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NATIONAL TRENDS IN INCOME INEQUALITY

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The financial crisis of 2007-2008 increased awareness and sensitivity to the growing disparity between rich and poor. Since the 1970s, top earners have claimed an ever-larger share of total income while wage and household income growth have stalled for most Americans. Numerous studies have reported rising inequality (e.g., Autor et al., 2008; Piketty and Saez, 2003), but the precise trend depends on the definition of income – e.g., labor income, capital gains and appreciation, taxes, transfers and benefits, etc.

Economists have focused primarily on a growing gap between skilled and less-skilled workers, but have also noted rising "residual" inequality within these groups (Autor et al., 2008). Western and Rosenfield (2011) report that inequality in hourly wages increased by over 40 percent between 1973 and 2007. Median earnings for men working full-time and year-round (adjusted for inflation) peaked in 1973 and are lower now than four decades earlier. On the other hand, women's wages have increased substantially as women represent a growing share of the US labor force (see Figure 1; DeNavas-Walt et al., 2012).

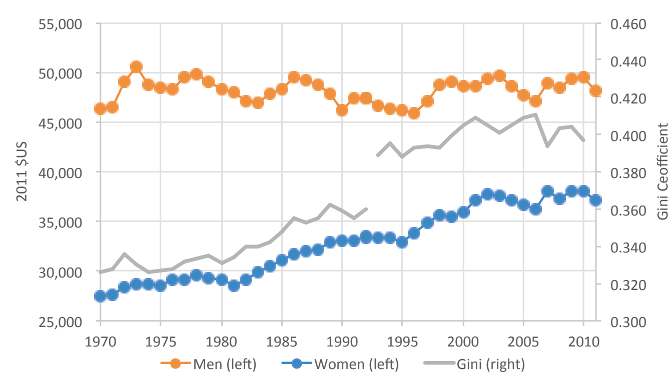
Stagnant wages and lower labor force participation among men and more single-earner households have led to slow if any growth in household income for most Americans. The real median household income in the United States in 2010 was no higher than it had been two decades earlier, and it was only 7.2 percent higher in 2010 than in 1973. Meanwhile, the average income for the richest 20 percent of households increased 43.5 percent since 1973 (see Figure 2; DeNavas-Walt et al., 2012). Between 1973 and 2010, average household income increased $13,657 (in 2000 $US); of that new income, $10,282 or 75.3 percent went to the richest 20 percent of households.

The concentration of incomes at the top is more dramatic if we parse out the very richest Americans. According to the incomes (including capital gains) reported in federal tax returns, the richest one percent of Americans grew their incomes by 164.5 percent between 1970 and 2011 (Piketty and Saez, 2003). Meanwhile, the average income for the poorest 90 percent of American was 7.3 percent lower in 2011 than in 1970. Any gains made during periods of national economic growth were subsequently erased in the following recession (see Figure 3). As a result, in 1970 the richest one percent earned 12.1 times more on average than the poorest 90 percent of Americans; that figure ballooned to 42.2 in 2007 before falling to 34.4 in 2011. The share of total income (including capital gains) going to the richest one percent increased from 9.0 percent in 1970 to 23.5 percent in 2007 and 19.8 percent in 2011.

A 2011 study by the Congressional Budget Office adopted a more comprehensive definition of income that included employee benefits, controlled for household size, and accounted for federal taxes and government transfers. CBO reported higher income growth overall, but particularly strong growth, 275 percent, for the richest one percent of tax units. Consequently, their income share grew from eight percent to 17 percent of total after-tax income. The study concluded that redistribution through progressive taxation and means-tested transfers reduced market inequalities, but these were less efficacious in 2007 than in 1979 (CBO 2011:xii); rising after-tax inequality reflected both rising market inequalities (pre-tax) and reduced redistribution.

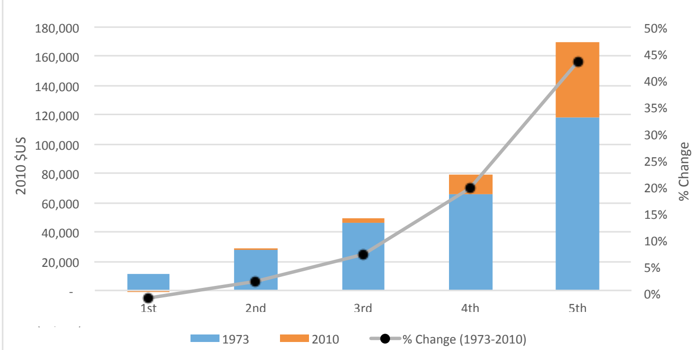
METRO/NONMETRO INEQUALITY

Household income inequality is higher today than four decades ago for both metro and nonmetro populations. The inequality trend, however, for metro households has been much steeper. Inequality in nonmetro areas was .021 points



Note: The break in the Gini series between 1992 and 1993 is due to a change in CPS data collection methodology. Median earnings and Gini coefficients from DeNavas-Walt, Carmen, Bernadette D. Proctor and Jessica C. Smith. (2012). Income, Poverty, and Health Insurance Coverage in the United States: 2011. *Current Population Reports*, US Census Bureau, Table A-4.

