

Inequality

Inequality has risen sharply over the last several decades, and this rise is apparent in nearly every data measure analyzed in *The State of Working America, 12th Edition*. While there has been sufficient economic growth to produce broadly shared prosperity, people at the uppermost rungs of the income ladder have claimed most of the growth in wages, captured a larger share of national income, and control a staggering amount of wealth. This is the primary reason why over the last decade, lower- and middle-income Americans have experienced wage stagnation and falling incomes. In addition, more than 1 in 5 Americans have zero or negative net worth.

Wealth inequality

The distribution of wealth is more unequal than even the highly skewed distribution of income:

17.2%

In 2010, the highest-income 1 percent of households received 17.2 percent of all income in the economy, while the wealthiest 1 percent held 35.4 percent of all wealth.

55.5%

In 2010, the bottom 90 percent received only 55.5 percent of all income and held just 23.3 percent of all wealth.

38.3%

From 1983 to 2010, 38.3 percent of the wealth growth went to the top 1 percent and 74.2 percent to the top 5 percent. The bottom 60 percent, meanwhile, suffered a decline in wealth.

\$1.5 trillion

A subsection of the top 1 percent is the *Forbes* 400, the wealthiest people in the United States. From 1982 to 2011, their average wealth increased from \$1.1 billion to \$3.8 billion, and their collective net worth was \$1.5 trillion. By comparison, in 2010, the collective net worth of the entire bottom 60 percent of the wealth distribution—over 70 million households—was only \$900 billion.

288-to-1

In 1962, the wealthiest 1 percent had 125 times the wealth of a median household. In 2010, the ratio was 288-to-1.

↓ 47.1%

From 2007 to 2010, the average wealth of the top 1 percent dropped 15.6 percent. Wealth at the median, however, plummeted 47.1 percent.

Wage inequality

156.2%

Between 1979 and 2007, wages for the top 1 percent rose almost 10 times as fast as those for the bottom 90 percent: 156.2 percent versus 16.7 percent.

725%

These disparities are especially pronounced in the explosion of CEO pay, which in the late 1970s was about 30 times that of a typical worker. Today, it is more than 200 times that of a typical worker. From 1978 to 2011, CEO compensation grew more than 725 percent. Private-sector worker compensation grew only 5.7 percent.

Income inequality

241%

Between 1979 and 2007, more of the growth in average income accrued to the top 1 percent than to the entire bottom 90 percent. Incomes for the top 1 percent grew 241 percent, compared to 11 percent for the bottom fifth and 19 percent for the middle fifth.

7.5%

Lower taxes boosted the disposable incomes of the top 1 percent by 7.5 percent between 1979 and 2007, and increased government transfers (like Social Security and Medicare) boosted them another 0.4 percent. In short, changes in taxes and transfers exacerbated the steep rise in market-based income inequality over this period.

65%

Growth in capital income (the returns to holding wealth, such as rents, dividends, and capital gains) accrued mostly to the top 1 percent of households. In 1979, the top 1 percent claimed about 40 percent of all capital income. In 2007, they captured 65 percent of the total. Conversely, the bottom 90 percent, which claimed nearly a third of capital income in 1979, claimed about 15 percent in 2007.

Spotlight **INEQUALITY AND TAXES**

To get a sense of just how much rising inequality has blocked progress in middle-class living-standards growth, compare the gap between what families in the middle fifth of the income distribution received in 2007 in “comprehensive income” (that is, income including benefits from employers and government transfers) to what they could have had if their incomes grew at the overall average rate since 1979—an overall average inflated by the extraordinarily fast growth at the very top of the income ladder: \$69,978 (actual) versus \$88,875 (had they just kept up with the average).

In essence, rising inequality imposed a tax of 27 percent on middle-fifth incomes in 2007, costing them just under \$19,000 in potential income. Compare this to the total individual income taxes paid by middle-fifth families in 2007: 3.3 percent. That is, the implicit inequality tax was roughly eight times as large as federal income taxes for these families in 2007.