



Income and Wealth Inequality in the U.S.: Evidence and Research

Travelers Aid International Conference
June 14, 2019

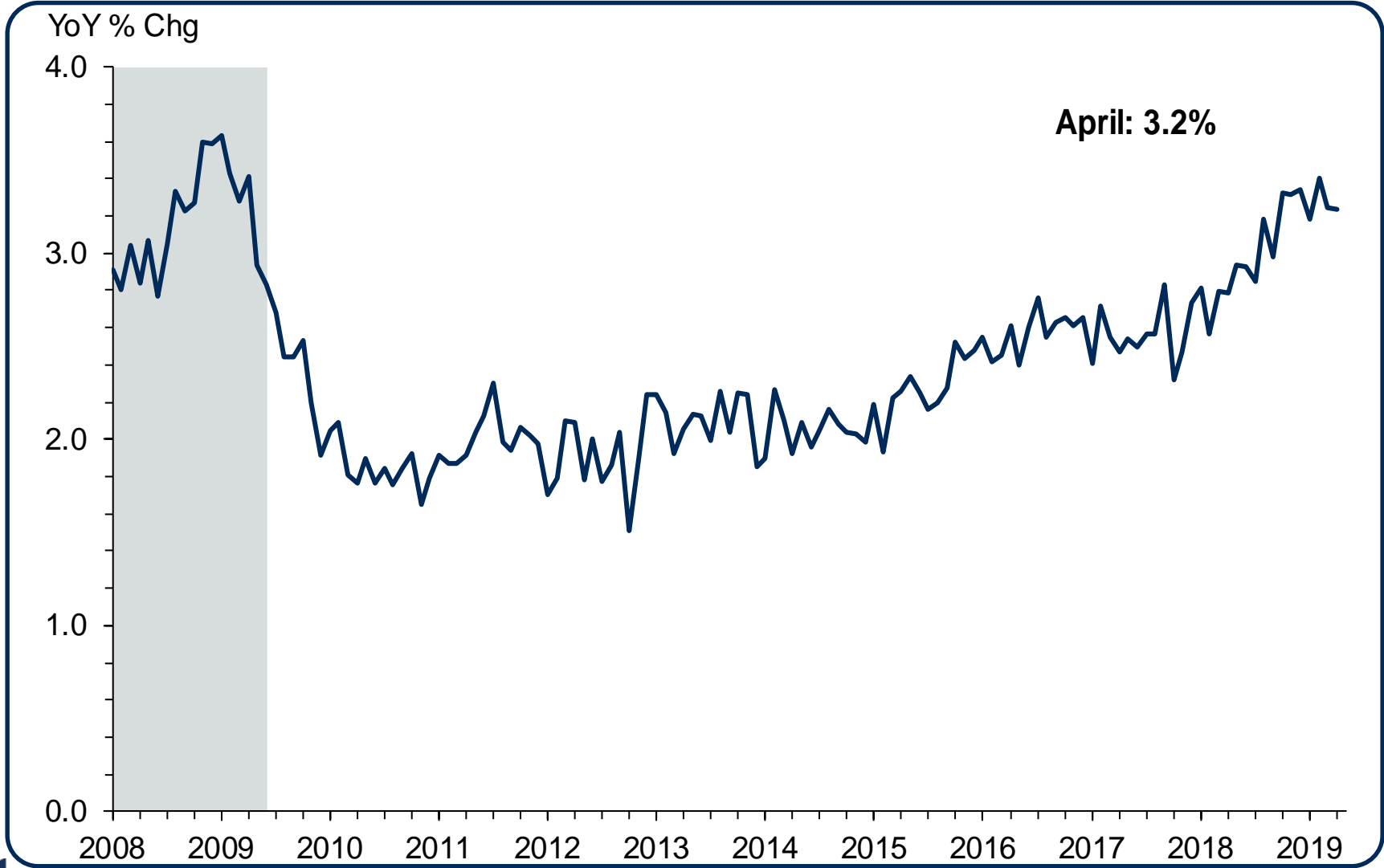


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Inequality in America

- Wage Inequality
 - *Wage: a fixed regular payment, typically paid on a daily or weekly basis, made by an employer to an employee.*
- Income Inequality
 - *Income: The amount of money or its equivalent received during a period of time in exchange for labor or services, from the sale of goods or property, or as profit from financial investments. This includes non-wage things such as investment income, child support, Social Security, worker's compensation, disability, etc.*
- Wealth Inequality
 - *Wealth: The value of all the assets of worth owned by a person. This includes money, real estate, jewelry, stock, etc.*

