14

Inequality

Goal: Inequality is a persistent challenge to the dignity and opportunities of many human services clients. In this unit we discuss the definition, measurement and policy debates that surround inequality.

A. Defining Inequality. Equality is based on the belief that human beings have equal worth and value, and therefore are equally worthy of respect, recognition, love, care, solidarity, power, working, learning, and an adequate standard of living. Inequality refers to disparities in the distribution of these rights, resources and privileges. If poverty reveals what most disadvantaged members of society need, inequality reveals where we stand in relation to one another.

B. Measuring Inequality.

Most measures of inequality only focus on economic inequality, typically the distribution of income and wealth. The three standard measures are: the Gini Index; the "share of national income held by each fifth of the population; and the share of national income going to wages and profits.

1. Gini Index. One measure of economic inequality is the Gini Index (or coefficient of inequality) where 0% represents perfect equality or proportional distribution of income and 100% represents perfect inequality. Perfect inequality exists in a zero-sum world where one person has all the income and the rest have none. The following table shows that the level of

Year	Gini Index (%)
1929	45.0
1947	39.7
1968	38.6 (Lowest on record)
1970	39.4
1980	40.3
1990	42.8
2000	46.2
2005	46.9
2010	47.0
2013	47.6 (Highest on record)

Table 14.1 U.S. Gini Index 1929-2008 (Selected Years)[3]

income inequality in the U.S. differs from a proportionate distribution (where everyone would have the same income). The rising numbers in the table indicate that inequality has increased steadily since 1947.

2. Shares of the National Income. The distribution of income is also reported as a share of the total national income. The U.S. Census Bureau calculates the proportion or percentage of the national income held by each fifth of the population (quintiles).

Year	Number t'000)	Shares of aggregate income					
		Lowest fifth	Second fifth	Third fifth	Fourth fifth	Highest fifth	Top 5 percent
2013 (38)	122,952	3.2	8.4	14.4	23.0	51.0	22.2
2010 (37)	119,927	3.3	8.5	14.6	23.4	50.3	21.3
2005	114,384	3.4	8.6	14.6	23.0	50.4	22.2
2000 (30)	108,209	3.6	8.9	14.8	23.0	49.8	22.1
1995 (25)	99,627	3.7	9.1	15.2	23.3	48.7	21.0
1990	94,312	3.8	9.6	15.9	24.0	46.6	18.5
1985 (20)	88,458	3.9	9.8	16.2	24.4	45.6	17.6
1980	82,368	4.2	10.2	16.8	24.7	44.1	16.5
1975 (16)	72,867	4.3	10.4	17.0	24.7	43.6	16.5
1970	64,778	4.1	10.8	17.4	24.5	43.3	16.6
1967 (12)	60,813	4.0	10.8	17.3	24.2	43.6	17.2

Fig. 14.2 Share of Aggregate Income 1967-2013 [4]

Figure 14.2 indicates that in 2013, the highest fifth of the population received almost 52% of the national income compared to 3.2 %for the lowest fifth. The gap between these two groups on the ends of the income distribution spectrum has steadily increased since 1967.

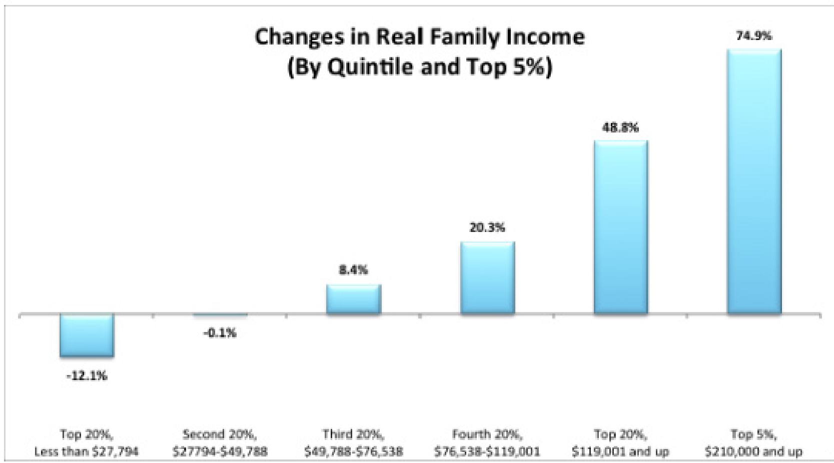

Fig. 14.3 Change in Real Family Income 1979-2012 [5]

Table 14.3 shows that the real income of the top 5 % of American families rose by almost 75 % between 1979 and 2013, while the real income of the bottom 20 % fell by 12.1% % during the same time. This sharply contrasts with the 1947-79 period, when all income groups saw similar income gains, with the lowest income group actually seeing the largest gains.

