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INCOME INEQUALITY

Why a Meaningful Boost for Those at the Bottom Requires Help From the Top

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Just about every high-profile politician in the country today says income inequality is a problem. And while those from the center-left to the far right differ on how they would reduce inequality, they tend to agree on one thing: We can do it without affecting the rich.

"Some argue that we can close the income gap by pulling down the top," New York's governor, Andrew Cuomo, wrote in an Op-Ed article for The New York Times in May. "I believe we should do it by lifting up the bottom."

It's a nice thought. And given that the rich donate enormous sums of money to political campaigns and have outsize influence in the news media and in public policy debates, it would make the politics of fixing income inequality vastly easier. Unfortunately, as just-released data compiled by the economists Thomas Piketty and Emmanuel Saez make clear, there's little reason to believe it will work.

Consider the idea of significantly raising the minimum wage, the most ambitious policy proposal currently on the table for boosting the incomes of the working poor. Mr. Cuomo made the case that fast-food workers in New York should receive a substantial raise and announced that a state wage board would look into the issue. (The board's recommendations are due out sometime this month.)

Let's do him several steps better and imagine increasing the minimum wage to $15 an hour for all workers everywhere in the country paid by the hour. Suppose we'd done that between the post-recession years of 2009 and 2014, when inequality spiked. What would it have accomplished?

The answer is a fair amount, but not enough to undo the escalation in the income gap. According to the Bureau of Labor Statistics, about 44 million hourly-paid workers made less than $15 an hour in 2014. In an unpublished table, the bureau then helpfully breaks out the number of workers in each wage increment: under $3; $3 to $3.49; $3.50 to $3.99; and so on up until $12 to $14.99. (The bands get bigger as you move up the wage ladder.)

The amount of income that raising the minimum wage to $15 per hour would have generated for these 44 million people would probably have been between $300 billion and $400 billion. (That calculation depends on what you assume about weekly work hours and the earnings of workers who receive tips, whether it's around the minimum wage once you factor in tips or closer to their sub-minimum base wage. I also based the calculation on the 2014 hourly-paid worker population.)

That's unquestionably a huge increase. For the average family in the bottom 90 percent, actual income growth was only $533 between 2009 and 2014. If we add in $350 billion, average income growth for the bottom 90 percent rises by an additional $2,360.

Still, as a group, the income of the top 10 percent of families rose by much more over the same period, adjusting for population growth: $682 billion, according to the latest Piketty-Saez release, which is based on Americans' tax return data. This works out to $41,300 per family.

So even if we'd raised the minimum wage to $15 an hour, the top 10 percent would still have emerged from the 2009-2014 period with a substantially larger share of the increase in the nation's income than the bottom 90 percent. Inequality would still have increased, just not by as much. (I assume here that raising the minimum wage would not have reduced the income of those in the top 10 percent.)

Of course, policy makers have more options for reducing inequality than simply lifting up the working poor. Though raising pay for middle-income workers is much more complicated than raising the minimum wage, it's certainly a reasonable aspiration for a politician concerned about inequality. Hillary Rodham Clinton, who said in her recent campaign kickoff speech that "we can't stand by while inequality increases," seemed to endorse this approach when she also said, "The middle class needs more growth and more fairness."

But even raising middle-class wages probably wouldn't be enough to offset the recent gains at the top. Since 1970, the best five-year run of income growth for the bottom 90 percent of families came between 1994 and 1999, when the group's income rose by 14.1 percent, adjusting for population growth. If the bottom 90 percent had enjoyed the same run of income gains between 2009 and 2014, they would have collectively earned $683 billion during that time — almost identical to the $682 billion that the top 10 percent pulled in. And that would have been with the best income growth in almost two generations. (The actual increase in income for the bottom 90 percent was $79 billion.)

That almost certainly overstates the effect of increasing income growth for the bottom 90 percent of families. As a practical matter, it's highly unlikely that you could increase income growth for the bottom 90 percent without also lifting income growth for those at the top, thereby increasing inequality.

The 1990s, which Mrs. Clinton approvingly cited in her speech, are a useful data point in this regard. Between 1992, the last full year of George H.W. Bush's presidency, and 2000, the last full year of Bill Clinton's, the average income of families in the bottom 90 percent grew by a seemingly impressive 15.4 percent. But the average income of families in the top 10 percent grew by over 50 percent. (The average income of the top 1 percent nearly doubled.) Inequality between the bottom 90 percent and the top 10 percent increased substantially.

Or, put differently: The Clinton years had very impressive economic growth over all, some of which benefited families in the bottom 90 percent. But a majority of the growth benefited those in the top 10 percent, who took home nearly two-thirds of all the income gains as a group.

All of which suggests that if reducing inequality is the goal, there's simply no alternative to slowing the income growth of the highest earners by, say, raising upper-income tax rates or limiting the favorable tax treatment of pay for corporate executives — a point a variety of economists, like Joseph Stiglitz, have made of late.

They make that argument not just because there's no precedent in the past 45 years for a rate of growth that would raise everyone else's income rapidly enough to narrow the income gap, but also because they believe rapid growth for the very affluent precludes rapid growth for everyone else.

"We should not see this as hitting the top so that the bottom looks good in comparison," Mr. Saez said in an email. Rather, he said, it's about preventing the rich from vacuuming up the gains that might otherwise go to the rest of the population.

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