CHAPTER 3: Income

Income earned from work, returns on investments and government benefits is at the heart of a family's economic security. Income determines the standard of living in America—where you live, the food you buy, ability to save for retirement, and capacity to deal with unexpected costs like medical bills or car repairs or even joblessness.

Colorado is still feeling the effects of the 2007 recession. Median income has not yet fully recovered. Minorities were hit harder and experienced larger declines in income. Women at all levels of education still earn less than men.

Much like the nation, Colorado is also experiencing growing income inequality. In years past, periods of economic prosperity and downturn impacted the whole population similarly. Our fortunes would rise and fall together. The historical trend of nearly uniform growth across the income spectrum diverged dramatically after 1979. While the economy as a whole has grown over the past four decades, the benefits of that growth have not been broadly shared.

Income gains have disproportionately accrued to families at the top of the income distribution. Families at the bottom and the middle grew slowly and even lost ground in the most recent decade. The result is a widening gap between high, middle and low-income households that is seemingly no longer responsive to hard work.

Fast Facts

Since 2007, real median income in Colorado has declined by $4,400 to $56,765.

Black household income has declined nearly 16 percent since 2007; American Indian/Alaska Native household income declined 18.5 percent.

At all levels of education median household income of women is less than men.

Nearly half of the $1.6 trillion in income earned in Colorado in 2012 went to the top 20 percent of households.

Colorado ranks among the top 20 states in the nation with the highest levels of income inequality.

Income

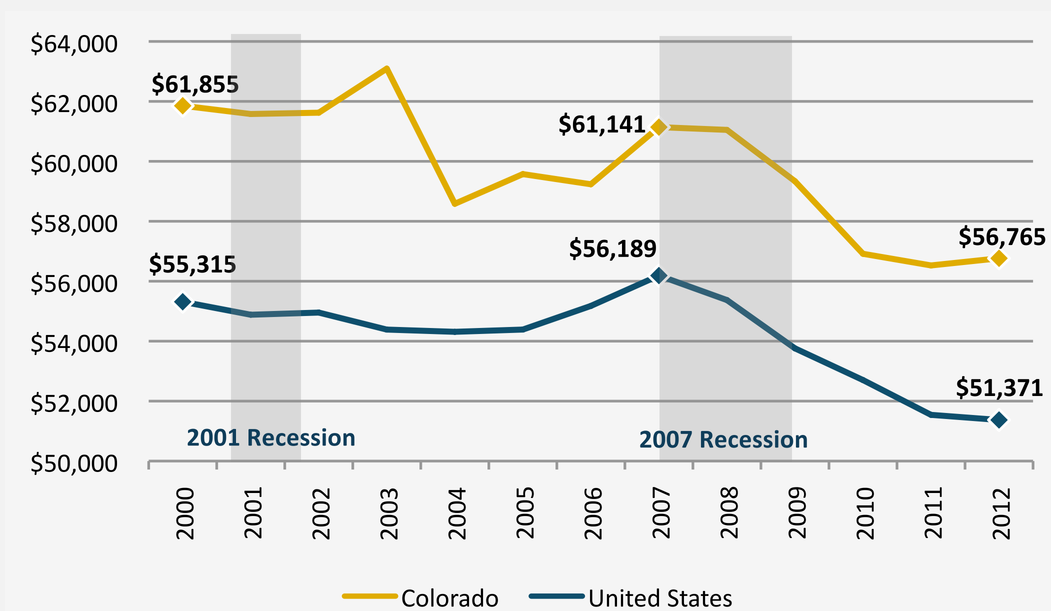
Median household income still below pre-recession level

Since 2007 real median household income in Colorado has dropped by $4,400 to $56,765 in 2012—a 7 percent decline. (See Figure 3.1) The good news is that since 2010, real median income has held steady. At this pace, however, it may take several years for median income to recover to the pre-recession level. While it is clear that the Great Recession of 2007 had a significant impact on income, the preceding business cycle was also tough for many workers. With the exception of a spike in 2003, real median income in Colorado never regained its 2000 peak before the Great Recession took hold in 2007.

