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# Income Inequality

*A Look at Our Nation's Economy with  
Ernest Werlin*



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**Two  
Economic  
Challenges  
in the  
United  
States:**

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**GROWING ECONOMIC  
INEQUALITY**

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**VOTERS SEE MIDDLE  
CLASS DRIFTING OUT OF  
REACH**

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# Congressional Budget Office Reports About Income Inequality:



HOW INCOME  
INEQUALITY IS MEASURED



HOW IT HAS CHANGED OVER TIME



OUTLINE POLICY OPTIONS



DISCUSS UNDERLYING CAUSES OF  
INCOME INEQUALITY

# In this Presentation, I Will Explain the Congressional Budget Office Reports about Income Inequality in the United States.

## I Will **NOT**:

- Share my thoughts about America's growing inequality
- Make moral judgements about inequality
- Argue that any particular outcome is desirable or undesirable
- Advocate for specific policies

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Instead, I look forward to your comments on this daunting issue.

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# Everything Discussed will be Based On:

Congressional  
Budget Office  
Numbers

Widely Accepted  
Economic Analysis -  
Including  
Information from  
Artificial Intelligence

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# Four Income Groups Commonly Used by the Congressional Budget Office

1

Top 1 Percent

2

Top 10 Percent (Includes Top 1% Numbers)

3

Middle 60 Percent (Approximates the broad middle class)

4

Bottom 20 Percent

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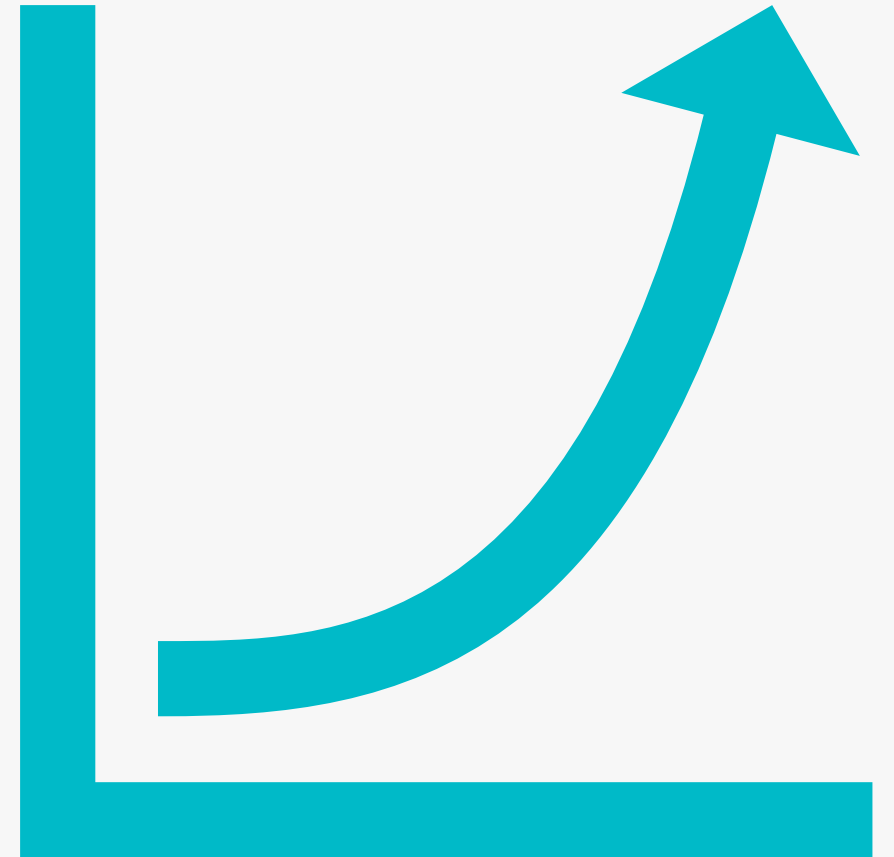
## 1 Percent's Income Shares 2000 vs. 2025

- In 2000, the Top 1 Percent of households received 8 percent of all after-tax income
- The source of this income could be earnings, dividend payments, royalty payments, etc.
- By 2025, that share had risen to 20 percent

# 10 Percent's (Includes 1% Numbers) Income Shares 2000 vs. 2025

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- In 2000, the Top 10 Percent earned around 30 percent
- By 2025, this rose to 47 percent



Wealth concentration at the top occurred gradually over decades.

