

RESEARCH SUMMARY

## US Income Inequality: Measurement Challenges, Scale Overestimates

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By conventional measures, income inequality has been rising in the United States over the past 40 years, just as it has been across the industrialized world. These measures, however, tend to overstate the increase in US inequality, according to Sean E. Mulholland and Cortnie Shupe in “[Income Inequality in the United States](#).”

Existing measures suffer from a lack of knowledge about two key areas:

- *Changes in nonwage compensation.* This type of compensation often eludes measurement and has increased in importance over time.
- *The significance of capital income and wealth flows.* These income sources include interest, dividends, and rent.

### GROWTH IN NONWAGE COMPENSATION

- In response to changes in the tax law, workers have increasingly shifted to nonwage compensation, which includes employer-sponsored health benefits and retirement benefits.
- This shift lowers workers’ reported taxable income, thereby increasing the difference between total compensation and total reported income.
- Studies often fail to account for this shift in income composition, which exaggerates the measured share of income at the top income levels. (It also underestimates the inequality between the lowest deciles of workers who are not employed or are marginally employed vis-à-vis better-compensated workers.)

### CAPITAL INCOME AND WEALTH FLOWS

- In the United States, much of the increase in total income inequality is driven by the top 10 percent of earners.
- However, this increase in inequality is a result less of a rise in capital income than of a rise in labor income for the highest earners.
- This contrasts with the trend in most industrialized countries, where capital income is chiefly responsible for increasing inequality.

## KEY TAKEAWAY

US income inequality is a topic of high political interest. Current debates tend to focus on aspects of the issue that are easily measurable. However, Mulholland and Shupe argue that, by omitting other aspects of income inequality, existing quantitative studies overestimate its extent.