

# Income Inequality: Another Look

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## Abstract

*The purpose of this article is to examine the inequality in the distribution of income. The distribution of income is an important issue for all facets of our society. Many governmental policies (taxation, etc.), for example, influence the distribution of income. This article will look at the distribution of income on the basis of race, comparing the income distribution of Blacks versus the income distribution of Whites. Comparisons will be made between races as well as within each race.*

## Introduction

The inequality of income distribution over time, has for many years been a major issue in political, social and academic circles. This is an issue that has never seemed to go away and has occupied international as well as domestic thinking. The reasons for this preoccupation are commonly known. However, for completeness sake, these will be quickly reiterated.

First, the degree to which income is equally distributed has a bearing on the level of efficiency in the economy, as far as productivity is concerned. If income is too unequally distributed, efficiency, as it relates to productivity, could decline, for if those who are in the lower end of the income spectrum feel that they are not being rewarded for their labors, they could well cease to maximize their productivity. This could cause economic growth to be curtailed and ultimately could bring about social unrest as frustration on the part of low income groups sets in.

A second and non-economic reason for concern is morality. Many individuals feel that

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reducing income inequality is a moral obligation and is a part of this country's and particularly government's responsibility.

Before more closely analyzing the distribution of income, an important caveat is in order at this time. The purpose of this paper is not to determine how equally or unequally income should be distributed, because this a normative problem with no numerically exact answer. The argument given above that as income becomes more unequally distributed, economic efficiency would suffer brings forth the counter argument that if income becomes too equally distributed it is possible that incentives to produce and to work hard would be adversely affected.

## Literature Review

There has been a significant amount of research done in the area of income distribution. All of these studies have found the distribution of income becoming more unequal over time. Bradbury (1990) looked at the income distribution for families from 1979 through 1988. She found that, in fact, the income distribution had become more unequal over the time period covered. More specifically she found that:

- (1) Young families tended to lose ground when it came to the distribution of income over time.
- (2) Families headed by two parents did better, from an income perspective than single parent homes.
- (3) The income gap between those with higher education versus those who were less educated widened. This contributed to the unequal distribution of income.
- (4) The distribution of income is affected by location. The location of prospective workers can affect their job prospects. This is especially true for minorities who live in depressed inner city neighborhoods. With less access to job markets, it is difficult for those who are isolated to get good jobs. This increases the inequality of the income distribution.
- (5) Those who have higher levels of education tend to receive higher wages than those who don't. This trend has been increasing which has helped to cause the distribution of income to be more unequal.
- (6) The decline in unionization has hurt the income stream of workers which influences the distribution of income, since union workers are typically paid more than non-union workers.

The Federal Reserve Bank of New York published another set of studies dealing with the distribution of income in its *Economic Policy Review* (1995) journal. The period analyzed was the decade of the 1980s and the early 1990s. The summary conclusions that came from this study were:

- (1) The demand for highly educated workers increased and as a result more highly educated workers commanded an educational premium. This helped to cause the distribution of income to be more unequal.
- (2) Immigration has caused an increase in income inequality because there has been a large influx of immigrants into our country and immigrants typically command lower wages.
- (3) Global competition, it is argued, has had lit-

tle effect on the distribution of income since international trade accounts for a relative small part of total economic activity in the United States.

The point of departure for this study is two-fold. First of all, to update the measurement of the distribution of income through 1995. Specifically, the period covered in this study is 1967 through 1995. Second, to look at income distribution not in the aggregate, but to look at the income distribution of African Americans versus White Americans. This is certainly relevant, since, for example, many government policies are specifically aimed at African Americans. Therefore, it is important to determine how African Americans are faring economically versus White Americans.

### Methodology

The method of analysis is to divide the income of those in the lowest quintile by the income of those in the top 5 percent of the income distribution. This comparison will reveal the distribution of income between the richest in society (top 5 percent) and the poorest in society (lowest 20 percent). A second ratio that will be calculated is found by dividing the income of those in the middle quintile by the income of those in the top 5 percent of the income distribution. This comparison will reveal the distribution of income between the richest in society (top 5 percent) and those in the middle of the income stream (third quintile).

