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U.S. Income Inequality: It's Worse Today Than It Was in 1774

Even if you count slaves.

JORDAN WEISSMANN | SEP 19, 2012

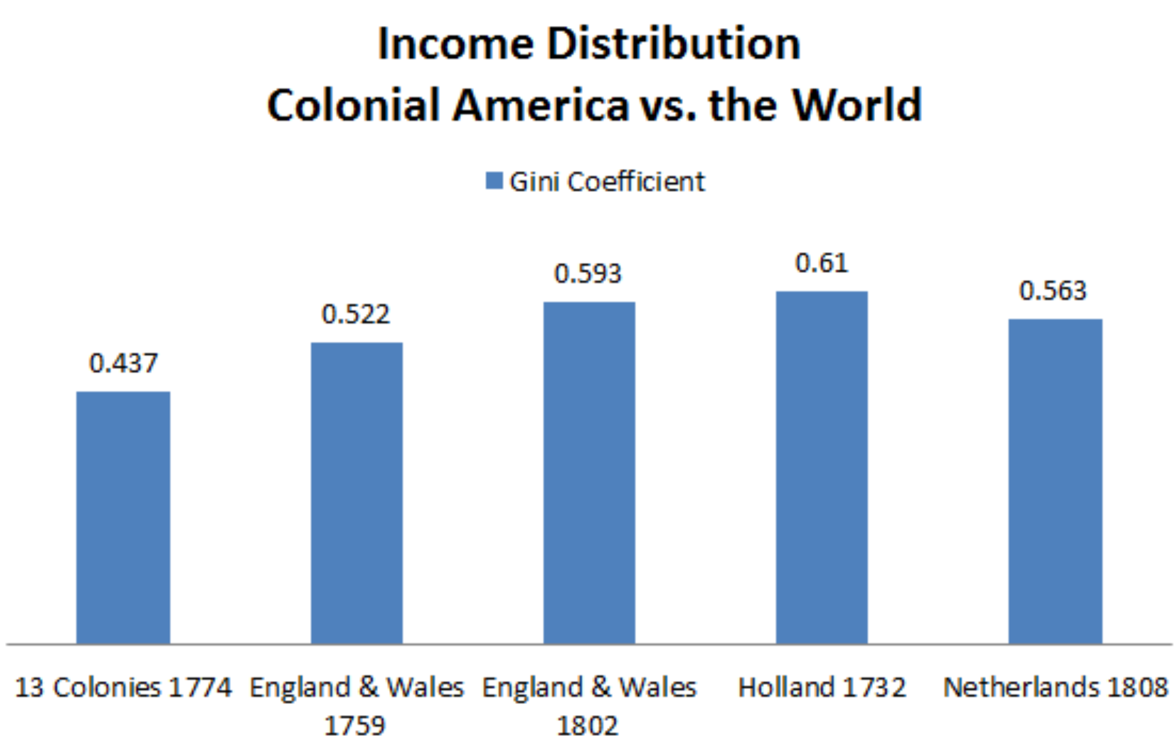
Here's a finding that would have made for great occupy sign last year: American income inequality may be more severe today than it was way back in 1774 — even if you factor in slavery.

That stat's not actually as crazy (or demoralizing) as it sounds, but it might upend some of the old wisdom about our country's economic heritage. The conclusion comes to us from an newly updated study by professors Peter Lindert of the University of California - Davis and Jeffrey Williamson of Harvard. Scraping together data from an array of historical resources, the duo have written a fascinating exploration of early American incomes, arguing that, on the eve of the Revolutionary War, wealth was distributed more evenly across the 13 colonies than anywhere else in the world that we have record of.

Suffice to say, times have changed.

Before we dive into its findings, a word of caution about this study. When economists reach back this far into the thinly recorded the past, they're not so much taking a snapshot of what life was like as they are making a somewhat messy collage, collecting the disparate bits and pieces of information we have available and fashioning them together into a coherent whole. In this case, Williamson and Lindert use occupational directories, tax lists, post-revolutionary census documents, and earlier scholarship, among other resources, to build approximations of what people earned when we were getting ready to start turning our muskets on the British. Inherently, such a process involves lots of conjecture.

In the end, the pair find that the colonies were an exceedingly egalitarian place, financially, if not politically. The chart below, adapted from Williamson and Lindert's tables, compares the original 13 colonies to contemporary England and the Netherlands (including the former Kingdom of Holland) using a popular measure of inequality known as the Gini coefficient. The closer a Gini figure gets to 0, the more evenly a country's income is divvied up. The closer they get to 1, the more of a country's wealth goes to its rich. Note: the colonies have the lowest number of the bunch by far.



Not only was income more equally divided in the colonies, but Americans across the economic spectrum tended to be richer than their European counterparts. Even slaves, who were sometimes paid a tiny sum for their forced labor in addition to shelter and food, technically earned more than the poorest Europeans, Lindert and Williamson write. (From a human rights perspective, they were obviously worse off).* The single big exception to this rule was the top 1 percent: Europe's elite were still wealthier than ours.

On measures of equality, the colonies also compare extremely well to the latter-day United States. In the version of their working paper released Monday, Lindert and Williamson add an analysis of incomes in 1860 while also drawing in Thomas Piketty and Emmanuel Saez's pioneering work on the contemporary income gap. I've transformed those comparisons into the first chart below.

By the time the Civil War came, the top 1 percent of U.S. households laid claim to 10 percent of the nation's income, versus about 7 percent during the founders' era. Today, the same group accounts for about 19 percent.**

US_Inequality_Through_the_Centuries.PNG

Even if you use more conservatives measures of American income inequality from the Census Bureau, it still appears we were more of a middle-class society back when tri-corner hats were actually considered high fashion.

US_Inequality_Through_the_Centuries2.PNG

We are, of course, a much richer and better off nation today than 240 years ago. In the 1770s, America was a heavily agrarian country of yeoman farmers, merchants, and tradesmen, with an economy that accounted to just a few billion dollars in present values. Like modern India or Russia, both of which technically enjoy more income equality than the United States, early Americans were relatively poor compared to us. They were just relatively poor together. The first wave of industrialization in the 19th century increased living standards, but also offered bigger rewards to factory owners than their workers. That pattern neatly fits our classic understanding of what's supposed to happen when economies move from farming to manufacturing. And by now, we've gone through several epic rounds of economic upheaval that have left us with a vast gulf between the rich and the rest, as well as a welfare state that tries to mitigate some of the side effects of that difference.

So, awful as it might sound, the fact that the United States is less economically egalitarian than during its rural, slave-society past is not inherently a reason to fret.

Politically, though, there may be a lesson in this. Some would argue that income inequality is an acceptable sacrifice to make in return for income mobility — the ability for children and families to work their way to better stations in life. But as Chrystia Freeland has noted, the founding fathers evidently formed their ideas about democracy in a social context very different than our own, when distinctions of wealth simply weren't as sharp. It's possible they expected an equal society to remain considerably more equal than it is today.

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*To be extremely explicit, please don't interpret anything in this article as suggesting that American slavery was anything less than horrific. The paper only suggests that on a strictly dollars and cents basis, income was skewed less towards the rich during the colonial era than it is today.
**In 1860, the Gini coefficient was around 0.51. According to Piketty and Saez, Gini also peaked above 0.50, before falling after the Great Recession. The census pegs it at around 0.47 — more modest, but still higher than in the colonies.

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ABOUT THE AUTHOR

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