

BRIEFED BY THE BELL: WEALTH & INCOME INEQUALITY

The Issue

Wealth and income inequality have been on the rise across the country, and Colorado is no exception. Most people focus on income inequality, especially when talking about the gap between the 1 percent and everyone else. The share of income accruing to the top 1 percent has risen dramatically since the 1970s. As of 2016, 23.8 percent of income in the United States goes to the top 1 percent of earners, compared to 9 percent in 1970. Wages have risen 157 percent for those at the top between 1979 and 2015, but only 21 percent over the same time period for the bottom 90 percent.

The large gap in wealth accumulation — wealth is net worth, including income and measurable items like homes and cars, minus any debts — might be considered even worse. Data from the Federal Reserve in 2016 showed the top 10 percent of the population received about half of all income, but held over three-quarters of all wealth in the country. When looking at how much certain debt has built up — student loan debt is up 578 percent in Colorado between 1999 and 2016 — it's clear wealth inequality is a serious issue.

It's especially problematic for communities of color. Looking at broader data on overall wealth, the median white family's wealth grew 46.3 percent from 1992 to 2016. Over that same timeframe, the median wealth of a black family grew just 4.9 percent. Upon closer examination, student debt also shows a bleak picture of the inequality between white and black families. Black students are more likely to take out student loans than white students, and nearly half of black borrowers defaulted. Twenty-three percent of black borrowers who completed a bachelor's degree defaulted on their loans within 12 years, compared with only 9 percent of all borrowers who earned a bachelor's degree.

In a recent report focusing on the middle class, the Bell Policy Center and CU Denver show these inequality trends have led to a shrinking middle class.

The Facts

- The number of Colorado's middle class families has declined by 6.4 percent since 2000, ranking 11th worst in the country.
- Between 1979 and 2015, wages for the top 1 percent rose almost 157 percent, while the increase for the bottom 90 percent was only about 21 percent over the same period.
- The top 1 percent takes in 16.6 percent of all income in Colorado.
- Colorado's Custer County has the fifth highest income inequality of all counties in the United States. Pitkin and Miguel counties rank ninth and 22nd, respectively.

The standards for a middle class lifestyle keep rising, but wages for those in traditionally middle-income occupations remain stagnant. Further underscoring this shift is Colorado's declining public funding for programs like K-12 and higher education. Costs that used to be covered in part by the public sector are now shifted to families, resulting in higher costs with a smaller budget just to put children through school.

As a result of these larger trends, the number of families in the middle class in Colorado has declined by 6.4 percent since 2000, ranking 40th in the nation. This affects all parts of the state and has implications for education, health care, child care, housing, and family security policies. We need to explore how to grow our middle class, pull families out of poverty, and ensure everyone throughout Colorado has a chance to thrive. To do that, confronting inequality through policies in the above areas and others is a necessity.

For fairer outcomes when it comes to education, health issues, and overall economic growth throughout the state, looking at specific education and health care policies isn't enough. We need to focus on the sources of these issues — inequality in income and wealth and inequality in circumstances — to build up the middle class again.

The Solutions

Given the trends fueling income and wealth inequality have been occurring for many decades, it will take both aggressive policy and time for these same trends to reverse themselves. Below are a few policies that will certainly help Colorado get back on the right road, but there are many more that will help as well.

The focus should be an understanding that we need to help grow wages for those at the middle and bottom, as well as make it easier for these Coloradans to accumulate wealth and save for the future.

Abolish the Ban on Progressive Income Tax

The Colorado Constitution currently bans a progressive income tax. According to the Colorado Fiscal Institute, Coloradans in the bottom 20 percent of income pay an effective state and local tax rate of 8.7 percent, while those in the top 20 percent pay an effective rate of only 4.6 percent. This means, in raw terms, while those at the top contribute more in income taxes, a significantly smaller share of their income goes toward taxes, which puts a larger burden on those at the bottom of the income scale.

Given that all of Colorado benefits from public investments, those who have the most should not be paying significantly less than those who have the least. Lowering the tax burden for those at the bottom while slightly raising it for those at the top would allow Colorado to get more revenue. That increase in revenue should go to funding important public programs, like education, health care, child care, and transportation, that broadly benefit all Coloradans. This will lift up those at the bottom and middle, while also helping Coloradans in every corner of the state.

