The Iowa Policy Project News Release

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Income gap grows in Iowa

Disparity pronounced between top- and middle-income earners

MOUNT VERNON, Iowa (April 23, 2002) – Income differences between Iowa's wealthiest and middle-income residents grew more in the 1990s than they did in all but six states, according to a national report released today.

A joint report from the Economic Policy Institute and the Center on Budget and Policy Priorities found that despite the tremendous overall economic growth of the 1980s and 1990s and the low unemployment rates of the late 1990s, the gaps between high-income and low- and middle-income families are historically wide. In all but five states, income inequality has increased over the past 20 years. The report, "Pulling Apart: A State-by State Analysis of Income Trends," is available on the web at http://www.cbpp.org/4-23-02sfp.htm.

"It used to be that we would expect the gains from economic growth to be distributed widely in the population," said Peter Fisher, a University of Iowa professor of Urban and Regional Planning and a research associate with The Iowa Policy Project. "This hasn't been happening in the U.S. in the last 20 years and it hasn't happened despite the unprecedented economic expansion in the 1990s. What we saw finally were some gains in income among the lower- and middle-income families, but still it was far outpaced by gains at the top."

Between the late 1970s and late 1990s in Iowa, the report showed:

- Average income of the bottom fifth of Iowa families grew $548, a 3.4 percent increase, from $16,037 to $16,586;
- Average income of the middle fifth of Iowa families grew $5,065, an 11.6 percent increase, from $44,875 to $49,940; and
- Average income of the top fifth of Iowa families grew $39,765, a 43.3 percent increase, from $91,903 to $131,668.

In addition, the report found the trend persisted in the 1990s despite an economic boom, with the incomes of the richest fifth growing by 36.8 percent, compared with gains of 12.6 percent for the bottom fifth and 14.5 percent for the middle fifth.

"Thus, the top fifth pulled away from the middle and bottom in the economic doldrums in Iowa in the 1980s, and then continued to pull away, even more dramatically, in the 1990s," Fisher said.

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In Iowa, the gap between the incomes of the highest fifth of families and the incomes of the middle fifth widened substantially in the 1990s. In the late 1980s, the average income of the richest one-fifth of Iowa families was 2.2 times that of the average income of the middle fifth; that grew to 2.6 times by the late 1990s. Comparing the top to bottom, average incomes of the highest-income families were 6.5 times those of the lowest-income families in the late 1980s – a figure that grew to 7.9 times in the 1990s. That was the 15th-highest change nationally.

Fisher said the causes of the increased inequalities in income are similar to those nationally:

■ A rise in low-wage service-sector jobs and a decline of high-wage manufacturing jobs.

■ A decline in union membership; union workers' wage advantages are well-documented, including in Iowa.

■ Wages nationally have not increased with productivity, while property income (rent, interest, dividends and capital gains) has increased substantially and has become a larger share of total income, continuing to be concentrated among the richest families.

Because Census data, used for the "Pulling Apart" report, do not capture income from capital gains, executive bonuses and other non-wage sources, researchers said it is likely that the growth in incomes of top earners, and hence the growth in income inequality, may be even greater than reflected in the study especially considering the sharp run up in stock market wealth in the late 1990s.

"People from all walks of life, from laborers to corporate executives, contributed to the strong level of overall economic growth that dominated much of the 1980s and 1990s. It is a problem when everyone does not share in the resulting prosperity," said Elizabeth McNichol, director of CBPP's State Fiscal Project and a co-author of the report.

A recent joint report by The Iowa Policy Project and the Child and Family Policy Center of Des Moines noted that along with income disparities in Iowa in the 1990s, the major changes in the state's tax structure benefited wealthy Iowans. Only the top fifth of Iowa's income earners saw an average net benefit from the combination of the state sales tax increase in 1992 and the 10 percent income tax cut passed in 1997.

That report, co-authored by Fisher for the IPP and Dr. Charles Bruner of the CFPC, recommended that any new sales-tax increase be accompanied by measures to reduce the regressivity of the sales tax and reverse the trend of the 1990s.

The Iowa Policy Project is a nonprofit, nonpartisan organization that was founded in the summer of 2000 to produce and disseminate research on a broad set of issues of importance to Iowans. The IPP engages scholars at Iowa's public and private colleges and universities to produce sound, independent research.

All Iowa Policy Project reports are available on the web at www.iowapolicyproject.org.

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Editors/News Directors:

■ For the full "Pulling Apart" report, and release, check the web at the following link: http://www.cbpp.org/4-23-02sfp.htm.

■ To contact Peter Fisher for the Iowa perspective on this report, contact Mike Owen at 319/643-3628 or ipp@Lcom.net.

■ For more information about Iowa's income and employment trends, see *The State of Working Iowa 2001*, available on the web at http://www.iowapolicyproject.org.