



# THE MYTH OF INCREASING INCOME INEQUALITY

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## INTRODUCTION AND SUMMARY

President Obama's new fiscal year 2013 budget, with its proposed tax-rate hikes, reflects the misguided assumption that income inequality in the U.S. has increased in recent years. Populist cries for redistribution as a means to remedy this purported inequality have gained currency in both the press and in the public imagination.<sup>1</sup> This paper, based on an original analysis of U.S. Labor Department data, concludes that inequality as measured by per capita spending is no greater today than in it was in the 1980s.

Below, I examine in more detail the following topics:

- Problems with current measures of inequality
- Accounting for changes in demographic patterns over time
- Using spending to measure inequality

I conclude that the increase in income has been exaggerated. Published government spending data by income quintile show that the ratio of spending between the top and bottom 20 percent has essentially not changed between 1985 and 2010. In terms of total spending, inequality has diminished slightly, rather than increased.

Why do other measures show increasing inequality? First, many studies use measures of income before taxes are paid and before transfers, such as food stamps, Medicaid, and housing allowances. Including these transfers reduces inequality.

Second, many studies do not take into account demographic changes in the composition of households over the past 30 years. These changes include more two-earner households at the top of the income scale and

more one-person households at the bottom. Studies that show increasing inequality are capturing these demographic changes.

Third, some of this increase in measured inequality is due to the Tax Reform Act of 1986, which lowered top individual income-tax rates from 50 percent to 28 percent, leading more small businesses to file taxes under individual, rather than corporate, tax schedules.<sup>2</sup>

A superior measure of well-being that avoids these pitfalls is spending per person by income quintile. Spending power shows how individuals are doing over time relative to those in other income groups. These data can be calculated from published consumer expenditure data from the government's Consumer Expenditure Survey. An examination of these data from 1985 through 2010 shows that inequality has declined rather than increased.

### IS INEQUALITY INCREASING?

Ask almost anyone the most important economic facts about income distribution in America, and you are almost certain to hear that income distribution has worsened dramatically over the past generation and over the past decade in particular, with people at the top getting a bigger fraction of total personal income.

But measuring inequality is not simple. The choice of the measure of income, along with the measure of the

household unit, substantially influences the results of the inequality measure. Should income be measured before the government removes taxes, or after? Should income include government transfers such as food stamps, Medicare, Medicaid, unemployment benefits, and housing supplements? Furthermore, should wealth measures be included?

In order to measure inequality, disposable income is the most accurate measure. This is what Americans can spend to make themselves better off. Hence, income should be measured after taxes are paid because households cannot avail themselves of tax revenue for expenditures. Similarly, income should include transfer payments because those are available for spending.

Economists often divide households into income quintiles (fifths) and measure the differences in their incomes. However, the demographic characteristics of these quintiles have been changing over time, so comparisons of quintiles are misleading.<sup>3</sup> Quintiles differ in the number of people per household and the number of earners per household. Table 1 shows that in 2010, households in the lowest fifth had an average of 1.7 people, and in half these households there were no earners. The highest fifth, however, had 3.2 persons per household, with 2.0 earners.<sup>4</sup>

To show the unexpected nature of the income distribution tables, a higher percentage of low-income Americans own their homes free of mortgage debt than do upper-income Americans. Some 26 percent of households in the lowest-income group

Table 1: 2010 Consumer Units by Income Quintile

	Lowest 20 percent	Second 20 percent	Third 20 percent	Fourth 20 percent	Highest 20 percent
Number of persons in consumer unit	1.7	2.3	2.6	2.9	3.2
Earners	0.5	0.9	1.3	1.7	2.0
Tenure (percentages)					
Homeowner	40	54	67	78	89
<i>With mortgage</i>	12	23	41	57	71
<i>Without Mortgage</i>	28	31	27	21	18
Renter	60	46	33	22	11

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, September 2011, <http://bls.gov/cex/2010/Standard/quintile.pdf>

and 31 percent in the next-to-lowest group owned their homes without a mortgage in 2010.<sup>5</sup> This is because more seniors are represented in the lower two quintiles, and many have paid off their homes. In fact, in the top quintile, 18 percent of households own their homes debt-free, the smallest share of any quintile—a counterintuitive result.

The lowest-income group contains at least three significant groups of individuals. Some have low incomes because of lack of employment and are searching for jobs or better-paying jobs. A second group comprises elderly people who may have small amounts of retirement income but substantial assets, such as stocks and a home. These individuals are not in the labor force. A third group consists of students or recent graduates whose education levels ensure that they will have a prosperous future. Clearly, the first group is a social problem in need of a solution, but not the other two.

One reason for income inequality is the differing number of earners per household in upper and lower quintiles. Table 2, based on data from the Census Bureau, shows the median income by number of earners in a household from 1990 to 2010. The biggest change has been the size of the contribution of the second earner, reflecting increasing women's wages in the job market, as young women have invested in their education in preparation for a full-time career.

In 1990, median income for a family with one earner was about \$40,000. In 2010, that median income for that one-earner family rose to about \$42,000, a 5 percent difference. But the increase between a family with two earners in 1990 and 2010 was far greater. That family's income rose from about \$67,000 to about \$81,000, a 21 percent difference, resulting in a measured increase in inequality.

Table 2 shows that if there were more one-earner households, the distribution of income would be far more even.

Another change is the shrinkage in household size at the bottom of the income scale, adding to a false

**Table 2: Median Income in Selected Years 1990–2010 by Number of Earners (2010 Dollars)**

	No earners	One Earner	Two Earners
1990	18,046	39,742	67,365
1995	18,613	39,161	71,029
2000	19,284	42,565	78,780
2005	18,867	41,928	79,243
2010	18,484	41,711	80,884

Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements

perception of increased inequality. This is due to the increased longevity of today's seniors and to the higher numbers of divorced people and single-parent households. Over the past 20 years, the size of households in the bottom quintile has declined by 5.6 percent, whereas the sizes of the middle- and top-quintile households have been unchanged.