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## Middle 60 Percent's Income Shares (Approximates the Broad Middle Class)

### 2000 vs. 2025:

- In 2000, the Middle 60 Percent received 62 percent of after-tax income
- In 2025, the Middle 50 Percent earned only 42 percent

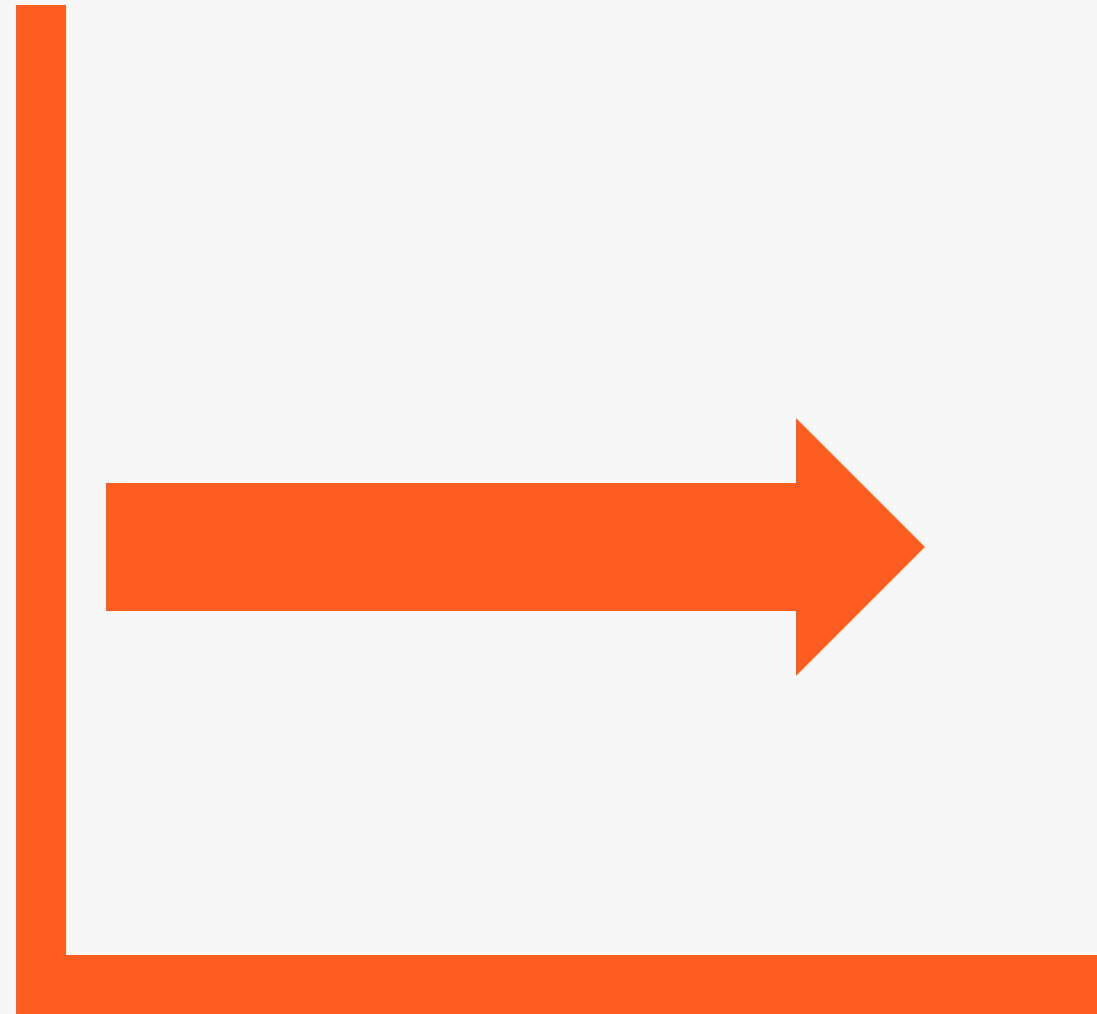
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My friends and I who came from the middle class, mistakenly believed that our lifestyle was always going to proceed in an upward trajectory.

