

# Income Inequality in California

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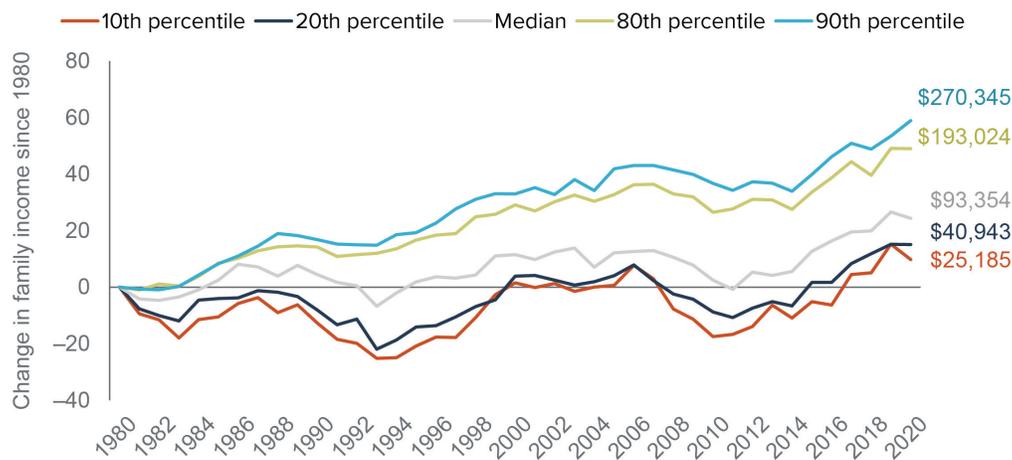
## Income inequality is a major concern for California.

- ▶ The gap between high- and low-income families in California is among the largest in the nation—exceeding all but four other states in 2020. Families at the top of the income distribution earned 11 times more than families at the bottom (\$270,000 vs. \$25,000 for the 90th and 10th percentiles, respectively).
- ▶ Income inequality has increased over time. In 1980 families at the top of the income distribution earned seven times more than those at the bottom.
- ▶ California's income distribution reflects high rates of poverty. Income is frequently not enough to meet basic needs (on average a family of four requires about \$36,000). Families in the bottom third of the income distribution are at risk of poverty absent major safety net programs.
- ▶ Wealth is more unevenly distributed than income. In California, 20% of all net worth is concentrated in the 30 wealthiest zip codes, home to just 2% of Californians.
- ▶ Californians are concerned. According to the PPIC Statewide Survey, 71% think the state is [divided into the "haves and have nots"](#) and 59% think the [government should do more](#) to ensure everyone can get ahead.

## The COVID-19 pandemic widened income inequality.

- ▶ Income inequality was shrinking in the years leading up to the pandemic, due to notable gains for the lowest-income families. Incomes for families at the 10th percentile increased by 23% between 2016 and 2019, compared to 5% for families at the 90th percentile.
- ▶ In the first year of the pandemic, low incomes took a back step, falling 5% between 2019 and 2020. Middle incomes (50th percentile) fell by a smaller amount (2%) but top incomes grew 4%. These estimates reflect income before taxes and include a [conservative estimate](#) of unemployment benefits. Low and middle incomes would have been 12% and 4% lower, respectively, without these benefits in 2020.
- ▶ Federal stimulus payments were a major boost to incomes but are not included in our standard measure of pre-tax income. However, when counted, we estimate the first two rounds of stimulus, combined, increased lowest incomes by 20% and middle incomes by 6%. These payments alone erased about 30 years of growth in income inequality, but this effect was temporary.

## Top incomes have grown more quickly and more consistently over the long term



Source: Authors' analysis of IPUMS CPS-ASEC data.

Notes: Chart shows percent change in family income before taxes, which includes wages and earnings, income earned from businesses, farms and/or investments, retirement account withdrawals, social security, cash welfare, unemployment insurance, and other sources. Family income does not include stimulus payments or resources from in-kind safety net benefits. Family income is adjusted for inflation and stated in 2020 dollars; to make families comparable, income is normalized to reflect the equivalent for a family of four. The time series is adjusted to account for ASEC survey changes in 2015 and 2019; entropy weights are used in 2018–2020.