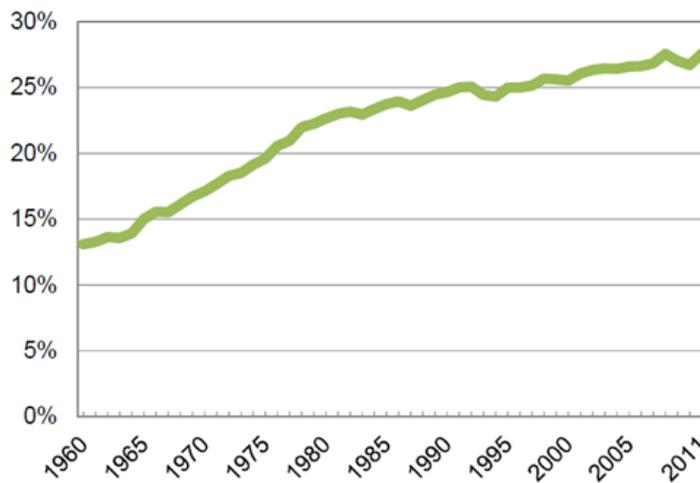
Figure 1 shows the increase in the percentage of one-person households between 1960 and 2011. In 1960, 13 percent of households had just one person. By 2011, 28 percent of households, more than double the previous share, had one person.

One major demographic change, contributing to increased inequality, has been the movement of women into the workforce, beginning in the 1980s. This has resulted in the increased prevalence of two-earner couples and their higher household incomes at the top of the income scale.

With the increased number of women in the workforce over the past quarter-century, if two individuals get married, they frequently become one household with higher earnings—and the measured distribution of income and wealth in society widens. The higher the earnings of the two singles, the more the distribution of income appears inequitable if they marry.

Accompanying their movement into the workforce, women are postponing marriage, so the number of young single women has risen over time. Before the 1970s, the median age at first marriage for women was under 21 years of age. Since 1970, the median

Figure 1: Percent of Households with One Person, 1960–2011



Source: Reproduced from "Changing American Households." U.S. Census Bureau, Annual Social and Economic Supplements, 1960–2011

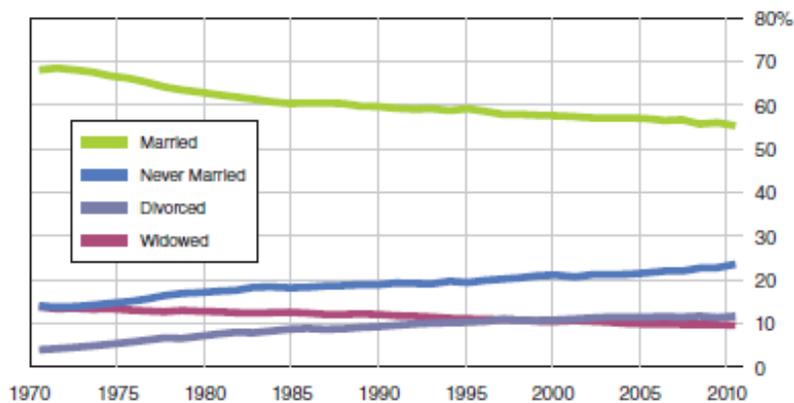
age at first marriage for women has steadily risen, to age 26 in 2010.<sup>6</sup> This trend reflects the increasing number of women attending college and pursuing career opportunities upon graduation.

Figure 2 illustrates the distribution of American women who are at least 18 years old, by marital status. In 1971, 14 percent of adult women were single, and only 4 percent were divorced. By 2010, the percentage of single women grew to 27 percent, and the percentage of divorced women increased to 11 percent.

The postponement of marriage and the high incidence of divorce have led to an increase in the relative population of young female-headed households, a substantial percentage of which are also susceptible to poverty.

It is notable that 32 percent of female households without a husband are living in poverty. In contrast, only 6 percent of married couples and 16 percent of male households without a wife are poor.<sup>7</sup>

Figure 2: Marital Status of Women, 1971–2010



Source: U.S. Census Bureau, unpublished data; and "Families and Living Arrangements" (<http://www.census.gov/population/www/socdemo/hh-fam.html>)

Many female-headed households have children present from earlier marriages or from relationships outside of marriage. In such situations, women are more likely to be the custodial parent. In 2010, 79 percent of the custodial parents were mothers. Moreover, the illegitimacy rate has increased significantly, from 26 births per 1,000 unmarried women of childbearing age in 1970 to a peak of 52 births per 1,000 unmarried women of childbearing age in 2008.<sup>8</sup>

Since women live longer than men, there are female-headed households headed by senior citizens. These might have low income, but they are not necessarily poor, since they might have assets such as retirement accounts and real estate.

Census data in Table 3 show that men and women living alone are most likely to be in the lowest-income quintiles. Some 46 percent of women living alone were in the bottom quintile in 2010, and 71 percent of women living alone were in the bottom two quintiles. Less than 4 percent of women living alone were in the top quintile. The trends are similar for men. Some 60 percent of men living alone were in the bottom two quintiles, and only 7 percent were in the top quintile.

In contrast, married couples are more likely to be in the top quintiles. Some 32 percent of married couples were in the top quintile, and 58 percent were in the top two quintiles. Only 7 percent of married-couple families were in the lowest quintile in 2010.

Table 4 shows quintiles by the types of households. In the top quintile, 78 percent of households are married couples. In the top 5 percent of income earners, 82 percent are married couples.

Census data also tell us that the majority of households in the bottom quintile, 62 percent, have no earners, and less than 5 percent of these households have two earners. Conversely, nearly three-quarters of households in the top-income quintile have two earners or more.

In 1960, 40 percent of married women with children over the age of six worked, but by 2010, that figure had climbed to 70 percent, according to Department of Labor data. During the past half-century, married women steadily moved into higher-income jobs and professions previously dominated by men. This demographic change has substantial implications for the reported distribution of income because of the way that income distribution is measured.

Table 5 shows the increasing number of joint returns with two earners over time from an analysis of individual tax returns by the Internal Revenue Service. In 1969, 46 percent of joint tax returns had wage and salary income from two earners. By 1999, 60 percent of joint tax returns had income from two earners.