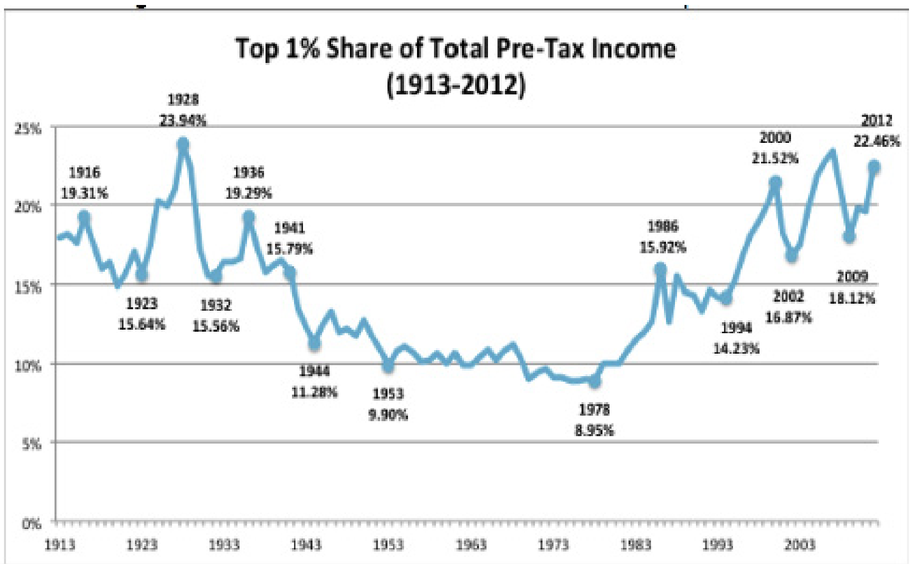

Fig. 14.4 Share of Total Pre-Tax Income for Top 1%: 1913-2012 [6]

Figure 14.4 presents the share pre-tax income received by the top 1% from 1913 to 2012. We see that the share held by the top 1% peaked in 1928 just before the stock market crash and the onset of the Great Depression. This share fell sharply during the Depression (1928-1941) and remained lower during the post war years characterized by economic growth (1945-1975). It reached a record low of 8.9 % in 1976. From the late 1970s to 2007 the share of the top 1 % jumped, reaching 22.46% in 2012, nearly three times their 1976 share.

Table 14.5 Real Average Hourly Wages, 1947-2001 [7]

Figure 14. 5 shows that average hourly pay rose steadily during the three decades following World War II. But since the early 1970s, wages stagnated. Between 1947 and 1972, the average hourly wage, adjusted for inflation, rose 76 %. Since 1972, by contrast, the average hourly wage has barely risen at all.

3. Distribution of Wages and Profits. Another measure of inequality is the share of national income going towards wages/salaries versus profits. Figure 14.5 show downward trend in wages and all compensation (including costs of fringe benefits, Social Security payments, etc.). The wage share has been coming down faster than the overall compensation share, initially, because more workers were getting more of their pay in nonwage benefits, though more recently, employers have been shedding health and pension benefits. The share of the population with employer-provided health coverage has declined over the last decade from about 73% to 63%.[8]

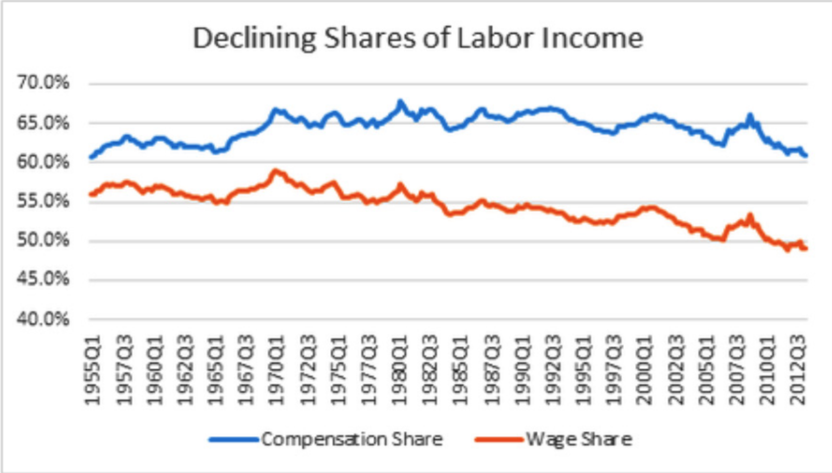

TABLE 14.6 Shares of National Income Going to Wages, 1955- 2012.

