

Gap between wealthy and poor widening - does it really matter?

Greater Cincinnati is among most 'unequal' areas in Ohio

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The deepening divide between wealthy and poor is again in the spotlight.

President Barack Obama has been talking about “income inequality” for months and mentioned it again Tuesday in a State of the Union address that warned of a growing income gap. Republicans, meanwhile, have complained it’s just a battle cry for soak-the-rich class warfare.

But what is income inequality, and how much does it really matter?

One of the most widely used measures, which tracks the gap between rich and poor, says inequality has grown more than 5 percent nationwide in the past 20 years. It also finds that Greater Cincinnati has more income inequality than all Ohio metro areas except Cleveland. Our region fares worse than similar-sized cities such as Pittsburgh, Indianapolis, Louisville, St. Louis and Columbus.

Economists and politicians say all this is important because income inequality can affect economic opportunity, the stability of the middle class and the viability of the American dream.

If inequality grows too much, they say, people become frustrated and disenfranchised. They stop believing in the dream, and they stop pursuing the education, homes and jobs that grow the nation’s economy.

“If people think, ‘No matter how much I do, no matter how much I try, I can’t move up,’ then it’s a problem,” said Julie Heath, director of the University of Cincinnati’s Economics Center. “If people see no point, then it’s a slow circling of the drain.”

No one is sure, though, where that tipping point is, and some question whether income inequality is even a good measure of America’s economic health. The opportunity to move up the income ladder – the very definition of the American dream – ultimately may be more important than the gap between income levels.

“The income gap isn’t necessarily the problem,” said Karl Kuykendall, an economist with IHS Global Insight. “It’s more about mobility.”

Income gap wider now than in 1960s

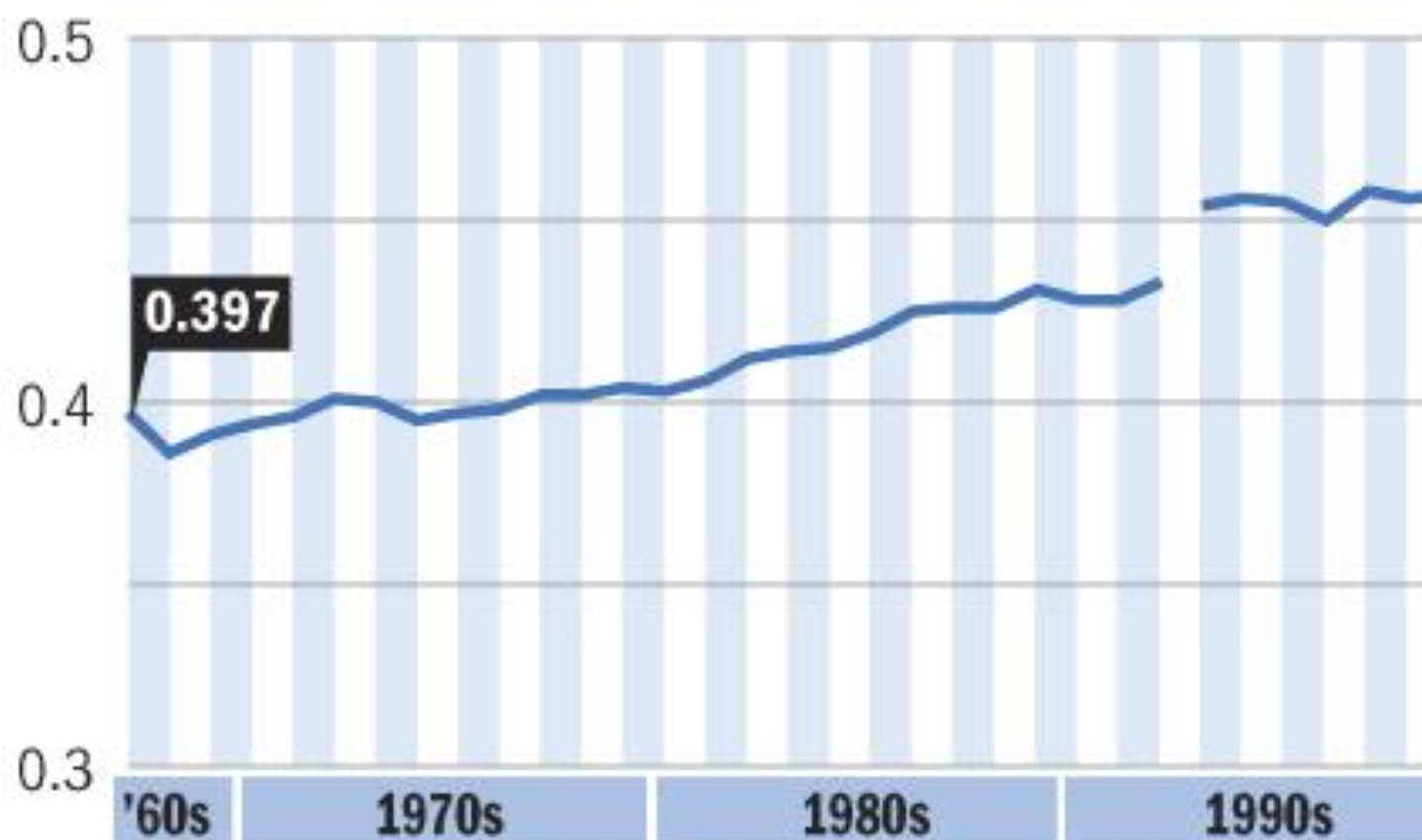
As Obama pointed out in his State of the Union, there’s some evidence to suggest mobility has taken a hit over the years, particularly since the Great Recession.