This combination of more dual-income couples and more single households has exacerbated inequality in

**Table 3: Percentage of Households within Each Income Quintile by Type of Household, 2010**

Type of household	Lowest 20 percent	Second 20 percent	Third 20 percent	Fourth 20 percent	Highest 20 percent	Total
<b>Family households</b>	12.0	17.8	20.6	23.6	26.1	100
Married-couple families	7.0	14.7	20.0	26.3	32.1	100
Male householder, nsp	14.8	22.8	25.4	22.0	14.9	100
Female householder, nsp	30.3	27.8	21.1	13.6	7.2	100
<b>Nonfamily households</b>	35.7	24.4	18.9	13.0	8.0	100
Male Living alone	34.5	25.9	20.0	12.7	6.9	100
Female Living alone	45.9	25.6	16.3	8.4	3.7	100

Note: nsp denotes no spouse present.

Source: U.S. Census Bureau, Annual Social and Economic Supplement, 2011 (Table HINC-05. Percent Distribution of Households, by Selected Characteristics within Income Quintile and Top 5 Percent in 2010), [http://www.census.gov/hhes/www/cpstables/032011/hhinc/new05\\_000.htm](http://www.census.gov/hhes/www/cpstables/032011/hhinc/new05_000.htm)

Table 4: Composition of Income Quintile by Type of Household, 2010

	Total	Lowest 20 percent	Second 20 percent	Third 20 percent	Fourth 20 percent	Highest 20 percent	Top 5 percent
<b>Family households</b>	66.2	39.6	58.9	68.1	78.1	86.5	88.2
Married-couple families	48.9	17.0	35.9	48.8	64.3	78.4	82.4
<b>Nonfamily households</b>	33.8	60.3	41.2	31.9	21.9	13.5	11.8
Male Living alone	12.3	21.2	15.8	12.3	7.8	4.2	4.3
Female Living alone	15.3	35.2	19.6	12.5	6.4	2.8	2.0
<b>Earners</b>							
No earners	23.1	62.4	29.6	14.0	6.3	3.0	1.5
One earner	37.9	33.0	52.6	48.4	33.1	22.2	23.5
Two earners or more	39.1	4.6	17.8	37.6	60.6	74.8	75.0

Source: U.S. Census Bureau, Annual Social and Economic Supplement, 2011 (Table HINC-05. Percent Distribution of Households, by Selected Characteristics within Income Quintile and Top 5 Percent in 2010), [http://www.census.gov/hhes/www/cpstables/032011/hhinc/new05\\_000.htm](http://www.census.gov/hhes/www/cpstables/032011/hhinc/new05_000.htm)

Table 5: Number of Joint Returns with Salaries and Wages, Selected Years 1969–99

Tax Year	Total	With two earners	Percent
1969	37,544	17,283	46.0
1979	39,379	20,722	52.6
1989	40,659	23,677	58.2
1999	42,160	25,908	60.0

Source: Ellen Yau, Kurt Gurka, and Peter Sailer, *Comparing Salaries and Wages of Women Shown on Forms W-2 to Those of Men, 1969–1999*, U.S. Internal Revenue, Statistics of Income Branch, <http://www.irs.gov/pub/irs-soi/99inw2wm.pdf>

the economy. Part of this is the now-familiar path of two young people getting some kind of schooling, getting a first job, and then, after a few years, getting married.

Individuals move around quintiles as they age and their careers progress. High school or college graduates will start out in the bottom quintile, and then move into a higher quintile when they get a job. Marriage to someone with a job will result in the perception of more upward mobility, as two household incomes combine into one.

Another factor that can influence measures of inequality is changes in the tax code. The Tax Reform Act of 1986 lowered the top individual tax rate to 28 percent, and the corporate rate to 35 percent.<sup>9</sup> In 1986, the top individual rate was 50 percent, and the top corporate rate was 46 percent, so small businesses would pay tax at a lower rate if they incorporated and filed taxes as corporations.

With the implementation of the Tax Reform Act of 1986, the top individual tax rate of 28 percent meant that small businesses were often better off filing under the individual tax code. Revenues shifted from the corporate to the individual tax sector. In the late 1980s and 1990s, that made it appear as though people had suddenly become better off and income inequality had worsened. This had not happened; rather, income that had been declared on a corporate return was being declared on the individual return. This makes any comparisons between pre- and post-1986 returns meaningless.

Finally, inequality appears greater because the cost of living varies substantially in different parts of the country. College graduates tend to move to locations with higher costs of housing, food, and services, such as New York, Boston, Washington, D.C., and San Francisco. College students prefer these cities because they have amenities

such as museums, theaters, shopping, and restaurants. As more well-educated people move into these locations, they become more attractive.

What this means for the study of inequality is that high incomes are less valuable in high-cost locations. A \$200,000 salary goes further in Mobile than in New York, for instance, and if more \$200,000 wage earners move to New York, the distribution of income is more equal.

Low-income individuals spend a higher proportion of their income on food and clothing, and high-income people spend more on services. The price of food and clothing, nondurables, has been rising more slowly than the price of services, which are disproportionately consumed by higher-income individuals.

## USING SPENDING TO MEASURE INEQUALITY

A more meaningful measure of inequality that avoids changes in tax laws and changes in demography comes from an examination of spending. Spending is an accurate measure of the welfare of different income groups. The Department of Labor publishes data every year on consumer spending, based on income quintiles, or fifths. The latest data are for 2010. This analysis shows that economic inequality has not increased, contrary to what the levelers contend.

Differences in per-person spending from the lowest-income fifth to the highest are not dramatically different from 20 years ago. These measures of spending show less inequality than do measures of income.

The Department of Labor data, which are published every year, track spending by income group. Spending is vital because it determines our current standard of living and our confidence in the future. It shows how much purchasing power individual Americans have.

I calculate spending on a per-person basis in order to produce comparable measures. These data are

converted into 2010 dollars using the Bureau of Labor Statistics Consumer Price Index for all urban centers. It is important to compute spending on a per-person basis because the number of persons in a household varies by quintile, as can be seen in Table 1. For a given level of income, a family is better off with fewer people.

Table 6 shows that the average annual spending for a household in the lowest quintile in 2010 was \$12,325 per person. In contrast, the average spending for a household in the top quintile was \$29,022 per person.

On a per-person basis, the new Department of Labor numbers show that in 2010, households in the top fifth of the income distribution spent 2.4 times the amount spent by the bottom quintile, as can be seen in Figure 3. That was about the same as 25 years ago. There is no increase in inequality. In addition, the overall level of inequality is remarkably small. A person moving from the bottom quintile to the top quintile can expect to increase spending by only 140 percent.

