New study details growth of income inequality across US

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A new study by the Center on Budget and Policy Priorities details the explosive growth in income inequality throughout the United States over the past three decades. The report, entitled *Pulling Apart*, is unique in that it breaks down data regarding inequality to the state level, demonstrating that "the growth in income inequality since the late 1970s has not been a geographically isolated phenomenon."

"Nationwide, income gaps between the richest households and both the poorest households and middle-income households have widened significantly since the late 1970s," the study's authors conclude. "The incomes of the country's richest households have climbed substantially over the past three decades, but middle- and lower-income households have seen only modest increases or actual declines after adjusting for inflation."

"In no state did inequality *fall* by a statistically significant amount," the report emphasizes.

The study uses US Census Bureau data to compare income inequality between the richest fifth, the middle fifth, and the poorest fifth of households at four periods in time: 1977-1979, 1998-2000, 2005-2007, 2008-2010, allowing three-year averages to be taken at each point. The first three time periods were chosen as "peaks" in the economic cycle while the latter point is the last for which full data is available. All data is adjusted for inflation to represent values in 2009 dollars.

The study did not include realized capital gains, which form a substantial portion of the income of the wealthy, due to data limitations. "As a result," the authors warn, "our results show somewhat less inequality than would be the case were we to include realized capital gains."

Even so, the findings are staggering: "Nationally, the richest fifth of households enjoyed larger average income gains in dollar terms *each year* ($2,550, after adjusting for inflation) than the poorest fifth experienced during the *entire three decades* ($1,330)."

When the trend is viewed from the state level, it shows that in the late 1970s, the richest fifth of households had 5.2 times the income of the poorest fifth. But by the mid-2000s this ratio had grown to 8.3. The authors note that "in seven states—Arizona, Connecticut, Indiana, Kentucky, Michigan, West Virginia, and Wyoming—the average income of the bottom fifth fell" over this period.

The report shows that the growth of inequality was accelerating between the late 1990s and the mid-2000s, before the eruption of the economic crisis in 2008. The greatest jump in inequality over this period occurred in President Obama's home state of Illinois, where the top 5 percent saw a 23 percent increase ($58,687) in income compared to a decline among the bottom fifth of 15 percent ($3,539).

While the study did not attempt to analyze the effects of the current economic crisis on inequality due to data limitations, it did point out that the current data suggests income inequality is deepening. They note that in 2011, "each of the bottom three income quintiles had its smallest share of national income on record, while the top quintile had its largest share on record."

The most recent data available shows that the top fifth of households earn on average eight times that of the bottom fifth, or $164,490 compared to $20,510. At the same time, the average income of the top income quintile was 13.3 times the average income of the bottom fifth.

In New Mexico, which has the highest income inequality of any state, the ratio between the top fifth and the bottom fifth is 9.9. Tellingly, the richest households in the nation's capital earn 14.6 times the poorest.

According to the report, three major factors have contributed to the growth of inequality: the growth in wage inequality, government policies, and the expansion of investment income. The growth in wage inequality was identified as the biggest factor, as wages at the bottom and middle of the wage scale have remained stagnant or grown very little.

The decline in the real value of the federal minimum wage since its peak in the 1960s has played a role in this process. The study notes that the “impact of this reduction in the minimum wage since 1979 on wage inequality has been, by many accounts, very substantial, especially for low-wage women workers.”

The role played by globalization and technological advances in the depression of wages is also noted. The study demonstrates that under capitalism, where the productive forces are privately held, the tremendous advances made in production and technique over the past decades have been monopolized by the wealthy at the expense of the majority of the working population.

The authors highlight the role played by government policy in promoting inequality, such as changes to the tax code favoring the wealthy and extended periods of high unemployment over the past three decades. Since taking office, the Obama administration has continued the most recent tax breaks, encouraging this inequality, and has failed to introduce any serious measures to address the nation’s high unemployment rate. The administration is strategically using the persistent levels of high unemployment as a means of lowering the wages of workers to enable American business to better compete on the world market.

Finally, the report points to the shift in sources of income over the past three decades away from labor and towards investment-based sources, which tend to benefit the wealthiest households. This process is bound up with the long-term decline of American capitalism and its turn away from industrial production in favor of speculation and evermore parasitic forms of wealth accumulation.

Data compiled by the study shows not only that the growth of inequality has its source in the protracted decline of American capitalism, but that it is also a process that has been encouraged and exacerbated by the deliberate policies of Democratic and Republican administrations alike.