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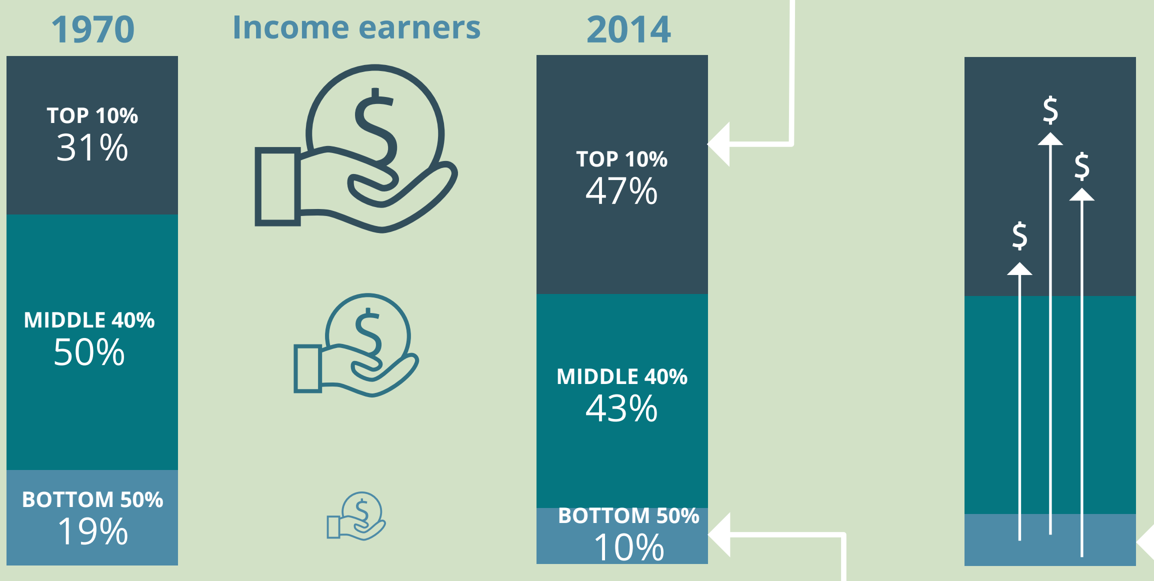
Issues by the Numbers, July 2017

INCOME INEQUALITY IN THE UNITED STATES

THE DISTRIBUTION OF INCOME IN THE UNITED STATES IS HIGHLY LOPSIDED.

The rich are getting richer.

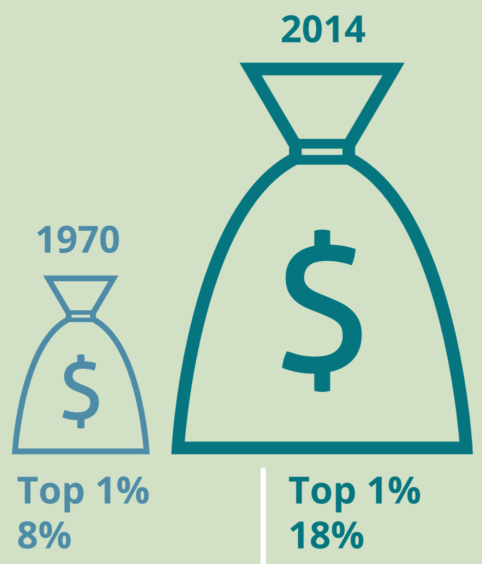
In 2014, the **top 10%** of income earners **took home** almost **50%** of the total income, a 52% increase from 1970.



Percentages refer to share of total income earned.
Source: World Income and Wealth Database.

The **greater part of the increase** in the top 10 percent's share of total yearly income **came from the bottom half** of the income distribution.

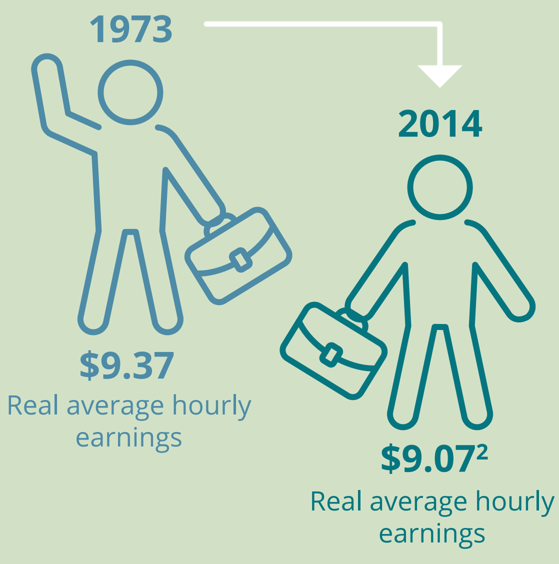
With the top and middle earners taking 90% of total income, that left just **10% to be divided** up by the **bottom 50%** of income earners.[1]



The **top 1% of earners** took home nearly **one-fifth of ALL income earned** in 2014 . . . up 125% from 1970.

