

A Look at Inequality in the United States

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Greater Baltimore Committee LEADERship Program
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THE FEDERAL RESERVE BANK OF RICHMOND

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Lots of Concern Regarding Inequality



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Outline for Today's Talk

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- How that distribution has changed over time
- Some explanations for the changes
- Role of taxes and transfers – to what extent does federal policy redistribute income?





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- Consumption inequality has grown as well but not as much
 - May be a better measure of welfare
 - Consumers smooth consumption over their lifetime by borrowing more in some periods and by saving more in other periods in order to support future consumption
 - They are able to insure against income shocks to maintain a certain level of consumption





Quantiles of 2007 Earnings, Income, and Wealth Distribution (\$000, 2007 dollars)

Quantiles	0	1	5	10	20	40
Earnings	-1,547	0.0	0.0	0.0	0.0	25.7
Income	-506.0	4.2	8.9	12.3	20.1	36.3
Wealth	-474.0	-31.3	-4.6	0.0	7.3	64.7

Quantiles	60	80	90	95	99	100
Earnings	50.4	87.5	126.1	180.2	497.0	161,523
Income	58.8	98.7	142.0	207.2	680.7	187,202
Wealth	197.7	496.9	908.4	1,890	8,327	1,411,730



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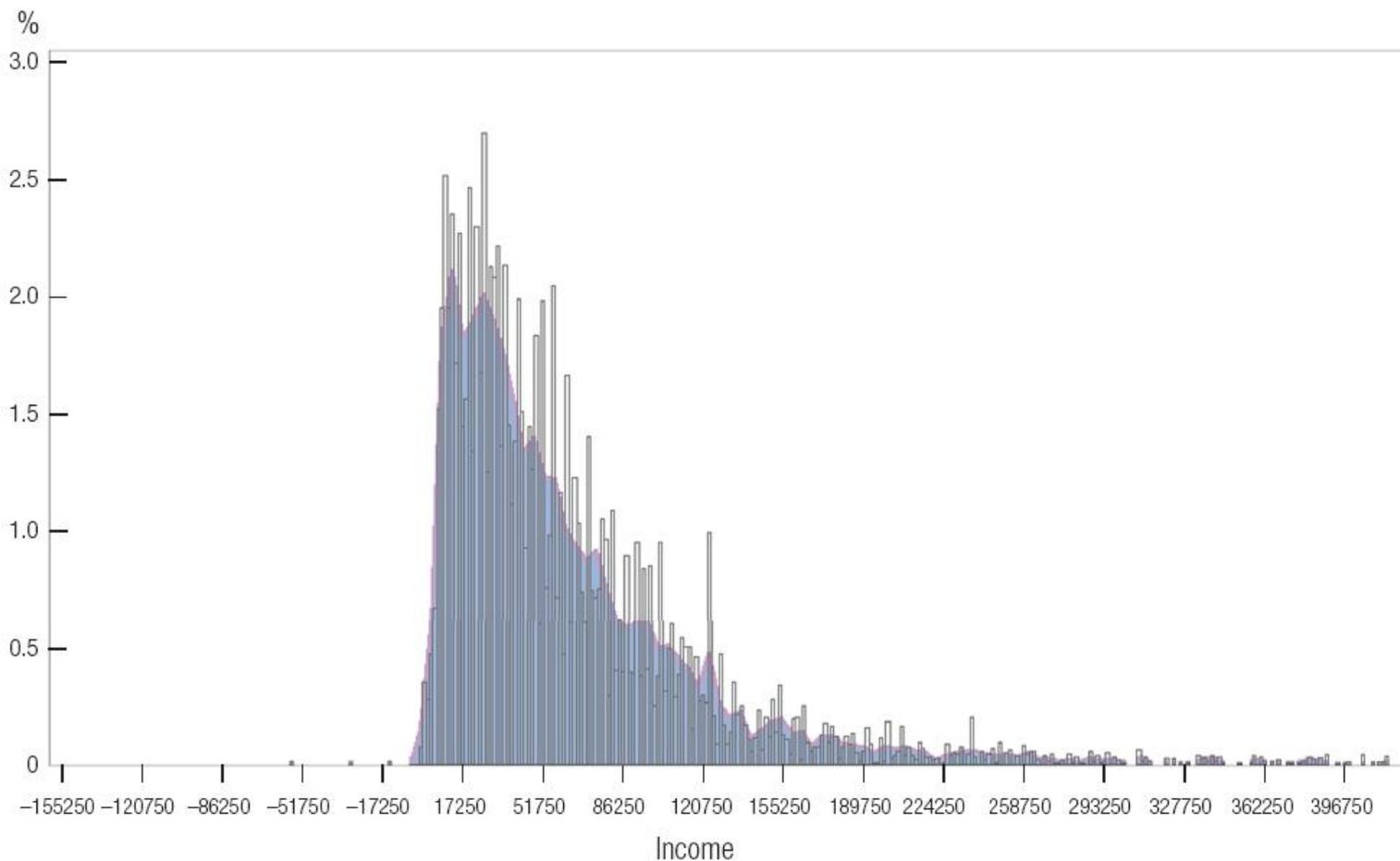
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Histogram of 2007 Income Distribution (2007 dollars)





Wealth is the Most Unequally Distributed

Concentration and Skewness of the Distributions

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Coefficient of variation	3.60	4.32	6.02
Variance of the logs	1.29	0.99	4.53
Gini index	0.64	0.58	0.82
Top 1% / lowest 40%	183	88	1,526
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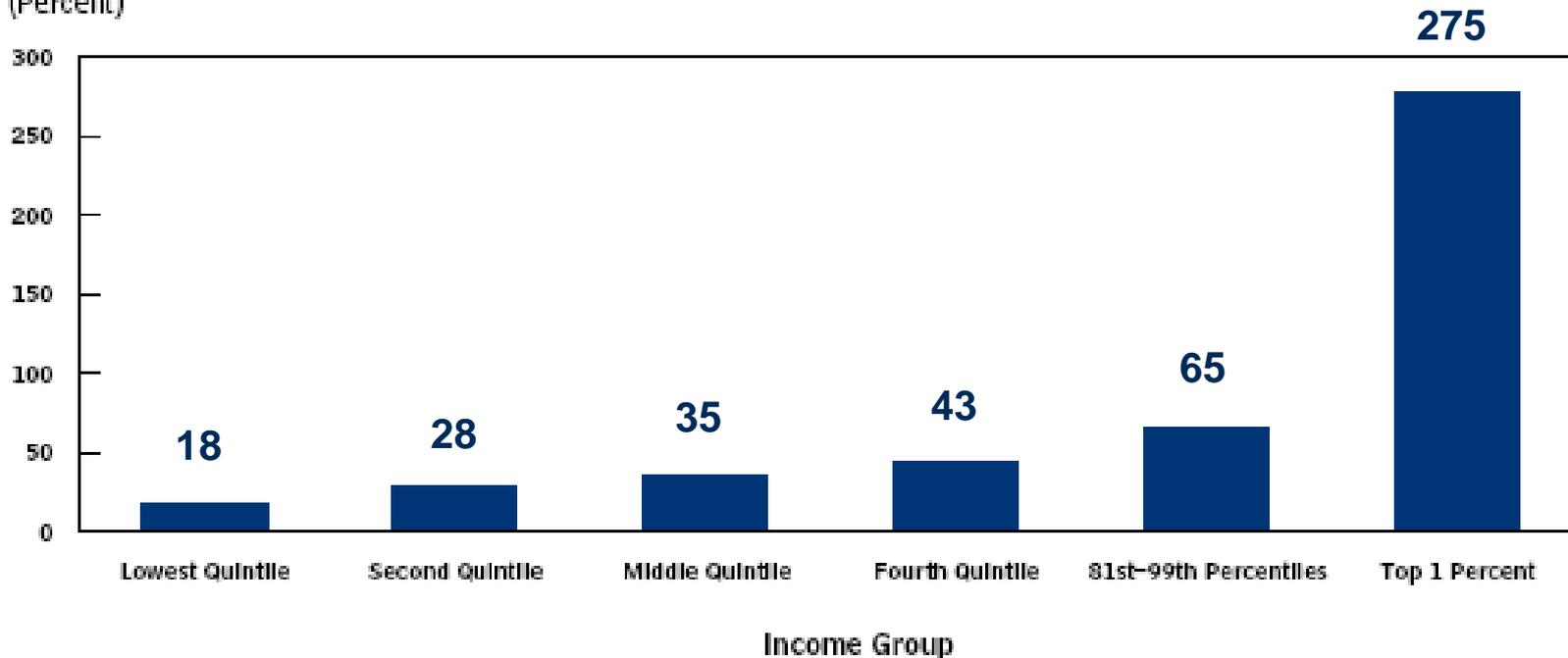
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Growth Has Been Stronger For Higher Incomes