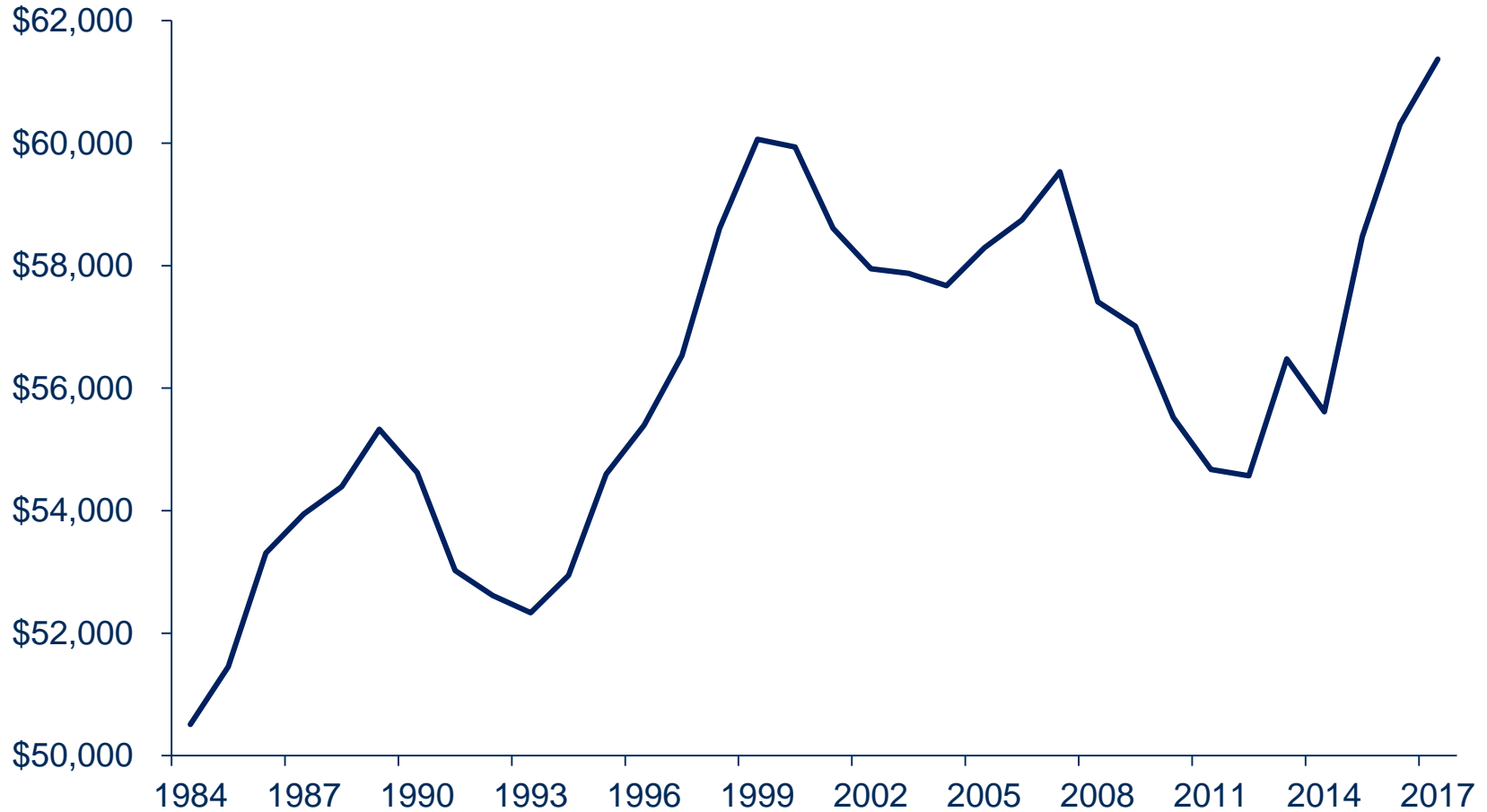
Wages are increasing



Source: Bureau of Labor Statistics/Haver Analytics

Incomes are increasing

Real Median Household Income, United States, 1984-2017



Source: Federal Reserve Bank of St. Louis

Inequality in America

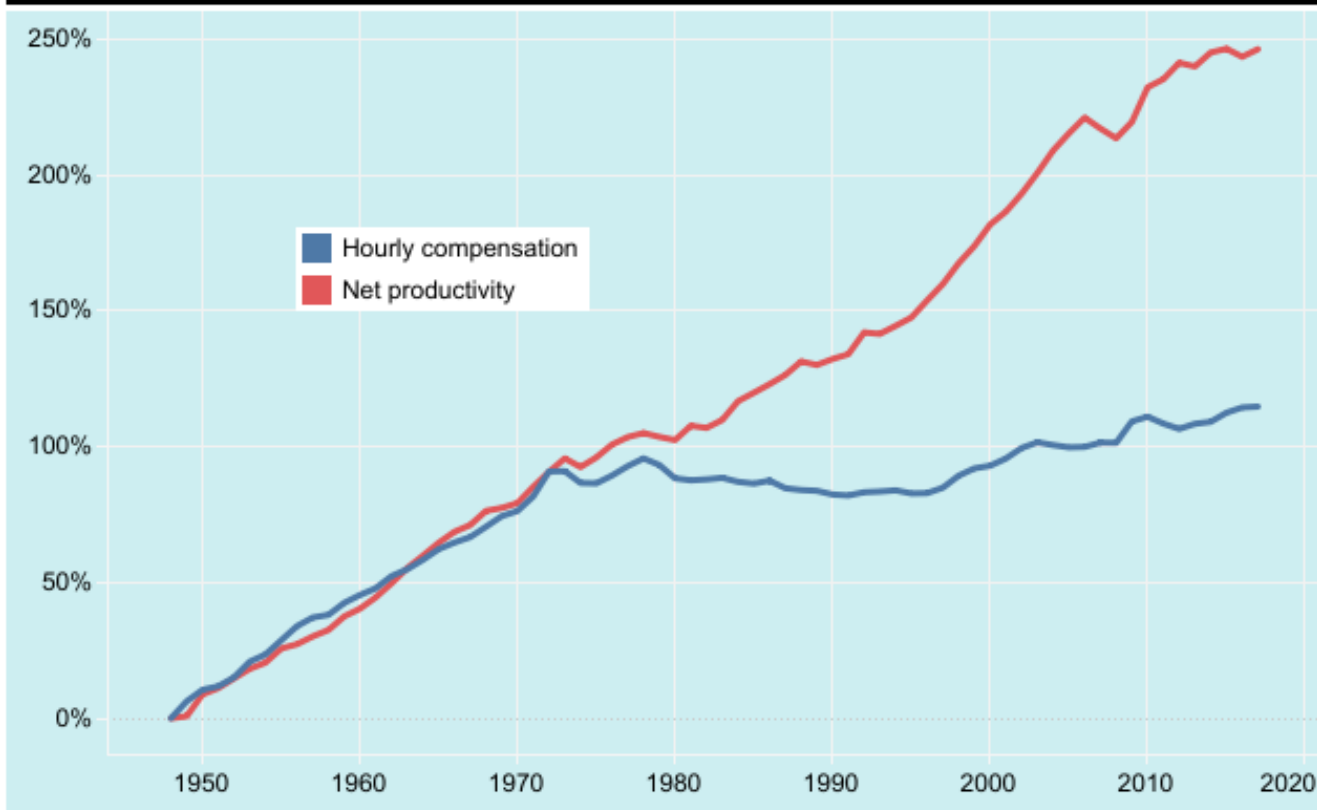
- As the economy is growing, and wages and incomes are rising, what is happening to inequality in America?
 - *Has it improved over time?*
 - *Wealth inequality may take longer to improve, but have wages become more equal during the economic expansion?*
 - *What are the long-term implications of wage, income and wealth inequality (gaps)?*

