
A seesaw is shown on a brick wall. On the higher end, a single tall person stands. On the lower end, a group of shorter people stands. The background is a cloudy sky.

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# Inequality in the United States

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## Inequality: Income, Wealth, Consumption

- **Definition:**

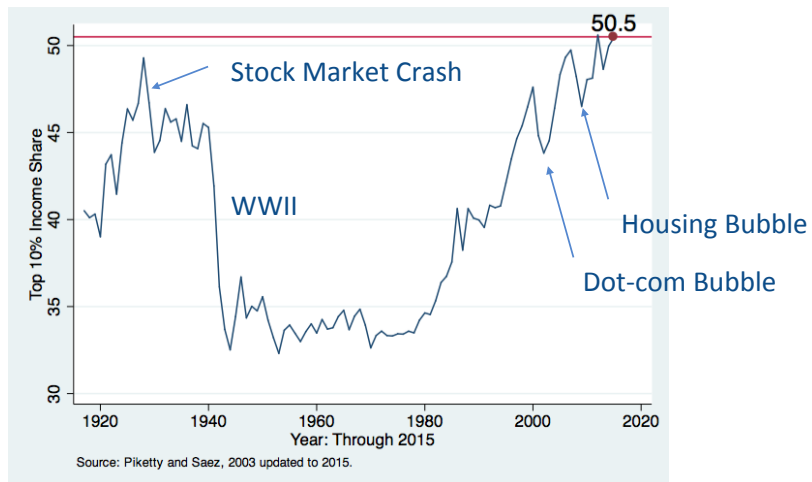
- The extent to which the distribution of income deviates from complete equality.
- The dispersion of income throughout the economy.



# Outline

- Data
- Why?
- Why is it important?
- Policy solutions

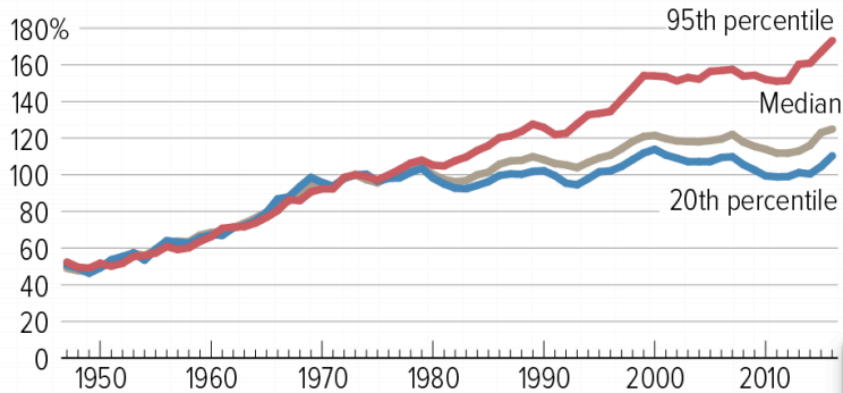
# National Income Inequality: Share of Top 10%



Source: Piketty and Saez, 2003 updated to 2015.

## The Abrupt Increase in Inequality

Real family income between 1947 and 2016, as a percentage of 1973 level

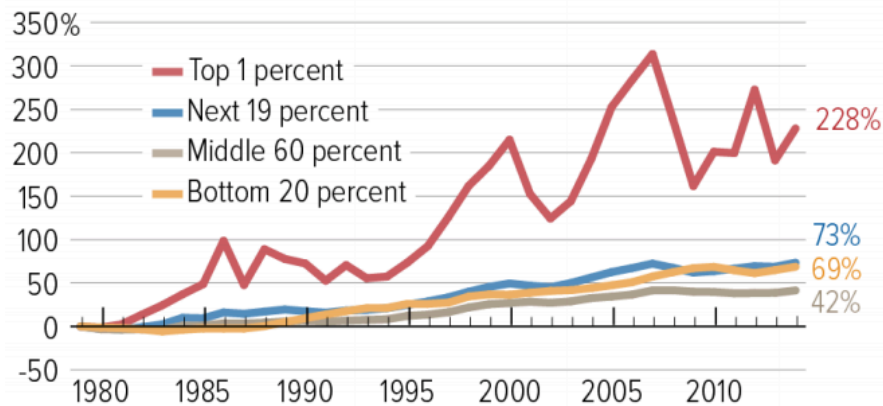


Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018, page 10.

