

Income Inequality in the United States

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### Abstract

This essay is an overview on the situation with respect to the income gap between the rich and the poor in the United States. This is also known as income inequality in the United States. This essay focuses on factors that play key roles in income inequality such as: gender differences, education, and race. There is much debate about whether income inequality is a healthy part of capitalism. Well of course income inequality is only fair to the 1 percent of the population in the United States, but if American's can strive to do the best of their ability and be all that they can be, we could see a more prosperous economy with less poverty and equality wouldn't matter.

### Income Inequality in the United States

What is income inequality? Income inequality is the extent of disparity income inequality. There are around 309 million people in the United States according to the 2010 U.S. Census and the total wealth of the top 400 is more than the bottom 185,400,000 combined, which means the top 1 percent of the population control 40 percent of the wealth (Quillen, 2012). The top 1 percent earns wages around \$380,000 per year which is roughly 7.5 times the United States median household income (Quillen, 2012). So income in the United States is a lot like television where just five companies control most of the primetime viewing, only 1 percent controls most of the wealth. In 2010 the average U.S. household income was \$39,959 according to the Social Security Administration. However the median income, meaning half of Americans made more, the other half which made less was substantially lower at \$26,364 (Wuorio, Fast-growing income gap in U.S., 2012). In 1947, the median family made \$23,400 according to the Economic Policy Institute, over the next three decades the median income more than doubled to \$47,400 in 1977 and by 2005, the median family made \$58,400 (Leonhardt, 2011).

Two economists Thomas Piketty and Emmanuel Saez, have research that shows that in the late 1970's the cutoff to qualify for the highest-earning one ten-thousandth of households was roughly \$2 million, but by 2007 it had jumped to \$11.5 million (Leonhardt, 2011). But data is beginning to show that the rich as a group are no longer getting richer, over the last two years they have become poorer (Leonhardt, 2011). Since this data, there have been a few questions that economists are beginning to ask, one of

them is whether harder times for the rich will be beneficial to the poor, and just how much poorer will the rich become.

In the past decade, the U.S. has seen incomes at the very top of the totem pole, but the wages of the middle class are either staying the same or declining. Academic research is showing that a new phenomenon called “trickle-down consumption” is showing a powerful impact on politics and the economy in the United States, this idea is that income inequality is having a significant impact on the 99 percent: It drives the rest of us to consume more, whether we can afford it or not (Freeland, 2012). Robert H. Frank and Ben Bernake, two economists have done a lot of research during the past two decades and believe that rising income inequality is affecting us through what they call “expenditure cascades.”

So why is income inequality on the rise in the United States today? Well it’s one of the biggest socioeconomic questions in the U.S. today. According to a survey: Controversies about the Rise of American Inequality there are seven aspects that contribute to this factor which are: changes in labor’s share of income, inequality at the bottom of the income distribution including labor mobility, skill biased technical change, inequality among high income groups, consumption inequality, geographical inequality, and international differences in the income distribution, particularly at the top (Belsie, 2012).

There are also gender differences in income inequality. Women are more likely to live in poverty than men because they earn less money and have fewer assets. In 2008 the median weekly earnings for women were \$638, compared to men that earned median weekly earnings of \$798 (U.S. Department of Labor B. o., 2009). When women entered

the labor market they took the lowest-paying jobs which mirrored work that they normally did at home such as, cleaning, cooking, sewing, and child care. They would also receive less for working 78 hours than the amount men were getting for one ten-hour day (Women in American Society, 2010). Men continue to earn more than women despite the fact that women now have an increased educational opportunity and equal participation in the work force. Even though men tend to earn more, some evidence is showing that the gap between a few subgroups is narrowing. The reason that women are moving up the totem pole of income inequality is that in 2007 women in their 20's in certain occupations were making more than their male counterparts in large cities around the country like New York City (Roberts, 2007). A variety of factors could have made this change. For one thing women are better educated than men. In 2005, 53 percent of working women in their 20's had graduated from college, whereas only 38 percent of men had (Women in American Society, 2010). Women also seem to be migrating to big cities with more professional opportunities to earn exactly the same wages as men in professions like engineering and business management.

