The idea that inequality is a major social problem in the United States was once a niche belief limited to hard-core leftists, socialists, and Marxists. Why, they asked, is the American public so tolerant of the extreme inequality in its midst? When would middle-class voters come to their senses and stop backing the political party that was generating so much inequality?

But that was then. We now live in a world in which mainstream journalists and the informed public are openly worried about income inequality.
This newfound public concern about inequality has precipitated much journalism and commentary about the state of inequality in the United States. The purpose of our chapter is to ground this new public conversation about inequality in data of unassailable quality. We present here the best available data on four key questions:

- Is there much income and wealth inequality in the United States?
- Has there been a rapid increase in income and wealth inequality in the United States?
- Is the United States distinctively unequal?
- What are the main forces behind any changes in income inequality?

**How Much Inequality Is There?**

We begin with a simple figure conveying the ex-
tent of income and wealth inequality in the contemporary United States. In measuring income inequality, we've presented data from the non-partisan Congressional Budget Office (CBO), which draws on Internal Revenue Service (IRS) tax returns and the Current Population Survey (CPS) to measure inequality in real (i.e., inflation-adjusted) household income after government transfers and federal taxes. This is a conservative measure in the sense that it pertains to inequality after the redistributive effects of taxes and transfers are allowed. Elsewhere in this chapter, we will also refer to measures of “market income,” where that pertains to the sum of all income sources before taxes are assessed and transfers (e.g., unemployment benefits) are counted. Because taxes and transfers have a progressive (i.e., inequality-reducing) effect, the estimates of Figure 2 will reveal less inequality than those based on market income.

The CBO estimates, however “conservative” they may be, nonetheless reveal much inequality. In Figure 2, it’s shown that only 4.9 percent of the national
income goes to the lowest quintile, while a full 52.5 percent goes to the top quintile. It follows that the top quintile has an average income 10.7 times greater than that of the bottom quintile. As for the now-famous one percent, the CBO data indicate that, after taxes and transfers are taken into account, the top one percent of the distribution controls a full 17.1 percent of the national income.

The right side of Figure 2 pertains to wealth in-
equality in 2009. These data, which are based on the Survey of Consumer Finances (SCF), pertain to the total assets of households after subtracting their total liabilities (i.e., “average net worth”). The wealth distribution is shown here to be exceedingly skewed. The top quintile, for example, takes 87.2 percent of the nation’s wealth, a share that’s far higher than its income share. The top one percent is further shown to control over a third of the nation’s wealth (i.e., 35.6 percent). At the same time, the bottom quintile of households has negative wealth (i.e., liabilities exceed assets), while the second quintile has a mere 0.3 percent share. The simple conclusion: The bottom 40 percent of households is effectively without any wealth at all.

What should one make of these results? The conventional characterization, and indeed we’ve already lapsed into it, is to label the results of Figure 2 as revealing “much inequality.” On what basis, however, does one come to the conclusion that there is much inequality? In the end, that type of judgment must of course be grounded in a comparison, a comparison
that may be carried out in terms of (a) what prevailed in the past, (b) what prevails in other countries, or (c) what prevails in some ideal-typical world. Although we will attempt comparisons of all three types in the following sections, we will be focusing mainly on the first two types. In the next chapter of this book, Rob Reich and Debra Satz will address the third type of judgment in far more detail, hence it’s unnecessary to attempt any protracted discussion of it here.

**Trends In Inequality**

We lead off our comparative analysis by considering trends in income inequality in the United States. Because we’re interested in trends over the very long term, our best source is the Internal Revenue Service (IRS) tax return data, and our time series will accordingly pertain to household “market income” (i.e., household income *before* taxes and transfers). The famous U-shaped trend emerges starkly in the classic results of Emmanuel Saez (see Figure 3).⁴ We see inequality dropping precipitously in the late 1920s and
during World War II, stabilizing at a comparatively low level over the next 30 years, and then taking off in the 1970s and ultimately returning to the extreme levels that prevailed in the 1920s.

The foregoing results of course pertain to the top decile. What about the one percent that’s so frequently featured in Occupy commentary? In Figure 4, it’s shown that there’s indeed good reason to feature the one percent in discussions of inequality, as...
they’ve been the main force driving the takeoff. The three trend lines in Figure 4 pertain to the top percentile (i.e., household income exceeding $352,000 in 2010), the next 4 percent (i.e., household income between $150,000 and $352,000 in 2010), and the bottom half of the top decile (i.e., household income between $108,000 and $150,000 in 2010). The simple but dramatic conclusion emerging here is that the fluctuations of the top decile are mainly

**Figure 4. Decomposing trends in the top decile income share**

*Note: The shares reported here pertain to market income (including capital gains).*

*Source: Emmanuel Saez*
(but not entirely) due to fluctuations within the top percentile. That is, the shares of the lower-income groups haven’t increased all that much in recent decades, whereas the share of the one percent has soared.