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## Most of the Action Is at the Very Top

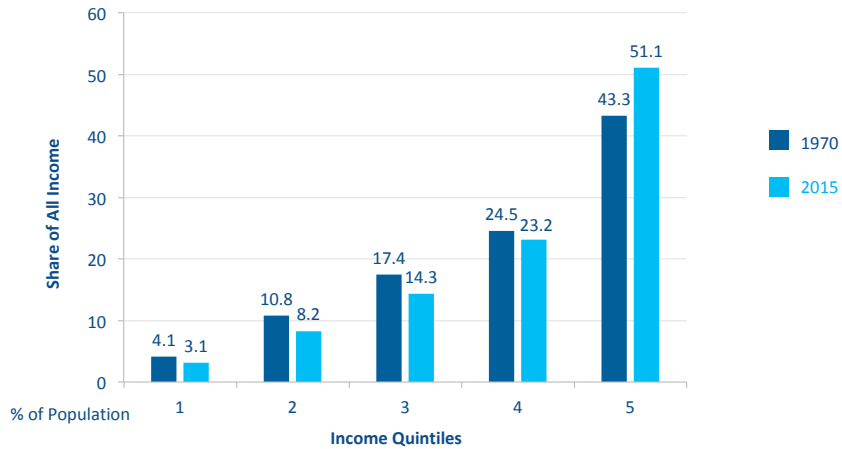
Percent change in income after transfers and taxes since 1979



Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018, page 11.

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## Income Share Changes Between 1970 and 2015



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

## Income Changes from Growing Inequality

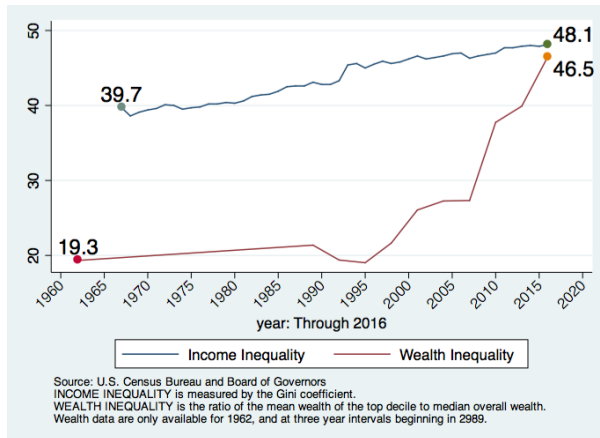
Bottom 90% of Households

INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
<b>TOP 1%</b>	\$673 billion more	\$597,241 more
<b>96-99</b>	\$140 billion more	\$29,895 more
<b>91-95</b>	\$29 billion more	\$4,912 more
<b>81-90</b>	\$43 billion less	\$3,733 less
<b>61-80</b>	\$194 billion less	\$8,598 less
<b>41-60</b>	\$224 billion less	\$10,100 less
<b>21-40</b>	\$189 billion less	\$8,582 less
<b>BOTTOM 20%</b>	\$136 billion less	\$5,623 less

\* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades.  
Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley



