Income Inequality in America

Understanding Wealth Inequality, Its Causes, and Solutions

BY KIMBERLY AMADEO | REVIEWED BY JANET BERRY-JOHNSON | Updated May 13, 2021

Income inequality is a wide gap between the money earned by the richest people in an economy when compared to the poorest. Income includes wages, investment earnings, rent, and sales of real estate.

Income Inequality I

In economic terms, income / income is distributed between individuals, group tries. It is a major part of how we understand socioe tify the upper class, middle class, and working class. It equality, including wealth, political power, and social s aging quality of life, as it serves as a means to acce so on.

Income inequality varies by social factors such as sexual identity, gender identity, age, and race or ethnicity, leading to a wider gap between the upper and working class.

How It's Measured

The U.S. Census Bureau me
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Key Takeaways

- National and global income inequality are becoming a growing issue that will need to be addressed.
- The top earners will benefit more from the economic recovery than the bottom earners will.
- In the United States, the top 20% receive more than 50% of total income.
- Inequality has grown thanks to outsourcing and companies replacing workers with technology.
- The United States could improve income inequality with employment training and investing in education.

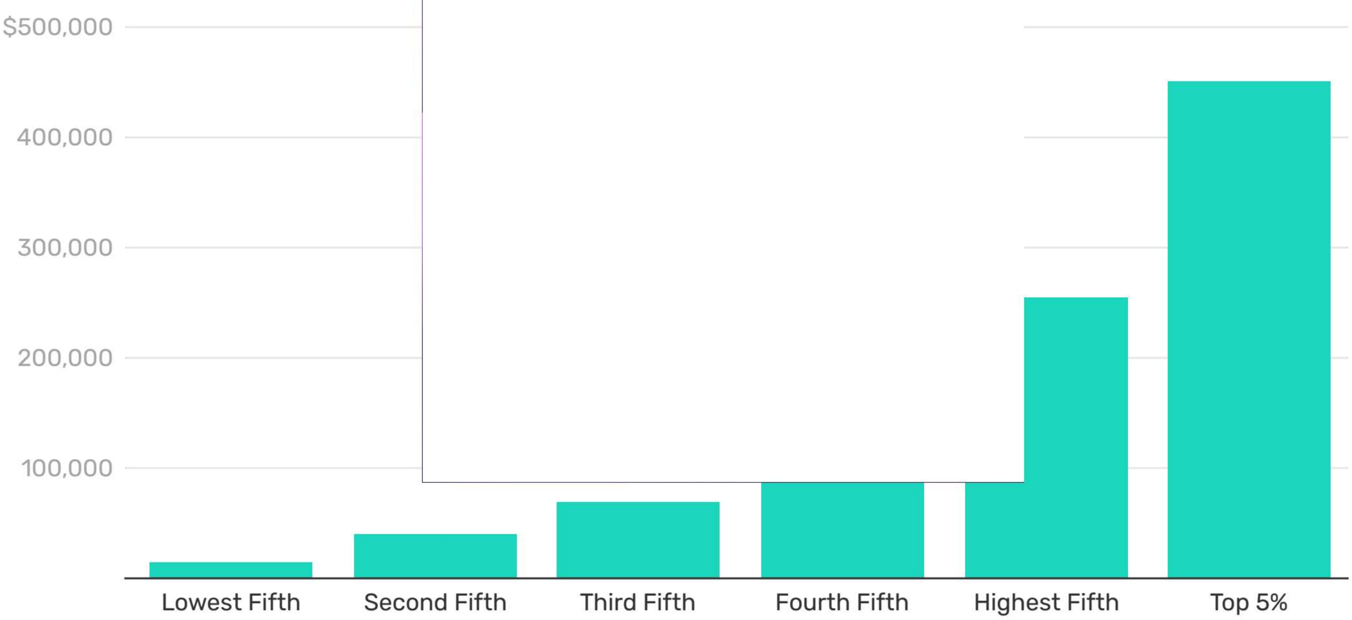
Income Gap: Current Statistics

In 2019, the top 20% of the population earned 51.9% of all U.S. income.[3] Their average household income was $254,449. The richest of the rich, the top 5%, earned 23% of all income. Their average household income was $451,122.

