

**TWO DECADES OF EXTRAORDINARY GAINS FOR AFFLUENT
AMERICANS YIELD WIDEST INCOME GAPS SINCE 1929,
NEW DATA INDICATE**

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Data the Congressional Budget Office quietly released the Friday before Labor Day show that the real average after-tax income of the top one percent of the population rose a remarkable \$576,000, or 201 percent, in the 1980s and 1990s, while the average income of those in the middle of the income scale rose \$5,500 and income gaps between the top one percent and the rest of the nation widened dramatically. The new CBO data, analyzed in a Center study issued today, are the most comprehensive data now available on recent changes in incomes and taxes for different income groups.

The CBO data show that in 2000, the latest year the data cover, after-tax income was more heavily concentrated at the top of the income scale than at any other time in the 1979-2000 period that CBO examined. Other new data from an update of a National Bureau for Economic Research study that cover a longer time period indicate that *before-tax* income was more heavily concentrated at the top of the income scale in 2000 than at any point since 1929 (the NBER study did not consider the effect of taxes).

The new CBO data also include extensive data on changes in federal tax burdens, which cast doubt on a key justification for the tax cuts enacted in the last few years. Tax-cut proponents argued that tax burdens had climbed to high levels in the years before passage of the 2001 tax-cut legislation and needed to be cut sharply. The CBO data show, however, that most Americans' federal tax burdens had, in fact, declined over the previous two decades.

"It's been apparent for several years that those at the very top of the income scale have pulled away from other Americans, and the new CBO data, which show staggering income gains among the most well-off, confirm that trend," noted Robert Greenstein, the Center's executive director. "The very well-off have been big winners on two fronts," Greenstein commented, "as they secured enormous gains in income in both the 1980s and 1990s and then received extremely large tax cuts in 2001 and again this year."

**Highest-income Group Has Faster Income Growth,
Larger Share of Total Income**

The new CBO data show that between 1979 and 2000:

- The average after-tax income of the top one percent of the population tripled (even after adjusting for inflation), rising from \$286,000 in 1979

Average After-Tax Income by Income Group				
(in 2000 dollars)				
Income Category	1979	2000	Percent Change 1979-2000	Dollar Change 1979-2000
Lowest fifth	\$12,600	\$13,700	8.7%	\$1,100
Second fifth	25,600	29,000	13.3%	3,400
Middle fifth	36,400	41,900	15.1%	5,500
Fourth fifth	47,700	59,200	24.1%	11,500
81 st -95 th Percentile	65,300	88,700	35.9%	23,400
96 th -99 th Percentile	103,600	158,600	53.1%	55,000
Top 1 Percent	286,300	862,700	201.3%	576,400

Source: CBO (For 81st-95th and 96th-99th percentiles, CBPP calculations from the CBO data.)

to \$506,500 in 1989 and \$863,000 in 2000, for a total increase of \$576,000 — or 201 percent — over the 21-year period. (The years 1979, 1989, and 2000 all represent the peak years of a business cycle and thus are appropriate comparison years.)

- By contrast, the average after-tax income of the middle fifth of the population rose just 15 percent, or \$5,500, between 1979 and 2000, reaching \$41,900 in 2000.
- The average after-tax income of the poorest fifth of households rose 9 percent, or \$1,100, over the 21-year period, reaching \$13,700 in 2000.

Income growth was more widespread in the 1990s than in the 1980s, with low- and middle-income households faring better in the 1990s. Among the bottom fifth of the population, for example, after-tax incomes fell in the 1980s but increased in the 1990s. Yet while low- and middle-income households registered income gains in the 1990s, the most affluent households secured far more dramatic gains, and income disparities widened further.

Because incomes grew fastest among the most affluent, this group's share of total national income grew as well.

- In 2000, the 2.8 million people who made up the top one percent of the population received more total after-tax income than did the 110 million people who made up the bottom 40 percent. In 1979, in contrast, the top one percent received less than half as much total income as the bottom 40 percent.
- Data from the NBER study referred to above that covers a longer period and examines before-tax income show that the top one percent of the population commanded a larger share of the nation's before-tax income in 2000 than at any time since 1929, some 71 years earlier.

Federal Tax Burden Falling Prior to Administration Tax Cuts

Contrary to claims that taxes were at or near record levels before the 2001 tax cut, the CBO data show that most Americans paid a smaller percentage of their income in federal taxes in 2000 than in 1979. Among the middle fifth of families, for example, the percentage of income paid in federal taxes (including income, payroll, and excise taxes) dropped from 18.6 percent of

income in 1979 to 16.7 percent in 2000, the lowest level of the entire 1979-2000 period. Similarly, the top one percent of taxpayers paid a smaller percentage of their income in federal taxes in 2000 — even before passage of any of the recent tax cuts — than in 1979.

The CBO data also show that before-tax incomes shot up faster among the top one percent of the population during the 1990s, when their federal taxes were increased, than during the 1980s, when their federal taxes were reduced. These results — and the fact that investment and productivity growth accelerated in the 1990s — are inconsistent with claims that tax increases for high-income households thwart economic activity.

In both the 1980s and the 1990s, the CBO data show, the growth in income disparities primarily reflected changes in before-tax income, and hence in the private economy. However, federal tax policy changes had an impact on income disparities in both decades, exacerbating the growth in income disparities during the 1980s and narrowing that growth in the 1990s. Tax policy changes, in fact, are one reason that growth in after-tax income was more broad-based in the 1990s than the 1980s.

Developments Since 2000 both Widened and Narrowed the Income Gap

The CBO data do not reflect the impact of the 2001 and 2003 tax cuts, which will further widen income disparities. The Urban Institute-Brookings Tax Policy Center has reported that the top one percent of the population will receive an average tax cut this year of \$26,300 and that those with incomes exceeding \$1 million will receive an average tax cut of \$113,000. In contrast, the average tax cut for those in the middle fifth of the population is \$680.

The CBO data also do not reflect the large declines in capital gains income and CEO salaries that have occurred since 2000, which likely reduced average incomes at the top of the income scale. On balance, however, it appears that by historical standards, those at the top of the income scale continue to receive an exceptionally large share of the nation's income.

The Center's report, "The New, Definitive CBO Data on Income and Tax Trends," is available on the Center's website, <<http://www.centeronbudget.org/9-23-03tax.htm>>.

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