On a per-person basis, all income groups spent less in real terms in 2010 than in 2005 because of the recession. Those in the bottom group spent 1.8 percent less, those in the middle quintile spent 9.2 percent less, and those in the top quintile spent 8.1 percent less. The fact that higher-income groups reined in spending more is not surprising, as a higher portion of their income is discretionary.

But compared with 1985, the big winners are the lowest-income group, whose expenditures increased by 6.5 percent in constant dollars. In contrast, the highest group spending per person increased by only 1.5 percent. This shows that even though the distribution of income might be wider, those at the bottom are doing better than they did 25 years ago because they have greater spending power, after adjusting for inflation.

Moreover, the top-income group has not progressed much at all but has essentially been flat. This is partly a result of the recession of the past few years. From 1985 to 2005, all groups did better. But over the past five years, expenditures per person have declined in all strata.

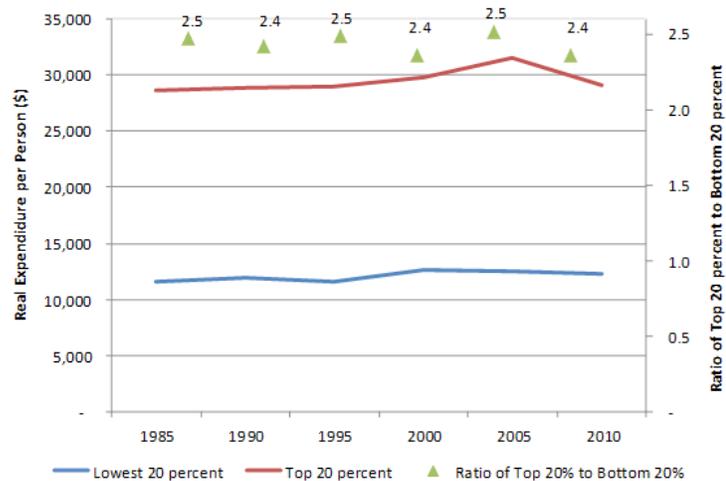
Table 6: Annual Expenditures by Income Quintile, 2010

<b>Real Expenditure per Person by Income Quintile, Selected Years 1985–2010, 2010 Dollars</b>		1985	1990	1995	2000	2005	2010
<b>Total Annual Expenditure</b>	Lowest 20 percent	11,569	11,965	11,611	12,621	12,558	12,325
	Second 20 percent	13,298	13,595	14,390	14,618	14,678	13,167
	Middle 20 percent	16,515	15,841	16,028	17,584	17,461	15,851
	Fourth 20 percent	19,399	19,713	20,131	21,163	20,927	19,039
	Top 20 percent	28,603	28,903	28,911	29,719	31,566	29,022
	<b>5:1 ratio</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>
<b>Food</b>	Lowest 20 percent	1,999	2,225	1,979	1,880	2,001	1,946
	Second 20 percent	2,188	2,361	2,410	2,300	2,063	1,832
	Middle 20 percent	2,563	2,476	2,350	2,625	2,365	2,152
	Fourth 20 percent	2,840	3,024	2,789	2,918	2,770	2,360
	Top 20 percent	3,731	3,716	3,472	3,434	3,507	3,336
	<b>5:1 ratio</b>	<b>1.9</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>
<b>Housing</b>	Lowest 20 percent	3,985	4,057	4,468	4,579	4,945	5,098
	Second 20 percent	4,192	4,381	4,738	4,670	5,173	4,943
	Middle 20 percent	4,958	4,825	5,096	5,499	5,910	5,580
	Fourth 20 percent	5,628	5,590	6,040	6,400	6,487	6,422
	Top 20 percent	8,096	8,419	8,696	8,948	9,772	9,255
	<b>5:1 ratio</b>	<b>2.0</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>
<b>Apparel and Services</b>	Lowest 20 percent	681	618	603	594	563	455
	Second 20 percent	833	729	793	716	608	502
	Middle 20 percent	981	857	827	818	674	528
	Fourth 20 percent	1,138	1,127	1,005	1,024	831	599
	Top 20 percent	1,749	1,770	1,570	1,579	1,292	1,082
	<b>5:1 ratio</b>	<b>2.6</b>	<b>2.9</b>	<b>2.6</b>	<b>2.7</b>	<b>2.3</b>	<b>2.4</b>
<b>Transportation</b>	Lowest 20 percent	1,885	1,891	1,606	2,260	1,801	1,687
	Second 20 percent	2,525	2,453	2,618	2,777	2,705	2,175
	Middle 20 percent	3,474	2,957	3,162	3,560	3,321	2,754
	Fourth 20 percent	3,983	3,716	3,904	4,171	4,044	3,252
	Top 20 percent	5,396	5,015	5,149	5,269	5,475	4,351
	<b>5:1 ratio</b>	<b>2.9</b>	<b>2.7</b>	<b>3.2</b>	<b>2.3</b>	<b>3.0</b>	<b>2.6</b>
<b>Health Care</b>	Lowest 20 percent	791	938	874	1,034	951	896
	Second 20 percent	945	1,077	1,043	1,095	1,182	1,152
	Middle 20 percent	852	904	936	995	1,146	1,180
	Fourth 20 percent	816	897	977	1,046	1,160	1,281
	Top 20 percent	971	1,084	1,116	1,133	1,382	1,508
	<b>5:1 ratio</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.1</b>	<b>1.5</b>	<b>1.7</b>
<b>Entertainment</b>	Lowest 20 percent	477	513	564	589	585	599
	Second 20 percent	603	521	595	631	678	630
	Middle 20 percent	786	716	775	815	810	763
	Fourth 20 percent	969	1,045	1,021	1,051	1,111	963
	Top 20 percent	1,552	1,603	1,570	1,530	1,748	1,649
	<b>5:1 ratio</b>	<b>3.3</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	<b>3.0</b>	<b>2.8</b>