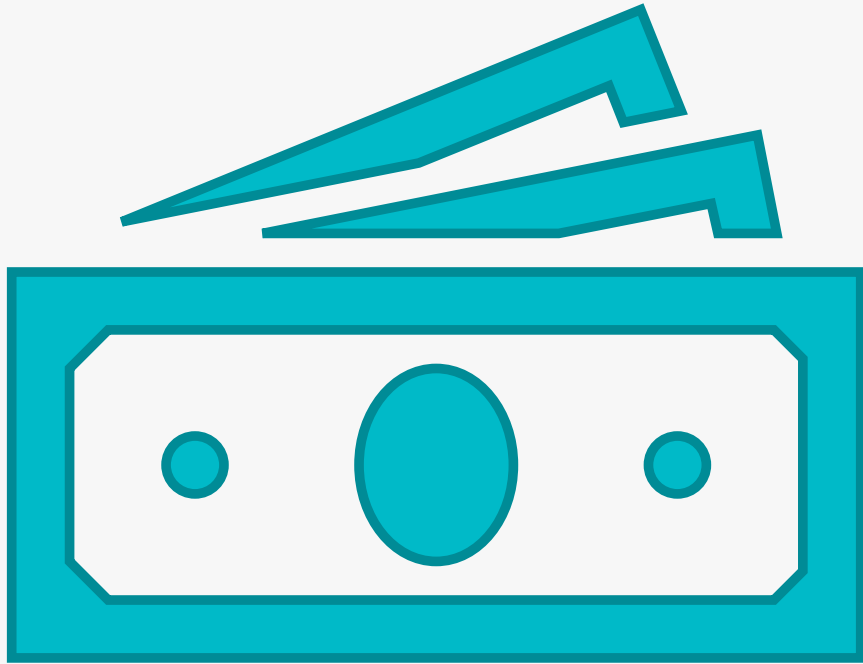


## Bottom 20 Percent's Income Shares 2000 vs. 2025:

- In 2000, the Bottom 20 Percent consistently received about 3.5 to 4 percent of after-tax income
  - In 2025, this number changed to 4.1 percent
  - Their percentage has changed very little over time
- 



**This stability reflects the role of government transfers in supporting lower-income households.**



# Income Growth Since 2020

- Between 2000 and 2020, real after-tax income growth for the Top 1 Percent was on the order of 60 to 80 percent
  - For the Top 10 Percent, growth was roughly 35 to 45 percent
  - By comparison, from 2000-2020 the Middle 60 Percent experienced nominal income growth of approximately 15 to 25 percent
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# Tax Percentages Paid by Each Group

Top	Top 1 Percent pay 40%
Top	Top 10 Percent pay 72%-76% (Includes Top 1% Numbers)
Middle	Middle 60 Percent pay 10%-20%
Lower	Lower 20 Percent pay 4%

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# Why Does the Middle Class Feel Beleaguered?

The middle class has been hurt by spiraling housing, education, and medical costs.



These costs have risen more than income.

# Why is the Middle Class So Important?



- Stabilizer of society
- Spends consistently on housing, healthcare, education, and local business
- Creates predictable demand, which keeps businesses alive
- Is less volatile than economies dominated by extremes of wealth and poverty



## **The Middle Class Supports Democracy and Political Stability**

- More stable democratic institutions
- Higher civic participation (voting, volunteering, and local leadership)
- Less tolerance for corruption and authoritarianism

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**The Bottom 20  
Percent Saw  
Growth of  
About 20 to 30  
Percent**

*Much of that increase was  
driven by federal transfers  
rather than market income*

