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Excerpt
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Part I

Basic Concepts

1 Inequality and Opportunities

On an average day, Jeff Bezos, Amazon's founder, makes almost $215 million dollars or $21.5 million an hour if we assume he works a ten-hour day. This estimate is based on changes in Bezos' net worth which is, at least partly, tied to Amazon stocks and fluctuates regularly. But even as a basic estimate, this suggests that Bezos receives considerably more than the average Amazon employee who receives about $15 an hour or $28,466 per year. This amounts to a ratio of 1,433,333:1 in hourly income. Jeff Bezos is currently the richest person in America with a net worth of $137 billion, a sum that allowed him to buy both a $165

Image 1.1 The Amazon logo has become one of the most recognizable corporate logos in the world. Although Amazon provides goods and services that many people demand, some argue that Amazon CEO Jeff Bezos has extraordinary power given his personal wealth and the wealth of his company. Source: Leon Neal/Staff/Getty Images News/Getty Images.

million mansion in Beverly Hills and a $90 million plot of land also in Los Angeles (from Microsoft co-founder Paul Allen) in 2020. These purchases were in addition to other properties he already owns in Los Angeles, Seattle, and New York City, which are together worth hundreds of millions of dollars.

What do you get for $165 million? The Bezos Bel Air mansion is 25,000 square feet and sits on 10.4 acres. It has two guest houses, a large swimming pool, a nine-hole golf course, a tennis court, and an automotive shop with gas pump. The home, named the Charwell Estate, was previously owned by music magnate David Geffen, Microsoft co-founder, Paul Allen, Lachlan Murdoch (son of News Corp, Rupert Murdoch), and the late media tycoon A. Jerrold Perenchio. Described as a "party house," the chateau is featured in the opening shot of the television show, The Beverly Hillbillies (1962–1971).

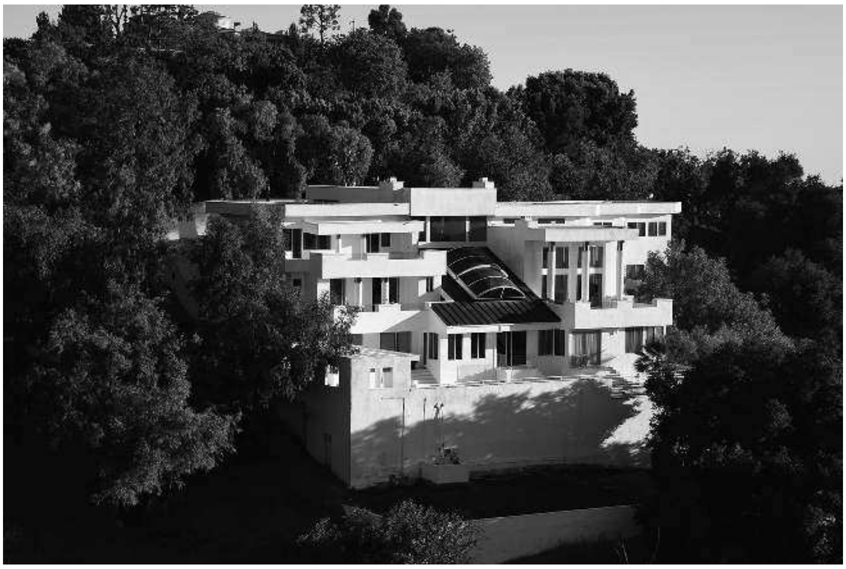

Image 1.2 A home is a visible form of wealth. Owning an extravagant house in an expensive area is simultaneously a luxury and a signal of affluence. Source: Robyn Beck/AFP/Getty Images.

At the same time, the average house size in Los Angeles is less than 1,500 square feet. And, although housing prices are high compared to other areas in the U.S., the median house value in LA is about $570,000. That makes the new Bezos mansion almost 300 times the value of the average LA home. And in LA, the majority (64 percent) of people in the county live in apartments and do not own homes. Perhaps more striking, Los Angeles is home to about 59,000 homeless people (LAHSA 2020).

