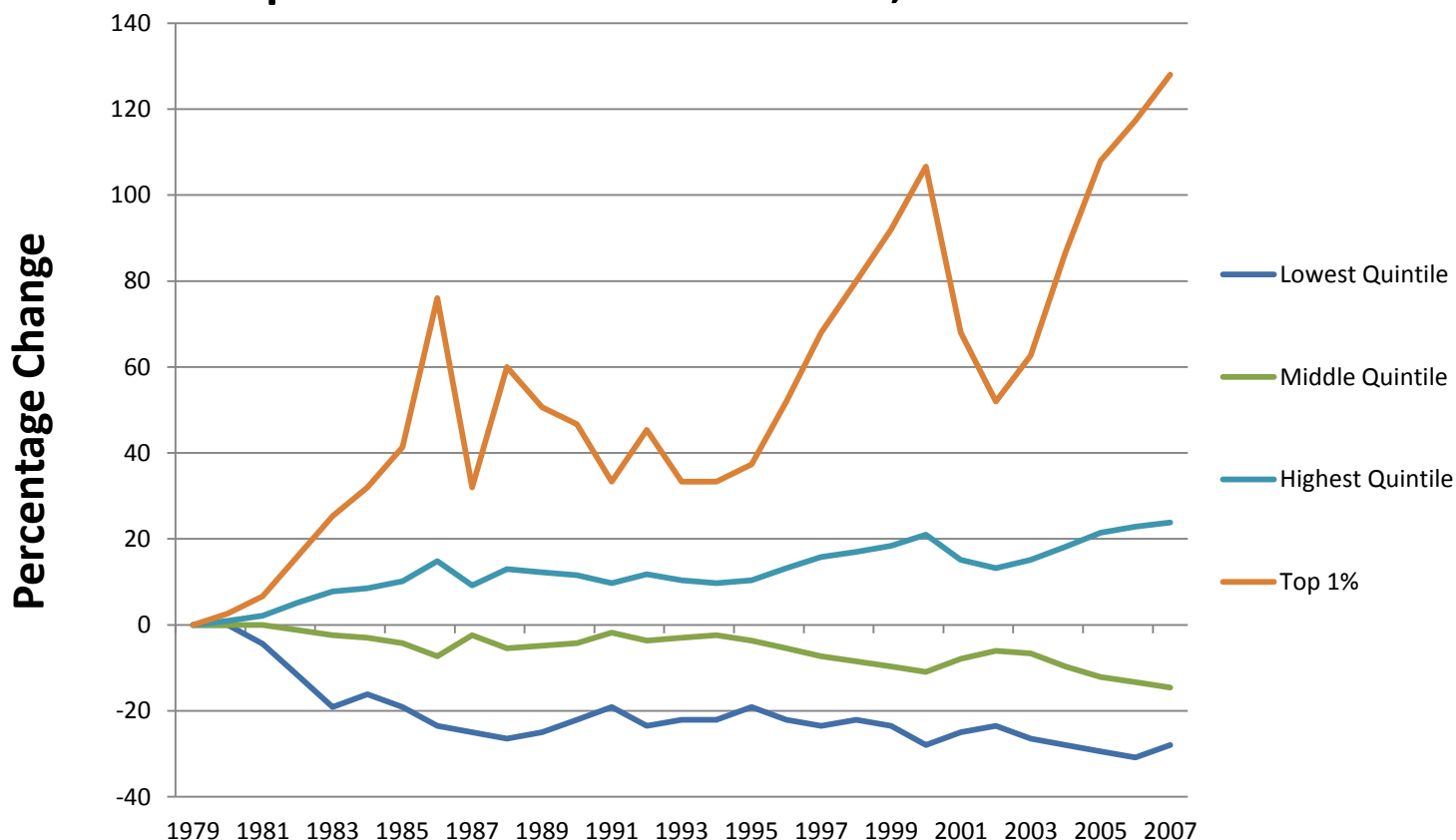
For presentation to  
National Association of Deans and Directors of Social Work  
Ft. Lauderdale, FLA  
April 2, 2012

# TAKE AWAY POINTS

- **Income inequality** in US has increased steadily since the early 1980s and sharply since 2002.
- **Great Recession and recovery** are increasing inequality
- **Economy matters:** Market-based US system **requires all adults to work** to avoid hardship but returns from work are declining for lower 40-60% of household
- **Policy matters:** Government **tax and transfer policies** reduce inequalities in market incomes but have been declining in effectiveness

