CONNECTICUT VOICES FOR CHILDREN

CAHS 100 years

Pulling Apart:
Connecticut Income Inequality 1977 to Present

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November 2012

INTRODUCTION

While home to some of the world's richest individuals, Connecticut has seen working-class wages stagnate, and more of its residents live in poverty today than 50 years ago.[2] While Connecticut's richest have grown richer, many of their fellow residents are barely treading water. Disproportionately, those on the losing end are members of disadvantaged groups: the median incomes of Connecticut's Hispanics and Blacks are barely half that of Whites.[3]

Research has shown a strong association at the state and national levels between such inequality and higher crime, poorer health, and weaker schools, as well as more mental illness, drug abuse, and obesity. These ills are not confined to those at the bottom of the income scale; they affect people throughout the distribution.[4] Moreover, as the rungs of the ladder spread farther apart, social mobility may diminish. Indeed, mobility is falling for many in America,[5] and a number of European countries have greater mobility.[6] Inequality, in sum, may endanger not just the health of our society, but the American Dream itself.[7]

While much effort has been made to measure inequality nationwide, much less has been committed to assessing inequality in Connecticut. This report presents Census data for 1977 to 2010, which show average household incomes for each fifth of the distribution from bottom to top, as well as Census wage data from 1979 to 2011, which show wages from the 10th to 90th percentiles. Altogether, the Census figures present a clear picture: to a degree greater than in any other state, the benefits from three decades of growth in Connecticut have gone to the wealthy. A state whose middle and working classes once stood closer to prosperity than almost anywhere in America has become one of its most unequal places. In 1977-79, the gap in Connecticut between the richest fifth and middle fifth was 42nd largest among the states; by 2005-07 it had grown to 7th worst. The gap between the richest and poorest fifths ranked 46th in 1997-79; in 2005-07 it had grown to 3rd worst.

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1 Sara Kauffman assisted in researching this report as an intern at CAHS and PhD economics candidate at the University of Connecticut.
2 U.S. Census Bureau, *Persons by Poverty Status by State*, www.census.gov/hhes/www/poverty/data/census/1960/index.html.
3 Judith Carroll, *Opportunity in Connecticut: The Impact of Race, Poverty, and Education on Family Economic Success,* Connecticut Association for Human Services, February 2012, http://www.cahs.org/pdf/OpportunityInCT.pdf.
4 Richard Wilkinson and Kate Pickett, "Income Inequality and Social Dysfunction," *Annual Review of Sociology*, 35: 493-511, 2009, www.annualreviews.org/doi/abs/10.1146/annurev-soc-070308-115926.
5 Isabel Sawhill and John Morton, *Economic Mobility: Is the American Dream Alive and Well?* Pew Economic Mobility Project, May 2007, www.brookings.edu/views/papers/sawhill/200705.pdf.
6 Organization for Economic Cooperation and Development, *A Family Affair: Intergenerational Social Mobility across OECD Countries,* 2010, www.oecd.org/dataoecd/2/7/45002641.pdf.
7 For up-to-date figures on inequality, see *Pursuing the American Dream: Economic Mobility across Generations,* Pew Economic Mobility Project, July 2012, www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pursuing_American_Dream.pdf.

However, Census data do not capture the full extent of inequality: they do not discern differences within the top 10% of residents, and they do not account for all income of the very wealthy, where the largest gains have been.[8] By analyzing tax return data from the Internal Revenue Service and state Department of Revenue Services, which more fully capture the highest incomes, this report finds still greater inequality at the top. The richest 1% are not just pulling away from the working and middle classes; they are also pulling away from the merely well-off. While incomes at the 95th to 99th income percentiles—all solid six-figure earners—have enjoyed modest growth over the last two decades, top 1% incomes have soared, and now constitute nearly 30% of all Connecticut adjusted gross income. By any measure, inequality in Connecticut is bad and getting worse.

