Wealth and Income

Money can’t buy happiness, but it can make you awfully comfortable while you’re being miserable.

Clare Boothe Luce
Procrustes, a giant of Greek mythology, had the bizarre habit of altering the stature of his houseguests to fit the length of the available bed by either stretching them or chopping inches off their legs. In the next few pages, we apply Procrustes’ approach to the study of income. We have put together an imaginary parade in which the heights of the marchers are made proportional to their incomes. The parade is a convenient way of gaining an overview of the distribution of income, our first concern in this chapter. Later in this chapter we will consider the distribution of wealth and the growing inequality in the distribution of wealth and income.1

Income can be defined as monetary gain over a specified period of time—for example, $50,000 per year or $3,000 per month. (It should be distinguished from wealth, which is recorded at a point in time, such as $500,000 on January 1, 2019.) Job earnings, which we examined in the last chapter, are one source of income, but as we will see, there are other important sources of household income.

The Income Parade

The procession is organized as follows: All the 126 million households counted by the Census Bureau will be represented in the parade. In good Procrustean fashion, the marchers will be stretched or trimmed in proportion to their households’ total income. Those representing households with the average annual income ($79,000) will be of average height. By this standard, a marcher representing a $140,000 household would be about 10 feet tall. A marcher from a $40,000 household would be close to 3 feet tall.

Because we want a quick impression of the distribution of income, we make the entire procession pass by our reviewing stand at a uniform pace, in exactly 1 hour. This will be rough on the marchers, but it has a particular advantage for us. At any moment, we are able to tell how much of the parade has gone by and how much is to come just by looking at our watches. Let’s begin the parade with the shortest marchers, the income pygmies, and work up to the towering goliaths. (For an overview of the parade, see Figure 4.1.)

The procession opens on an odd note. In the first few seconds, we see nothing except a few wisps of hair moving across the horizon. It seems that the leaders of the parade are marching in a deep ditch. They do not appear above ground because they are business owners or investors who have suffered net income losses. Given the customary high failure rate of small businesses and periodic downturns in the stock and real estate markets, we should not be surprised at this sight, however peculiar.

Five Minutes: Poor. Next, we see people the size of a match or a cigarette. Five minutes into the parade, the marchers are Tiny people, a little over 1 foot tall; they survive on $15,000 a year. All who have gone by so far (and

---

1 The income parade is based on pretax money income and draws on household income statistics from the Census Bureau’s Current Population Survey for 2015; the Census Bureau’s measures of household “well-being” at www.census.gov/hhes/well-being/, Internal Revenue Service income tax return statistics at www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax-Return-Form-1040-Statistics; the Labor Department’s Consumer Expenditures survey at www.bls.gov/cex/tables.htm. We have also used Rose 2014.
Poor
Marginal
2½' ($35,000) Single-earner.
Low-skill jobs. Often female head.
Mostly white, but many minority families.

Lower Mainstream
Median Income
4' ($56,500)
Mostly 2-earner. Mix of high-wage blue-collar, lower professional and managerial. White and minority families.

Upper Mainstream
Average (mean) Income
10' ($79,000)
Two earners. Professional, management, few minority or female heads.

Out of Sight Rich
Over income ($500,000)
Income mainly from assets.

Way Out of Sight Rich
"BIG TOES"
Over 100' ($2 million+)

Working Rich
40' ($500,000)
Successful lawyers, doctors, executives, etc.

Beyond the Mainstream
10' ($40,000)
Two ears, lower professional and managerial. White and minority families.

Marginal
Low-skill, usually female-headed. Mostly white, but many minority families.

2½' ($35,000) Single-earner.

Poor
many who are to come) are “poor” by the federal government’s official poverty standard. Daily life at this level can be precarious, especially for younger families. Many households report difficulty meeting their basic needs. They fall behind on bills, are unable to see a doctor or dentist when needed, and can’t always put enough food on the table. They may live in fear of eviction.

There is a notable overrepresentation of women among the Tiny People. Many are female heads of families. Others are women living alone, often elderly. Many of the marchers at this early point in the parade receive part of their income from government transfer programs, such as Social Security, the Earned Income Tax Credit (EITC), disability payments, veterans benefits, or public assistance. (The EITC is a generous feature of the tax code designed to bolster the incomes of the working poor, especially those with children. We’ll have more to say about it in Chapter 10.)

Blacks and Hispanics show up in disproportionate numbers in the first part of the parade. Nevertheless, the majority of the Tiny People are white and non-Hispanic. Actually, their single most common characteristic is that they are not employed because they are old or disabled, unable to find a job, studying, home with children, or not interested in working. But a substantial minority do work, and among them are many people who work full time without exceeding Tiny height; they simply are not paid much for their labor. A worker making $8 an hour (above the national minimum wage in 2017) and employed full time, all year, earned just $16,000.

Twenty Minutes: On the Margin of the Mainstream. As the procession moves on, the marchers get taller, but only very gradually, despite the breakneck pace we have imposed. After 20 minutes, one third of the parade has passed, and we are still seeing 2½ foot Little People who live on $35,000 a year. As their less than normal height suggests, these marchers are on the lower margin of the broad mainstream—above the official poverty line (about $24,000 for a family of four) but well below the average household income. We still see many female heads of households and retired people. But the typical household has one wage earner, who works at a low-skilled blue-collar, clerical, or service job.

What sort of lifestyle do these Little People buy with their money? The answer depends on factors including household size and stage of life. Families of three or four lead austere lives. Smaller households can enjoy greater comfort and security. Retirees may benefit from owning homes, free of both rent and mortgage obligations. Some households have problems meeting their basic housing, nutrition, and health needs on a consistent basis. They are significantly less likely to be homeowners than people at higher income levels. The Little People own cars, most often older models, purchased used. Because these households have little or no savings, even a few weeks of unemployment or an unexpected bill can threaten their standard of living.