Wage Inequality

Wage Inequality

Worker Pay Has Not Kept Pace With Productivity Since the 1970s

U.S. productivity and average hourly compensation growth, 1948–2017



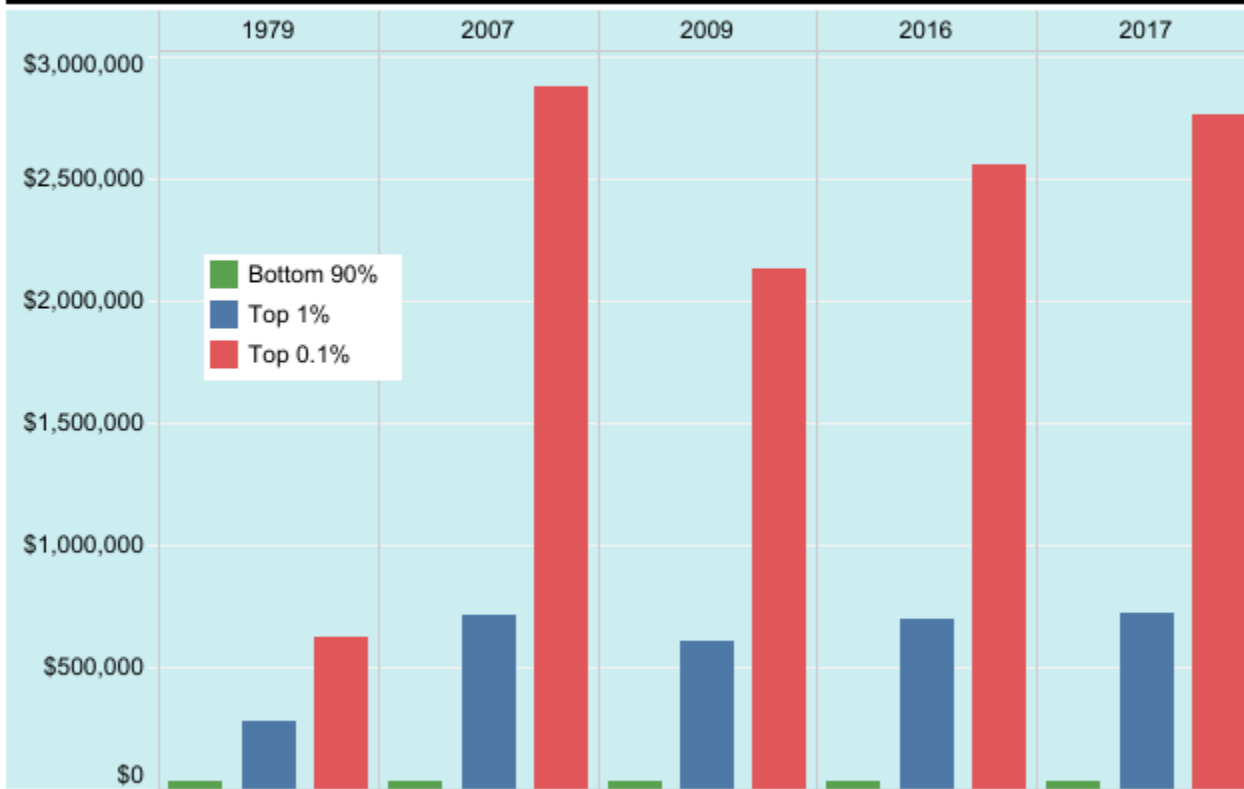
Source: Economic Policy Institute

Source: Institute for Policy Studies; inequality.org

Wage Inequality

Paychecks at the Top Have Spiked While Flatlining at the Bottom

Average annual wages in 2017 dollars



Source: Economic Policy Institute

Source: Institute for Policy Studies; inequality.org

Income Inequality



Income Inequality

- Gini Coefficient: statistical measure of distribution to gauge economic inequality.
 - Perfect income equality: $Gini\ Coefficient = 0$
 - Gini Coefficient ranges from 0 (perfect equality) to 1 (perfect inequality)
 - The higher the Gini Coefficient, the less equal the income.
 - U.S. incomes have become more unequal across all racial groups and as a whole.

Gini coefficients, by race and ethnicity

The Gini coefficient of income inequality, 1970 to 2016

	1970	1980	1990	2000	2010	2016
All	0.372	0.349	0.386	0.423	0.432	0.442
White	0.361	0.337	0.374	0.411	0.418	0.428
Black	0.406	0.396	0.415	0.438	0.442	0.446
Hispanic	0.373	0.367	0.395	0.419	0.420	0.425
Asian	0.353	0.344	0.387	0.430	0.435	0.451

Note: Whites, blacks and Asians include only non-Hispanics and are single-race only starting in 2000. Hispanics are of any race. Asians include Pacific Islanders. "All" includes all adults, including those who do not identify with one of the four racial and ethnic groups listed.

Income is adjusted for household size. See Methodology for details.

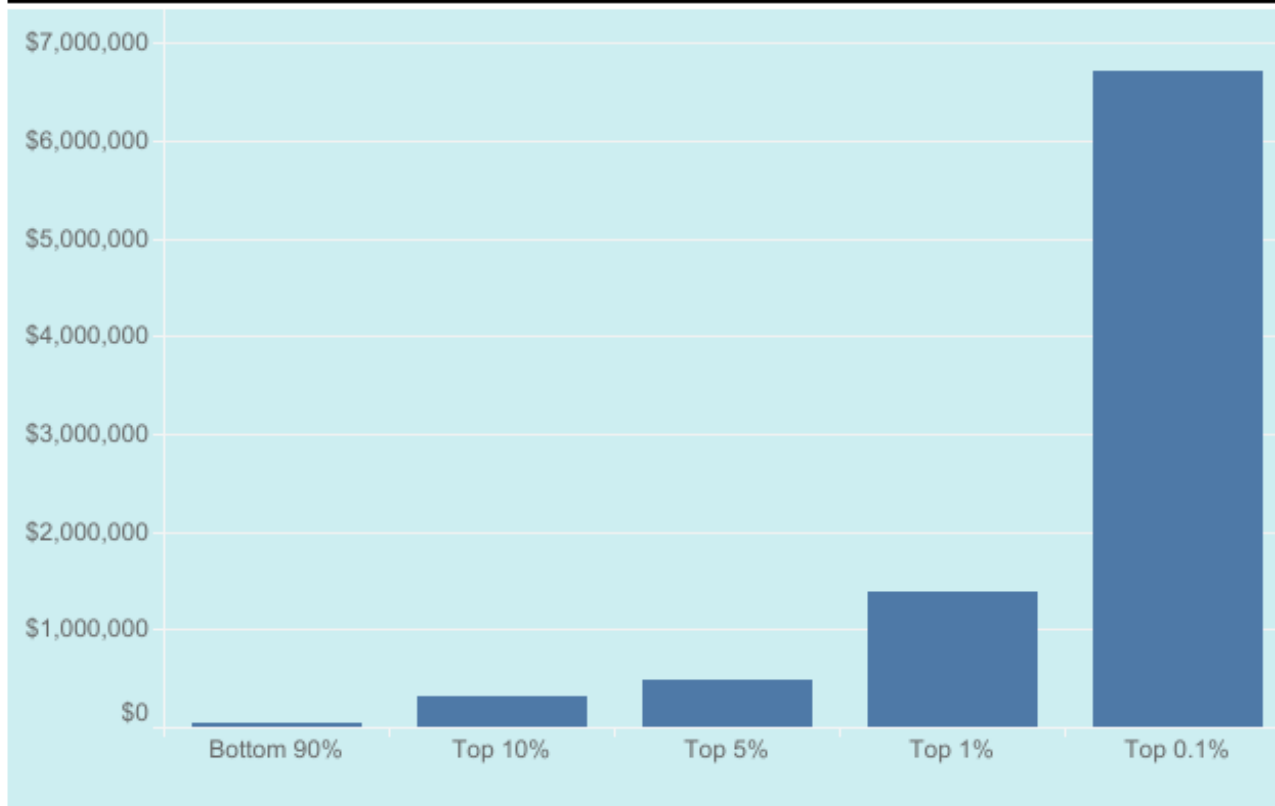
Source: Pew Research Center analysis of 1970, 1980, 1990 and 2000 decennial censuses and 2010 and 2016 American Community Survey (IPUMS).

"Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"

