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# Inequality and metropolitan areas

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Many economists have noticed the significant increases in wage inequality that have occurred in the United States over recent decades. In “Why are some places so much more unequal than others?” (*Economic Policy Review*, Federal Reserve Bank of New York, Forthcoming), authors Jaison R. Abel and Richard Deitz use data from the Current Population Survey to look at how wage disparities vary among metropolitan areas and how these disparities have changed over time.

In 1965, U.S. wages at the 95th percentile were about $70,000; in 2015, they were $145,000. Thus, wages at the 95th percentile more than doubled over this period. At the 90th percentile, wages grew from roughly $60,000 to over $100,000. At the 50th percentile, wages increased from $30,000 to $45,000. At the 10th percentile, wages went from $15,000 to just $20,000.

Most of the country’s metropolitan areas have experienced increasing wage inequality since the 1980s, some much more than others. The authors calculate and compare the “90/10 ratio” for metropolitan areas. This ratio is calculated by dividing wages at the 90th percentile in a given area by the wages at the 10th percentile in the same area. Recently, the 90/10 ratios have ranged from a high of 8.7 in Fairfield, Connecticut, to a low of 3.9 in Johnstown, Pennsylvania. This finding means that a worker at the 90th percentile in Fairfield earned nearly 9 times the wages as a worker at the 10th percentile. In Johnstown, a worker at the 90th percentile earned only about 4 times as much as the worker at the 10th percentile.

In 1980, the authors found little correspondence between city size and the level of wage inequality. In that year, none of the nation’s 10 largest metropolitan areas ranked among the nation’s most unequal. By 2015, the correlation increased measurably, indicating that larger metropolitan areas had become more unequal. Demand for high-skilled workers has increased most in large metropolitan areas, such as New York and San Francisco. Many of the metropolitan areas that have the lowest levels of wage inequality have relatively weak local economies, resulting in low demand for workers.

In recent decades, according to the authors, differences in wage inequality among metropolitan areas have been caused by three factors: (1) demand for highly skilled workers has increased markedly in certain metropolitan areas, while reduced demand for medium- and low-skilled workers has occurred in other areas. (2) Some areas have developed urban agglomeration economies, which occur when people and firms concentrate themselves near one another in one area, which has improved the productivity and the wages of skilled workers in these areas. (3) The migration of high-wage earners to large urban areas due to the demand for skilled workers has changed the mix of workers among metropolitan areas. Underlying these forces are changes in technology and increased global trade, which have been felt more in some areas, less in others. As the authors explain, low levels of wage inequality are typically observed in areas with slow economic growth, while higher wage inequality can be a result of strong but uneven economic growth.