Thirty to Forty Minutes: In the Mainstream. At exactly half past the hour, we catch sight of the 4-foot tall Midgets, who receive the median income of $56,500. (The median, by definition, is the midpoint in a distribution or, in this case, the exact middle of the parade.) A few minutes later, we notice marchers whom we can look in the eyes, assuming, of course, that we ourselves receive the mathematical average (mean) income of $79,000 and are therefore of average height. Though their numbers are falling off, minorities
are still well represented in this part of the parade, but we do not often see female-headed households.

Many of these average-sized marchers have lower level managerial or professional positions. Others are technicians or skilled blue-collar workers. But most of the households represented here depend on the earnings of two workers. This is especially true of the black and Hispanic families marching in this part of the parade.

These average marchers live substantially better than the Little People we saw not so long ago. They are more likely to own substantial homes and drive late-model cars. The basics of food, housing costs, and transportation absorb only 60 percent of their budgets, so there is room for other necessities and some luxuries, such as family vacations. Nonetheless, they often feel financially pressed and are not much more likely than the Little People to have money left over at the end of the year.

Fifty to Fifty-Five Minutes: Beyond the Mainstream. Nearing the end of the parade now, we see marchers who would fascinate an NBA scout. They are lanky 10 to 12 footers. The “Lankies” are beyond the mainstream but not quite rich. Their $150,000 to $175,000 incomes allow them to live more gracefully and comfortably than the smaller people who went before. There is money for fashionable clothing, new cars, quality furniture, and perhaps some domestic help at home.

The Lankies typically hold professional and managerial jobs. Occasionally we see a high-earning blue-collar worker. But few households attain Lanky status with one good job. They are even more likely than the average-sized people to depend on the earnings of two working spouses. Female-headed families are rarely found here. Minority marchers have not vanished from the parade, but their ranks have thinned out since the middle of the parade.

The Final Minutes: The Rich. Now the procession has less than 2 minutes to run. Yet some of the most extraordinary moments lie ahead. If we look down the line at the people who have yet to pass, it appears as if a steep mountain peak is advancing on our reviewing stand. In the final seconds of the parade, we will see, in quick succession, 100-foot Giants; 400-foot Leviathans; and, finally, the Big Toes, who flit by in the last fraction of a second. Who are the Big Toes? People like Wall Street titans John Paulson and George Soros; tech executives Melissa Mayer and Mark Hurd; and, of course, President-sometime real estate developer Donald Trump. They have annual incomes in the tens of millions, hundreds of millions, or even billions of dollars. In 2014, 17,000 households reported incomes over $10 million to the IRS; 400 people reported incomes above $127 million. Their big toes, proportional to their towering incomes, are the size of office buildings.

The character of the marchers is changing rapidly. The Giants are typically members of the group we identified in Chapter 1 as “the working rich,” whose incomes would drop sharply if they stopped working. They are generally highly successful professionals (most often lawyers and doctors or finance professionals), mid-ranking corporate executives, and the owners of prosperous small enterprises.

Next come the Leviathans and the Big Toes, all with incomes over $3 million. Two earner families are rarer here. Many of these people hold important jobs; among them, for example, are the ranking officers of large corporations. However, the greater part of income at this point in the parade
does not come from jobs. These marchers own substantial business enterprises, commercial real estate, and valuable portfolios of stocks and bonds. Such income-producing assets, rather than salaries, account for their colossal incomes and overpowering stature. Their incomes do not necessarily depend on reporting to work every morning.

How do these lofty marchers spend their money? A typical urban-based family with a $1 million income owns two homes—a $2 million to $4 million apartment in the city and a substantial weekend house in the country. In addition to housing expenses, the family's annual budget includes $100,000 for domestics (including a nanny, if needed); $40,000 for private schools; and $100,000 for daily expenses, including food. This budget might sound modest to the wealthy family (net worth: $50 million) described in a recent book on the rich (Frank 2007:149). Among the family's expenses were the following:

- Mortgages on two homes: $400,000
- Domestics and personal assistants: $500,000
- Gardening and pool maintenance: $140,000
- Cars: $300,000
- Air charters: $350,000
- Club memberships: $225,000
- Charities: $500,000
- Political contributions: $61,000

### Lessons From the Parade

This chapter elaborates on some of the themes introduced by the procession. But before going on, we should pause to review what we have just seen and list the general lessons that can be drawn from the parade.

1. **Many Little People, Few Giants.** Our most general impression, confirmed by Figure 4.1, is an extremely gradual increase in income levels until a break point late in the procession. At half past the hour, we were still looking at people who are 4 feet tall. The slow climb continued until the final minutes of the parade, when heights rose abruptly as the small numbers of Americans with very high incomes, and finally colossal incomes, strode by. Just 12 percent of households have incomes over $150,000. A tiny fraction of a percent exceed $1 million.

2. **Living Standards.** The parade tells us something about the relative welfare of different segments of the population. It took about 20 minutes before we caught sight of the $35,000 Little People and 50 minutes before the $150,000 Lankies appeared. The parade was in its last seconds when we saw $500,000 Giants. We saw that many families at the $35,000 level, especially younger families,
could not afford to own a home, while families at the $120,000 level were quite comfortably housed, and families earning $2,000,000 might own two luxury residences.

3. Job(s). The number of workers in each household was a critical determinant of its place in the parade. At the beginning of the parade, we noted that many households had no job income. The Little People households that followed typically had one wage earner. Mainstream households usually depended on two workers. At the very end of the parade, households with just one income earner were becoming more frequent.

4. Sources of Income. Jobs are the main source of income for most households. However, during the parade, we noted shifts in the relative importance of different income sources. For many of the early marchers, government transfer payments, such as Social Security, and veterans benefits were crucial. In the broad middle of the parade, households depended on wage or salary income from jobs or, less commonly, on entrepreneurial income from small businesses and professional practices. In the final moments of the procession, we saw marchers who are largely supported by their wealth in the form of income-producing assets such as stocks, bonds, and rental property.