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Income Inequality

Richest 0.1% Take in 188 Times As Much as Bottom 90%
U.S. average income, 2017

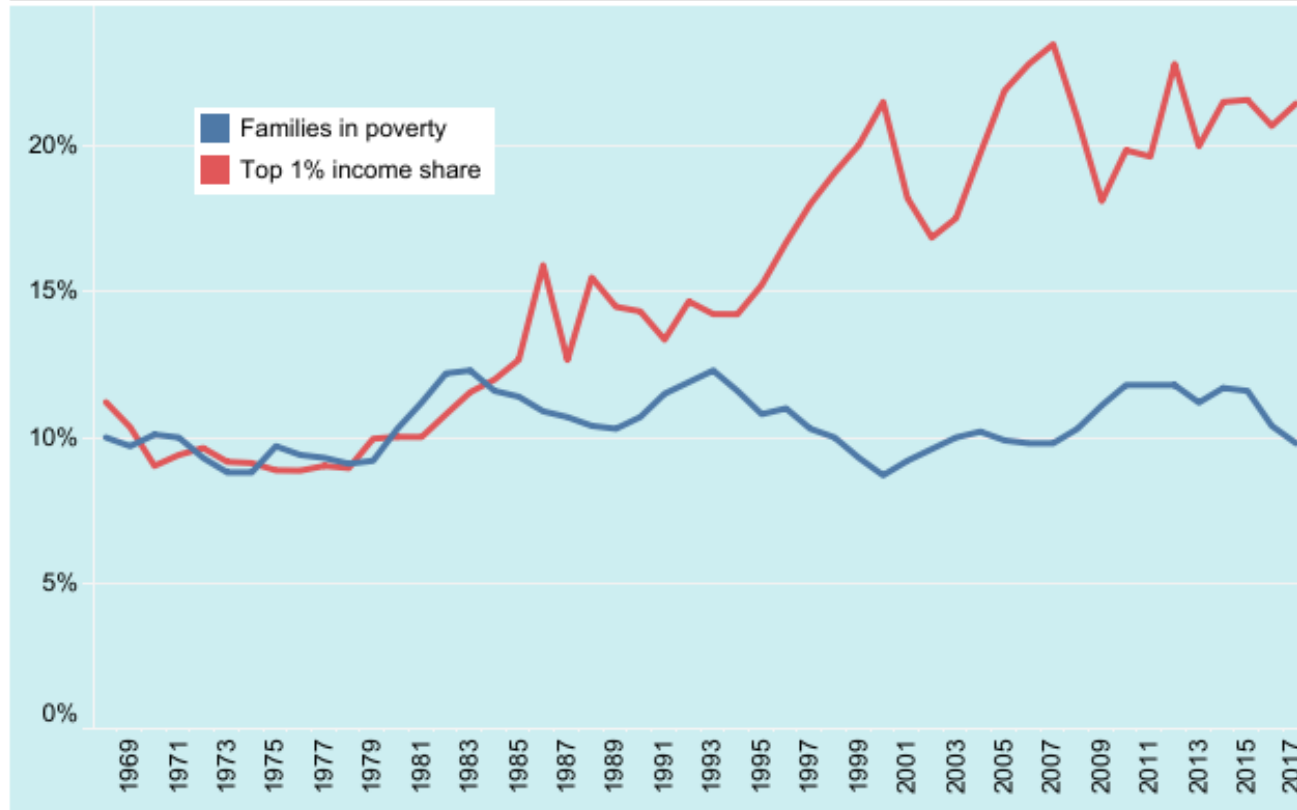


Source: Emmanuel Saez, UC Berkeley

Source: Institute for Policy Studies; inequality.org

Income Inequality

Top 1% Income Share Has Doubled While Poverty Has Held Steady
Richest 1% share of U.S. income and official U.S. poverty rate, 1968-2017








Source: Emmanuel Saez, UC Berkeley, and U.S. Census Bureau

Source: Institute for Policy Studies; inequality.org

Income Inequality

Who is 'middle income' and 'upper income' in 2016?

Minimum household income needed to qualify for middle- and upper-income categories, by family size

	1	2	3	4	5
					
UPPER INCOME	\$78,281	110,706	135,586	156,561	175,041
MIDDLE INCOME	\$26,093	36,902	45,195	52,187	58,347

Note: Household incomes are adjusted for the cost of living in a metropolitan area before assignment to an income tier in the area.

Source: Pew Research Center analysis of 2016 American Community Survey (IPUMS).

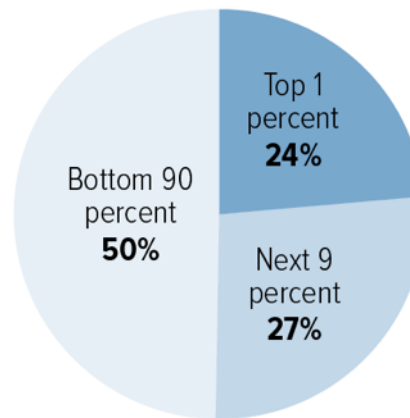
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Wealth Inequality

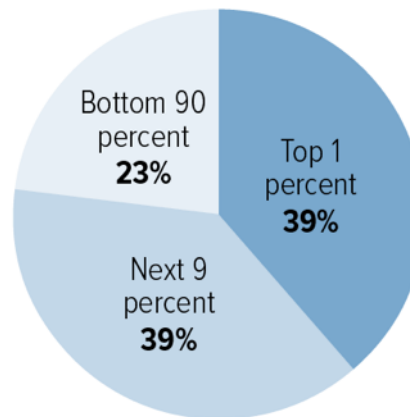
Wealth Inequality

Wealth Is Even More Concentrated Than Income

Distribution of before-tax income, 2016



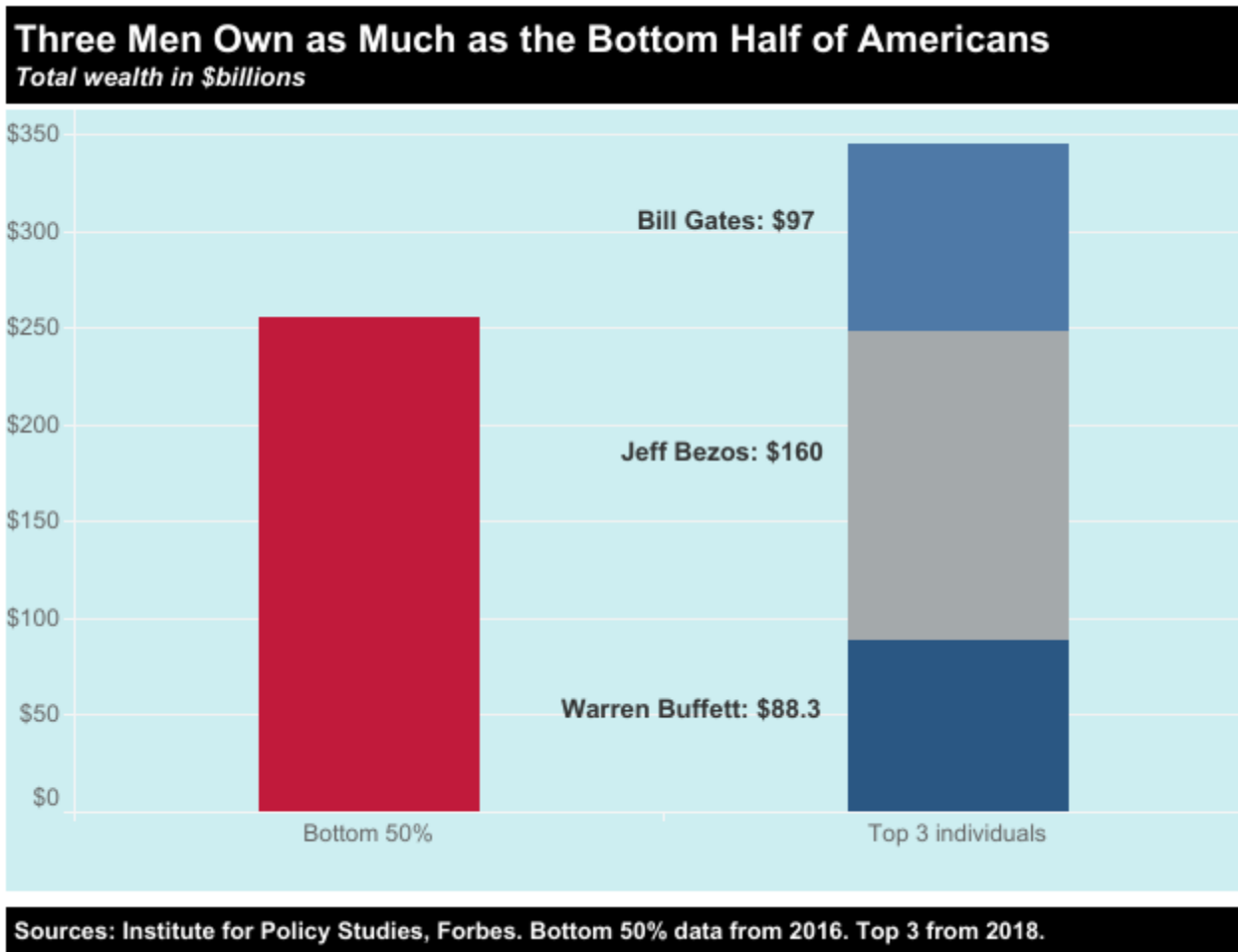
Distribution of wealth, 2016



Note: Percentages may not add to 100 percent due to rounding.

