

FACTS & FIGURES

From the Economic Policy Institute

Inequality

The gap between productivity, wages, and incomes suggests that inequality is on the rise. The five-year-old economic expansion that began in late 2001 has posted some impressive results, most notably faster productivity growth. Yet, real income is lower for the typical family than in 2000, while the incomes of the best-off families have grown rapidly. The growth of capital income has also driven up inequality, since most of it is received by the wealthiest families.

Shift to the Top

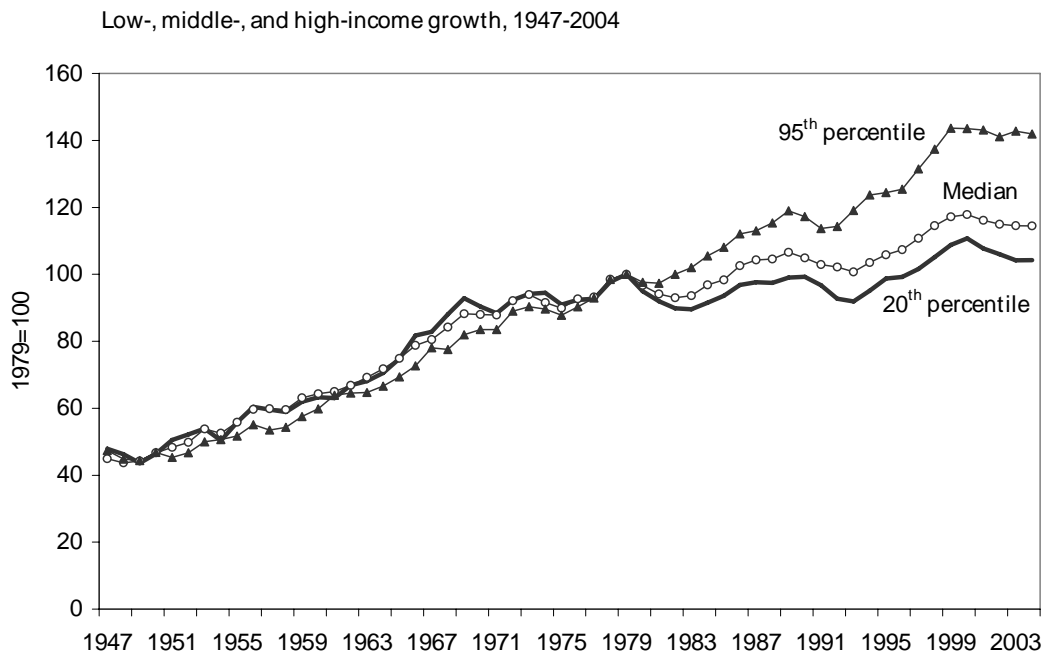
- ❖ In 2004 the top 5% received about 21% of all income, more than all of the families in the bottom 40% combined (they received just under 14%). In fact, since 2000, the top fifth receive just under half of all income.
- ❖ 84.2% of all capital income is received by the upper fifth, with 55.3% received by the top 1% and 36.6% by the top 0.1% alone.
- ❖ Tax cuts introduced by the Bush administration and legislated since 2001, were larger (in terms of reduced tax liability) at the top. The 2.9% cut for the top 1% is almost five times the size of the cut for the bottom fifth. In dollar terms, the tax cuts reduce tax payments at the low end by only \$63, the middle by \$665, and so on, up to the top value of over \$44,000 for the top 1%.
- ❖ The super-rich fared especially well. Income grew 75.6% for the top 1%, and more than doubled for the top 10th, as well as the 100th of the top percent from 1995 - 2000. The bursting of the financial and investment bubbles led to sharp real declines in the incomes of wealthy households in 2001 and 2002. By 2003, however, the earlier pattern was returning. In 2004, a year when the economy expanded by 4.2% and productivity grew 3.4%, the bottom 90% got a mere 1.4% boost in their income. The rest accrued to the top 10%, and the gains were largest at the top of the income scale.

Shift from the Bottom

- ❖ Income losses between 2000 and 2004 were largest at the low end, reversing 78% of the gains made in the 1995-2000 period.
- ❖ Over the last few years, earlier progress against wage inequality at the bottom

(the 50/10 gap between middle-wage workers at the 50th percentile and low-wage workers at the 10th) has been halted among men, and wage inequality among women at the bottom has resumed its growth. The greatest increase in wage inequality at the bottom occurred among women and corresponded to the fall in the minimum wage over the 1980s, the high unemployment of the early 1980, and the expansion of low-wage retail jobs.

In the mid-1970s, the gap between the top, middle and bottom began to grow; since the early '90s, income at the top has pulled ahead of the middle and bottom faster and faster.



Source: Authors' analysis of U.S. Census Bureau data.

- ❖ While the United States is, on average, a very wealthy country, it has a large variance in incomes between those at the top and the bottom of the income scale. Compared to other wealthy, industrialized countries - like those in Western Europe - the United States has the greatest inequality. Moreover, inequality in the United States (along with the United Kingdom) has shown a strong tendency to rise, even as inequality remained relatively stable or declined in most of the other wealthy countries.

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