# Income and Wealth Inequality

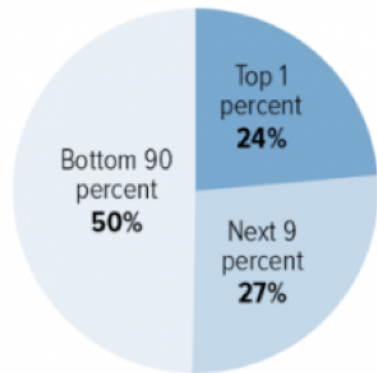


## Income Inequality (Gini)

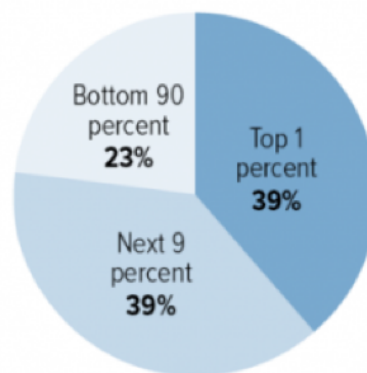
- US: 48.1%
- CA: 49.0%
- Marin: 52.5%

# Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

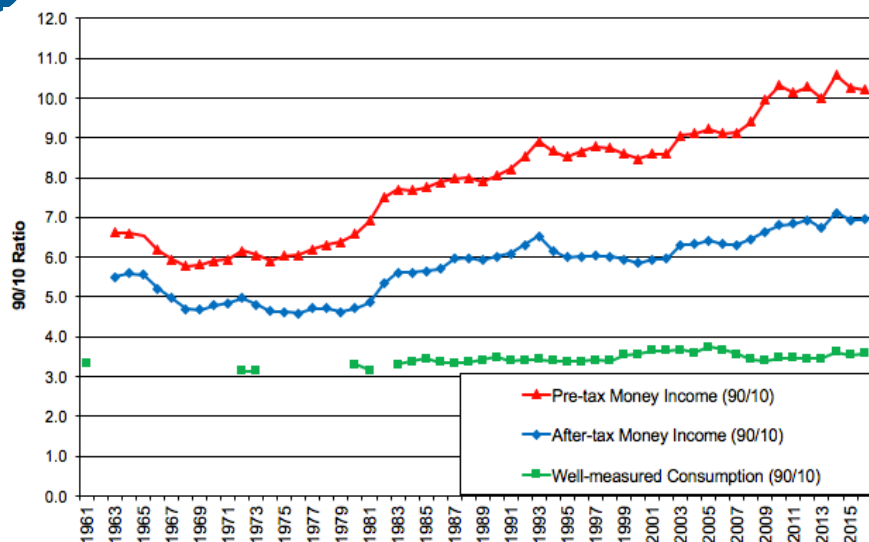


Distribution of wealth, 2016



Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018, page 15, Figure 4.

## A Third Measure of Inequality: Consumption



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## Where Does Inequality Come From?

### • Labor Characteristics

- Demographics
  - o Age distribution
- Personal Choices
  - o Educational attainment
  - o Effort
  - o Priorities
  - o Household composition
- Immigration

### • Market Forces

- Technology
- Changing demand patterns
- Competition for labor

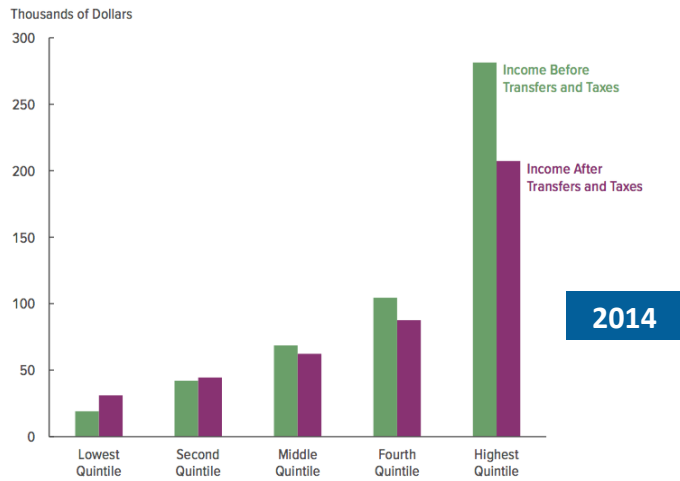
### • Government Policy

- Market influence
- Redistribution



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# Tax and Transfer Programs and Inequality



Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

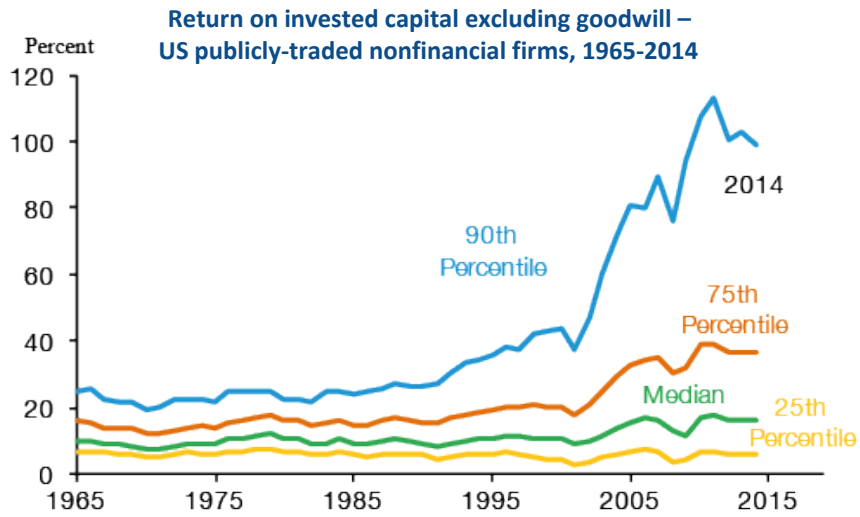
# What About Tax Rates?