During the past 12 years, median household income in Colorado has been, on average, about $6,000 higher than the national median. Nationwide median income dropped more precipitously—by nearly 9 percent between 2007 and 2012. Nationally, median household income also has been slow to return to 2000 levels. Some forecasters predict that given the relationship between lackluster income growth and stubbornly high unemployment, we may be facing a long recovery period to regain lost ground on income.[1]

***Figure 3.1**: Real median household still down from before the 2007 recession*

MEDIAN HOUSEHOLD INCOME, COLORADO AND U.S., 2000-2012 (2012 DOLLARS)



Source: Economic Policy Institute analysis of U.S. Census Bureau American Community Survey

What is counted as income?[2]

Three basic categories of income are compiled by the U.S. Census Bureau and presented in this chapter:

- **Income earned from salaries or wages**. For households that fall in the middle of the income distribution, the vast majority of their income is derived from wages earned from work. Nationally, much of the rise in annual wages is the result of increasing hours of work, not due to increasing hourly wages. (See Chapter 4 for more detail on wage trends.)
- **Income from capital ownership (i.e., interest, dividends and capital gains)**. Over the last few decades, the share of overall income derived from owning capital has increased significantly while the share of income from wages has declined. This shift from labor-derived income to capital-derived income is a significant driver of the growing concentration of income at the top end of the income distribution.
- **Tax and Transfer income**. This includes income from government cash benefit programs (e.g., Social Security and other cash assistance programs), the value of tax credits (e.g., Earned Income Tax Credit) and non-cash benefits (e.g., nutrition assistance, Medicare, Medicaid, public housing). The current mix of tax credits and transfers have generally failed to alter the concentration of income in the U.S.[3]

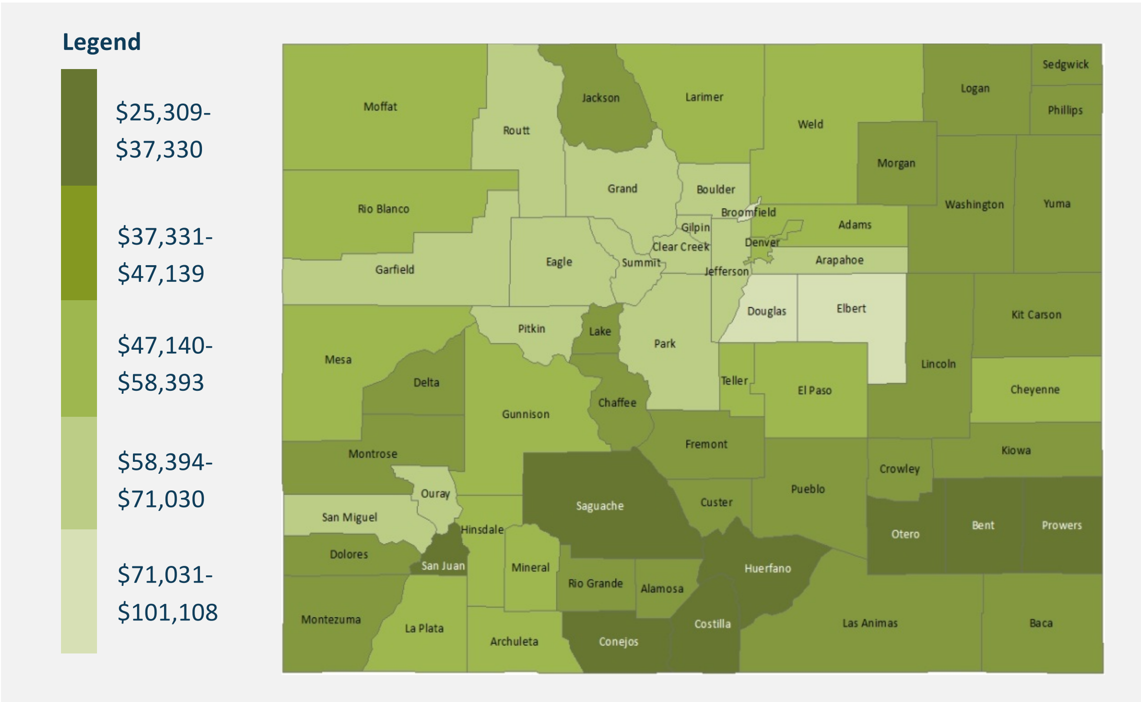
Median household income varies significantly by county

Colorado is a diverse state with a combination of rural, urban and tourist communities neighboring one another. Median household income across the state ranged from a low of $25,309 in Costilla County to a high of $101,108 in Douglas County. Again, this is median income—the income earned by households in the middle of the income distribution. So half of all households in Costilla County actually earned less than $25,309. These differences have documented impacts on the wellbeing of residents in each county. For example, according to measures of health and wellbeing compiled by the Robert Wood Johnson Foundation, Douglas County residents tend to live longer, have greater access to healthy food and are less likely to be unemployed compared to residents in Costilla County.[4]

The counties with the lowest median household incomes are clustered in the San Luis Valley and south eastern parts of the state. (See Map 3.1) Counties with the highest median household incomes are more scattered across the state, stretching from the Front Range to mountain communities with prime tourist destinations. The median incomes of the majority of counties in the state (66 percent) fell below the statewide median income of $56,765.