# Income Inequality has grown

## Change in Household Income Shares by Quintile Comprehensive Income Measure, 1979-2007



Source: CBO 2010

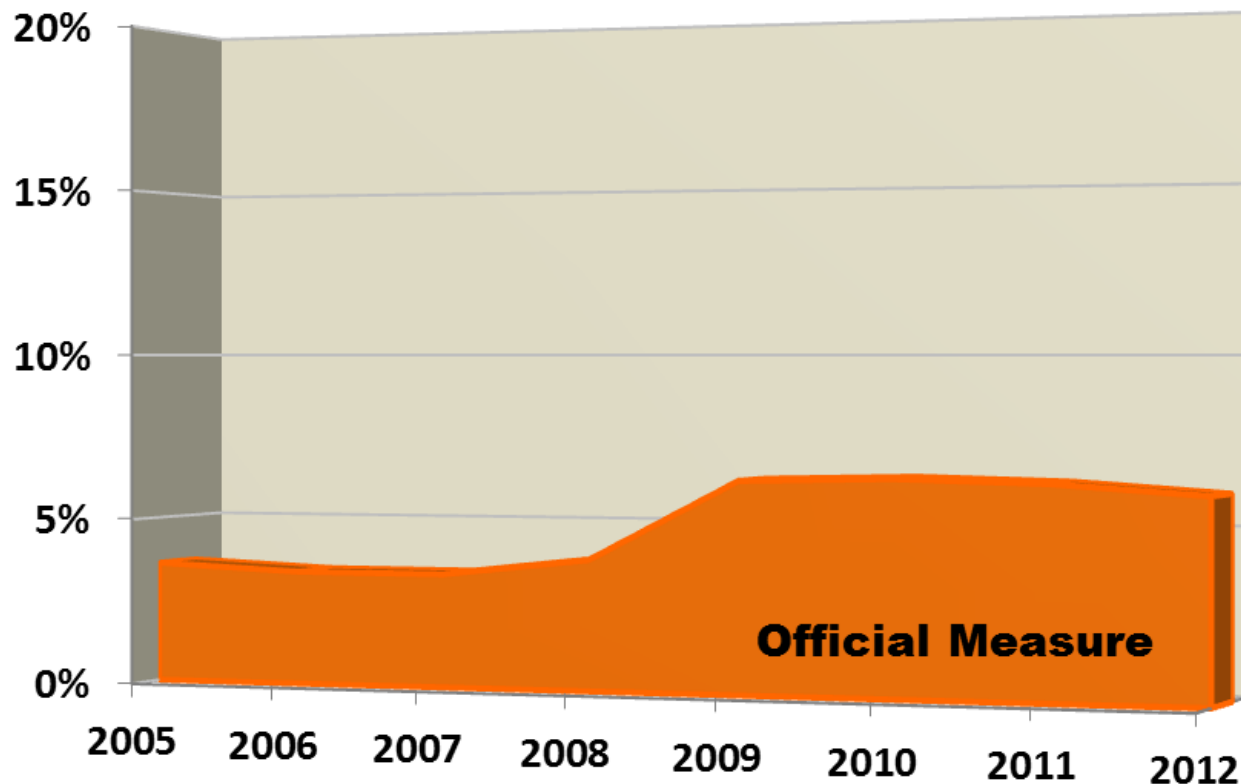
## Why did inequality grow so dramatically?

- Factors putting **downward pressure on wages** for less skilled/educated workers
- Factors **limiting employment opportunities and hours** for adults in low income households
- Factors **increasing returns to education** in **higher wages and total market earnings** in the most highly compensated jobs
- Factors **increasing returns to capital** investments and ownership among most affluent households