Even though women are becoming more educated they continue to earn less at each level of educational attainment than men do however, between 1979 and 2008 women's earnings grew more than men's did at all educational levels (U.S. Department of Labor B. o., Highlights of Women's Earnings in 2008, 2009). Men without a high school diploma lost about 29 percent in inflation-adjusted dollar earnings during this period whereas women lost 10 percent (Women in American Society, 2010). Women with some college or an associate's degree saw their earnings grow about 8 percent, whereas men with the same amount of education lost more than 9 percent in real earnings

(Women in American Society, 2010). Woman college graduates saw their earnings rise 31 percent whereas the men's earnings rose only about 18 percent (Women in American Society, 2010).

Not only does gender have an effect on income inequality, age and racial differences do as well. The Bureau of Labor statistics shows that among 20-24 year-olds at the end of 2009, women made a median of \$435 per week while men in this age group made \$471 per week therefore women in this age group made 92.4 percent of what men earned (Statistics, 2009 ). In the older age group, the 55 to 64-year-olds, the women earned a median of \$721, while the men earned \$964, so women made only 74.8 percent of what men earned (Women in American Society, 2010). The widest gap between age groups for income earnings was among 45-54 year-olds; in this age group men earned \$961 per week and women earned \$703, which is only 73.2 percent of what men earned (Women in American Society, 2010).

In 2008 Hispanic women earned a median of \$501 per week whereas Hispanic men earned \$559 per week for an earnings gap ratio of 89.6 percent (U.S. Department of Labor B. o., U.S. Department of Labor, Bureau of Labor Statistics, 2009). African-American women made a median of \$554 per week, while African-American men made \$620 per week, which is an earning gap ratio of 89.4 percent (U.S. Department of Labor B. o., U.S. Department of Labor, Bureau of Labor Statistics, 2009). However, white women earned a median of \$654 which was only 79.3 percent of what white men made which is \$825 (U.S. Department of Labor B. o., U.S. Department of Labor, Bureau of Labor Statistics, 2009).

So how does the United States fare as far as the rest of the world due to income inequality? Well according to a U.N. Human Development Index study, which measures three basic factors of human well being: a long and healthy life, education and the standard of living we are ranked fourth (Wuorio, Fast Growing Income Gap in the U.S. , 2012). Fourth is really not all that bad, what is depressing is that with the average income of \$40,000, Americans are often living paycheck to paycheck. The U.N. study has shown that the U.S. comparable to other countries of comparable income has a much wider gap of inequality between rich and the poor (Wuorio, Fast Growing Income Gap in the U.S. , 2012).

So what are some of the effects of the richer vs. the poorer? According to (Lopez, 2002) economic relative deprivation, which means having a lower income than others is often said to have negative effects on psychological and behavioral outcomes as well as on physical health. Sociological research has linked relative deprivation with social protest, violent crime, property crime, and drug use (Canache, 1996; Schulz, 1998; Stiles, Liu, & Kaplan, 2000). Psychological experiments also have showed that relative deprivation has a negative impact on emotional well-being, and public health studies have linked relative deprivation to stress, depression, alcohol abuse, suicide, eating habits, high blood pressure, heart disease, and mortality (Eibner, 2000).

So, is income inequality a healthy part of capitalism, or should something be done about it? While there is a lot of evidence to show that income inequality has negative impacts on society, the poor are doing better. The media and other irresponsible advocate groups like to report wild statistics about hunger and homelessness, but the truth is most Americans living below the official poverty line have air conditioning, microwaves, and

VCR's (Sowell, 2003). Robert A. Heinlein said, "Throughout history, poverty is the normal condition of man, and in modern open-market capitalist society, entrepreneurs get rich and poor get better off as a result." He also argues that if the rich weren't free to get even richer, the poor would never have a chance at all to improve their conditions, because the rich are expanding productivity which is what wealth is based on and how the poorer get richer. If everyone made the same amount of earnings, status, prestige, and other rewards it would be a lot harder to motivate people to strive to do better and earn more. In order for our economy to grow we need to reward the ambitious, skilled risk-taking American's so they can strive to be more. Reward inevitably leads to greater inequality (Tanner, 2012). Nobel Prize winner, F.A. Hayek concluded, "The rapid economic advance that we have come to expect seems to be in large measure a result of this inequality and to be impossible without it. Progress at such a fast rate cannot take place on a uniform front but must take place in an echelon fashion, with some far in front of the rest." (Tanner, 2012). So while income inequality may lead some to wealth and the rest to poverty (which isn't fair for everyone) American's should take advantage of the inequality and strive to be the best that they can be in order for America "the land of opportunity" to seek a more prosperous, growing economy with less poverty.

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