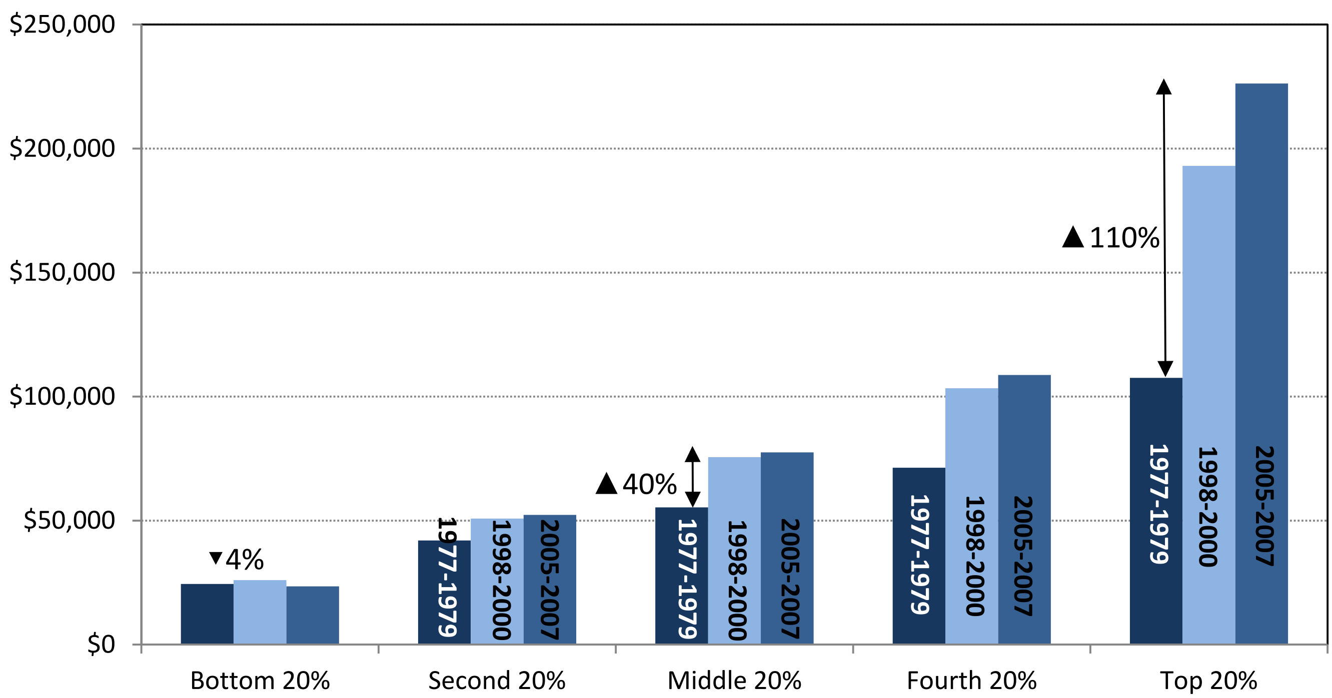
DIVERGING FORTUNES: CENSUS INCOME DATA

Over the past three decades, while incomes at the top have increased greatly, incomes at the bottom have hardly budged. Figure 1 shows analysis of Connecticut average household income[9] from 1977-2010 by the Center on Budget and Policy Priorities (CBPP), Economic Policy Institute (EPI), and Connecticut Voices for Children.[10] The analysis covers the peaks of three business cycles (1977-79, 1998-2000, 2005-07)—to facilitate apples-to-apples comparisons—as well as less comparable, recession income data from 2008-10.

Adjusting for inflation, average incomes among the top fifth of households more than doubled from 1977-79 to 2005-07, from $107,554 to $226,237—a gain of $118,682, or 110%. Those in the middle fifth saw their incomes rise $22,190 (40%), while those in the bottom fifth lost $981 (-4%) over the 30-year period.

Figure 1. The Richest 20% Pull Away

Average Income by Quintile 1977-1979 to 2005-2007 (Inflation-Adjusted)



Source: CBPP, EPI, and CT Voices analysis of Current Population Survey data, adjusted to 2009 dollars

[8] The Census misses a substantial amount of high-earner income because of its practice of "top-coding": above a certain income level, say $250,000, the Census codes respondents' income as equaling that level, even if it were $250 million rather than $250,000. Moreover, the Census generally does not count capital gains, a major source of income for the wealthy. For a fuller explanation of the limitations of Census-defined income, see Linda Levine, *The U.S. Income Distribution and Mobility: Trends and International Comparisons*, Congressional Research Service, March 2012, www.fas.org/sgp/crs/misc/R42400.pdf.

[9] Cash income after federal taxes, plus the value of food stamps and housing assistance, adjusted for household size.

[10] Data from CBPP/EPI, *Pulling Apart* (November 2012), analyzed by Connecticut Voices for Children.

Due to this large divergence in fortunes, the gap between the rich and the rest grew faster in Connecticut than in any other state. Figures 2 and 3 compare the top fifth of households to the middle and bottom fifths in Connecticut and the 49 other states, showing how the top-to-bottom and top-to-middle ratios changed from the late 1970s to the mid-2000s (both peaks of the business cycle). In 1977-79, top-fifth families had 4.4 times the income of bottom-fifth families; by 2005-07, the gap had more than doubled to 9.6 times. Over the same time period, the ratio between top-fifth and middle-fifth families grew from 1.9 to 2.9 times.

