LABOR CENTER
Reporter
June 1988 · Number 237

(Berkeley.

REAGAN'S LEGACY: INCREASED INCOME INEQUALITY

by Mary King

The gap between America's rich and the country's poor and working people is growing. This will be no surprise to union members who have endured the concessions and give-backs, layoffs and plant closings of the Reagan years. The blatantly pro-rich and anti-poor and working people agenda of this administration is showing up in new studies of American income statistics.

Several recent reports are confirming people's sense that now, after a long period of increasing income equality, the United States is moving in the opposite direction. The trend toward greater income inequality dates from the mid 1970's and has been especially pronounced in the 1980's. Economic setbacks in the seventies set off this trend, which Reagan's policies have dramatically worsened.

Poor, working class and wealthy families have fared very differently through the 1980's. The percentage of Americans with incomes below the poverty line was higher in the mid-1980's than at any time since the mid-1960's. There are fewer families with "middle incomes", and the purchasing power of middle incomes is falling. The wealthy, on the other hand, are receiving a larger share of our national income than at any time since the government began collecting these statistics in 1947.

The San Francisco Bay Area

The national trend is obvious even in the relatively affluent San Francisco Bay Area. The two fastest growing income groups in the Bay Area from 1978 to 1985 were those at the top and bottom of the income distribution, earning up to $14,000 or more than $75,000 a year. Thirty-five percent of taxpayers fell into the bottom group and 5% were in the top group in 1985.

The number of people in both groups grew at more than five times the rate of growth of people earning middle incomes during these years. Further, the purchasing power of the income received by families with middle incomes fell by 6% over the period.

Why is the U.S. Going Backwards?: What's Happening to People at the Top?

In 1986 the wealthiest fifth of American families received 44% of the national income, the largest share since the government began tracking these statistics. The most affluent 5% alone received more than the bottom two-fifths of American families combined.

Several Reagan policies have favored the rich. The government has kept interest rates very high through the 1980's, benefitting those with money at the expense of people who need to borrow. Pro-business tax changes, lax enforcement of regulations and anti-union policies pushed up corporate profits, directly increasing the incomes of the wealthy who own the vast majority of stocks and bonds.

Not only are well-to-do families making more, but they are being taxed less. While the poorest 10% of Americans paid 20% more of their incomes in taxes in 1988 than they did in 1977, the wealthiest 10% paid almost 7% less. At the very top, the most affluent 1% paid 20% less of their incomes in taxes in 1988 than in 1977.

What's Happening to People in the Middle?

According to Frank Levy's new book *Dollars and Dreams*, families exactly in the middle of the income distribution had lower incomes in 1984 than they did in 1973, after adjusting for inflation. In 1984 the income of families exactly in the middle was $26,433, down 6% from their 1973 income which was the equivalent of $28,200 in 1984. (In other words, although families in the middle did not earn $28,200 in 1973, the purchasing power of the income that they did earn was equal to the purchasing power of an income of $28,200 in 1984.)

Fewer and fewer jobs are paying a salary that provides a middle class standard of living. Relatively well-paying manufacturing jobs are disappearing as companies bust unions, while

Institute of Industrial Relations 2521 Channing Way, Rm. 300, Berkeley, CA 94720 (415) 642-0323
University of California, at Berkeley. Center for Labor Research and Education

seeking higher profits in overseas investments and in financial speculation. Most of the new jobs in the 1980's have been in the low-paying service sector.

Families today need two earners to maintain a middle income. In families with children, the number of workers per family has grown dramatically since 1970 in all income categories except for the very lowest. The labor force participation rate of American women has risen from 43% in 1970 to 55% in 1986, while the men's rate is 76%. Obviously many working women are single or raising children alone, but now more than half of married women with children under six are in the paid work force as well.

What's Happening to People at the Bottom?

Two trends show up in studies of the poor. The first is that both the number of poor people and the proportion of Americans who are poor are growing. The proportion of the population below the poverty line is larger than at any time since the "War on Poverty" programs were started, and many analysts point out that the numbers would be even higher if the official poverty line were defined at a more realistic level. In 1985, a family of four would not be counted as poor unless their combined income was below $11,000.

The second noticeable change is in the age of people who are poor. In the 1940s, the poor were mostly elderly. Now that Social Security benefits are indexed to inflation, seniors now comprise a relatively small fraction of people living below the poverty line.

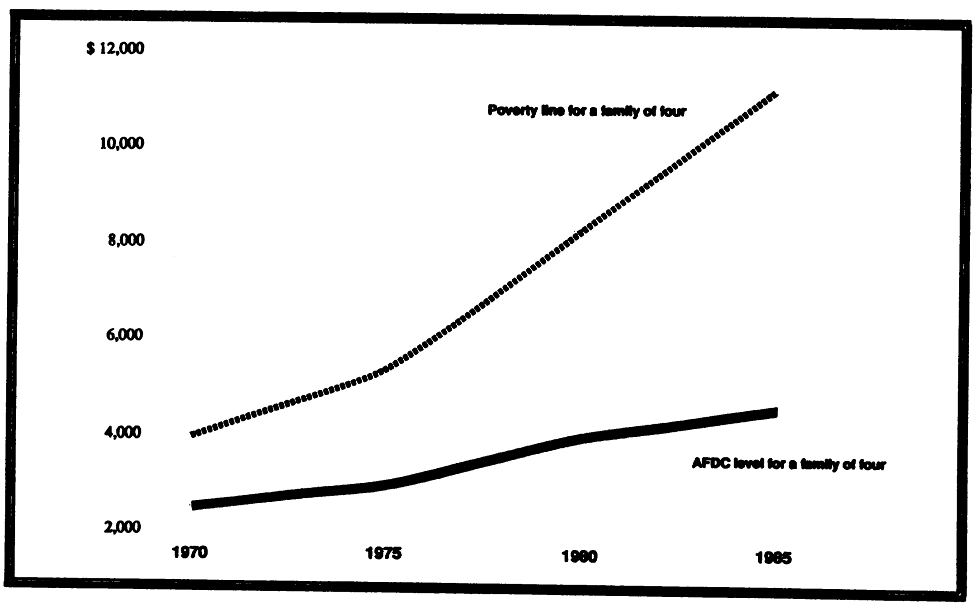
The poor are now disproportionately children and women. Twenty percent of all children, and 40% of black children, are living below the poverty line. Several factors contributed to this development, including high unemployment, the increase in the number of women raising children alone, and the continuing low level of women's wages. In 1984, the average income of married couples with children under 18 was $34,390. The average income of women raising children alone was $12,675.

The biggest factor contributing to the misery of the poor in the 1980's, though, has been the Reagan administration's policy of keeping welfare benefits far below the poverty line. The graph below shows how far behind the poverty line welfare payments have fallen. Today welfare benefits pay just over one-third of the income defined as the poverty threshold for a family of four.

Conclusion

Recent studies by the Congressional Budget Office, Frank Levy and others have confirmed what many of us have sensed. The gap between rich and poor, between relatively well-paid workers and less well-paid workers, and between two-parent and single parent households has been growing.

Reagan's policies are responsible for severely exacerbating this trend, by encouraging union busting, by keeping down welfare benefits and the minimum wage, by keeping interest rates high, and by re-making the tax structure to benefit the corporations and the wealthy. To decrease the growing income gap we need policies to promote full employment, fair wages for women, better welfare benefits, a more equitable tax structure, a reasonable minimum wage and more corporate accountability.



Source: Center on Budget and Policy Priorities,
SMALLER SLICES OF THE PIE