

The growth of income inequality in the United States

Eleni X. Karageorge

Wealth and income inequality, specifically the perceived widening of the gap between rich and poor, has been in the public discourse for quite some time. In [“Divergence: wealth and income inequality in the United States”](#) (Federal Reserve Bank of Atlanta, *EconSouth*, September–December 2014), economic policy analysis specialist Nicholas Parker looks at the topic and highlights recent trends and some new research that explores potential links to monetary policy.

The author notes that researchers have observed a steadily widening gap in the distribution of income and wealth in the United States, with the top 5 percent of households accruing an increasing share of the resources. Although the trend paused during the Great Recession because of the larger wealth losses for those at the top of the distribution as stock market prices fell, it has since resumed partly because of slow labor market recovery and sluggish wage growth.

So what's behind the growing gap? Parker says that preliminary research points to several potential factors, including both a decrease in the real value of the U.S. minimum wage and limited job opportunities for people without a college degree. He also notes disparities in educational attainment, especially for postsecondary education, that may have contributed to income inequality.

According to the author, it is not yet clear whether income inequality affects the larger economy by dampening consumer spending and overall demand. Parker adds that the issue of greatest concern to policymakers is the potential impact of inequality on social mobility.

Parker points out that this issue concerns Federal Reserve Chair Janet Yellen, who has noted that even if the lower class has access to more economic resources, the trend of a growing income-inequality gap will continue to exist as long as the higher class amasses more wealth. The author writes that one way this effect can be mitigated is by students obtaining higher levels of education. Research has shown that wages are higher for those who receive postsecondary education.

The author acknowledges that most researchers agree that more research is necessary to determine the direct economic effects of inequality. In the meantime, greater access to both quality early-childhood education and postsecondary education and more business formation among people lower in the income distribution could start to stem the tide of growing income inequality.