Not only will the analysis look at the distribution of income for African Americans and White Americans, but also comparisons will be made between races. The income of the top 5 percent of Blacks will be divided by the income of the top 5 percent of Whites. This will give some insight as to the change in the distribution of income over time among the richest Blacks versus the richest Whites. Also, the distribution of income between the middle income groups of both races will be analyzed. The income of the third quintile for Blacks will be divided by the income of the third quintile for Whites.

**Results**

Table 1 shows the calculations for the distribution of income. Column 1 shows the income of the lowest quintile for Blacks divided by the income of the top 5 percent for Blacks. As can be seen in Table 1, in 1967 the lowest quintile had income 13.2 percent of the top 5 percent. In 1995, the lowest quintile had income

10.5 percent of the top 5 percent. Therefore, those in the lowest quintile for Blacks were making less relative to the richest Blacks in 1995 than in 1967. This is clearly not an improvement. In fact, from 1986 to 1994, the percentage was under 10 percent. However, the ratio did turn up for 1995. It will be interesting to see if an upward trend develops in the future. So, for the poorest Blacks relative to the richest Blacks, the distribution of income was more unequal in 1995 than in 1967.

**Table 1**  
**(in percent)**

| <u>Year</u> | <u>(1)</u> | <u>(2)</u> | <u>(3)</u> | <u>(4)</u> | <u>(5)</u> | <u>(6)</u> |
|-------------|------------|------------|------------|------------|------------|------------|
| 1967        | 13.2       | 16.6       | 39.0       | 44.4       | 69.4       | 60.9       |
| 1968        | 13.7       | 17.8       | 40.4       | 46.5       | 71.3       | 61.9       |
| 1969        | 13.2       | 17.3       | 40.7       | 45.6       | 69.9       | 62.4       |
| 1970        | 12.5       | 16.9       | 39.8       | 44.7       | 71.9       | 64.0       |
| 1971        | 13.2       | 16.6       | 40.2       | 44.4       | 70.2       | 63.6       |
| 1972        | 13.1       | 16.2       | 39.2       | 44.1       | 69.1       | 61.5       |
| 1973        | 13.2       | 16.4       | 38.8       | 44.6       | 70.7       | 61.6       |
| 1974        | 13.4       | 16.5       | 39.9       | 43.7       | 68.2       | 62.3       |
| 1975        | 12.9       | 16.2       | 40.2       | 44.1       | 69.8       | 63.7       |
| 1976        | 12.8       | 16.4       | 38.7       | 44.1       | 71.6       | 62.8       |
| 1977        | 12.4       | 15.8       | 37.3       | 42.9       | 70.3       | 61.1       |
| 1978        | 11.7       | 15.9       | 37.9       | 43.3       | 72.1       | 63.2       |
| 1979        | 11.8       | 15.7       | 37.4       | 42.5       | 69.5       | 61.1       |
| 1980        | 11.3       | 15.7       | 36.3       | 42.7       | 70.5       | 60.0       |
| 1981        | 11.3       | 15.5       | 36.0       | 42.1       | 69.0       | 59.0       |
| 1982        | 11.5       | 15.0       | 38.2       | 40.6       | 64.9       | 61.1       |
| 1983        | 10.5       | 14.9       | 35.1       | 40.0       | 68.0       | 59.7       |
| 1984        | 10.5       | 14.7       | 34.7       | 40.2       | 69.3       | 59.7       |
| 1985        | 10.5       | 14.5       | 35.7       | 40.1       | 69.1       | 61.6       |
| 1986        | 9.5        | 14.2       | 35.1       | 39.8       | 69.4       | 61.1       |
| 1987        | 9.6        | 14.5       | 34.2       | 40.4       | 70.7       | 59.9       |
| 1988        | 9.6        | 14.3       | 34.4       | 39.9       | 70.3       | 60.5       |
| 1989        | 9.6        | 14.1       | 35.1       | 39.3       | 69.8       | 62.2       |
| 1990        | 9.3        | 14.2       | 34.6       | 38.8       | 71.2       | 63.6       |
| 1991        | 9.5        | 14.0       | 35.6       | 39.2       | 69.4       | 63.0       |
| 1992        | 9.3        | 13.8       | 34.5       | 39.2       | 69.5       | 61.2       |
| 1993        | 9.5        | 13.3       | 33.1       | 37.7       | 70.4       | 61.7       |
| 1994        | 9.4        | 13.0       | 33.5       | 37.1       | 71.4       | 64.6       |
| 1995        | 10.5       | 13.2       | 35.9       | 37.6       | 68.3       | 65.4       |

Source: Raw data is from *Money Income in the United States: 1995*. Current Population Reports, U.S. Department of Commerce. Percentage calculations are the author's.