Map 3.1: *Median household income varies substantially across the state*

MEDIAN HOUSEHOLD INCOME BY COUNTY (IN 2012 DOLLARS), ESTIMATES FOR 2008-2012



Source: U.S. Census Bureau American Community Survey, 5-year estimates

Disparities in income by race and ethnicity are significant and persistent

Median income varies substantially by race and ethnicity. Nationally, median income of black families as a share of white median income has historically hovered around 60 percent or lower.[5] The pattern is similar for Hispanic income, which reached a historic high of 69 percent of white median family income in 1979.[6] Since then, it has remained in the low-60 percent range. These are deeply rooted patterns that have persisted for many decades across the nation and in Colorado.

In 2012, median household incomes for black, Hispanic/Latino and American Indian/Alaskan Native households in Colorado were all similar—all clustered around $38,000. Median incomes of these minority households were substantially lower than white households. (See Figure 3.2)

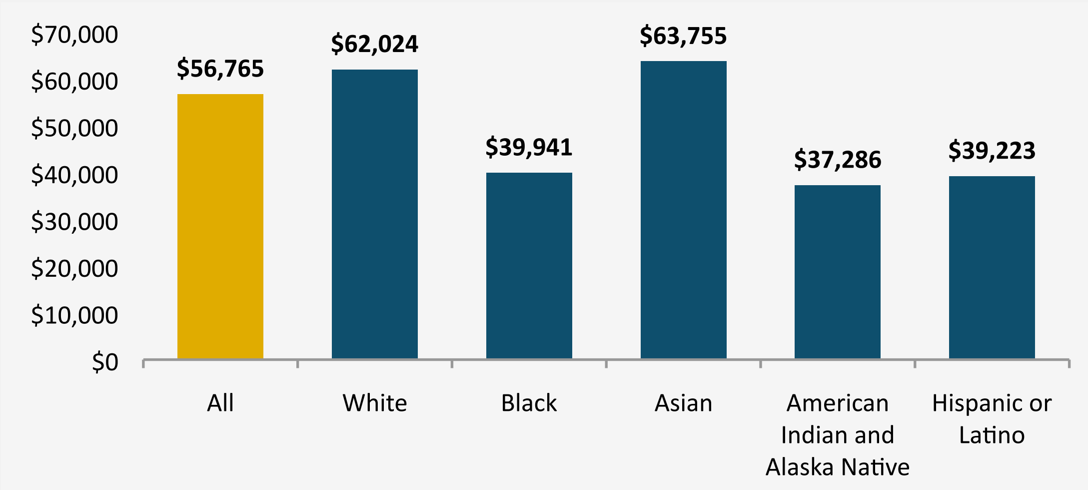
- The greatest disparity existed among American Indian/Alaskan Native households where median income was 60 percent of whites households.
- Black and Hispanic/Latino households earned a median income that was 64 percent of white households.

- Asian households, which make up about two percent of all Colorado households, are the outlier to this general pattern. Median income for Asian households was statistically similar to that of white households.

Low unemployment and a tight labor market is the surest route to income gains for most American households. And the benefits of low unemployment accrue most significantly to historically disadvantaged groups of workers. Nationally, the tight labor markets of the 1990's were the major driver of relative income gains for blacks.[7]

