Income Inequality

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Facts

Income Inequality in the United States

Gaps in earnings between America's most affluent and the rest of the country continue to grow year after year.

In the United States, the income gap between the rich and everyone else has been growing markedly, by every major statistical measure, for more than 30 years.

Income Inequality

Wage Inequality

Racial Income Inequality

CEO-Worker Pay Gaps

Income Inequality

Income includes the revenue streams from wages, salaries, interest on a savings account, dividends from shares of stock, rent, and profits from selling something for more than you paid for it. Unlike wealth statistics, income figures do not include the value of homes, stock, or other possessions. Income inequality refers to the extent to which income is distributed in an uneven manner among a population.

Income disparities are so pronounced that America's top 10 percent now average more than nine times as much income as the bottom 90 percent, according to data analyzed by UC Berkeley economist Emmanuel Saez. Americans in the top 1 percent tower stunningly higher. They average over 39 times more income than the bottom 90 percent. But that gap pales in comparison to the divide between the nation's top 0.1 percent and everyone else. Americans at this lofty level are taking in over 196 times the income of the bottom 90 percent.

The U.S. income divide has not always been as vast as it is today. In response to the staggering inequality of the Gilded Age in the early 1900s, social movements and progressive policymakers fought successfully to level down the top through fair taxation and level up the bottom through increased unionization and other reforms. But beginning in the 1970s, these levelers started to erode and the country returned to extreme levels of inequality. According to data analyzed by UC Berkeley economist Emmanuel Saez, the ratio between the top 0.1 percent and the bottom 90 percent reached Gilded Age levels in the years preceding the 2008 financial crisis.

Over the past five decades, the top 1 percent of American earners have nearly doubled their share of national income, according to Saez's analysis. Meanwhile, the official poverty rate for all U.S. families from the Census Bureau has merely inched up and down. The official poverty rate understates the number of people in the world's richest country who have trouble making ends meet. An estimated 40 percent of the total U.S. population (140 million people) are either poor or low-income.

The nation's highest 0.01 percent and 0.1 percent of income-earners have seen their incomes rise much faster than the rest of the top 1 percent in recent decades. Both of these ultra-rich groups saw their incomes drop immediately after the financial crashes of 1929 and 2008, but they had a much swifter recovery after the more recent crisis. Income concentration today is as extreme as it was during the "Roaring Twenties."

The Congressional Budget Office defines before-tax income as “market income plus government transfers,” or, quite simply, how much income a person makes counting government social assistance. Analysts have a number of ways to define income. But they all tell the same story: The top 1 percent of U.S. earners take home a disproportionate amount of income compared to even the nation’s highest fifth of earners. CBO data indicate that the top 1 percent earns 93 times as much as the bottom 20 percent.

Since 1979, the before-tax incomes of the top 1 percent of America’s households have increased almost nearly seven times faster than bottom 20 percent incomes, according to CBO analysis.

The Congressional Budget Office defines after-tax income as “before-tax income minus federal taxes.” After taxes, incomes for the top 1 percent were already increasing faster than for other Americans, according to their most recent data. This gap will likely grow even wider as a result of the 2017 Republican tax cuts, which disproportionately benefit the wealthy. According to the Institute on Taxation and Economic Policy, the richest 1 percent of Americans were expected to receive 27 percent of the benefits of the tax cuts in 2020.

This pattern of the wealthy benefiting from the tax system in the United States is not restricted to the recent Trump tax cuts. The rich also benefit immensely from the tax code’s preferential treatment of income from investments. Currently, the top marginal tax rate for the richest Americans is 37 percent, while the top rate for long-term capital gains is just 20 percent. The higher the U.S. income group, IRS data show, the larger the share of income derived from investment profits. By contrast, Americans who are not among the ultra-rich get the vast majority of their income from wages and salaries.

Wage Inequality

Between 1979 and 2007, according to Economic Policy Institute research, paycheck income for those in the richest 1 percent and 0.1 percent exploded. The wage and salary income for these elite groups dipped after the 2008 financial crisis but recovered relatively quickly. Between 2009 and 2019, the bottom 90 percent had wage growth of just 8.7 percent, compared to 20.4 percent for the top 1 percent and 30.2 percent for the top 0.1 percent.

Productivity has increased at a relatively consistent rate since 1948. But the wages of American workers have not, since the 1970s, kept up with this rising productivity. Worker hourly compensation has essentially flat-lined, increasing just 17 percent from 1979 to 2019, while worker productivity has increased 72 percent over the same time period, as shown by Economic Policy Institute research.

One factor in the widening income divide is the decline of U.S. labor unions. As the share of the workforce represented by a union has declined to less than 11 percent since their peak in the 1940s and 1950s, those at the top of the income scale have increased their power to rig economic rules in their favor, further increasing income inequality.