According to the economist Robert Samuelson In 1947, labor's share of nonfarm business income was 65%; in 2000, it was 63%. But by 2013, it had dropped to 57%, effectively shifting $750 billion annually from labor to capital.[9]

C. The Equality Gap

A certain amount of inequality in the income distribution of a country is to be expected since resources are never evenly distributed. However, poverty and inequality together can reflect an environment with limited opportunities. With minimal government intervention, an unequal distribution of income tends to persist and to perpetuate itself.

The Racial and Gender Inequality Gaps exceed the inequality gap for the population as a whole.

1. Racial Inequality Gap.

Income inequality tells only part of the story of economic gap between white persons and persons of color in the United States. The wealth gap is much larger. For every dollar in assets owned by whites in the United States, blacks own less than a nickel, a racial divide that is wider than South Africa's at any point during the apartheid era. The $4,955 median net worth for black households is about 4.55% of the median household wealth or $110,729 for whites in in 2010.[10]

Since the 2009 Recession, economy recovery has restored at least some of the lost wealth for many but not all households. However, wealth inequality has widened along racial lines. In 2013, the median wealth of white households was 13 times greater than the median wealth of black households up from eight times the wealth in 2010. Likewise, the wealth of white households is now more than 10 times the wealth of Hispanic households, compared with nine times the wealth in 2010.[11]

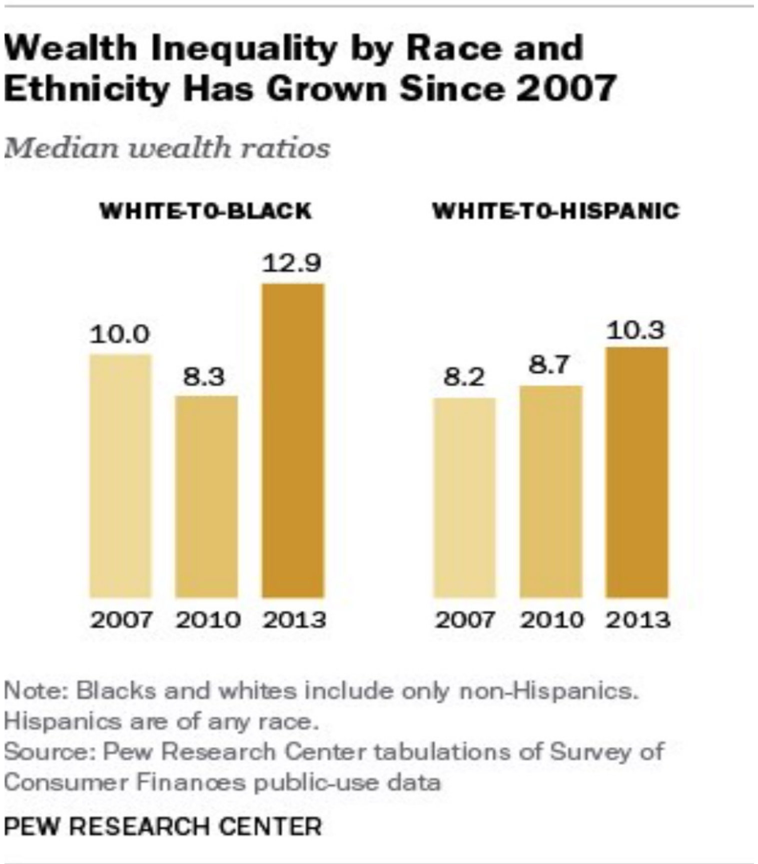

Table 14.7 Wealth Inequality by Race and Ethnicity Has Grown Since 2007

This racial wealth gap, much larger than then income gap has not improved over the past 30 years.[12] The current Black/white wealth gap has reached a level not seen since 1989 when whites had 17 times the wealth of Black households. The current white-to-Hispanic wealth ratio has reached a level not seen since 2001. (Asians and other racial groups are not separately identified in the public-use versions the survey that reports this data).

But these values may be anomalies driven by fluctuations in the wealth of the poorest --those with net worth less than $500. Given this, the 2013 racial and ethnic wealth gaps are at or about their highest levels observed in the 30 years for which we have data.[13]

2. Gender Inequality Gap. On the surface, the financial gender gap appears to be closing. Women make up 47% of the labor force earn 78 cents for every dollar men earn, and those under 25 working full-time earn 95% of what their male peers earn. However, gender is rarely taken into account in analyses of the distribution of wealth, and evidence on women's ownership of wealth is surprisingly scarce. The gender wealth gap is harder to measure because wealth is typically a household-level character. However, thanks to the work of Mariko Chang,[14] we now know that although women's earnings amount to 78% of men's, women own only 36% as much wealth. And this gender wealth disparity has been on the rise since 1998.