5. Occupation, the marchers showed us, is a key determinant of household income, but not the overpowering factor we might have anticipated. From the reviewing stand, we saw low-skilled blue-collar, clerical, and service workers gradually give way to more skilled workers and then to managers and professionals. But there was considerable overlapping of occupational categories. We saw managers relatively early in the parade, and a few blue-collar workers toward the end. One reason for this is that a two-income, blue-collar household can often outearn a manager or professional who does not have a working spouse. Another is that occupational pay scales overlap, even for very different occupations. For example, the top 25 percent of electricians earn more than the bottom 25 percent of aerospace engineers.

6. Women’s Shifting Role was one of the defining features of the parade. At the beginning of the parade, we saw many older women and female heads of families. Among married-couple families some 20 minutes into the parade, wives without jobs were typical. But among the more prosperous households toward the end of the parade, working wives were the rule. Only in the final moments of the parade did women’s employment rates decline.

7. Minorities. Blacks and Hispanics were at a disadvantage in the parade. They were overrepresented among the early marchers, often by female heads of households. On the other hand, given their traditional position in American society, their strong representation in the middle of the parade was probably surprising to many observers.
8. *Income and the Class Structure*. The parade suggests that the relationship between the distribution of income and the class structure is clear at the extremes but somewhat blurred in the middle. We can think about the problem in terms of the class model we introduced in Chapter 1. The people at the very beginning of the parade, who have no employment income or work at very low-wage jobs, correspond to our underclass and working poor. The towering marchers we saw in the last 2 minutes of the parade represent the top of the upper-middle class (our working rich) and the capitalist class. But in the middle of the procession, we found a surprising mix of upper-middle class, middle-class, and working-class marchers.

The Distribution of Income

Table 4.1, based on the annual Census Bureau survey, confirms our broad impression of the income parade. About one third of all households can be described as low income (under $35,000), 42 percent fall into a broad middle-income range (from $35,000 to $100,000), and the remaining 26 percent have higher incomes (over $100,000). When we look separately at family households (which quite often have two earners), the pattern is not radically different, as the second column indicates. One in four families survive on less than $35,000; about 43 percent are in the middle range; 33 percent have incomes over $100,000. For both family and non-family households, incomes over $200,000 are rare.

<table>
<thead>
<tr>
<th>Income</th>
<th>All Households (%)</th>
<th>Family Households (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $25,000</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>$25,000–$35,000</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>$35,000–$50,000</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>$50,000–$75,000</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>$75,000–$100,000</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>$100,000–$200,000</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>$200,000 and over</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Median Income Number (in millions)*

- All Households: $56,500
- Family Households: $72,200

Note: Households include family households, individuals living alone, and unrelated persons sharing housing.
Ethnicity and family structure create variants on this basic pattern. About one third of minority families have incomes below $35,000, one third fall between $35,000 and $75,000, and one third are above $75,000. The key to this distribution is the large income gap between families headed by females and those headed by married couples, as can be seen in Figure 4.2. Of course, female-headed families are more prevalent among minority households—reflecting in part the economic strains to which they are subjected: 44 percent of black families, 25 percent of Hispanic families, and 16 percent of white families are female-headed. Nonetheless, most female-headed families are non-Hispanic white.

In this section and in the income parade, we have singled out female-headed families. What about male-headed families—that is, families headed by single men? They are less significant for our analysis because they are uncommon, less than 5 percent of all families, and their median income ($53,700) is close to that of one-income married-couple families without working wives.

### Sources of Income

In the income parade, we noted shifts in the predominant sources of income. Table 4.2 traces this tendency. The story this table tells is simple but important. Wages and salaries provide most income for most people. But for the bottom 40 percent of households, a big chunk of income comes from
government transfers such as Social Security, veterans benefits, and public assistance. At successively higher levels, capitalist income (stock dividends, interest rents, and the like) and business profits provide increasing proportions of total income, until they exceed wage and salary income.

Aside from parades, the distribution of income is typically analyzed in one of two standard formats: (1) the distribution of households (or families) across ranges of income, and (2) the distribution of income shares among ranked segments of the population. Table 4.1 is a clear example of the first approach, which was the basic source for the income parade. The income shares approach could be called a slices-of-pie distribution. It conceives of the total income of all households as a national income pie, which has been sliced into pieces ranging from stingy to generous.

Figure 4.3 depicts the share of the total income pie that goes to each fifth or quintile of households. The poorest quintile, for example, receives 3 percent of aggregate income. (Obviously, if the distribution of income were perfectly equal, each quintile would receive exactly 20 percent.)

Our pie reveals a remarkable concentration of income. The income share claimed by the richest fifth of households is slightly more than that of the other 80 percent of households. The concentration of income at the very top is even greater than our pie distribution suggests. The top 1 percent of households alone absorbs 20 percent of all personal income, as we will show later in this chapter.

The data used for Figure 4.3 was adjusted by the Census Bureau for family size and composition, assuming, for example, that $30,000 represents a higher standard of living for a two-person family than a four-person family. This adjustment had only minimal effect on the distribution (U.S. Census 2016:9).

<table>
<thead>
<tr>
<th>Average Income</th>
<th>Income Group</th>
<th>Wage and Salary</th>
<th>Small Business</th>
<th>Capitalist</th>
<th>Government</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25,000</td>
<td>Bottom fifth</td>
<td>53</td>
<td>6</td>
<td>1</td>
<td>38</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>$47,400</td>
<td>Second fifth</td>
<td>57</td>
<td>3</td>
<td>1</td>
<td>34</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>$69,700</td>
<td>Middle fifth</td>
<td>63</td>
<td>2</td>
<td>2</td>
<td>24</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>$103,700</td>
<td>Fourth fifth</td>
<td>69</td>
<td>2</td>
<td>3</td>
<td>14</td>
<td>11</td>
<td>100</td>
</tr>
<tr>
<td>$265,000</td>
<td>Top fifth</td>
<td>60</td>
<td>11</td>
<td>16</td>
<td>5</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>$1,571,600</td>
<td>Top 1%</td>
<td>35</td>
<td>23</td>
<td>38</td>
<td>1</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office 2016.

