Inequality gap grew before the Great Recession and after, study finds

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The Great Recession hit Americans across the socioeconomic spectrum, with some still working to recover economically. Yet, the drivers behind these socioeconomic divides were mounting before the decline even hit, according to a paper published in *PLOS ONE*.

A number of studies have investigated the financial hardships caused by the Great Recession, yet few have looked at subjective or self-reported measures of economic distress. This motivated researchers from Princeton University and Georgetown University to study perceptions of economic distress using three waves of data spanning the mid-1990s to the mid-2010s.

They found those with less education and lower socioeconomic status reported experiencing more severe difficulties as a result of the recession than their advantaged counterparts, including the loss of a home or bankruptcy. These hardships also affected perceived economic distress. Respondents reported difficulty paying bills, feelings of not having enough money to meet their needs, and low expectations regarding their current and future financial or work situations. This lingered even four to five years after the recession officially ended.

Yet, socioeconomic disparities in economic distress were widening even before the financial crisis occurred. These disparities increased between the mid-1990s to mid-2000s and also between the mid-2000s to mid-2010s. This suggests the factors driving the growing divide were already in motion prior to the recession. The shock of the Great

Recession, which took place December 2007 to June 2009, likely aggravated the situation.

While the researchers cannot pinpoint the causes of this growing inequality, their findings have bearing on future work related to socioeconomic disparities and economic despair. The results underscore not only the dire need for policies to address increasing socioeconomic inequality but also the importance of considering economic distress alongside conventional economic indicators in policy evaluations.

"Our work paints a dismal portrait of a growing socioeconomic divide in economic distress throughout the mid-1990s to the mid-2010s, one that mirrors recent increases in psychological distress and decreases in well-being among those at lower socioeconomic statuses," said Noreen Goldman, Hughes-Rogers Professor of Demography and Public Affairs at Princeton's Woodrow Wilson School of Public and International Affairs.

This study was led by Dana Glei, senior research investigator at Georgetown University's Center for Population and Health, and co-authored by Maxine Weinstein, Distinguished Professor at Georgetown University, and Goldman.

Their analyses were based on longitudinal survey data from the Midlife Development in the U.S. Study (MIDUS) that includes three waves of survey responses. One wave is from 1995-96, another from 2004-05, and the last is from 2013-14, after the Great Recession. Their analyses were restricted to respondents who completed mail-in, self-administered questionnaires.

The survey covered several subjective measures of economic distress based on respondents' current and future financial situations. These were ranked on a 1-10 scale. The questionnaire also asked respondents how difficult it was to pay their bills and whether they had more money than needed, just enough, or not enough.

In the final wave, survey respondents were asked to evaluate whether they experienced specific economic hardships since the Great Recession began in 2008. The study included five home-related hardships, like the loss of a home to foreclosure or another reason, three job-related hardships, and six financial-related hardships, such as cutting back on spending or declaring bankruptcy.

To determine a person's socioeconomic status, the researchers created a summary measure based on education, occupation, income, and wealth.

Across the entire sample, 60% said they had to cut back on spending during the Great Recession, and 29% reported increased debt. Less than 5% of the sample reported the most extreme hardships, like declaring bankruptcy or losing a home.

Those extreme financial struggles hit people at lower socioeconomic levels much harder than their wealthier counterparts. For example, compared with those in the top third of socioeconomic status, the bottom third were more likely to file for bankruptcy (5% versus 1%), be threatened with foreclosure or eviction (6% versus 1%), and miss a mortgage or rent payment (8% versus 2%).

The results contribute to a growing literature on increasing inequality across the country. They may also have implications for the increasing number of "deaths of despair" by drugs, alcohol, and suicide, as financial hardships could contribute to these actions.

"Economic despair, which includes high levels of perceived financial distress, could certainly be part of this story. However, our analysis does not permit us to answer these pressing questions regarding the causes of rising despair, nor can we determine whether these trends affect certain parts of the U.S., or the country as a whole," Glei said.

The researchers point out a few limitations of the study. The first is that they cannot determine where these effects are being felt geographically. Furthermore, the study was restricted to respondents who survived and participated in the third wave of the MIDUS.

The paper, "A Growing Socioeconomic Divide: Effects of the Great Recession on Perceived Economic Distress in the United States," appeared in *PLOS ONE* on April 4.

Provided by Princeton University

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