Column 2 of Table 1 is obtained by dividing the income of the lowest quintile for Whites divided by the income of the top 5 percent for Whites. Just as for Blacks, those in the lowest quintile are losing ground to those in the top 5 percent. In 1967, those in the lowest quintile had income that was 16.6 percent of the income for those in the top 5 percent, in 1995 the number was 13.2 percent. Therefore the poorest Whites lost ground to the richest Whites. However, the poorest Whites were still better off than the poorest Blacks relative to their richer counterparts. Whites in the lowest income quintile made 13.2 percent of the income of those Whites in the top 5 percent. However, Blacks in the lowest quintile made only 10.5 percent of those Blacks in the top 5 percent.

It therefore appears that income has become more unequal for the poorest Blacks relative to the richest Blacks and also that the income distribution has become more unequal for the poorest Whites relative to the richest Whites.

The comparison of the income of the third quintile for Blacks to the income of the top 5 percent for Blacks is shown in Column 3 of Table 1. For those Blacks in the third quintile, the situation relative to the richest Blacks has not improved. In 1967, those in the third quintile of the income distribution made 39 percent of the income of those in the top 5 percent. In 1995, the percentage was 35.9 percent. During the late 1960s and well into the 1970s the percentage was well above what it was in 1995.

Column 4 of Table 1 shows the income of the middle income quintile for Whites divided by the income of the top 5 percent for Whites. This clearly shows a downward trend in the distribution of income. In 1967, the percentage was 44.4 percent and in 1995 the percentage was 37.6 percent - a significant decline. There is an uptick in the percentage from 1994 to 1995 and it will be interesting to see if the trend continues.

As mentioned earlier, it would also be interesting to look at the distribution of income not just within but also across races. In other words, comparisons will be made between the middle income quintile of each racial group and the top 5 percent of each racial group.

Column 5 of Table 1 shows the calculations for the income of the top 5 percent of Blacks divided by the income of the top 5 percent of Whites. Although though there is some volatility in the ratio, in 1995 Blacks in the top 5 percent of the income distribution were slightly worse off relative to their White counterparts. In 1967, Blacks in the top 5 percent of the income distribution had income that was 69.4 percent of the income of those Whites in the top 5 percent of the income distribution. In 1995, that percentage was 68.3 percent.

Column 6 of Table 1 shows the comparison between the third income quintile for both races. The calculation is the income of the third quintile for Blacks divided by the income of the third quintile for Whites. This shows a different pattern than the other ratios. In 1967, the income of the third quintile of income for Blacks was 60.9 percent of the income of the third quintile for Whites. In 1995, this same percentage was 65.4 percent, an improvement. The Blacks in the third income quintile improved their position somewhat from 1967 to 1994. In fact, the percentage in 1995 is the highest observed for the period covered by this study.

### **Analysis**

Many reasons can be given for the increasing inequality in income distribution.

Probably the major reason for the inequality in income distribution is the educational premium - the additional income a person receives because of their level of education. It is well known that college graduates have higher incomes than non-college graduates. In 1995, for example, those households where the highest level in education was less than ninth grade, the median annual income was \$15,043 (in 1995 dollars). Those households where a high school diploma was the highest degree had a median annual income of \$31,376 (in 1995 dollars). Those households where the highest degree was a college diploma had a median annual income of \$52,857<sup>1</sup>. Obviously, the higher the level of education the higher the income level.

It is not simply that at higher levels of education higher salaries are paid. This is only a logical outcome. The educational premium must be coupled with the fact that traditionally higher paying manufacturing jobs have been to a large extent replaced by lower paying service type jobs. In 1995, there were approximately 18.5 million workers in the manufacturing industry. In 1987 there were approximately 19.0 million workers in the manufacturing industry. This is a decrease of 2.8 percent. In 1995 there were approximately 33.1 million workers in the service industries. This compared to 24.1 million in 1987, an increase of 37.3 percent<sup>2</sup>. Clearly, the service side of the employment picture dominates.

