Income Inequality and Poverty
What Difference Does Policy Make?

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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.

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.

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.
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
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
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

Household market income $

Source: Meyers et al. 2011
Household income package by quintile

Adjusted for taxes, social insurance & transfers
Mid 2000’s, all households

Source: Meyers et al. 2011
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

Source: Meyers et al. 2011
Why Should Social Work Care About Inequality?

What Should Social Work Do About Inequality?