Figure 2. The Richest 20% Pull away from the Poor
Ratio of Incomes of Top vs. Bottom Fifths 1977-1979 vs. 2005-2007

Change in Ratio of Incomes of Top and Bottom Fifths of Families 1977-1979 to 2005-2007 (2009 dollars)					
State	**Rank of Change**	**Ratio '77-'79**	**Ratio '05-'07**	**Change**	
Connecticut	*1*	*4.4*	*9.6*	*5.2*	*
Massachusetts	2	4.8	9.5	4.7	*
New York	3	5.4	9.7	4.3	*
Kentucky	4	4.9	9.1	4.1	*
Illinois	5	5.3	9.1	3.8	*
California	6	5.5	9.2	3.8	*
West Virginia	7	4.9	8.4	3.6	*
Colorado	8	5.0	8.5	3.5	*
Rhode Island	9	4.5	8.1	3.5	*
Mississippi	10	6.3	9.8	3.5	*

* Indicates statistical significance

Source: CBPP and EPI analysis of Current Population Survey data

Figure 3. The Richest 20% Pull away from the Middle Class
Ratio of Incomes of Top vs. Middle Fifths 1977-1979 vs. 2005-2007

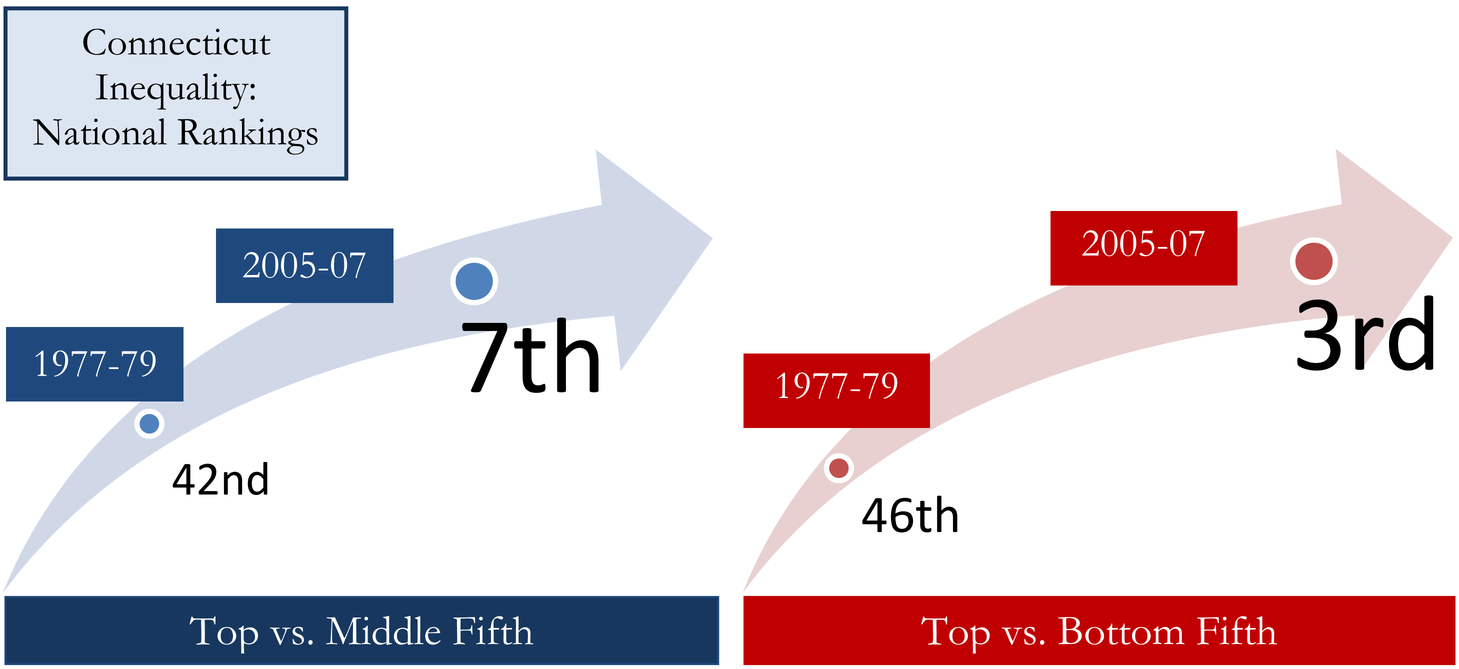
Change in Ratio of Incomes of Top and Middle Fifths of Families 1977-1979 to 2005-2007 (2009 dollars)					
State	**Rank of Change**	**Ratio '77-'79**	**Ratio '05-'07**	**Change**	
Connecticut	*1*	*1.9*	*2.9*	*1.0*	*
California	2	2.1	3.1	1.0	*
Oklahoma	3	2.1	3.0	0.9	*
New York	4	2.1	3.0	0.9	*
New Mexico	5	2.2	3.1	0.8	*
Illinois	6	2.0	2.8	0.8	*
Oregon	7	2.0	2.8	0.8	*
Texas	8	2.2	3.0	0.8	*
Massachusetts	9	2.0	2.7	0.8	*
Rhode Island	10	1.9	2.7	0.8	*