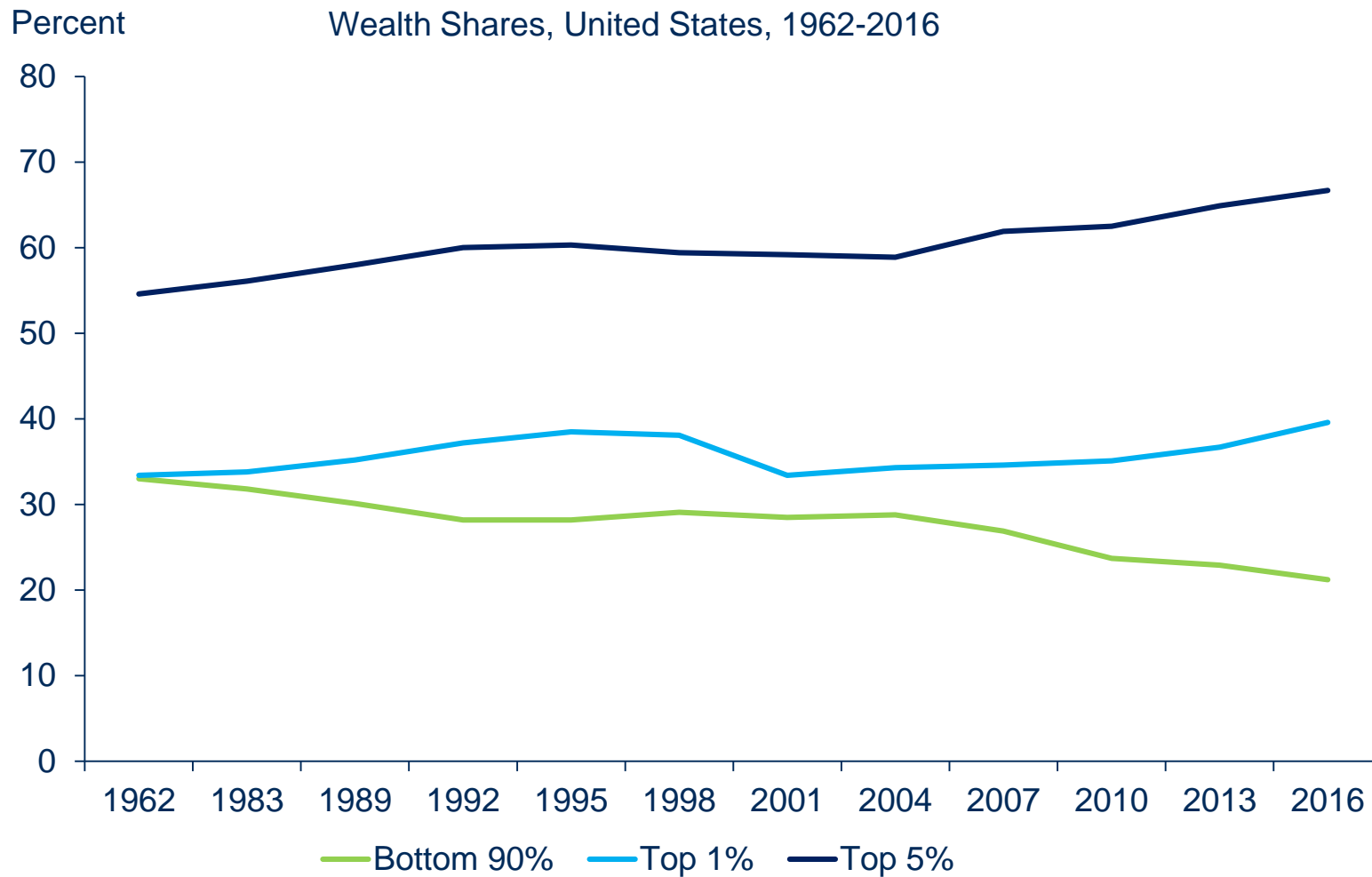
Source: Survey of Consumer Finances 2017

Wealth Inequality



Source: Institute for Policy Studies; inequality.org

Wealth Inequality



Some Components of the Gaps

- There are many reasons for wage, income and wealth gaps. This presentation will focus on just three:
 - Regional Patterns
 - Race Gaps
 - Gender Gaps

Regional Patterns

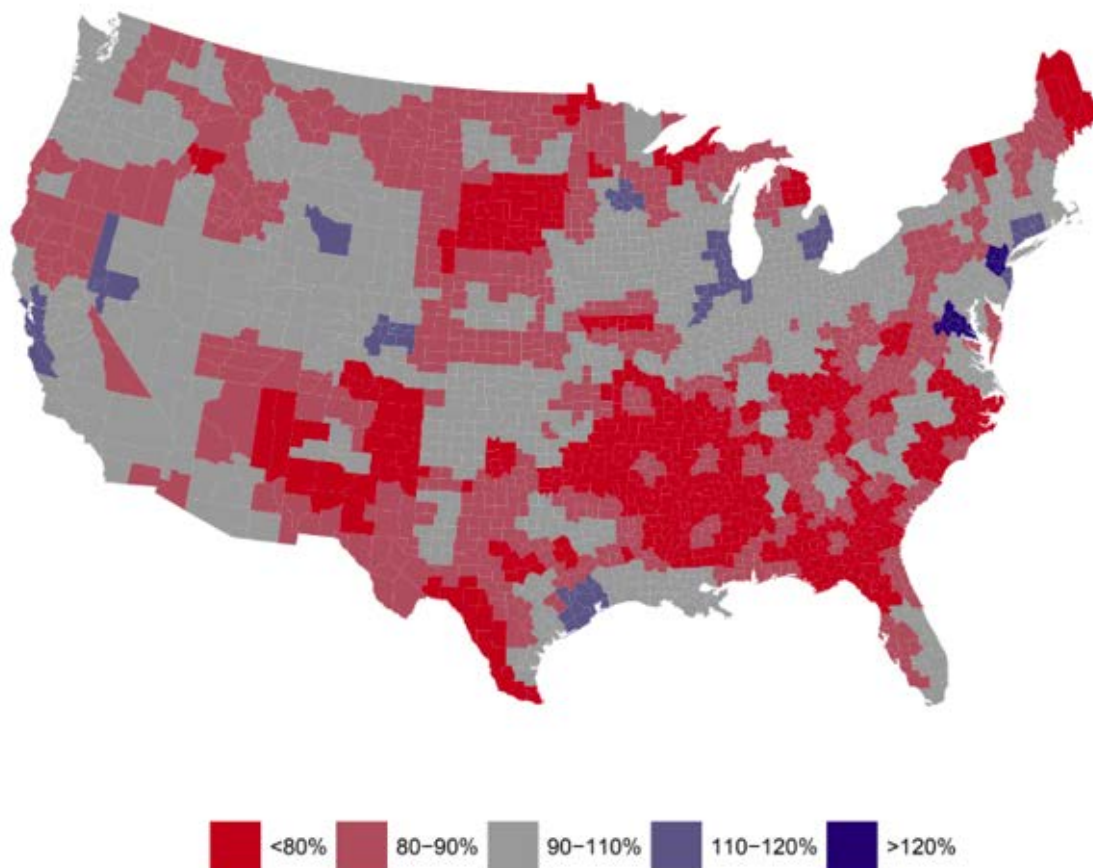


Recent Research – Regional Patterns

- Manduca (2019)
 - Incomes are diverging across the United States.
 - In 1980, less than 12 percent of the US population lived in metro areas that had mean family incomes that were more than 20 percent higher or lower than the national average.
 - By 2013, this had grown to over 30 percent, a near tripling in 32 years.
 - Regional divergence in income is primarily driven by the rise in income inequality.
 - If inequality remained constant between 1980 and 2013, income sorting would have resulted in 77 percent less divergence than what is observed.
 - If no income sorting occurred, the growth in income equality alone would have resulted in 53 percent of the observed income divergence.
 - Manduca asserts that “spatial inequality of any type can exacerbate itself.”

