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Laird W. Bergad

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The Concentration of Household Income in the United States by Race/Ethnicity 1967 – 2018

Laird W. Bergad
Distinguished Professor
Department of Latin American and Latino Studies, Lehman College
Ph.D. Program in History, Graduate Center
Director, Center for Latin American, Caribbean & Latino Studies
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The Latino Data Project was developed with the goal of making information available on the dynamically growing Latino population of the United States and especially New York City through the analysis of extant data available from a variety of sources such as the U.S. Census Bureau, the National Institute for Health, the Bureau of Labor Statistics, and state and local–level data sources.

All Latino Data Project reports are available at http://clacls.gc.cuny.edu

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Staff:

Laird W. Bergad, Distinguished Professor, Department of Latin American and Latino Studies, Lehman College, Ph.D. Program in History, Executive Director, CLACLS

Victoria Stone–Cadena, Associate Director

Karen Okigbo, Administrative Director

Sebastián Villamizar–Santamaría, Director of Quantitative Research

Andreina Torres Angarita, Events Coordinator
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Executive Summary

The data published by the U.S. Census Bureau on historical patterns of household income distribution between 1967 and 2018 offer convincing evidence that inequality in the United States has been progressively getting worse. After a period of declining inequality from the aftermath of the second World War through the 1960s, it is now apparent that income distribution has already returned to the pre-Great Depression era pattern of extreme concentration. This has occurred despite governmental programs which have provided a variety of resources to lower-income households.

Statistical indicators such as the Gini index of inequality, which rose from .40 to .49 between 1967 and 2018 indicate this quite clearly. Data on actual mean household income by income-earning category offer very convincing evidence as well. The upper 5% of households controlled 17% of total household income in 1967 and 23% in 2018. The upper 20% of households accounted for 44% of all income in 1967 and 52% in 2018.

Economic growth, which has been impressive in the period under consideration, did not result in rising household incomes across the social hierarchy. Between 1967 and 2018 the upper 5% of income-earning households experienced a 125% rise in real incomes using 2018 inflation-calculated dollars. This may be contrasted with the 31% increase in real incomes among the bottom 20% of all households.

These patterns were found among all race/ethnic groups in the U.S. However, there was an enormous disparity in the actual levels of income by race/ethnicity. The mean household income for the upper 5% of Asian households in 2018 was $526,475 dollars; for non-Hispanic white households it was $446,407 dollars. Wealthier households within the Latino community earned considerably less at a mean income of $321,678 dollars. For African-American households it was $250,249 dollars.

Thus, not only was income progressively more concentrated in the hands of the wealthiest households after 1967, but there were also sharp differences in actual income levels by race/ethnicity.

Introduction

The publication of Thomas Piketty’s *Capital in the Twenty-First Century* in 2013 in French, and then in English in 2014, has sparked a lively debate about the progressive concentration of wealth in Europe and United States throughout the 20th and early 21st centuries. Harnessing an enormous amount of economic data Piketty argued that income inequality and the concentration of wealth was a fundamental aspect of economic development in the U.S. and Europe from the onset of the industrial revolution in the 18th century until the First World War. A series of ‘shocks’ to the international economy initiated by World War I, the Great Depression of the 1930s, and the second World War resulted in a temporary reversal of wealth concentration and a more equitable pattern of income distribution in the advanced industrial nations. This was the case, at least until the 1960s, when the patterns of wealth and income concentration prevalent prior to 1914 began to reassert themselves. According

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1 All data in this report were derived from the U.S. Census Bureau, *Historical Income Tables: Income Inequality* available at [https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-inequality.html](https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-inequality.html)

to Piketty this has progressively led to the same kind of extreme wealth concentration that was extant in the 19th century. He argues that this trend will only accelerate in the future and lead to a worsening of social and economic inequality if there is not intervention by governments with progressive income and other tax policies which would redistribute income and wealth in a more equitable way. There are many more complex arguments and conclusions throughout the book that have been discussed and vociferously challenged.

In 2017 a group of twenty specialists took Piketty to task in Anti-Piketty: Capital for the 21st Century. A recent article in the Wall Street Journal discounts the concentration of wealth and income as being highly exaggerated because researchers have supposedly ignored net governmental monetary transfers to the poor, as well as the tax burden on the wealthy, which according to the authors have mitigated wealth concentration.