		1985	1990	1995	2000	2005	2010
Personal-Care Products and Services	Lowest 20 percent	154	170	151	224	166	163
	Second 20 percent	200	180	201	243	179	168
	Middle 20 percent	228	213	214	270	211	188
	Fourth 20 percent	258	266	281	316	239	221
	Top 20 percent	342	345	328	389	351	349
	<b>5:1 ratio</b>	<b>2.2</b>	<b>2.0</b>	<b>2.2</b>	<b>1.7</b>	<b>2.1</b>	<b>2.1</b>
Education	Lowest 20 percent	263	326	245	303	348	374
	Second 20 percent	130	137	123	160	159	177
	Middle 20 percent	126	164	150	199	196	196
	Fourth 20 percent	229	177	229	271	351	280
	Top 20 percent	422	471	541	579	874	939
	<b>5:1 ratio</b>	<b>1.6</b>	<b>1.4</b>	<b>2.2</b>	<b>1.9</b>	<b>2.5</b>	<b>2.5</b>
Reading	Lowest 20 percent	71	57	56	51	34	26
	Second 20 percent	82	72	72	58	43	29
	Middle 20 percent	103	91	83	69	47	32
	Fourth 20 percent	117	110	102	79	55	37
	Top 20 percent	163	152	148	115	86	62
	<b>5:1 ratio</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>	<b>2.2</b>	<b>2.5</b>	<b>2.3</b>
Personal Insurance and Pensions	Lowest 20 percent	404	303	255	291	316	262
	Second 20 percent	626	657	658	689	828	678
	Middle 20 percent	1,196	1,318	1,323	1,458	1,588	1,336
	Fourth 20 percent	2,033	2,183	2,280	2,453	2,492	2,249
	Top 20 percent	3,539	3,931	4,323	4,573	4,837	4,644
	<b>5:1 ratio</b>	<b>8.8</b>	<b>13.0</b>	<b>16.9</b>	<b>15.7</b>	<b>15.3</b>	<b>17.7</b>

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey, 2010* (<http://www.bls.gov/cex/home.htm>), and Manhattan Institute calculations

Figure 3: Real Expenditure per Person by Income Quintile, Selected Years 1985–2010



Source: Manhattan Institute calculations and U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey* data, 1985–2010

The aggregate spending numbers mask some interesting patterns. The only area of society where higher-income people spend substantially more than lower-income individuals is on insurance and pensions.

On a per-capita basis, Americans spend less on food today than they did 25 years ago, as can be seen in Figure 4. This is remarkable, given the increase in obesity. Higher-income Americans spend less than twice as much on food as do lower-income Americans. Inequality in food expenditures has narrowed. The top quintile in

2010 spent 1.7 times as much as the lowest quintile, compared with 1.9 times as much 25 years ago.

The largest expenditure category for Americans of all ages is housing, shown in Figure 5. The top-income group spends about a third of its expenditures on housing, while the lowest-income group spends 40 percent. Housing expenditures have increased, even as overall expenditures have not. Housing inequality has decreased over the past quarter-century, from a ratio of about 2 to 1.8. Over the past five years, the

Figure 4: Real Food Expenditure per Person by Income Quintile, Selected Years 1985–2010

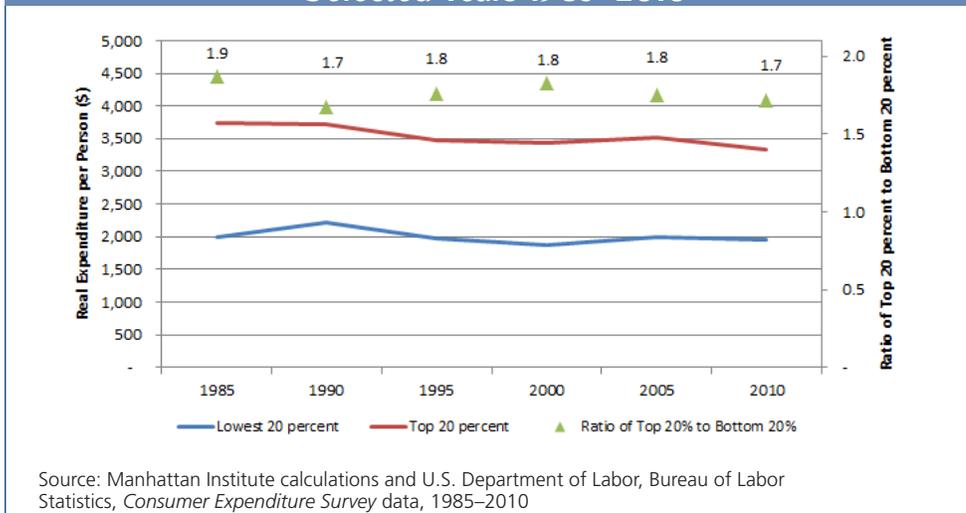
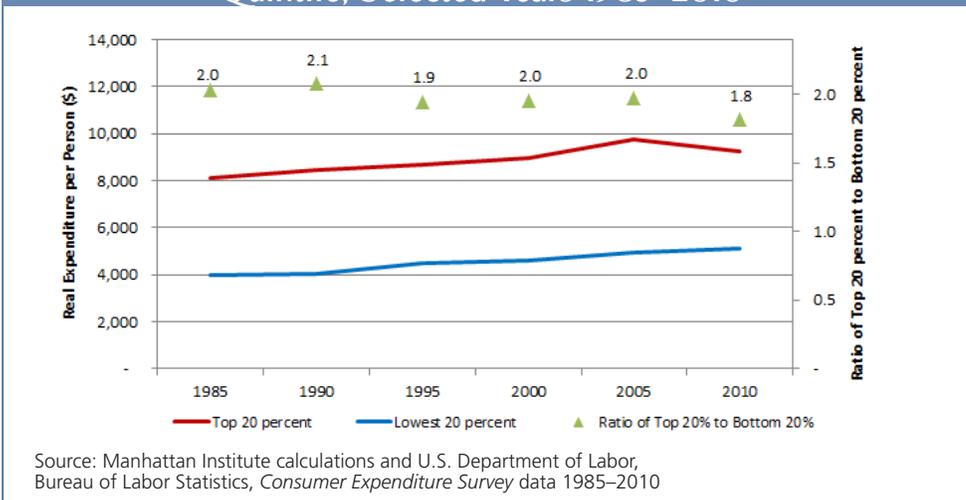


Figure 5: Real Housing Expenditure per Person by Income Quintile, Selected Years 1985–2010



top-income quintile is spending less on housing, whereas the expenditure of the lowest quintile is about the same.

