

Income inequality continues to grow in Wisconsin and the United States, producing an ever-widening chasm between the rich and poor. Since the mid-1990s, Wisconsin's richest residents experienced dramatic increases in inflation-adjusted income, while middle- and lower-income Wisconsinites saw their incomes stagnate or decrease.

Nationally, Wisconsin remains among the states with the lowest levels of income inequality—sixth lowest, in fact, according to *Pulling Apart*, a report released last week by the Economic Policy Institute and Center on Budget and Policy Priorities. But while Wisconsin's income distribution is less unequal than that of most other states, Wisconsin is keeping pace with the national trend of dramatic increases in inequality. By the late 2000s, Wisconsin had a greater degree of income inequality than the most unequal state did 30 years ago.

A TREND OF INCREASING INEQUALITY

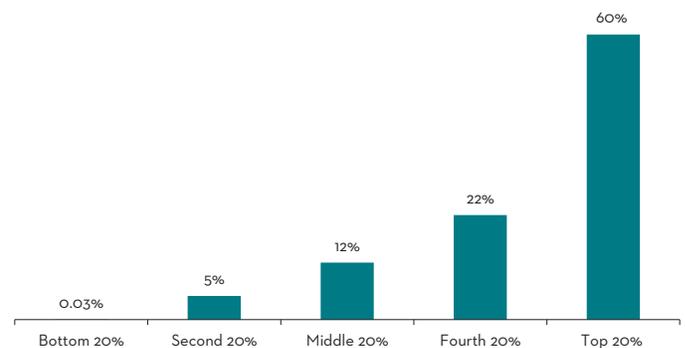
In Wisconsin, most income flows to the biggest earners. Of all the income in the state, six of every ten dollars flows to just two of every ten residents—the richest fifth of the population. The remaining four of ten dollars is split across the bottom 80 percent of the state population. And the further down you are in the distribution, the smaller your share. The 20 percent of Wisconsinites with the lowest income bring in just three cents of every 100 dollars earned in the state. These figures and others in this report are based on adjusted gross income numbers released by the Wisconsin Department of Revenue, adjusted for inflation.

Over time, Wisconsin has become more unequal. Most of the limited economic gains that occurred between 1996 and 2010 went to the biggest earners, while lower-income Wisconsinites lost ground. Between 1996 and 2010, adjusting for inflation, the incomes of Wisconsin's poorest

figure 1

MORE THAN HALF OF WISCONSIN'S 2010 INCOME FLOWS TO THE HIGHEST EARNERS

Share of total adjusted gross income, by income group

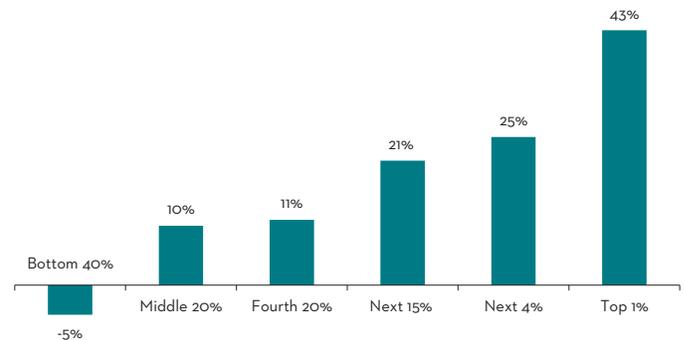


Wisconsin Department of Revenue. Data for all 2010 filers, ordered by income, presented in fifths of income distribution.

figure 2

LARGE GAINS FOR THE RICHEST, WHILE POOREST WISCONSINITES FALL BEHIND

Change in total adjusted gross income, by income group, 1996-2010



Wisconsin Department of Revenue. Data for all 2010 filers, ordered by income, presented in fifths of income distribution.

table 1

AVERAGE INCOME, AND INCOME CHANGE 1996-2010, FOR WISCONSIN'S POOREST AND RICHEST TAX FILERS

Change in adjusted gross income, 1996-2010; all expressed in 2012 dollars

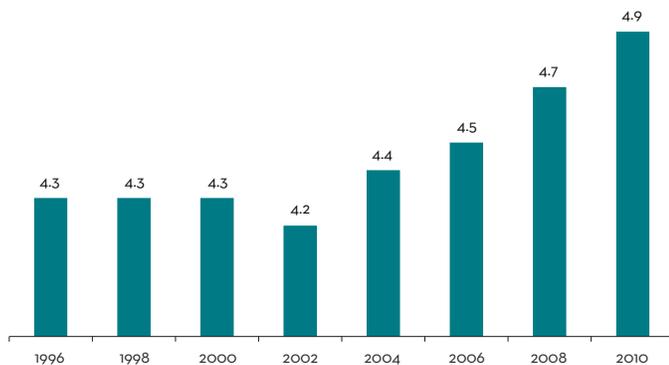
	<i>Bottom 40%</i>	<i>Top 20%</i>	<i>Richest 1%</i>
Average income 1996	\$16,002	\$130,997	\$595,497
Average income 2010	\$13,595	\$148,824	\$764,270
Change 1996-2010	(\$2,407)	\$17,286	\$168,773
Average change per year	(\$172)	\$1,273	\$12,055

