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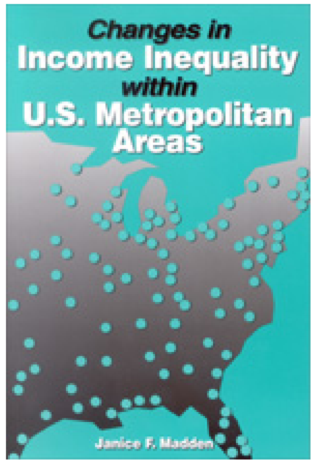
Changes in Income Inequality within U.S. Metropolitan Areas

Janice F. Madden
University of Pennsylvania



Chapter 1 (pp. 1-15) in:
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Janice F. Madden
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1 Income Inequality, Earnings Inequality, and Poverty

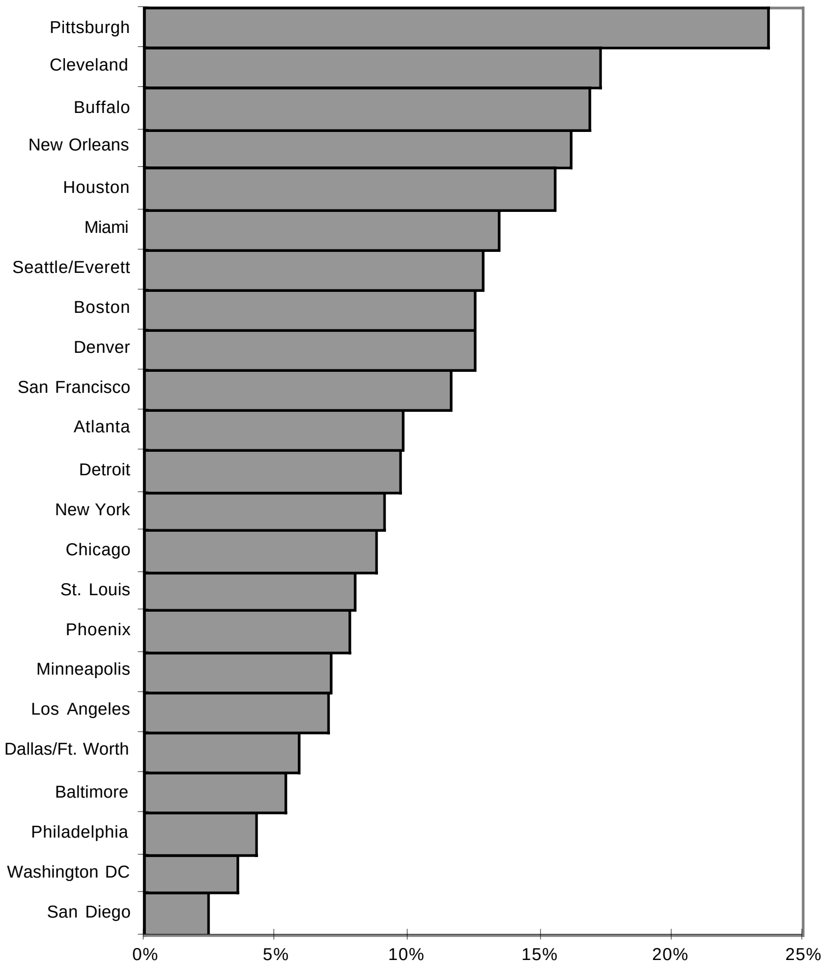
During the 1980s, a wide variety of measures showed trends toward rising economic inequality. Inequality in the distribution of income among households within U.S. metropolitan areas increased by almost 11 percent.[1] The average poverty rate increased by over 9 percent in metropolitan areas and by almost 18 percent in their central cities.[2] These disparities grew while mean real[3] per capita household income increased by 22 percent. The distribution of earnings among workers also diverged; for example, inequality grew by almost 10 percent among male workers.

As disparities grew in income (among households) and in earnings (among workers) as well as between cities and their suburbs throughout the nation, there were also sizeable differences among metropolitan areas. Some experienced only slight increases in the inequality of their income distribution, and a few experienced a slight decrease;[4] but for others, there was substantial growth in inequality.