A Pew Charitable Trusts study recently found that one-third of people born into the middle class fall out of it by adulthood, and that many families now need two incomes to match or surpass the wealth of the mostly single-income families they grew up in.

Along the way, the divide between the rich and everyone else has grown: The wealthiest 5 percent of the population now accounts for about 22 percent of America’s income, up from 17 percent in 1967.

Four decades of rising inequality

The differences in the income of all Americans has risen since 1967 as measured by the Gini coefficient. Note that the index was recalculated in 1993, shown here by a jump in the line.



How our area compares

Among regional peers, only Cleveland has a higher rate of income inequality than the rest of the region, Census estimates show. The higher the Gini index, the higher a metro area's income inequality.

Metro area	Gini index		Rank/366 U.S. metros	Median household income		Change 2006-2012
	2012	2006		2012	2006*	
Cincinnati	0.4668	0.458	268	\$52,439	\$52,707	-0.5
Cleveland	0.4808	0.458	322	\$46,944	\$52,313	-10.3
Columbus	0.4575	0.454	219	\$53,699	\$56,864	-5.6
Indianapolis	0.4544	0.447	196	\$51,808	\$57,913	-10.5

The post-recession economy has widened that divide because of a sluggish job market that has hurt lower-wage earners and a soaring stock market that has boosted the income of Americans wealthy enough to own stocks.

“Everybody can’t be equal. There’s always going to be rich, poor and in between,” said Christina L. Young, an out-of-work home health care aide from Northside. “But I’ve found it hard to find affordable opportunities.”

She’s worked for years for about \$9 an hour, but she’d like to go to nursing school so she could have a more stable career and earn more money. Paying for it, though, is hard when she’s making just over the minimum wage.

“A lot of hardworking, dedicated people can get the job done, but they can’t move on,” she said.

Young’s complaint is one Obama tapped into during his speech Tuesday. He cited the growth in corporate profits and stock prices, and he contrasted them with stubbornly high unemployment and stagnant wages.

“Inequality has deepened,” he said. “Upward mobility has stalled.”

Some critics say it’s wrong to suggest those two things – inequality and mobility – are the same. Michael Tanner, a senior fellow at the libertarian Cato Institute, recently wrote in the the New York Post that taking money out of the hands of the wealthy is not the best way to help the poor.

“There is no relationship between inequality and poverty,” he said. “If we were to double everyone’s income tomorrow, millions of Americans would be lifted out of poverty, but inequality would actually increase.”

Inequality's impact is 'all relative'

Defining inequality is as challenging as measuring its impact. The most recognized method is the Gini index, which quantifies the gap between high and low incomes.

Nationwide, that gap has grown by 5.2 percent since 1993. Data for metro areas do not go back that far, but the index found at least slight growth in inequality from 2006 to 2012 for three-fourths of the country’s largest metro areas, including Greater Cincinnati.

In Ohio, only Greater Cleveland had more inequality than Greater Cincinnati.

But that doesn’t necessarily mean this region is in worse economic shape than a metro area with a better Gini rating. Cincinnati’s median income of \$52,439, for example, has fallen less since 2006 than that of Columbus, Indianapolis or Louisville, which all fared better on the Gini index.

Kuykendall said the rating works well on a national level, but it tends to break down a bit at the state and city level. That’s because a large number of high wage earners, possibly tied to

Cincinnati's Fortune 500 companies or to the large number of medical professionals here, can skew the income gap.

"Once you're in a big metro area, you get a lot of high rollers in there and a lot of low," said Jim Brock, a Miami University economics professor. "It's all relative."

Brock said the talk about inequality is important, and he's glad Obama and the Republicans are debating the issue. But he said the greater focus should be on where people are going and whether they have the opportunity to improve their lot in life, instead of on where they are now.

"This is the beginning of looking at this issue, not the end," Brock said. ■