In 2018 the U.S. Census Bureau published a series of historical statistical data on income inequality in the United States between 1967 and 2018. Among many other sources on income distribution in the U.S. the Center on Budget Policies and Priorities, published “A Guide to Statistics on Historical Trends in Income Inequality” in 2019 which not only examined census data but also data from the Internal Revenue Service (IRS) on income and wealth. This report presents data that are striking because they not only measure the concentration of income but also the concentration of wealth which is defined as ‘the value of a household’s property and financial assets, minus the value of its debts.’

This report found that despite the governmental transfers which supposedly diminished income inequality, the assertions of the authors of Anti-Piketty and Gramm and Early in the Wall Street Journal article are all wrong. In 2016, after government transfers through a variety of programs that benefitted the poor, and after taxes which were indeed higher on the wealthy, the top 1% of household income earners experienced a slight fall from 16% of total pre-transfer income to 13% in after-transfer income. However, the top 20% of households actually derived a greater share of total household income in 2016: 45% of total pre-transfer income to 48% of total income after transfers.

The Center on Budget Policies and Priorities study not only concludes that income concentration levels in the Unites States have returned to the levels prevalent in the 1920s, but that wealth concentration is even more

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4 Phil Gramm and John F. Early “The Truth About Income Inequality” Wall Street Journal, November 3, 2019. “America’s system of data collection is among the most sophisticated in the world, but the Census Bureau’s decision not to count taxes as lost income and transfers as gained income grossly distorts its measure of the income distribution. As a result, the raging national debate over income inequality, the outcome of which could alter the foundations of our economic and political system, is based on faulty information.” This article is available at: https://www.wsj.com/articles/the-truth-about-income-inequality-11572813786


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extreme. According to the authors of this report, based on complex data from the Federal Reserve’s Survey of Consumer Finances (SFC), in 2016 the top 1% of income-earning households held 24% of the nation’s pre-tax income but 39% of total wealth. The upper 10% of all households, which earned 53% of total pre-tax income, accounted for an extraordinary 78% of total wealth in the United States.

This CLACLS-Latino Data Project Report will not examine the complex data on wealth from the IRS or the SCF, because they are very dense, challenging to process, and even more difficult to present in a manner which is easily understandable. The summary census data although also quite dense and complex as is the case with most statistical data sets, are more reader friendly and may be summarized in a succinct and clear way. They contain detailed information on household income by race/ethnicity and these permit not only the possibility of examining the process of overall household income concentration process, but also how 1) income has been progressively concentrated within each major race/ethnic group in the U.S.; and 2) the extraordinary differentials in the actual income derived by the highest income earners when race/ethnic groups are compared.

The data presented in this report indicate that household income concentration patterns were remarkably similar between 1967 and 2018 within each major race/ethnic group in the U.S. However, the absolute income of the top 5% and 20% of income earners was extraordinarily higher among Asian and non-Hispanic white households compared with households headed by Hispanics and non-Hispanic blacks.

**Trends in the Gini Index of Inequality**

Using the Gini index or coefficient, figure 1 indicates how household income became progressively more concentrated between 1967 when it stood at .40, and 2018 when it had increased to .49.

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8 The Survey of Consumer Finances is conducted every three years by the Board of Governors of the Federal Reserve System. See https://www.federalreserve.gov/scf/scf.htm for a description.


10 Defined by the Census Bureau as follows: “The Gini Index is a summary measure of income inequality. The Gini coefficient incorporates the detailed shares data into a single statistic, which summarizes the dispersion of income across the entire income distribution. The Gini coefficient ranges from 0, indicating perfect equality (where everyone receives an equal share), to 1, perfect inequality (where only one recipient or group of recipients receives all the income). The Gini is based on the difference between the Lorenz curve (the observed cumulative income distribution) and the notion of a perfectly equal income distribution.” See: https://www.census.gov/topics/income-poverty/income-inequality/about/metrics/gini-index.html
This pattern of increasing household income inequality was evident among each race/ethnic group although among Hispanics it was most pronounced, rising from .37 in 1967 to .48 in 2018.\textsuperscript{11} (See figure 2).

\textsuperscript{11} There are no data for Asians in 1967 as the first data on Asians alone are available for 2002.
The Upper 5% and 20%

The Gini index clearly indicates rising inequality in income distribution. Another measurement to assess changes in income concentration over time is to examine the percentage of total income accruing to the upper 5% and 20% of households. In 1967, the wealthiest 5% of all households in the United States derived 17% of total income to all households. In 2018 this had increased to 23%. Over the same period the upper 20% of all income-earning households derived 44% of all income in 1967 and 52% in 2018. This increasing concentration of household income in the upper 5% and 20% of all households was found among all major race/ethnic groups in the U.S. over the same period as indicated in figures 3 and 4.
Figure 3
Share of Aggregate Household Income Derived by Top 5% of Households
United States, 1967 - 2018

Figure 4
Share of Aggregate Household Income Derived by Top 20% of Households
United States, 1967 - 2018
While these data indicate how the concentration of household income changed within each race/ethnic group they do not reveal that in fact the absolute levels of income earned varied significantly by both income-earning category and by race/ethnicity.