***Figure 3.2**: Median income substantially less for some minority households*

MEDIAN HOUSEHOLD INCOME, BY RACE AND ETHNICITY, 2012



Source: U.S. Census Bureau American Community Survey

Income disparities by gender endure regardless of educational attainment

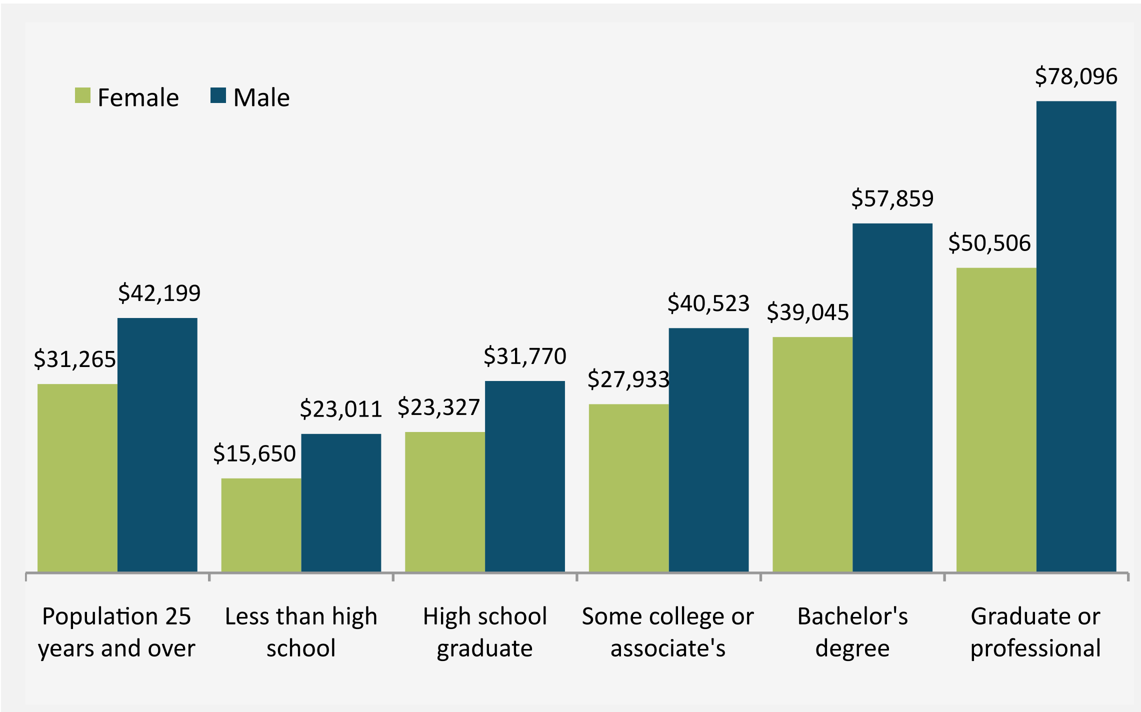
Women earn less than men at every educational level and the gap widens with increasingly higher levels of education. In 2012, Colorado women age 25 and older earned only about 75 percent of men's median income. (See Figure 3.3) The income gap is smallest between male and female high school graduates where women earn about 74 percent of men. The gap grows substantially at the upper rungs of the education ladder, with the largest income gap existing at the highest levels of education. Women who complete a graduate or professional degree only earn 65 percent of median income for men with similar credentials. Median household income for women with a graduate or professional degree was $50,506 compared to $78,096 for men.

Even with an additional level of education, median income for women is still lower than men one step below. For example, in 2012 a woman with a graduate or professional degree earned a median income $7,300 less than a man with only a bachelor's degree.

Recent research from economists at Cornell University concluded that 60 percent of the income gap between men and women is due to structural and social factors.[8] That is, women tend to cluster into a smaller set of occupations, work fewer hours than men and are more likely to juggle jobs and family responsibilities that result in breaks in employment history—all of which impact income. The authors found that the remaining 40 percent of the gender income gap cannot be easily explained by quantifiable differences between men and women and is likely due to discrimination.

***Figure 3.3**: Gender gap in income persists across all levels of educational attainment*

MEDIAN ANNUAL EARNINGS, BY GENDER AND EDUCATION, 2012



Source: U.S. Census Bureau American Community Survey. Coloradans 25 years and older.

The Great Recession of 2007

A recession begins just after economic activity reaches a *peak* and ends as the economy reaches its *trough*—the lowest point of activity. An expansion is the period between the trough and the next peak. Expansion is the normal state of a healthy economy. The most recent recessions occurred in 1981, 1990, 2001 and 2007. Recessions differ in length and severity. The Great Recession of 2007 is the longest recessionary period since the Great Depression—lasting from December 2007 to June 2009.

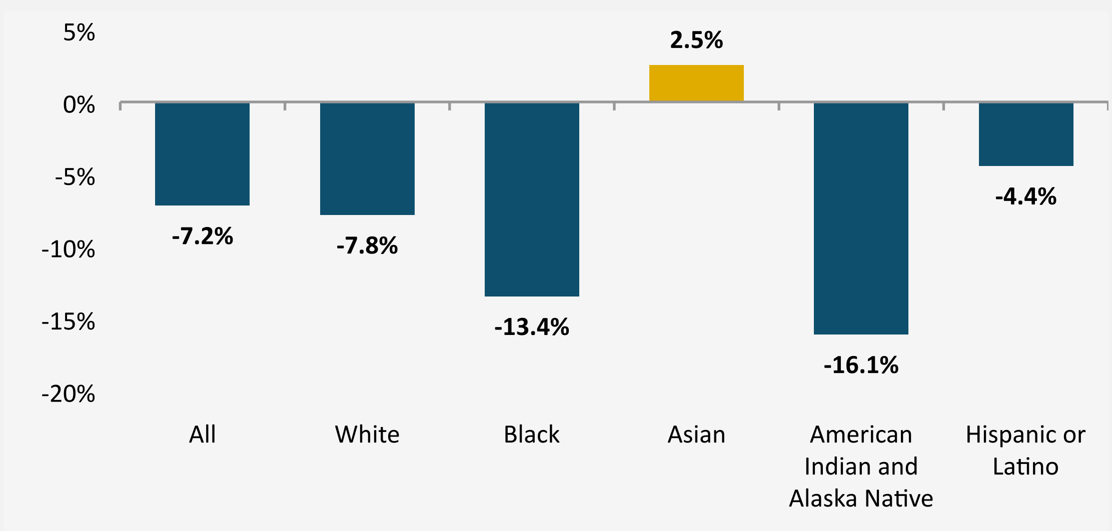
Income losses from the Great Recession vary by race and ethnicity

