Rising Inequality Not a Surge at the Top

Lane Kenworthy

In a brief reminder of what the data show, this sociologist demonstrates that incomes at the top have been growing no faster since 1980 than they did in earlier decades—and in some cases more slowly. Instead, greater inequality is a consequence of stagnation of incomes for middle- and lower-level families.

MANY READERS WILL LIKELY AGREE that the rise in income inequality is one of the most troubling developments in the United States over the past several decades. But why exactly is an increase in inequality of concern? That depends on the nature of the increase.

If a rise in inequality stems from falling or stagnant incomes for those at the bottom, the reason for worry is obvious. But suppose incomes increase for everyone and inequality rises because income growth is fastest among those at the top. Is this an objectionable development? One perspective is that as long as everyone's income is

***LANE KENWORTHY** is associate professor in the Department of Sociology, University of Arizona.*

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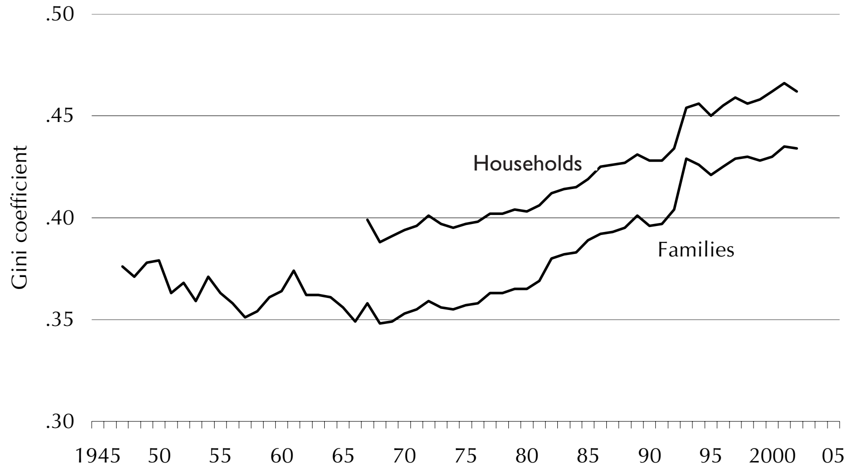
improving, the only motivation for objecting to the rich pulling further away is envy. On the other hand, this type of trend may generate growing frustration, leading to rising crime, withdrawal from civic engagement, and loss of social cohesion. It may also heighten the political influence of the wealthy.

Recently, commentators at various points along the political spectrum have suggested explicitly or implicitly that growing inequality in the United States is indeed characterized primarily by an acceleration of income growth for the rich. Conservative economist Martin Feldstein raised this point in a talk at a Federal Reserve conference on income inequality several years ago (www.nber.org/papers/w6770). Liberal economist Paul Krugman's "For Richer" piece in the *New York Times Magazine* in October 2002 emphasized the historical causes and contemporary consequences of massive increases in the incomes of the well-to-do. Kevin Phillips provides a similar discussion in his 2002 book *Wealth and Democracy* (Broadway Books). In academia there has been growing interest in "winner-take-all markets," in which being the best in a field yields an enormous payoff in income.

Figure 1 shows the trends in the overall degree of income inequality since the end of World War II. Following convention, inequality is measured here using the Gini coefficient, which varies between 0 and 1 with larger numbers indicating greater inequality. (The trends for households and families are virtually identical. In principle, households are the more sensible unit to examine, since "families" do not include adults who live alone, but the Census Bureau began collecting data on households only in the mid-1960s.) Inequality decreased in fits and starts between the late 1940s and the early 1970s, but it has increased fairly steadily since then. However, this chart offers no clues as to where in the distribution the rise in inequality occurred. Did incomes accelerate at the top? Did they stagnate or fall at the bottom? Both? Something else?