Growth in Real After-Tax Income from 1979 to 2007

(Percent)



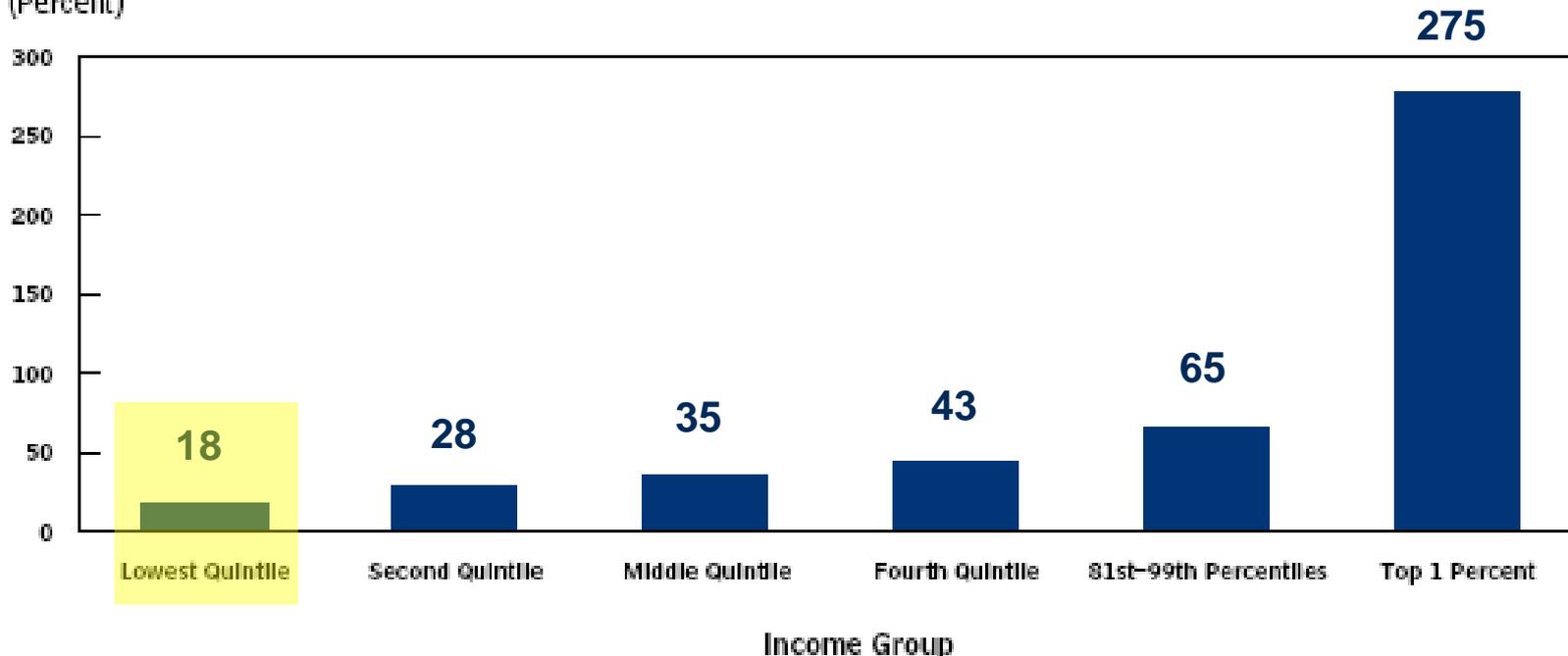
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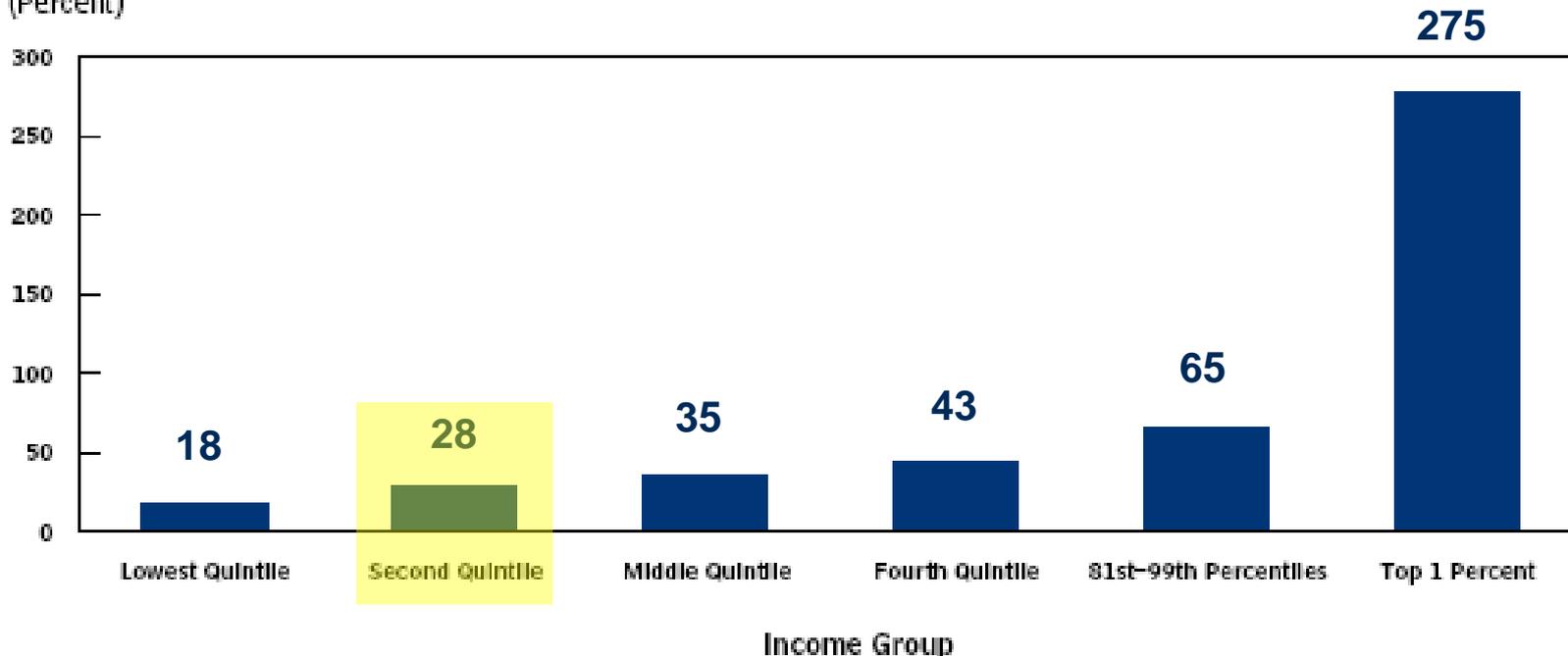