Note: Based on pretax income. Small Business = self-employment income, including business, profession, farm, partnerships, etc.; Capitalist = interest, dividends, capital gains, rent, estate, and trust; Government = government transfers including Social Security, public assistance, veterans benefits, in kind benefits such as food stamps, etc.; Other = mainly, pensions and other retirement income.
Taxes and Transfers: The Government as Robin Hood?

To what extent does the government play a Robin Hood role, evening out inequalities? The household income statistics we have been looking at to this point don’t reflect taxes, nor do they, on other side of the ledger, account for certain government programs that bolster the spending capacity of low-income families. Would the distribution of income look very different if we took into consideration everything the government does?

We do have a federal personal income tax that is progressive in its effect—that is, people with higher incomes pay a greater proportion of their total income to the Internal Revenue Service than do those with lower incomes. The progressive tendency of the federal income tax is reinforced by the Earned Income Tax Credit (EITC), a notable provision of the tax code designed to help the working poor, who may receive substantial payments from the IRS in excess of any taxes owed. Also progressive is the federal estate tax, levied on the assets of wealthy decedents.

However, other taxes operate in the opposite direction—that is, they impose a greater burden on the poor than the rich. Chief among these regressive taxes are the sales taxes that are collected by states and localities. A sales tax applies the same tax rate to a pair of children’s shoes whether the purchasing parent is a low-wage worker or a millionaire. Because the low-wage worker spends a much higher proportion of her family’s income on consumer items than does the millionaire (who is likely to reserve some income for savings and investment), she loses a higher percentage of her income to the sales tax than the millionaire. Formally, sales taxes are flat, but, in effect, regressive. The Social Security payroll tax, which accounts for most of the federal taxes paid by low-income people, is also quite regressive.
because it is not levied on earnings beyond an annually adjusted limit (about $127,200 in 2017). As a result, the proportion of pretax income paid in Social Security taxes would be about 6 percent on earnings of $60,000 but only 1.3 percent on earnings of $600,000.3

The combined effect of federal taxes is progressive, while the impact of state and local taxes is regressive. The net effect of all taxation is modestly progressive, as can be seen in Figure 4.4. The dark segments of the bars, representing federal taxation, show a steady progressive rise with income, though the difference between the upper quintiles and the top 1 percent is not great. The light segments, representing state and local taxation, actually shrink with rising income. Note that the poorest fifth pays a significantly higher proportion to states and localities than does the top 1 percent. The chart is based on effective tax rates, the proportion of income people actually pay in taxes, after various deductions, exemptions, and credits.

3 There is some justification for this disparity, in that, when they retire, lower income workers can expect to get higher Social Security benefits relative to their earnings than higher income workers. However, the federal government has been using Social Security revenues for meeting its general expenses and not saving to meet the looming retirement needs of the baby-boom generation. At some point, federal policy makers will be compelled to make some painful adjustments in taxes or benefits.
Aside from the redistributive effect of taxes, the government can play Robin Hood through transfer payments and noncash benefits. Because transfer payments, such as Social Security and public assistance, are counted as part of cash income, they are, unlike taxes, already reflected in the income data we saw in the last section. But the value of noncash benefits, such as food stamps and Medicare (the federal health care program for the elderly), is not included in the income data.

The influence of transfer payments is generally progressive for the obvious reason that they often are specifically designed to help the poor and for the less obvious reason that a large share of transfer income goes to the elderly, who tend to be at the lower end of the pretransfer income distribution. The same can be said of noncash benefits. In general, transfer payments and noncash benefits raise the living standard of poorer households but do not dramatically alter the overall structure of economic inequality.

So how effective is the government as Robin Hood overall? Figure 4.5 estimates the combined effects of taxes, transfers, and benefits on the income shares. The “before” shares are based on pretax incomes stripped of government transfer payments, such as Social Security. The “after” shares were produced by adding in the value of cash transfers and noncash benefits and deducting all federal and state income taxes. In other words, we are looking at income inequality before and after the government Robin Hood has completed his work. The differences in income shares, as defined here, are modest in the broad middle, but notable for the top and bottom fifths. In particular, the share of the poorest fifth, though it remains tiny, is significantly higher than it would be without taxes and government programs. Despite its reduced share, the richest fifth still claims a little short of half of all personal income.

**How Many Poor?**

Our discussion of income distribution and redistribution has skirted an important issue: How many people have such low incomes that they can be considered poor? The easiest answer is based on official government statistics, which recorded 43.1 million poor Americans in 2015, about 15 percent of the population. However, any count of the poor depends on the standard or definition of poverty used by the counters. Many researchers would adjust these figures upward or downward because they are skeptical of the official standard, which was adopted in the 1960s and is widely regarded as inadequate. We take up the problem of defining poverty in Chapter 10, so that readers will be able to draw their own conclusions.

**Women and the Distribution of Household Income**

One lesson we drew from the income parade concerned the way women’s situations changed with rising income. The elderly women we saw early in the parade were typically widows older than 75. Because women traditionally have had lower earnings and shorter, less continuous work histories,
they have weaker personal claims on retirement income. Older women often depend on a husband's pension or Social Security check and can lose all or part of that income in the event of their divorce or his death. Since women tend to outlive men, they are more likely to survive long enough to use up their savings.

Although the more generous Social Security benefits of recent years have sharply reduced poverty among the elderly, older women living alone continue to have high poverty rates. Among women over 65, just 4 percent of those living with husbands are poor, compared to 15 percent of women not currently married.

Largely as a result of elevated divorce rates and the growing proportion of children born to single mothers, nearly 20 percent of all family households are now female headed—that is, not dual or male headed—compared with 10 percent in 1970. Among families with children, 26 percent are female-headed. The women who head these households face multiple disadvantages. Child care responsibilities make it difficult to work full time. Most single, divorced, or separated women who are raising children receive only
limited child support. Generally, the economic situation of men improves after a marital separation, whereas that of women typically deteriorates (Hoffman 1977; U.S. Census Bureau 1994:33; U.S. Census 2011).

