Working Paper

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Measuring the Income Gap from 1975 to 2023

Extending Previous Work

RAND Education and Labor

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About This Working Paper

This short analysis extends the results from a prior study about the gap between what the majority of workers earned from 1975 to 2018 and what they would have earned with more evenly distributed income growth (Price and Edwards, 2020). Additionally, I explain the key factors contributing to changes since 2018 and provide a perspective on what that tells us about the broader economy. This work is intended to be of interest to a broad audience curious about trends in the U.S. economy.

Education and Labor Division

This study was undertaken by RAND Education and Labor, a division of RAND that conducts research on early childhood through postsecondary education programs, workforce development, and programs and policies affecting workers, entrepreneurship, and financial literacy and decisionmaking. This study was sponsored by Civic Ventures.

More information about RAND can be found at www.rand.org. Questions about this report should be directed to Carter Price (price@rand.org), and questions about RAND Education and Labor should be directed to educationandlabor@rand.org.

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For three decades following the Second World War, incomes for workers across the income distribution grew at the same pace as the broader economy. This changed in the late 1970s, when earnings growth began disproportionately flowing to those with the highest incomes leading to four decades of rising inequality. A few years ago, my colleague Kathryn Edwards and I wrote a paper on what rising inequality cost workers compared to a hypothetical scenario in which their earnings had continued to grow at the pace of the broader economy.[1] We found that, in 2018, the bottom 90 percent of workers would have made an additional $2.5 trillion collectively had earnings growth kept pace with the growth of gross domestic product from 1975-levels. Cumulatively, from 1975 to 2018, the wedge between what the majority of workers earned in reality and what they would have earned with the more uniform growth rates from the 50s and 60s totaled to $47 trillion (in 2018 dollars).[2] In this piece, I update the numbers from 2018 to 2023 and explain how things changed.

There are three factors that contribute to the change in size of the wedge between what workers earn today and what they would have earned with more uniform growth rates:

- The economy has grown,
- Inflation has risen, and
- The share of income going to the bottom 90 percent of workers has declined.

For the rest of this document, I will describe these three trends detail and the implications they have on the distribution of worker income.

Continued Growth in the Economy

According to data from the United States Bureau of Economic Analysis (BEA), the nominal Gross Domestic Product (GDP) in 2023 was 15 times higher than in 1975 and it was 27 percent larger in 2023 than in 2018.[3] Of course that only tells part of the story because from 1975 to 2023 inflation, as measured by the Personal Consumption Expenditures index (PCE), rose 348 percent (inflation rose 18 percent from 2018).[4] Additionally, based on data from the Bureau of Labor Statistics, the employed population grew by 88 percent from 1975 (3.4 percent from

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[1] Price, Carter C. and Kathryn A. Edwards, Trends in Income From 1975 to 2018, RAND Corporation, WR-A516-1, 2020. As of May 21, 2024: https://www.rand.org/pubs/working_papers/WRA516-1.html.

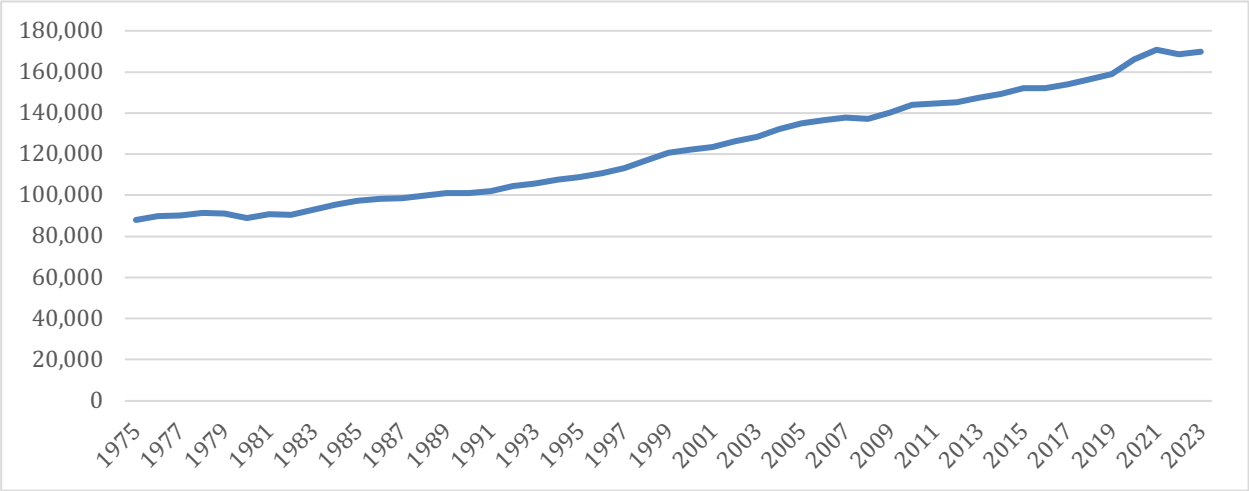
[2] The full details of the approach can be found in Price and Edwards (2020), but the concept behind the calculations is straightforward. I use the 1975 level of income share going to the lowest earning 90 percent of workers (66.57 percent) from the World Inequality Database as the counterfactual. Then, I compare the amount that the bottom 90 percent of workers actually made to what they would have made with the 1975 income distribution. Finally, I inflate these values to present day dollars using the Personal Consumption Expenditures and sum them over the time period.