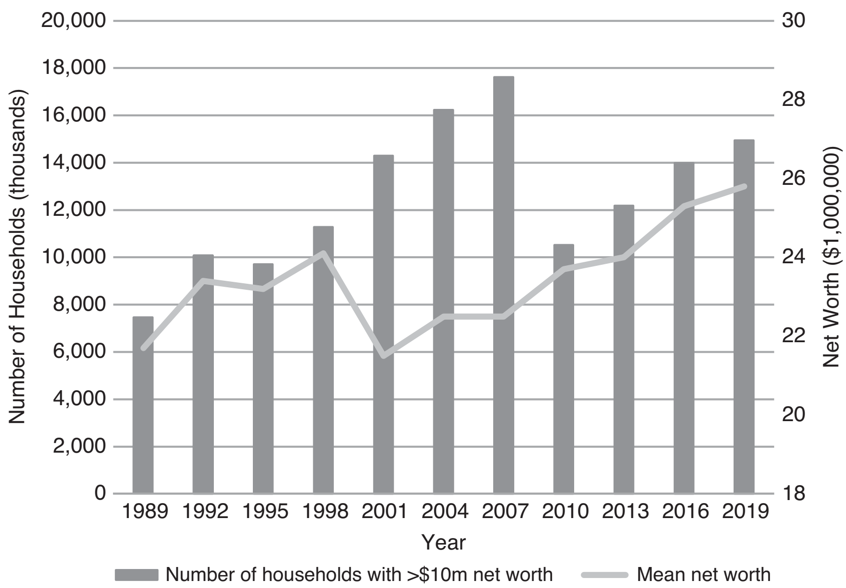

Figure 1.1 The richest of the rich.
The number of households with a net worth of more than $10 million has increased over time, and their average net worth has grown, too. The drop in households with over $10 million in net worth between 2007 and 2010 corresponds to the timing of the 2008 recession.
Data source: Survey of Consumer Finances (2019 dollars)

The differences in the lives of the average American and those at the very top is, indeed, extreme, and we use Jeff Bezos only as an example. He is certainly not alone at the top. Bill Gates was the richest person in the world for more than a decade, and his wealth naturally enabled him to live an extravagant lifestyle as well. There are currently more millionaires and billionaires in America than at any other time in history. In the early 1990s, there were only eighty people with wealth greater than $1 billion (i.e., billionaires). By 2000, that number had increased to 300, and in 2019, there were 621 billionaires in the U.S. The combined net worth of these billionaires was $2.9 trillion, up from $2.7 trillion in 2017.

The number of very wealthy households also underscores important trends in inequality as Figure 1.1 shows. This figure plots the number of households with $10 million or more from 1989 through 2019 with the mean net worth for these households. The number of households in this high net worth group grew from 1989 through 2007 as wealthy households saw their stock and real estate investments grow. The number of high net worth households declined dramatically, however, when the U.S. economy entered a recession in the late 2000s. As the economy recovered following that recession, the number of households with more than $10 million net worth began to grow again, and it has continued ever since. Of course, these data end in 2019 and do not reflect changes to inequality that happened during the financial downturn created by the COVID-19 pandemic. The numbers are based on the most recent data available on top income and wealth households, and 2019 is the most recent version of those data available. Future research will certainly show that household finance and inequality changed dramatically during that economic crisis.

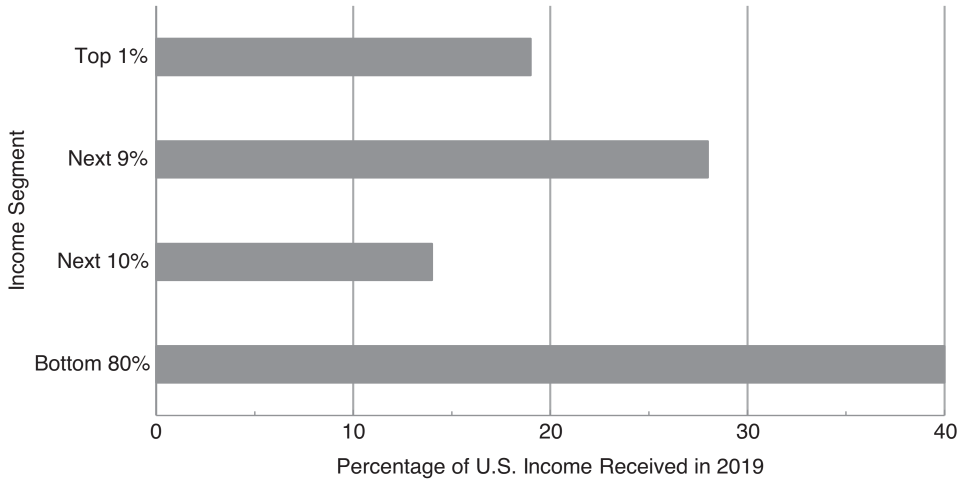

Figure 1.2 Income inequality.
A small number of households receive the vast majority of total household income in the U.S.
Data source: Survey of Consumer Finance (2019)

Even during economic upturns such as the one following the 2007–2009 recession, not everyone shared in the prosperity experienced by the very wealthy. The gap between rich and poor is enormous and has expanded in recent years, as indicated by two important measures of economic and social well-being: income and wealth. *Income* refers to flows of money into the household from wages and salaries and other sources such as government benefits. The *income distribution*, an important measure related to income, is a list of all individuals according to their total income that reveals the percentage of people at various income levels. The income distribution can highlight the degree to which income is received unequally.