According to a U.S. Census report on custodial parents in 2009, (1) over 80 percent of custodial parents are women; (2) most custodial mothers did not receive child support that year; (3) among those who did, the average annual amount was only $3,700 or a little over $300 per month; (4) the great majority of custodial mothers worked—many full time, year round; (5) nonetheless, 30 percent of custodial mothers and their children were surviving on incomes below the official poverty line (U.S. Census 2011).

Women who go to work to support their families often find themselves in the generally lower paying pink-collar jobs described in Chapter 3. Although, as we noted there, women's earnings have advanced relative to men's, even women employed full time still lag well behind similarly employed men. Of course, responsibilities at home, especially for single mothers of young children, prevent many women from working full time, year round. (Single mothers and their families do better in countries where the state provides free or low-cost child care.)

Working wives face similar problems in the labor market and a similar clash between nurturer and breadwinner roles. Nonetheless, the percentage of married women in the labor force has been rising since the 1920s. From 1960 to 2000, the labor force participation rate of wives doubled.

Most married women still earn less than their partners do, though the gap has been closing. More important, in an era when men's earnings are declining at the lower end of the labor market and stagnating in the middle, women's earnings have become crucial for family incomes. Just how crucial is shown in Table 4.3, which examines wives' rising contribution to the incomes of married couples with children. Without the growth in wives' earnings, often as a result of simply working longer hours, the inflation adjusted real incomes of such families would have declined 15.6 percent for the bottom fifth and more or less stagnated for the second and middle fifths over a quarter century period. For higher income families, wives' rising earnings added to already significant gains. Thus, the incomes of families in the top fifth rose 70 percent over this period but would only have increased 53 percent had wives' contribution remained fixed.

How have the changing roles of women and men affected the broad trend toward increasing inequality? The increased earnings of wives have bolstered the strained incomes of many two-earner families toward the lower end of the income distribution, and thus tends to equalize household earnings. But their equalizing influence is offset by the “assortative mating” that increasingly matches well-educated, high-earning men and women with each other, producing bigger and bigger family incomes toward the high end of the distribution. This tendency is evident in the prevalence of dual-earner couples in the last minutes of the income parade and in the extraordinary increase, illustrated above, in the contribution of wives to the growth of incomes in the top fifth. Finally, the precarious finances of female-headed families, especially those with children, have depressed incomes in the lower fifths. The increase in female-headed families contributed powerfully to growing income inequality. Thus, from opposite ends of the income distribution, the rising numbers of female heads and those we might call power
couples contribute to inequality. Our general answer to the question posed at the beginning of this paragraph is that changing gender roles have helped to create an Age of Growing Inequality (Esping-Andersen 2007; Karoly and Burtless 1995; Neckerman and Torche 2007).

The Distribution of Wealth

We now turn from the distribution of income to the distribution of wealth. We have already distinguished these two concepts: Income is the inflow of money over a period of time. Wealth is the value of assets held at a point in time. One year’s wages, interest, and dividends, such as might be reported on a federal income tax return, are examples of income. The value of real estate, bank accounts, and stock shares someone owns on, say, December 31, 2019, are examples of wealth.

Wealth, in a sense, is nothing more than accumulated income (assuming, of course, that income is not spent, but saved). True, but this underestimates the significance of wealth as a distinct dimension of class inequality. Income allows us to meet our daily necessities. Wealth enhances what Max Weber called “life chances” in more basic ways. It provides safety net protection against a sudden drop in living standard in the event of job loss or other emergency. Most families do not hold significant wealth and would be in difficult straits if they missed 1 or 2 months’ paychecks. Wealth can be converted into home ownership, business ownership, or a college education. As we saw earlier in this chapter, people with very high incomes typically derive most of their income from wealth in the form of stock dividends, bond interest, commercial real estate rents, and other capitalist sources.

Wealth provides a critical mechanism for the intergenerational transmission of inequality. As we will see in Chapter 8, a significant proportion of the wealthiest people in America inherited family fortunes. On a more modest level, the high school student who knows that there is money in the bank to pay for her college education and the young couple who purchase a house with help from their parents are the beneficiaries of the wealth accumulated by previous generations. Most Americans can expect, at best, a modest inheritance. From this perspective, it is hardly surprising that upwardly

<table>
<thead>
<tr>
<th>Table 4.3</th>
<th>Wives’ Contribution to Change in Family Income, 1979 to 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase in Family Income</strong></td>
<td><strong>Percent Change</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Bottom Fifth</strong></td>
</tr>
<tr>
<td>Actual increase</td>
<td>4.2</td>
</tr>
<tr>
<td>Increase without wives’ additional contribution</td>
<td>–15.6</td>
</tr>
</tbody>
</table>

Source: Modified from Mishel et al. 2009:Table 1.22.

Note: Refers to married couple families with children and head of household ages 25 to 54.
mobile African Americans with comfortable incomes lag far behind white peers in wealth and are therefore less able to help their children and more vulnerable in economic downturns (Oliver and Shapiro 1995).

Wealth is measured in two ways: gross assets and net worth. The first refers to the total value of the assets someone owns. Net worth, a more realistic concept, is the value of assets owned minus the amount of debt owed. The net worth of most households, according to a Federal Reserve survey summarized in Table 4.4, is modest. The average net worth of the middle fifth of households is only $68,100. The average of the bottom 40 percent of households is actually negative—that is, their debts exceed the value of whatever they own. Most households own little in the way of investment assets, such as stocks, bonds, or commercial real estate. These assets boost the net worth of the top 1 percent to $18.6 million. But most families derive the greater part of their net worth from three asset types: home equity, car equity,\(^4\) and bank deposits.

We can distinguish three broad classes of wealth holders\(^5\):

1. The Nearly Propertyless Class. About 40 percent of households, with net worths under $50,000 in 2010 dollars. The majority have a negative net worth, and few are worth more than $10,000. Most have automobiles and many own their homes. But the nearly propertyless class is a debt-ridden class: What they owe is quite high relative to the value of their assets. Younger families and most African American and Hispanic households fall into this wealth class. This class was especially hard hit by the Great Recession of 2008–2009.