The foregoing results make it clear that, when the “golden years” of the 1940s, 1950s, and 1960s serve as a comparison point, there’s no alternative but to characterize contemporary U.S. income inequality as extremely high. The share of national income going to the top percentile has roughly doubled during the half-century following those golden years. At the same time, the level of inequality that we’re now experiencing is not entirely unprecedented, indeed both Figures 3 and 4 show that we’ve but returned to the extreme levels that prevailed in the late 1920s.

The trend in wealth inequality is perhaps more complicated. Because long-term trends are again of interest, the Survey of Consumer Finances (SCF) can’t any longer be used (whereas Figure 2 was based on the SCF), and instead the best available source is IRS estate tax returns. The standard approach here,
one that Wojciech Kopczuk and Emmanuel Saez have recently applied,⁵ is to estimate the wealth holdings of the living population from estate tax returns by applying a multiplier that’s based on the appropriate mortality rates. In Figure 5, we’ve presented the results from this approach, results that in fact contrast quite sharply with those presented for income inequality. Although wealth inequality, like income

Figure 5. Trend in the wealth share of the top one percent

inequality, declined precipitously following the stock market crash of 1929, the trajectory thereafter is very different from that for income inequality. The main difference: The share of income going to the top percent has taken off in the last 30 years (see Figure 4), whereas the share of wealth going to the top percent has been roughly stable during that same period. When the focus shifts to wealth inequality, one cannot tell a simple story of growing concentration among the one percent, a result that of course departs sharply from that for income inequality.

Although the one percent are not claiming an ever-rising share of national wealth, it's still possible to find evidence of growing wealth concentration within the more rarefied world of the Forbes 400 Wealthiest Americans. The latter group, which constitutes the top 0.0002%, has increased its share of national wealth from approximately 1.16 percent in 1983 to 3.15 percent in 2006 (see Figure 6). The available evidence further suggests that the mean net worth of this group has not declined very much in the recession and
its aftermath. It’s only among the super-rich, then, that the data accord well with the popular view that the richest individuals control an increasing share of the national wealth. This view has to be rejected for the far more inclusive top one percent.

Does this inconsistency between trends in income and wealth inequality among the one percent pose an intellectual puzzle? Not at all. We know that the

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**Figure 6. Trend in the wealth share for the Forbes 400 wealthiest Americans**

![Trend in the wealth share for the Forbes 400 wealthiest Americans](image)

dramatic growth in top income shares is mainly due to a growth in labor income rather than capital income.\textsuperscript{7} The income of the one percent is rising, in other words, because the one percent is getting paid more for its labor, not because it is getting more returns from capital. What we don’t know, however, is \textit{why} the new high earners didn’t become a true rentier class in the postwar period. Although there’s no definitive evidence on this question, it’s at least plausible that the steeply progressive income and estate taxes of the postwar period led to corresponding difficulties in accumulating wealth.\textsuperscript{8} The implication of this line of reasoning is that, because taxes in the United States are now becoming less progressive, we might well trigger a new wave of wealth concentration and a new Gilded Age in the coming decades.

Cross-National Comparisons
The simple descriptive purpose of this chapter is to examine whether the conventional characterization of the United States as a high-inequality country
is on the mark. To this point, we’ve shown that the well-known trends in income inequality are quite consistent with that conventional characterization, whereas the less-known trends in wealth inequality are more complicated and reveal a growing concentration only among the ranks of the super-rich. We now turn to the cross-national data and ask the analogous question: Does the United States stand out as an unusually unequal country when it’s compared to other rich countries?

Because most countries have experienced substantial over-time change in their income distribution, the only way to carry out a satisfying cross-national comparison is to do so over a relatively long time period, a constraint that again makes the tax-return data the best source. Although a great many methodological complications arise when using tax statistics for the purpose of making cross-national comparisons, the key advantages of doing so are (a) the available time series cover an unusually long sweep of history, and (b) it becomes possible to measure the income shares
of the top one percent and hence speak directly to the type of inequality that has so captivated the Occupy movement. We thus draw on the recent research of Anthony Atkinson, Thomas Piketty, and Emmanuel Saez that is based on carefully harmonized tax statistics from 22 countries.9

For purposes of brevity, we’ll present the trends in income inequality for just two classes of countries, the English speaking countries (i.e., the U.S., Canada, Ireland, the U.K., Australia, and New Zealand), and the Central European countries (i.e., France, Netherlands, Germany, and Switzerland). We will also include Japan in the latter category because its trajectory is similar to that of the Central European cases. The income data for all of these countries, which we’ve presented in Figures 7 and 8, pertain to the income share of the top one percent after excluding realized capital gains.

