

NEWS RELEASE



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PATHBREAKING CBO STUDY SHOWS DRAMATIC INCREASES IN BOTH 1980s AND 1990s IN INCOME GAPS BETWEEN THE VERY WEALTHY AND OTHER AMERICANS

Study Also Shows Decline in Federal Tax Burdens for All Income Groups

A new pathbreaking Congressional Budget Office study¹, which includes the best data that any agency or institution has compiled on income and tax trends in recent decades, shows that the average after-tax income of the richest one percent of Americans grew by \$414,000 between 1979 and 1997, after adjusting for inflation, while average after-tax income *fell* \$100 for the poorest 20 percent of Americans and grew a modest \$3,400 for those exactly in the middle of the income spectrum. In percentage terms, after-tax income grew an average of 157 percent over this period for the top one percent of the population, rose a modest 10 percent — about one-half of one percent per year — for the 20 percent of Americans in the middle of the income spectrum and was effectively unchanged for those in the bottom fifth.

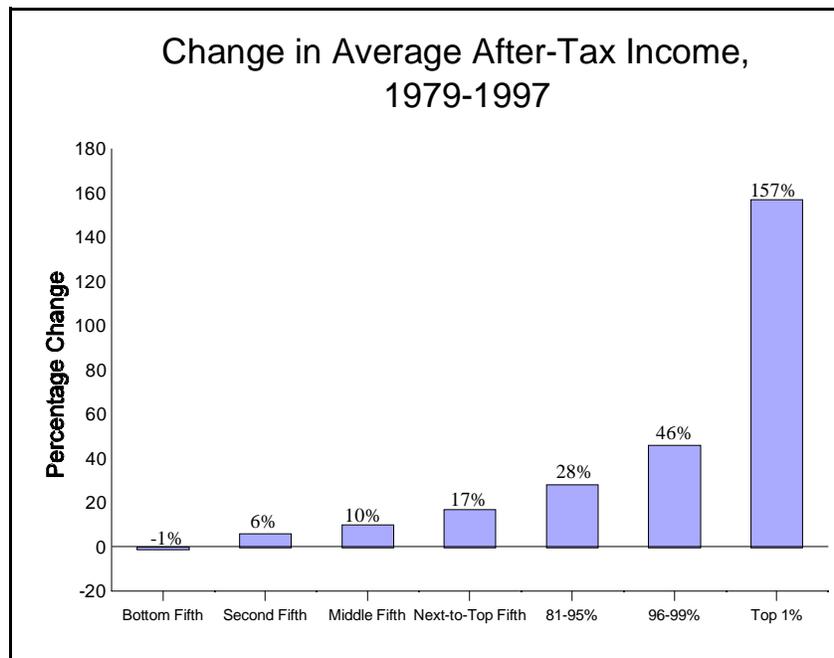
Average After-Tax Income Gains, 1979-97	
Top 1%	\$414,200
Middle fifth	\$3,400
Bottom fifth	-\$100

The study shows that income gaps both between rich and poor and between the rich and the middle class widened in the 1980s and 1990s alike and reached their widest point on record in 1997. Income has grown for all groups since 1997, but while CBO does not yet have comprehensive data for more recent years, it did find that “information from tax returns suggests that the rapid rise in the share of income going to the top of the income distribution...continued in 1998 and 1999.”

Data in the CBO report, which researchers at the Center on Budget and Policy Priorities analyzed, also show that the percentage of income Americans pay in federal taxes has declined since 1979 for every income group. By one key measure, the percentage of income paid in federal taxes fell the most for those with the highest incomes.

The CBO study blends Census and IRS data, counts non-cash benefits as income, and subtracts the taxes that households pay. Researchers and experts in the field regard the CBO data as providing the most comprehensive and reliable information on income trends. CBO developed the data in this study after consultation with many of the nation's leading experts on income measurement.

1. The Congressional Budget Office, *Historical Effective Tax Rates, 1979-1997*, Preliminary Edition, May 2001. <<http://www.cbo.gov/showdoc.cfm?index=2838&sequence=0&from=7>>



Income Gaps Continued to Widen in the 1990s

The CBO data show that the greatest increase in income disparities for any two-year period the study covers occurred between 1995 and 1997, the last two years for which the study provides data on incomes. In this two-year period alone, the average income of the top one percent of households jumped 40 percent, or \$194,000. This suggests the growth in income disparities between the wealthiest individuals and other Americans may have accelerated in the latter half of the 1990s.

Declines in Tax Burdens

Data in the CBO study put to rest several claims frequently heard in political circles, such as that income disparities widened in the 1980s but stopped growing in the 1990s and that the share of income that different groups of Americans pay in taxes has been rising and has increased the most for those with the highest incomes. The data CBO presents show such statements are not accurate.

For example, the study shows that every group of households now pays a lower percentage of income in federal taxes than in 1979. In particular, the one percent of Americans with the highest incomes paid an average of 37.3 percent of income in federal taxes in 1979, but would pay 32.7 percent in 2001, under current tax laws. This 4.6 percentage-point drop in the proportion of income this group pays in federal taxes was the largest drop experienced by any income group. The data in the study consequently show that this group had already received large tax reductions before enactment of the tax-cut legislation that Congress approved last week, which will provide extremely large additional tax cuts to these households.

The CBO study also found that while taxpayers with very high incomes now pay a larger share of total federal taxes than in earlier years, this is because they receive a much larger share of the national income. As CBO reported, “increasing inequality of income led to similar shifts in the distribution of tax liabilities.”

The CBO data show that the share of the national income after taxes that the top one percent of the population received nearly doubled between 1979 and 1997. The CBO data indicate that by 1997, the 2.6 million Americans with the highest incomes — the top one percent — had as much after-tax income as close to 100 million Americans with the lowest incomes. Similarly, the 20 percent of Americans with the highest incomes received as much as the other 80 percent of the population.

Center on Budget and Policy Priorities analysts noted that the tax-cut legislation President Bush is about to sign will further widen the income gaps between the wealthiest Americans and the rest of the population. The top one percent will receive an average tax cut of more than \$46,000 from the legislation when the tax cuts are fully in effect, compared to an average tax cut of \$600 for the middle fifth of the population and less than \$70 for the bottom fifth. The average percentage gain in after-tax income that households will receive when the tax-cut legislation is fully in effect will be about three times greater for those in the top one percent of the population than for those in the middle fifth and more than seven times greater for those at the top than for those in the bottom fifth.

The full report, *Pathbreaking CBO Study Shows Dramatic Increases in Income Disparities in 1980s and 1990s: An Analysis of the CBO Data*, is posted to the Center's web site at <http://www.cbpp.org/5-31-01tax.htm>

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

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