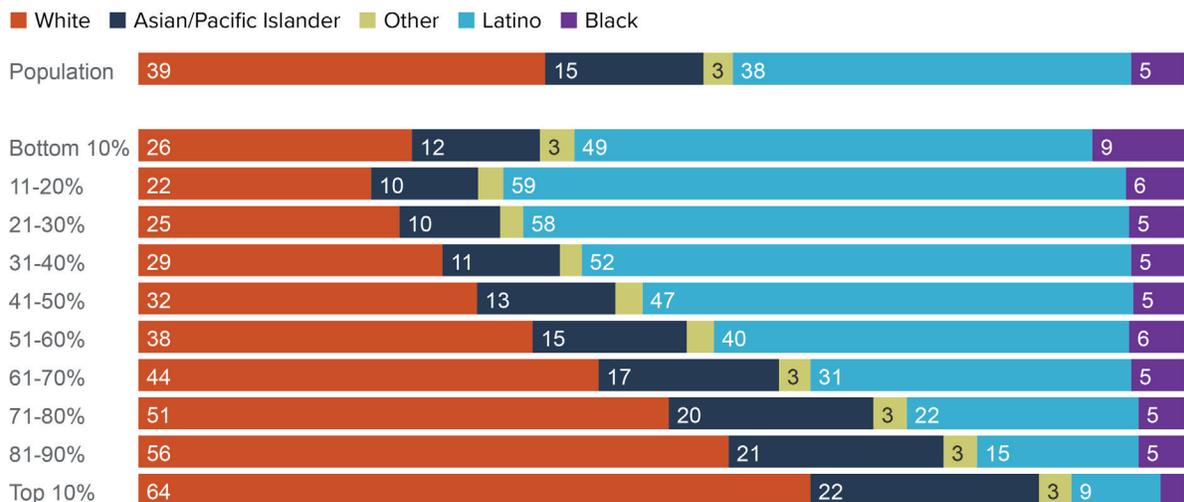
### Rising income inequality is driven by a job market that favors highly educated workers.

- ▶ Between 1980 and 2020, incomes for families at the 90th percentile have increased by 59%, while incomes at the 50th percentile and 10th percentile have grown much less (24% and 10% higher, respectively).
- ▶ Shifts in technology and international trade have played key roles in reshaping jobs, creating advantages for college-degree holders. Among families in which any member holds a four-year degree or higher, median income has increased by 40% since 1980. It did not increase at all for other families.
- ▶ Families with college graduates earn \$2.32 for every \$1 that families without college graduates earn, as of 2020.

### Black and Latino families are overrepresented at lower income levels.

- ▶ Black and Latino families make up 11% of those with incomes above the 90th percentile, despite comprising 43% of all families in California. The opposite is true at lower levels of the income distribution: Black and Latino families comprise 58% of the lowest-income families.
- ▶ Black families earn \$0.60, and Latino families earn \$0.50, for every \$1 that white families earn. Many factors drive these trends, ranging from disparities in education, local job opportunities, and incarceration to discrimination in the labor market.

### White and Asian families make up an outside share of the highest incomes in California



Source: Authors' analysis of IPUMS ACS data (2019).

Notes: Chart reflects income before taxes and transfers, which includes income from earnings, business, investments, retirement, social security, and other sources. Families are categorized based on the race/ethnicity of the head of household.

### Income inequality would be greater without taxes or safety net programs.

- ▶ Major tax and safety net programs reduce income inequality by 48%, according to the 2018 [California Poverty Measure](#). Gains occur from taxing high incomes and providing cash and safety net benefits—like Earned Income Tax Credits and food assistance from CalFresh, WIC, and school meals—to low-income families. In 2020, as noted above, government responses to the pandemic further supplemented family income, leading to improvements in both income inequality and [poverty](#).
- ▶ These programs also reduce racial income inequality, shrinking the gap in median income by about 30% for Black and Latino families compared to white families.

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Sources: American Community Survey ([IPUMS USA](#)); Current Population Survey ASEC ([IPUMS-CPS](#)); Legislative Analyst's Office, [California's Geography of Wealth](#) (2019).

Note: Dollar values adjusted to pertain to a family of four in 2020 dollars.