Inequality Is Most Extreme in Wealth, Not Income

By CATHERINE RAMPELL

Typically, comments about rising inequality refer to the stark disparities in incomes of the very highest-paid Americans and everyone. We have observed in several posts, for example, that most of the income gains over the last few decades have gone to the very richest Americans. That means the highest-paid Americans have been claiming a larger and larger share of earnings.

Here’s a chart I put together showing what percentage of all of America’s income (including capital gains) is going to each of several income classes, today versus previous years:


Pretty striking, right? As of 2008, about 21 percent of income was received by just 1 percent of earners.

But economic inequality isn’t just about how much you make — it’s about how much you have.

To that end, the Economic Policy Institute, a liberal research organization, has published a new report looking at disparities in wealth in the United States.

It includes this chart, showing estimates of what share of wealth each class claims:


As you can see, the nation’s income distribution may be quite lopsided, but its wealth distribution is even more so.

The top 1 percent of earners receive about a fifth of all American income; on the other hand, the top 1 percent of Americans by net worth hold about a third of American wealth. (Note that the top income earners are not necessarily the same people as the top net-worth Americans — after all, lots of high-net-worth people don’t work or have much else in the way of sources of new income.) Wealth-related inequality has also been relatively stable over the last few decades, whereas income-related inequality has been growing since the ’70s.

Why is there more inequality in wealth than in income, both today and yesterday?

Remember that wealth accumulates over time. The highest earners are able to save much of their incomes, whereas lower earners can’t. That means high earners can accumulate more and
more wealth as time goes on (assuming they don’t blow it all, of course).

Higher-earning Americans also have the resources to pay for better tax preparation, which helps them reduce their taxes and save even more money. On the tax front, note also that people who have already accumulated wealth stand to earn a lot in capital gains, which are also taxed at a lower rate.

But as I noted above, most of the attention paid to economic inequality pertains to what people are making each hour or each year, not what they already have stored up or what kind of cushion they have to fall back on. Perhaps that’s because most people don’t have a firm grasp of how much they’re “worth,” but they can always look to their paychecks to see how much they have coming in, and can make easier comparisons to their neighbors.

Proposals for a wealth tax resurface periodically. The idea is always contentious since it basically requires double-taxation of earnings. There are lots of existing examples of double-taxation on the books, though.