Some women fare far worse than others. Never-married women own only 6% of the wealth of never-married men. Single Black and Hispanic women own a penny of wealth for every dollar owned by men of their race, and they own a fraction of a penny compared to white men. Given the interdependence racial and gender inequalities, one cannot close if the other remains open.

3. Where Does the U.S. Stand? Richard Wilkinson and Kate Pickets, both British epidemiologists, looked at more than 20 rich nations and found that the U.S. has the highest income inequality gap of all the nations in the sample. In addition to all the 50 American states, the largest inequality gap exists in New York State.[15] A UN report concluded that New York City ranks as one of the most unequal cities in the world.[16]

D. Impact of Inequality.

Human service organizations work to secure the well-being of clients, so it is important to understand how inequality contributes to the problems experienced by the individuals, families and communities.

Problem 1: Social Problems.

It is commonly understood that unequal income contributes to inequalities in health outcomes, education, and so on. However, Wilkinson and Pickets conclude that income inequality worsens the average level of health, education, safety, trust, and other good things. They found that the nations with the largest inequality gap also had higher rates of health and social problems such as lower life expectancy; higher infant mortality; higher rates of mental illness, crime, obesity, teen births, school drops out, murder, and less upward mobility.[16] They also found that the rate of inequality predicted the presence of these problems even more than did the poverty rate.

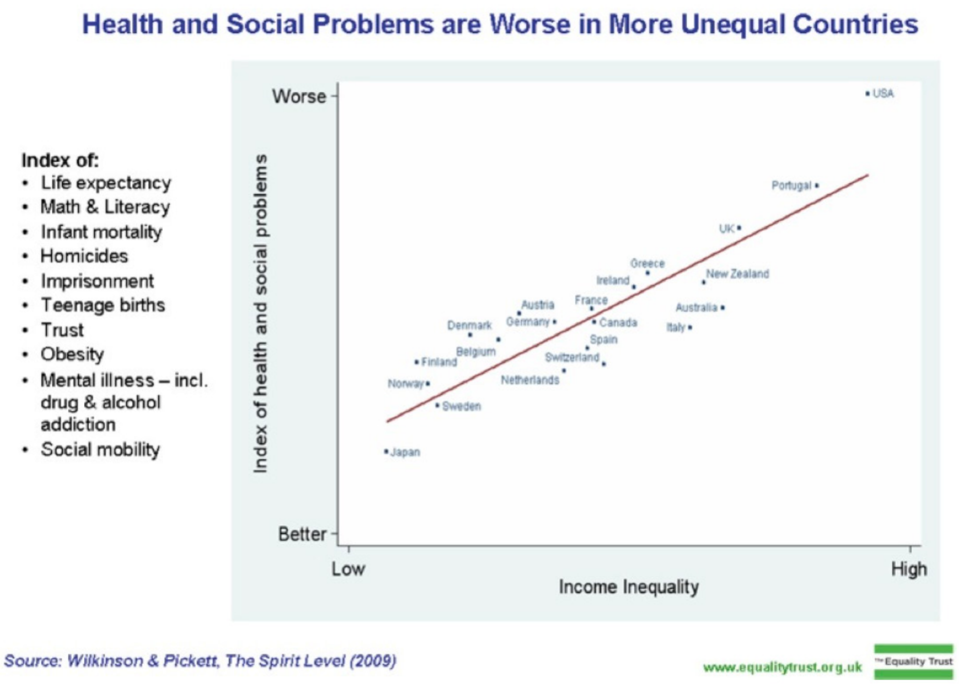

Fig. 14.8 Inequality and Health and Social Problems?[17]

Figure 14.8 Shows that inequality also erodes the sense of trust in one's community.

