Two decades of rising inequality

Recession intensifies social polarization in the US

Debra Watson
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At the height of the 1990s boom, US society was more economically polarized than at any time in the previous two decades. By the year 2000 the annual income of the top fifth of US families had risen to 10 times the income of families in the bottom fifth, up 30 percent from 1980.

The gap between high-income and middle-income families (consisting of two or more related persons in a household) also went up. By 2000 the income of families in the top fifth income group was three times that of a typical family, up from a ratio of about 2.3 to 1 in 1980.

Pulling Apart: A State-by State Analysis of Income Trends, was released this spring by the Economic Policy Institute (EPI) and the Center for Budget and Policy Priorities (CBPP). Researchers from the two liberal Washington think tanks compared family income during the economic boom of the late 1990s to income during similar peaks in economic expansion at the end of the 1970s and the 1980s. They found that in the late 1990s, unlike the early decades of the postwar era, inequality in income remained at historic levels despite relatively low unemployment rates.

In the most recent issue of their biennial report *The State of Working America 2000-2001*, the EPI reported that middle-income wage earners had been especially hard hit during the 1990s. They noted: “While wage inequality in the 1980s was characterized by the top wage earners pulling away from the middle and the middle pulling away from the bottom, trends in the 1990s were different. The 1990s involved the bottom and middle wage earners growing closer while the top pulled even further away from the rest. Median male earnings actually fell 2.3 percent during the 1990s.”

Just to maintain their previous level of income, poor families with children were working almost three more full-time weeks in 1998 than in 1989. Families as a whole worked an average of 82.6 weeks per year in 1998, up from 68.3 weeks in 1969, with much of the increased weeks resulting from increased working hours for women.

The trend of rising inequality was even more apparent when the income of the bottom fifth of families was compared to the richest 5 percent of families. Of the 11 states where researchers examined the income of the top 4 percent of families at this level of detail, New York had both the biggest gap and the biggest increase in inequality over the past two decades.

In New York in the late 1970s the richest 5 percent had incomes 12 times the average of those in the poorest fifth of families. At the end of the last decade, for every one dollar earned by families in the poorest fifth of the income distribution, families in the top 5 percent raked in 21 dollars. By the late 1990s their income was, on average, $266,000. Other states with huge increases in income inequality between the bottom fifth and the top 5 percent were California, Massachusetts, Ohio, Michigan and Pennsylvania.

While wage and salary income is a substantial part of family income, part of the reason for highlighting the growth in wage inequality in these two reports are limitations with documenting unearned income, much of which is excluded from Census Bureau reports. If unearned income such as capital gains and executive bonuses had been figured into the calculations, inequality would have been even more acute.

The authors of *Pulling Apart* refer to a report by the Congressional Budget Office (CBO) which used tax returns to capture unearned income like capital gains. They found the annual income of the top 10 percent of families in 1997 was $250,000, more than double the 1999 earned income attributed to the top 10 percent in the EPI/CBPP report. At the other end of the scale, the CBO found families at the bottom poorer than did the EPI/CBPP.

Those who made up the top 1 percent of stockholders were the chief beneficiaries of the stock market boom of the 1990s. In 1998 they owned almost half of all stock value while less than half of US households held stock in any form, including retirement funds. The bottom 80 percent of stockholders owned just four percent of stock value. For the middle 20 percent of households the average value of their stockholdings grew by $5,500 and non-stock assets (typically the family home) by $8,500 during the 1990s, while household debt increased nearly $12,000.

Promises of future social mobility for low-income earners were largely a myth. The researchers point out that movement up the social ladder over a person's lifetime is far from common. Of those in the lowest income division in 1969, 41 percent were still there 25 years later and another 25 percent had only moved to the second fifth of the income distribution.

What is unique about *Pulling Apart*, according to the researchers, is that they broke down US income inequality for the individual US states. They note: "Income disparities between the top fifth of families and families at the bottom of the income distribution grew in all but five states over the past two decades."

While this statement is true for the change in the *ratio* of the income of the top families to that of the bottom families, the actual *dollar* divide between top and bottom grew substantially in every one of the 50 states analyzed. For example, researchers documented only one state, Alaska, where the top to bottom ratio declined from about nine to one in the late 1970s, to eight to one at the end of 1990s. But the actual dollar increase for families at the top was $25,500 compared to an increase for the bottom quintile of only $3,500.

For most states the ratio of top to bottom increased, and the dollar gap between rich and poor grew dramatically. The greatest gap between the wealthy and the poor is now in Washington DC, the fifty-first and last political division included in the report. At the end of the millenium the annual income for the top fifth of earners in the nation's capital was, on average, $203,000, up from $114,000 in the late 1970s.

At the end of the last decade, the poor were also poorest the nation's capital. At the end of the 1970s the income gap between richest fifth and poorest fifth of families was twelve to one in Washington DC. By the end of the century it had grown to nearly twenty-two to one and the average income for the bottom fifth of families was just $9,400, less than two-thirds the meager official poverty level for a family of three.

The disparity in real dollar income *increases* between families in the top two-fifths of the income distribution in the US and those in the bottom two-fifths was massive. In fact, if the aggregate of net increases during the past 20 years that went to the top two-fifths of families had gone instead to increase the income of families in the bottom two-fifths, every US family would have an annual income of close to or higher than the current median family income of about $50,000. Still, the top fifth of families would take in, on average, twice that amount annually in earned income alone.

Not only would all families have incomes above the official poverty level, their income would also substantially exceed the basic family budget level of about $33,500 developed elsewhere by EPI researchers.

Workers in every country where social inequality is endemic should take note of the fact that 35 years after Lyndon Johnson declared his "War on Poverty"—and in the midst of the best economic conditions in the US in decades—according to the 2000 census, 9.2 percent of families residing in the "richest country in the world" were still living in abject poverty. According to the EPI basic budget cut-off, two-and-a-half times as many families were effectively poor.

For this reason, millions of US families entered the current recession ill-prepared for the economic shocks they are now encountering, Even under the most optimistic—and increasingly improbable—economic forecasts for the current recession, unemployment is expected to be relatively high for at least another year.