# **What impact has the Great Recession had on inequality?**

# US UNEMPLOYMENT RATE

**Percent Civilian Adult (over age 16) Population Unemployed,  
January 2005-2012**



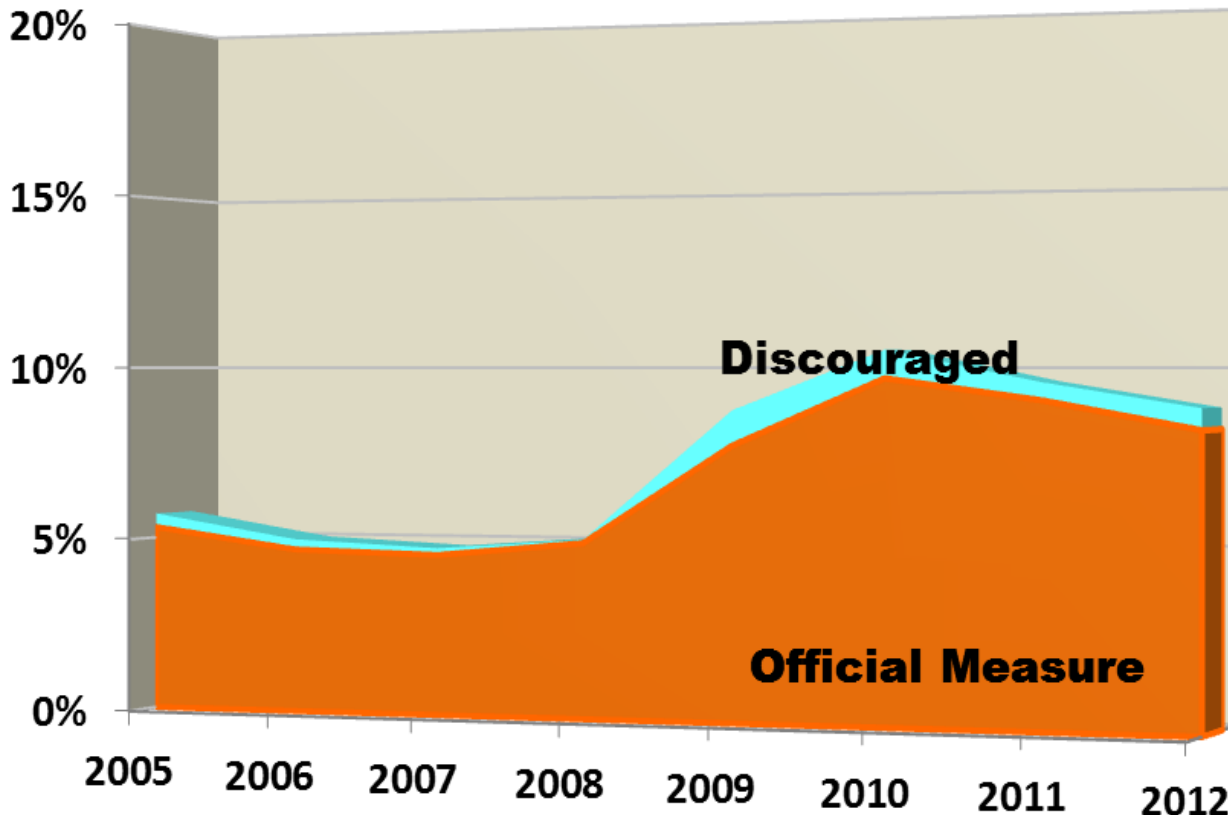
## OFFICIAL MEASURE

PERCENT reporting that they do not have a job, have actively looked for work in prior 4 weeks & are available for work.

