

US: Inequality Gap Widest Since 1929

by Steve Schifferes , BBC
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The gap between rich and poor in America is the widest in 70 years, according to a new study published by the Center for Budget and Policy Priorities.

The research, based on newly released figures from the non-partisan Congressional Budget Office, shows that the top 1% of Americans - who earn an average of \$862,000 each after tax (or \$1.3m before tax) - receive more money than the 110m Americans in the bottom 40% of the income distribution, whose income averages \$21,350 each year.

The income going to the richest 1% has gone up threefold in real terms in the past twenty years, while the income of the poorest 40% went up by a more modest 11%.

In 1979, the top 1% received just 7.5% of national income, compared to 15.5% in 2000.

The share of the poorest 40%, in contrast, declined from 19.1% to 14.6%.

Tax cuts and earnings

In fact, the share of income received by bottom 80% of Americans declined in the past twenty years.

Only the top fifth increased their share, with their real incomes going up by 68%.

Much of the growth in income at the top has come from the extraordinary growth in executive pay, coupled with strong earnings growth among highly-educated professionals like doctors and lawyers.

But changes in the tax system have also favoured the rich.

The effective Federal tax rate on the top 1% dropped from 37% in 1979 to 33.2% in 2000.

The tax rate for the middle fifth of the income distribution also went down, but by less, from 18.6% to 16.7%.

The two big tax cuts passed by the Bush administration in 2001 and 2003 - which are not taken into account in this study - will increase that inequality further.

According to the Urban Institute-Brookings Tax Policy Center, the top 1% will gain on average 4.6% in after-tax income (or \$26,000 per household) while the middle fifth of the population gains only 2.6% (\$676 per household).

The fall in the stock market since 2000, however, has reduced the income of the rich.

Political debate

Rising inequality, and the growing budget deficit, has sparked a debate among Democrats

over whether to repeal those tax cuts.

Two candidates on the left of the Democratic Party, Howard Dean and Richard Gephardt, advocate repealing all the tax cuts and using the money on providing extra benefits, like universal health care, instead.

But moderate Democrats want to preserve tax cuts for middle-income Americans.

"The middle class is stressed today," said Senator Joe Lieberman in a recent Democratic presidential debate.

Republicans, meanwhile, argue that giving more money to the rich will encourage job creation and enrich everyone in the end.

They point with pride to the growing number of millionaires in the US, which demonstrates that social mobility is still possible.

One factor in the political equation is that, with a low turnout in most US elections, the poor are much less likely to vote than the better-off.

The CBPP study looked at after tax incomes of the US population in 1979, 1989, and 2000, peaks of the economic cycle, using new data on top incomes released by the Congressional Budget Office. A separate study by the National Bureau for Economic Research studied the income share of the top 1% from 1913 to the present.

INCOMES OF RICH AND POOR

Bottom 20%: 1979 - \$12,600

2000 - \$13,700

Middle 20%: 1979 - \$36,400

2000 - \$41,900

Top 20%: 1979: \$84,000

2000: \$141,400

Top 1%: 1979 \$286,300

2000: \$862,700

After-tax household income

source: Center for Budget and Policy Priorities, CBO.

US INCOME DISTRIBUTION

Bottom 20%: 4.9%

Second 20%: 9.7%

Middle 20%: 14.6%

Fourth 20%: 20.2%

Top 20%: 51.3%

Top 1%: 15.5%

% share of total after-tax income

source: Center for Budget and Policy Priorities, CBO.