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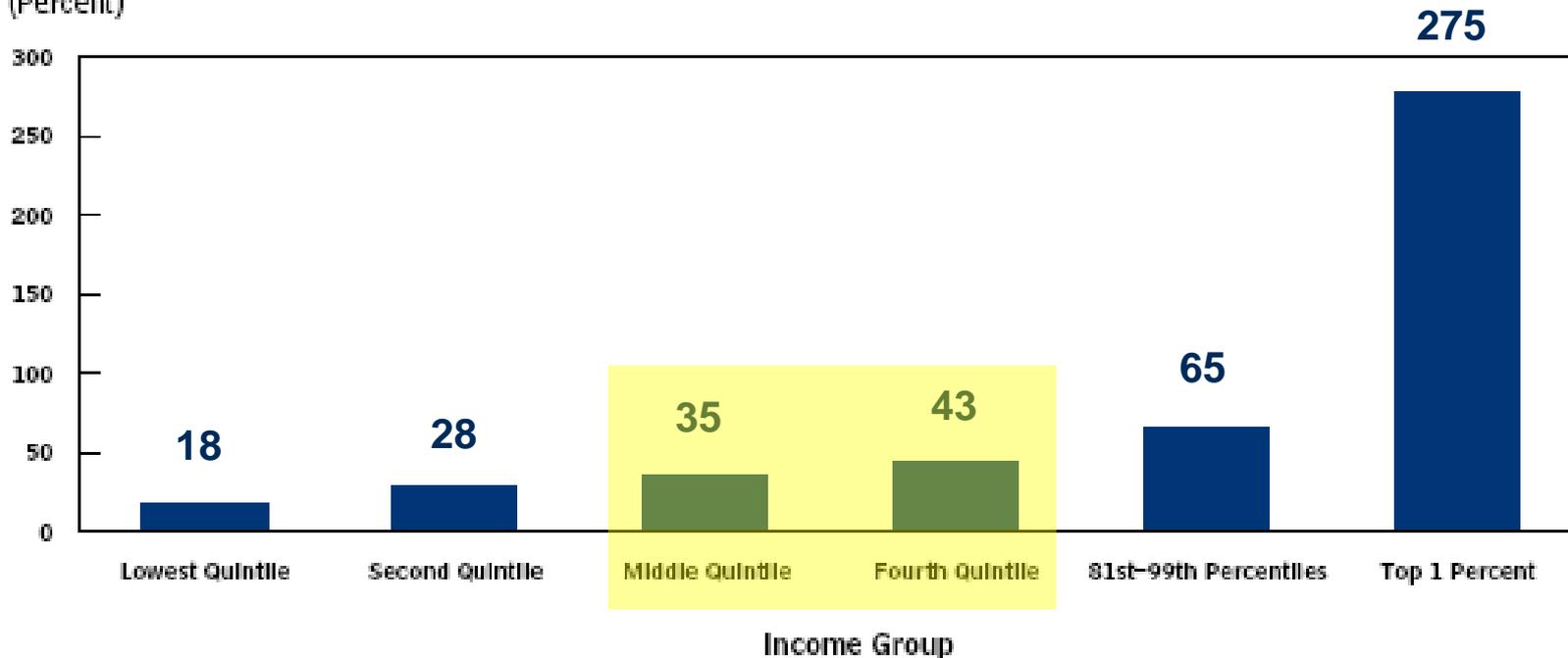
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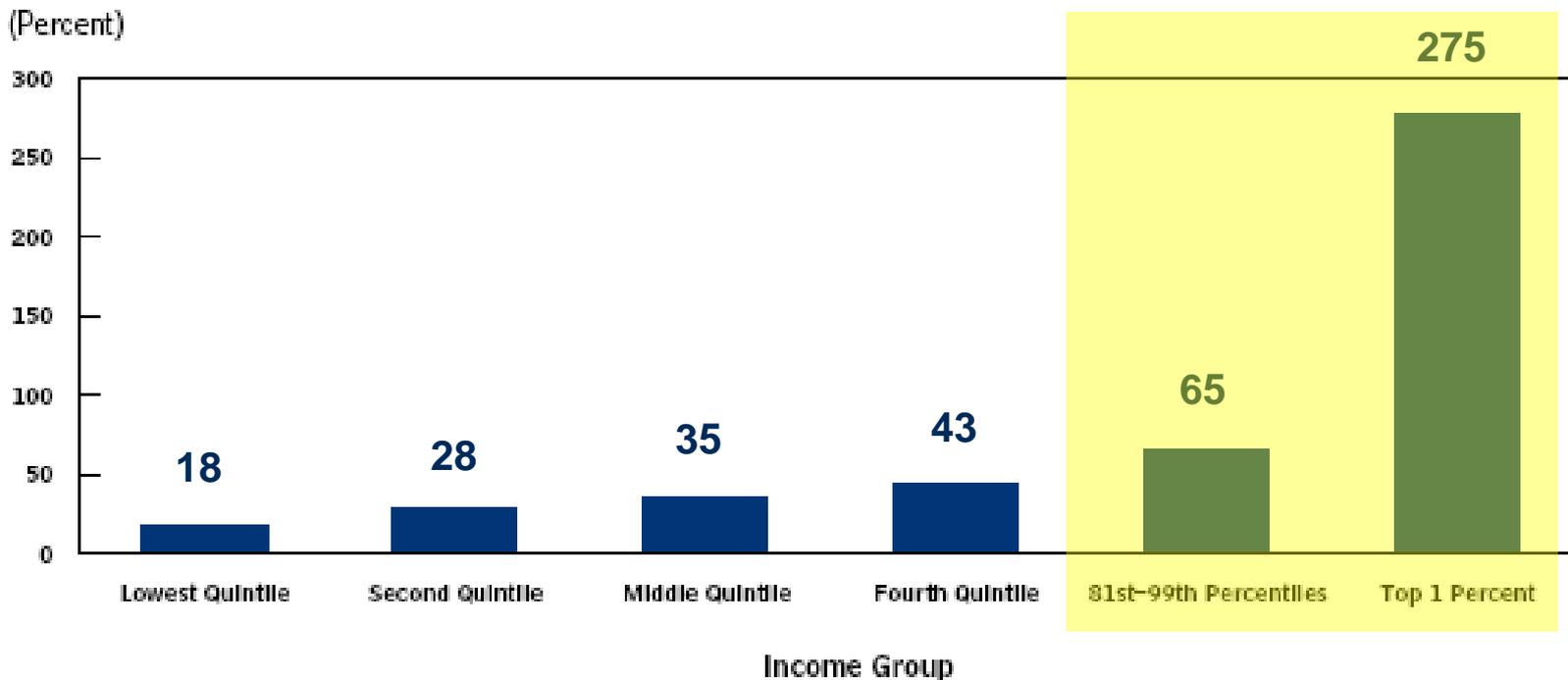


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- There was an increase in concentration of each source of market income toward higher income:

Income Received by Bottom 80 Percent of Population of the Income Spectrum		
	<u>1979</u>	<u>2007</u>
Total Labor Income	60	50
Capital and Business Income	33	20
Capital Gains	8	5