The bottom 20% only earned 3.1% of the nation's income. The lower earner's average household income was $15,286.[4] Most low-wage workers receive no health insurance, sick days, or pension plans from their employers. They can't get ill and have no hope of retiring. That creates health care inequality, which increases the cost of medical care for everyone. Also, people who can't afford preventive care will wind up in the hospital emergency room. In 2014, 15.4% of uninsured patients who visited the ER said they went because they had no other place to go.[5] They use the emergency room as their primary care physician.

The hospitals passed this c

Mean Income by Income Quintiles



Source: U.S. Census Bureau

Get the data • Add this chart to your site

the balance

The U.S. Gini index—which measures distribution and is often used to measure income differences—was 0.484 in 2019. That's slightly better than in 2018 when it was 0.486, but it's much worse than in 1968 when it was just 0.386.[6]

Important: Around 30% of American workers make less than $10.10 per hour. That creates an income below the federal poverty level. These are the people who wait on you every day. They include cashiers, fast food workers, and nurse's aides, and maybe even you.[7]

Income Inequality Has Worsened

The rich got richer through the recovery from the 2008 financial crisis. Between 1993 and 2015, the average family income grew by 25.7%. The top 1% of the population received 52% of that growth.[8] The chart below tracks the average income growths and losses during the 22-years. It then calculates how much of that total growth was accrued by the top 1% of the population.

Real Income Growth By Group From 1993 To 2015

The Fraction of Total Growth column shows what percentage of the Average Income Real Growth was gained or lost by the top 1%. From 1993 to 2015, the average real family incomes grew by 25.7%. 52% of that growth was accrued by the top 1%. 48% of that growth was accrued by the bottom 99%.

Average Income Real Growth | Fraction Total Growth (or Loss) Top 1% | Fraction Total Growth (or Loss) Bottom 99%

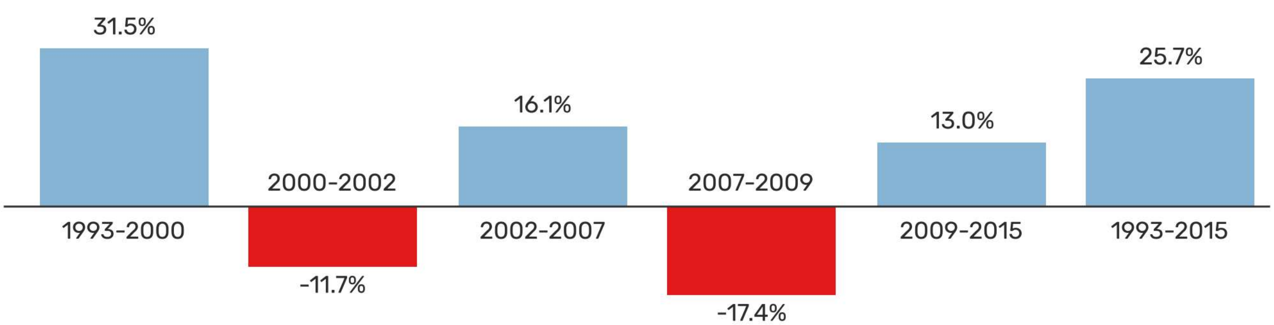


Chart: The Balance • Source: Emmanuel Saez, UC Berkeley

This worsening of income inequality had been ongoing even before the 2008 recession. Between 1979 and 2007, household income increased 275% for the wealthiest 1% of households. It rose 65% for the top fifth. The bottom fifth only increased by 18%.[9] That's true even after "wealth redistribution," which entails subtracting all taxes and adding all income from Social Security, welfare, and other payments.

Since the rich got richer faster, their piece of the pie grew larger. The wealthiest 1% of people increased their share of total income by 10%. Everyone else saw their piece of the pie shrink by 1%-2%. Even though the income going to the poor improved, they fell further behind when compared to the richest. As a result, economic mobility decreased.