Percentages refer to share of total income earned.
Source: World Income and Wealth Database.

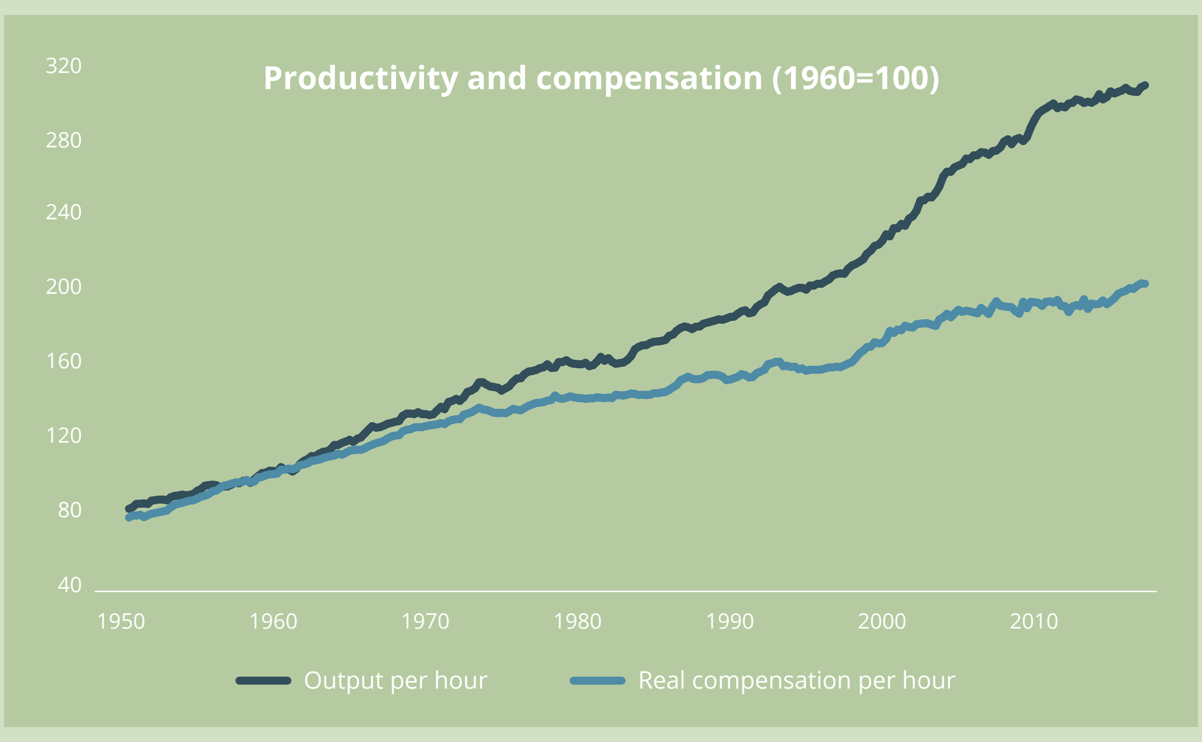
Meanwhile, real wages for the median American worker have not risen since 1973.



Even the moderately affluent have reason to feel that they are falling behind.

- In **1980**, income earners in the **top 95th percentile made 1.6 times more** than earners at the 80th percentile
- By **2014**, 95th-percentile earners were making **almost 1.8 times more** than earners at the 80th percentile[3]

The average worker produces **three times** as much value per hour today as in 1960, but **real pay has only doubled** during that time.



Source: Bureau of Labor Statistics; Macrobond.

WHY IS THIS HAPPENING?[5]

Possible explanations for the declining share of the bottom 50%.

Technological change
Advances in technology have **replaced relatively unskilled workers** while rewarding higher-skilled workers.[6]

Globalization
The entry of China and other low-wage geographies into the global labor pool made **lower-skilled US workers less competitive.**[7]

Decline of political power of the working class
The **lessening political influence** of working class voters (demonstrated by the fall in unionization).

Possible explanations for the increasing share of the top 1%.

Rent-seeking
People in corporate leadership positions and the financial sector **have captured a larger share of income** through changes in the social, political and legal framework.

Occupations of top income earners
Percent of total in that income class

Executives, managers, supervisors (non-finance)	43%
Financial professions, including management	18%
Arts, media, sports	3%

Source: Jon Bakija and Bradley T. Heim, "Jobs and income growth of top earners and the causes of changing income inequality: Evidence from US tax return data," working paper, 2009.

The superstar phenomenon
The ease of modern communication and transportation **has allowed the most talented individuals to market more widely** and therefore earn more for their talents.

ENDNOTES
1. World Income and Wealth Database.
2. Among nonsupervisory workers.
3. US Census Bureau.
4. J. S. Duesenberry, *Income, Saving and the Theory of Consumer Behavior* (Cambridge: Harvard University Press, 1949).
5. The views expressed here are those of independent economists and political scientists and do not necessarily reflect the views of the Deloitte US Firms.
6. Bureau of Labor Statistics.
7. US Census Bureau, Bureau of Labor Statistics.
8. Bureau of Labor Statistics.

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