Wealth is the second measure of economic and social well-being that can be used to understand the gap between the rich and the poor. Wealth is the things people own, including homes, savings, investments, real estate, businesses, and vehicles. The *wealth distribution* is a list of all households according to their total wealth. Like income distribution, wealth distribution reveals the percentage of households at various wealth levels. Notice that income may be measured for either individuals or households: many income sources (e.g., wages) accrue to a particular person, and these can be added together to calculate total household income. By contrast, wealth is nearly always measured for households because assets are often owned together. For example, a family home is most often owned jointly in a household with a married couple, and it is nearly impossible to divide the value of an asset like a house and attribute portions of the value to the individual owners.

Image 1.3 The homes owned by middle class families are usually modest compared to those of wealthy families but can still be used to signal social status and beliefs. Source: fredrocko/E+/Getty Images.

A look at the income distribution shows that a small percentage of Americans receive very high incomes, whereas most people had moderate to low incomes. In 2019, the top one percent of households received 19 percent of total income, and the next 9 percent received an additional 28 percent of income (Figure 1.2). That means that the top 10 percent received almost half (19 percent + 28 percent) of total income. Notice that this figure uses a household measure of income; that is, the bars refer to the percentage of income received by all members of a household. At the same time, the bottom 80 percent of households received just 40 percent of total income. Remember, income can be earned through *dividends* which are returns from investments. The income differences by groups are not only about the dollar amounts but also reflect differences in how the income is earned. Some work, others invest, and some may work and invest. Those in the top one percent of income recipients, in particular, are more likely than others to receive both earned income and investment income. Having multiple sources of income, including income from investments, also means that a household has a higher level of financial security than a household with only one income source.

Inequality in wealth ownership is even more extreme. In 2019, the top one percent of households owned 37 percent of all wealth, and the next 9 percent owned another 39 percent.

Remarkably, that means that the top 10 percent owned 76 percent (37 percent + 39 percent) of all wealth! In that same year, the bottom 80 percent of households owned a mere 13 percent of wealth (Figure 1.3). This difference is possible because households in the top of the distribution tend to own a large number of highly valuable assets, including valuable homes and significant financial assets. At the same time, many households in the bottom of the wealth distribution have no saved assets. For example, they may not own homes, or they own homes with considerable mortgage debt. They may have no – or very little – savings in the bank. Importantly, households with little or no savings can be quite vulnerable as they may have limited financial resources to cover basic expenses, such as paying rent or buying groceries, if they were to lose their income.

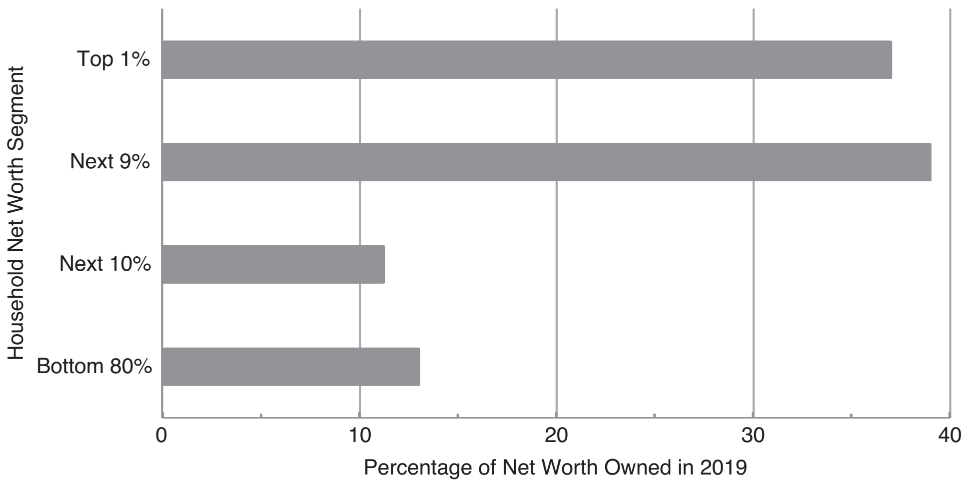

Figure 1.3 Wealth inequality.
Wealth inequality is even more extreme than income inequality (Figure 1.2). The top 10 percent of households own nearly 80 percent of total household net worth in the U.S.
Data source: Survey of Consumer Finance (2019)

For some groups in the distribution, the differences are more startling. In particular, African American and Latinx households receive less income and own considerably less wealth than white households. This has been a persistent trend over the past fifty years despite policy efforts to address this inequality (Bloome 2014). Whereas the median income for a household whose head identifies as White was $60,758 in 2016, the median income for an African American household was only $35,442 and the median for a Latinx household was $39,492. Even more striking are racial differences in wealth ownership. In 2016, the median white household had $162,770 in net worth. In that same year, the median African American household had only $16,300 in net worth and the median Latinx household had just $21,360 (author’s estimates from the Survey of Consumer Finances).