Figure 6 shows a remarkable decline in all income strata on expenditures on apparel and services. Services in this category comprise laundering, dry cleaning, tailoring, shoe repair, and other apparel-related services. Spending inequality has

decreased from a ratio of 2.6 percent to 2.4 percent. Apparently, Americans are spending substantially less on clothing than they spent 25 years ago. The major reasons are the influx of lower-priced clothing from overseas and the increased informality of clothing in society.

Figure 7 shows transportation, the second-largest category of spending for Americans. As with clothing,

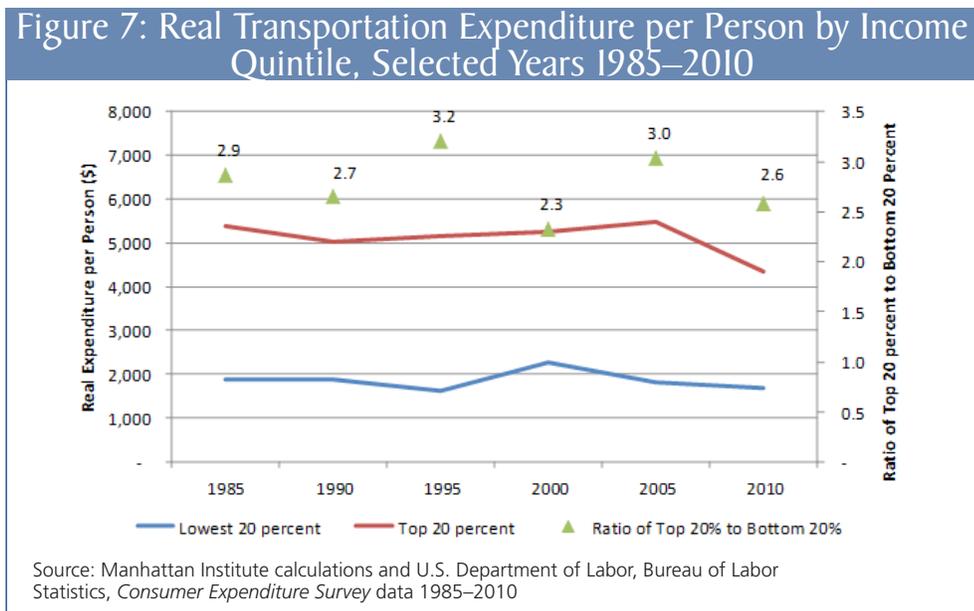
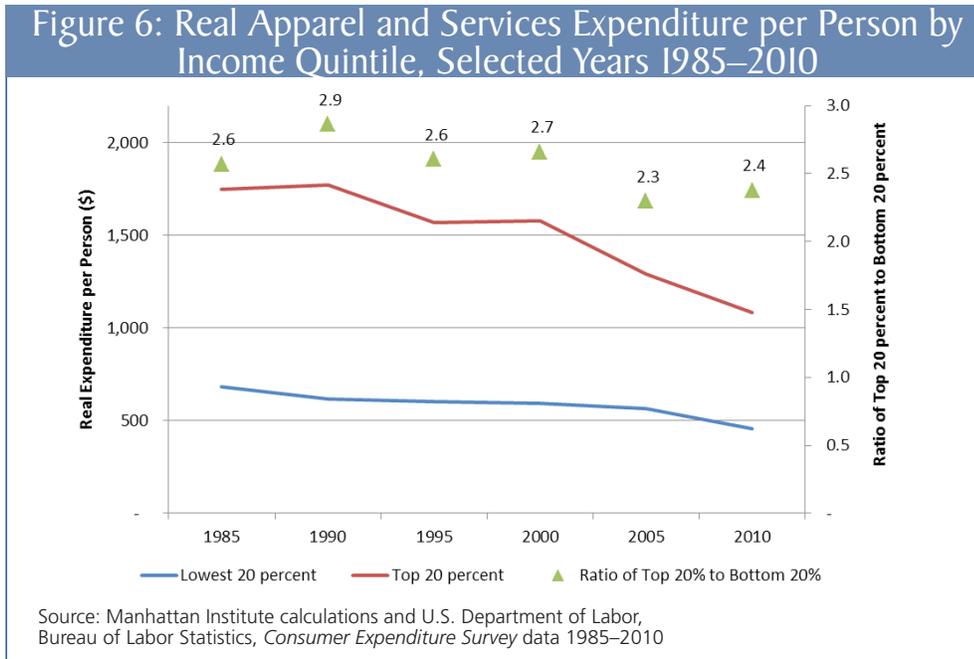


Figure 8: Real Entertainment Expenditure per Person by Income Quintile, Selected Years 1985–2010