- Shift in share of market income to more unequal sources

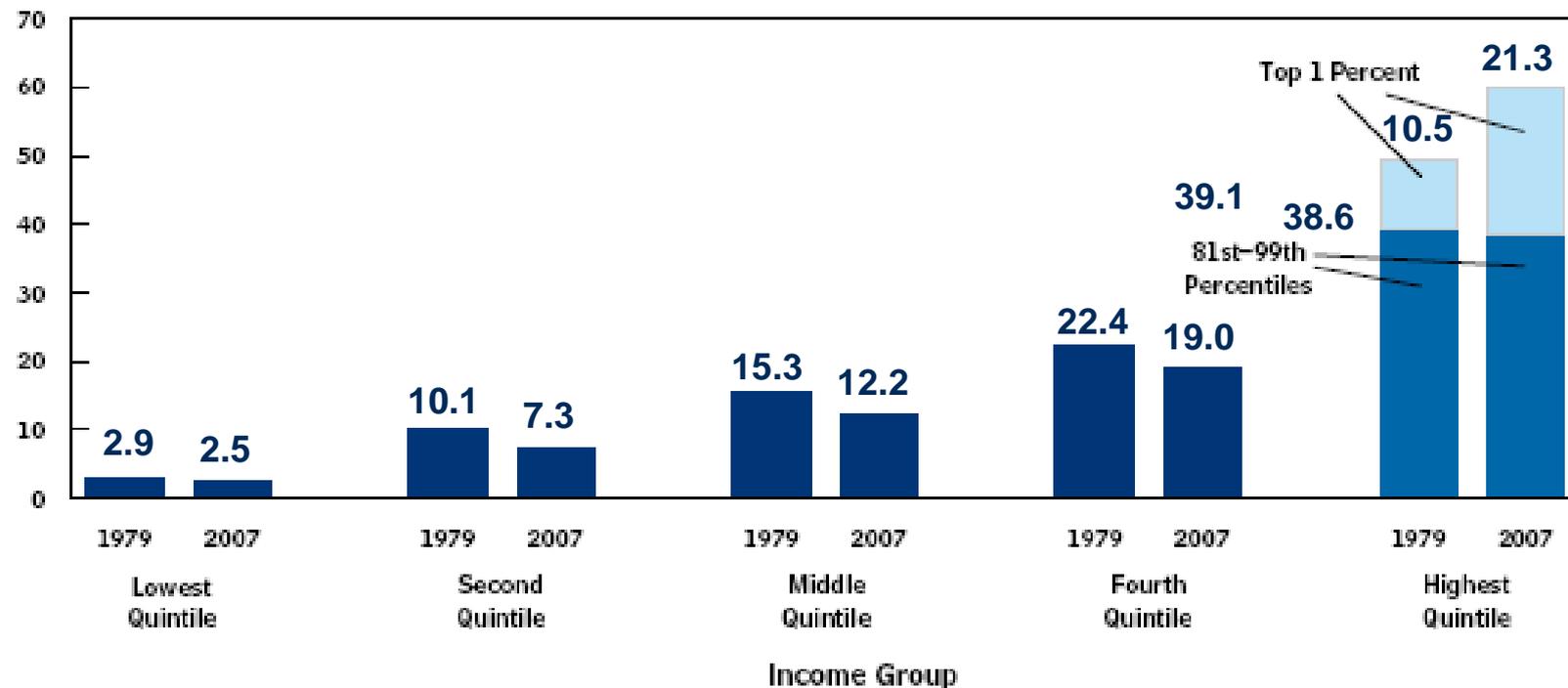




Market Income Inequality Increased

Shares of Market Income, 1979 and 2007

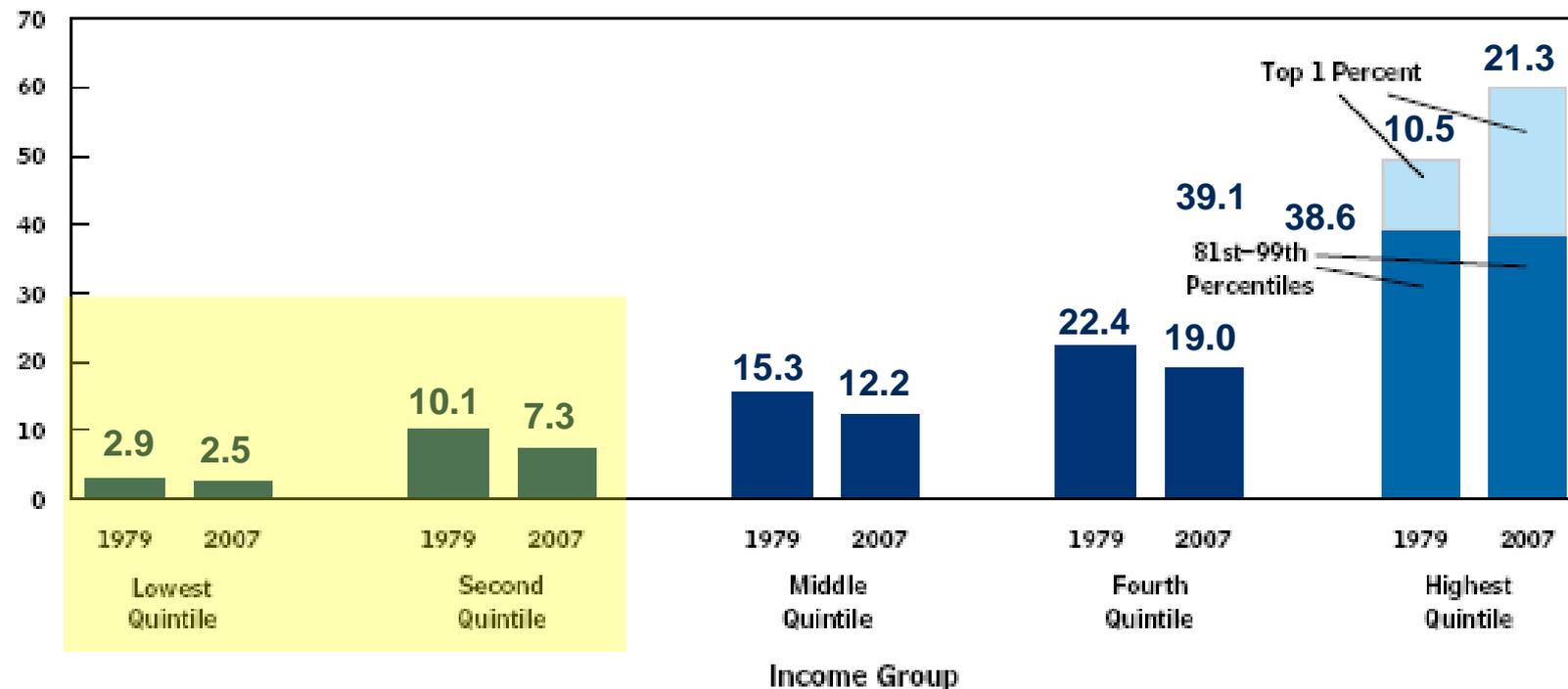
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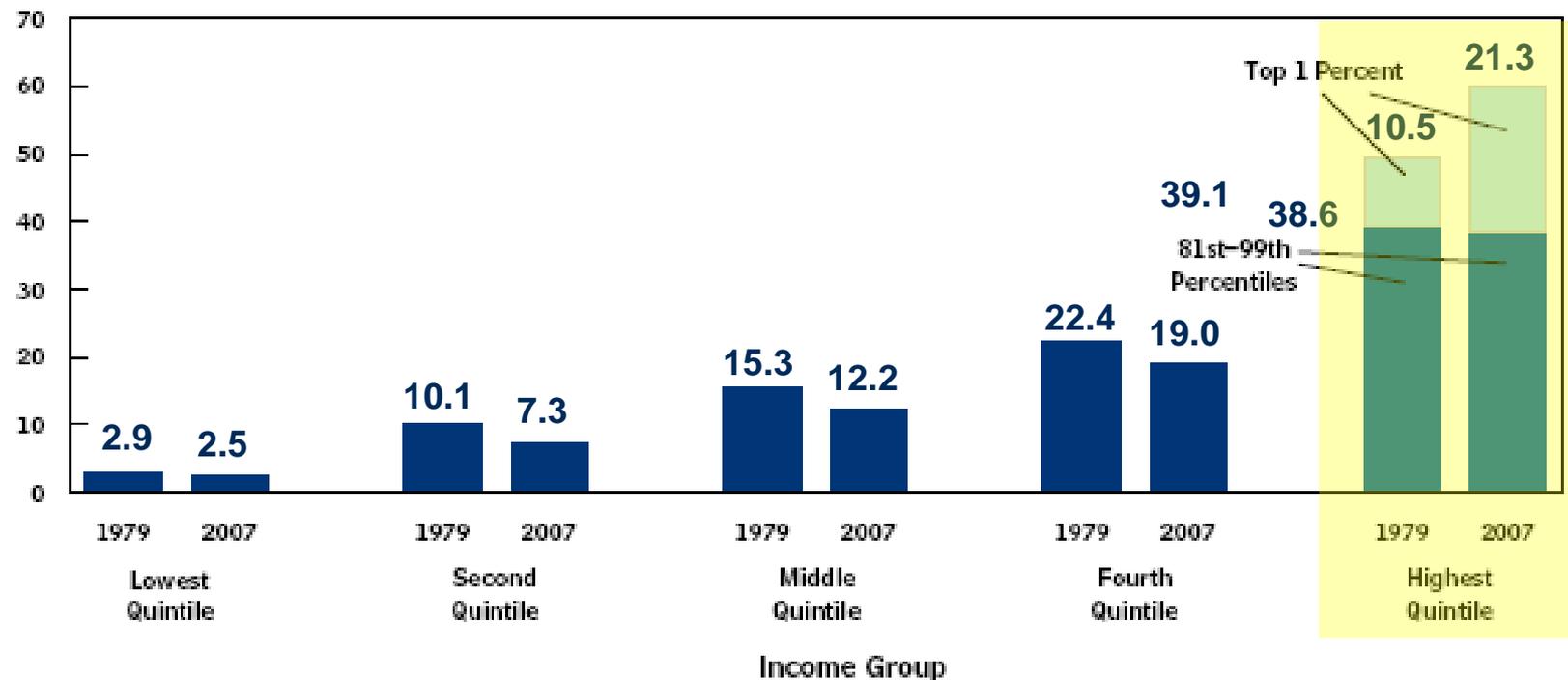




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 - Lower-skilled workers do not benefit – technological advances have little impact on their occupations