During this same period, average wages remained flat. That's despite an increase in worker productivity of 15% and a boost in corporate profits of 13% *per year.*[10]

Causes

Income inequality is blamed on cheap labor in China, unfair exchange rates, and job outsourcing. Corporations are often blamed for putting profits ahead of workers. But they must remain competitive. U.S. companies must compete with lower-priced Chinese and Indian companies who pay their workers much less. As a result, many companies have

36% of its factory jobs from 1980 to 2020. These were traditionally higher-paying union jobs. Service jobs have increased, but these are much lower paid.[11][12]

Education is also a powerful factor in improving economic mobility. Education increases the income that generates greater economic growth. Over a lifetime, Americans with college degrees earn 84% more than those with only high school degrees.[13] A McKinsey study found that this achievement gap costs the U.S. economy more than all recessions from the 1970s through 2008.[14]

Deregulation means less stringent investigations into labor disputes. That also benefits businesses more than wage earners. Technology, not globalization, feeds income inequality. It has also replaced many workers at factory jobs. Those who have training in technology can get higher paid jobs.[15]During the 1990s, companies went public to gain more funds to invest in growth.[15] Managers must now produce ever-larger profits to please stockholders. For most companies, payroll is the largest budget line item. Reengineering has led to doing more with fewer full-time employees. It also means hiring more contract and temporary employees. Immigrants, many in the country illegally, fill more low-paid service positions. They have less bargaining power to demand higher wages.[16]

Many argue that President Trump's tax plan has helped businesses and investors more than wage earners. This favoritism creates structural inequality.

Walmart is the nation's largest employer at 1.5 million.[17] Unfortunately, it has set new standards for reducing employee pay and benefits. Its competitors must follow suit to provide the same "Low Prices."[18]

> **Note:** The U.S. minimum wage remained at $5.15 an hour until 2007. In 2010, it rose to $7.25 an hour, where it has remained through early 2021.[19]

In recent years, the Federal Reserve deserves some of the blame. Record-low interest rates were supposed to spur the housing market, making homes more affordable.[20] [21] While that is the case, housing prices have leveled off in recent years.[22] The average American still doesn't have enough income to buy a home. This lack is especially true for younger people who typically form new households. Without good jobs, they're stuck living at home or with roommates.[23]

By keeping Treasury rates low, the Fed created an asset bubble in stocks. This helped the buying commodities, driving food prices up 40% since 2009.[25] [26] This increase hurts the bottom 90%, who spend a greater percentage of their income on food.

A Global Perspective

Many of the causes of U.S. income inequality can be traced to an underlying shift in the global economy. Emerging market incomes are increasing. Countries such as China, Brazil, and India are becoming more competitive in the global marketplace. Their workforces are becoming more skilled. Also, their leaders are becoming more sophisticated in managing their economies. As a result, wealth is shifting to them from the United States and other developed countries.

This shift is about lessening *global* income inequality.[27] The richest 1% of the world's population has 44% of its wealth. While Americans hold 25% of that wealth, China has 22% of the world's population and 8.8% of its wealth. India has 15% of its population and 4% of its wealth.[28]

As other countries become more developed, their wealth rises. They are taking it away from the United States, the European Union, and Japan. In America, the least wealthy bear the brunt.

Solutions

The United States must accept that global wealth redistribution is occurring. Those in the top fifth of the U.S. income bracket must realize that those in the bottom two-fifths cannot bear the brunt forever.

Trying to prevent U.S. companies from outsourcing will not work. It is punishing them for responding to the global redistribution of wealth. Neither will protectionist trade policies or walls to prevent immigrants from entering illegally.