Figure 2 offers more insight. It shows trends in the inflation-adjusted incomes of families at the 20th, 40th, 60th, 80th, and 95th percentiles of the income distribution. Between the late 1940s and the mid-1970s, incomes increased rapidly at each of these points

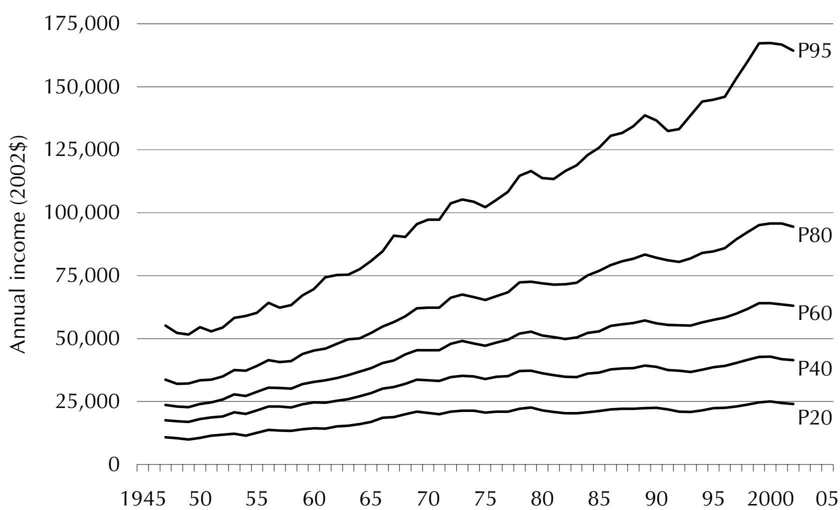
Figure 1. Trends in Overall Income Inequality in the United States



Source: Census Bureau, www.census.gov/hhes/income/histinc/f04.html (families), www.census.gov/hhes/income/histinc/h04.html (households) (accessed April 21, 2004).

Note: Pretax income.

Figure 2. Income Trends at Various Points in the Income Distribution



Source: Census Bureau, www.census.gov/hhes/income/histinc/f01.html (accessed April 21, 2004).

Note: Families. Pretax income.

in the distribution. And the rate of growth was approximately the same for each—real incomes doubled for each group during this period. Since the mid-1970s, by contrast, income trends have varied considerably. At the top, incomes have increased fairly rapidly. At the upper-middle levels (the 80th and 60th percentiles), they have increased somewhat rapidly. In the bottom half of the distribution (the 40th and 20th percentiles), they have been relatively stagnant. At the 20th percentile, family income grew at an average rate of 2.3 percent per year between 1947 and 1979, but just 0.4 percent per year from 1979 to 2000.

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As the data clearly indicate, what distinguishes the period of rising inequality from the earlier era is the stagnation of incomes at the bottom. Although incomes at the 95th percentile increased in the 1980s and 1990s, there was no acceleration in the rate of growth compared to earlier years. Indeed, the average growth rate of family income at the 95th percentile was 1.6 percent per year between 1979 and 2000, compared to 2.3 percent per year between 1947 and 1979. There was a brief period of rapid increase in the latter half of the 1990s, but this merely helped to make up for a drop during the early 1990s recession. Overall, the growth rate of incomes at the top was no greater in the 1990s than in the 1980s, the 1970s, or any other of the preceding decades.

Another way to assess the nature of the rise in inequality is to consider the poverty rate. If the poverty rate goes down even though inequality is going up, then the rise in inequality is perhaps less worrisome. But after dropping by half between 1959 and 1973, from 22 percent to 11 percent, the poverty rate has scarcely budged in three decades. In 2002 it was 12 percent.

Part of the recent focus on the incomes of the rich is no doubt due to the experience of the mid-to-late 1990s, when incomes at the bottom did rise, but incomes at the top rose more rapidly. However, the recession appears to have brought this trend to at least a temporary halt.

I do not mean to downplay the importance of the escalation of incomes for the very richest Americans. *Fortune* magazine reports, for instance, that in 1996 the highest-paid American CEO made $20 million; his counterpart in 2001 took home $706 million ("System Failure," June 24, 2002). That is a truly colossal increase. These extremely high incomes are not depicted in Figure 2, as the Census Bureau does not have reliable over-time data on the incomes of those at the very top. Empirical questions about the societal effects of this development and normative questions about how we should assess it are well worth raising. But in the course of doing so, we ought not forget that rising inequality in the United States over the past few decades is chiefly a function of stagnant incomes in the bottom half of the distribution.