

You Could Have It So Much Better

The True Cost of Income Inequality

By Daniel Tsadok

A recent [study](#) published by the RAND Corporation with the unassuming title of "Trends in Income From 1975 to 2018," by Carter C. Price and Kathryn A. Edwards, takes an interesting approach to income inequality. In the three decades following World War II, income growth was relatively equal across the board, from the poorest to the richest, and generally in line with the growth of GDP, but since about 1975, income growth has been increasingly concentrated towards the top. The paper poses the question: **What if income growth had remained as equitable as it was before 1975?**

The study finds that in this scenario, the median income for "full-year, full-time, prime-aged workers in 2018 dollars" would have risen from \$42,000 in 1975 to \$92,000 in 2018, instead of to what it actually was, \$50,000. The bottom 25%, who were earning an average of \$28,000 in 1975, would have been earning \$61,000 in 2018. Instead, they actually earned

\$33,000. Even the top 5% would have been earning more: \$198,000 instead of \$191,000. The "top 1% mean" would have been making \$630,000 instead of \$1,384,000, from \$289,000 in 1975. But even in that case, their income still would have more than doubled since 1975.

The study also breaks down income by demographics. It finds that White men in the 25th percentile would have made more than double on average than what they actually did in 2018 (\$41,000 instead of \$20,000), and Black men in that percentile would have made about 65% more: \$33,000 instead of \$20,000. Women in general would not have done as well, and Black women would have actually made about 20% less, but the study notes that women's income in the bottom 25% generally went up more because of increased hours than increased wages. So it appears that while women in the 25th percentile would have had the same or slightly lower incomes, they would have had to work fewer hours for them. In the top 25%, White men would have been making \$124,000 instead of \$81,000, and Black men would have been making \$92,000 instead of \$60,000. Women in this percentile would also have made moderate gains (about 10-20%).

In addition, people who did not graduate high school would have made an average of \$37,000 instead of \$23,000, people with a high school diploma but no college degree would have made \$59,000 instead of \$29,000, and people with a college degree would have made \$92,000 instead of \$59,000. In the top 5%, people who did not graduate high school would have made \$150,000 instead of \$76,000, and people with college degrees would have made \$358,000 instead of \$290,000.

Some of the biggest changes would have been to "25th Percentile Income for Full-Year, Full-Time, Prime-Aged Workers" (that is, the lowest-paying full-time jobs): in order of salary difference, White men would have made \$83,000 instead of \$36,000 (2.3 times as much), Black men would have made \$59,000 instead of \$30,000

(1.97×), Black women would have

made \$41,000 instead of \$27,000

(1.51×), and White women would have

made \$44,000 instead of \$30,000

(1.47×).

I think it is fair to say that these numbers are astonishing. The causes of this enormous shift of wealth are unfortunately not discussed in the paper, but I believe the shift perhaps accounts for at least some of the rage we have seen building up over the past decade or two. People sense that something has been taken from them, and, whether directly or indirectly, something has, to the tune of thousands or even tens of thousands of dollars a year. In the case of the wealthiest 5% (in terms of income) in rural areas, they could have made \$176,000 instead of their actual \$107,000, a difference of \$69,000, in 2018 alone.

In the words of the authors of the paper, "aggregate income for the population below the 90th percentile over this time period would have been

\$2.5 trillion (67 percent) higher in 2018 had income growth since 1975 remained as equitable as it was in the first two post-War decades." In total, the study finds, the bottom 90% of Americans lost \$47 trillion in income from 1975 to 2018 that they would have received "had income growth since 1975 remained as equitable as it was in the first two post-War decades."

This painful view of a parallel world in which income growth had been more equitable brings to mind the proposed Universal Basic Income (UBI) or Guaranteed Basic Income policies. The idea is that everyone would get, say, \$1,000 a month to spend as they will, without conditions. But reading the numbers from this study makes the UBI proposals look like a pittance. In any case, it would seem that any attempts (including UBI) to remedy this trend are decried as redistribution of wealth. According to Wikipedia, "[c]ritics [of UBI] claim that a basic income at an appropriate level for all citizens is not financially feasible, fear that the introduction of a basic income would lead to fewer people working, and/or consider it socially unjust that everyone should receive the same amount of money regardless of their individual need." This is ironic, because economic policy at least since 1975

has in fact resulted in a massive redistribution of wealth upwards, towards the people who have needed it the least.

"In considering the cost of such a program [Social Security] it must be clear to all of us that for many years to come we shall be engaged in the task of rehabilitating many hundreds of thousands of our American families. In so doing we shall be decreasing future costs for the direct relief of destitution."

-- President Franklin D. Roosevelt,
[Message](#) to Congress, June 8, 1934

In this context, the emphasis on "jobs" (more jobs, better jobs, etc.) rings somewhat hollow. If middle class Americans were making \$25,000 - \$50,000 more a year, the economy might not necessarily need more jobs: families would need fewer breadwinners, for example, and those breadwinners would not need to work as much.

Meanwhile, welfare, food stamps and other "handouts" would not be necessary, or at least far less necessary. Instead, as {Sen. Bernie Sanders [writes](#)}, "when huge corporations like Walmart and McDonald's are making billions in profits and giving their CEOs tens of

millions of dollars a year, they're relying on corporate welfare from the federal government by paying their workers starvation wages. That is morally obscene. U.S. taxpayers should not be forced to subsidize some of the largest and most profitable corporations in America."

Lowering income inequality ultimately would affect almost every important economic issue: access to food, housing, health care, and education would all improve, just by virtue of more people having access to more money. It would also reduce crime, increase innovation (by widening the playing field), drive research, and expand arts and culture. It would give more people access to more leisure time, reducing stress. It would strengthen and stabilize communities, and give more families the opportunity to own homes. Today it is much harder to own a home than it was fifty years ago, and that is largely because the cost of real estate has gone up so much relative to income for most people. In 1970, the average cost of a house was about 2.5 times the average annual salary. In 2018, it was 7.4 times as much.

"[W]e are working toward the ultimate objective of making it possible for

American families to live as Americans should."

-- Pres. F. D. Roosevelt, *ibid.*

Perhaps most importantly, lowering income inequality would restore the legitimacy of the American Dream, which, fifty years ago, was still a reality for many people. Today it seems more like a bitter joke.

"[S]eeking for a greater measure of welfare and happiness does not indicate a change in values. It is rather a return to values lost in the course of our economic development and expansion... We must dedicate ourselves anew to a recovery of the old and sacred possessive rights for which mankind has constantly struggled: homes, livelihood, and individual security. The road to these values is the way of progress. Neither you nor I will rest content until we have done our utmost to move further on that road."

-- Pres. F. D. Roosevelt, *ibid.*

(*Author's Note:* The song "You Could Have It So Much Better" by Franz Ferdinand happened to come up while I was writing this article, and given the subject matter, I was inspired to name the article the same.)