* Indicates statistical significance

Source: CBPP and EPI analysis of Current Population Survey data

As a result, a state whose middle and working classes once stood closer to prosperity than almost anywhere in America has become one of its most unequal places. The gaps between Connecticut's wealthy, middle, and poor are now among the highest in the Nation: in 2005-07, the gap between top-fifth and bottom-fifth families ranked 3rd largest, while the gap between top-fifth and middle-fifth families ranked 7th largest.

This stands in sharp contrast to the Connecticut of old. In 1977-79, the gap between the richest and middle fifths was 42nd largest in the country—in only 8 states were the rich and middle closer together. In 2005-07, that gap had grown to 7th largest—the rich and middle were closer together in 43 other states. Similarly, while the gap between the richest and poorest fifths once ranked Connecticut 46th in the country, the gap is now 3rd worst. Connecticut has moved quickly from relatively egalitarian to remarkably unequal.



DIVERGING FORTUNES: CENSUS WAGE DATA

Current Population Survey wage data since 1979 tell the same story—the rich are pulling away from the rest in Connecticut. Data analyzed by the Economic Policy Institute[11] show wages by every 10% distribution slice (decile)—from 1979 to 2011 (see Figure 4). Adjusting for inflation, workers at the bottom, 10th percentile have seen essentially no wage growth for more than three decades, workers at the 50th percentile have seen wages grow 28%, and workers at the richest 90th percentile have enjoyed a 52% rise in wages.[12]

Moreover, since wage-earners at the top of the distribution earned more at the start, each percentage-point gain has translated into more dollars for them than for less fortunate wage-earners. ***Connecticut workers at the 90th percentile have seen average wages increase over 16 dollars per hour since 1979; workers at the 10th***

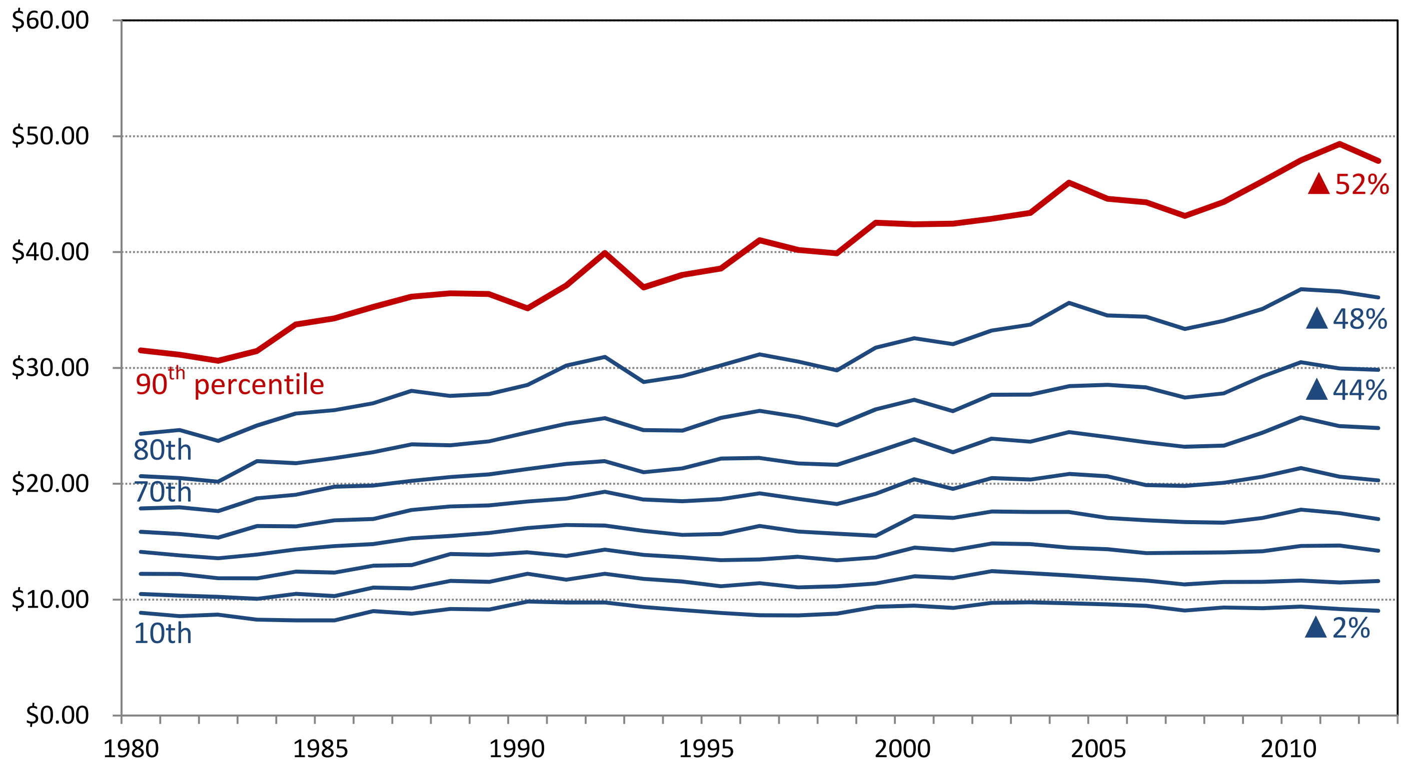
[11] EPI, "State of Working America 2012" database.

