

Income Inequality in California

Tess Thorman and
Daniel Payares-Montoya

The gap between high and low incomes is wider in California than in most other states.

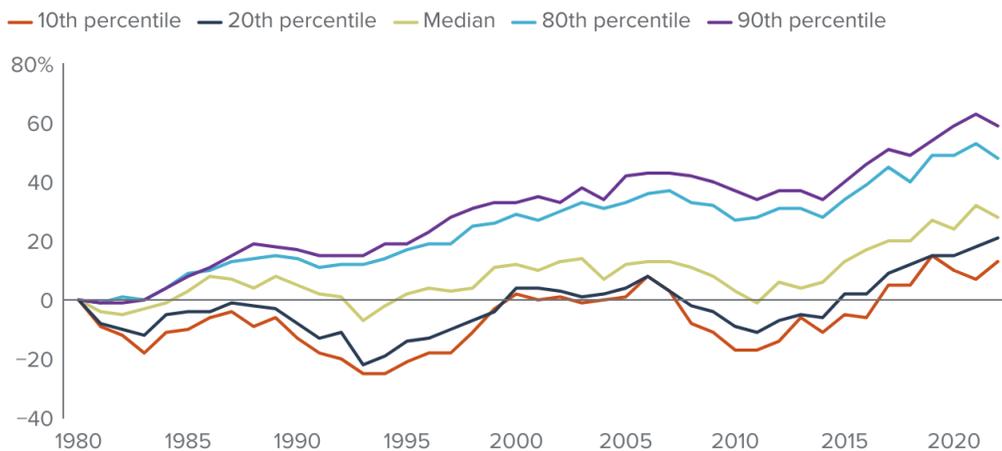
- ▶ In 2022 (the most recent data available), families at the top of the income distribution—the 90th percentile—earned 11 times more than families at the 10th percentile (\$305,000 vs. \$29,000, respectively). Only three other states had wider income gaps.
- ▶ The current gap reflects 52% income growth for the 90th percentile, and 13% growth for the 10th percentile over the past four decades. In 1980, families at the top earned 7 times more than those at the bottom.
- ▶ California's unequal income distribution is linked to high rates of poverty. Families with incomes in the bottom quarter of California's income distribution either fall below or are at risk of falling below the amount required to meet basic needs ([about \\$40,000 per year](#) for a family of four); poverty would be higher without safety net programs.
- ▶ Californians are concerned. According to the [PPIC Statewide Survey](#), 70% believe that the gap between rich and poor is widening, and a similar share think state government should do more to reduce the gap. While Democrats (86%) and independents (68%) are much more likely than Republicans (38%) to say government should do more, 60% or more of adults in every region and demographic group hold this view.

After widening at the onset of the pandemic, California's income gap narrowed in 2022.

- ▶ Income inequality grew at the start of the pandemic, reversing several years of narrowing that were driven by notable gains for the lowest-income families.
- ▶ Between 2021 and 2022, however, income inequality narrowed again. By 2022, the gap between high and low incomes was only slightly wider than it had been in 2019.
- ▶ The narrowing in 2022 was driven by a small decline among top incomes (3%), partly due to lower capital gains—which had soared in 2020 and 2021—and increases among low incomes (5%), reflecting rising earnings after two years of declines.

Top incomes have grown more sharply and more consistently over the long term

Change in family incomes since 1980



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 2022 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.

Widening income inequality has been driven by earnings growth among educated workers.

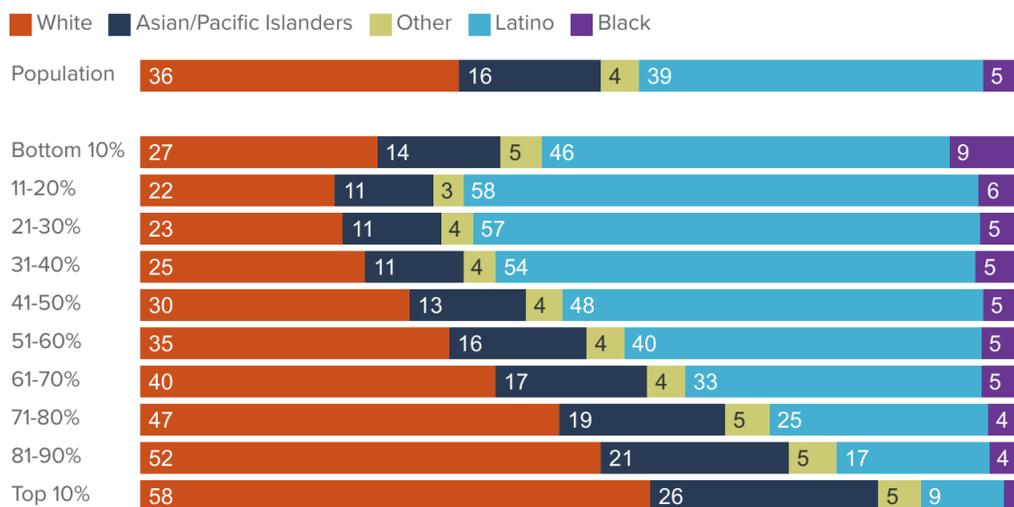
- ▶ Shifts in technology, international trade, and institutions have played key roles in reshaping jobs and creating advantages for college-degree holders. Among families in which any member holds at least a four-year degree, median income has increased by 33% since 1980. Median income for families without any college graduates declined by 8%. For every \$1 these families earn, families with college graduates earn \$2.21.
- ▶ Over the past several years, however, the gap has decreased slightly; since 2016, median incomes have increased more sharply for families with no high school graduates (18%) than for families with four-year degree holders (1%). Between 2020 and 2022, median income increased 7% for families with no high school graduates and decreased 2.8% for those with college graduates.

Black and Latino families are overrepresented at lower income levels.

- ▶ Black and Latino families make up 55% of families at or below the 10th percentile, while comprising 44% of all families in California. The opposite is true at higher levels: Black and Latino families make up 11% of those with incomes above the 90th percentile.
- ▶ For every \$1 that white families earn, Asian families earn \$0.95, Black families earn \$0.58, and Latino families earn \$0.52. Inequality is highly correlated with disparities in education, but other factors are also at play, from local job opportunities, housing access, wealth-building programs, and incarceration, to discrimination in the labor market.

White and Asian families are disproportionately represented at the highest income levels

Percent of group by income range



Source: Authors' analysis of IPUMS ACS data (2022).

Notes: Chart shows 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.

- ▶ Taxes paid by high-income families as well as tax credits and safety net programs—including Earned Income Tax Credits and food assistance—narrow the gap between top and bottom incomes by 50%, according to the California Poverty Measure (as of the first quarter of 2023—when some pandemic expansions to food assistance were still in place).
- ▶ These programs also reduce racial income inequality, shrinking the gap in median income between white and Asian families on the higher end and Black and Latino families on the lower end by about 28%.

Supported with funding from the Blue Shield of California Foundation and the James Irvine Foundation.

Sources: American Community Survey (IPUMS USA); Current Population Survey ASEC (IPUMS-CPS); [PPIC Statewide Survey: Californians and their Government](#), June 2023; [PPIC-Stanford California Poverty Measure](#).