Business

Byron Wien explains simply why America's wealth inequality is getting worse

Business Insider, by Elena Holodny, May 1, 2017

It's no secret that the US has an inequality problem.

But it is worth considering what may be the factors exacerbating the disparity.

In his recent commentary, Byron Wien, the vice chairman of Blackstone Advisery Partners, offered some thoughts as to why the inequality gap in the US has grown wider since 2000.

He argues that it has something to do with the fact that the wealthy own homes and stocks, while the less affluent do not.

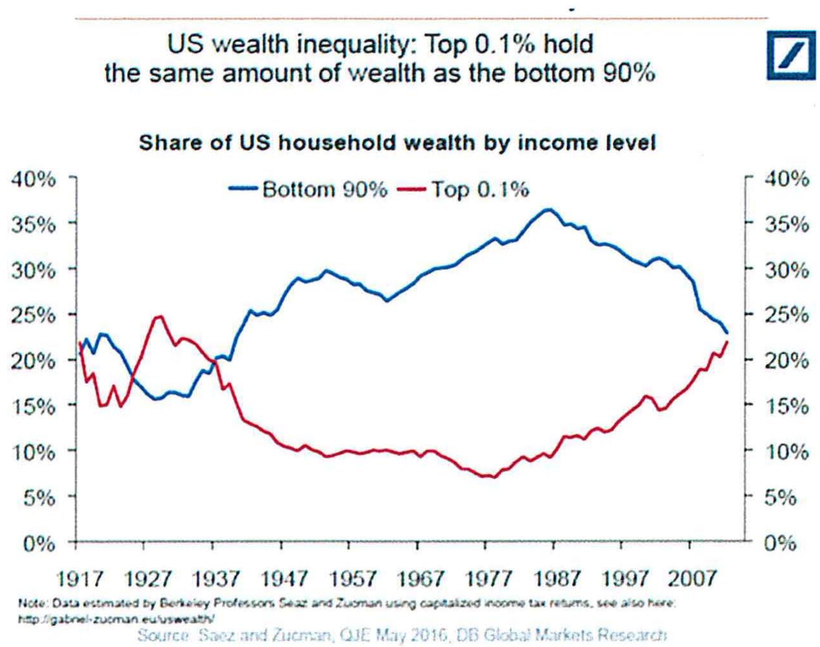
"How did [the widening inequality gap] happen? Wealthy people own the expensive real estate where they live, and may have other expensive properties as well. They are also more likely to own common stocks. Both the real estate and the equities have appreciated," he wrote.

"The less affluent tend to be renters with limited equity holdings. Many live paycheck to paycheck and their personal wealth has not appreciated significantly," he added.

Wien also argued in his commentary that "in spite of the wealth disparity, inequality does not seem to be a major political issue at this time." However, given the rise of populist movements both in the United States and across the world, at a time when inequality has grown amid increased globalization, some could argue that there might be a correlation between rising inequality and shifts in the political climate.

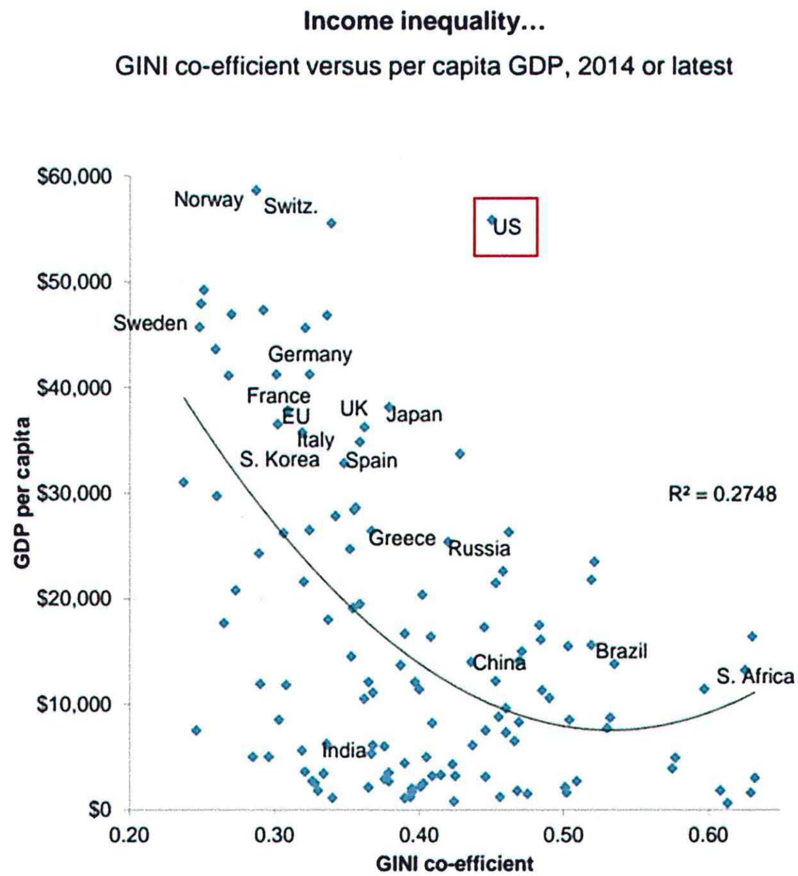
In any case, taking a look at the data on US inequality is pretty eye-opening.