Source: US Bureau of Labor Statistics

# US UNEMPLOYMENT RATE

**Percent Civilian Adult (over age 16) Population  
Unemployed or Discouraged, January 2005-2012**



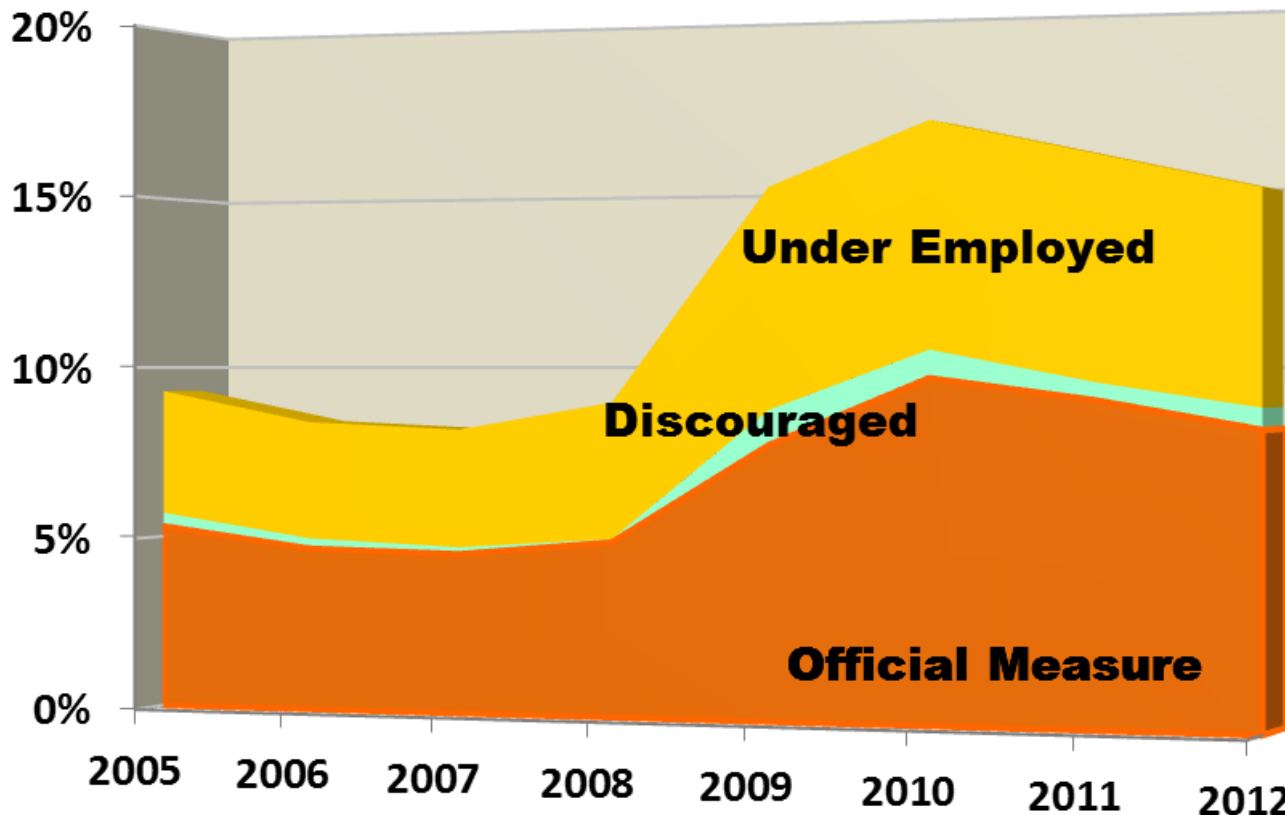
## PLUS DISCOURAGED WORKERS

PERCENT reporting they want a job, have looked for work in last 12 months, are available for work *but are not currently looking for work because they believe no job is available, have been unable to find work, lack necessary skills or training, or face some form of discrimination*

Source: US Bureau of Labor  
Statistics

# US UNEMPLOYMENT RATE

**Percent Civilian Adult (over age 16) Population Unemployed or Underemployed, January 2005-2012**



## PLUS UNDEREMPLOYED

PERCENT employed part time for economic reasons; reporting that they want and are available for full-time work *but have had to settle for part-time schedules.*

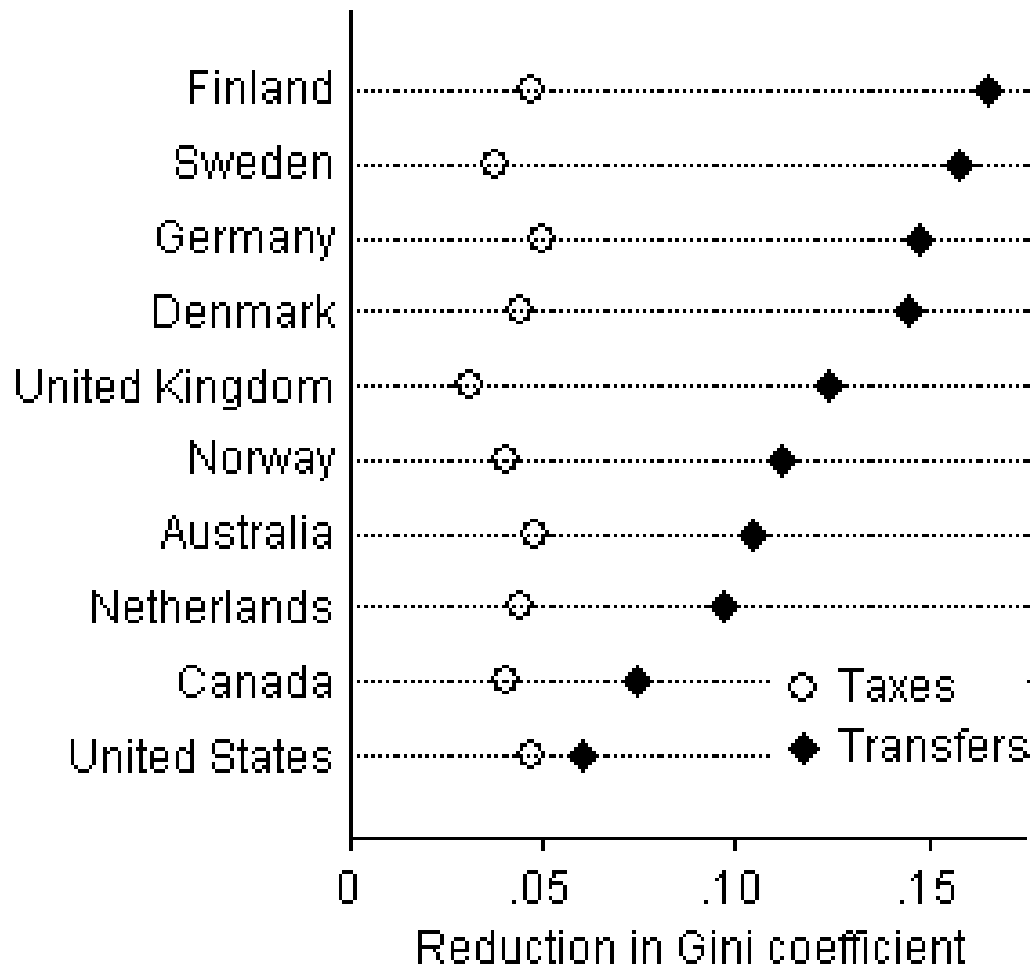
Source: US Bureau of Labor Statistics



# What impact?

- Increasing **downward** pressure on wages for less skilled/educated workers
- Increasing employers' use of **nonstandard employment contracts, part-time schedules**
- Increasing opportunities and pressure to **lower labor costs, lower price of consumer goods and services** and **increase returns to capital** investments and ownership among most affluent households