The trend line for the English-speaking countries, all of which run so-called liberal economies, assumes much the same U-shaped form that we ear-
Figure 7. Trend in the top one percent share for English-speaking countries

![Graph showing trend in the top one percent share for English-speaking countries]

Figure 8. Trend in the top one percent share for Middle Europe and Japan

![Graph showing trend in the top one percent share for Middle Europe and Japan]

lier reported for the U.S. case (see Figure 7). But a starkly different form emerges for the Central European countries and Japan. As shown in Figure 8, these countries do undergo a real decline in inequality during the first half of the 20th century, but that decline is not followed by any subsequent rebound in inequality of the sort found in the U.S. and the other English-speaking countries. For the Central European countries (and Japan), one instead finds a rough stability in the amount of inequality or, in a few cases, even a continuing slight decline (i.e., the Netherlands especially and perhaps Switzerland).

The U.S. case thus stands out against that of other rich countries in at least two important respects. First, it’s within that special class of countries experiencing a U-shaped trend, meaning that inequality has rebounded quite spectacularly in the latter part of the 20th century. This rebound did not happen everywhere (as Figure 8 reveals). Second, even within that class of countries that did experience the rebound, Figure 7 shows that the U.S. experienced it in espe-
cially virulent form. We started off in the early 20th century with especially extreme inequality and also ended up in the early 21st century with especially extreme inequality. It was only in the middle of the 20th century, when the U.S. had reached the bottom of its U-shaped curve, that it registered a quite average amount of inequality and appeared to be a generic rich country. This now appears to have been an unusual and misleading moment in U.S. history. Although there’s a wide class of countries that have followed the U-shaped form, the U.S. has followed that form in an unusually extreme way.

The Sources of Inequality

We have to this point evaluated economic inequality in the U.S. against what has prevailed in the past and in other countries. As a final comparative exercise, we’ll next consider whether present-day inequality exceeds what prevails in a competitive economy that rewards workers on the basis of their contribution to the economy (i.e., “marginal prod-
uct”), a standard that has an almost mythic hold on U.S. judgments about inequality. The key question here is whether the extreme inequality in the United States may be understood as the price one pays for running a highly competitive economy in which individual contributions simply happen to quite unequal.

This question matters because many Americans would find inequality less troubling insofar as they could be assured that it’s simply a byproduct of our insistence on an efficient and competitive economy. In any standard opinion survey, a stock result is that many Americans are willing to tolerate substantial inequality provided that it’s the outcome of an open, competitive, and fair contest and thus reflects the contributions that each individual has made to the economy (i.e., “marginal product”). If, however, there’s a substantial disjuncture between contribution and income, then many Americans will call the resulting inequality into question. This issue can be addressed by examining how various institutions have the capacity to make income higher or lower than one’s
contribution to economic output.

The best-known institution by which such a disjuncture might be introduced is of course the U.S. government and its capacity to tax households and transfer income in ways that reduce inequality. Because average tax rates increase as income rises, and because transfers tend to boost income at the bottom of the distribution, the overall effect of taxes and transfers is to make incomes more equal. For some Americans (i.e., conservatives), the recent rise in inequality is less troubling to the extent that it’s driven by a reduction in taxes and transfers, as such a reduction is valued for “ending handouts” and thereby bringing contributions and income into better alignment. For other Americans (i.e., liberals), the recent rise in inequality is more troubling if it’s driven by a decline in taxes and transfers, as such a result means that the government is defaulting on its obligation to compensate for unequal opportunities and to provide a buffer against a harshly competitive market economy. In either case, the protagonists care deeply
about whether the takeoff is attributable to changes in
taxes and transfers, although those possible changes
are evaluated very differently.