Wisconsin Department of Revenue. Data for all 2010 filers, ordered by income, presented for bottom two-fifths, top fifth, and richest 1 percent of income distribution.

figure 3

PULLING APART: WISCONSIN'S MIDDLE CLASS LEFT BEHIND AS INCOME OF THE RICHEST FIFTH IN THE STATE RISES, 1996-2010

Ratio of total adjusted gross incomes of top and middle fifth of income distribution



Wisconsin Department of Revenue. Data for 2010 filers, ordered by income.

two-fifths of residents decreased by 5 percent, middle-income earners saw limited growth, and the richest fifth enjoyed more than a 25 percent increase in income. And at the very top of the income distribution, the trends were even better. The incomes of the top 1 percent of earners in Wisconsin increased by 43 percent over this period, as shown in Figure 2 (previous page).

Looking at the changes in actual dollars on income tax returns, rather than just the percentage changes, makes the disparity in the state even more stark. Between 1996 and 2010, the bottom 40 percent of Wisconsin earners experienced a decrease in their adjusted gross income per tax return of \$2,407, as shown in Table 1. The top fifth of income tax filers saw an increase in earnings of more than \$17,000 over this period. The top 1 percent of filers experienced tremendous gains, with incomes that rose an average of \$168,773 per tax return, averaging an increase of more than \$12,000 per year between 1996 and 2010.

After a period of relative stability, income inequality in Wisconsin has increased dramatically in recent years. In the late 1990s and early 2000s, income inequality in Wisconsin stayed relatively level. But since 2002, inequality has grown every year, as measured by the ratio of total income of the top fifth of Wisconsin earners compared to the middle fifth of earners. In 2002, the ratio of the total income of the top fifth of Wisconsin earners was 4.2 times that of the middle fifth of earners. By 2010, the top fifth of earners brought in nearly five times (4.9) what the state's middle earners made.

WISCONSIN CAN CHOOSE A DIFFERENT COURSE

There is no magic bullet to rectify the growth in inequality in our state—any more than there was a single cause. However, a number of steps can be taken to keep the gap from growing even wider.

Raise the Minimum Wage, Index it to Keep up with Inflation, and Strengthen Enforcement to Keep the Wage Floor Strong

The state can strengthen earnings at the bottom of the labor market, in order to reduce inequality and help struggling families make ends meet. Currently, Wisconsin's minimum wage mirrors the federal rate at \$7.25 per hour. Eighteen states and Washington D.C. have minimum wages that surpass the national rate, with Washington State's current minimum at \$9.04 per hour. Wisconsin should join them. To help the wage stay relevant for living standards, it needs not only to be raised, but also to be indexed to keep up with rising costs of living. Ten states already annually update their minimum wages to the rate of inflation. Such indexing helps protect working families and, in 2011, provided a wage increase of about 10 cents per hour in states that index their minimum wages.

Wisconsin should also increase resources devoted to enforcing wage and hour standards across the state to ensure that workers receive the wages due them, and to ensure that employers do not get a competitive advantage by breaking the law. The vast majority of employers operate well above reasonable and legal standards, but some bad actors routinely violate the law. When essential labor standards are overlooked or violated for any workers, labor standards are weakened for many workers. District Attorneys, community organizations, workers' centers, and other local and state leaders can actively support job quality by devoting resources to enforcing standards.

Build the Skills and Education of Wisconsin's Workforce

Education and skills have been the route to a higher standard of living for Wisconsin workers. Ensuring that workers with low earnings can see their way into and succeed in school and the labor market will help promote equality. The state's technical college system is a key resource, providing training accessible to workers and relevant to employers. Innovations in the technical colleges and the workforce investment boards and other leaders of regional economic and workforce development will be required in order to ensure that Wisconsin can respond to both the workers who need to build skills and the employers who need more skill in their workforce.

Career pathways and industry partnerships are two ways that Wisconsin has already begun modernizing and innovating in workforce skill development. Career pathways organize college-level occupational training as a sequence of certificates that lead adult learners toward good jobs and a degree or technical diploma in attainable steps. Each step improves the learner's career and provides a skill set wanted by an industry or industry sector. Bridges help adults even at the basic skills or English Language Learning level gain skills and move onto pathways.