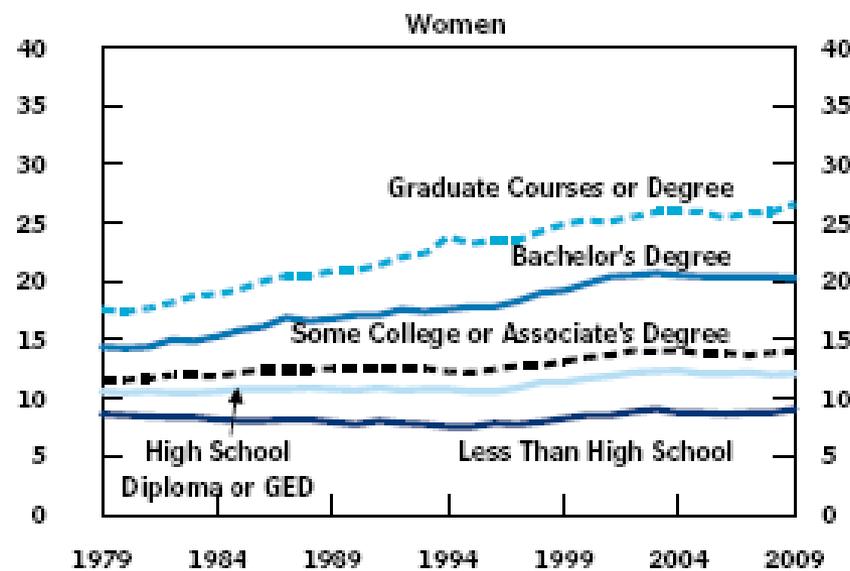
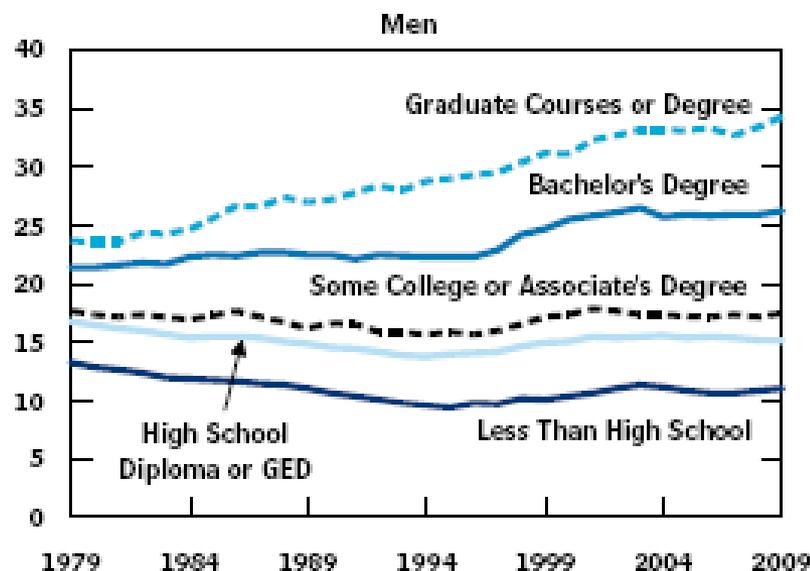




Education Premium Increases Over Time

Median Hourly Wage, by Educational Attainment, for Men and Women Ages 16 to 64

(2009 dollars)





Inequality Within Education Groups Still High (\$000, 2007 dollars)

Education	Averages			Gini Indexes		
	<i>E</i>	<i>Y</i>	<i>W</i>	<i>E</i> ^a	<i>Y</i> ^b	<i>W</i> ^c
Dropouts	20.5	31.3	142.9	0.66	0.45	0.78
High school	39.1	50.8	251.6	0.59	0.45	0.74
Some college	51.0	67.8	366.3	0.56	0.50	0.81
College	110.1	142.4	1095.1	0.59	0.57	0.78
Total	63.8	83.6	555.4	0.64	0.57	0.82

^aEarnings; ^bincome; ^cwealth; ^dlabor; ^ecapital



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- Other research has looked at the decline in the real value of the minimum wage and decline of unionization





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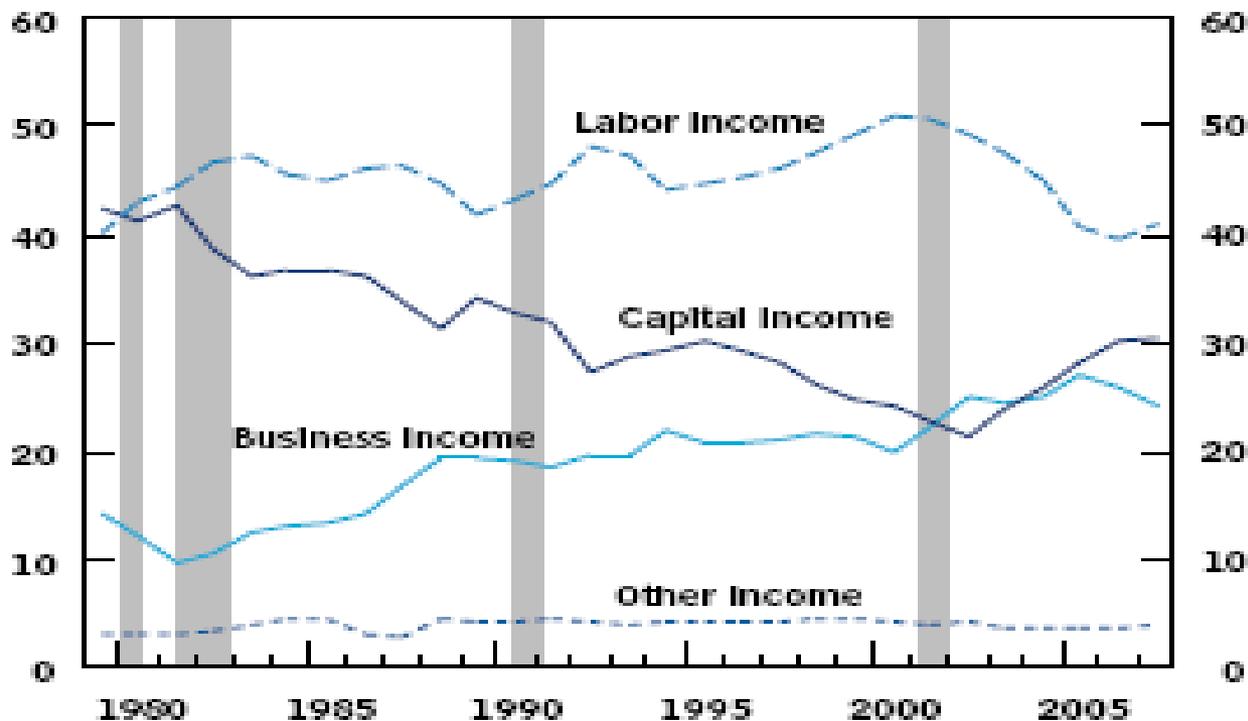
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- Rise in entrepreneurship



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Share of Market Income by Source for Top 1% of Households (excluding capital gains)

