

FACTS & FIGURES

From the Economic Policy Institute

Income

A family's income is one of the most important determinants of their economic well-being. Over the last few years slower job and wage growth has had a dampening effect on income. In recent years median income has fallen in real-dollar terms, while income failed to keep pace with productivity growth. The gap between the U.S. economy's impressive productivity performance and the real income gains of most families stands as one of its greatest challenges. This gap is evidence of increased inequality, as economic growth disproportionately flows to those at the top end of the income scale, an inequality exacerbated by tax policies that favor the wealthy.

Family Income

- ❖ A telling indicator of the living standards of the typical American family is median family income: the income of the family right in the middle of the income scale. In 2004 (the most recent year of data available at press time) the median family's income was \$54,061. Between 2000 and 2004, real median family income fell by 3%, or about \$1,600 in 2004 dollars.
- ❖ The recession and ensuing jobless recovery—by leading to the loss of jobs, hours, and wages—drove the family income declines over the 2000-04 period. Hourly wage growth contributed only 1% to family income growth in that, compared to 7.1% in the 1995-2000 period. The decline in annual hours subtracted 3.6% from income growth in the 2000s, more than explaining the 2.1% income loss for the middle quintile.
- ❖ The post-2000 period marked a return to widening racial income gaps. After achieving historically fast progress in lowering racial and ethnic income gaps in the 1990s, these gaps have begun to widen again in recent years.

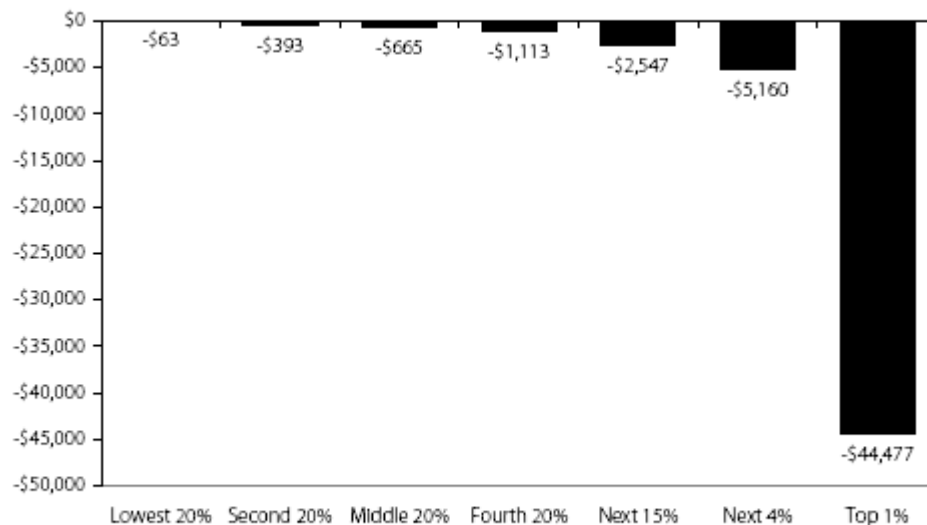
Income-Productivity Gap

- ❖ From 1973-2004, median family income grew at less than one-third the rate of productivity. And while faster productivity growth led to a larger economic pie, growing inequality meant that those at the top of the income scale claimed increasingly bigger slices. This gap between income and productivity occurred at a time when families were greatly increasing their time spent in the paid labor market.
- ❖ Between 2000 and 2004, productivity has grown strongly, up 14%, while real median income fell 2.9%.

Tax Policy and Inequality

- ❖ While changes in tax policy over the past few years have affected those in every income class, they lowered tax liabilities much more at the top of the income scale. The 2.9% cut for the top 1% is almost five times the size of the cut for the bottom fifth. In dollar terms tax cuts lowered tax payments at the low end by only \$63 in 2006, compared to \$665 for the middle, and so on, up to the top value of over \$44,000.

FIGURE 1R The value of the Bush tax cuts by income class, 2006



Source: ITEP Tax Model, June 2006.

Income Inequality

- ❖ In the period between 1979-2003, household income grew 1% for the bottom fifth of households, 9% for the middle fifth, and 49% for the top fifth. Household income more than doubled—up 111%—for the top 1%.
- ❖ Between the economic peaks of 1979 and 2000, the top 1% claimed 40% of all household income growth; the middle fifth claimed 5.3% and the bottom fifth, less than 1%.
- ❖ The rise in inequality has been caused both by the shift toward greater capital income and the growing concentration of capital income among the very highest income groups, particularly the top 1%. The top 1% received 37.8% of all capital income in 1979; their share rose to 49.1% by 2000 and rose further to 57.5% in 2003 (most recent data).

Contact

- ❖ Nancy Coleman, Karen Conner, Stephaan Harris: 202-775-8810 or news@epi.org