2. The Nest-Egg Class. About 50 percent of households, with net worths ranging from $50,000 to $1 million. The families in the nest-egg class might be described as savers rather than

---

\(^4\) Home and car equity refer to the value of the assets less the amount owed on them.

\(^5\) This discussion draws on Bricker et al. 2014; Wolff 2014 and 2016; U.S. Census 2016; and Mishel et al. 2012.
investors. Their debt is modest. They accumulate retirement savings in IRAs and 401k accounts. Some hold other financial assets, such as CDs and stocks. But this class’s largest single asset is likely to be the home they live in. Since net worth tends to rise with age, families in this class are, on average, older than those in the first class.

3. The Investor Class. Just 10 percent of households, worth more than $1 million. The households in the investor class own most of the privately held investment assets and typically control portfolios of stocks, mutual funds, and bonds. Many members of this class have interests in small businesses, professional practices, and commercial real estate. Many own second homes. On the other hand, equity in homes contributes a modest proportion of their net worth. This class is relatively free of debt. Although this class controls most of the total of gross assets owned by households, it is responsible for a small proportion of total liabilities.

As the privileged finances of our top class suggest, wealth is highly concentrated—much more concentrated than income. For example, in 2013, the highest income 1 percent received about 21 percent of aggregate income, while the wealthiest 1 percent of households owned about 37 percent of net worth. The concentration of wealth at the top is so great that the top 1 percent now holds more net worth than the bottom 90 percent (Table 4.5).

Another important conclusion that can be drawn from studies of wealth is that investment assets are much more concentrated than consumption-oriented assets such as automobiles and owner-occupied homes. As Table 4.6 indicates, ownership of corporate stock and mutual fund shares, investment real estate, and small-business equity is almost entirely concentrated in the hands of the top 10 percent of wealth holders.

### Table 4.5 Concentration of Wealth, 2013

<table>
<thead>
<tr>
<th>Wealth Group</th>
<th>Share of Aggregate Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1%</td>
<td>36.7</td>
</tr>
<tr>
<td>Next 9%</td>
<td>40.4</td>
</tr>
<tr>
<td>Bottom 90%</td>
<td>22.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>


6 The vehicle share of the top 1 percent was unavailable for 2013, but has varied little over time. The figure given here is based on previous surveys. The 10 percent and 90 percent shares are from 2013.
Chapter 4 | Wealth and Income

The Changing Distribution of Wealth

Sometime in the early 1970s, a great shift began in the distributions of wealth and income, paralleling the growing disparities in job earnings we examined in the last chapter. We recognized this transformation in the distinction we made earlier between the post–World War II Age of Shared Prosperity and the current Age of Growing Inequality. The trend toward increasing inequality in the distribution of wealth was especially notable in the 1980s and 1990s.

By 2010, in the wake of the Great Recession, the average net worth of families in the bottom four fifths of the population was 3 percent less in real terms than it had been in 1983. Over the same period, the average net worth of families in the top fifth climbed 80 percent. At the top of the wealth pyramid, the combined net worth of the 400 richest Americans more than doubled in the 1980s and doubled again in the 1990s. By 2007, the neediest of the 400 was worth more than a billion dollars and their combined net worth was a figure comparable in magnitude to the entire federal budget. Although many of the 400 fortunes were squeezed by the stock-market decline that accompanied the recession, by 2012, their combined net worth had bounced back to about what it was in 2007. Incredibly, the 400 were,

Table 4.6  Concentration of Key Assets, 2013

<table>
<thead>
<tr>
<th>Widely Held Assets</th>
<th>Share Held by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top 1%</td>
</tr>
<tr>
<td>Principal Residence</td>
<td>9.8</td>
</tr>
<tr>
<td>Bank Deposits, CDs, Money Mkt. Funds</td>
<td>24.8</td>
</tr>
<tr>
<td>Retirement Accounts</td>
<td>17.8</td>
</tr>
<tr>
<td>Vehicles</td>
<td>6.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Concentrated Assets</th>
<th>Share Held by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks and Mutual Funds</td>
<td>49.8</td>
</tr>
<tr>
<td>Trusts</td>
<td>49.5</td>
</tr>
<tr>
<td>Business equity</td>
<td>62.8</td>
</tr>
<tr>
<td>Investment Real Estate</td>
<td>33.7</td>
</tr>
</tbody>
</table>


---

All comparisons over time in the section are based on real, inflation-adjusted dollar values.
The American Class Structure in an Age of Growing Inequality

by then, collectively worth as much as 9 million average Americans (Forbes 1996, 2001a, 2006, 2012; Kennickell 2009:Table A1; Saez and Zucman 2014:3).

Figure 4.6, which we previewed in Chapter 1, traces the proportion of aggregate net worth held by the top 1 percent. The curve assumes a familiar U-shape trajectory, bottoming out in the 1970s and then climbing steeply in the 1980s. By the 1990s, the top 1 percent held one third or more of aggregate net worth—more, as we have seen, than the bottom 90 percent of households, and probably more than at any time since the 1930s.

The increasing concentration of wealth in the Age of Growing Inequality was accompanied by a leap in the number of wealthy people. In other words, at the same time that the distribution of wealth was becoming more and more unequal, the expansion in total wealth in the economy left room for the creation of new fortunes. In just 1 decade, from 1995 to 2004, the number of families worth over $25 million doubled. By 2016, there were 156,000 households in this category.8

What accounts for these remarkable increases in the concentration of wealth and the number of wealthy families in recent decades? Many new fortunes were rooted in information technology, the Internet, finance, and other high growth sectors of the economy. Globalization generated new wealth and new opportunities. What has been described as “a river of money coursing around the world... looking for outlets” fed the growth of finance (Frank 2007:41). Since the 1980s, a generally rising stock market had swelled the fortunes of those who were able to invest in it. (Although the 2008–2009 stock market crash erased half the market value of the largest corporations, the market gradually rebounded to pre-crash levels. By late 2013, the inflation adjusted value of the 500 stocks in the S&P 500 Index was 5 times what it had been in early 1980—a potential bonanza for anyone who had held stocks over that period.)9 Over this same period, declining tax rates on high incomes allowed affluent households to retain (and reinvest) more of what they made.