Figure 1.1 illustrates the change in household income inequality for some U.S. metropolitan statistical areas (MSAs) between 1979 and 1989.[5] Pittsburgh experienced the greatest percentage increase in income inequality, 23 percent; on the other side of the state, Philadelphia experienced a much lower increase of only 4 percent. Of the large MSAs in Figure 1.1, Washington and San Diego had the least growth in household income inequality; Cleveland and Buffalo in the Midwest and New Orleans, Houston, and Miami in the South experienced fairly large increases.

The reasons for the wide variation in MSA income inequality during the 1980s are not clear. Regional location is not obviously associated with the differences. Western MSAs (e.g., Seattle, San Francisco, Los Angeles, and San Diego) are represented in the entire range of experiences, as are Eastern MSAs (e.g., Boston, Baltimore, Philadelphia, and Washington). Large metropolitan areas experienced greater increases in inequality (e.g., Houston) and also lesser increases (e.g., Philadelphia).

Figure 1.1 Percentage Change in Household Income Gini Coefficient, 1979–1989

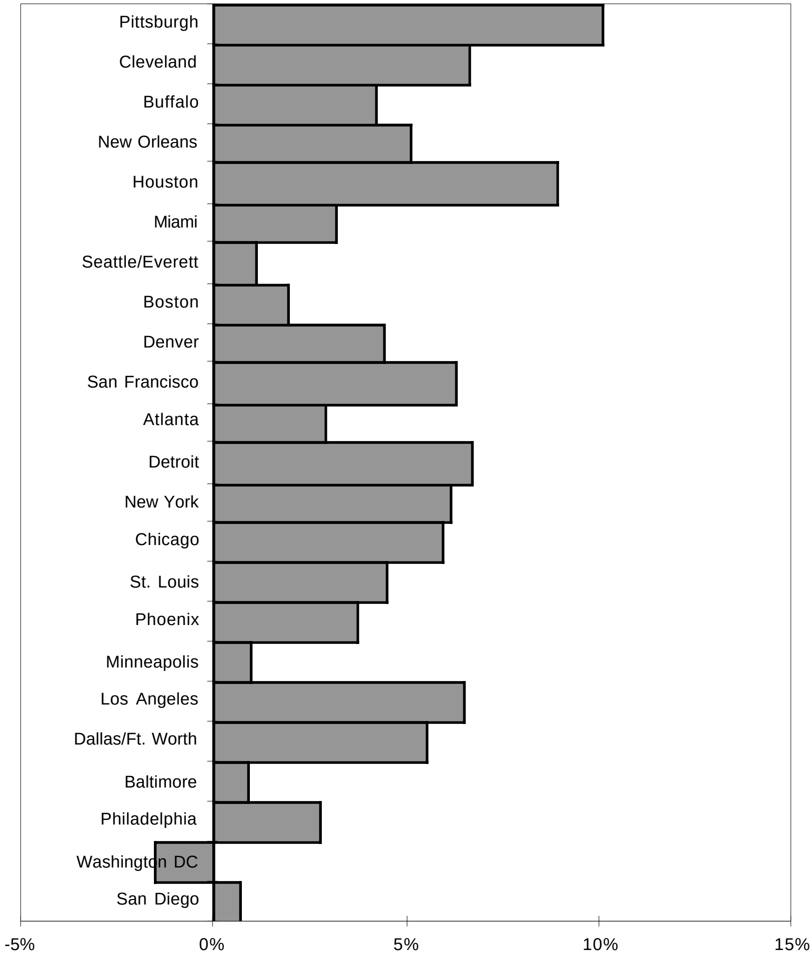


Neither do local labor market conditions provide an obvious explanation. Figure 1.2 shows the percentage change in earnings (wage or salary) inequality among individual workers in the same MSAs for 1979–1989. A comparison of Figures 1.1 and 1.2 yields no obvious pattern. While Pittsburgh had the greatest growth in both income inequality and earnings inequality, there is no pattern for the other MSAs. Dallas experienced a greater increase in earnings inequality than Atlanta, even though Atlanta had a much greater increase in household income inequality. Seattle, Minneapolis, and Baltimore had only a slight growth in earnings inequality. It is not obvious why Los Angeles and Dallas had relatively large increases in earnings inequality while Phoenix, Miami, and Boston experienced lesser increases.

