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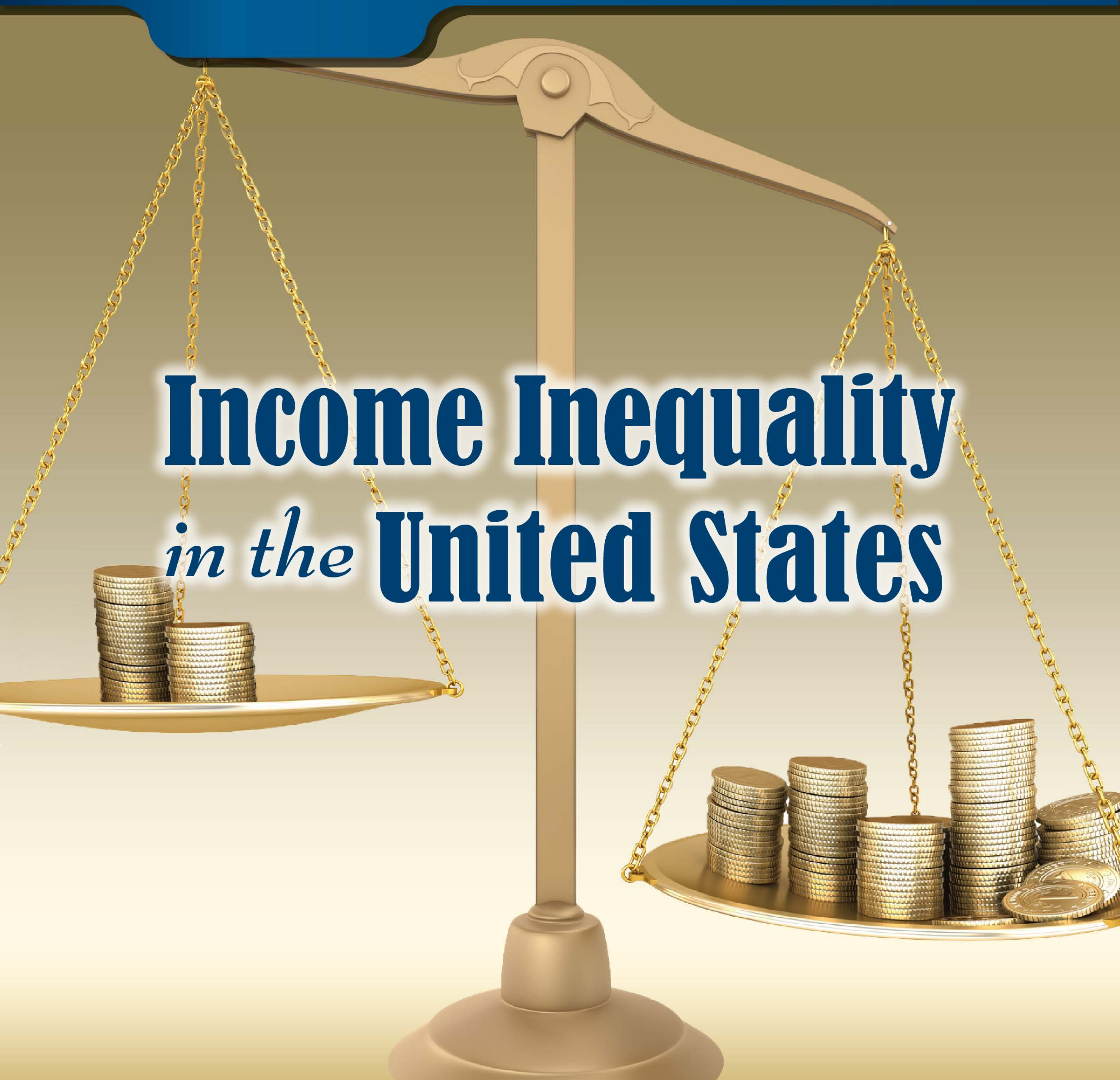


Income Inequality *in the* United States

Executive Summary

Recent economic news has been encouraging. Gross domestic product (GDP) has grown for 10 straight quarters (growing by 4.1 percent at an annual rate in the third quarter of 2013), the economy has added private-sector jobs for 46 consecutive months and the housing market continues to strengthen. Despite the current economic recovery, the income inequality that began to rise more than three decades ago continues to increase. Income inequality is now near a record high.

As income inequality has increased, middle- and low-income households have had a harder time making ends meet. Middle-class incomes have stagnated, with the average American household making less in 2012 than it did in 1989 (adjusted for inflation), at the same time that healthcare and education expenses have increased significantly. Even being employed is not always enough to keep someone out of poverty. In 2012, 7.3 percent of workers aged 18 to 64 lived in poverty. Raising the minimum wage would help reduce the number of working Americans in poverty. If the minimum wage were raised to $10.10 per hour (as proposed in legislation currently before Congress), 4.6 million Americans could be lifted out of poverty.

