

Income Inequality in the United States

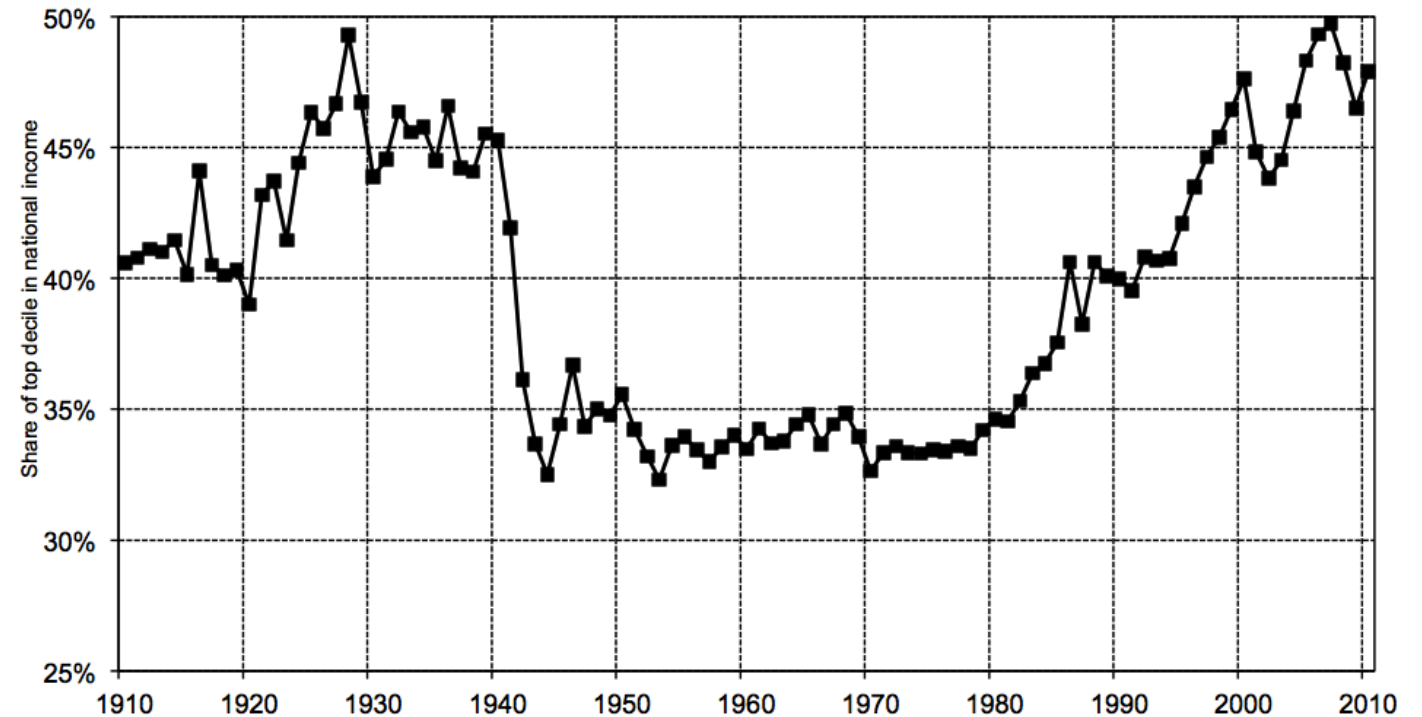
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Income Inequality in the United States

- Inequality has gradually increased since the 1980s
- Inequality was relatively low from the 1940s until the 1980s
- This was largely due to a more progressive tax code, with the highest income tax rate being above 85 percent in some years
- Other factors with relevant impact on inequality levels are union strength and labor markets

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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.

