2005 US income figures: top 10 percent had largest share of national wealth since 1928

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A series of recent economic studies and media reports have added new details to the portrait of the US as a country riven by deepening social divisions. While a financial and corporate oligarchy rules America, with access to almost unimaginable wealth, millions and millions of people find it increasingly difficult to make ends meet. This condition has explosive social and political implications.

The *New York Times* reported Thursday on an analysis of income tax data carried out by Prof. Emmanuel Saez of University of California-Berkeley and Prof. Thomas Piketty of the Paris School of Economics, well known for their work on income inequality.

Their research indicates that in 2005 the top 1 percent of all Americans, some 3 million people, received their largest share of the national income since 1928: 21.8 percent, up from 19.8 percent only the year before—a 10 increase percent in one year. The incomes of this group, those making more than $348,000 a year, rose to an average of more than $1.1 million each, an increase of over $139,000, or about 14 percent.

The top 10 percent of the population carried away some 48.5 percent of all reported income in the US in 2005—also the highest percentage since 1928, on the eve of the Depression—an increase of 2 percent from 2004, and up from 33 percent of the reported total in the late 1970s.

The top tenth of 1 percent (300,000 people) and top one-hundredth of 1 percent (30,000 people) enjoyed the greatest increases of all. "The top tenth of a percent reported an average income of $5.6 million, up $908,000, while the top one-hundredth of a percent had an average income of $25.7 million, up nearly $4.4 million in one year," according to David Cay Johnston's article.

The top one-tenth of 1 percent of the US population had nearly as much income in 2005 as the bottom 150 million Americans. Each of those 300,000 individuals received 440 times as much income as the average person on the bottom half of the economic ladder, "nearly doubling the gap from 1980."

While total reported income rose almost 9 percent in the US during the course of 2005, average incomes for *the bottom 90 percent* of the population actually dropped, by $172 compared with the year before, or 0.6 percent.

Saez told the *Times* that, in fact, because the analysis was based on preliminary data and that the wealthy are more prone to file their tax returns late, "his data might understate the growth in inequality." Furthermore, the Internal Revenue Service (IRS) acknowledges that it catches only about 70 percent of business and investment income, "most of which flows to upper-income individuals, because not everybody accurately reports such figures."

A study released March 22 by the University of New Hampshire's Carsey Institute reveals that New England (Maine, New Hampshire, Vermont, Massachusetts, Connecticut and Rhode Island) experienced the highest increase in income disparity of any region in the US in the years 1989 to 2004.

Average real incomes for the top 20 percent of New England households increased by 15 percent in the past 15 years, and those in the top 5 percent saw their incomes jump by 27 percent. Incomes for households in the second and third most prosperous quintiles stagnated, and incomes for the bottom 40 percent of households actually dropped.

"In 2004, the average household income in the top quintile in New England was nearly $185,000. In the top 5 percent of households, the average income was $337,000. In sharp contrast, the average household income in the lowest quintile [20 percent of the population!] in the region was $12,437 and the average household income in the second lowest quintile was $34,291."

Three states in the region—Connecticut, Vermont and Massachusetts—ranked among the top five in income disparity increases. New England, where the Democratic Party reigns supreme, now accounts for six of the top metropolitan areas with growing income disparity in the country: Nashua, New Hampshire; New Bedford, Massachusetts; and Stamford-Norwalk, Bridgeport, Waterbury and Danbury, Connecticut. The four areas in Connecticut rank in the top ten.

New England led the nation in the late 1990s and early 2000s in the loss of manufacturing employment. Meanwhile a significant layer of incredibly wealthy individuals has emerged, some of them associated with high technology and science-based research, others benefiting from the stock market and real estate boom.

The UNH report observes, "New England has changed from a relatively egalitarian region income-wise to a more economically divided one. Its middle-income sector is losing ground and disappearing. Diverging household incomes can fray the social fabric as social connections and the opportunities for families to mix with members of different classes diminish, and the opportunities for lower- and middle-income individuals to move up in social status may decrease."

A report conducted by the Indiana Department of Education

reveals, not unexpectedly, that students from low-income homes are far less likely to take college entrance exams. The department data show "that the state's poorest schools also have the lowest percentages of students taking college entrance exams. The low-income figures are based on those who qualify for free lunch, a federal program based on income" (*Fort Wayne Journal Gazette*, "Income Gap seen in tests for college").