The United States is not alone in having extreme inequality; indeed, it is one trait that nearly all societies share. Among the world's developed countries, however, the U.S. level of inequality in both income and wealth ownership is fairly high. Figure 1.4 shows that high-income U.S. families earn dramatically more than low-income families; the United States is particularly extreme among developed countries on this measure. The top 10 percent of families (by income) in the United States has 18.78 times more income than the bottom 10 percent. In many developed countries – particularly the countries of Northern Europe, such as Sweden and Finland – the ratio of rich to poor is much lower; there is inequality in these countries but it is not as extreme as in the United States. It is considerably more extreme in the United States than in Canada, its closest developed neighbor. The many possible explanations for differences in inequality across developed countries include historical differences, government policies regarding taxation and redistribution, economic trends, and social and demographic patterns, such as religious ideas about fertility. We discuss these differences in more depth in subsequent chapters; here, their existence is simply noted as important.

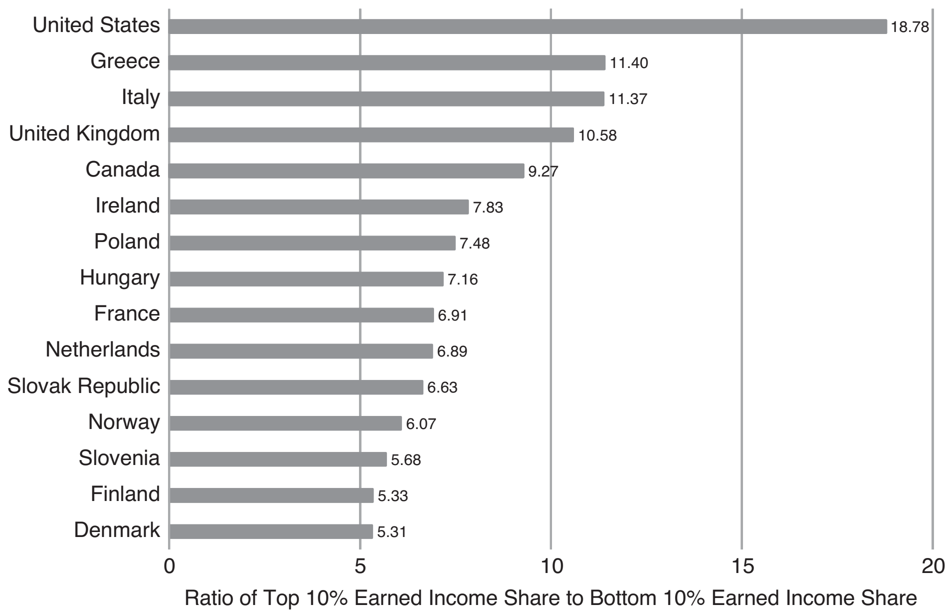

Figure 1.4 Earned household income in developed countries.
Inequality in the U.S. is extreme even among developed countries: the U.S. has a high income gap between its top and bottom income deciles compared to other OECD developed nations.
Data source: Organisation for Economic Cooperation and Development (2016)

Of course, some countries are more unequal than the United States. Many developing countries, for example, are highly unequal, and inequality often increases during development. Nigeria, for instance, is home to three billionaires with a combined net worth of more than $16 billion (Forbes 2019). One of these individuals, Aliko Dangote, is the richest man in Africa. The average Nigerian, however, is at severe risk of living in poverty. Estimates from the United Nations Development Programme (UNDP) calculation of the 2019 Global Multidimensional Poverty Index (MPI) suggest that approximately 46 percent of Nigerians live below the national poverty line. However, because it is a developing country, Nigeria has had difficulties capturing accurate data and generating meaningful calculations. Thus, this 46 percent may severely underestimate total inequality in the country and certainly does not capture differences in standards of living experienced by Nigerians at different levels of the income distribution.

Another nation with extreme inequality that provides considerable data on income and wealth owners is India. Mukesh Ambani, the richest person in India, had the equivalent of more than 43 billion U.S. dollars in 2020. Ambani is the largest shareholder of Reliance Industries Inc., a petro-chemical company that is the most valuable company in the nation. Ambani lives in a house named Antilia, a private, 27-story, 400 square feet, 570-foot-tall home in Mumbai, India. In 2014, Antilia was valued at $2 billion, second in value only to Buckingham Palace, owned by the English monarch. Compare this to the average economic condition of the nation's population where 800 million people live in poverty: 68 percent live on less than the equivalent of $2 a day (in U.S. dollars) and 30 percent live on less than $1.25 a day.

Image 1.4 Mukesh Ambani, the richest person in India, owned more than 43 billion U.S. dollars in 2020.