Income Gap

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Income Gap

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THE WIDENING INCOME GULF

by Isaac Shapiro and Robert Greenstein

Congressional Budget Office data issued this summer indicate that after-tax income has increased dramatically since 1977 for the highest-income one percent of the population but risen only modestly for those in the middle of the income spectrum and declined for those in the bottom fifth. The CBO data, which start in 1977 and include projections for 1999, are widely regarded by analysts as the best data available on income and tax trends. These data include various forms of income that standard Census data miss, such as capital gains income and income from the Earned Income Tax Credit.

The CBO data indicate that after-tax income is more heavily concentrated among the richest one percent of the population — and also among the most affluent 20 percent of the population — than at any time from 1977 to 1995, the years for which historic CBO data are available. (CBO data are not available for years before 1977 or for 1996 through 1998. Census data on *before*-tax income are available going back to 1947; they show that before-tax income is at least as concentrated today at the top of the income scale as at any other time in the past half-century.)

An analysis of the CBO data finds:

- Among the 20 percent of the population in the middle of the income spectrum, average after-tax income is projected to rise a very modest eight percent between 1977 and 1999. This is an increase of less than one-half percent per year. Among the bottom fifth of households, average after-tax income is anticipated to *fall* nine percent from 1977 to 1999. (The CBO income measure is adjusted for family size. This report uses "fifth of households" and "fifth of population" interchangeably. All changes over time mentioned in this report are in inflation-adjusted terms.)[1]

- In contrast, among the top 20 percent of households, average after-tax income is projected to increase a robust 43 percent in the 1977-1999 period. Among the top one percent of households, average after-tax income is projected to *more than double*, jumping 115 percent. CBO projects the top one percent of the population will have average before-tax income of $786,000 in 1999 and average after-tax income of $516,000.

- As a result, the distribution of income has changed markedly. In 1977, the top one percent of U.S. households received 7.3 percent of the national after-tax income. In 1999, this group is projected to receive 12.9 percent of the income, a higher percentage than in any other year CBO has examined. Most of the growth in incomes at the top of the income scale, as well as most of the growth in income disparities between the affluent and other Americans, occurred between 1977 and 1989.

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