[3] U.S. Bureau of Economic Analysis, Gross Domestic Product [GDP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDP, June 7, 2024.

[4] U.S. Bureau of Economic Analysis, Personal Consumption Expenditures: Chain-type Price Index [PCEPI], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCEPI, June 7, 2024.

2018).[5] So, as can be seen in Figure 1, real GDP per worker grew by 93.2 percent from 1975 and 8.6 percent from 2018.

Figure 1. Gross Domestic Product per Worker adjusted to 2023 Dollars



SOURCE: Calculations based on GDP and PCE data from BEA and Employment data from BLS

While the GDP per worker was essentially flat following the start of the COVID-19 pandemic, just adding an additional five years to the calculations increased the estimate of the wedge between what the majority of workers would have earned with more equal growth and their actual earnings by $18 trillion dollars (measured in 2023 dollars).

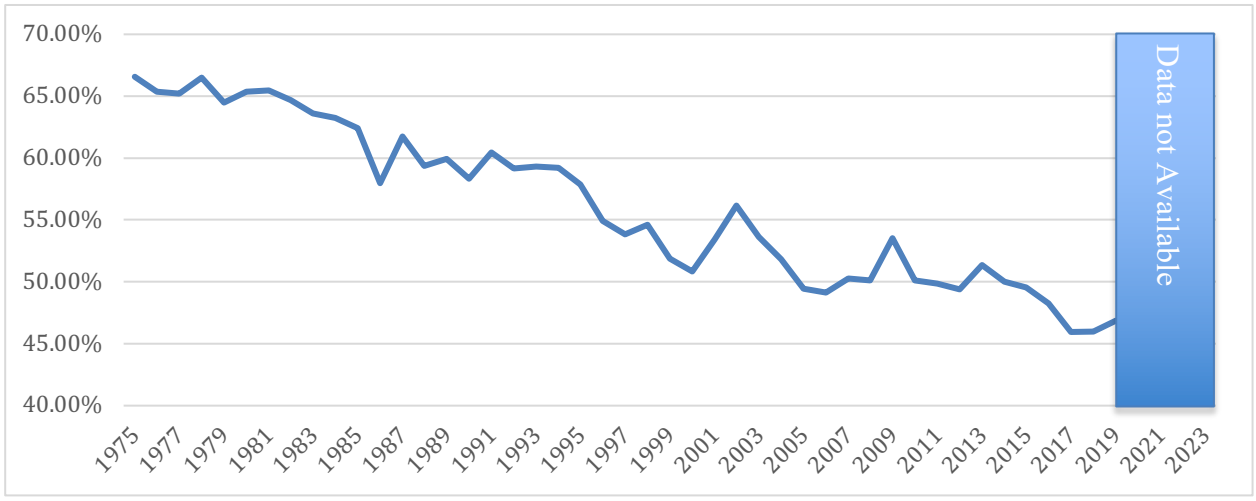
Continued Growth in Inequality

In Figure 2, I show that in 1975 the bottom 90 percent of earners received about two thirds of all taxable income based on data from the World Inequality Database (WID).[6] That share fell to less than half by 2015 (the last year data were available, when we conducted the 2018 study). Since then, updated data indicate that it fell from 49.53 percent in 2015 to 46.83 percent in 2019. That means that the highest earning ten percent of workers took a nearly three percent larger share of the income pie over those four years. That growth in the share going to the top increased the gap between what the remaining 90 percent earned compared to what they would have earned with equal growth by $3 trillion dollars over those four years.