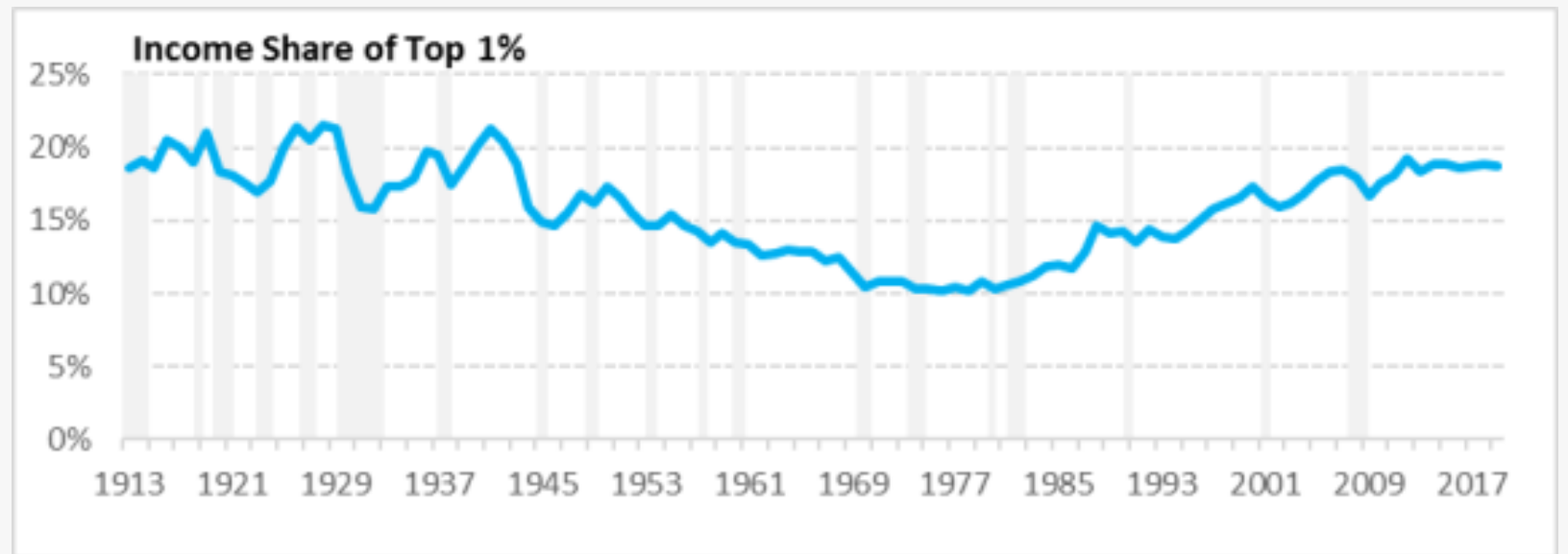
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**Because higher income households grew two to three times faster than middle-income households**

*The share of income by higher earners has increased substantially*

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# Upper Class Income Inequality

## *Why Has Income by Upper Class Increased Substantially?*

- **Capital Gains:** The Dow Jones was 838 on 1/1/1980; it is about 49,000 today
- High-income households have disproportionately received capital gains, dividends, and business income
- In short, inequality grows during economic expansions

## *Why Will Income Inequality Continue to Grow?*

- **Globalization:** Foreign competition impacts middle and lower income groups disproportionately
- Artificial intelligence puts premium on technological excellence
- Robotics
- Capital expansion

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# Role of Taxes and Transfers



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- Federal taxes and transfers reduce inequality
  - The great political divide is how much government intervention should we tolerate to achieve this goal
  - Without transfer payments, lower income brackets would receive 25%-30% lower
  - The debate is whether higher taxes will stifle entrepreneurial risk-taking
  - Socialists such as Bernie Sanders and Elizabeth Warren argue that even after accounting for taxes and transfers, substantial differences in income shares and growth rates remain

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# Economic Conservatives Point Out

01

Europe's growth rate is 40% of USA since 2000

02

In 2000, 4 out of 10 of the largest companies by capitalization were European

03

Today, Europe has none and America has 9/10 largest companies

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# The Shift to Capital from Labor...