Another reason for the inequality in the income distribution that is tied to the first two is unionization. Union members have traditionally had a higher income than nonunion members. In 1995, those full time workers who were members of a union and worked in the manufacturing industry had median weekly earnings of \$548. Nonunion members in the same category had median weekly earnings of \$479. Workers in the service industry represented by unions had median weekly earnings of \$489. Nonunion service workers in the same category had median weekly earnings of \$440<sup>3</sup>. Workers in the manufacturing industry have higher median weekly earnings than workers in the service industry,

however, both groups do better when in a union. The negative side is that workers represented by unions have been declining. In 1995, union members accounted for 14.9 percent of wage and salary employment. In 1983, the first year when comparable data is available, union membership accounted for 20.1 percent of wage and salary employment. The area of unionization can be considered to have a particular negative effect on Blacks. Blacks have typically had higher union representation than Whites. In 1995, approximately 20 percent of Black workers were members of unions. For Whites, approximately 14 percent were members of unions<sup>4</sup>. So given, declining unionization, combined with the fact that service jobs are in general lower paying than manufacturing jobs and that manufacturing job opportunities are not as prolific as service job opportunities, it should not be surprising that the income distribution is so unequal.

Still another reason that can be given for the unequal distribution in income is the rise of single parent households. In 1995, there were 2,756 Black single parent households. This compared to 1,892 Black single parent households in 1980, an increase of over 45 percent. In 1995, there were 5,946 White single parent households. This compared to 4,058 in 1980, an increase of over 46 percent<sup>5</sup>. This has tended to increase the inequality in income distribution since single parent households typically earn less than two parent households.

Finally, a few other reasons with lesser impact can be given for the unequal distribution of income. Firms are hiring more temporary workers who tend to be paid lower wages and benefits than full time workers; there has been an increasing tendency for men earning high salaries to marry women who also make high salaries which has widened the income gap; and increases in divorces, separations, births out of wedlock and first marriages occurring at higher ages have brought about more single parent households which, as mentioned earlier, earn less and cause the income stream to be more unequal.

## **Conclusion**

The distribution of income is more unequal now than it was in 1967. Several reasons can be given for this. The distribution of income, for the most part, does not discriminate between Blacks and Whites. It is more unequal for both groups.

The distribution of income is a very important issue for our society at large. If there are those in society who feel that they are being left out of any prosperity that may be had, there could be an increase in social unrest. It is important for government policy makers, business leaders, social thinkers and academicians to commit themselves to understanding the forces behind the movement in the distribution of income and what can be done to insure that everyone gets a fair share of the economic pie. What a fair share consists of is beyond the scope of this study. This is an issue that will in all likelihood continually be debated on a national level.

## **Suggestions for Future Research**

Although much research has been done in the area of income distribution, several issues still present themselves. Income distribution could be looked at in regard to specific occupations. In this study, some comparisons were made between the manufacturing and the service industries. However, more comparisons would seem to be in order to determine how income distribution impacts specific professions. For example, comparisons could be made between various manufacturing areas to see if income distribution impacts different manufacturing areas differently. The same approach could be made within various service areas for the same reasons. The income distribution could be considered between certain professional areas such as medicine, law, and/or academia. Since the distribution of income is such a crucial issue to our society, these would all seem to be appropriate for further research. Further, more work could be done in studying the income distributions of other countries. This is important because many countries that have had violent

revolutions have had significantly unequal income distribution. □

5. *Economic Policy Review*, Federal Reserve Bank of New York, January 1995.

### Endnotes

1. U. S. Census Bureau. Online database. "Historical Income Tables - Households." Table H-3, *Educational Attainment of Householder - Households with Households 25 Years Old and Over by Median and Mean Income: 1991 to 1995*.
2. Bureau of Labor Statistics. Online database. "Nonfarm Payroll Statistics from the Current Employment Statistics (National)." *Manufacturing Employment and Service Employment*.
3. Bureau of Labor Statistics. Online database. "Developments in Labor-Management Relations." Table 4 - *Median Weekly Earnings of Full-Time Wage and Salary Workers by Union Affiliation, Occupation and Industry*.
4. Ibid.
5. Bureau of the Census. Online database. *All Parent/Child Situations, By Type and Race and Hispanic Origin of Householder or Reference Person: 1970 to Present*.

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