These innovations and increasing skills in general require investment, but the resources for building skills are becoming scarce. In the last biennial budget, Wisconsin cut over \$70 million from the state's technical college system. The state will not be able to build skills for tomorrow while in pursuit of an agenda that cuts funding to education. The skills required by the economy we should seek to build will require increases in per-pupil spending across the board, including investment in adult basic education. For many working and unemployed adults, lack of basic math, literacy, and computer skills stand in the way of any opportunity to move toward

family-supporting work. The state should invest more heavily in building this first rung toward decent jobs.

The state could better guarantee that working people get the skills they need to secure higher-paying jobs if it encouraged employers to offer more workplace education. One way to ensure that those who do not have the time or means to pursue skills development outside of work get access to training is to deliver technical college instruction at the workplace. This is also beneficial because instructors can work with firms to link the instruction to actual jobs, so it is viewed by employers and workers as particularly relevant and practical.

Support Working Families

State government can help lessen the burden of income inequality by providing benefits to lower-income families and individuals to ensure that work pays. Wisconsin began doing that in the late 1990s as part of welfare reform. The state created BadgerCare and the Wisconsin Shares child care subsidy program so the families of low-wage workers wouldn't have to drop out of the workforce to be able to get the health care they need or to ensure that their young children were being cared for during the work day.

Policymakers need to maintain the state's commitment to these work supports and take care that the premiums and co-pays don't put participation in the programs out of reach for low-wage workers. Our state also needs to continue working to improve the quality of the state's child care programs because early education is a critical and cost-effective investment in the state's future workforce.

In addition, the state should use the opportunities provided by the federal health care reform law to make quality, affordable health care available to most of the half million Wisconsinites who are currently uninsured, and to reduce the number who are under-insured. Specifically, state policymakers should:

- Take advantage of the Medicaid option in the law, which gives Wisconsin the authority and financing to close a large gap in BadgerCare for low-income adults (below 138 percent of the federal poverty level) who do not have dependent children.
- Work with the federal government to develop and run a strong health insurance exchange, which will include federal premium subsidies to help make quality, reliable insurance much more affordable for low- and middle-income individuals and families (up to 400 percent of the federal poverty level) who do not have access to affordable coverage through an employer.

Reform Regressive Taxes

Perversely, state and local taxes in Wisconsin increase income inequality rather than reduce it. Analysis of the burden of the combined package of taxes shows Wisconsin's tax structure to be regressive; it's a lower percentage of income for wealthy Wisconsinites than for low- and middle-income taxpayers.

In Wisconsin in 2007, the richest 1 percent of taxpayers paid 8.0 percent of their income in state and local taxes, the least by far of any income group, and only 6.7 percent after accounting for the deduction from their federal taxes. By contrast, the poorest 20 percent of taxpayers paid 9.4 percent in state and local taxes in 2007 and got no benefit from the deductibility of state and local taxes. Middle-income taxpayers paid the most, 11.2 percent, or 10.6 percent after accounting for the federal offset.

In light of that distribution of taxes, Wisconsin should maintain the progressivity of the state income tax and reject suggested legislation to create a flatter individual income tax, which would widen income inequality. (*Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. Institute on Taxation and Economic Policy, 2009, updated to reflect permanent tax changes enacted through 2012.)

One progressive element of the state tax system is the Homestead Tax Credit, which helps lessen the burden of property taxes for many low-income homeowners and renters. However, the maximum credit has essentially been unchanged since 1991, allowing inflation to substantially erode the program. The state should index the credit for inflation and do a better job of informing families with children that they are eligible for the credit. In addition, Wisconsin's earned income tax credit (signed into law by Governor Thompson in 1989) should be preserved because it helps mitigate the regressivity of the state's tax system and is an extremely important part of the state's efforts to ensure that work pays for low-income families with children.

At the federal level, improvements to two important refundable tax credits for low- and moderate-income families—the child tax credit and the earned income tax credit—may expire at the end of 2012, as part of the so-called “fiscal cliff.” If Congress does not take action, or if it approves the House budget bill that ends the enhancements to those two tax credits, a total of about 13 million families, including 155,000 in Wisconsin, will face a tax hike and fall closer to or even below the federal poverty line.

CONCLUSION

Wisconsin's growth and prosperity are not being equally shared. The rewards of prosperity have been concentrated on the richest 20 percent of families. As a state, this should be of substantial concern, not only because of the slow growth in incomes for the remaining 80 percent of families, but also because increasing disparity comes with substantial social costs.

To prevent a deepening divide between the rich and poor in our state, Wisconsin should pursue a number of strategies:

- Raising and indexing the minimum wage, and strengthening enforcement
- Building the skills and education of Wisconsin's workers
- Supporting working families
- Reforming regressive taxes

Taking these steps would help keep Wisconsin's economy growing, and ensure that all residents of the state would benefit from that growth.