[12] While not discussed here in depth, inequality in Connecticut also has a strong racial component. For at least the previous decade, hourly wages for White workers have far outpaced those for Black and Hispanic wage-earners, and to a degree greater than in the Nation as a whole. See CT Voices' most recent "State of Working Connecticut," http://www.ctvoices.org/sites/default/files/econ12sowctfull.pdf.

percentile gained just 17 cents. If two workers both worked 40 hours per week, 50 weeks per year, the 90th percentile wage-earner would have gained $32,700; the 10th percentile earner, just $340.

Figure 4. The Richest Pull Away

Census Hourly Wages 1979-2011 (Inflation-Adjusted)



Source: EPI analysis of Current Population Survey data, adjusted to 2011 dollars

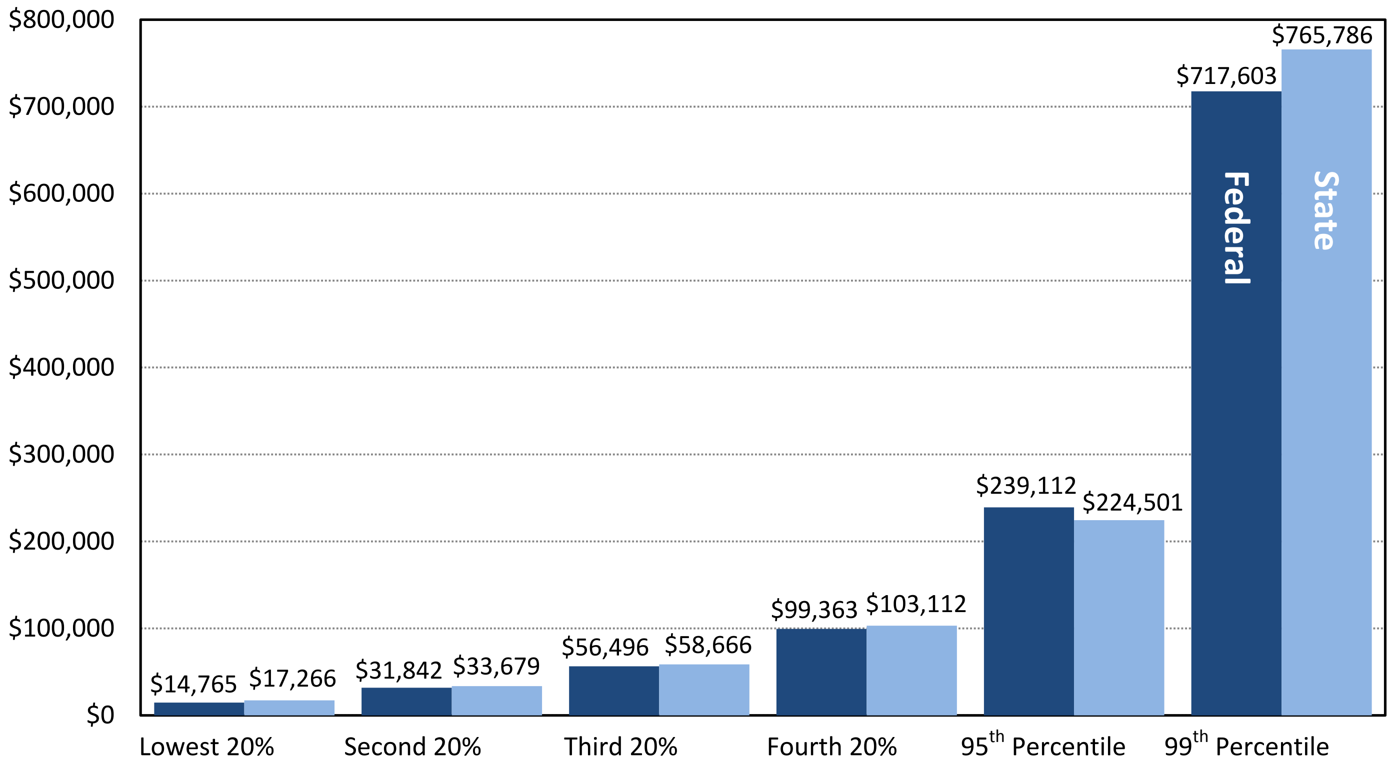
<u>THE RICH AND THE REST: TAX RETURN DATA</u>