The poverty rate varies among MSAs and also within MSAs, because central city poverty rates exceed the rates in the surrounding suburbs. In 1979, 11.7 percent of persons in the average MSA had incomes below the poverty line; the percentage grew to 12.7 percent in 1989. Poverty rates in the central cities of MSAs were higher, an average of 15.9 percent in 1979 and 18.5 percent in 1989. The highest poverty rate in 1989 for the 182 largest MSAs was in McAllen, Texas, and the highest rate for central cities was in Benton Harbor, Michigan. The lowest poverty rate for an MSA with a central city was for Stamford, Connecticut, at 6.3 percent. Overall, the poverty rates within cities have exceeded both the national rate and the rate for their surrounding suburbs.

Figure 1.3 illustrates the tendency over the last 20 years for poverty to concentrate within the central cities of MSAs. The figure portrays the ratios of central city poverty rates to the overall MSA rates in 1969, 1979, and 1989 for 50 of the largest MSAs. In 1979, central city poverty rates for the 182 largest MSAs averaged 40 percent higher than the rates for their metropolitan areas. The largest difference was in Hartford, where the 1979 central city rate was 319 percent of the metropolitan rate and the lowest was in McAllen, Texas, where the 1979 central city rate was lower than the MSA rate. The difference between the average central city poverty rate and the rate for its MSA grew by 8 percent over the decade 1980–1989, continuing the trend of the prior decade. The increases between 1969 and 1989 appear most dramatic among those MSAs that had the greatest concentration of poverty in the central city in 1969. Philadelphia, Birmingham, San Diego, and

Figure 1.2 Percentage Change in Earnings Gini Coefficient, 1979–1989



Albany stand out as exceptions, cities with less concentration in 1969 that grew more dramatically in concentration.

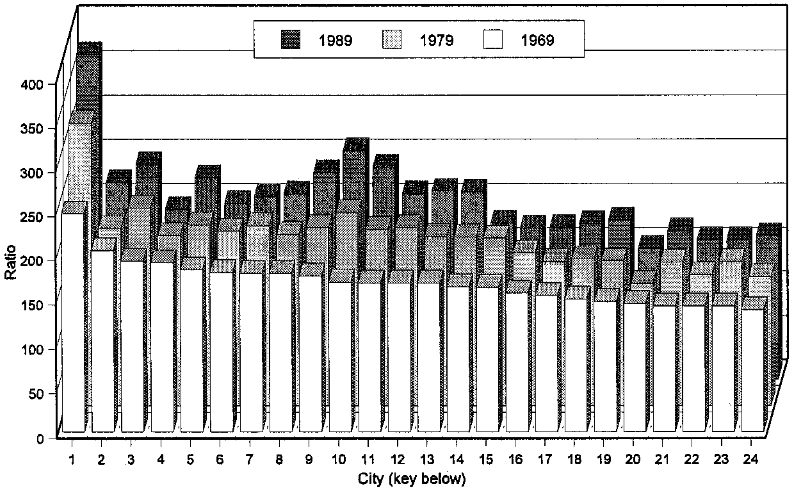
There is no pattern that links the MSAs and central cities having the most or the least poverty to those having the most even or the most uneven income distributions. We do not understand why poverty rates, household income inequality, and earnings inequality vary across these local economies. Although there has been little investigation of differences in the rates of change in income inequality across U.S. MSAs, there has been extensive research on rising income inequality within the nation as a whole. It is now widely accepted both that the distributions of income across households and of wages/salaries across workers (Levy and Murnane 1992) have become more unequal in the 1980s, and that the differences in income and several other social and economic characteristics between suburban and city residents have increased (Reich 1991; Getis 1988; Cutler and Glaeser 1995; Massey 1999).