The best way to gauge the role of taxes and trans-
fers in the takeoff is to revisit the Congressional Bud-
get Office (CBO) estimates with which we led off.\textsuperscript{10} The two key results from these estimates are that
(a) taxes and transfers are not reducing inequality
as much as they once did, and (b) the takeoff in
income inequality is nonetheless mainly driven by
forces other than the declining redistributive impact
of government. The first result, with which we’ll start,
is especially critical. In its now-classic 2011 report,
the CBO estimates that federal taxes and transfers
reduced inequality by 23 percent in 1979, whereas
they reduced inequality only by 17 percent in 2007.
This decline arose because federal taxes shrank as a
share of market income and because taxes and the
distribution of transfers became less progressive. The
simple consequence of these changes is that house-
holds at the bottom of the distribution are, on aver-
age, benefiting less from government tax and transfer policy than they did in the past. We can interpret this result as a partial realization of the conservative commitment to bring income into better alignment with the economic contributions that workers make.

The CBO report goes on, however, to establish that the declining redistributive effect of government cannot explain all that much of the recent takeoff in income inequality. The CBO graph reproduced in Figure 9 shows that the trend line for market inequality is only slightly less steep than the trend line for post-redistribution inequality. It follows that the debate between conservatives and Occupy supporters about the role of government in generating inequality has gone somewhat off track. This debate has focused obsessively on issues of redistribution even though the takeoff in inequality has little to do with changes in redistributive practices. If Occupy supporters can’t legitimately blame much of rising inequality on tax rebates to the rich, nor can conservatives revel in the increase as tax-related and
thus liberty-increasing. The takeoff is instead mainly driven by various forces within the market that determine the distribution of income before taxes are assessed and transfers are made. The rest of this section will accordingly be devoted to a discussion of some of those labor market forces.

We begin by considering the role of unions in accounting for the takeoff in inequality. We do so because unions are conventionally understood as

Note: These data are drawn from the Congressional Budget Office.
one of the main labor market institutions allowing workers to secure incomes in excess of what they would obtain in a narrowly competitive market. If government tax and transfer policy has arguably been the primary compensatory institution of this sort, then unions have historically been a secondary means of ensuring that workers needn’t settle for incomes equaling the competitive wage. There are two main ways in which unions help workers. Most obviously, they raise the wages of union members by providing them with a monopoly over certain jobs, in effect preventing employers from driving down wages by pitting union and nonunion workers against one another. But equally important they also raise the wages of nonunion workers because (a) employers wish to forestall unionization (i.e., the threat effect), and (b) the union wage generates widely-shared norms about proper pay that are then costly for employers of nonunion workers to ignore (i.e., the moral economy effect). Although unions have historically reduced inequality in both ways, we’re interested in assessing
whether such equalizing effects are waning with the historic decline in the proportion of workers who are unionized.\textsuperscript{12}

In addressing this question, we’re obliged to turn to the Current Population Survey (CPS), as it includes information on union membership and other relevant individual determinants of wages. We rely in particular on the recent research of Bruce Western and Jake Rosenfeld examining the effects of unions not just on the wages of union workers but also on the wages of nonunion workers who, as discussed above, indirectly benefit from the norms of fair pay promulgated by unions.\textsuperscript{13} The core result of their research is presented in Figure 10. The top line in this figure pertains to the actual increase in wage inequality, and the bottom line pertains to the increase in wage inequality that would have obtained had unionization remained at the very high level (i.e., 34 percent) that prevailed in 1973.\textsuperscript{14} The differing slopes of these two lines implies that approximately one third of the rise in inequality is attributable to the decline in unionization between
1973 to 2007. It follows that the working class has lost out not just because taxes and transfers benefit it less but also because unions no longer play an important role in driving up its wages.

These two results thus speak to the inequality-increasing effects of obliging the bottom of the class structure to make do with a narrowly competitive

Figure 10. Effects of deunionization on the wage inequality of male workers

Note: The figure is drawn from Bruce Western and Jake Rosenfeld, 2011, “Unions, Norms, and the Rise in U.S. Wage Inequality,” American Sociological Review 76, pp. 513-37. The income data pertain to the hourly wages of full-time private-sector male, and inequality is measured as the variance of log wages between groups defined by age, race, ethnicity, education, region, union membership, and region-industry unionization rates.
wage. For those who are troubled by inequality, it’s unfortunate that some of the institutional forces behind the takeoff have widespread popular support, a support that’s grounded in a moral commitment to a competitive economy (or, more precisely, a commitment to the conventional accoutrements of a competitive economy). In the United States, we vilify transfer programs as mere handouts, and we’re suspicious of all institutions, such as unions, that can be represented as anti-competitive. It may accordingly be difficult to roll back inequality by simply reestablishing the institutional forms that once moderated it.