Inequality reduction via taxes and  
via government transfers, 2000-05



## What to Do?

“The chief contribution of taxes to inequality reduction is indirect. Taxes provide the money to fund the transfers that reduce inequality. ... Not surprisingly, countries that significantly reduce inequality via transfers tend to tax more heavily.” Lane Kenworthy, U of AZ

Source: [lanekenworthy.net](http://lanekenworthy.net)  
Luxembourg Income Study

# Public policies **REDUCE** market inequality through taxes & transfers

**“Household income packages” :**

Market income

+ Centralized, national, social insurance

+ Decentralized, safety net programs

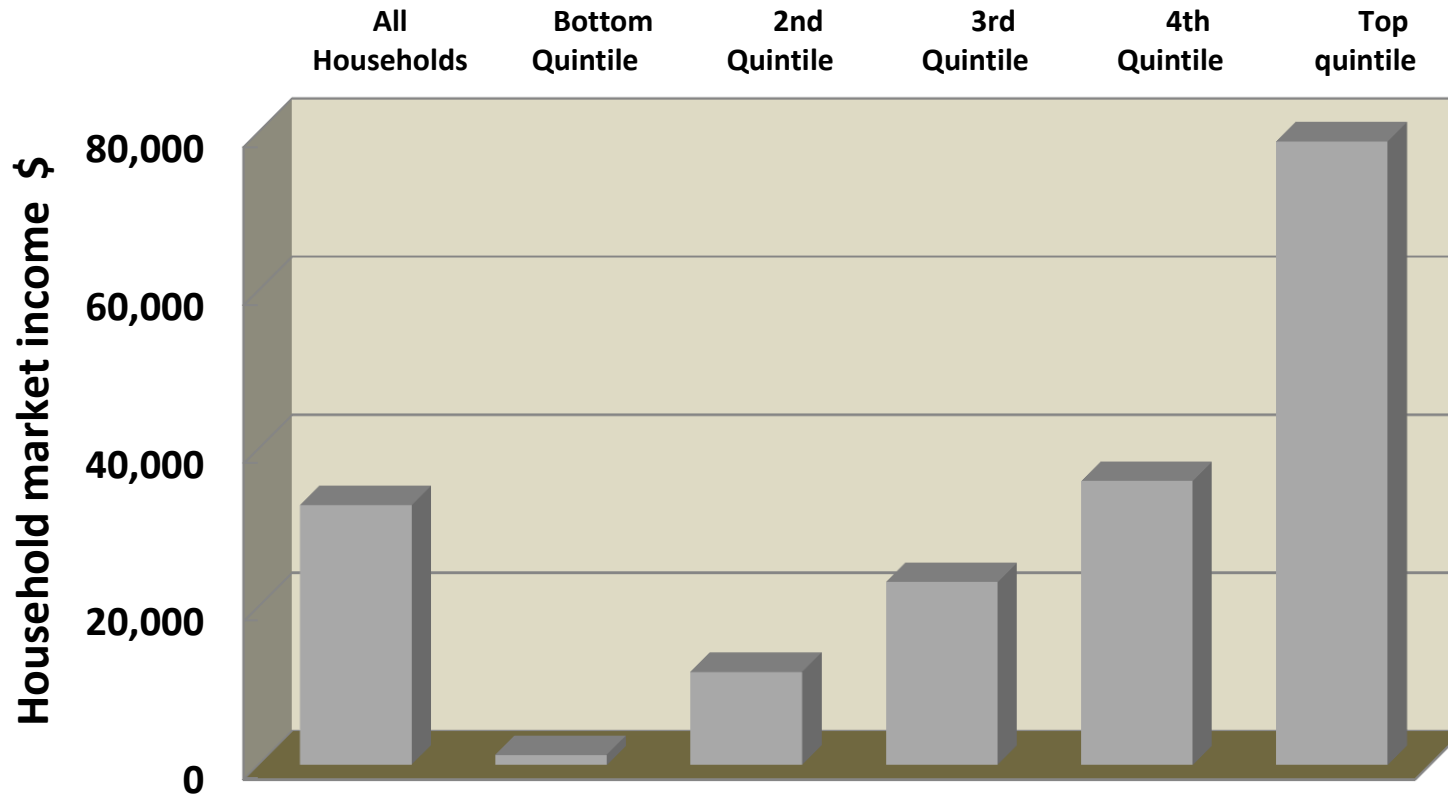
-- Federal payroll & income taxes with credits