Knowledge of the circumstances surrounding changes in metropolitan income inequality is essential to our understanding of how the larger economy (the "macro-environment" of the marketplace) affects income distributions. We cannot respond with economic or social policies (or even decide not to respond) to changes in income inequality and other metropolitan economic issues without such knowledge. To show why this is so, it is helpful to briefly review the reasons policymakers and scholars are concerned with inequality in the first place. Those reasons clarify why household income inequality in particular is of concern and why a metropolitan area is an appropriate unit to use when measuring such inequality as an outcome of the economy or marketplace.

WHY IS INEQUALITY OF CONCERN?

The concerns about rising inequality arise from fundamental notions of fairness and social justice based on philosophical premises, on the desires of the electorate, or on more pragmatic concerns. The most influential scholarship that develops criteria for evaluating alternative distributions is John Rawls' (1971) landmark book, *A Theory of*

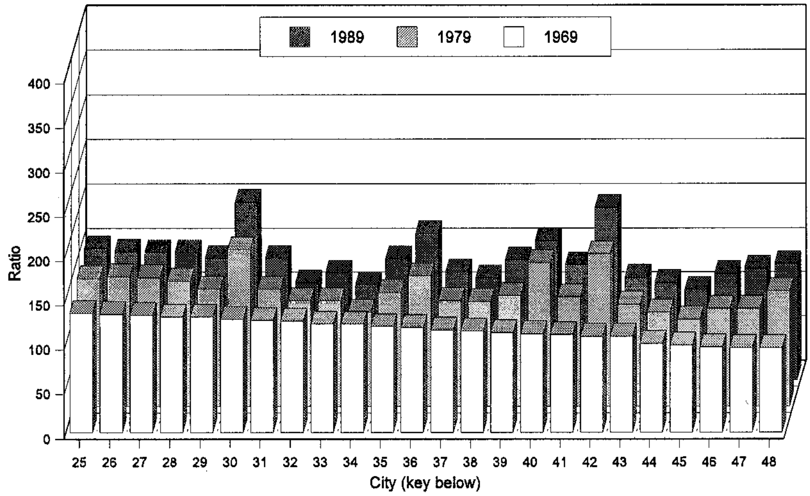
Figure 1.3 Ratio of Central City to MSA Poverty, 1969–1989



Key

1 Hartford	13 Cincinnati
2 Washington	14 Baltimore
3 Cleveland	15 Pittsburgh
4 Boston	16 Chicago
5 Providence	17 Louisville
6 Minneapolis	18 Salt Lake City
7 St. Louis	19 Milwaukee
8 Dayton	20 Miami
9 Detroit	21 Denver
10 Atlanta	22 Orlando
11 Rochester	23 San Francisco
12 Buffalo	24 Seattle

Figure 1.3 (continued)



Key

25 Kansas City
26 Portland
27 New Orleans
28 Columbus
29 Tampa
30 Philadelphia
31 Sacramento
32 New York City
33 Los Angeles
34 Norfolk
35 Dallas
36 Birmingham
37 Charlotte
38 Oklahoma City
39 Houston
40 San Diego
41 Indianapolis
42 Albany
43 San Antonio
44 Jacksonville
45 Phoenix
46 Nashville
47 Memphis
48 Greensboro

Justice. Rawls proposed that a desirable or fair distribution is one that the average citizen would prefer over all others if his or her own position in the distribution were not known (i.e., an "original position" in which there is a "veil of ignorance"). Rawls argued that the original position represents impartial and fair judgments of outcomes. Rawls acknowledged that, in the absence of other assumptions about a citizen, the rational risk-neutral citizen would choose the distribution that maximizes the welfare of the average person, the utilitarian approach. Under utilitarian criteria, the desirable distribution is the one that maximizes total income in the economy, and equality is not of concern.