Even these striking figures understate inequality since the Census does not capture all income from the wealthy and does not allow us to discern differences in income at the top of the scale. To dig deeper into the upper echelons, the Connecticut Voices for Children analyzed tax returns from the Internal Revenue Service and state Department of Revenue Services (DRS), which provide sufficient detail to examine inequality up to the 99th percentile of taxpayers, the start of the top 1%.

According to 2010 data from the IRS, 95% of Connecticut taxpayers reported less than $239,112 in federal adjusted gross income (AGI), but among the final few percent of taxpayers, incomes increase almost exponentially (see Figure 5). ***Those at the 95th percentile, earning low six figures, are closer in income to the poorest 20% than to the wealthiest 1%, who earn at least $717,603.*** State income tax returns from DRS tell the same story: to qualify for the top 1% requires $765,786 of Connecticut AGI, while the cutoff for the top 5% is a full two thirds less, $224,501.[13] There is a gulf between the merely prosperous and the truly wealthy.

[13] This analysis excludes tax returns from both non-residents and partial-year residents, focusing only on full-year Connecticut residents. While this criterion means the analysis does not capture all state AGI, it more accurately captures inequality *in Connecticut* (and not, say, New York).

Figure 5. The Richest 1% Greatly Out-Earn even the Very Prosperous
Federal and State AGI Percentiles 2010



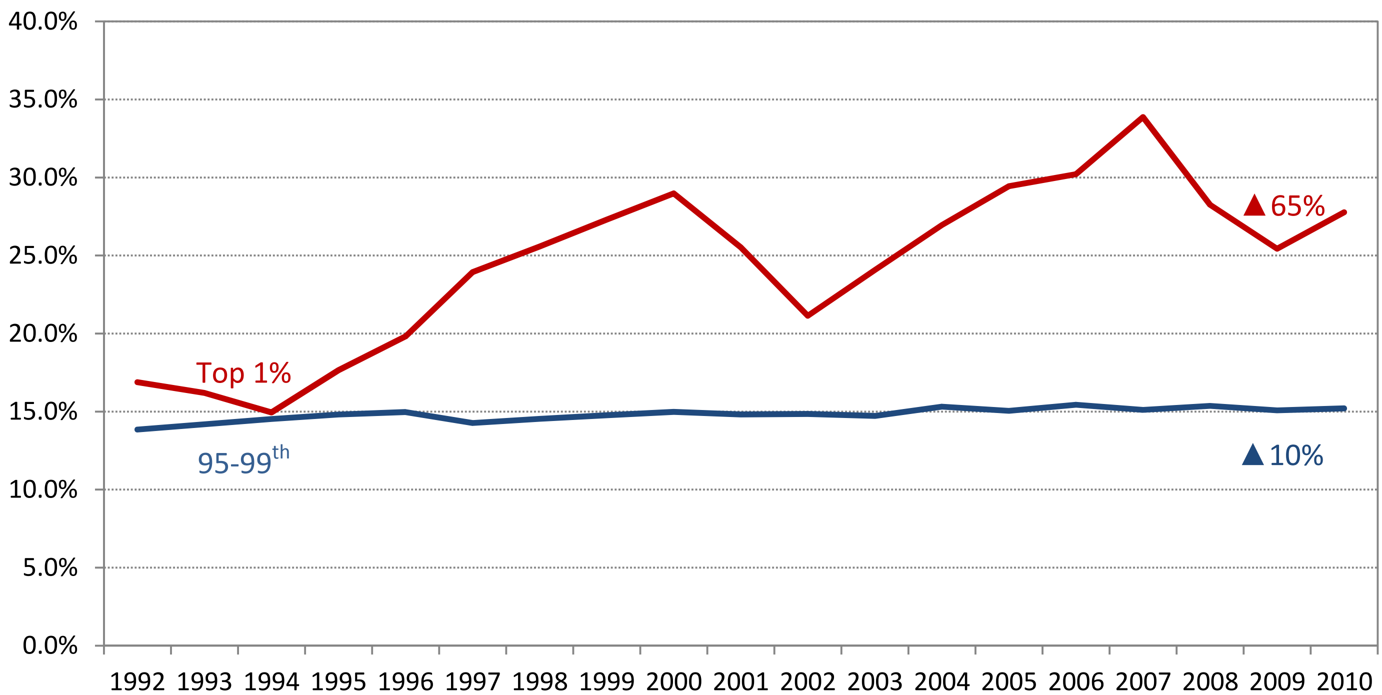
Source: CT Voices analysis of IRS and DRS tax return data