This has actually been underway for more than 40 years

Labor received 58% of the total proceeds of economic output, as measured by gross domestic income (conceptually similar to GDP) in 1980

By the third quarter of last year, that had plummeted to 51.4%

Profits' share, meanwhile, rose from 7% to 11.7%

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## In 1985

- IBM was America's most valuable, and one of its most profitable companies
- With a payroll of nearly 400,000, it was among the US's largest employers

## Today

- Nvidia is nearly 20 times as valuable and five times as profitable as IBM was back then (adjusted for inflation)
  - Nvidia employs roughly a 10th as many people
-



# Automation

- Automation's impact first showed up in manufacturing as machines, robots and computers replaced workers
- In 1980, 66% of value added in factories went to labor as wages and benefits, according to Pascual Restrepo, a Yale University economist
- By the 2000's, that was down to 45%



**What are our Policy Options?**

**I am not endorsing nor condemning them.**

# Policy Options

Impose higher top  
marginal income  
tax rates that  
target the wealthy

Tax capital gains  
at the same rate  
as taxes on  
income

Currently, Warren Buffett says that he pays lower taxes than his secretary – the reason is that Warren receives mostly capital gains.

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# To Recap...



Capital gain have a lower tax rate than income taxes



The highest is 23.8%



# Will Changing the Tax Rates Achieve its Objective?



The great economist Milton Friedman said, "Do not look at a bill's intention. Instead, look at its results!"



The very wealthy can hire sophisticated accountants who can find loopholes



The very wealthy are the most mobile people in the world; they have moved by the boatload from high-tax blue states to red states like Texas and Florida



While currently a trickle, the ultra-wealthy have moved to Bermuda, the Cayman Islands, Monaco, etc.

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# The Fundamental Debate is Whether Higher Capital Gains Tax Will Stifle Entrepreneurship Risk Taking

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- Elon Musk, Jeff Bezos, Larry Ellison, Mark Zuckerberg, Michael Dell, and Steve Schwartzman come from middle class families
- We might not like their wealth, but they have created great businesses that hire thousands of high earning employees

There seems to be a strong consensus to establish minimum taxes on high income households – some very wealthy men, such as President Trump, pay very little!



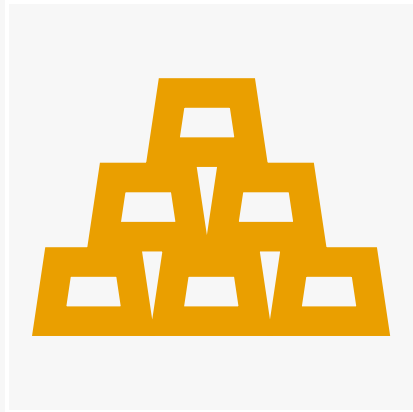
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# Another Suggestion: Impose Wealth Taxes

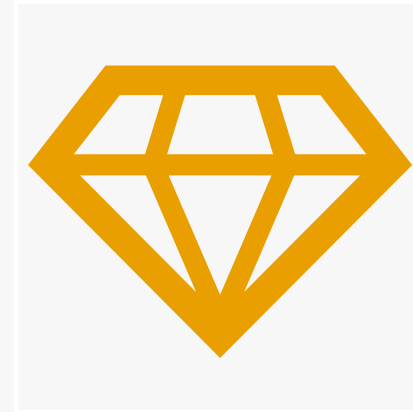
*This targets accumulated net worth above high thresholds*

# What is the Practical Problem with Wealth Tax?

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**This raises challenges related to valuation, liquidity, and compliance – what happens if the stock you own is 100 one year, then 50 the next year?**



**What do you do about wealth in paintings, real estate, etc.**



# **Estate and Inheritance Taxes Focus on Wealth Transfers at Death**



**This affects intergenerational  
inequality**



**The heirs do not pay capital gains  
tax; there is a step-up in basis**

# No Single Approach Dominates All Criteria

*Each involves trade-offs among revenue, equity, efficiency, and administrative feasibility*



# Why Has Income Inequality Grown?



Technology increased returns to skills and capital while reducing demand for routine middle-skill jobs



Globalization increased competition and capital mobility, putting pressure on some wages while increasing returns to capital and high-skilled labor



Labor bargaining power declined over time, limiting wage growth for middle and lower-income workers



Capital gains have become more concentrated

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# Asset Price Growth Disproportionately Benefited Higher- Income Households