For equality to be of concern, one must introduce a concept of justice (or risk aversion). If this same citizen were also motivated by "justice," a motive that values fairness and benevolence toward each individual, then Rawls argued that he or she would be more likely to prefer the distribution which maximizes the absolute welfare or consumption level of the poorest members of the society. Rawls argued that justice, in this sense, implies that improvement of the welfare of society as a whole (as represented by an increase in total income) cannot compensate for the losses experienced by poor members. If citizens are rational, risk-neutral, and motivated by justice, distributions that maximize the well-being of the poorest (i.e., maximin criteria) are preferred. A more unequal distribution is preferred to a more equal one only when it results in additional income for poor individuals. The distribution which yields the greater total income (or average income) is preferred only when sufficient additional income is allocated to the poor to make them absolutely better off than with the more equal distribution. Because "just" social institutions must produce fair outcomes or distributions that maximize the welfare of the poor, Rawls' theory implies that economies having lower poverty rates, or which produce a more equal distribution of the same total income, are more desirable.

If concerns with equality are based on Rawlsian-type principles of fairness and justice, then policymakers seek political/organizational strategies and social institutions that maximize the welfare of the poor in the society. The characteristics of institutions and societies that yield more equal distributions are of central interest to scholars.

The mandate for policymakers to pursue such strategies from the U.S. electorate is less clear. Thurow (1975) argued that income equality is a public policy concern because everyone's well-being is affected by it. Public opinion polls have indicated that although Americans desire more income equality, they are not sufficiently concerned to see governmental intervention, specially federal intervention, as desirable. A 1982 Trendex Inc. poll found that the majority of Americans desired more income equality: 49 percent of Americans thought the difference between the incomes of the rich and the poor was much too great and another 23 percent thought it was somewhat too great (Shapiro, Patterson, and Russell 1987, pp. 126–127). A 1976 Harris Poll showed that only 41 percent of Americans favored using the federal government to make a fairer distribution of wealth in the country (Shapiro, Patterson, and Russell, p. 127). Richard C. Michel (1991) noted that a poll reported in the Washington Post in April of 1990 indicated that only 29 percent of Americans "agreed" or "strongly agreed" that it is the responsibility of government to reduce differences in income. These data contrast with those from other industrialized nations, where the proportions responding that they agreed or strongly agreed with the need for government to reduce differences in income ranged between 60 and 80 percent.

These polls of American opinion do not necessarily conflict with the desirability of egalitarian distributions developed by Rawls. The polls show that Americans favor more equal income distribution, but they lack confidence that government can effectively make income more equal. These results are consistent with a preference for equality that is tempered by fears that government programs to promote greater equality will come at too great a loss in total income.[6]

If concerns with equality are based upon the desires of the American electorate as evidenced in public opinion polls, the implications for both policymakers and scholars are similar to those for concerns with equality based on Rawlsian-type principles of fairness and justice. Given the lack of support for national government intervention but the desire for greater income equality, scholarship that helps to define the characteristics of institutions and societies that yield more equal distributions are of central interest.

Nozick (1974), in a contrary position, contended that income equality is not a government or a public policy concern because government has no income to distribute. Rather, he holds that government defines the rules of operation, and those rules (not the resulting distribution) should be the target of public policy. Even if one grants

Nozick's position, it is difficult to envision how we evaluate or judge "the rules" without reference to their result, the equality of income.

Beyond philosophical ideals, there are more-pragmatic reasons why income inequality is of concern. Rising income inequality undermines political stability (Sommers 1995; Starobin 1995), and some recent studies have indicated that inequality may also lower future economic growth rates (e.g., Benabou 1996; Persson and Tabellini 1994). Such pragmatic reasons for promoting equal distributions lead policymakers and scholars to the search for pragmatic ways of achieving equality: the characteristics of institutions and societies that yield more equal (or less equal) distributions are of central interest.

The concerns about inequality, whether they are based on premises developed by political philosophers, on the desires of the electorate, or on pragmatic concerns with stability or economic growth, are about the well-being (that is, the consumption levels) of individuals. Because the consumption level of individuals depends on the income received by their household, it is the distribution of household income that is the outcome of concern to policymakers and scholars. The distribution of wages or salaries to individual workers is of policy concern only to the extent that it affects consumption or the household income distribution. This issue is discussed in more detail in the next chapter.

WHY ANALYZE METROPOLITAN AREAS?