Examining the top 5% of taxpayers from 1992 to 2010, the divergence over time between the rich and the merely well-off is striking (see Figure 6). Connecticut tax return data show that while the share of adjusted gross income claimed by the 95th to 99th percentile taxpayers—all solid six-figure earners—has increased modestly since 1992, the proportion of state AGI going to the top 1% has soared, from 17% to 28%.[14] Not only is this rapid rise in the top one percent's share striking, its sheer size is as well: the top 1%, about 15,000 households, claim nearly 30% of all adjusted gross income in Connecticut.[15]

[14] Historical IRS tax return data are not available for Connecticut with sufficient granularity, so this report relies on DRS data. During the 2000s, the IRS stopped breaking out incomes within the crucial top 5% analyzed here. Fortunately, the IRS has recently resumed this reporting.

[15] Two caveats about AGI: First, while tax returns allow a more fine-grained analysis of high earners than Census data, they are available only for those who file taxes, and some people's incomes are too low to file. (The vast majority of people do file, even if they do not owe any taxes—one must file to receive the EITC, among other things.) Second, AGI leaves out certain types of transfer-payment income, such as Social Security for poorer taxpayers. The result is that while tax return data are very valuable for measuring high incomes, they are less accurate measuring low ones.

Figure 6. The Richest 1% Pull away from the Merely Well-Off
Share of Connecticut AGI 1992-2010



Source: CT Voices analysis of DRS tax return data

In sum, federal and state tax return data give us a crucial glimpse within the top 10% of earners, and both show a steep ramp-up in incomes in the most fortunate few percentiles. ***The rich are pulling away from not only the middle and working classes, but also the merely well-off.*** The largest rise in inequality is occurring above the highest level reported by the U.S. Census Bureau.

COMPARING INEQUALITY ACROSS STATES AND COUNTRIES

The Gini coefficient is one of the most widely used measures of inequality and allows easy comparisons between states and countries. According to the Gini coefficient, ***income inequality in Connecticut is second only to New York among U.S. states.*** On a scale from 0 to 1, Connecticut scored 0.483 in 2011 Census estimates.[16] A coefficient of 1 would mean one person takes all of a country's income, while a coefficient of 0 would indicate a flat distribution. Gini coefficients for nearly every country range from 0.25 (Norway) to 0.65 (South Africa).[17]

Since the Census does not include capital gains in its Gini calculation, however, it understates income inequality, particularly in a state like Connecticut where capital gains make up a large share of income.[18] Using federal income tax data[19] instead of Census figures raises Connecticut's Gini coefficient to 0.635 (and the Nation's to 0.559).[20]

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[16] U.S. Census Bureau, American Community Survey, 2011 3-Year Estimate.
[17] Central Intelligence Agency, *The World Factbook*, https://www.cia.gov/library/publications/the-world-factbook/fields/2172.html.
[18] See, U.S. Census Bureau, American Community Survey, *Data and Documentation,* http://www.census.gov/acs/www/data_documentation/documentation_main/.
[19] Specifically, the IRS's "total income" measure, which adds adjustments back into AGI to yield a fuller definition of income.
[20] CT Voices analysis.