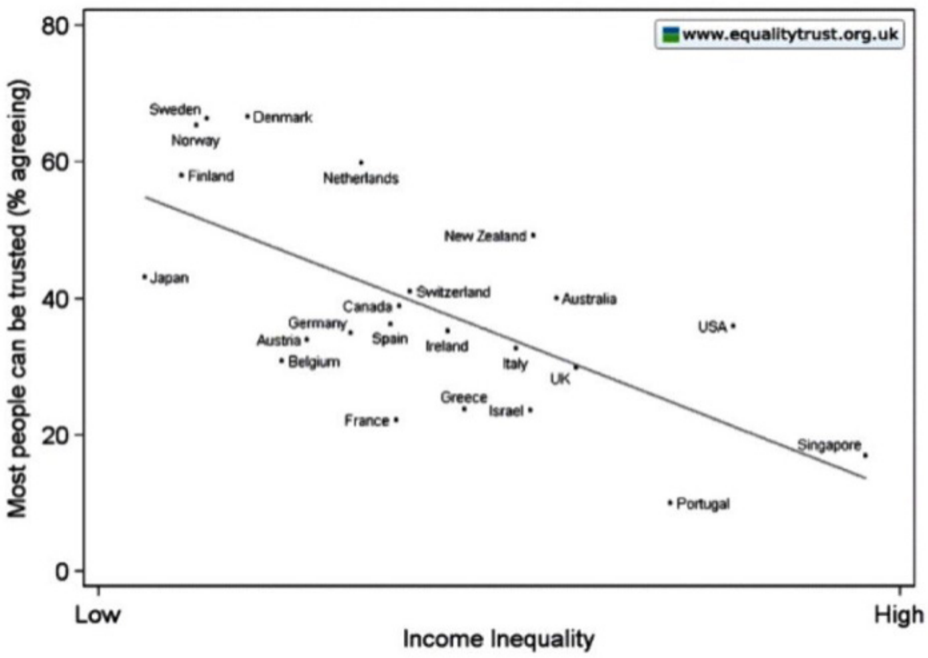

Fig. 14.9 Levels of Trust Higher in More Equal Societies[18]

Problem 2: Inequality is Associated with Major Economic Problems.

As inequality rises, consumer demand often falls as many households lack the means to make the purchases required for a healthy family and a healthy economy. This, in turn, slows economic growth. Inequality can also contribute to economic crises. If households go into debt to make ends meet, it can lead to a credit bubble that can pop and spark a severe economic downturn, if not a deeper crisis. The 2008 crisis is a perfect example of this problem.

Mounting inequality also leaves the affluent with more money than they can spend. To put this money to work, they may look for higher yield, often risky, investments that can have the effect of making the economy more fragile and crisis prone.[19] Unfortunately, the historic record links a wide inequality gap with major economic crises. The share of the national income held by the top 1% peaked at 23% in 1928. The following year, the stock market crashed, leading to the Great Depression. The share of the top 1% peaked at 23% again in 2007 and the U.S. stock market crashed in 2008, leading to the Great Recession.[20]

Problem 3: Inequality and Democracy.

Inequality in the distribution of income and wealth typically results in an unequal distribution of social and political power. Even in countries with elections, civil liberties, and the right to organize, extreme economic inequality has the potential to undermine the functioning of democratic institutions. The concentration of wealth has been associated with a corrupt political process and control by entrenched interests, a press that's less free, greater public helplessness, lower voter turnout, weaker social movements, reduced civic participation, and a frayed social fabric.[21]

In the absence of effective public pressure, elected officials are less likely to create measures to protect the most vulnerable, or to counter the interest of major donors. Without effective democracy, inequality can widen, posing a threat to the desired economic growth. The more that wealth becomes concentrated in the hands of a few, the more likely it is that a society will develop negative economic incentives that disadvantage almost everyone.[22]

In brief, inequality can intensify many of the issues human services clients face every day. It has the capacity to undercut the economic and general well-being of clients and practitioners. For these reasons, human services professionals who serve individuals, groups and communities are often strong advocates for social justice and social change.

The Disappearance of Inequality[23]

E. Policy Debate: Should the U.S. Strive for Equality of Opportunity or Equality of Outcome?

Equality of Opportunity. This policy approach calls for the creation of conditions to ensure that everyone has the same chance to compete – on equal terms – for success in the market economy. This requires government policies designed to eliminate barriers such as lack of income and/or the discrimination that deprives certain individuals or groups equal access to education, income, employment, health care, and other basic resources. Most U.S. social welfare policy follows the equal opportunity approach.

Equality of outcome, equality of condition, or equality of results. This policy approach refers to the creation of conditions that will reduce or eliminate inequalities in material conditions between individuals or households in a society. This usually means equalizing income or wealth to a certain degree by granting a greater amount of income and/or total wealth to poorer individuals or households and less to wealthy individuals or households. The progressive income tax, a robust social welfare system, and systems that distribute income downwards fit this model. Very few, if any, U.S. public policies adhere to this approach. The two efforts to create an equality of outcome – the use of busing to mediate the impact of segregated schools and affirmative action to mediate labor market discrimination – sparked huge controversies, public backlash and political polarization.

NOTES
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