Finally, many readers of this text will be aware of another trend that is contributing to growing inequality of wealth: student loan debt. In 2013, 38 percent of young families (head under age 40) had educational debt. From 2001 to 2013, the average amount owed by such families rose 70 percent to $29,800. Educational debt is rising as a proportion of all debt. But not all households are affected. Student loan debt is common among households in the lower 50 percent of households but rare among the wealthiest 10 percent (Bricker et al. 2014; Mishel et al. 2012:403–404).

The Changing Distribution of Income

The distribution of income has followed a path similar to the distribution of wealth. During the Age of Shared Prosperity, family incomes at all levels were

---


9 Calculated from data assembled by Robert Schiller at www.econ.yale.edu/~shiller/data.htm
growing at a brisk pace and gradually becoming more equal. After the early 1970s, income growth tapered off, and the fortunes of American families began to diverge.

The transition from the Age of Shared Prosperity to the contemporary Age of Growing Inequality can be seen most clearly in Figure 4.7. The bars in this figure represent the percentage increase in real incomes at each level during the 25-year periods before and after 1975. Comparing the side-by-side panels for these two periods, we can see a stark reversal of the image. Two conclusions are obvious: (1) Income growth was broadly shared in the first period but steeply stratified in the second, and (2) growth was fastest at the bottom in the first period and fastest at the top in the second period. The lines that cut across the two panels represent the growth of the national economy relative to the population (Gross Domestic Product/Capita) in each 25-year period. Remarkably, the per capita expansion was nearly the same, close to 75 percent, in both periods, but the benefits of growth were being distributed very differently after 1975.

Imagine the shifting fortunes of three families under the conditions described by Figure 4.7. The first family, in the poorest fifth, sees its income more than double (120 percent growth) in the first period but practically stagnate in the second. The next family, in the middle fifth, undergoes a similar but less dramatic shift from high growth to slow growth. The third family, in the privileged top 5 percent, finds moderate gains in the first period and a doubling of income in the second.

John F. Kennedy liked to say, "A rising tide lifts all boats." The phrase describes family incomes in the Age of Shared Prosperity, but not in the Age of Growing Inequality.

Figure 4.8 focuses more narrowly on the income share of the top 1 percent, which absorbed about 13 percent of all household income in 1950. This
Figure 4.7 Growth of Family Income and GDP/Capita, 1950–2000


Figure 4.8 Income Share of Top 1%

Note: Includes capital gains.
figure had been falling more or less continuously since the late-1930s and continued to do so until (as we might guess) the 1970s, when it started to climb again, reaching 24 percent in 2007. The 2008–2009 market crash took a big bite out of incomes at this level, but the 1 percent bounced back. In 2015, they were claiming a little more than 1 of every 5 dollars of household income.

Although the growth of family incomes in recent years has been slower and more concentrated, a rising proportion of families have been able to attain relative affluence. As Figure 4.9 shows, the percentage of households with incomes greater than $150,000 (in inflation adjusted dollars) has climbed fairly steadily since the 1960s. The top 1 percent has not wholly monopolized the material benefits of a rising GDP. A broader range of relatively privileged households, roughly corresponding to the upper-middle class, has also benefited.

Income Dynamics

The three hypothetical families whose fortunes we traced above had one thing in common: Their relative positions in the income distribution were stable, even when their incomes were changing. We assumed, for example, that the family that started in the bottom quintile was still there several decades later. We almost automatically make this kind of assumption when we talk about shifts in the distribution of income. But the government income surveys we have been analyzing in this chapter do not follow families over time. They are, in effect, periodic snapshots of the income distribution, which tell us nothing about the degree to which families are moving up or down relative to one another.
Following the incomes of individual families over time is difficult and expensive. The few studies that have done so reveal a surprising amount of movement. From one year to the next, a family’s income may change abruptly because someone lost a job or a spouse rejoined the labor force. Over longer periods, earnings tend to expand with experience and successive promotions. For example, during an academic career, the salary of a college professor might double in real-dollar terms. Even the earnings of low-skilled workers tend to rise over time, though more slowly than those of professionals.

Table 4.7, based on a study that has followed several thousand families over 3 decades, shows considerable movement (“income mobility”) in the distribution of family income. In the 1990s, for example, approximately 30 percent of families moved to a higher income quintile and about the same proportion moved down. But the table also reveals a gradual slowing of income mobility since the 1970s: Fewer families are moving up or down; an increasing proportion end the decade where they began. Closer examination of the data from all 3 decades shows that most movement, in either direction, was short range, from one quintile to an adjacent quintile. Only rarely do families rocket from the bottom quintile to the top or plunge from the top to the bottom in the course of a decade.

### Changing Tax Rates

The trend toward greater income inequality since the 1970s was magnified by regressive changes in the federal tax system. (Census Bureau income figures are, as noted earlier, pretax.) In general, rates have come down for households at all levels, but the reductions have been most dramatic for the wealthiest. The top tax rate on personal income (the top bracket or marginal rate)\(^{10}\) plunged from 77 percent to as little as 28 percent. Corporate and inheritance taxes, whose main effects are felt by the wealthy, were also reduced. At the same time, payroll taxes, paid largely by lower- and middle-income workers, were jacked up. The one change that ran against

<table>
<thead>
<tr>
<th>Years</th>
<th>Change in Income Quintile (in Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Up</td>
</tr>
<tr>
<td>1970s</td>
<td>33.0</td>
</tr>
<tr>
<td>1980s</td>
<td>32.4</td>
</tr>
<tr>
<td>1990s</td>
<td>30.1</td>
</tr>
</tbody>
</table>

*Source: Author’s analysis of Table 2.3, Mishel et al. 2007:106.