Recent Research – Regional Patterns

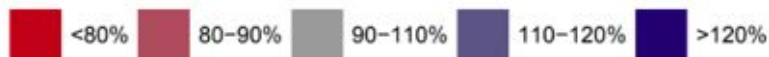
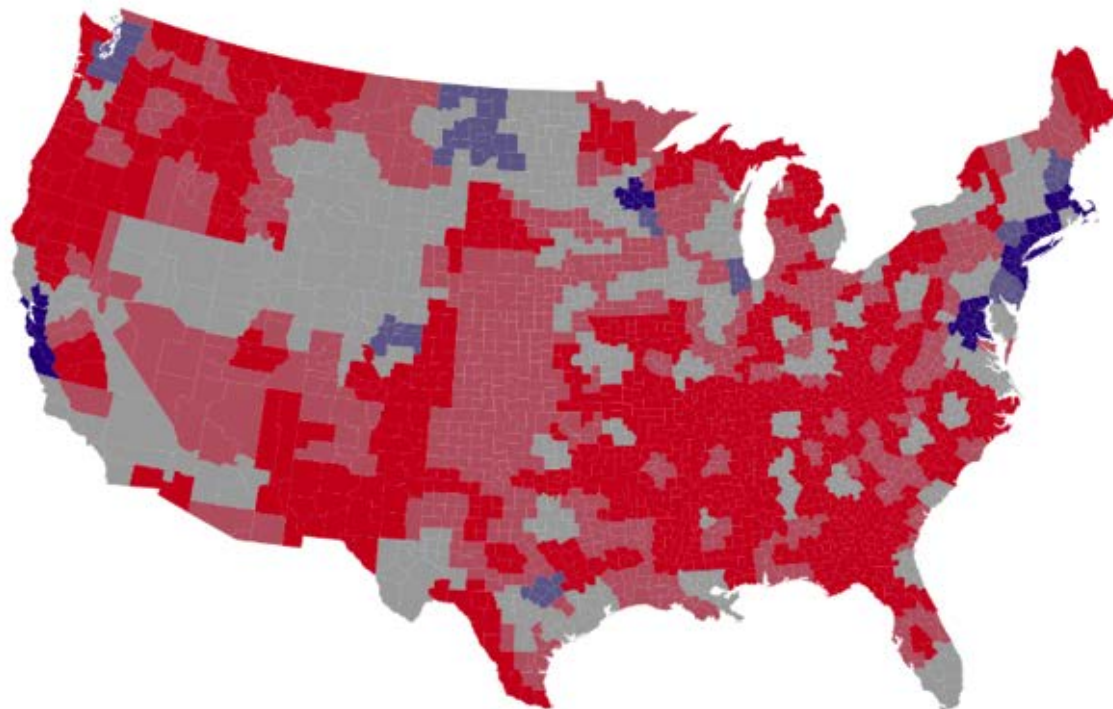
Commuting zone mean family income relative to the nation, 1980



Source: Manduca, *Social Forces*, 2019

Recent Research – Regional Patterns

Commuting zone mean family income relative to the nation, 2013



Source: Manduca, *Social Forces*, 2019

Recent Research – Regional Patterns

- Impact of regional wealth disparities:
 - People may have to move farther away from family and other resources for employment.
 - Some communities face declining populations and shrinking tax bases.
 - “Brain Drain”
 - Increased population density in other areas leads to issues such as
 - Longer commute times
 - Increased crime
 - Lack of affordable housing
 - Environmental degradation
 - Increased pressure on public services/amenities

Race Gaps

Recent Research – Race Gaps

- Some sobering facts:
 - For every \$100 earned by White families, Black families earn just \$57.30.
 - For every \$100 in White family wealth, Black families own just \$5.04.

Source: <https://www.nytimes.com/interactive/2017/09/18/upshot/black-white-wealth-gap-perceptions.html>.

- According to the most recent Federal Reserve Survey of Consumer Finances (2016), median net wealth was as follows:

- White families: \$171,000
- Black families: \$17,000
- Hispanic families: \$21,000

- The Forbes 400 richest Americans own more wealth than all Black households plus a quarter of Hispanic households.

Source: <https://www.forbes.com/sites/noahkirsch/2019/01/14/members-of-forbes-400-hold-more-wealth-than-all-us-black-families-combined-study-finds>

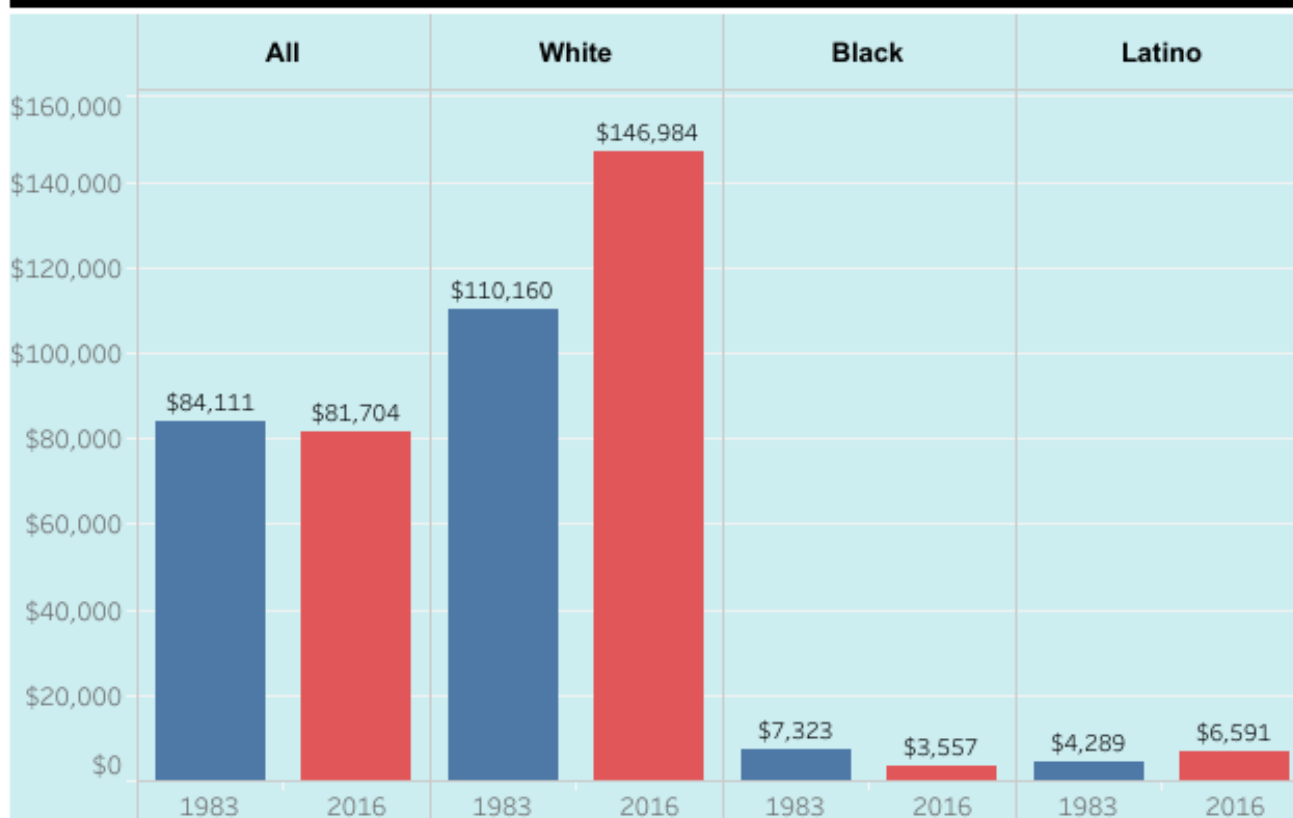
- Black families are 20 times more likely to have zero or negative wealth than they are to have over \$1 million in assets.