**400 TAXPAYERS WITH HIGHEST INCOMES**  
1992-2014

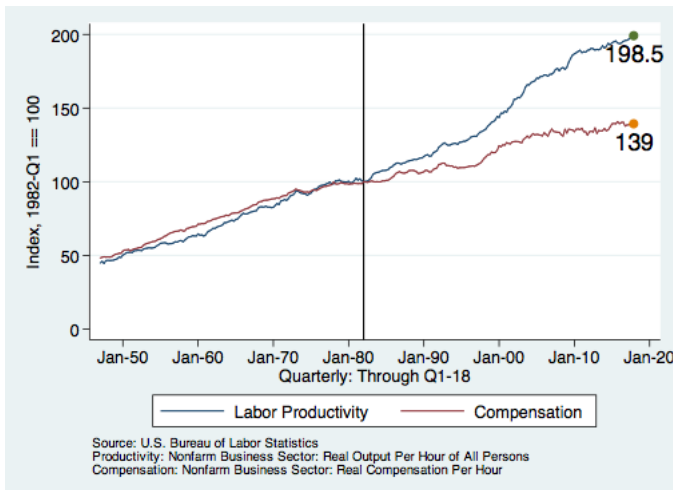


Source: IRS, Statistics of Income Division, December 2016.

# Competition in the Economy



# Labor Income is Unhinged from Productivity

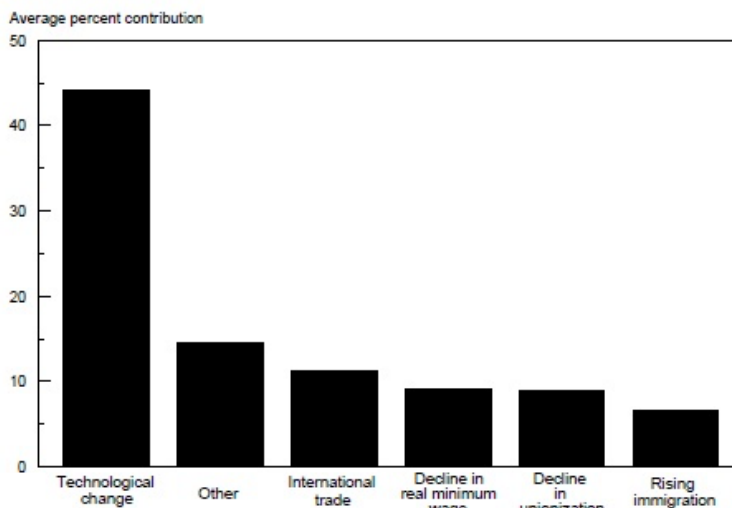


## Why?

- Declining unionization
- Globalization
- Immigration
- Competition policy
- Cheap technology



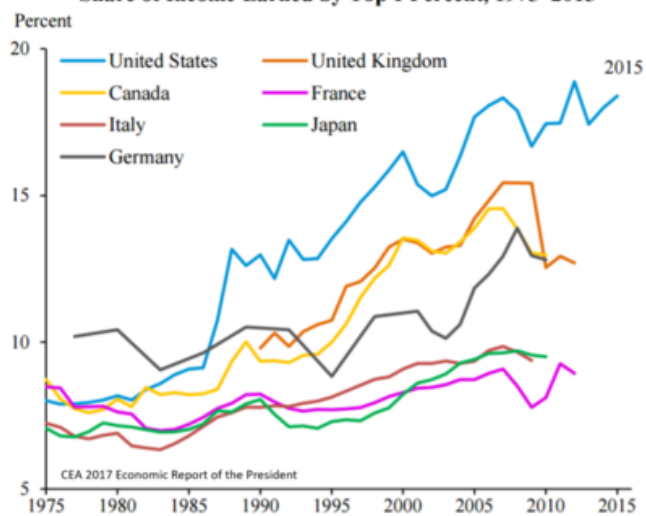
## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

## An International Perspective: Comparables

Share of Income Earned by Top 1 Percent, 1975-2015



Source: World Wealth and Income Database.



## Addressing Inequality: Immediately Available Policy Solutions (2/2)

- **Other**
  - Reverse trends in market power
- **Locally**
  - Employment services: job training, interview skills, or assistance with day-to-day issues, such as child care
  - Cognizance of the potential for technologies to affect worker/employer power dynamics
    - Uber, Lyft, etc.

## Addressing Inequality: Long Term

- **It's all about access to resources:**
  - Education, in particular
    - Improve public education
    - Reduce disparities in quality of public education
    - Improve counseling in low-income schools
      - With respect to college – paths to success and funding
  - Investments are needed in early education, not later
    - Universal pre-K
    - Upgrade quality of elementary schools in low-income areas

## Tension in Policy Solutions

- **Is it possible to increase growth at the same time that you reduce income inequality?**
  - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
  - Expanding equality of access requires resources likely from the well-to-do.

## Summary

- **Income inequality is clearly increasing.**
  - The economy is clearly favoring owners of productive resources over labor
- **The causes appear to be largely driven by:**
  - The market – technology, trade, and competition
  - Changing institutions
- **Open questions are:**
  - To act or not to act?
  - If so, how?