Men make up an overwhelming majority of top earners across the U.S. economy, even though women now represent almost half of the country's workforce. According to analysis by Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, women comprise just 27 percent of the top 10 percent, and their share of higher income groups runs even smaller. Among the top 1 percent, women make up slightly less than 17 percent of workers, while at the top 0.1 percent level, they make up only 11 percent.

Since 1985, the average Wall Street bonus has increased 1,217 percent, from $13,970 to $184,000 in 2020. If the minimum wage had increased at that rate, it would be worth $44.12 today, instead of $7.25. The total bonus pool for 182,100 New York City-based Wall Street employees was $31.7 billion — enough to pay for more than 1 million jobs paying $15 per hour for a year. Because the very rich can squirrel away much of their income, huge Wall Street bonuses don't have nearly the stimulus effect as raising pay for low-wage workers who have to spend nearly every dollar they make. The sharp rise in Wall Street bonuses has also contributed to race and gender inequality, as detailed in our facts sections on those issues.

Racial Income Inequality

In 2019, Fortune 500 CEOs, who earned approximately $14.8 million on average, included just five Black people and 17 Latinx people — less than 5 percent of the total. By contrast, these groups made up 44.1 percent of the U.S. workers who would benefit from a raise in the federal minimum wage to $15 per hour by 2025, according to the Economic Policy Institute. Blacks and Latinos comprise 31.9 percent of the entire U.S. population.

One indicator of racial disparities at the top of the U.S. earnings scale is the threshold for entry into the top 10 percent. According to the Pew Research Center, for White families to make it into this tier of earners in their racial group, they need to have annual income of at least $117,986 — nearly twice as much as the threshold for Black families.

Racial discrimination in many forms, including in education, hiring, and pay practices, contributes to persistent earnings gaps. As of the second quarter of 2021, the median White worker made 27 percent more than the typical Black worker and around 30 percent more than the median Latinx worker, according to BLS data.

The Covid-19 pandemic drastically raised unemployment in America, but that impact has not been felt evenly across all racial groups, according to BLS data. In December 2020, as the recovery of the summer months started to fade, the unemployment rate was 9.9 percent for Blacks and 9.3 percent for Latinx, compared to 6.0 percent for Whites and 5.9 percent for Asians. These rates only count those who are actively seeking work, leaving out those who have given up finding a job.

CEO-Worker Pay Gaps

CEO pay has been a key driver of rising U.S. income inequality. Corporate executives head about two-thirds of America's richest 1 percent of households.

While ordinary workers struggled in the face of Covid-19, many corporate boards fixated on shielding their CEOs from pandemic risk. The Institute for Policy Studies annual Executive Excess report found that more than half of the 100 S&P 500 companies with the lowest median worker pay moved bonus goalposts or otherwise rigged rules to inflate CEO pay in 2020. Among these rule-rigging corporations, CEO compensation averaged $15.3 million, up 29 percent from 2019. Median worker pay ran $28,187 on average in 2020, 2 percent lower than the 2019 worker pay rate. The ratio between CEO and median worker pay averaged 830 to 1.

The crisis has fueled the country's skyrocketing inequality. Among the 100 largest low-wage employers in the country, average CEO pay jumped 15 percent in 2020 to $13.9 million while their global median pay flatlined, according to Institute for Policy Studies analysis. More than half of these 100 low-wage companies rigged their own rules to inflate CEO pay — protecting top executives' huge bonuses while their workers suffered during the pandemic.

With U.S. unions playing a smaller economic role, the gap between worker and CEO pay has exploded since the early 1990s. In 1980, the average big company CEO earned just 42 times as much as the average U.S. worker. In 2019, the CEO-worker pay gap was nearly six times larger than in 1980. According to the AFL-CIO, S&P 500 firm CEOs were paid 264 times as much as average U.S. workers in 2019. CEO pay averaged $14.8 million, compared to average worker pay of $41,442. During the 21st century, the annual gap between CEO pay and typical worker pay has averaged about 350 to 1.

Since 2018, publicly held U.S. corporations have been required to report the ratio between their CEO's compensation and the firm's median worker pay. According to our 2019 Executive Excess report, 50 companies reported pay gaps larger than 1,000 to 1 in 2018, including Walmart, McDonald's, and many other highly profitable corporations.

The CEO pay explosion, as shown in AFL-CIO analysis, contrasts sharply with trends at the bottom end of the U.S. wage scale. CEO pay is up 528.5 percent since 1992, while Congress has not passed a raise in the minimum wage for more than a decade. The federal minimum wage for restaurant servers and other tipped workers has been frozen at just $2.13 per hour since 1991. Twenty-four states have raised their tipped minimum, while retaining this two-tier system, and eight states have eliminated the subminimum tipped wage altogether. But in 18 states, the tipped minimum is still $2.13. While employers are technically supposed to make up the difference if workers don't earn enough in tips to reach the $7.25 federal minimum, this rule is largely unenforced.