Source: <https://ips-dc.org/racial-wealth-divide-2019/>

Recent Research – Race Gaps

The Racial Wealth Divide Has Grown Over Three Decades

U.S. median wealth by race, 1983 and 2016

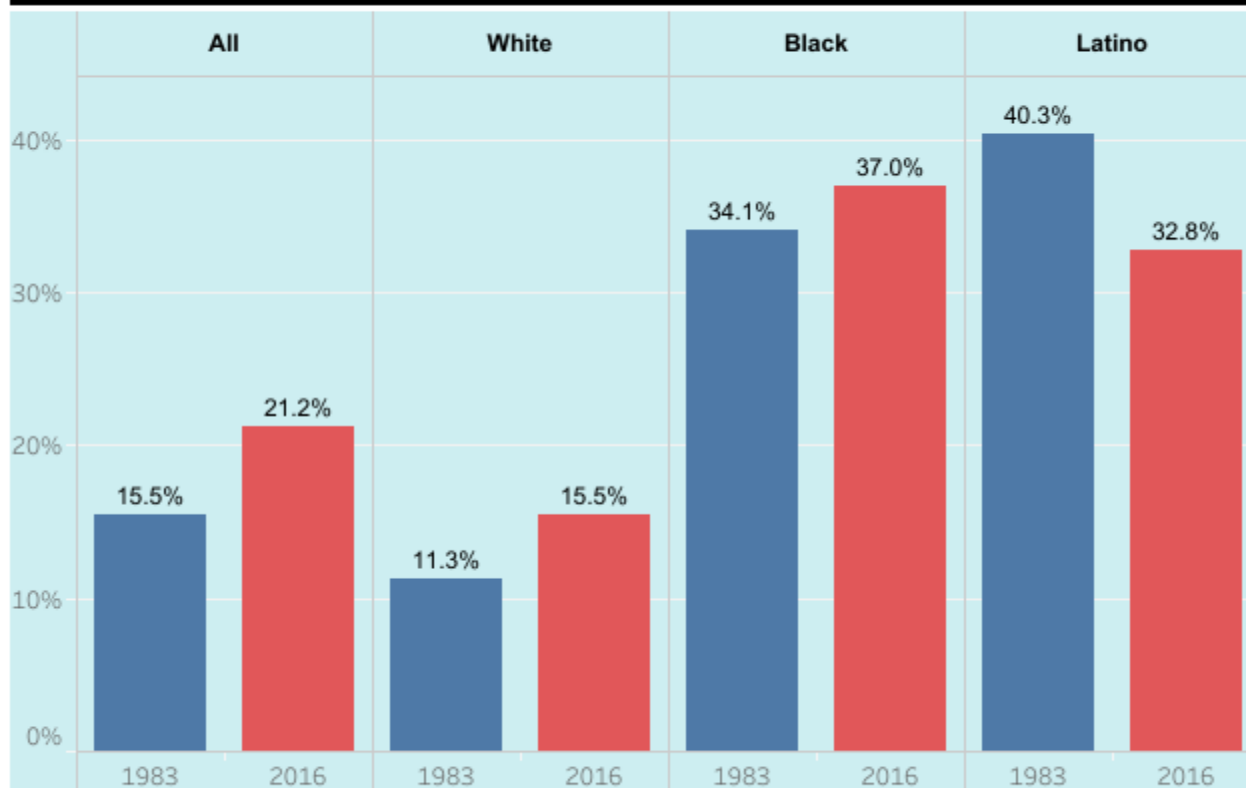


Source: Institute for Policy Studies

Recent Research – Race Gaps

Black & Latino Families are Twice as Likely to Have Zero Wealth

Proportion of U.S. families with zero or negative net worth

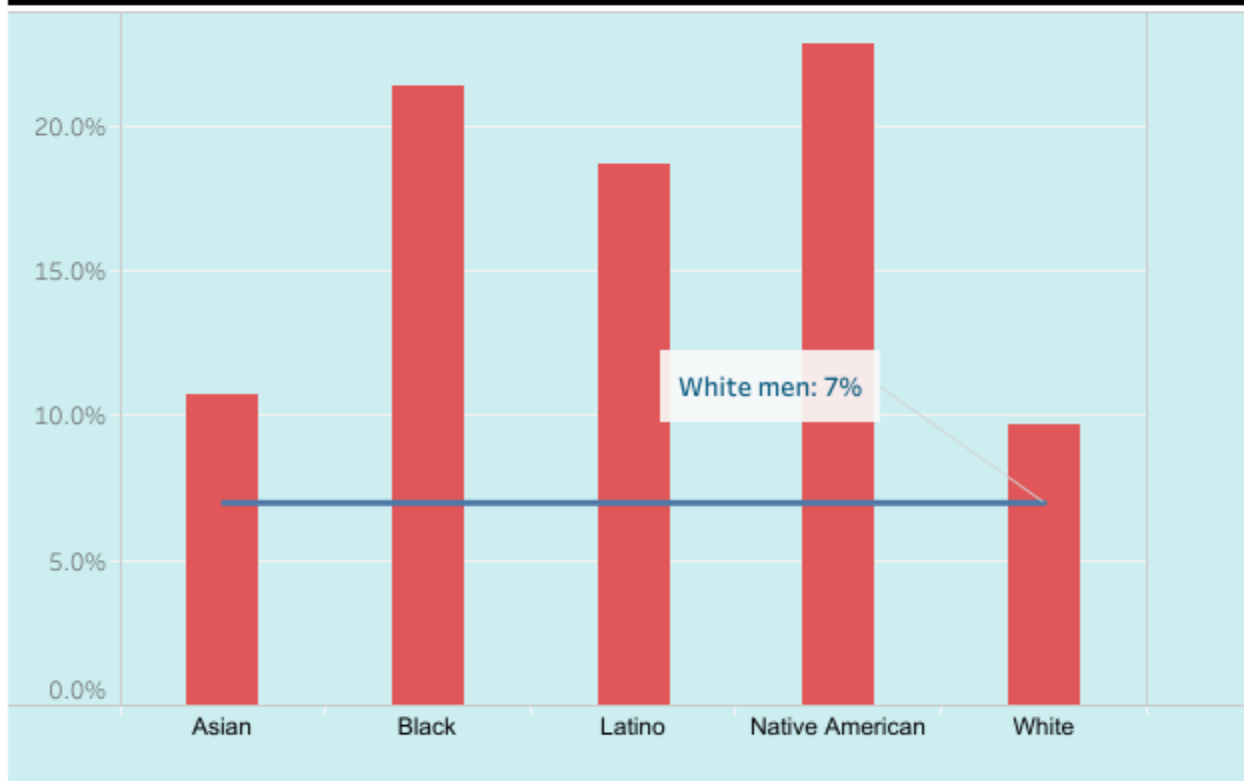


Source: Institute for Policy Studies

Recent Research – Race Gaps

Women of Color are Particularly Hard Hit by Poverty

Poverty rates for adult U.S. women, 2016



Source: National Women's Law Center

Source: Institute for Policy Studies; inequality.org

Recent Research – Race Gaps

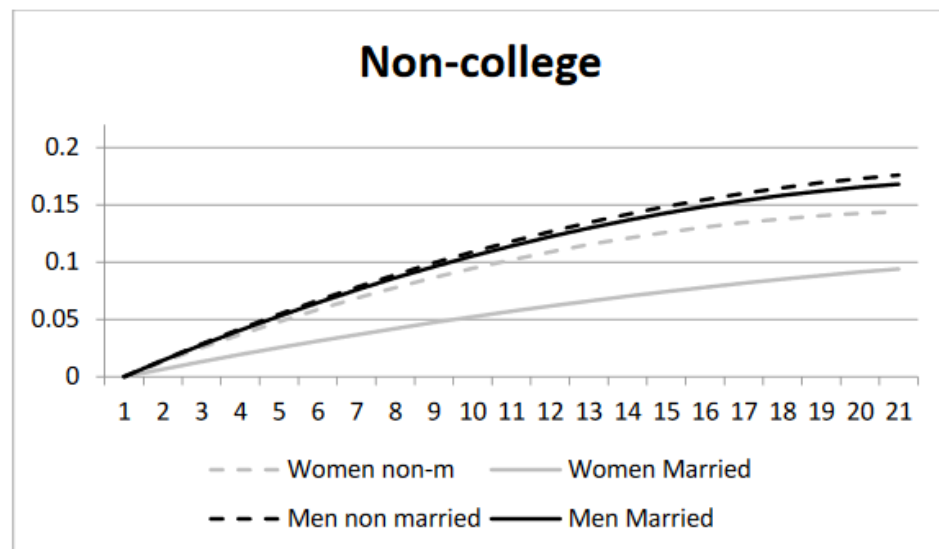
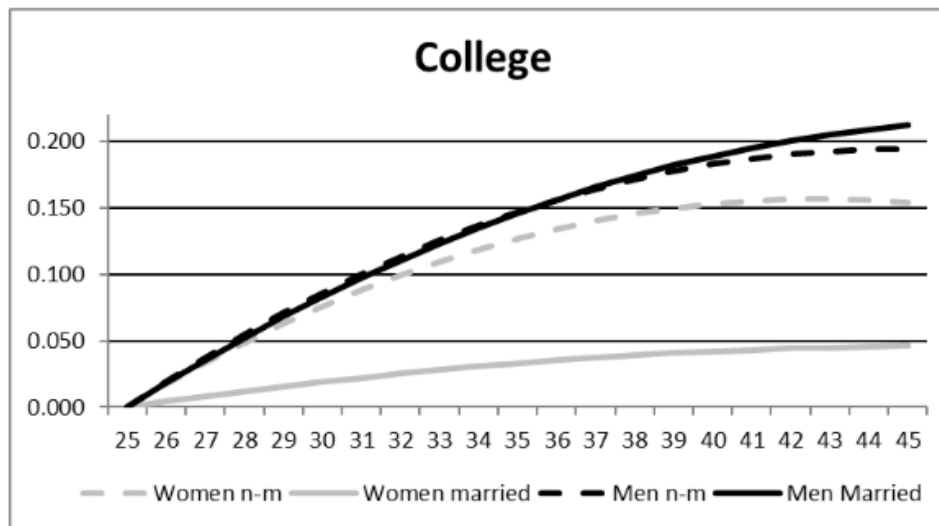
- Aliprantis and Carroll (Federal Reserve Bank of Cleveland, 2019)
 - Examine the persistence of the racial wealth gap
 - They conclude that the income gap is the primary driver of the wealth gap and is large enough to explain the persistent difference in wealth accumulation. Therefore, they expect that the wealth gap can/will close over time if the income gap closes.
- Oliver and Shapiro (2019)
 - There are many different causes of the race wealth gap
 - Discrimination
 - Segregation
 - Business practices (e.g. redlining)
 - Government policies
 - Inheritance
 - Four potential policy ideas:
 - Baby Bonds
 - Reducing Student Debt
 - Universal Basic Income
 - Federal Job Guarantee

Gender Gaps

Recent Research – Gender Gaps

- Barth, Kerr and Olivetti (2017, NBER Working Paper 2017)
 - At age 25, college educated women make 90 percent as much as college educated men.
 - By age 45, college educated women make 55 percent as much as men.
 - What is happening between age 25 and 45?
 - Marriage
 - Children
 - Men are more likely to switch jobs
 - Men are more likely to ask and receive promotions
 - Men receive larger raises on average
 - Women self-selected into jobs that require fewer work hours