Figure 1. Median Earnings and Inequality for Full-Time, Yeard-Round Workers.



Note: Amerage incomes by quintile from DeNavas-Walt, Carmen, Bernadette D. Proctor and Jessica C. Smith. (2012). Income, Poverty, and Health Insurance Coverage in the United States: 2011. *Current Population Reports*, US Census Bureau, Tables A-2.

Figure 2. Average Income by Quintile and % Change, 1973-2010.

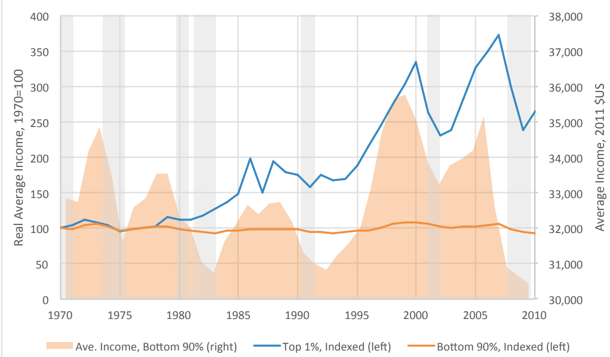
higher, as measured by the Gini coefficient, in 1968, but .038 points lower in 2012 than in metro areas. In other words, the gap between rich and poor has been growing across the United States, but it has been growing less rapidly in America's rural areas.

Why has inequality risen faster among metro households than nonmetro households? Essentially, the key processes driving up income inequality between households are urban phenomena. For example, economists note that new technologies complement skilled workers, a trend known as skill-biased technological change. Tasks traditionally performed by moderately-skilled workers can now be executed more efficiently by a skilled worker with a computer, for example. This trend has been mirrored by a decline in private sector union membership and good-paying manufacturing jobs. New technologies also created new opportunities for "superstars" (actors, athletes) to reach larger markets.

The growing skill gap, declining manufacturing employment, and higher incomes for economic "superstars" are especially important in urban areas. For example, Albrecht (2012) shows that incomes for less-skilled workers are similar for metro and nonmetro workers, but the gap between those with a college degree and those without is much larger in metro areas. This has two effects. First, as opportunities for less skilled workers have stagnated over the last several decades, the impact on inequality has been larger in metro than in nonmetro areas. Second, talented, well-educated rural residents are drawn to urban areas where they can claim a higher salary.

Along those same lines, the richest Americans have enjoyed stronger income growth than most Americans; nonmetro households represent 16.3 percent of all households but less than five percent of the richest one percent of households by household income (according to the ACS five year sample, 2007-2011). Economic superstars – CEOs, athletes, musicians, and hedge fund managers – are concentrated in big cities. For nonmetro Public Use Microdata Areas (PUMA), there is a stronger correlation between the poverty rate and household income inequality. On the other hand, inequality in metro PUMAs is more strongly influenced by the share of very rich households.

The level of inequality also varies across rural areas. Inequality is significantly higher in the South and lowest in the Northeast and Midwest. Again, this highlights the relationship between poverty and inequality in nonmetro areas. Poverty and inequality are especially high in regions with large, historically disenfranchised populations.



Note: Gray bars represent periods of recession. Income shares of top 1% and top 10% and total average income from Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez. The World Top Incomes Database, http://topincomes.g-mond.parisschoolofeconomics.eu/, Retrieved July 29, 2013. Average income for bottom 90% and indexed income for top 1% based on author's calculations.

Figure 3. Average Income (including Capital Gains), Bottom 90% and Top 1%.

POLICY RECOMMENDATIONS

The growing accumulation of wealth in cities is creating large disparities between haves and have-nots. In rural areas, the relationship is somewhat reversed – the poor are isolated, geographically and otherwise, from wealth-generating economic activities; here, poverty, exclusion, and inequality go hand-in-hand. The challenge is to assist the rural poor to access and compete in an economy that is more concentrated in urban centers and more global than in the past.

Many of the rural poor live in areas where traditional sources of income have dried up, but new technologies can allow these individuals to access markets in new ways. The internet connects rural vendors directly with buyers around the country and the world, but many lack access to a fast, reliable internet connection. Along these lines, modern communication technologies can decentralize the workplace in some cases, and allow rural residents to work for urban firms without relocating. But, again, these arrangements require a dependable digital connection.

Rural residents must also have the tools to compete in an evolving economy. For example, the infrastructural capacity to access the internet is meaningless unless they have the knowledge and tools to exploit it. This requires an investment in education and training, especially for historically excluded populations.

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