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## NEW DATA SHOW INCOME CONCENTRATION ROSE AGAIN IN 2006

### Average Income Rose by \$73,000 for Households in the Top 1%, Only \$20 for Those in Bottom 90%

By Aviva Aron-Dine

Economists Thomas Piketty and Emmanuel Saez recently issued an updated version of their groundbreaking data series on income inequality in the United States.<sup>1</sup> The data, which are based on Internal Revenue Service (IRS) files, are unique because they provide detailed information on income gains at the top of the income scale, extend back to 1913, and provide the first detailed look at the distribution of income in 2006.

The new data show:

- Between 2005 and 2006, the average income (before taxes) of the *top 1 percent of households* increased by \$73,000 (or 7 percent), after adjusting for inflation,<sup>2</sup> while the average income of the *bottom 90 percent of households* increased by just \$20 (or 0.1 percent). (In 2006, the top 1 percent of households were those with incomes above about \$375,000.)
- 2006 marked the fourth straight year in which income gains at the top outpaced those among the rest of the population. Since 2002, the average income of the top 1 percent of households has risen 44 percent, or \$335,000, after adjusting for inflation. The average income of the bottom 90 percent of households has risen about 3 percent, or about \$1,000. (See Table 1.)
- As a result, the share of the nation's income flowing to the top 1 percent has increased sharply, rising from 15.8 percent in 2002 to 20.3 percent in 2006. Not since 1928, just before the Great Depression, has the top 1 percent held such a large share of the nation's income. (See Figure 1.) In 2000, at the peak of the 1990s boom, the

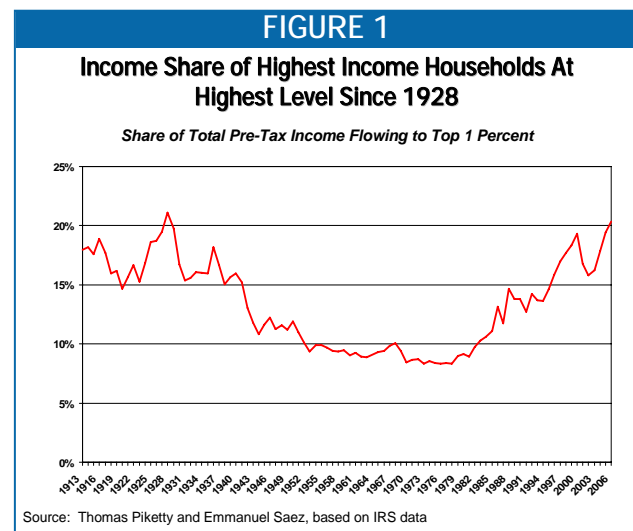


Table 1: Income Gains, Adjusted for Inflation, 2002-2006		
	Dollar Increase	Percentage Increase
Bottom 90%	\$1,000	3%
Next 9%	\$16,000	11%
Top 1%	\$335,000	44%

In 2006, the bottom 90 percent of households were those with incomes below about \$105,000. The next 9 percent were those with incomes between \$105,000 and about \$375,000, and the top 1 percent were those with incomes above \$375,000.

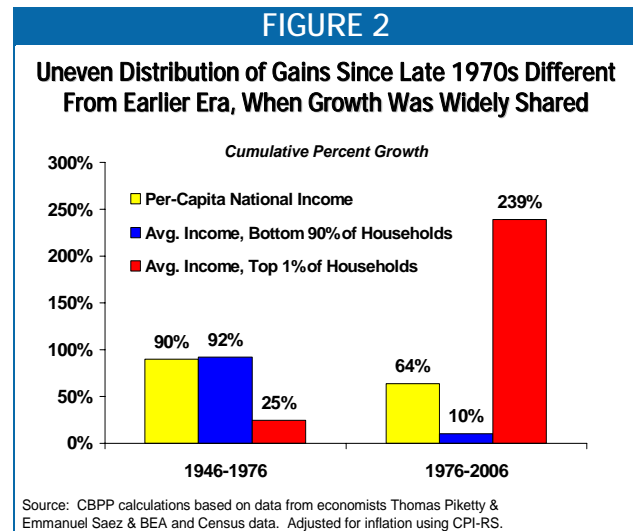
top 1 percent received 19.3 percent of total income in the nation.<sup>3</sup>