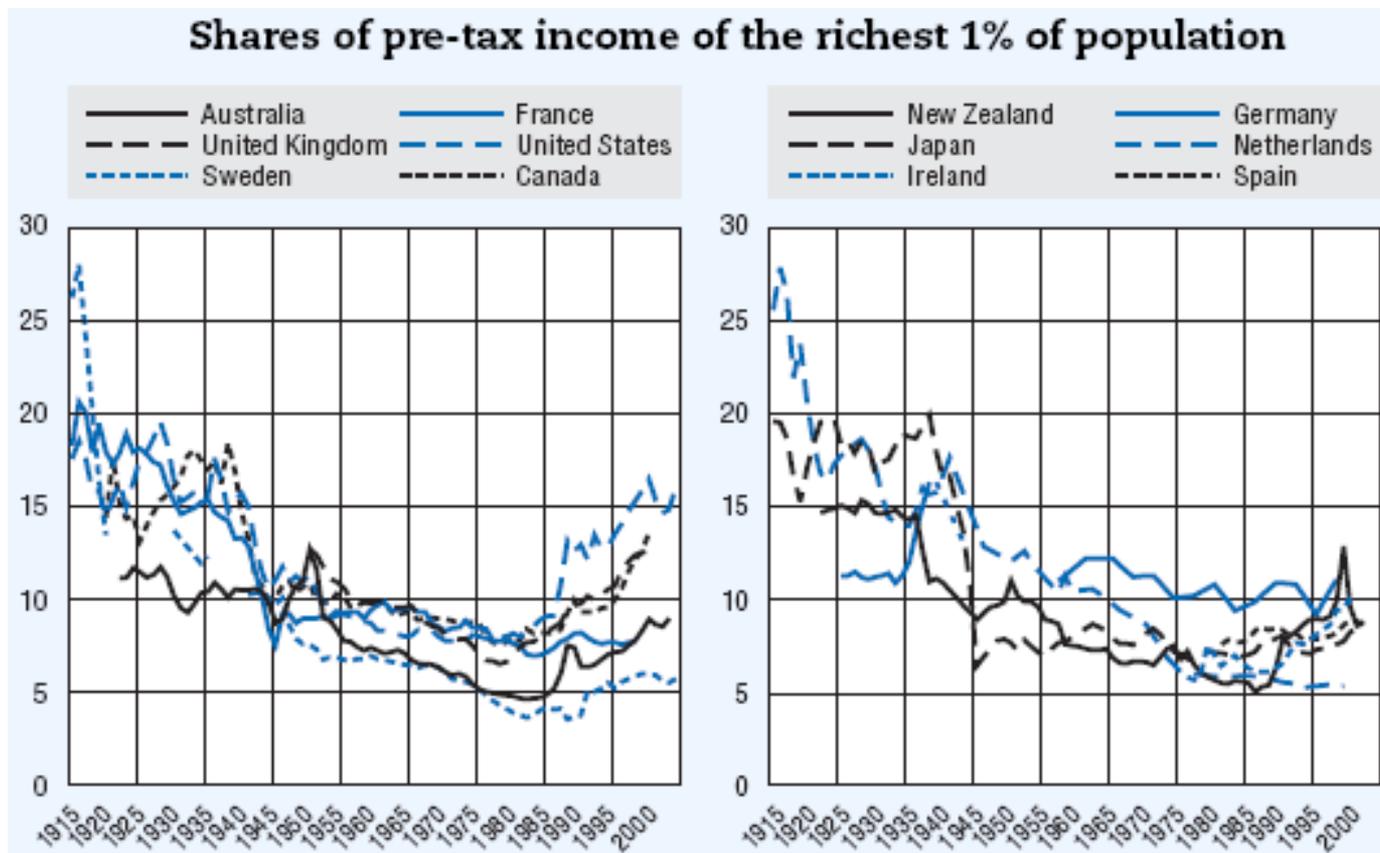


Increased Labor Inequality Not Unique to the United States

Figure 1.2. Trends in income inequality
Point changes in the Gini coefficient over different time periods



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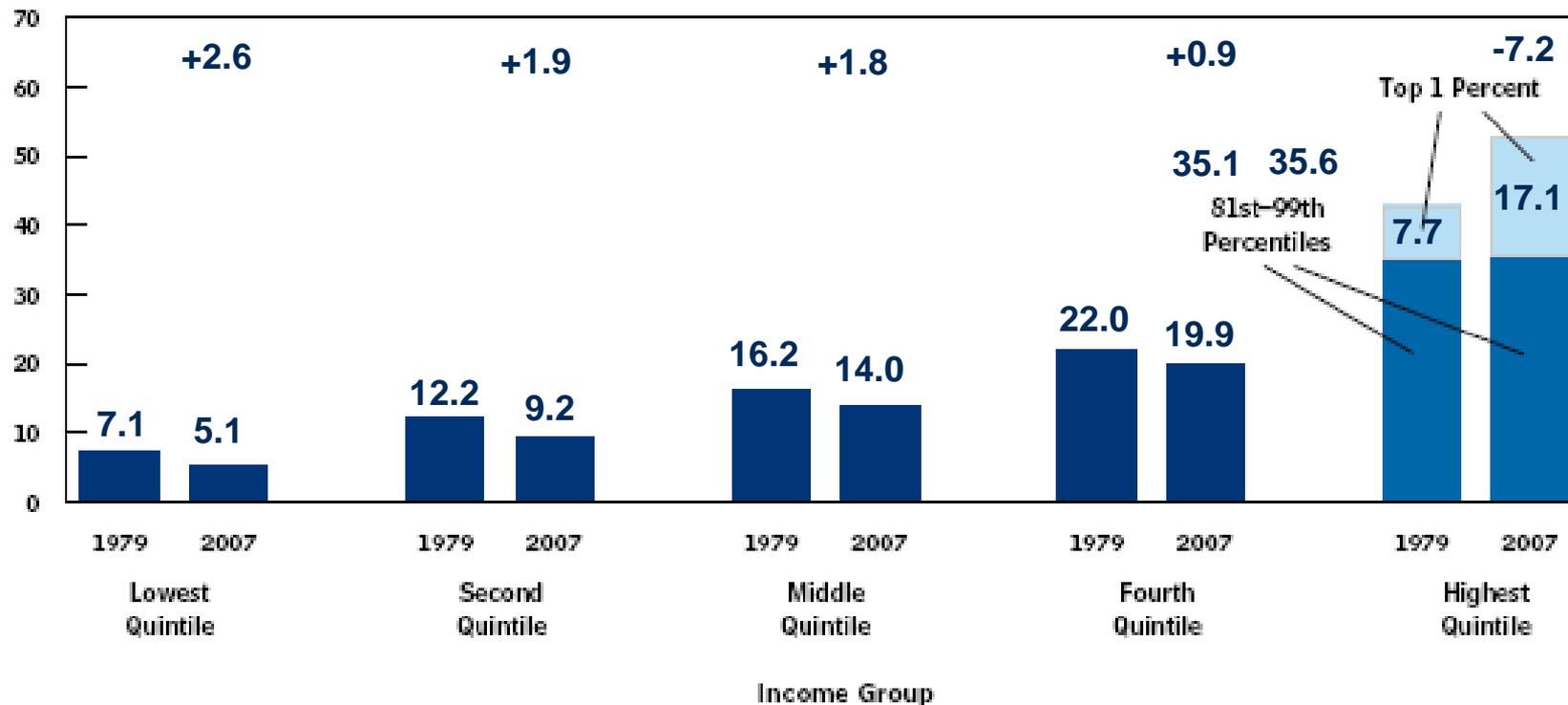
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 - Dispersion of after-tax income in 2007 was about 80 percent as large as market income (roughly 60% of that reduction was due to transfers, 40% taxes)



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Shares of Income After Transfers and Federal Taxes, 1979 and 2007

