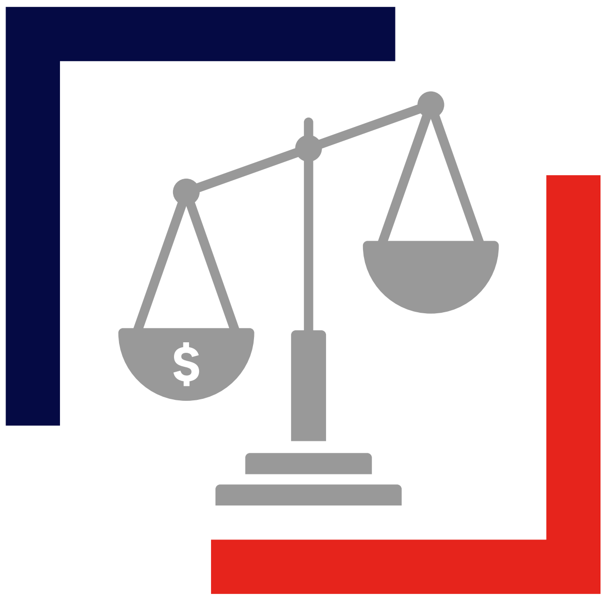
07

Section



Inequality

STATE OF THE NATION

Inequality

Introduction. Inequality refers to the differences in income and wealth between all groups in society—between rich and poor. High levels of inequality can signal real differences in social and economic opportunity and lead to perceived unfairness, distrust of government and other key institutions, and political unrest.

The importance of inequality relative to *average* economic well-being is sometimes debated. Some argue that a degree of inequality is a natural outgrowth of differences in individual abilities, motivations, and decisions. Others argue that inequality of outcome is less important than inequality of opportunity—specifically, the opportunity to get out of difficult economic circumstances, or economic mobility. Still, inequality is a concern across the political spectrum.

Summary of Results. More than three-quarters of high-income countries have lower income inequality than the United States. Our income inequality is also worsening overall and relative to other countries. This can be mainly attributed to quite large increases in income among the most well-off. We can see this partly by comparing income inequality to our second measure: poverty. The poverty rate has been declining, mostly because of government interventions like Social Security and the Earned Income Tax Credit. The result is that fewer people have incomes so low that they cannot provide for their basic needs. But the increase in income among the rich has been larger, which explains rising income inequality.

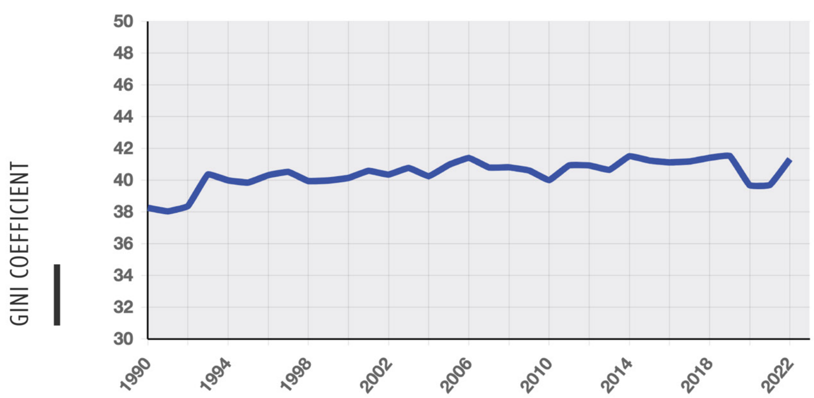
Income Inequality

Specific measure: Income Gini coefficient (net of government taxes and transfer programs). This is an index that ranges from zero to 100 where higher numbers indicate more inequality. (Source: World Bank).

National Trend	% of countries the US outperforms	Intl. Rank Trend
↓	22%	↓

Why did we include this measure? The Gini coefficient is a common measure of inequality and describes the extent to which a measure like income is concentrated within certain groups. When the income Gini coefficient is zero, it means everyone has exactly the same income. When it is 100, it means that a single person has all the income. (Of course, these extremes almost never occur in practice, but the extremes are useful for understanding the scale.) The specific income Gini coefficient we use captures all sources of income, including wage earnings as well as pensions, government taxes and transfers. We also prefer this measure because it reflects the income of all households, rather than comparing only the rich versus the poor (i.e., those at the ends of the income distribution).

Figure 16: Income Inequality (National Trend)



How does the US rank globally?

- *Specific Measure: (Same as above.) (Source: Same as above).*
- *Percentage of countries the US outperforms: 22% (out of 27 countries)*
- *International Rank Trend: ↓*

What do the data show? Income inequality has been rising slightly since 1990 but with a temporary dip during the COVID pandemic. The US compares poorly relative to the rest of the world. We rank in the bottom 25% of countries, just below El Salvador, the Dominican Republic, and Lithuania—and we are falling further behind over time.

The spike in the figure in 1993 should be interpreted with caution; it may be the result of a change in the way the data were collected rather than a true change in income inequality. (See Data Notes for more detail.)

What might explain these patterns? Income inequality is driven by a complex set of forces, including the variation in education and human capital, decisions made by individuals regarding their careers and work hours, segregation and isolation of opportunity, the strength of labor unions and minimum wage laws, free trade policies that place US workers in competition with those in low-wage countries, technological change favoring high-skill workers, and government taxation and spending. Given these general causes, our low international standing is not especially surprising. The US has more unequal academic achievement outcomes than other countries, weaker unions, lower minimum wages, and lower government spending on the social safety net than other countries.