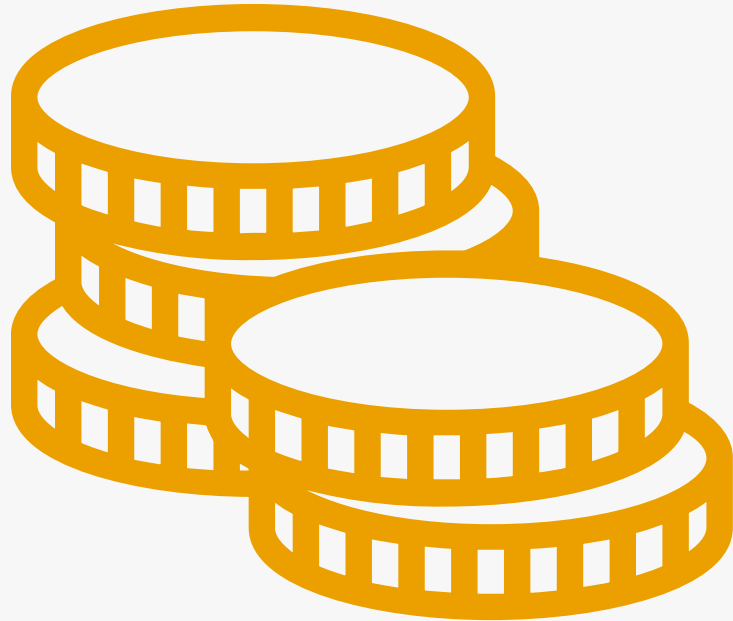


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*While taxes and transfers reduced inequality, they were not sufficient to fully offset these market-driven forces*

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# To Summarize



- Income growth differed substantially across income groups over time
  - Top 1% and 10% have been the big winners
  - Massive asset appreciation play very important role in explaining rising concentration
  - Federal taxes and transfers matter, but they do not dominate underlying economic forces
  - Policy responses exist, but all involve trade-offs
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**Possible Tax  
and Transfer  
Policies that  
Should Not  
Result in  
Billionaires  
Fleeing**

A minimum effective tax on very large income or high capital gains  
Let us say \$50-100 million

Close loopholes on profit shifting  
and tax havens

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# Actions to Help the Middle Class

- Zoning reform to help housing supply
- Healthcare price competition
- Childcare support to boost labor force participation
- Apprenticeships, community college/job training tied to employer demand
- Portable benefits, wage insurance for displaced workers