The Great Recession had a harsher impact on incomes of some minority households in Colorado. American Indian/Alaska Native and black households experienced the most significant reductions in income between 2007 and 2012. (See Figure 3.4) American Indian/Alaskan Native median household income declined by 16.1 percent between the start of the recession and 2012—the largest drop among the racial and ethnic groups examined. Black households experienced a 13.4 percent decline in median income over the same time period. Median income of white households saw a 7.8 percent drop. Hispanic median income had the lowest drop (4.4 percent). Asian households were the only group to register increases in income between 2007 and 2012.[9]

When looking at changes in median income between 2007 and 2010—from the start of the recession into the recovery period—we find that households across all racial and ethnic groups experienced income losses. What is distressing is that, with the exception of Asian households, those losses have continued to be felt through 2012—well into the recovery period. In other words, while income losses from the 2007 recession impacted some groups more significantly, incomes across the board have been slow to recover.

***Figure 3.4**: Some minority households experienced larger income drops since 2007*

PERCENT CHANGE IN REAL MEDIAN HOUSEHOLD INCOME, BY RACE AND ETHNICITY, 2007-2012



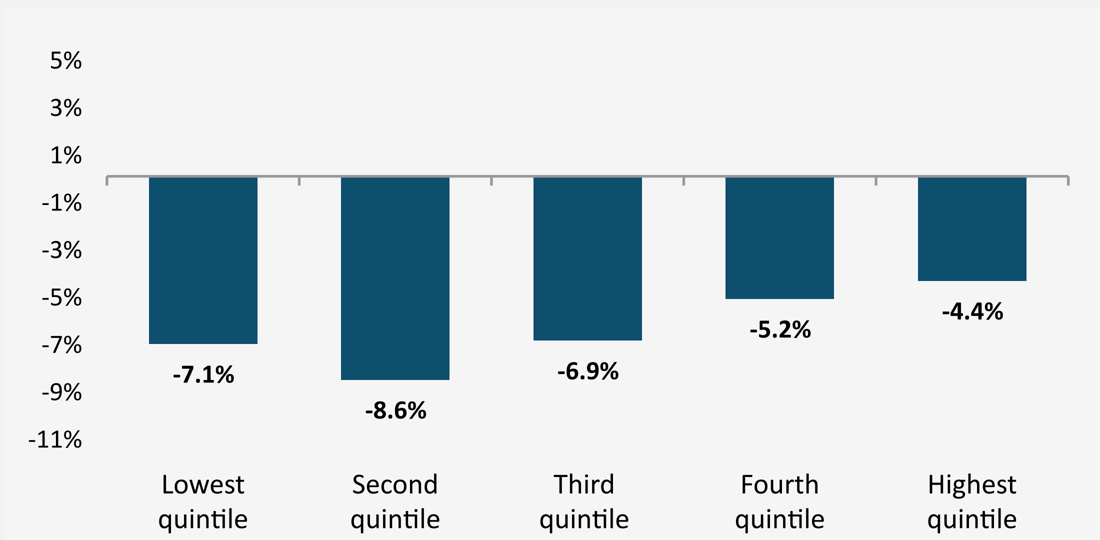
Source: U.S. Census Bureau American Community Survey

Lowest-earning households experienced the largest drop in income since 2007

The wealthiest households have had an easier time recovering from the 2007 recession compared to the lowest-income households in Colorado. Households in the bottom 20 percent experienced a 7 percent decline in income between 2007 and 2012. (See Figure 3.5) By comparison, households in the top 20 percent saw smaller losses in income—about 4 percent. It is important to note that people at the lower end of the income distribution have a much harder time dealing with fluctuations in income. Even a relatively minor dip in income can have devastating impacts on families with narrow margins in their household budgets.

***Figure 3.5**: 2007 recession income losses greatest among lowest income households*

PERCENT CHANGE IN HOUSEHOLD INCOME, BY INCOME GROUP, 2007-2012 (2012 DOLLARS)



Source: U.S. Census Bureau American Community Survey

Looking at Income by Fifths

Median income is only one point in the income distribution. Breaking income down into fifths—or quintiles—is another way to examine how income is distributed across a population. Quintiles are calculated by ranking reported incomes from the lowest to the highest and then dividing them into fifths. The income of the 20th household would give you upper income limit for the bottom quintile, the income of the 40th household would give you upper limit for the second quintile, and so on. Incomes falling between the upper and lower limit for a quintile are used to compute the average of the quintile. Unless stated otherwise, the values presented in this section refer to the average of the quintile.

