Income Inequality

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Factors that affect Income Inequality



Income Across the Recessions



The graph to the right shows the bottom quintile's share of income was 5.2 percent in 1967, but it fell to 3.6 percent by 2008 and then to a low of 3.4 percent in 2009 (a drop from start to finish of about 45 percent). The second quintile also lost share, falling 20 percent from 11.9 to 9.2 percent of total income in 2009 which was another low. The middle quintile dropped 10 percent in share over this recession, while the fourth quintile showed little change, ranging between 22 and 24 percent of total income. In contrast, the top quintile share rose from 42.5 to 49.4 percent of total income in 2009, an all-time high (similar to that reached in 2006, before the recession).

Inequality Trends

Inequality Trends 1947-2012



The graph to the left depicts a range of inequality trends from the years following WWII till present day that notes a spike in inequality entering the 1980s. Throughout steady economic growth (light blue bars = GDP inflation adjusted 2012 dollars) there has been a significant disparity of income distribution between the top 10% and the working American family income.

Inequality Trends Gini Ratio

Inequality Trends 1947-2012

The gini coefficient is the most commonly used benchmark to measure amount of income inequality.

In the visual to the left, the red line indicates the gini ratio as an inequality measure against a backdrop of GDP growth. The greater the value equals greater inequality.



Real Wages

In the 1980's Globalization was beginning as well as a technological revolution

Financial markets were becoming powerful and deregulation began

As productivity began to increase, real wages started to stagnate

Real wages should have been increasing with productivity, but they weren't

Consequence: Income inequality





Change in Real Wages

10Th P 20Th P 30Th P 40Th P 50Th 60Th P 70Th P 80Th P 90Th P 95Th P



Change in Real Wages

ercent., erc

ercent., erc



Union Rates

- These graph demonstrates how when union rates are low the higher the income inequality rate is
- When unionization was at 35% in the 1950's income inequality was 12%
- During the Great Depression and the most recent recession income inequality was at an all time high of 23%

Top Marginal Tax Rate

- In the decades when we did not have high rates of income inequality the top marginal tax rate was at 91%- a progressive tax system
- In 2010 the top marginal tax rate is at 35% increasing income inequality because it is leaving a lot of money in the hands of the top one percent
- In the 1930's the tax rate was 25% and the income inequality was high



Any questions about whether that consolidation of money works to affect policy can be answered by looking at top marginal tax rates — the rates on any earnings over the highest tax threshold. Over the last century, as inequality goes up, these top tax rates go down.

Tax Rate Analysis



As you can see from the top 1%, Middle, and Lowest quintiles, as the tax rate decreased, income inequality increased. Income inequality was not as present in 1979 because the Top 1 Percent and Middle class paid a fair tax rate as according to a progressive tax system. In 2009 all rates were decreased and income inequality increased.