It’s instructive to ask whether the main institutional developments at the top of the class structure may likewise be understood as consistent with this commitment to a competitive economy. This question has been addressed most prominently by scholars attempting to account for the rising payout to CEOs. The takeoff in CEO pay is itself incontrovertible: The average compensation of CEOs, when divided by the average compensation of production workers, yields
a ratio that increases from 24.2 in 1965 to 185.3 in 2009. Although some scholars argue that weaknesses in corporate governance have allowed CEOs to pay themselves in excess of their contribution, others argue that rising compensation merely reflects weakening norms against interfirm CEO mobility as well as the increasingly consequential decisions of CEOs operating in a fast-moving global economy. The former account suggests that the economy at the top of the class structure is becoming less competitive, whereas the latter suggests that it’s becoming more competitive. We won’t attempt to weigh in on this debate because it remains so unsettled at this point.

The analogous debate also emerges in research on the role of education in the takeoff in inequality. The facts themselves are again quite clear: It’s well established that the rising payoff to college and post-college schooling is an importance source of the takeoff in earnings inequality. It’s less clear, however, why the payoff to schooling is increasing and in particular whether the increase is driven by (a) the rising demand
for and productivity of college-educated workers (i.e., “skill-biased technological change”), or (b) a persistent shortage of workers that arises because children born into poor families don’t have a full opportunity to attend college (i.e., the “bottleneck narrative”).

The first of these two narratives emphasizes that technological change, especially the computerization of the workplace, serves to increase the demand for educated labor. Because this demand can’t be immediately met, the payoff to educated labor increases as employers compete with one another and bid up its price, and the earnings gap between educated and uneducated labor accordingly widens. The second narrative, by contrast, emphasizes that the supply of potential college students is artificially lowered because children born into poor families and neighborhoods don’t have the training that qualifies them for entry into college. This bottleneck means that those lucky enough to have a college education are protected from competition and reap excessive pay as a result. If all children, even those born into poor
families, had fair and open access to higher education, these excessive returns would disappear under the force of competition.

The bottleneck narrative thus partly attributes the takeoff in inequality to an educational system that denies poor children a full opportunity to go to college. The inequality that results from such a bottleneck is especially vulnerable to public critique because it violates our commitment to the free flow of labor and to an open and competitive economy. Obversely, the main inequality-generating forces at the bottom of the class structure (e.g., deunionization) are less vulnerable to criticism, indeed they’re often defended and supported as competition-enhancing. It’s not implausible that the Occupy movement has increasingly focused on the bottleneck critique precisely because it resonates so well with core American values.

**Conclusions**

The purpose of this chapter has been to lay out the main facts of economic inequality with data of
unimpeachable quality. It’s been conventional, at least since the Occupy movement broke out, to characterize the U.S. case as one of “much inequality.” We’ve sought to specify more formally the types of comparisons that are or are not consistent with that conventional characterization. We’ve asked whether it can be upheld when comparing present-day data to (a) what prevailed in the past, (b) what prevails in other countries, or (c) what prevails in some ideal-typical world.

The trend data reveal a more complicated story than casual followers of the inequality literature might have imagined. Although the share of income going to the top percent has of course taken off in the last 30 years, the share of wealth going to the top percent has, by contrast, been roughly stable during that same period. The latter result, which hasn’t been widely publicized, appears to be one of the real triumphs of the comparatively aggressive tax policy of the post-war period. The high earners of the postwar period may have had difficulties accumulating wealth and
becoming a true rentier class because income and estate taxes of that period were so steeply progressive.19

The cross-national data reveal a story that’s more frequently rehearsed. When compared to other countries, the U.S. case stands out as starkly distinctive, indeed it’s even extreme when the comparison is limited to other countries that have, like the U.S., experienced a U-shaped trend in inequality. The U.S. variant of that trend line is distinctive by virtue of its extreme inequality at both the beginning and end points. It was only in the middle of the 20th century, when the U.S. had reached the bottom of its U-shaped curve, that it registered a quite average amount of inequality and showed up as a generic rich country.

We concluded by asking how the U.S. measures up against various “institutional ideals” rather than existing societies. Although there are many such ideals in play (see “Ethics and Inequality”), we’ve focused on the competitive-market ideal because it’s a touchstone for so many Americans. We’ve thus asked whether
the main inequality-generating changes underway are bringing us closer or further to that ideal. The answer to this question would appear to vary by sector. At the bottom of the class structure, it’s the standard story of various “anti-competitive” protections for workers, such as unions, facing an increasingly hostile reception and playing an ever-diminished role. At the top of the class structure, the analogous “anti-competitive” practices (e.g., rationing education, CEO overpay) are largely hidden from view, have not been delegitimized, and may well be generating much illicit inequality. It’s precisely this double standard that at least some members of the Occupy movement have sought to target.