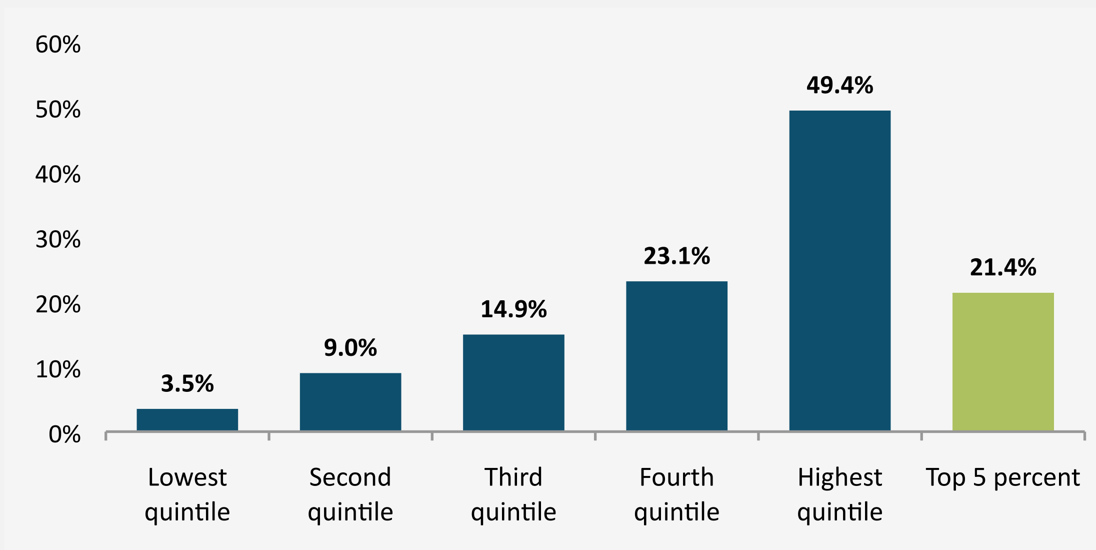
Half of the state's income is concentrated among 20 percent of the population

Rising income inequality in America is by now a familiar story. Colorado is no exception to that narrative. A growing share of the state's income is concentrated among a shrinking share of households at the very top of the income distribution. In 2012, half of the state's total income of nearly $1.6 trillion was earned by the richest 20 percent of Colorado households. (See Figure 3.6) This means that one of every two dollars earned in the state went to 20 percent of households and the other dollar was split—unevenly—among the bottom 80 percent of households.

On the other end of the income spectrum, the poorest 20 percent of households in Colorado—that's just over 399,000 households—earned a paltry 3.5 percent of the state's total income in 2012. By comparison, the wealthiest 5 percent of households—about 99,800—brought home more than one-fifth of the entire income available in the state.

Figure 3.6: *Top 20 percent of households earned half of all income in the state*

SHARE OF TOTAL STATE INCOME. BY INCOME GROUP. 2012



Source: U.S. Census Bureau American Community Survey

Income

Income inequality is growing in Colorado

Colorado ranks among the top 20 states in the nation with the highest levels of income inequality.[10] (See Figure 3.7) The richest five percent in the state earned average annual incomes that were 13 times greater than the bottom 20 percent of households and over four times greater than the middle 20 percent of households between 2008-2010.[11] (See Figure 3.8)

This is a product of unequal income growth over the past several decades. (See Figure 3.9) Incomes of the top 20 percent of households in Colorado grew by 70 percent between the late 1970s and mid-2000s compared to a meager four percent growth among the bottom 20 percent. More recently, any gains in income among the lowest earners from the robust growth in the late-1990s have been erased by the 2001 and 2007 recessions. Between the late-1990s and mid-2000s, income dropped by nearly 12 percent for the bottom 20 percent and remained stagnate for the middle 20 percent. The top earners, however, saw a nearly nine percent increase over the same time period.