While we do not argue that any factor is more important than the others, we can say that the rise in income inequality is driven mainly by people with very high incomes. As we show below, poverty is actually declining, which reduces income inequality. So, the "rich are getting richer" faster than the poor.

Also, income inequality is intertwined with wealth inequality. Wealth comes mostly from inheritance and other financial support across generations, which also produces income. The high and growing level of US wealth inequality therefore partially explains rising income inequality.

Poverty

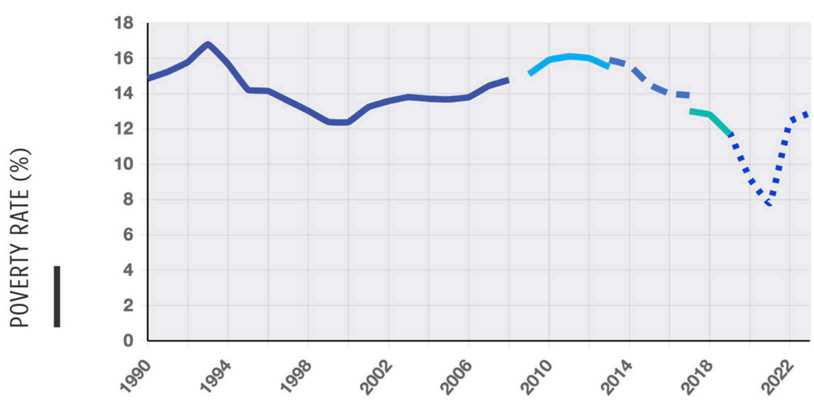
> ***Specific measure:*** The Supplemental Poverty Measure (SPM), which measures income net of government taxes and transfer programs (see examples below). (Source: Columbia University Center on Poverty and Social Policy and the Census Bureau).

National Trend	% of countries the US outperforms	Intl. Rank Trend
↑	25%	→

Why did we include this measure? There is general agreement that people should be able to provide the most basic material needs for themselves and their families. Poverty measures capture this by identifying households where these needs are not being met.

An advantage of the Supplemental Poverty Measure we use is that it accounts for a wide variety of factors affecting the economic resources people have available. First, it counts more than just wage income and includes cash benefits and some in-kind government supports that are intended to prevent poverty. Income from Social Security, Supplemental Nutrition (SNAP), Earned Income Tax Credit (EITC), Child Tax Credit, and housing subsidies are all included, for example. Second, this supplemental poverty measure subtracts necessary expenses, such as taxes and out-of-pocket health expenses, from that income when deciding whether someone is living in poverty. (Medicare and Medicaid benefits are not directly counted as income, but these programs affect out-of-pocket health expenses, which are accounted for as necessary expenses.)

Figure 17: Poverty (National Trend)



How does the US rank globally?

- *Specific Measure: Relative poverty rate. (Source: Authors' analysis of Luxembourg Income Study Database data).*
- *Percentage of countries the US outperforms: 25% (out of 20 countries)*
- *International Rank Trend: ↔*

What do the data show? Poverty declined slowly between 2010 and 2019, then fairly sharply during the COVID pandemic, to an all-time low before rising sharply back to pre-pandemic levels in 2022. Three out of every four high-income countries do better on this measure than the US. We rank just below Italy, followed by Poland and Germany.

There are several breaks in the trend because poverty is not consistently measured by a single source over the relevant time period. The first break is due to a change in data source, and the remaining three are due to changes in the data collection and calculation methods. However, the fact that each of the partial trends tracks the prior one gives us confidence in the general patterns. (See Data Notes for more detail.)

What might explain these patterns? In the discussion above, we noted some of the factors affecting income inequality generally, and most of these also affect poverty. One reason the US likely has higher poverty is that we spend less on the government programs intended to reduce poverty, but there is debate about the degree to which the government should address poverty directly, given the costs to taxpayers. Also, government programs may reduce employment, which could increase poverty over the longer term.

Related Topics: Every other section in this report focuses on average outcomes across the country. This is the only one where we focus on how outcomes compare between groups within the country. However, our explanations for rising income inequality are related to the other topics. For example, most income comes from wages from work (see the Work and Labor Force section). Also, education is a key driver of income (see the Education section).

Income inequality might also be a partial cause of our poor standing on other measures of the state of the nation, especially how people perceive their lives and the country as a whole. See the Life Satisfaction and Mental Health sections, as well as the polarization measure under Citizenship and Democracy. On the other hand, if the ability to provide for basic needs is a key factor in these perceptions, then the decline in poverty shown in this section should be improving perceptions of Life Satisfaction and Mental Health measures. The reduction in poverty could, however, be associated with the declining murder rate (see the Violence section).

For more information about data sources and treatments, see the Data Notes section.

Board and Public Support for this Topic and Measures

	Support from Board	*Support from Public*
Inequality (as topic)	*100%*	*62%*
Income Inequality	*71%*	*62%*
Poverty	*93%*	*76%*

Other Measures Considered: The board also considered, but did not include, other measures, including homelessness, wealth inequality by race, and wage inequality by decile. The public only supported poverty and homelessness, but between the three measures of inequality (income, wealth, and wage), they aligned with the board, ranking income inequality the highest.