Policies to encourage greater equality in the distribution of well-being are more than policies to improve the well-being of a set of individuals; they are policies to change the larger (macro) environment in which goods and services are produced and distributed. But, what constitutes the appropriate macro-environment?

There are two considerations in conceptually determining the appropriate dimensions of the macro-environment for which inequality matters. The first is based on information flows and is determined by the physical dimensions of the macro-environment or the distances over which the outcomes (the effects of income differences) are perceived or received by households. The second is based on the dimensions of the environment or unit that produces or transmits the inequality.

Because people are more likely to be aware of how their own income or consumption levels compare with those of fellow MSA residents than with residents of the entire nation, and because well-being is affected (at least in part) by the relationship of one's own consumption to that of one's community, income inequality within the MSA is a more relevant outcome measure for concerns based on fairness and justice or on the electorate's desire for equality. The importance of the characteristics of the MSA to the well-being of residents is reinforced by the tendency of most individuals to stay in the same MSA. While U.S. census data indicate that almost half of Americans residing in metropolitan areas changed their residence between 1985 and 1990, the large majority of these residential moves were within the same MSA. There was much less residential mobility between MSAs: only 16 percent of Americans residing in an MSA in 1990 were living outside that MSA five years earlier. Most Americans stay in the same metropolitan area, even when they change residence and/or job location.[7]

If the social and political cohesiveness of the national electorate is affected by the national distribution of income, the cohesiveness of state and local electorates should be even more susceptible to such influence because the effects of inequality are more immediately obvious.

To the extent that economic or market conditions generate income or wage distributions, metropolitan areas are more "interesting" units than the nation to use in studying inequality. Unlike the nation, or census regions, or states or counties whose boundaries are administratively or politically determined, the definitions of (and the boundaries for) metropolitan areas are based on market or economic criteria. U.S. metropolitan areas are the ideal geographic unit on which to base a subnational analysis of the role of markets, because they are the only subnational areas that represent an economic market. MSA boundaries are drawn based on the degree of economic and social integration of the counties.[8]

The state of Pennsylvania, for example, includes part of the fourth largest metropolitan area in the nation, Philadelphia, but it also includes a large number of rural areas with neither proximity nor strong economic linkages to the Philadelphia economy. Pittsburgh and Erie, metropolitan areas with economies that are more similar in industrial structure and in overall performance to midwestern MSAs such as Cleveland or Indianapolis than they are to Philadelphia, are also included within the Pennsylvania boundaries. Similar descriptions apply to most of the states, especially New York, Georgia, Washington, Texas, Florida, and Illinois.

County boundaries, like state boundaries, are based on political, rather than market, relationships. Furthermore, counties vary widely around the nation, sometimes including several municipalities (such as Allegheny County, which includes the city of Pittsburgh, and Harris County, which includes the city of Houston) and other times being smaller than the city (New York City, which includes Manhattan, Bronx, Brooklyn, Queens, and Staten Island counties, is an obvious example).

It is also problematic to study areas that are smaller than MSAs. Poverty and the distribution of income within cities cannot be analyzed apart from the MSAs in which the cities are located. MSAs constitute the labor market for city and suburban residents. Their very delineation is based on the commuting ranges of workers in the local labor market. Because salaries and wages account for most household income, conditions in the metropolitan labor market, combined with the decisions of individuals to join or leave households and to live in the central city or in the suburbs, influence income distribution and poverty within the central city. Obviously, if municipalities and cities are too small a unit to encompass the relevant labor and housing markets, then smaller units such as census tracts are even more problematic.

In addition to the conceptual reasons for measuring equality within an MSA, the measurement of income inequality within an MSA is more likely to reflect accurately differences in consumption than is inequality measured for the nation. Because the cost of living varies across regions in the United States, differences in income or earnings across the nation do not translate into equivalent differences in consumption when they arise from regional differences in the price of goods and services. Inequality measured within an MSA reflects real differences in consumption because residents of the same MSA have the same cost of living.