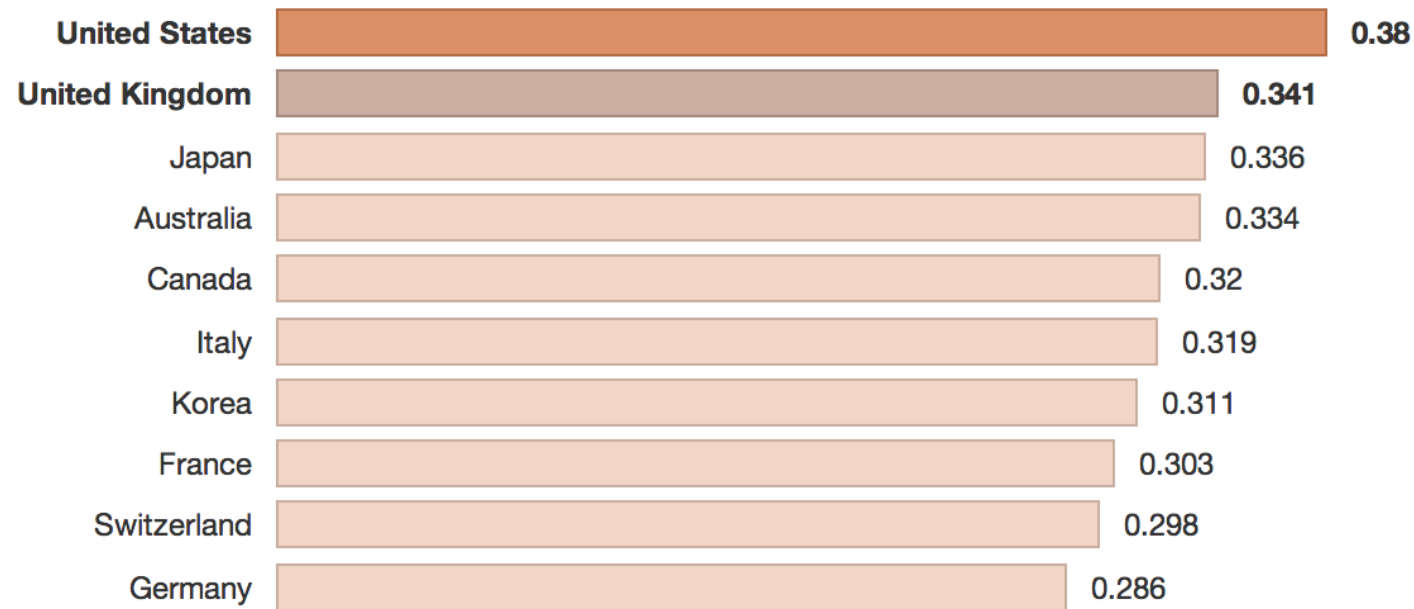
Causes of Inequality in the United States

- Some causes of inequality are natural, some are related to policy choices. Examples follow
 - Research by Thomas Piketty suggests that inequality is a natural consequence of a market based economic system
 - Tax rates, especially on the wealthy, have declined dramatically since the 1980s
 - Gradual weakening of organized labor has contributed to lower wages and less benefits for workers

Gini Coefficient

- The Gini coefficient is a measure of dispersion that measures inequality. This allows levels of equality to be compared from country to country.