However, federal tax returns exclude income from a variety of transfer payments that disproportionately benefit the poor, such as cash assistance and Social Security, so their Gini coefficient may overstate Connecticut inequality, just as 0.483 understates it. Unfortunately, there is no available measure of income including both transfer payments and capital gains. Nonetheless, the two estimates, 0.483 and 0.635, provide a range that captures inequality more accurately, and underline the fact that Connecticut is among the most unequal places in America, and the world.

CONCLUSION

Inequality in Connecticut is notable both for its depth—second greatest in the Nation—and rate of increase—fastest among all states. What was once a place with prosperous middle and working classes who were within shouting distance of the upper class now stands as the epitome of rising inequality in America. The change has been drastic. Over the last few decades, the richest 1% have left behind not just the working and middle classes, but also the well-off. While incomes at the 95th to 99th percentiles—all solid six-figure earners—have enjoyed modest growth over the last two decades, top 1% incomes have soared, and now constitute nearly 30% of all Connecticut adjusted gross income.

Such deep inequality threatens dire consequences not just for those left behind, but for all of society. It jeopardizes the social, economic, and physical health of every resident in Connecticut: it threatens Connecticut with declining schools, dangerous streets, impoverished communities, unhealthy children, and a diminished economy. Moreover, such inequality belies the notion that anyone can reach the middle class or beyond. After World War II, a child born into poverty had a bit better than 50-50 odds of reaching the middle class as an adult. After falling to about 40% in 1980, those odds for children born today are set to be 2 to 1 against.[21]

While inequality originates largely from forces outside state policymakers' control, such as runaway growth in the financial sector, state policies can play a significant role in mitigating its ill effects. Such policies include:

- **Raising and indexing the minimum wage.** Connecticut's minimum wage has failed to keep pace with inflation: it buys less today than it did 50 years ago. Raising the wage—and indexing it to inflation—would bolster incomes for over 200,000 workers in Connecticut and help many grab hold of the first rung on the opportunity ladder.[22]
- **Shoring up the unemployment insurance system.** Connecticut's failure to keep employer-paid unemployment taxes in step with rising wages, combined with the Great Recession, has rendered the state's unemployment trust fund insolvent—despite some of the country's lowest benefits as a proportion of wages. Connecticut must act to bolster this vital support for working families in tough times.[23]
- **Making the state and local tax code more fair.** Connecticut's state and local tax code is regressive, charging taxpayers in the poorest 20% more than twice the proportion of income as those in the richest 1%.[24] Connecticut should take steps to reduce this regressivity, avoiding increases in the sales and property taxes, which take a bigger percentage of the earnings of lower-income households, and instead focusing any needed increases on the more progressive income and estate taxes.

[21] Remarks by the President on the Economy, Osawatomie, Kansas, December 6, 2011, http://www.whitehouse.gov/the-press-office/2011/12/06/remarks-president-economy-osawatomie-kansas.
[22] See Matt Santacroce and Wade Gibson, *Raising and Indexing Connecticut's Minimum Wage: Making Work Pay for All, for Good*, Connecticut Voices for Children, February 2012, http://www.ctvoices.org/publications/raising-and-indexing-connecticuts-minimum-wage-making-work-pay-all-good.
[23] See Matt Santacroce, *Connecticut's Unemployment Insurance Trust Fund: A Splintering Work Support,* Connecticut Voices for Children, January 2011, http://www.ctvoices.org/publications/connecticuts-unemployment-insurance-trust-fund-splintering-work-support.
[24] See Joachim Hero, *After 2011 Tax Reforms, Connecticut's Wealthy Still Pay Smallest Share of Income in State and Local Taxes*, Connecticut Voices for Children, July 2011, http://www.ctvoices.org/publications/after-2011-tax-reforms-connecticuts-wealthy-still-pay-smallest-share-income-state-and-l.

- **Strengthen programs that preserve and expand opportunity.** Especially in tough times like these, Connecticut should strengthen, rather than weaken, vital programs such as Medicaid and the earned income tax credit that protect our most vulnerable residents and help them climb the opportunity ladder. Connecticut should also expand programs that make higher education more affordable and prepare students to succeed in college—increasingly, a college degree is essential to reaching the middle class.

The growth of inequality in Connecticut shows no sign of abating, but at least now it has pierced the state's political consciousness. With the outlines of the problem now drawn clear, the question is whether and how we act to address it.

This joint report of Connecticut Voices for Children and the Connecticut Association for Human Services (CAHS) is made possible with support from the Melville Charitable Trust, the Stoneman Family Foundation, and the Hartford Foundation for Public Giving. Views expressed in this report do not necessarily represent those of the funders.	This report is a project of CAHS' Kids Count initiative, supported by the Hartford Foundation for Public Giving.