-- State income taxes and credits

**Question: How do much do components reduce inequalities in market income?**

# Market income by quintile

Mid 2000s, all US households

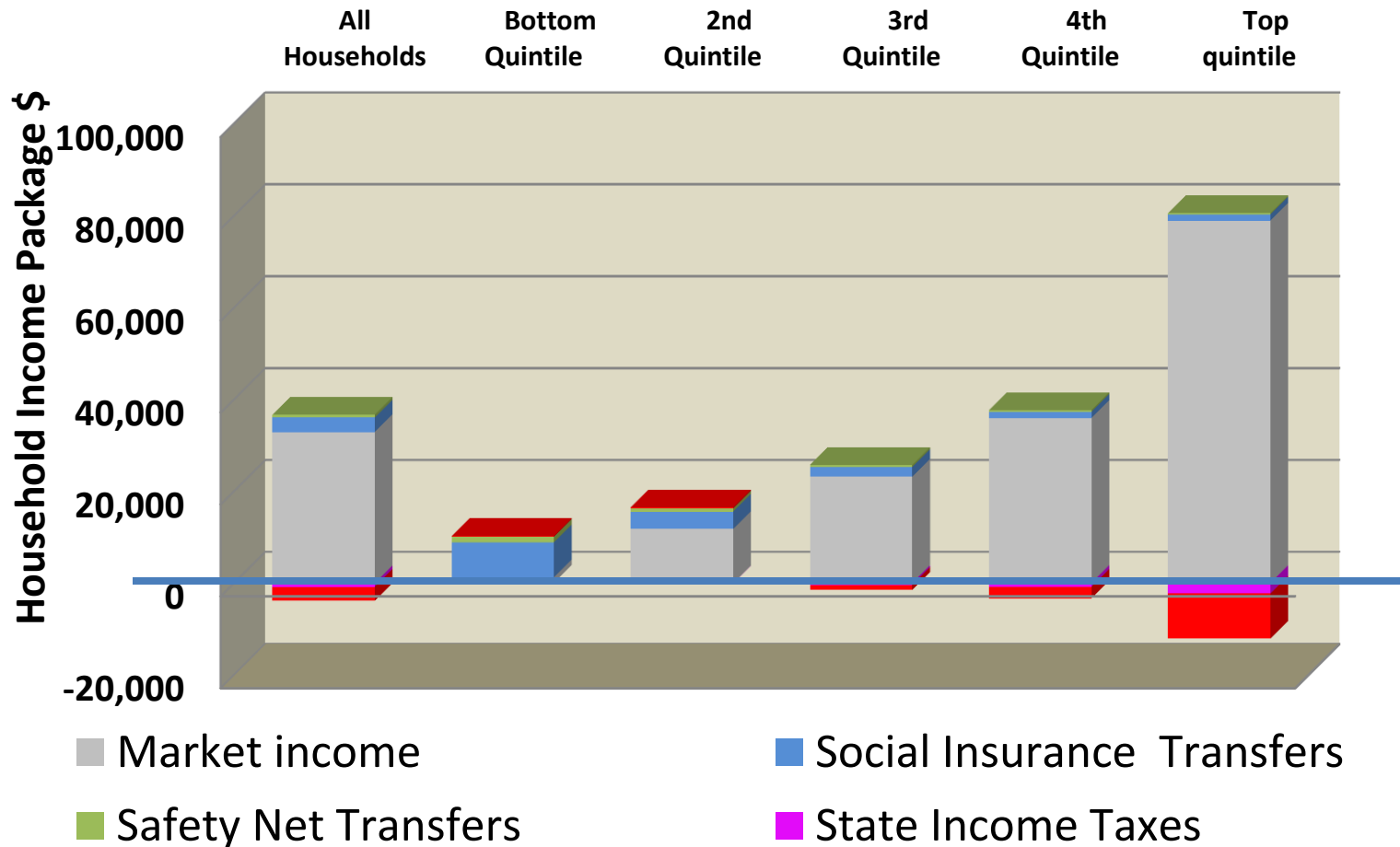


Source: Meyers et al. 2011

# Household income package by quintile

Adjusted for taxes, social insurance & transfers

Mid 2000's, all households