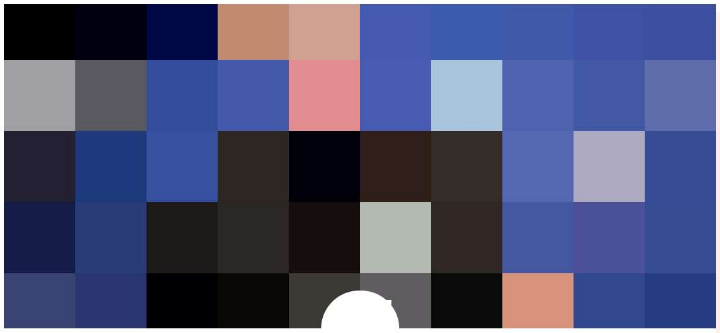
The government should provide the bottom two-fifths access to education and employment training. Investing in human capital is the best way to increase individual wealth and improve the labor force. Equity in education would bring everyone up to at least a minimum standard. It would be a better solution than increasing welfare benefits or providing a universal basic income.

Congress can raise taxes on the top fifth to pay for it.[29] It should make these changes

Regulations are another part of the solution. The Dodd-Frank Wall Street Reform Act required corporations to disclose employee pay ratios.[30] Its goal is to help shareholders better understand executive compensation practices compared to the average employee pay.

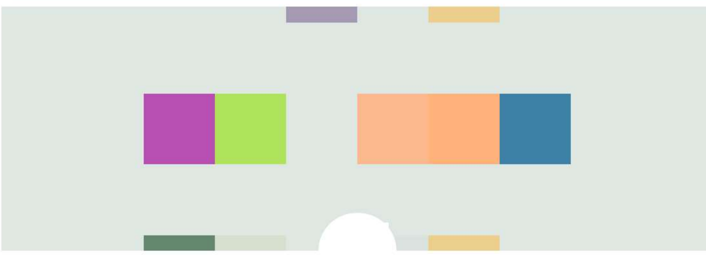
ARTICLE SOURCES

What Is Structural Inequality?



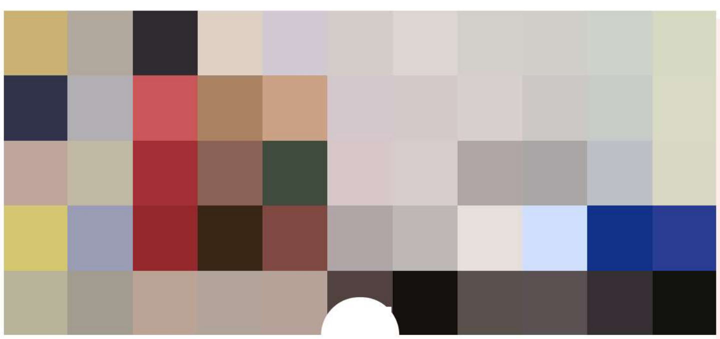
US ECONOMY NEWS

Billionaires’ Share of Economy Grows Ever Larger



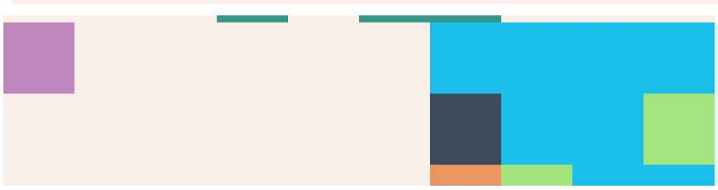
ECONOMIC TERMS

What Is the Average Income in the United States?



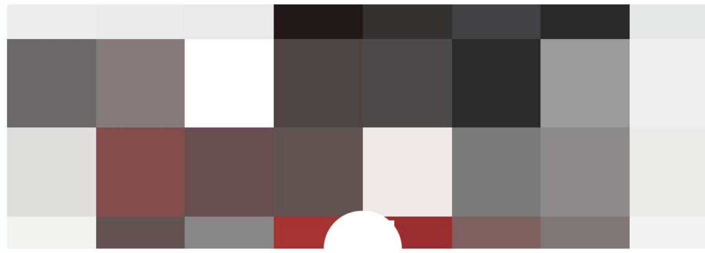
STOCKS

Why Walmart Is Good for America (and Maybe Your Portfolio)



ECONOMIC THEORY

What Is an Oligarchy?