---

\(^{10}\)Increasing marginal rates on personal income are imposed over specified ranges of income. A high-income household might, for example, pay 20 percent or so on the first $50,000 of income, but 40 percent on income beyond the first $400,000.
the generally regressive tide was the Earned Income Tax Credit, described earlier, which was designed to help the working poor.11

Tax rates on the rich have fluctuated as conservative Republican and liberal Democratic administrations have shifted the tax code back and forth. Under legislation signed by President Obama in 2012, rates for the highest income households were raised from those left in place by his immediate predecessor, George W. Bush, to a level closer to those approved by Bill Clinton in the 1990s. The top marginal rate, imposed on personal income above $400,000, went up a few percent to almost 40 percent. The estate or inheritance tax, which had been trending downward under Bush-era law, was increased slightly but to a level well below historical precedents. Under the new law, an individual estate worth under $5 million is entirely exempt from the inheritance tax. The exemption for the combined estate of a married couple is, in effect, $10 million. The value of an estate beyond the exemption is subject to a 40 percent tax. Only 1 or 2 percent of estates are large enough to pay anything (Nunn and Rohaly 2013).

Of course, the “official” income and estate tax rates (comparable to the sticker rates on a new auto) may not reflect what the wealthy end up paying, due to generous provisions of the tax code and artfully calculated tax strategies. For example, Congress requires the IRS to keep track of the income taxes paid by the households with the 400 highest incomes. In 2008, each of the 400 earned over $110 million (a slow year, it seems, since they earned over $270 million in 2007) and paid an average of $19.8 million in personal income taxes—18 percent of gross income (Wessel 2012:121).

While federal taxes have tended downward for taxpayers at all income levels, state and local taxes have been rising. An analysis by the New York Times, with the help of tax experts, estimated the combined effect of changing federal, state, and local taxes since 1980 (Applebaum and Gebeloff 2012). The most important federal taxes (except the estate tax) were included in the analysis, along with state and local income, sales, and property taxes. For households at three different income levels, the changes in combined effective taxation levels from 1980 to 2010 were as follows:

**Top 1 Percent.** The total taxes paid by a family with a $350,000 income (in 2010 dollars) dropped from 49 percent to 42 percent of income, a savings of roughly $24,000.

**Middle Income.** The total paid by a family making $52,000 fell from approximately 31 percent to 28 percent, a savings of $1,500.

**Low Income.** The total paid by a family with income at the poverty line of $22,000 declined from about 20 percent to 19 percent, a savings of $200.

The general conclusion from the analysis is that the overall tax system remained progressive—people at the top pay more. But the biggest tax cuts have gone to the wealthy, so that over the 30-year period, the system became less progressive.

---

In this chapter, we added evidence of growing inequality in the distribution of income and wealth to the evidence of growing inequality in earnings that we explored in the last chapter. The polarization of incomes is all the more remarkable because it reverses a well-documented trend toward greater income equality from the 1930s into the 1970s (Miller 1971; U.S. Census Bureau 1996). How can we account for the shift? This question is an enlarged version of the one we asked at the end of Chapter 3. There, we were interested in the increasing disparity in earnings. Here, we were concerned with all sources of income and with whole households rather than individual workers. In this section, we review what we have learned in this chapter, giving particular attention to developments that can help explain change.

We began the chapter with an imaginary income parade, a device to visualize the income distribution and the factors that shape it. The parade began with a long line of small people—not just the poor but also millions of families living marginally on the earnings of low-wage workers. At the end of the parade, we were struck by the abrupt increase in the size of the marchers, who grew in a matter of minutes to astronomical proportions, reflective of astronomical incomes.

The changing mix of occupations during the course of the parade was about what we expected. More surprising were the other factors that powerfully influenced where people marched in the ranks—in particular, the sources of household income and the number of workers in a family. Most households, of course, depend on job earnings. We noticed that single-worker families were common in the first half of the parade. Much later in the procession, among people with incomes around $100,000, we found very few families without two employed adults. But we discovered that jobs were less significant for those at the beginning and the very end of the procession. The first marchers were often dependent on government transfers, from Social Security to public assistance. The very last marchers—especially those with incomes above $1 million—depended less on jobs than on investments for their incomes.

If those at the end of the parade draw the greater part of their incomes from financial wealth, the rising concentration of wealth is certainly strengthening income inequality. Of course, the accumulation of wealth is also a result of income inequality—as well as the changes in effective tax rates that enabled those with the highest incomes to retain a higher proportion of their incomes.

The parade focused attention on the social factors leading to increased income inequality. We noted, for example, that families headed by females were crowded into the early part of the parade. The prevalence of such families is growing as a result of increased divorce and births to single mothers, contributing inevitably to the growth in income inequality. These social trends are strengthening the economic pressures toward polarization that we discussed in Chapter 3. The result is what we have called an Age of Growing Inequality.
KEY TERMS DEFINED IN THE GLOSSARY

- dividend
- Earned Income Tax Credit (EITC)
- effective tax rates
- government transfers
- gross assets
- income
- investor class (see wealth classes)
- mean
- median
- nearly propertyless class (see wealth classes)
- nest-egg class (see wealth classes)
- net worth (see wealth)
- progressive tax
- quintile
- real income
- regressive tax
- wealth
- wealth classes

SUGGESTED READINGS

A clear, thoughtful introduction to economic inequality by a man who has devoted his career to the topic.

Useful primer on taxes.

Income and wealth inequalities in comparative perspective, with special attention to the middle class, women’s work, politics, and public policy.

Long-term trends in the distribution of income and wealth, wages, and other topics. Updated editions published regularly. The material in this book is regularly updated at the Economic Policy Institute website (http://www.stateofworkingamerica.org/). The site also provides access to essential data series in downloadable format.

Ingenious poster with companion booklet, illustrating the distribution of income, education, occupation, and household types.

The role of wealth and inheritance in perpetuating racial inequality.

A clear, concise introduction to the class issues surrounding federal taxing and spending.