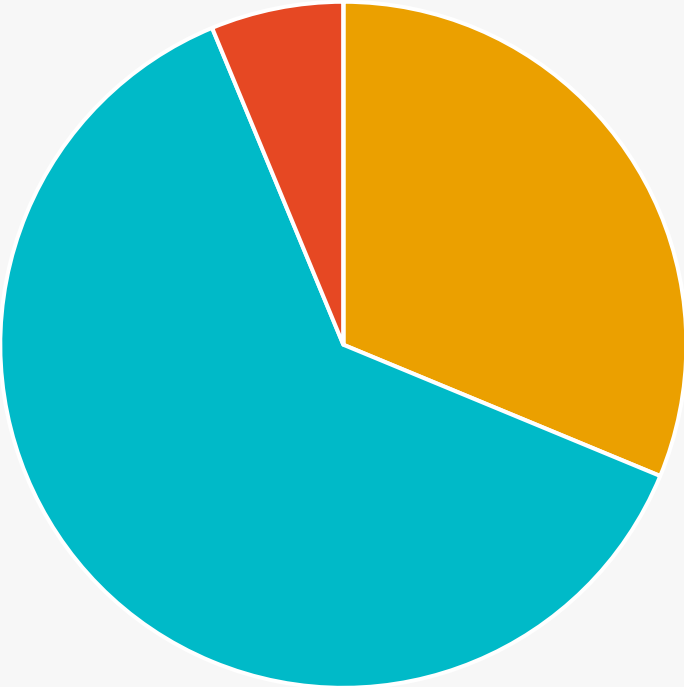


# Wealth Percentage

Top 10% Includes 1% Numbers

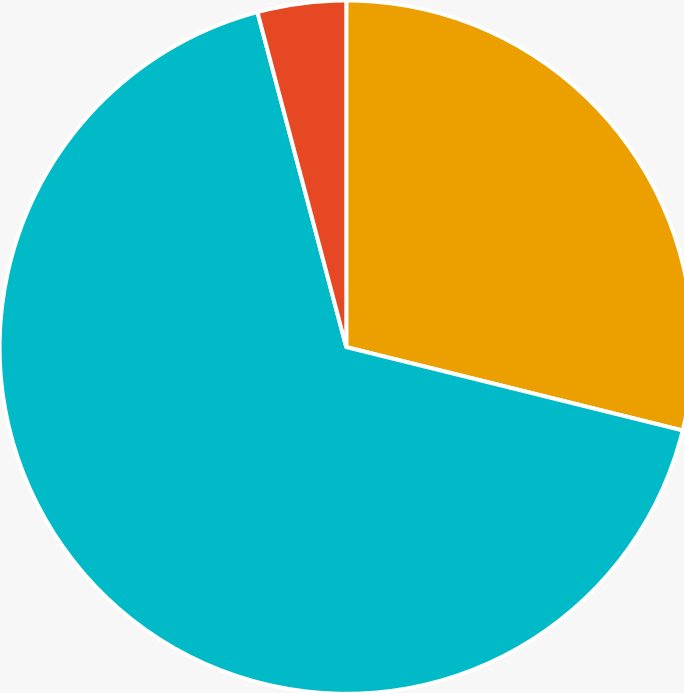


Wealth in 1960's



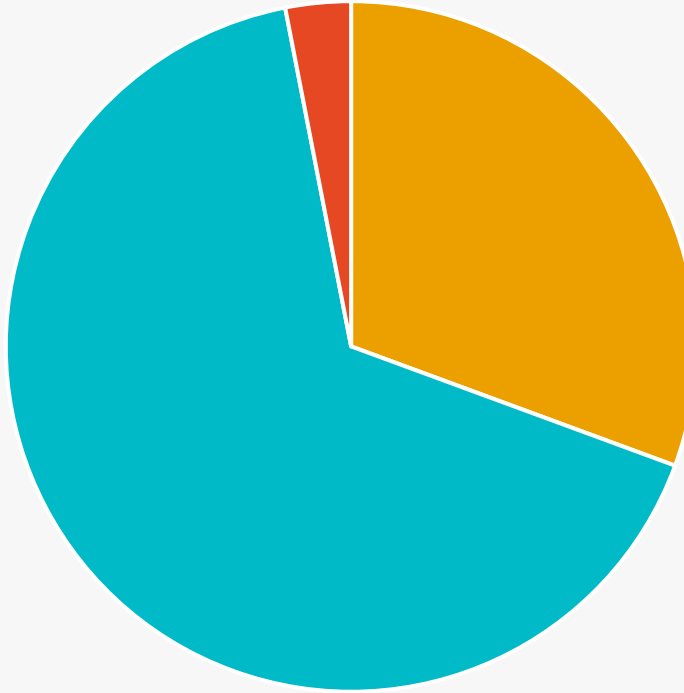
■ Top 1% ■ Top 10% ■ Middle 50%

Wealth in 2000



■ Top 1% ■ Top 10% ■ Middle 50%

Wealth Today



■ Top 1% ■ Top 10% ■ Middle 50%

# Percent to Taxes Paid by Each Group

Income Breakdown 2025	% of Income	% of Taxes	% Wealth
Top 1%	20%	40-46%	30-35%
Top 10% (Includes Top 1%)	47%	70-76%	65-70%
Middle 60%	42%	20-30%	25-35%
Lower 20%	~4.1%	2-3%	0%

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# Thank You for Your Time

*Closing Discussion &  
Comments*



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# Image Sources

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<https://pngimg.com/image/3500>

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<https://www.cbo.gov/system/files/2026-01/61911-Household-Income-2022.pdf>

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<https://share.google/OyczsJGsziyDTuhJF>

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Microsoft Stock Images

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