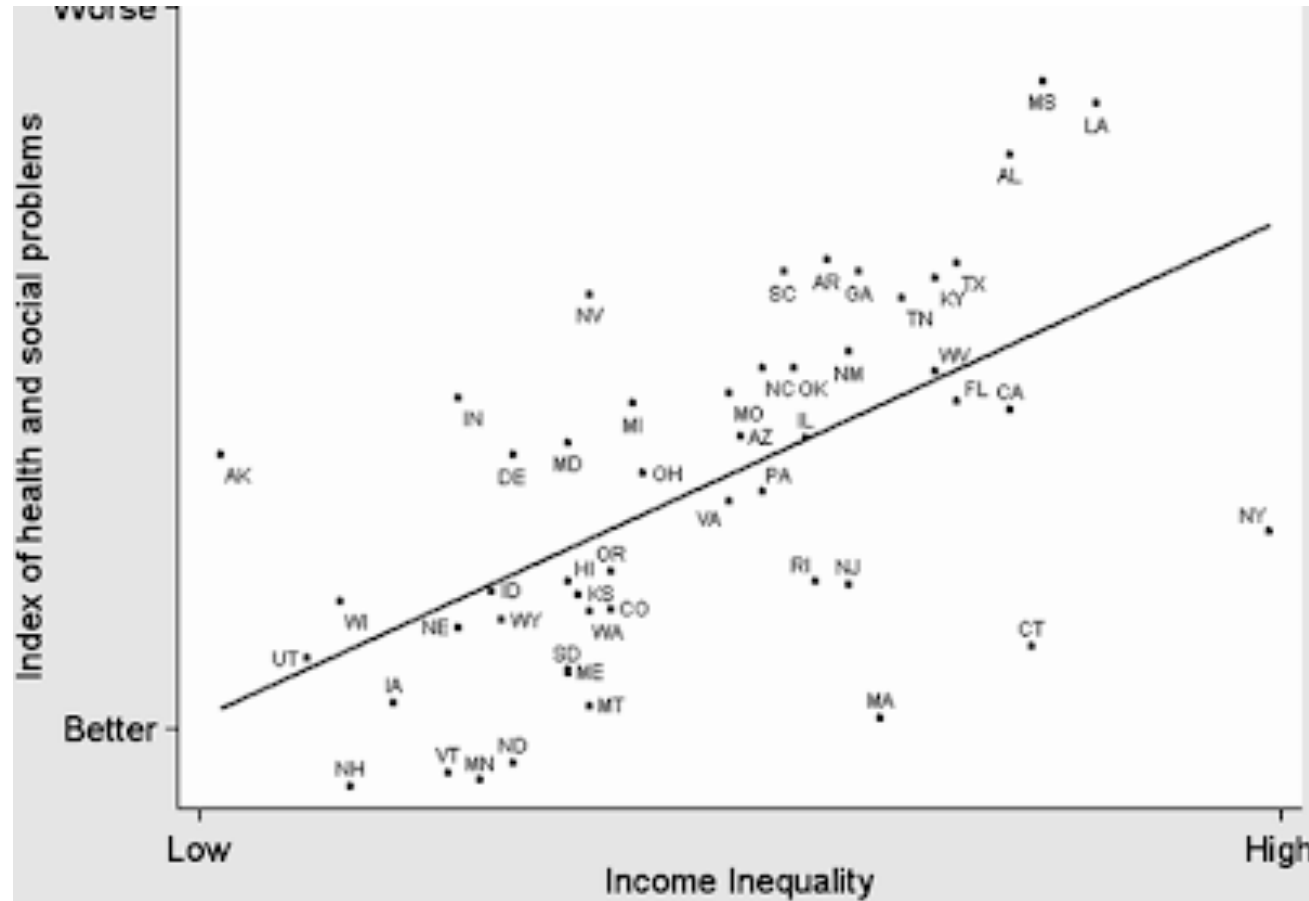
Gini coefficient for ten largest rich economies



Effects of Inequality

- Societal economic inequality has many corresponding negative social effects
- Examples include
 - Higher levels of mental illness
 - Less job security
 - Higher crime rates
 - Less social trust
 - More political polarization

Social Effects



- Research by Kate Pickett and Richard Wilkinson displays the relationship between income inequality and societal health and social problems.
- Their books *The Spirit Level* and *The Inner Level* extensively detail the effects inequality has had on American society.

Policy Proposals

- There are many ways to reduce economic inequality, but my research focuses on what I perceive to be the most efficient way. That being changes to the tax system, while also increasing government transfer payments to the least wealthy individuals.
- I propose the following
 - Eliminating the “Step-up in Cost Basis” loophole
 - Raising marginal income tax rates on the highest earners
 - Taxing capital gains as ordinary income
 - Taxing large estates at higher rates
 - Providing cash benefits to the poorest members of society, similar to the stimulus checks distributed during the COVID-19 pandemic

Consequences of Proposed Policy Changes

- The step-up in cost basis loophole taxes capital gains from inherited investments based on the price at which they were inherited, not the price at which they were acquired.
- Research by David Kamin suggests that eliminating the step-up in cost basis loophole would raise more than 40 billion dollars annually, which could then be redistributed to the lower classes as transfer payments.
- Because capital gains taxes are primarily paid by wealthier individuals, taxing their gains at the regular income tax rates would also be an efficient way of raising revenue.
- Given the relationship between inequality and social problems, I believe my policy changes would result in less inequality, and thus lower levels of social problems. As seen in many other developed countries with more equitable wealth distributions.