California's rich-poor gap keeps growing

By Matt Levin, CalMatters

Where in California has the gap between rich and poor grown most since the Great Recession?

The Bay Area, home of your Zuckerbergs and Steyers and some of the most expensive ZIP codes in the country, seems like a logical answer. Over the past decade, what other part of California has minted as many members of the "1 percent" as Silicon Valley?

But according to research from the nonpartisan Public Policy Institute of California, income inequality in the Bay Area has worsened only marginally, at least when compared to other parts of the state. In 2007, Bay Area households at the top 10 percent of incomes made about 10.6 times what Bay Area households at the bottom 10 percent of incomes brought home. By 2014, they made about 11.6 times as much.

While that 10 percent increase in the income gap is notable, it pales in comparison to almost every other region in the state. The "90/10" ratio grew by over 30 percent in the greater Sacramento region and in the more rural counties north of the Bay Area. The Inland Empire, still reeling from its foreclosure crisis, saw the biggest jump in income inequality in the state at more than 40 percent.

Income inequality within California may not look like what you would expect. Regions such as Orange County and the Bay Area, despite their notable concentrations of wealth, are some of the more equal in the state. By far the most unequal California region is the Central Valley, where high-income households make 14 times as much as poor households.

So what gives? Are the tech barons of San Francisco relocating to Fresno and commuting via private jet?

“The recovery has happened faster in the Bay Area—that’s a big part of it,” says Sarah Bohn, a research fellow at PPIC and co-author on the study. “Incomes fell across the board during the recession, and the fastest to recover typically see better results.”

There are other important lessons to draw from how income inequality varies throughout the state, and how the pattern has changed since the Great Recession. Part of the reason why regions such as the Bay Area and Orange County stack up favorably is because recent changes in income inequality have more to do with the deteriorating incomes of the poor than the growing fortunes of the rich.

Those at the bottom 10 percent of incomes in the Inland Empire, for example, saw their income drop by 35 percent since 2007. That’s mostly why the region, which includes Riverside and San Bernardino counties, suffered a 40 percent widening of the gap between rich and poor. In contrast, equivalent low-income residents of the Bay Area saw incomes fall just 9 percent, which helps explain why income inequality increased only marginally there.

Those California regions with the biggest chasm between rich and poor typically have some of the poorest populations in the state. In the Central Valley for example, households in the bottom 10 percent of the income distribution made less than $10,000 per year (adjusted for a family of four). Their equivalents in the Bay Area made more than double that.

“When you’re talking incomes that low, you’re likely talking about people who work in agriculture and who really have highly variables incomes because they’re not at a traditional job,” says Ann Stevens, director of the UC Davis Center for

Poverty Research. “Or they may be doing temporary work or field work or running a small agricultural business.”

It’s important to note that the PPIC study does not control for the fact that low-income families may be relocating to more affordable areas of California—or leaving the state altogether. Such a migration could lower inequality ratios in more expensive parts of the state such as the Bay Area and Orange County, where housing and other costs have risen rapidly.

But across California income inequality has gotten worse since 2007. And it’s not the rich getting richer per se—it’s the already very poor getting even poorer. Incomes at the bottom 10 percent of Californians have dropped by 26 percent since 2007. Since 2007, the rich haven’t actually got that much richer—or at least those at the top 10 percent are not racking up more income. In fact, incomes at the top 10 percent have also dropped over the same time period, but by a much smaller amount.

“If incomes fell across the board at the same rate, then income inequality wouldn’t change that much,” says Bohn. “But because top incomes recover quicker and lower incomes don’t, that’s where the growth in inequality is coming from.”

How exactly you measure income inequality matters a great deal, both in terms of presenting the size of the income gap itself and devising the policy prescriptions to fix it—assuming you think it should be fixed in the first place.

Focusing on very rich households will yield different results than focusing on even slightly less rich households. Research from the Brookings Institute that compares higher-income households (those at the top 5 percent) to those at the bottom 20 percent makes the Bay Area appear much more unequal, with the greater San Francisco metro area the third most unequal region in the country.

But looking at other portions of the income distribution can be even more illuminating. The PPIC researchers also compared the median income of each region to the bottom 10 percent, which can roughly be interpreted as how far very low-income households must climb up the income ladder to reach middle-class status. They also looked at the “80/20” ratio, which captures less of the extremes of rich and poor and examines a broader swath of upper and lower-class families.

The different measures tell a broader story about which households on the income spectrum are faring well and which aren’t. By the 80/20 measure, Los Angeles County is the third most unequal region in the state. But the county does much better by the 50/10 measure, where the gap between the poor and middle class is the second lowest in California.

Any measure of income inequality also comes with a couple of important—yet often overlooked—caveats. First, by definition it counts only income and thus doesn’t account for investments, savings or other forms personal wealth. Second, it look only at pre-tax earnings or cash income, and doesn’t include the income-leveling effect of taxes on richer households, nor safety-net supports for low-income households such as food stamps and the Earned Income Tax Credit.

When counting only work and retirement income, a California household at the top 10 percent of income appears to make 17 times as much as a household at the bottom 10 percent. But factor in both taxes and safety-net supports, and that disparity shrinks by almost half—with the top tier collecting eight times the income of the bottom tier. (The shrinkage of the gap is due more to the buttressing of incomes for the very poor than to the income-reducing effects of taxes on the rich.)

That’s good news for those who believe income inequality is a problem worthy of government action. Driven by powerful macroeconomic forces such as globalization and technological

change, income inequality is often framed as an intractable economic problem beyond the scope of simple policy solutions.

But the research indicates that policies such as the Earned Income Tax Credit—which proves a sizable income boost to many low-income working families in the form of an annual refundable tax credit—could do a great deal to reduce inequality in California.

“Policy to reduce income inequality is hard when you’re just looking at labor market earnings,” says Bohn. “But in reality, what families live on—there’s a lot more than just labor market earnings. We have targeted programs that are aimed at low-income families, and those are the places where policy can make a difference.”