Flash Economics

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Very strong growth in income inequality in the United States since 2019

We compare median and average income growth in the United States from 2019 to 2022 (*our source is Changes in U.S. Family Finances, Federal Reserve*).

On the one hand, we see that the average income of Americans with the highest incomes is growing faster than that of Americans with the lowest incomes, and on the other, that the average income of the 20% and even more of the 10% of Americans with the highest incomes has grown significantly faster than their median income, whereas average income and median income are growing at more or less the same rate for the 80% of Americans with the lowest incomes.

This shows that there is an overall rise in income inequality, and that the rise in income inequality is concentrated among those with the highest incomes. The same pattern can be seen when we compare the rise in median income and average income as a function of level of education (only those with a university degree have an average income that has risen significantly more than their median income) and when we compare the rise (again from 2019 to 2022) in median income and average income as a function of level of net worth (only the richest 10% have an average income that has risen more than their median income).

Overall, income inequality in the United States has risen sharply since 2019 due to the sharp increase in the income of people with high incomes and net worth, who have a high level of education. Since the household savings rate is higher for high-income households, we can expect the overall savings rate to rise.

The high level of inequality also explains why Americans seek protection against a decline in their income, which implies a higher level of investment in human and productive capital.

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Average and median income

Table 1 shows the growth rate of median and average income from 2019 to 2022 by income percentile. When the growth rate of average income is higher than that of median income, there is an increase in income inequality.

Table 1: Before-tax median and mean family income, by percentile of usual income (Percent change 2019–22)

Percentile of usual income	Median income (Percent change 2019–22)	Mean income (Percent change 2019–22)
less than 20	5	8
20-39.9	6	5
40-59.9	4	5
60-79.9	5	9
80-89.9	9	14
90-100	15	22

Source : Federal Reserve

We see :

- That income is growing faster for the top 20% of Americans than for other Americans ;
- That income inequality is increasing between low and high income Americans and between the highest income Americans, for whom average income is growing faster than median income.

Income progression by level of education

Table 2 shows the increase in average and median income from 2019 to 2022 according to level of education.

Table 2: Before-tax median and mean family income, by education of reference person (Percent change 2019–22)

Education of reference person	Median income (Percent change 2019–22)	Mean income (Percent change 2019–22)
No high school diploma	-10	-8
High school diploma	0	0
Some college	1	-6
College degree	6	18

Source : Federal Reserve, Patrick Artus Conseil

There is a very strong education premium for university graduates. We can also see that average income is rising much faster than median income for those with a university degree, implying a sharp rise in income inequality for this section of the population.

Income growth as a function of net worth

Table 3 shows the rise in median and average income as a function of net worth percentile.

Table 3: Growth in median and average income from 2019 to 2022, by percentile of net worth (Percent change 2019–22)

Percentile of net worth	Median income (Percent change 2019–22)	Mean income (Percent change 2019–22)
less than 25	0	-1
25-49.9	11	4
50-74.9	2	4
75-89.9	19	13
90-100	10	29

Source : Federal Reserve

We can see that Americans in the top 10% of net worth :

- Have an income that increased very rapidly from 2019 to 2022 ;
- Have an average income that has risen much faster than median income, which means that income inequalities between these Americans have increased significantly.

These two developments can be linked to the **sharp rise in US stock market indices between 2019 and 2023 and the rise in income distributed to shareholders (Charts 1 and 2),** which imply that households with high financial net worth have also benefited from a sharp rise in capital income.

Chart 1
United States : Stock market indices (01.01.2010 = 100)

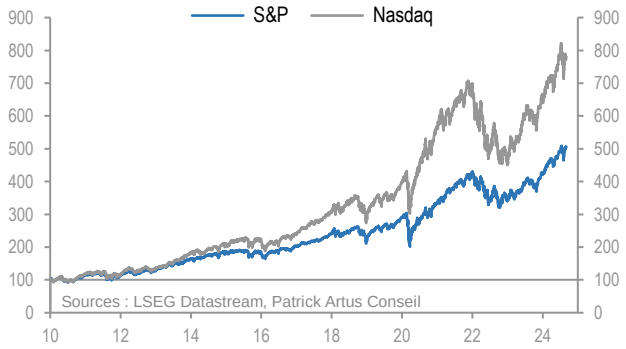
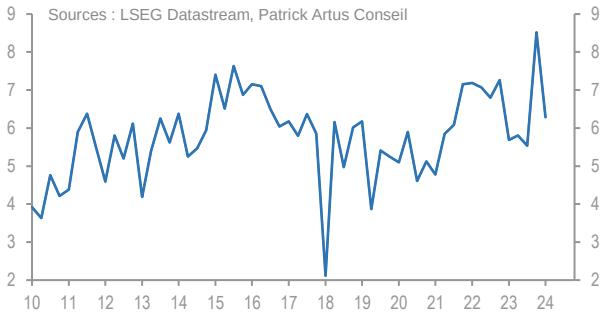


Chart 2
United States: Remuneration of shareholders by non-financial corporations* (as % of nominal GDP)



Summary: Income inequality is rising in the United States because people with high incomes and high net worth (who are the same) have an average income that has risen considerably faster than other Americans.

Table 4 shows **the positive correlation between net worth and income.**

Table 4: Before-tax median and mean family income, by percentile of net worth (2004, Thousands of dollars)

Percentile of net worth	Median income	Mean income
less than 25	35	44
25-49.9	60	70
50-74.9	84	97
75-89.9	140	169
90-100	301	638

Source : Federal Reserve

We have seen that income inequality has increased in the USA, firstly because the income of those with the highest incomes has risen more than that of those with lower incomes, and secondly because average income is rising much faster than median income for those with high incomes. The fact that **average income is growing much faster for high-income Americans** should lead to an increase in the household savings rate (**Chart 3**), since **the savings rate increases with household income** (**Tables 5,6,7**).

Chart 3
United States: Net personal saving (as % of disposable personal income)

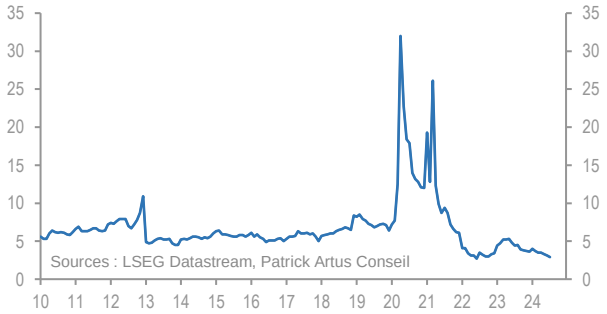


Table 5: Saving rates by percentile of usual income (2004)

Percentile of usual income	Saving rates
less than 20	0.14
20-39.9	0.09
40-59.9	11.1
60-79.9	17.3
80-100	23.6
95-100	37.2
99-100	51.7

Source: K.Dynan, J.Skinner, Zeldes Do the Rich Save More? Journal of Political Economy, 2004, Patrick Artus Conseil

Table 6: Saving rates by percentile of usual income (1986-2012)

Percentile of usual income	Saving rates (as %)
All (0-100)	9
0-89.9	0
90-100	22
99-100	36

Sources: E.Saez, G.Zucman, Wealth inequality in the United Sates since 1913, NBER (2014)

Table 7: Saving rates by percentile of usual income (2005-2015)

Percentile of usual income	Saving rates (as %)
less than 20	3
20-39.9	3
40-59.9	6
60-79.9	8
80-100	13

Sources: A. Fagereng, M. Blomhoff Holm, B. Moll, G. Natvik, Saving behavior across the wealth distribution, NBER (2019)

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