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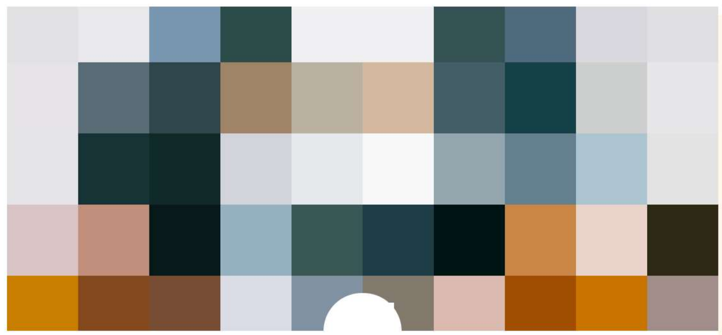
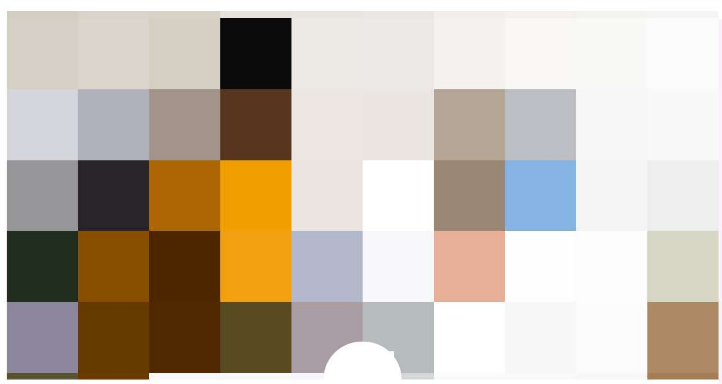
How to Close the Racial Wealth Gap in the United States



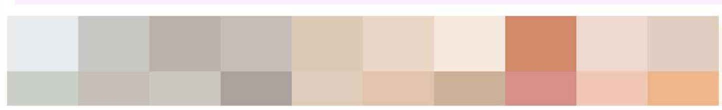
INVESTING

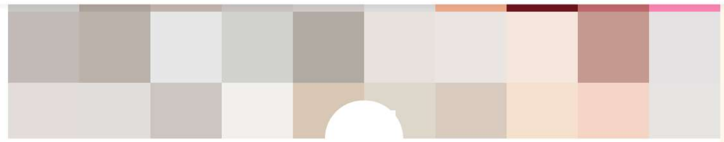
How Much Money It Takes to Be Considered Rich



FISCAL POLICY

What Is Progressive Tax?



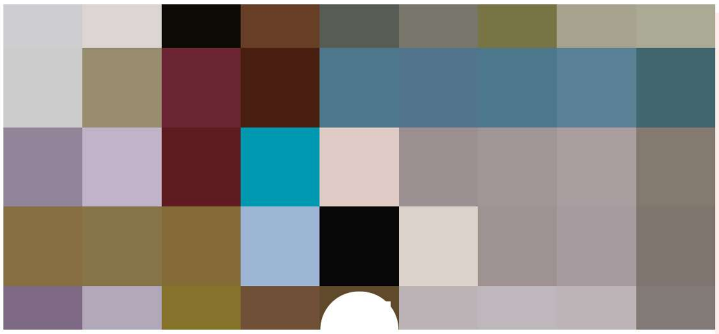


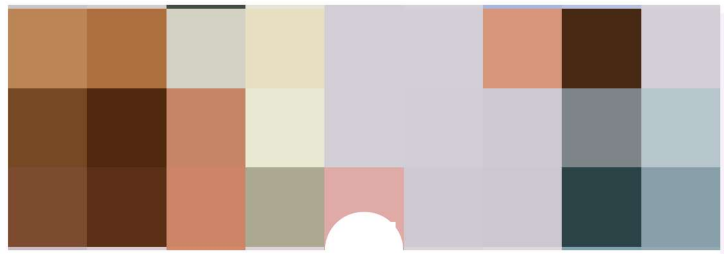
ECONOMIC TERMS

What Is Per Capita?

FISCAL POLICY

Why You Should Care About the Nation's Debt





HEALTH INSURANCE

How Health Care Inequality Increases Costs for Everyone

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What Declining Birth Rates Mean for America