A *Washington Post* article in early March made the point that marriage was increasingly becoming a "luxury item" in the US. The piece explained: "As marriage with children becomes an exception rather than the norm, social scientists say it also is becoming the province of the college-educated and the affluent. The working class and the poor, meanwhile, increasingly steer away from marriage, while living together and bearing children out of wedlock."

It goes on, "Marriage has declined across all income groups, but it has declined far less among couples who make the most money and have the best education. These couples also are less likely to divorce. Many demographers peg the rise of a class-based marriage gap to the erosion since 1970 of the broad-based economic prosperity that followed World War II.

"'We seem to be reverting to a much older pattern, when elites marry and a great many others live together and have kids,' said Peter Francese, demographic trends analyst for Ogilvy & Mather, an advertising firm."

The *Post* takes note of the situation facing a young couple living in the Seattle area. Victoria Miller, 22, manages a Burger King restaurant, her boy-friend, Cameron Roach, 24, works part-time testing software. Together they earn less than $20,000 and live with Roach's father. "They cannot afford to live anywhere else."

US Commerce Department data released Thursday indicate that the share of national income going to wages and salaries last year was at its lowest level on record, with data going back to 1929. In the current economic expansion that began officially in November 2001, the benefits have flowed primarily to corporations.

Examining the figures, the Center on Budget and Policy Priorities (CBPP) finds that during the present expansion, "Wages and salaries have grown at a 1.9 percent average annual rate, after adjusting for inflation. In previous post-World War II recoveries, wages and salaries grew at an average annual rate of 3.8 percent. Corporate profits have grown at a 12.8 percent average annual rate, after adjusting for inflation, as compared with an average annual growth rate of 8.3 percent in the equivalent periods of past post-World War II business cycles."

The result is that wages and salaries have "captured an exceptionally small share of the total growth in national income that has occurred in the current period. Only 34 percent of the overall increase in national income since the end of 2001 has gone to increases in workers' pay, a smaller fraction than in any other expansion since World War II. For the first time on record, corporate profits have captured a larger share of the income growth in a recovery—46 percent of it—than wages and salaries have."

Professors Saez and Piketty have also released a study of the federal tax system, revealing how high-income groups have seen sharp drops in tax rates since 1960. According to an analysis of their study by the CBPP, the progressivity of the US tax system has "declined dramatically" since the 1960s. The drops were the highest for the highest-income households. "The average tax rate declined by a larger amount for households in the top one *hundredth* of 1 percent of the income scale (where incomes in 2004 averaged about $15 million) than for households in the top *tenth* of 1 percent (where incomes averaged above $3.7 million) or for households in the top 1 percent (where incomes averaged about $850,000)."

Over the same time period, the inequality of pre-tax income has grown sharply. The share of the country's pre-tax income flowing to the top 1 percent of households more than doubled between 1970 and 2000. Tax policies, including the Bush tax cuts for the wealthy, have exacerbated the ever-widening income gap in America.

The White House has stopped pretending that the growing social divide doesn't exist, as the *Wall Street Journal* noted March 26. In January George W. Bush told an audience, "Income inequality is real." Neither the Republicans or Democrats, whose leading candidates are members themselves of the most privileged economic layer (John Edwards, Hillary Clinton and Barack Obama are millionaires), will undertake any policies to remedy the situation. The last quarter century has seen a vast transfer of wealth from the working population to the wealthy elite, fully endorsed and facilitated by the policies of both big business parties at the national, state and local levels.

The *Journal*, whose editorial pages continue to deny the reality of growing social inequality, noted that the January pronouncement was not "a sudden change in Mr. Bush's economic philosophy, but rather a change in tactics forced by the changing political environment."

Indeed as the recent Pew Research Center poll discovered, concerns about economic matters are growing in the US. More than four in ten of those surveyed said they didn't "have enough money to make ends meet," up from 35 percent in 2002. Pew found that 73 percent of the American population, up from 65 percent five years ago, concurred with the statement "today it's really true that the rich just get richer while the poor get poorer."