 - The pay gaps are much more significant for married women. This is also true for non-college grads, but the gap is narrower.

Recent Research – Gender Gaps



Source: Barth, Kerr and Olivetti, NBER Working Paper 23381

Recent Research – Gender Gaps

- Blau and Kahn (2017)
 - The gender pay gap fell drastically between 1980 and 1989 and has continued to slowly narrow.
 - The gender wage gap at the top of the wage distribution has narrowed more slowly.
 - Current research continues to find a motherhood wage penalty for women and a marriage wage premium for men.
 - Much of the gap cannot be explained (Culture? Discrimination?)
- Brown, et al. (National Institute on Retirement Security, 2016)
 - There are many long term effects of the gender wage gap:
 - Women are 80 percent more likely than men to be living in poverty once they are over age 65. Women between ages 75 and 79 are three times more likely than men to be living in poverty.
 - Women who are widowed or divorced and over age 70 rely on Social Security for more than 50% of their income, on average.
 - This is exacerbated by the longer life expectancy of women (4.9 years longer than for men).

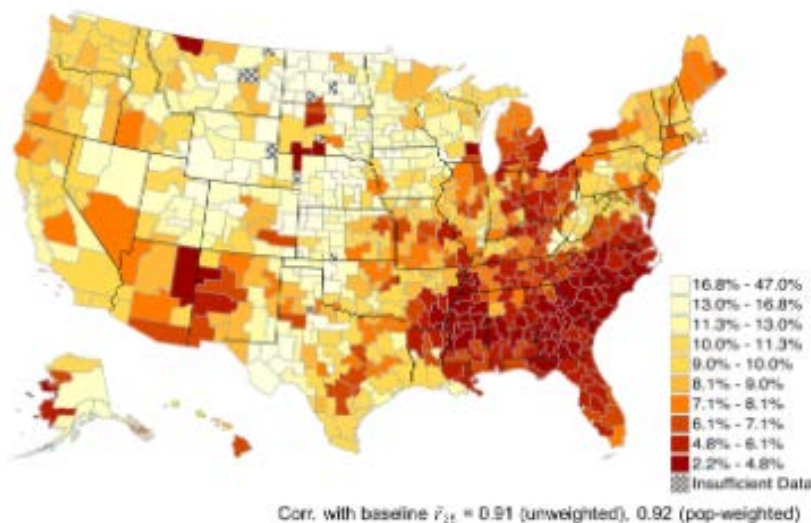
Lessons

- Wealth inequality is unlikely to improve without wage and income inequality improving first.
- What causes the wealth gap in one community may not be what causes it in another community.
- Wages, income and wealth are based on many factors that are determined long before someone begins working.
 - Family structure
 - Wealth at birth
 - Early childhood education
 - Educational attainment of parents and caregivers
 - Relative poverty
 - Intelligence and health

Lessons

- Geography seems to matter *a lot*, and the importance of geography may be growing due to existing gaps, regional trends, and physical mobility limitations.

B. Probability of Reaching Top Quintile from Bottom Quintile



Source: Chetty, et al.: http://www.equality-of-opportunity.org/assets/documents/mobility_geo.pdf



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.

