

Inequality

Over the past few decades, the benefits of economic growth have flowed largely to those households at the top of income or wealth scales. With the exception of a few years at the end of 1990s, this uniquely American expansion of economic inequality has created a wedge between overall prosperity and the growing living standards of those in middle- and lower-income classes. Most recently, the unbalanced nature of federal tax cuts has redistributed after-tax income from the bottom 99% to the top 1%.

Shift to the Top

- ❖ In 2000, the share of income held by the top 1% by income was the largest since the run-up to the Great Depression.
- ❖ In 1979, the average income for the top 1% was 33.1 times the income of the lowest 20% and 10.1 times the middle fifth. By 2000, the average income of the top 1% was 88.5 times that of the bottom fifth, an increase of 55.4 points.
- ❖ In a perfectly equal system, each fifth of the income distribution would get one-fifth of total national income. In 2000, almost half of all income (47.4%) went to the top fifth income class of families, while the poorest fifth received less than a tenth as much (4.3%). The top 5% of families received 20.8% of total income that year, more than the bottom 40% combined (14.1%).
- ❖ During the 1980s, 3.2% of national income shifted from the bottom 80% of families to the top 20%, with most of the added income (2.6%) going to the top 5%.
- ❖ Between 1947 and 1973, income grew 31% more slowly in the top fifth than in the bottom fifth; between 1973 and 2000 income grew 55% more quickly in the top than at the bottom.

Mobility

- ❖ Most movement up or down from an income quintile does not involve dramatic leaps, but occurs between adjacent quintiles. During the '70s, '80s and '90s the share of families moving from the poorest fifth to the richest never exceeded 4.3% and the opposite movement from richest to poorest never exceeded 5%.
- ❖ In the 1990s, mobility decreased. 36.3% of those who started in the second income quintile stayed there, compared to 27.8% in the 1970s and 31.5% in the 1980s.

Impact of
Federal
Taxes

- ❖ During the 1970s, 12.4% moved from the bottom fifth to either the fourth or the highest fifth; in the 1980s and 1990s, 10.6% and 10.7%, respectively, made that move. The share of those who started and stayed in the top quintile increased steady over the three decades.
- ❖ The unbalanced federal tax cuts legislated over the past few years, redistributed after-tax income up the income scale by transferring 0.8% of total, after-tax household income from the bottom 99% to the top 1%.
- ❖ Between 1979-2000, pre-tax income for the lowest income quintile grew 6.4% and post-tax income grew 8.5%, boosted by expansion of the Earned Income Tax Credit for low-income workers.

Income quintile	Taxes as shares of income before and after 2001-03 tax cuts			Average tax cut*	Percent of total after-tax income before and after 2001-03 tax cuts		
	Before	After	Change		Before	After	Change
Lowest	9.0%	8.5%	-0.5	\$-61	4.0%	3.9%	-0.1%
Second	13.9	12.5	-1.4	-327	7.8	7.7	-0.1
Middle	18.4	16.9	-1.5	-586	12.1	12.0	-0.1
Fourth	21.6	20.1	-1.5	-967	19.3	19.2	-0.1
Next 15%	24.6	23.2	-1.4	-1,538	24.3	24.1	-0.2
Next 4%	25.9	24.7	-1.2	-2,907	13.8	13.6	-0.1
Top 1%	27.9	22.9	-5.0	-66,601	18.8	19.6	0.8
All	23.0	20.8	-2.1	-1,386	100.0	100.0	—

Notes: Figures show the effects of the post-2001 tax program fully phased-in (including the cuts in taxes on dividends and capital gains). Corporate tax cuts that expire after 2004 are not included. Taxes include virtually all federal taxes (personal and corporate income, Social Security and Medicare, excise and customs, and estate). For calculations of taxes as shares of income, income includes employer-paid FICA taxes (allocated to workers) and corporate profits net of taxable dividends (allocated by capital ownership). After-tax income means income (including corporate profits and employer-paid FICA taxes) less all federal taxes.

* Fully phased-in tax cuts in 2004 dollars.

Source: Institute on Taxation and Economic Policy.

Income by
Classes

- ❖ The 2001 recession led to a general shift to lower income categories. Compared to the early '90s recession, the shift in the most recent recession was felt slightly more in the lowest income category and slightly less at the top income level.

Request
Your Review
Copy

- ❖ Call Nancy Coleman, Karen Conner, or Stephaan Harris at 202-775-8810
- ❖ Email your request to news@epinet.org