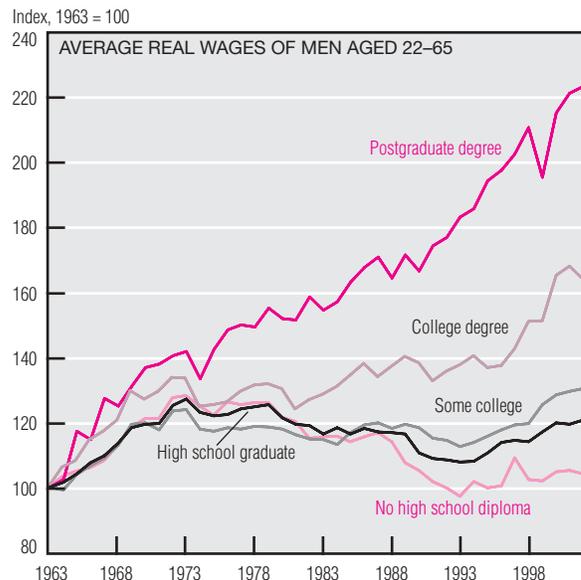
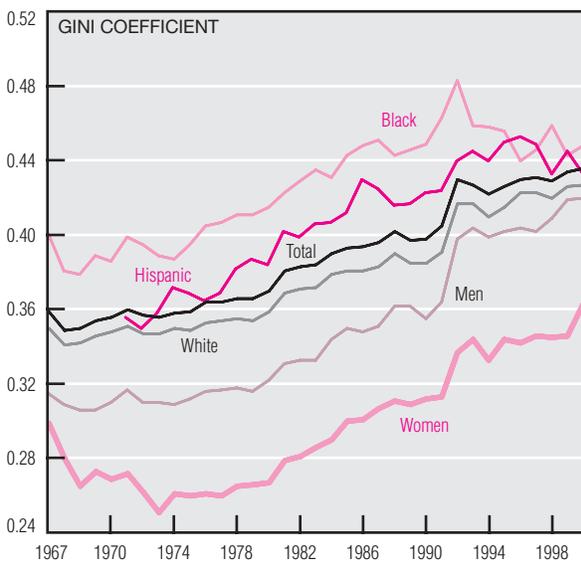
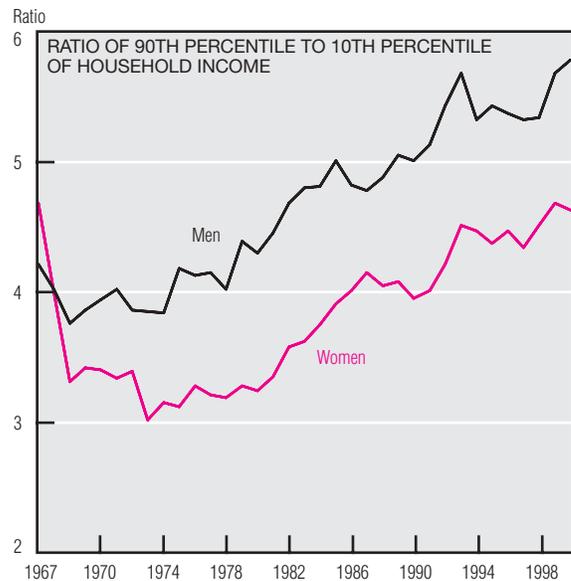
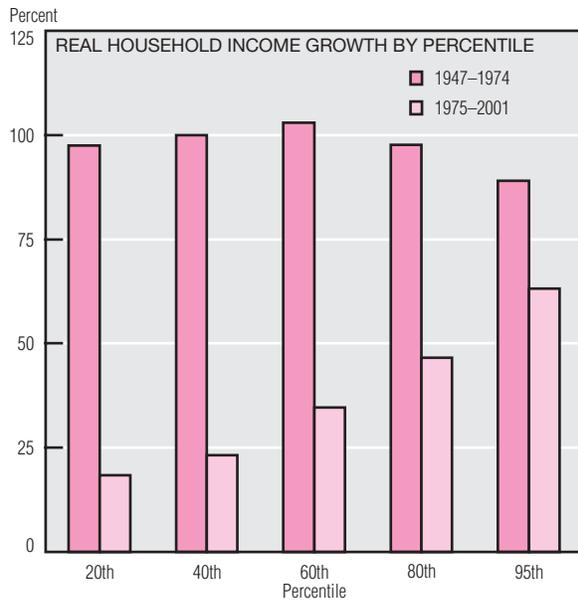


Income Inequality



SOURCES: U.S. Department of Commerce, Bureau of the Census; and Zvi Eckstein and Eva Nagypál, "The Evolution of U.S. Earnings Inequality: 1961-2002." Federal Reserve Bank of Minneapolis, *Quarterly Review*, December 2004, pp. 10-29.

Between 1947 and 1974, income growth was distributed fairly evenly among households in various income groups. However, income inequality has increased over the past 30 or so years. Since the mid-1970s, real income growth for households at the 95th percentile of the distribution has grown at a pace nearly 3½ times that of households at the 20th percentile. A similar pattern holds between men and women.

The Gini coefficient (lower-left chart), a more complete measure of income inequality, considers the entire income distribution. It indicates that income inequality is rising overall.

One explanation holds that the increasing disparity of income in the U.S. over the past 30 years results from skill-biased technological change that has benefited higher-skilled workers. The skill-biased hypothesis asserts that technology improvements boost the productivity (and hence the income)

of skilled labor by more than it does the unskilled. Since the 1980s, demand for skilled labor has kept pace with the relatively greater supply of skilled workers (as estimated by the rising proportion of college-educated workers), exerting upward pressure on wages for higher-skilled workers. Since the early 1980s, the average real wage has risen roughly 30% for male college graduates and nearly 50% for males with a postgraduate degree.