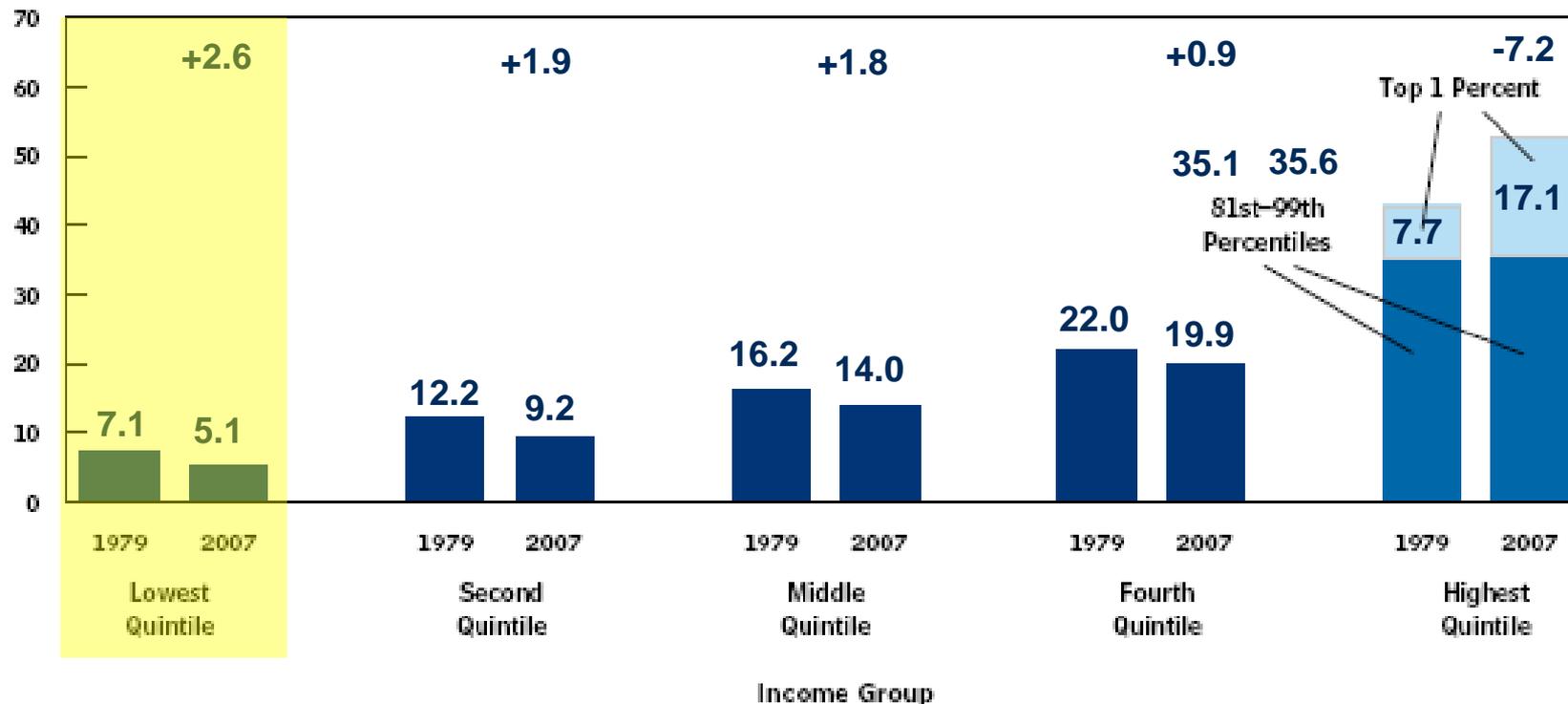
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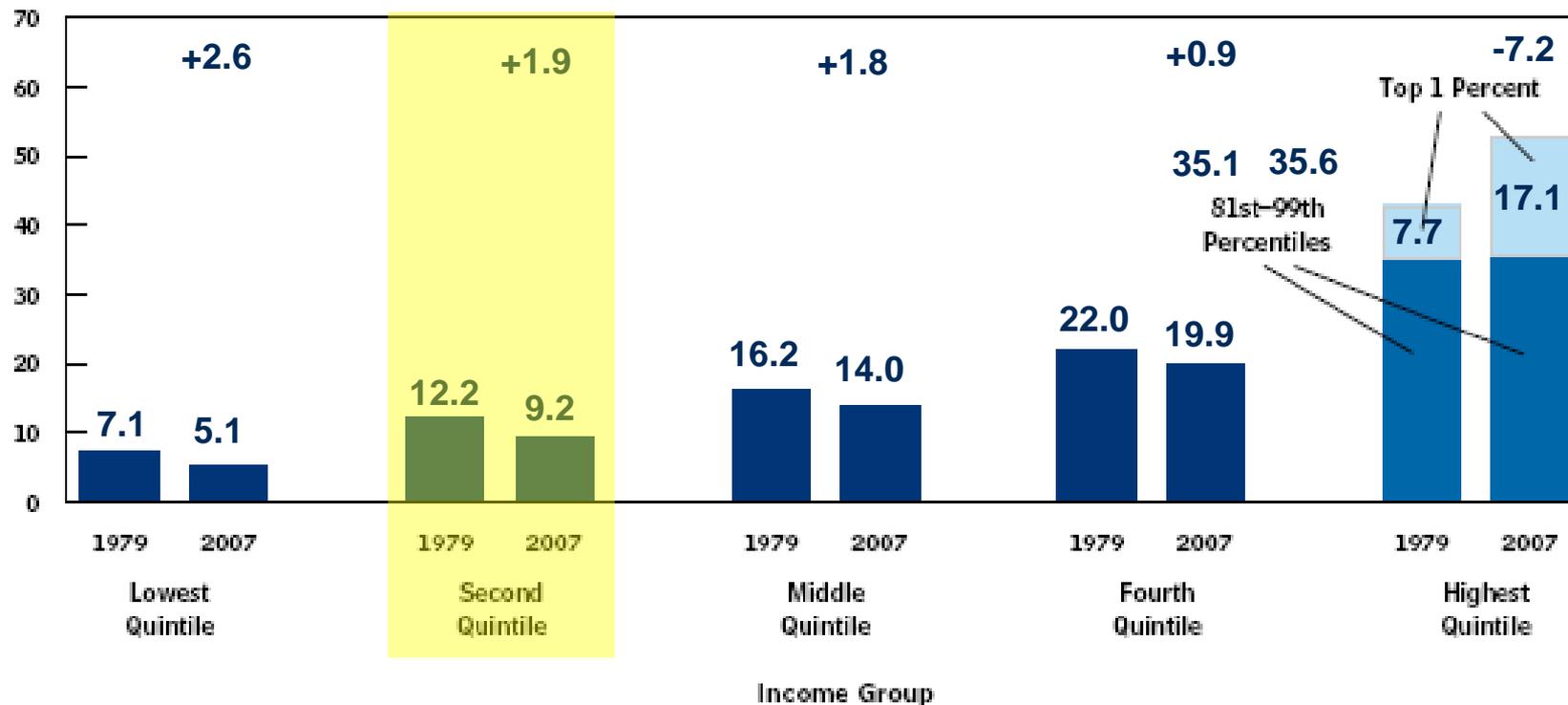
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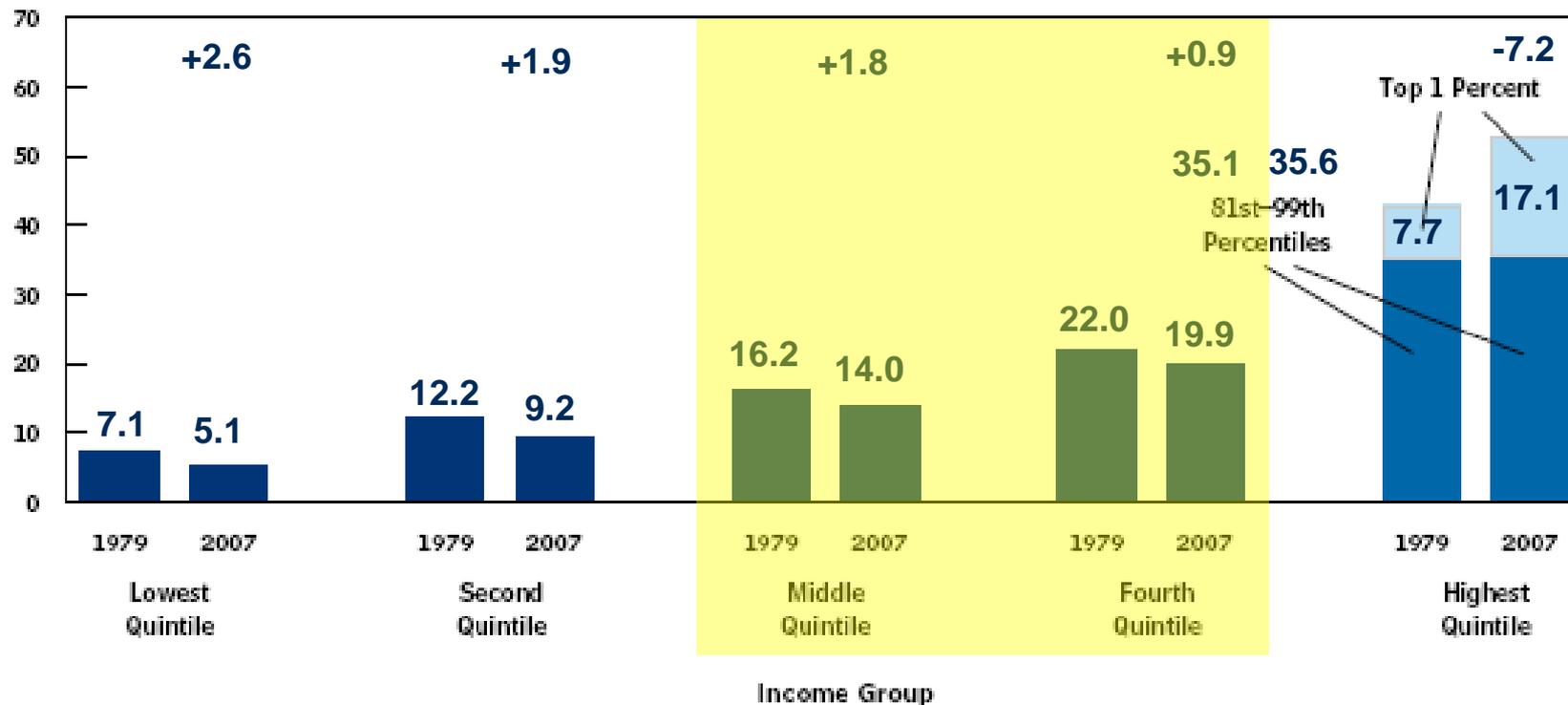
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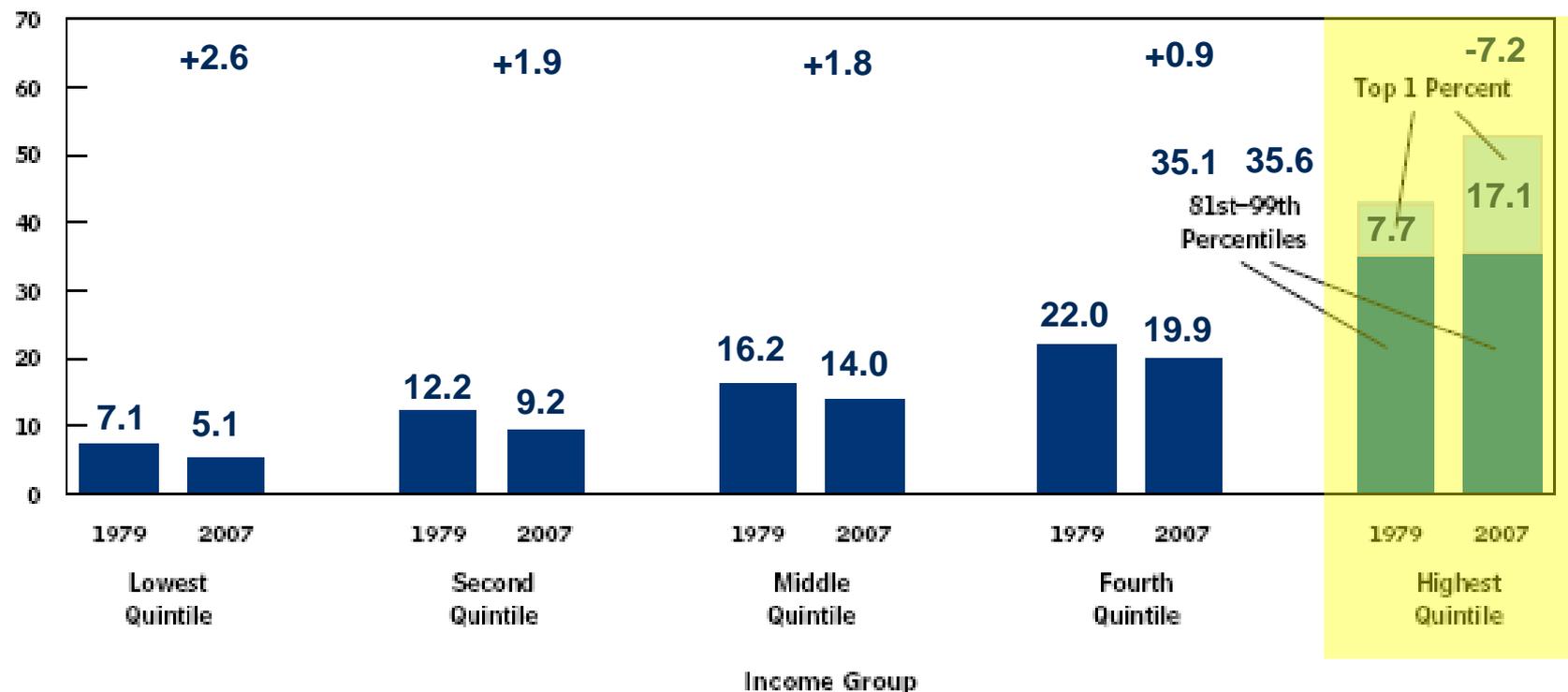