# Equalization has become less effective in recent years

## Measuring changes in income inequality: Gini Index

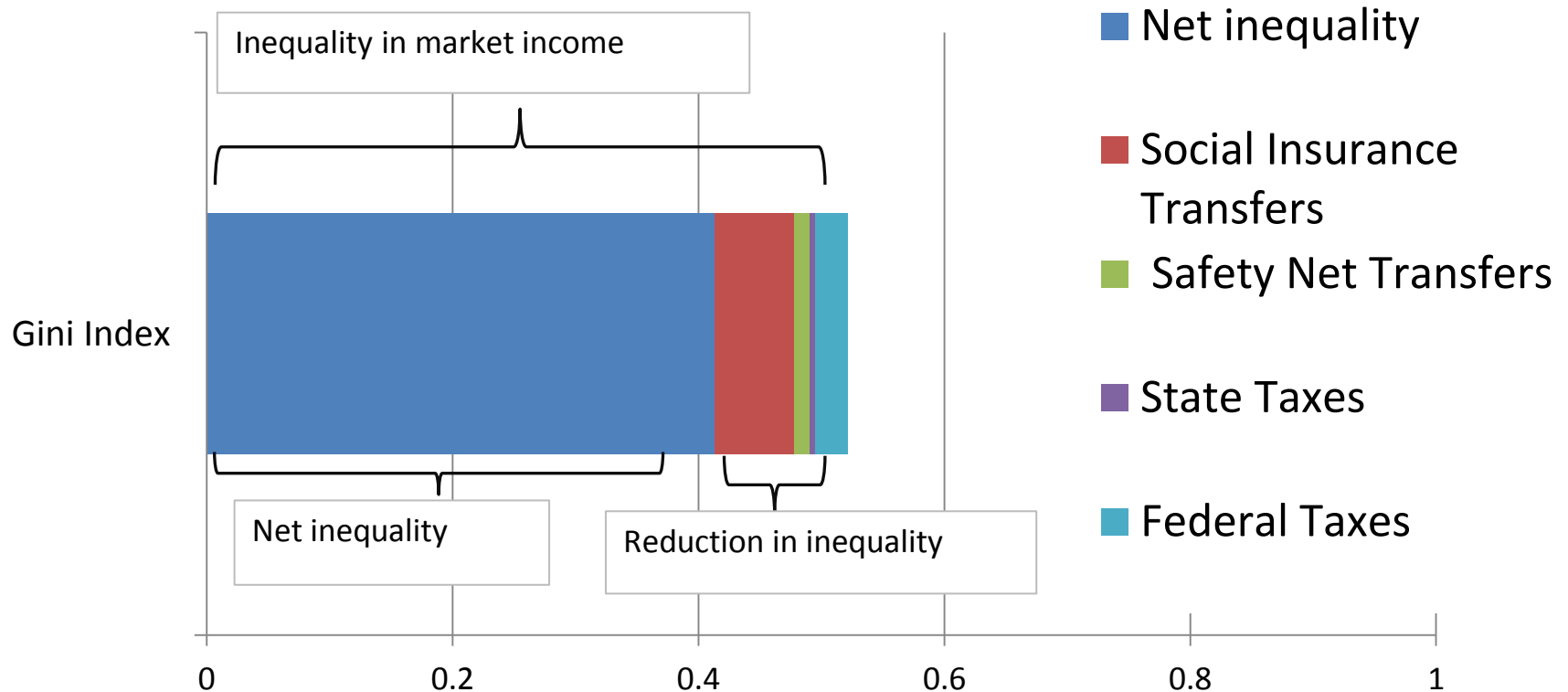
Measure of the distribution of income within population

Perfect equality = 0

Perfect inequality = 1

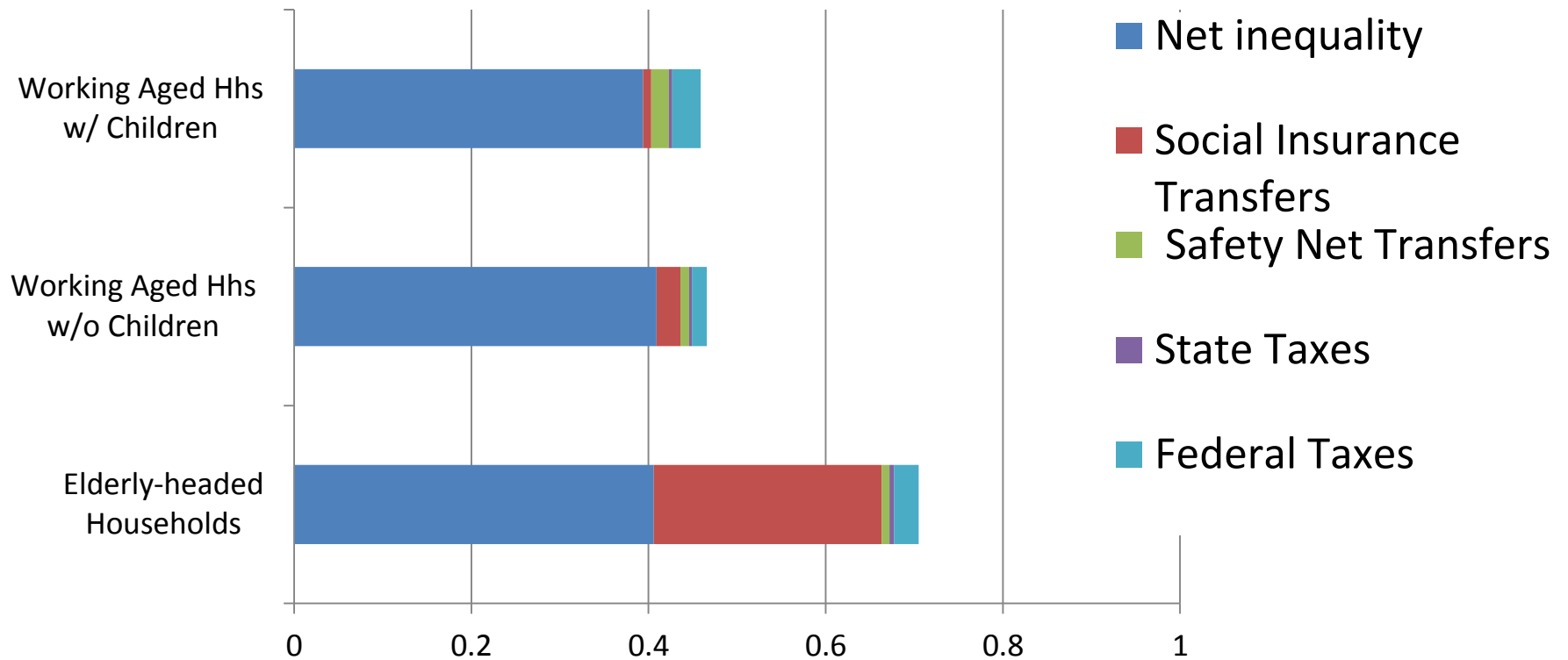
*\* Reduction in Gini coefficient reflects decrease in inequality*