Back in November, Deutsche Bank's chief international economist Torsten Sløk sent around a chart showing the share of US household wealth by income level. Notably, the top 0.1% of households now hold about the same amount of wealth as the bottom 90%.



(Deutsche Bank)

Relatedly, back in August, Goldman Sachs' Sumana Manohar and Hugo Scott-Gall shared a chart comparing a given country's gross domestic product per capita to its Gini coefficient.



Source: CIA Factbook.
(Goldman Sachs)

The Gini coefficient is a measurement of the income distribution within a country that aims to show the gap between the rich and the poor. The number ranges from zero to one, with zero representing perfect equality (everyone has the same income) and one representing perfect inequality (one person earns the entire country's income and everyone else has nothing.) A higher Gini coefficient means greater inequality.

Developed-market economies such as those in Germany, France, and Sweden tend to have a higher GDP per capita and lower Gini coefficients.

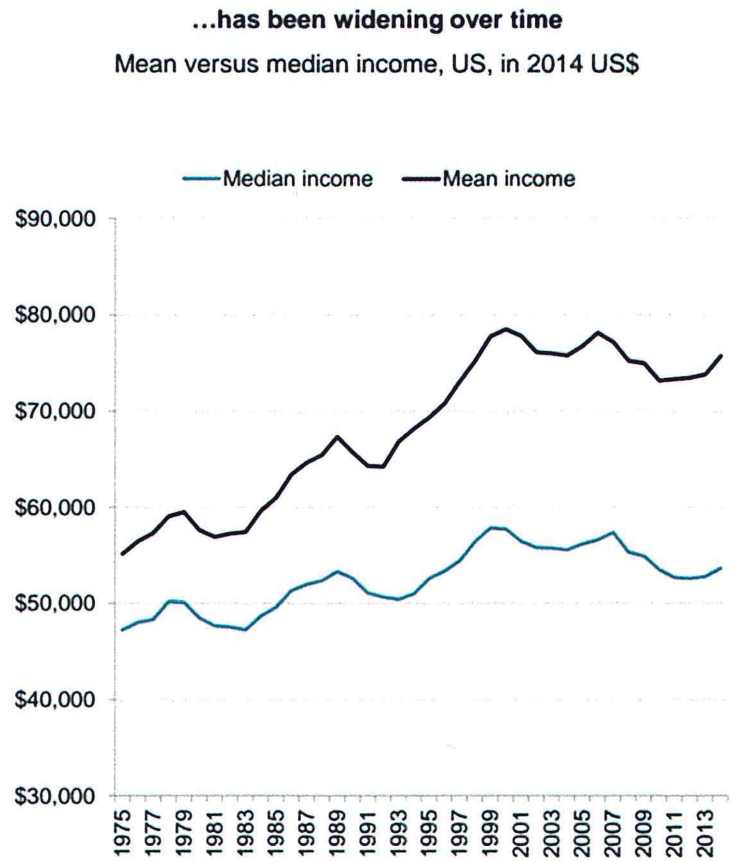
On the flip side, emerging-market economies in countries like Russia, Brazil, and South Africa tend to have a lower GDP per capita but a higher Gini coefficient.

The US, however, is a big outlier. Its GDP per capita is on par with developed European countries like Switzerland and Norway, but its Gini coefficient is in the same tier as Russia's and China's, both of which are emerging markets.

And finally, the Goldman duo also shared a chart comparing the mean and median incomes in the US from 1975 to 2014.

This is another informal measure of inequality: A handful of hyper-affluent people can skew a mean upward while not changing the median very much. That means a higher degree of inequality will most likely be reflected in a bigger spread between a mean and median income.

As you can see below, the gap between the two has been widening over time, which suggests that income inequality has been growing.



Source: US Census Bureau.
(Goldman Sachs)