Increase Funding for Education

Education can be a great equalizer when it comes to many questions about income and wealth inequality. Strong educational foundations, such as preschool and K-12, set children up for success later. As college degrees become more and more important in climbing income ladders, ensuring children

start off on the right foot is critical. In 2000, 41 percent of Colorado families in the middle class had at least one adult with a bachelor's degree or higher; in 2016, that figure rose to 57 percent. But Colorado's public investment in higher education has been cut nearly in half during this same timeframe. For Coloradans, this has resulted in either gigantic student loan debt — hurting wealth accumulation — or a degree only open to the already well-off. Colorado needs to find innovative ways to fund education. One way to do this is to encourage and incentivize more college savings accounts. Setting up tax-free accounts, called 529 college savings accounts, for students at an early age would help families save for college with a smart, long-term approach and ensure students carry less student loan debt after college.

That said, we must also recognize the changing work landscape and varying needs of Coloradans. Not everyone has the desire or ability to go to college. That's why Colorado should also emphasize quality and affordable job training and apprenticeship programs. This will help ensure a four-year college degree isn't the only way Coloradans can attain a good-paying job and middle class lifestyle.

In a forthcoming brief, we will explore two-generation strategies more closely, but it's important to note these policies' important role in quelling inequality. These strategies acknowledge the circumstances preventing families in poverty from accessing important social programs, as well as focus on breaking down silos to achieve maximum impact for children and adults simultaneously. The most obvious policies focus on linking adult education, job training, and workforce development for parents to early childhood education for children. Look out for the next brief for more detail on the importance of these issues.

Make Child Care More Available and Affordable

There is a great need to make child care more available for Colorado families. Ensuring parents can work while getting young children on the right educational track early will help both generations climb economic ladders. Just this year, legislators

increased the Child Care Tax Credit for families earning up to \$60,000. While an important first step for working families in need of child care assistance, the original proposal was for families making up to \$150,000. With child care costs quickly rising to unattainable amounts for many families, it makes sense to increase the tax credit even more. Colorado also needs to put more focus and resources towards getting more child care facilities in many parts of the state. Thirty percent of Coloradans live in a child care desert — communities either lacking any child care options or have so few, there are more than three children for every licensed slot.

Another part of child care in need of attention is early childhood education. Colorado needs to invest more of its budget in early childhood education programs to help young children, who are increasingly growing up in households where all caregivers work, meaning these families need high-quality affordable child care. In terms of early childhood education, Colorado could help close inequality gaps by investing in the Colorado Preschool Program. Studies continually show early childhood education has a great return on investment, as kids who start learning early show more positive outcomes as adults, including higher paying jobs and lower incarceration rates.

According to the 2018 Colorado Preschool Program Legislative Report, “8,925 at-risk 4-year-olds had no preschool funding available to them through either CPP or Head Start in the 2016-2017 school year.” At \$3,805 per kid, the current average for Colorado preschool, an additional \$34 million, a small fraction of the Colorado budget, would help these at-risk kids start their education in a way that will lead to success later in life and curb some of the issues that lead to inequality.

Provide Opportunities to Save for Retirement

More than 45 percent of Coloradans work for employers who don’t offer a retirement savings plan through work. Giving all workers the chance to save for retirement will help Coloradans in all parts of the state, of all educational levels, and all income levels accumulate wealth and be able to retire with a nest egg. These types of policies are vital in lessening wealth inequality. Making sure people don’t have to work for the rest of their lives just to have enough money should be a worthy goal.

It is especially important for communities of color. Nationally, 60 percent of white families have retirement savings, but only 33.6 percent of black families and 29.7 percent of Hispanic families have retirement savings. All Coloradans deserve a dignified retirement and policies that give workers the opportunity to save for the future is crucial for the health of Coloradans and our state’s economy.

The Takeaways

- Income and wealth inequality have been steadily increasing for 40 years, with a pronounced rise over the past 25 years, resulting in a shrinking middle class.
- Income and wealth inequality have implications for education, health care, child care, housing, and family security policies.
- It will take aggressive policy and time for inequality trends to reverse themselves.
- Enacting policies to raise wages for low- and middle-income earners, policies to give more opportunity and incentive for workers to save long term, focusing on two-generation strategies, and changing the tax code to make it fairer for those not at the top are all imperative to restoring more equal income and wealth outcomes.

The Bottom Line

Income and wealth inequality have stymied Coloradans for decades, but the problem is getting worse, not better. Our state’s leaders need to take a holistic approach to help shrink the gap between the wealthy few and everyone else. That means finding ways to lift up those at the bottom and get Colorado’s middle class back to the strength it once had. Smart policies focusing on education, child care, and taxes are good places to start, but we need to look at everything in order to solve this long-term problem.