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Income Inequality Worsened with the Recession

By [Pete Davis](#)|Sep 29, 2009, 10:53 PM|[Author's Website](#)

Although measuring income inequality is less precise than many economists would like, certain conclusions stand out:

1. The 2008 recession worsened U.S. income inequality. Today, the Census Bureau released 2008 household income [data](#) showing a decline in all income quintiles, but less of a decline the higher the income. This *Associated Press* [article](#) describes what the data show.
2. Boom times in the U.S. since 1980 worsened the income inequality. Burgeoning capital income and bonuses for top executives outpaced meager wage gains. As Heritage Foundation economists Ralph Rector and Rea Hederman [noted](#) in 2004, the Census household income measure does not include certain non-cash government transfer payments or reflect progressive income taxation or take work effort into account. Education is a big factor too. These are all good points, but they don't make a large enough difference to alter this conclusion. The debate over income inequality took a harsher turn in this Cato Institute [paper](#) by Alan Reynolds. Gary Burtless of the Brookings Institution took Reynolds on in this [paper](#). This [Brookings](#) Institution conference last summer delved further into the causes of increasing income inequality.

3. Although international comparisons are rougher still, we have reached about the same income inequality as Russia according to this [Wikipedia article](#). I would take these estimates as only broad indications, but it is interesting to consider that the lowest income inequality exists in Canada, Europe, Scandinavia, Japan, and Australia and that the worst exists in South America and parts of Africa.

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