**Changes in Mean Income by Income-Earning Category**

There were increases in real income, measured in inflation-adjusted 2018 dollars for all income-earning categories between 1967 and 2018. However, the increases were relatively small at the lower end of the income-earning spectrum and extraordinarily high at the other extreme. The upper 5% of all household income earners experienced a 125% increase in mean income between 1967 and 2018; the upper 20% had a real income increase of nearly 100%. This may be contrasted with the lowest fifth and the second lowest fifth of all households which had 31% and 28% increases in mean income adjusted for inflation between 1967 and 2018. (See figure 5). It is clear that the benefits of economic growth accrued to the wealthy which, of course, is why income concentration worsened considerably between 1967 and 2018.
These same patterns, significant rises in real income among the upper 5% and 20% of households were somewhat similar among non-Hispanic white, non-Hispanic black, and Hispanic households. The poorest Hispanic households stand out, however, in that the lowest 20% of income earners experienced absolutely no increase in mean household income between 1972 and 2018. It is unfortunate that there are no data for Asian households until 2002. (See figures 6, 7, and 8 for these data).

Figure 6
Changes in Mean Household Income in Inflation-Adjusted 2018 Dollars for Non-Hispanic White Households by Category, United States, 1972 - 2018
Concentration of Household Income in the United States, 1967 – 2018

Figure 7
Changes in Mean Household Income in Inflation-Adjusted 2018 Dollars for Non-Hispanic Black Households by Category, United States, 1967 - 2018

Figure 8
Changes in Mean Household Income in Inflation-Adjusted 2018 Dollars for Hispanic Households by Category, United States, 1967 - 2018
Household Income in the United States by Race/Ethnicity

There were clearly similar patterns in the process of household income concentration in the United States within each race/ethnic group between 1967 and 2018 and a very defined social and class structure which was determined by the hierarchical income distribution revealed by the data presented in this report. However, there were also major differences in what it meant to be wealthy or poor when the absolute mean household incomes of the top 5% or 20%, or the bottom 20% of all households are compared by race/ethnicity.

Figure 9 indicates quite clearly that mean household income for the top 5% or top 20% had very different meanings if examined by race/ethnicity.

Asians and non-Hispanic whites in each of these highest income categories earned significantly more than non-Hispanic blacks or Latinos. To be within the highest household-income earning categories within the African-American and Latino communities meant that a household was comparatively well off if examined along with other families within the same race/ethnic group. But compared with Asians and non-Hispanic white households, the disparities are very clear.

The same kind of disparities are evident among the lowest household income earners. The lowest 20% of Asian and non-Hispanic white households earned very low mean incomes. However, they were significantly higher than those of Latinos and African Americans. (See figure 10).
Conclusion

The evidence presented in this report using U.S Census Bureau data seem to suggest that Piketty’s conclusions were fairly accurate about the progressively increasing concentration of income and wealth, although it is clear that these conclusions will continue to be both controversial and debated.

Nevertheless, there is little question that income and wealth are in fact becoming more concentrated irrespective of governmental programs designed to mitigate poverty in the United States and which began in earnest in the 1960s. Even those who have challenged Piketty’s conclusions have only focused on the degree of wealth concentration rather than the overwhelmingly clear fact that income and wealth have indeed become more and more concentrated.

Perhaps, and above all, these data highlight the differences between economic growth and social and economic development. Statistical indicators on the U.S. economy clearly demonstrate extraordinary growth after 1967 and one only has to examine the U.S. Dow Jones Industrial Average, which was below 1,000 in 1967 and now is approaching 28,000 as evidence of this. However, economic growth is one thing; economic development is something else. At the top of the criteria for development is how the benefits of economic growth are distributed. It is clear from the data presented in this report that the wealthy have reaped the proverbial lion’s share of economic expansion since the late 1960s.

There are other indicators of economic and social development as well although they are not the subject of this report. Among them are the public educational infrastructure, the availability of affordable health care and
housing, the internal transportation infrastructure, and so many other variables which need to be examined in order to determine how the economic growth of the late 20\textsuperscript{th} and early 21\textsuperscript{st} centuries have impacted people across the social hierarchy, not just those at the top.