AN ESSAY ON WAGES AND INCOME INEQUALITY IN THE U.S.

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dx.doi.org/10.18374/IJBR-21-1.3

ABSTRACT

This essay looks at income inequality in the United States from a historical perspective. Income inequality is one of the most important economic problems of our time. Income inequality improved after the Great Depression and was stable until the 1970s when it started to increase again, surpassing the Great Depression era. This essay uses the U.S. Bureau of Labor Statistics Occupational Employment Statistics data from 2000 and 2010 to 2019. Results show that 57 percent of workers are in low-paying jobs earning 39 percent of the total compensation and 23 percent are in high-paying jobs earning 41 percent of the total compensation in 2019, documenting that the unequal distribution of income still persists.

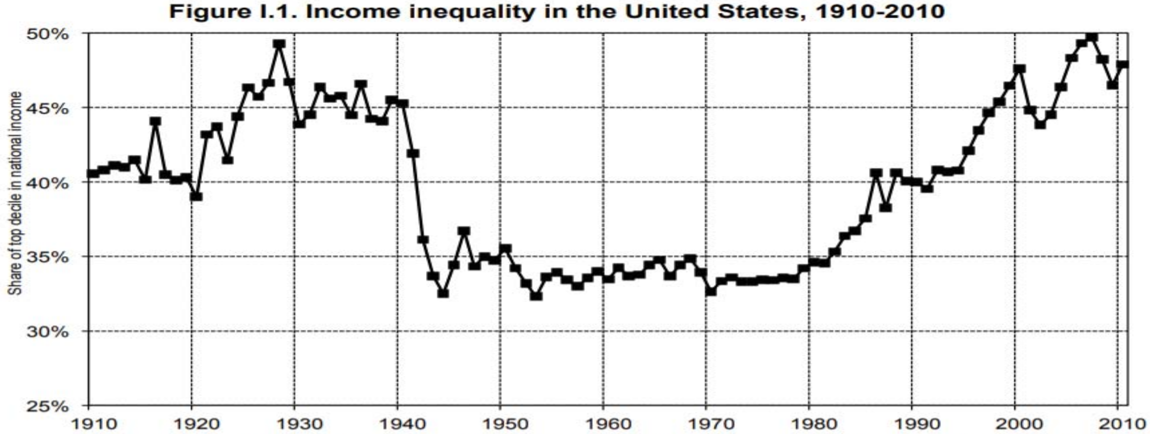
***Keywords**: Income inequality, wealth inequality, poverty, social safety net, occupation employment statistics data*

1. INTRODUCTION

Historically, societies were agrarian and thus, people were able to provide for their basic needs by living and working on their farms. In difficult times, they could rely on family for support. The industrial revolution abolished the rural agrarian societies and replaced them with the industrialized urban societies were the extended family system was replaced with the nuclear family. Factory workers losing their jobs had to endure severe economic hardships and no reliance on family for support. Economists predicted that industrialization would make the income distribution more unequal because manufacturing enriched the owners of capital more; but also predicted that as the nation advances toward high-value-added manufacturing and services and more of the population begins to participate in higher-productivity industries, that trend toward greater inequality will reverse (Kuznets, 1955).

Even though income inequality improved in the 1940s as predicted by growth theories, it started to become unequal again in the 1980s. Figure 1 from Capital in the Twenty-First Century shows the share of income of the top 10 percent dropped from 45 percent in 1930 to below 35 percent in the 1940s. However, in the 80s the trend reversed and by the turn of the century increased to 50 percent, surpassing the Great Depression era.

Figure I.1. Income inequality in the United States, 1910-2010



The top decile share in U.S. national income dropped from 45-50% in the 1910s-1920s to less than 35% in the 1950s (this is the fall documented by Kuznets); it then rose from less than 35% in the 1970s to 45-50% in the 2000s-2010s. Sources and series: see piketty.pse.ens.fr/capital21c.