Figure 3.7: Colorado in top 20 states with highest levels of income inequality

RATIO OF AVERAGE HOUSEHOLD INCOME FOR TOP 20 PERCENT TO POOREST 20 PERCENT OF HOUSEHOLDS, 2008-2010

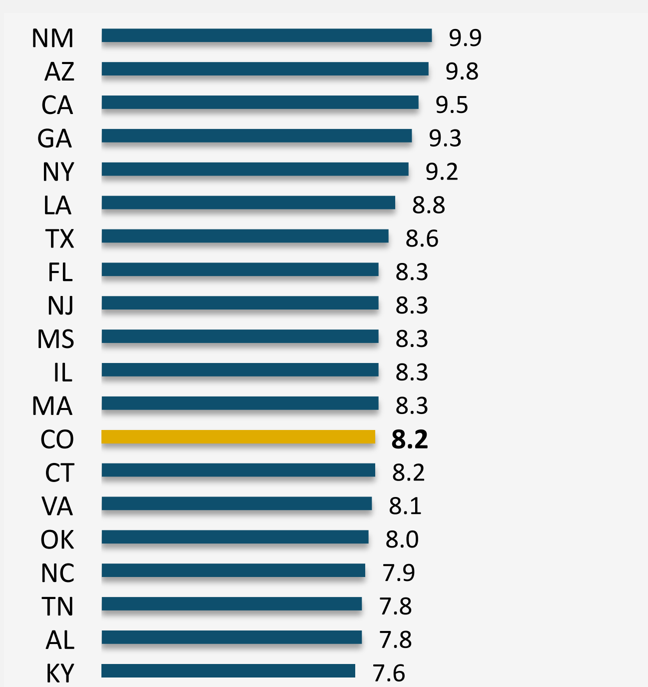
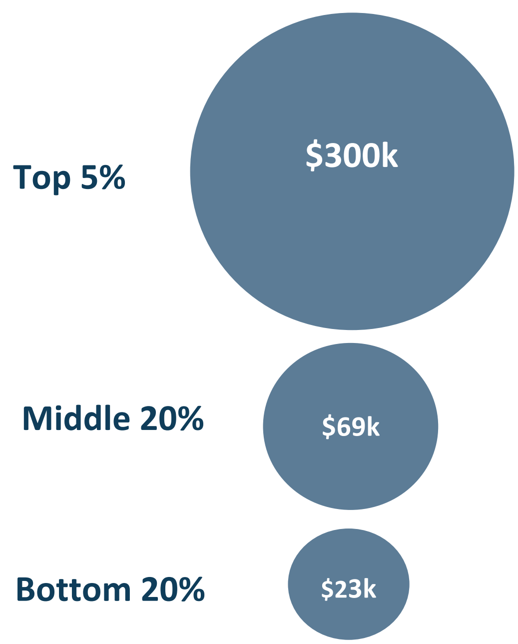


Figure 3.8: Incomes of richest 5 percent are 13 times greater than bottom 20 percent

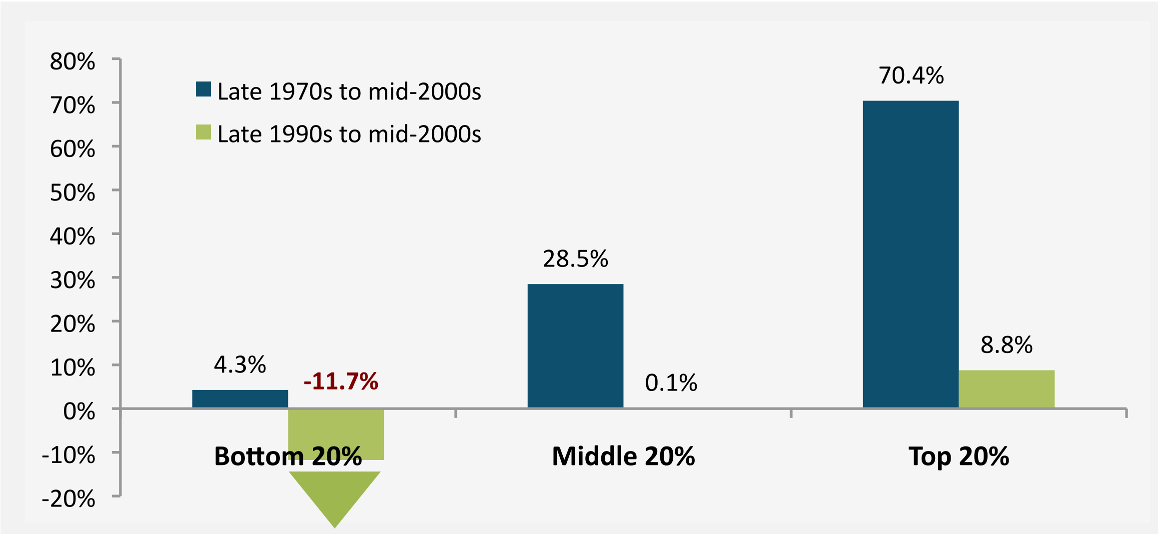
AVERAGE ANNUAL INCOME, BY INCOME GROUP, 2008-2010 (2009 DOLLARS)



Source: Economic Policy Institute and Center on Budget and Policy Priorities analysis of U.S. Census Bureau Current Population Survey

Figure 3.9: Growing inequality among low- and high-income households in Colorado

PERCENT CHANGE IN AVERAGE HOUSEHOLD INCOME, BY INCOME QUINTILE (2009 DOLLARS)



Source: EPI and CBPP analysis of U.S. Census Bureau Current Population Survey

Why does growing income inequality matter?