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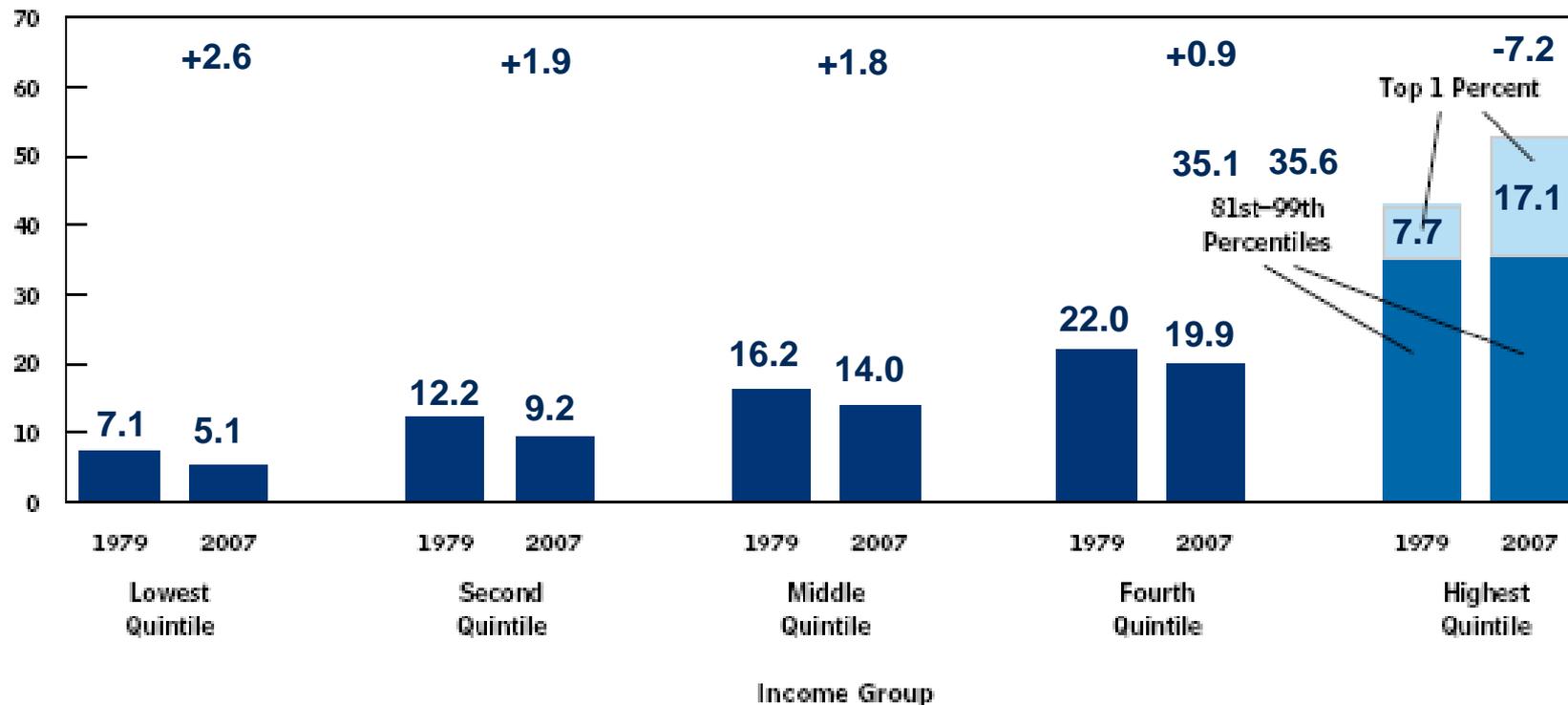
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Conclusion

- Income and wealth distribution in the U.S. is relatively unequal
- Inequality has increased over that last 30 years in the U.S. as well as in other developed countries
- There have been a number of theories presented to explain the increase: skill-biased technological change is frequently cited as having a considerable impact
 - Consequently, the importance of education and skills development will increase over time
- Federal transfers and taxes lessen (moderately) the inequality in the distribution of market income



The views expressed here are those of the author, and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.



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