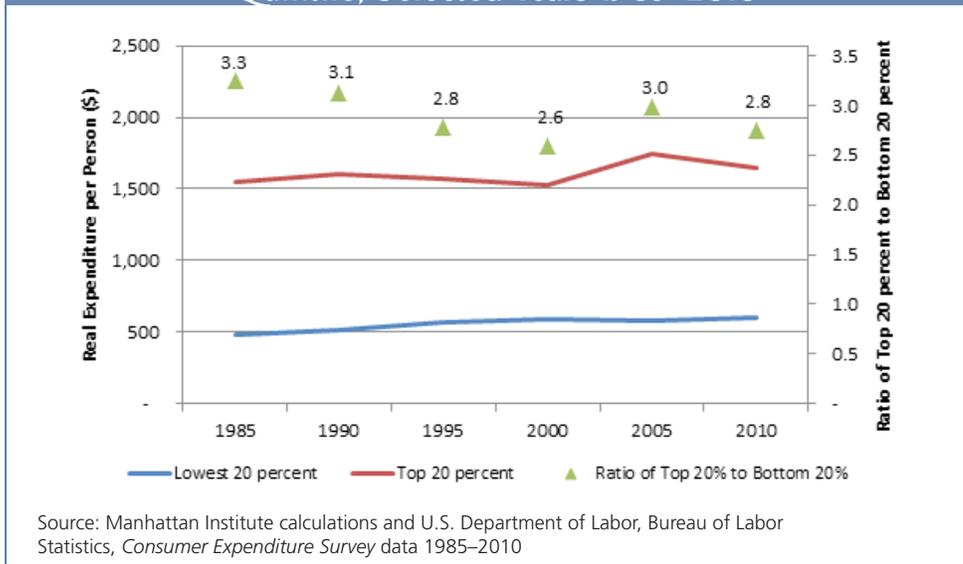
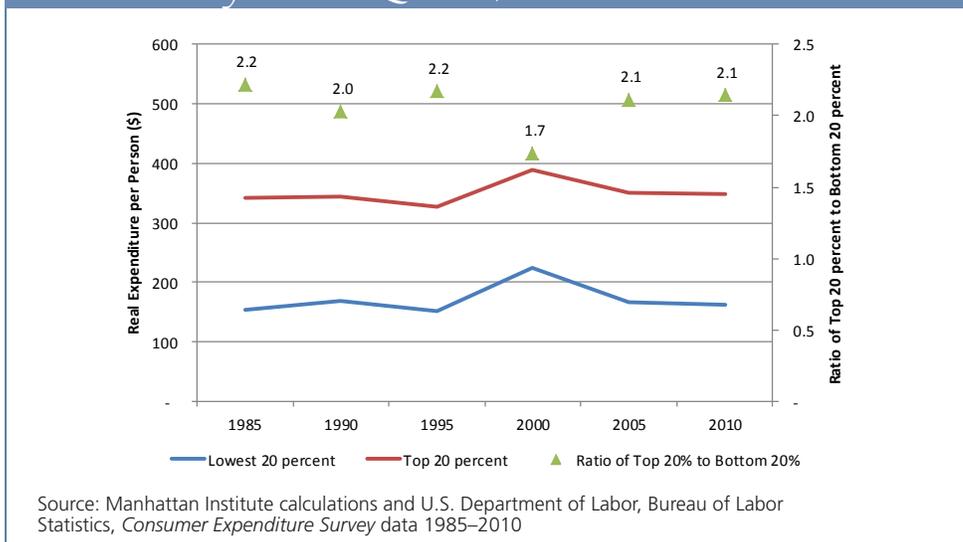


Figure 9: Real Personal Services and Products Expenditure per Person by Income Quintile, Selected Years 1985–2010



Americans spend 10 to 25 percent less on transportation today than they did 25 years ago, although the decline is not as precipitous. The ratio of spending between the top and bottom quintile is less today than it was 25 years ago. The decline has occurred despite higher car and gasoline prices and likely reflects that Americans buy fewer new cars today than they did 25 years ago and that these cars use less gasoline.

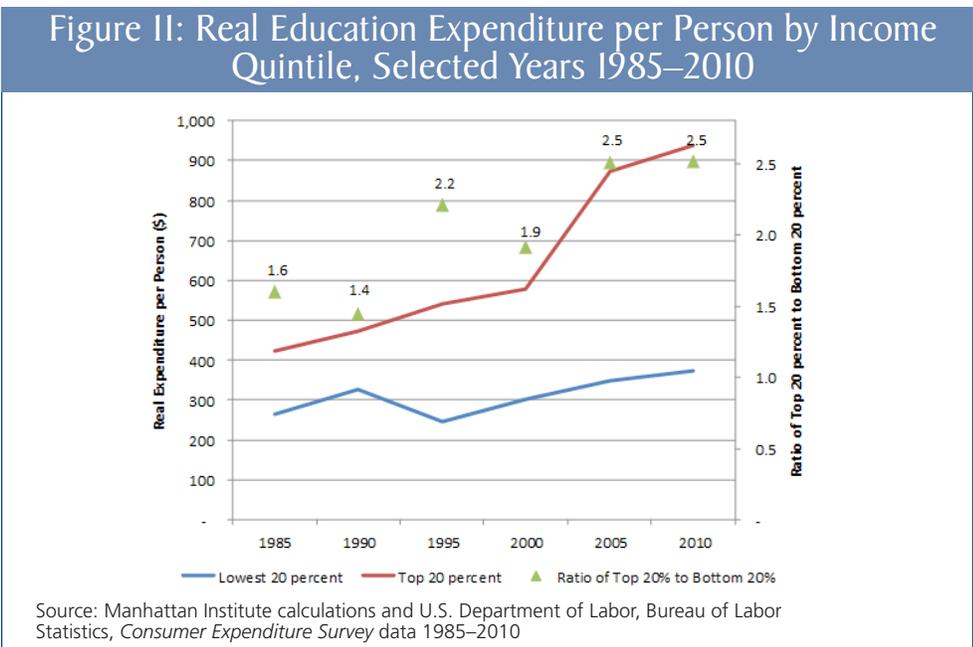
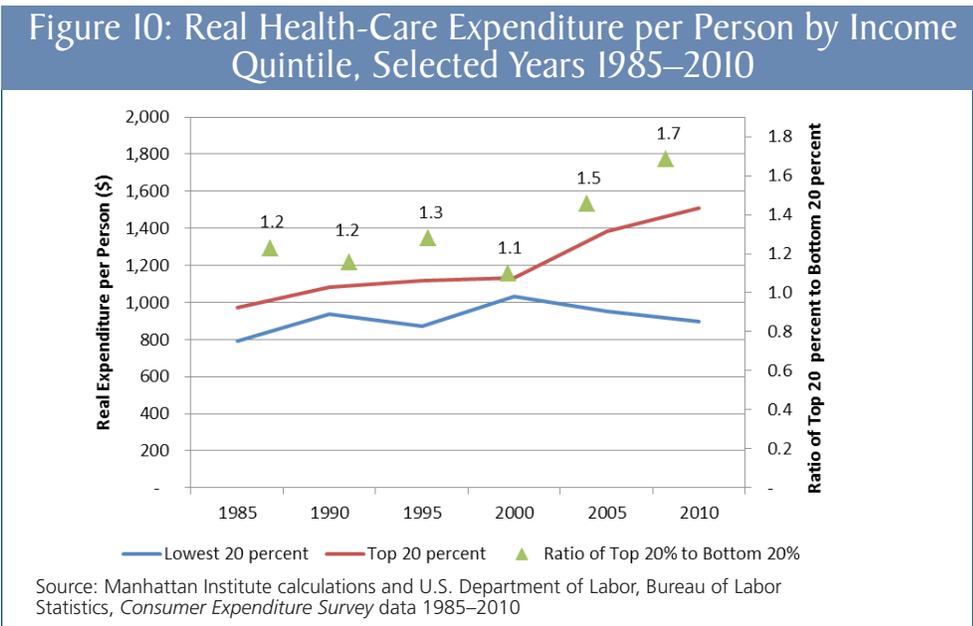
Spending on entertainment has risen over the past 25 years, especially for lower-income Americans, as can be seen in Figure 8. But inequality in entertainment spending has declined substantially, from a ratio of 3.3 to 2.8. Entertainment spending includes theater fees and admissions, cable, video games, iPods and iTunes, pets, playground equipment, photography recreational vehicles, sporting goods, and other recreational equipment.