- Income gains have been even more pronounced among those at the very top of the top 1 percent. The incomes of the top *one-tenth of 1 percent (0.1 percent)* of U.S. households have grown more rapidly than the incomes of the top 1 percent of households as a whole, rising by 60 percent, or \$1.9 million per household, since 2002. The share of the nation's income flowing to the top one-tenth of 1 percent increased from 6.5 percent in 2002 to 9.3 percent in 2006. This is the highest level since 1928.

The uneven distribution of economic gains in recent years continues a longer-term trend that began in the late 1970s. In the three decades following World War II (1946-1976), robust economic gains were shared widely, with the incomes of the bottom 90 percent actually increasing more rapidly, on average, than the incomes of the top 1 percent. But in the three decades since 1976, the incomes of the bottom 90 percent of households have risen only slightly, on average, while the incomes of the top 1 percent have soared.<sup>4</sup> (See Figure 2.)

Given that the economy appears to be entering a recession or a significant slowdown, and given the turmoil in the financial markets, it seems possible that the income share of the top 1 percent will fall this year, and perhaps for several years after that. In this context, it is instructive to note how the distribution of income changed during and after the last recession. The Piketty and Saez data show that the incomes of nearly all groups fell in 2001 and 2002. Since the incomes of those at the top of the income scale fell by the largest percentage, their share of total income in the nation declined.

In 2003, however, when income growth resumed, income concentration again began to rise. Some 45 percent of total income gains since 2002 have accrued to the top 1 percent of households, and 70 percent have gone to the top 10 percent of households. As a result, by 2006, the share of income flowing to the top 1 percent of households had surpassed the level it reached in 2000, at the peak of the 1990s expansion.



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<sup>1</sup> Piketty and Saez rely on detailed Internal Revenue Service micro-files for most years, but use more aggregated IRS data and statistical techniques to extend their series back to 1913 and forward to 2006 (years for which detailed micro-files are not available). For details, see Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States: 1913-1998," *Quarterly Journal of Economics*, February 2003, or, for a less technical summary, see <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2006prel.pdf>. The updated series is available at <http://elsa.berkeley.edu/~saez/TabFig2006prel.xls>.

<sup>2</sup> Piketty and Saez adjust for inflation using the standard Consumer Price Index, while we use the CPI-Research Series. The CPI-RS is generally considered more accurate for purposes of comparisons over long periods, such as those shown in Figure 2.

<sup>3</sup> Piketty and Saez present three different data series, each of which uses a *different income concept*, and therefore yields somewhat different estimates of the share of income going to each group. (For example, estimates of the share of income going to the top 1 percent in 2006 range from 18.2 percent in one series to 20.3 percent in the series we rely on here to 22.9 percent in the third series.) We focus on the series that includes capital gains income in measuring the income households receive, but ranks households according to their non-capital gains income. The authors indicate that this approach to sorting households gets around the volatility associated with capital gains realizations and provides a better measure of the underlying distribution of income than a measure that sorts households according to income including capital gains. But the authors also present a data series that includes capital gains income *and* ranks households by income including capital gains, as well as a series that excludes capital gains altogether. In 2006, under both income concepts that include capital gains income, the share of income flowing to the top 1 percent was at its highest level since 1928. Under the income concept that excludes capital gains, the income share going to the top 1 percent was at the highest level since 1929.

<sup>4</sup> Different data series show modestly larger or smaller gains for the bottom 90 percent, but all series show a similar discrepancy between the bottom 90 percent and the top 1 percent.