Growing income inequality is both an economic and a social problem. A well functioning economy with broadly shared opportunity to reap the benefits of economic growth is critical to the overall wellbeing of our communities.

- ***Political participation*** — Generally, voter participation is greater among higher income people compared to lower income people.[12] Broad political participation is necessary to a truly representative democracy.
- ***Opportunity to move out of poverty*** —Income inequality can also hamper efforts to move families out of poverty. When working full-time is not enough to lift a family out of poverty, efforts to encourage work over welfare will not succeed.
- ***Impact on future generations —***The research is clear that poverty has harmful and long-standing impacts on children. Children who grow up in poverty struggle in school and are more likely to live in poverty as adults.[13] Even modest changes in family income can make a big difference for children. Researchers at the University of Wisconsin found that increasing family income for children under 6 resulted in those children earning more and working more as adults.[14]
- ***Long-term economic growth*** — The growing gap between high and low earners and stagnating wages for the majority of Americans is widely thought to have played an important role in both creating the current economic situation and the failure to fully recover. Countries with sustained economic growth for years, or even decades, generally have low levels of income inequality.[15] Standard & Poor's, a leading investment research firm, recently issued a report concluding "extreme income inequality is a drag on long-run economic growth," and downgraded its 10-year U.S. economic growth forecast as a result.[16]

Notes

[1] Lawrence Mishel, Josh Bivens, Elise Gould, and Heidi Shierholz. (2012). *The State of Working America, 12th Edition*. An Economic Policy Institute Book (pp. 53-54). Ithaca, NY: Cornell University Press.

[2] Mishel et al. *The State of Working America* (pp. 53-56).

[3] Mishel et al. *The State of Working America* (pp. 53-56).

[4] See Robert Wood Foundation. *County Health Rankings and Roadmaps* website. Available at: http://www.countyhealthrankings.org/app/colorado/2014/compare?counties=035%2B023

[5] Mishel et al. *The State of Working America* (pp. 68-69).

[6] Mishel et al. *The State of Working America* (pp. 68-69).

[7] Mishel et al. *The State of Working America* (pp. 68-70).

[8] Francine D. Blau and Lawrence M. Kahn. (2007). The Gender Pay Gap: Have Women Gone as Far as they Can? *Academy of Management Perspectives*, *21*, 7-23. Available at: http://web.stanford.edu/group/scspi/_media/pdf/key_issues/gender_research.pdf.

[9] A note on estimates for Asian households in Colorado: Asians comprise less than 2 percent of the population in Colorado. Because the population tends to be so small, the estimates are less stable. Observed differences may be within expected margins of error, and therefore not statistically significant.

[10] Elizabeth McNichol, Douglas Hall, David Cooper, and Vincent Palacios. (2012). *Pulling Apart: A State-by-State Analysis of Income Trends.* Washington, DC: Center on Budget and Policy Priorities and Economic Policy Institute.

[11] Economic Policy Institute and Center on Budget and Policy Priorities analysis of U.S. Census Current Population Survey data. Income is post-federal tax and includes the value of the EITC and the value of food stamps and housing subsidies. Income is adjusted for inflation (to 2009 dollars) and for household size. Changes shown are significant at the 90% level.

[12] Max Follmer. (2012, April 30). Who Actually Votes in America? *Take Part*.. Available at: http://www.takepart.com/article/2012/04/30/who-actually-votes-america-infographic

[13] Caroline Ratcliffe and Signe-Mary McKernan. (2012). *Child poverty and its lasting consequence*. Washington, DC: *The Urban Institute.*

[14] Greg J. Duncan and Katherine Magnuson. (2011, Winter). The Long Reach of Early Childhood Poverty. *Pathways*. Available at: http://www.stanford.edu/group/scspi/_media/pdf/pathways/winter_2011/PathwaysWinter11_Duncan.pdf.

[15] Andrew Berg and Jonathan Ostry. (2011). Equality and efficiency: Is there a trade-off between the two or do they go hand in hand. *Finance & Development*, 48(3).

[16] Standard & Poor's. (2014). *How Increasing Income Inequality is Dampening U.S. Economic Growth, and Possible Ways to Change the Tide*.