# Gini Index Mid 2000s, all US households



Source: Meyers et al. 2011

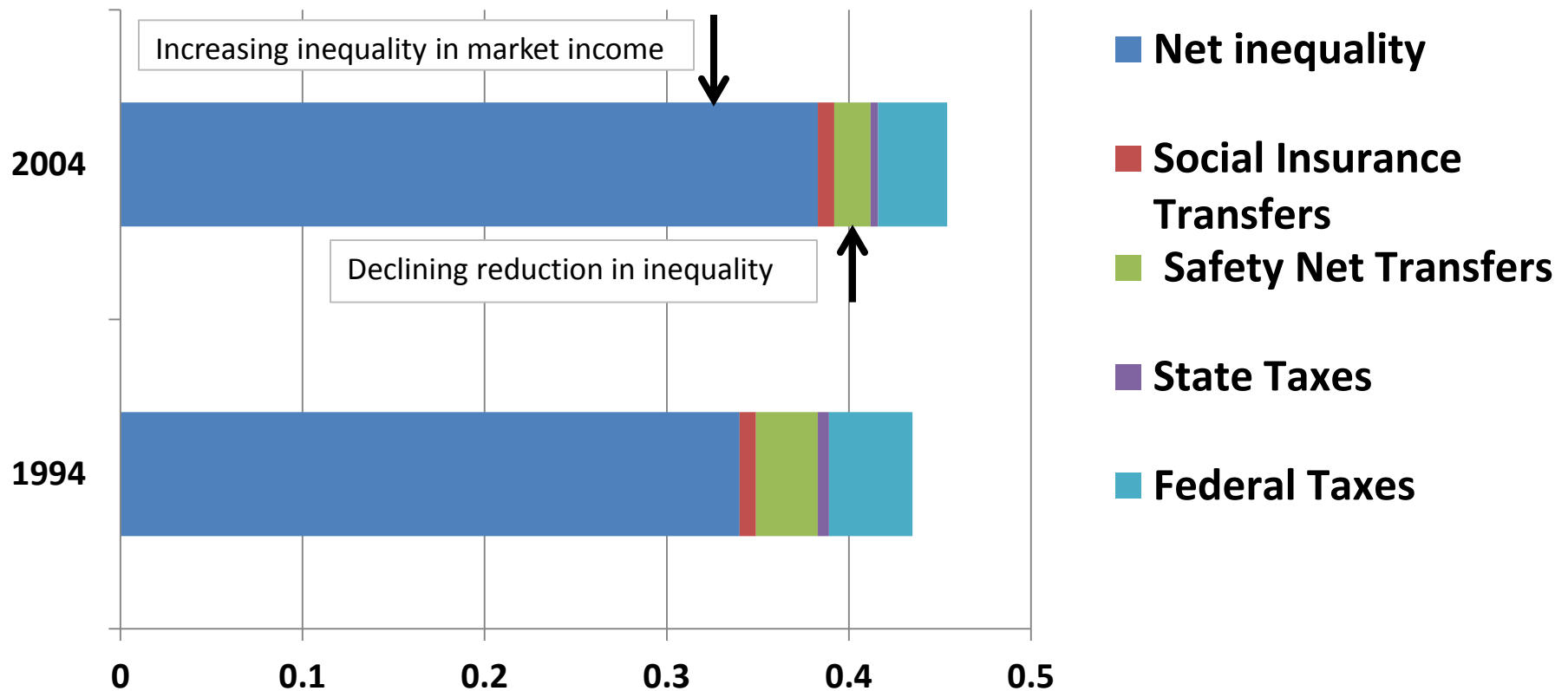
# Gini Index mid 2000s by household type



Source: Meyers et al. 2011



# Gini Index for families with children, 1994 and 2004



# **Why Should Social Work Care About Inequality?**

## **What Should Social Work Do About Inequality?**