THE PLAN OF THE STUDY

This study identifies and quantifies the characteristics of metropolitan economies that are associated with changes in economic inequality in the 1980s. An understanding of how metropolitan characteristics are associated with metropolitan income inequality must underlie any public policy proposals to move toward greater equality of distribution. The uses of such knowledge in guiding policy efforts to alter the trend toward rising inequality are also discussed.

Specifically, the study explores how the demography, the labor market, and the geographic structure of a metropolitan area are related to changes in income inequality.

- Demographics—changes in the age and ethnic composition of the population, as well as changes in the way Americans form families and households—define how income is shared across generations and how earnings and other income flows translate into economic well-being.
- Wages and salaries are the primary source of income for most American households. Changes in the supply of workers, in the demand for workers, and in the way that wages and salaries are determined in the labor market strongly influence the income that flows to U.S. households.
- The neighborhoods and communities where Americans live influence their local tax liabilities, their access to publicly provided goods and services (especially educational opportunities), their personal security and safety, their ability to commute to work, and their understanding and knowledge about occupations, jobs, how to "get things done," etc. Increasing income segmentation and racial segregation of neighborhoods and communities—that is, the locational isolation or concentration of households of different income levels—may affect the growth in inequality in an economy.

Each of these three elements of the macro-environment are "likely suspects" among the factors that could be associated with the increase in income inequality and poverty in U.S. metropolitan areas during the 1980s.

Chapter 2 reviews the explanations for rising inequality that have been proposed for the nation as a whole. I review theories of the role of labor markets, education and skills, economic growth, location, and demographic composition of the population in affecting the extent of inequality.

Chapter 3 introduces data on measures of inequality, poverty, and economic, social, geographic, and demographic characteristics and their changes in U.S. MSAs over the 1980s. The chapter discusses ways that these characteristics of MSAs may be related to one another.

Chapter 4 identifies the problems that must be addressed when studying inequality within U.S. MSAs, including the difficulties inherent in empirically measuring inequality and the determination of the appropriate geographic boundaries of an economic system.

Chapters 5, 6, 7, and 8 report the results of statistical analyses of the relationships between changes between 1979 and 1989 in income inequality, wage inequality, and poverty rates of MSAs, as well as the demographic composition, skill composition, geographic structure, and labor markets. In Chapter 5 household income inequality (as measured by changes in the Gini coefficient of household income) and the shares of income accruing to each quintile of the income distribution are analyzed. Chapter 6 addresses changes in the Gini coefficients for wages and salaries for various groupings of workers and also analyzes the household income Gini coefficient for subgroupings of the population. Chapter 7 addresses changes in the metropolitan poverty rate, and Chapter 8 changes in the concentration of poverty within the central cities of metropolitan areas.

Chapter 9 compiles the results from the analyses of all of the measures of inequality and reviews the public policy implications of the results.

Notes

1. As measured by the mean percentage change in the Gini coefficient for metropolitan household income (see Table 3.1).
2. See Table 3.2.
3. After correcting for the effects of inflation.
4. Stockton, California; Norfolk, Virginia; and Waterbury, Connecticut, were the only metropolitan areas studied here that experienced an increase in household income equality between 1979 and 1989.

5. The measure of inequality is the percentage change between 1979 and 1989 in the Gini coefficient; this coefficient is discussed in greater detail in Chapter 3.
6. These polls are also not polls of Rawls' citizens in the original position, behind "a veil of ignorance." Americans responding to the surveys know where they have ended up in the distribution. Analyses of opinion polls show that social position affects opinions about the desirability of income equality: poorer individuals are more supportive than richer individuals of government efforts at redistribution (Bobo 1991).
7. But, with 16 percent of the typical MSA's population shifting in a five-year period, mobility may change the characteristics of the population of any metropolitan area.
8. MSAs are defined in terms of counties (except for New England, where they are defined in terms of cities and towns). An area is an MSA if it includes either at least one city of at least 50,000 inhabitants or if it includes an urbanized area (as defined by the U.S. Bureau of the Census) of at least 50,000 inhabitants and a total MSA population of at least 100,000. The outlying counties included in an MSA are defined based on their commuting patterns to the central city (or cities) in the MSA and their population density.