[5] U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, retrieved from the BLS website; https://www.bls.gov/cps/cpsaat01.htm, June 7, 2024.

[6] World Inequality Database, United States Fiscal Income, retrieved from the WID website; https://wid.world/data/, June 7, 2024.

Figure 2. The Decline in the share of Income Going to the Bottom 90 Percent of Workers

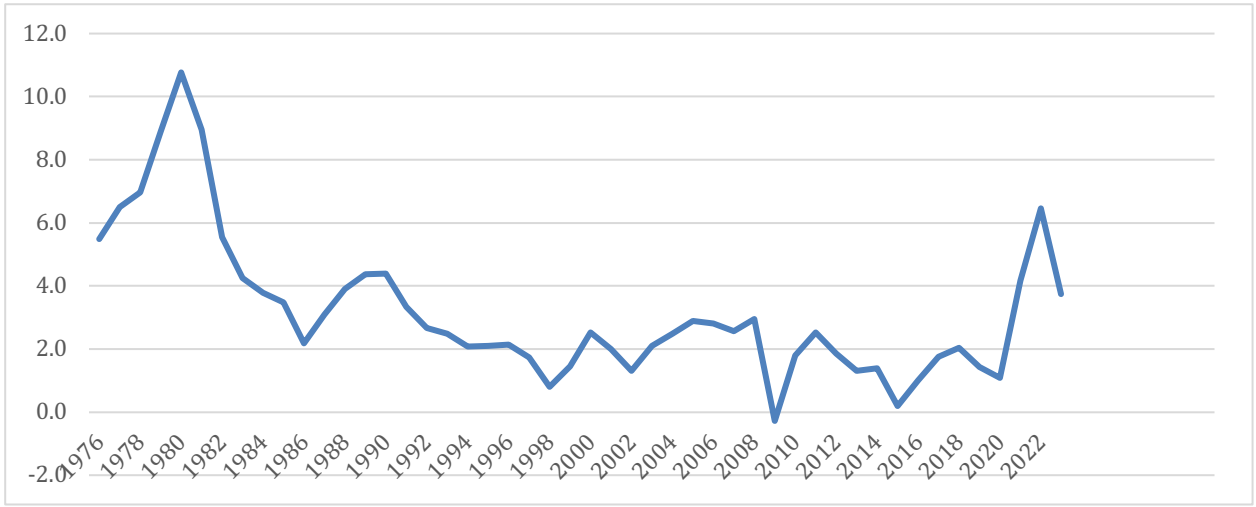


SOURCE: World Inequality Database

Inflation

As seen in Figure 3, inflation, as measured by in the chained PCE, rose rapidly in 2021 and has stayed above the Federal Reserve's two-percent target since then. Higher prices mean that a dollar in 2018 would buy about 18 percent more goods and services than a dollar in 2023. Thus, by inflating from 2018 dollars to 2023 dollars, the size of the wedge grew by $10 trillion.

Figure 3. Inflation Trend as Measured by the Chained PCE



SOURCE: Federal Reserve Economic Data, "Personal Consumption Expenditures: Chain-type Price Index, Percent Change from Year Ago, Annual, Seasonally Adjusted"

Conclusion

These values are intended to provide an indication of the scale of rising inequality and its durability over the last nearly five decades. Looking at the net effects of these trends, if we had the income distribution from 1975, the majority of workers (the bottom 90 percent by income) would have made an additional $3.9 trillion dollars in 2023. Cumulatively, the gap between what workers from 1975 to 2023 earned and what they would have earned with the counterfactual income distribution amounts to $79 trillion (in 2023 dollars). Compared to the $47 trillion from the 2020 study, the additional $32 trillion dollars comes from extending the time-period by five years, inflating from 2018 to 2023, and additional growth in inequality.

Abbreviations

BEA	Bureau of Economic Analysis
BLS	Bureau of Labor Statistics
GDP	coronavirus disease 2019
PCE	Personal Consumption Expenditure index
WID	World Inequality Database

References

Price, Carter C. and Kathryn A. Edwards, Trends in Income From 1975 to 2018, RAND Corporation, WR-A516-1, 2020. As of May 21, 2024: https://www.rand.org/pubs/working_papers/WRA516-1.html.

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