Spending on personal-care products and services, such as shampoo, hairdressers, and barbers, has changed remarkably little over the past 25 years, as can be seen in Figure 9. Inequality has declined slightly, from a ratio of 2.2 to a ratio of 2.1.

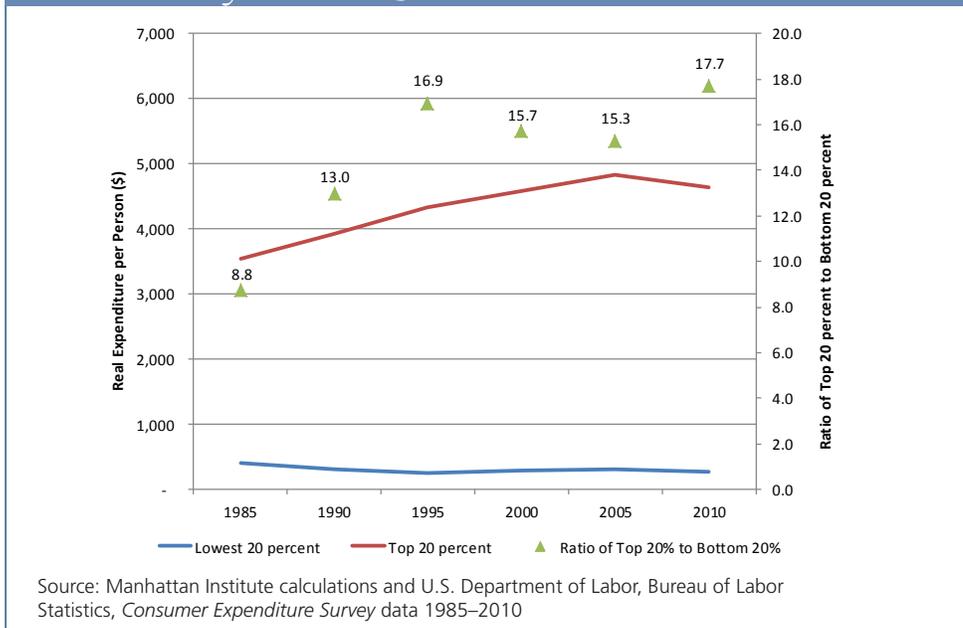
spending in real terms has increased by 25 percent, and for the upper quintile it has risen by 50 percent. This increase comes in spite of expanded insurance coverage.

Figure 10 shows spending on health care. In contrast to other categories, spending has become more unequal on health care. It has increased for all classes but especially for upper-income individuals. For the lowest quintile,

Another area of increased inequality is education spending, as can be seen in Figure 11. Average spending of those in the top quintile doubled over the past 25 years but grew by less than 50 percent for the lowest quintile. The income inequality measure increased from 1.6 in 1985 to 2.5 in 2010.



**Figure 12: Real Personal Insurance and Pension Expenditure per Person by Income Quintile, Selected Years 1985–2010**



On the other hand, spending on reading declined dramatically over the past 25 years. People might be spending more on education, but they are spending less on reading. That may be one reason that SAT verbal scores are declining. Twenty-five years ago, Americans in the top quintile spent an average of \$163 per year on newspapers, magazines, and books. By 2005, that figure had declined to \$62 per person. In the lowest quintile, spending declined from \$71 per person to \$26 per person. Stated differently, per-capita spending in the highest-income quintile in 2005 was less than per-capita spending in the lowest quintile in 1985.

Figure 12 shows the area of greatest inequality: spending on insurance and pensions. In the lowest quintile, spending from 1985 to 2010 declined by over 30 percent, from \$404 per person to \$262 per person. In contrast, in the top 20 percent, spending increased from over \$3,500 per person to over \$4,600

per person over the same period, an increase of 30 percent. The ratio of spending inequality jumped from 8.8 to 17.7. Personal insurance and pensions is the only area of spending where there is a dramatic difference between spending patterns of high-income and low-income Americans.

## CONCLUSION

Many commentators today bemoan a supposed inequality in the United States. Much of this concern is a problem in search of reality, caused by problems of measurement and changes in demographic patterns over the past quarter-century. Government data on spending patterns show remarkable stability over the past 25 years and, if anything, a narrowing rather than an expansion of inequality.

## ENDNOTES

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- <sup>1</sup> See, e.g., Krugman. “America’s Unlevel Field”; and DeParle, “Harder for Americans to Rise from Lower Rungs.”
- <sup>2</sup> Joint Committee on Taxation, “General Explanation of the Tax Reform Act of 1986” (H.R. 3838, 99th Congress, Public Law 99-514), May 4, 1987, <http://www.jct.gov/jcs-10-87.pdf>.
- <sup>3</sup> U.S. Census Bureau, “Changing American Households,” Annual Social and Economic Supplements, 1960–2011.
- <sup>4</sup> U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, September 2011, <http://bls.gov/cex/2010/Standard/quintile.pdf>.
- <sup>5</sup> U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, September 2011, <http://bls.gov/cex/2010/Standard/quintile.pdf>.
- <sup>6</sup> U.S. Census Bureau, “Table MS-2. Estimated Median Age at First Marriage, by Sex: 1890 to the Present.” May 2011.
- <sup>7</sup> U.S. Census Bureau, “Income, Poverty, and Health Insurance Coverage in the United States: 2010,” Current Population Reports, P60-236 (Washington, D.C.: U.S. Government Printing Office, 2011), <http://www.census.gov/prod/2011pubs/p60-239.pdf>.
- <sup>8</sup> Child Trends Data Bank, 2010.
- <sup>9</sup> Joint Committee on Taxation (see n. 2 above).

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