Is the Inequality in the Unites States Income Distribution Surging?

Inequality in income distribution in the US is increasing, which is evidenced by statistical data, as well as numerous articles and speeches in popular press. Still, it is rather difficult to measure income inequality precisely due to the influence of many factors and the use of different approaches to assessing the level of income. Therefore, the understanding of the income gap problem, as well as its size and impact, differs.

For instance, Cypher claims that inequality in income distribution in the US has been growing for the past 30 years and is even bigger than it seems to be. If in 1950-1980 the States were believed to be a “classless society”, today, the gap increases. As of 2003, 80 % of households got only 40 % of the total income, while the number of millionaire households grew (e.g. from 7.1 million in 1999 to 8.9 million in 2005) (Bonello & Lobo, 2010, pp. 351-354; Garrett, 2010). Such situation is caused by the desire and opportunity “to garner a larger share of the nation’s income”. For example, globalization and overseas activities enabled corporate owners to raise their incomes (Bonello & Lobo, 2010, p. 353; Monkerud, 2009), increasing the income inequality. Additionally, while labor productivity almost doubled during 1972-2005, real hourly wage fell and the “Wage and Salary” share in the GDP shrank to 45.4 % in 2006 from about 52 % in 1972 (Bonello & Lobo, 2010, p. 355; Wolff, 2010).

Also, 80 % of households dissave, spending more than they earn. Therefore, according to the neoliberal theory, investments of the rich are extremely important for the economy. However, Cypher stresses that these investments are not productive, as they are not spent for technology, equipment, etc. Instead, they are “poured into high-risk hedge funds”, generating 40 % to 50 % of the NYSE trade and accounting for a large part of credit and debt markets, both foreign and domestic (Bonello & Lobo, 2010, pp. 356-357). Additionally, the rich are likely to spend their wealth on hotels, resorts, jewelry, watches, etc. (Kostigen, 2006). Therefore, the use of personal wealth, especially owned by the top 1 % of households and constituting 22 % of the national income (Monkerud, 2009), requires special attention. That is why the use of personal wealth can be a matter of both right and wrong, depending on how this wealth is spent. For instance, effective spending of the “big money” can add to overall wealth and welfare.

Meanwhile, although the income inequality increases, Furchtgott-Roth points to the fact that the official Gini coefficient is overestimated by 5 percentage points and remains relatively stable since 1986, accounting for about 0.4. Herewith, the author stresses the impact of taxes, transfers, and spending power of dollar, as well as demographic changes and households’ structure, on the income distribution (Bonello & Lobo, 2010, pp. 359-360; Garrett, 2010). Also, education is viewed as an important factor of income distribution, as it is likely to increase workers’ income (Bonello & Lobo, 2010, pp. 362-364). Additionally, Furchtgott-Roth considers consumption inequality. For example, the spending gap between the lowest quintile and the top quintile was quite big regarding health costs, food, insurance, pension, transportation, and entertainment. As of 2006, the bottom quintile spent $12,006 per person, while the top quintile spent $30,371. Still, only 17 % of the top quintile households owned homes, while 30 % of the bottom quintile households were free of mortgages, which means that some of them are not truly poor (Bonello & Lobo, 2010, pp. 361-362).

Herewith, the Tax Reform Act of 1986, which decreased the top income rate from 50 % to 28 % and increased the capital gains tax, made the individual tax rate more favorable to small businesses. This, in turn, led to increase in income inequality during 1986-1988, which is evidenced by the Piketty-Saez study. However, these estimates did not consider the tax change and transfer payments effect. Therefore, an increase of 1.7 percentage points in the top 1 % share during 1988-2003 was no increase (as cited in Bonello & Lobo, 2010, pp. 361-362). This shows that the income inequality growth is not so dangerous, which partly conflicts with Cypher’s assessment indicating a huge increase in the income gap.

References

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