Rising income inequality has contributed to lower economic mobility: 43 percent of Americans raised in the bottom income quintile remain there as adults, while 40 percent of those raised in the top quintile maintain that status. Economic mobility in the United States is lower than in most other advanced economies.

This report examines trends regarding poverty, the middle class, income inequality and economic mobility in the United States. It also suggests policy changes that can be implemented to ensure that our economy provides good opportunities for all workers. Policy suggestions include:

- Ensuring a fair minimum wage;
- Helping workers train for and find jobs;
- Helping students acquire necessary workforce skills;
- Making college affordable for all Americans;
- Solidifying the social safety net for working families;
- Guaranteeing fair tax treatment for all workers;
- Aiding workers in fighting pay discrimination; and
- Improving corporate governance.

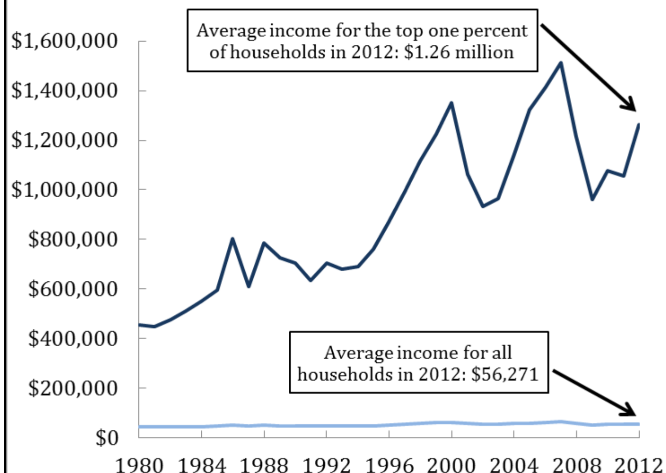
INCOME INEQUALITY IN THE UNITED STATES

Recent economic news has been encouraging. Gross domestic product (GDP) has grown for 10 straight quarters (growing by 4.1 percent at an annual rate in the third quarter of 2013).[1] The economy has added private-sector jobs for 46 consecutive months, and the number of unemployed workers per job opening has decreased from nearly seven in July 2009 to less than three, approaching the pre-recession level of roughly two unemployed workers for every job opening.[2]

While the economy has improved overall, the income gap between the nation's top earners and the rest of the country has continued to grow. Recent income gains have been concentrated among the wealthiest Americans, continuing a trend that began more than 30 years ago.[3] Since 1980, the average income for the top one percent has grown more than seven times as fast as it has for the average household (**Figure 1**).[4] Middle-class incomes have stagnated, with the average American household making less in 2012 than it did in 1989 (adjusted for inflation), at the same time that healthcare and education expenses have increased significantly.[5] Stagnant middle-class incomes and the widening income gap make the middle class less secure, and eroding middle-class purchasing power may hinder future economic growth.

As this gap between the top income earners and the rest of the country grows, it becomes increasingly difficult for Americans to move up the economic ladder.[6] Economic mobility – the likelihood that a child raised in one income group will move to a different income group as an adult – is lower in the United States than in most advanced economies.[7] The poverty rate, which declined significantly during the 1960s after the launch of Medicare and Medicaid, has remained between 11 and 15 percent since the 1970s.[8]

Figure 1. Average Income per Household
Top one percent vs. all, 1980 - 2012



Note: Income data include capital gains earnings and are in 2012 dollars. For this figure, a household is defined as an individual, or a married couple who file a tax return jointly, and their dependents.
Source: JEC Democratic staff based on data from the World Top Incomes Database.

This report examines recent trends in income and wage growth and what they imply for poverty, the middle class, income inequality and economic mobility in the United States. The report also discusses what policymakers can do to help more Americans benefit from economic growth.

Poverty Trends in the United States

The official poverty rate measures the percentage of people living at or below an income threshold, which varies depending on the ages of family members and the size of the family.[9] In 2012, the poverty threshold for a single person under the age of 65 was $11,945; for a family of four with two children under the age of 18, the threshold was $23,283.[10]

The poverty rate declined sharply during the 1960s, dropping from 22.2 percent in 1960 to 12.1 percent in 1969 (**Figure 2**). Since the 1970s, progress on reducing the poverty rate has stalled, with the poverty rate (15.0 percent in 2012) fluctuating between 11 and 15 percent. In 2012, 46.5 million Americans were living in poverty.[11]

Poverty disproportionately affects certain groups. In 2012, 21.8 percent of children were living in poverty, up from 17.4 percent in 2006.[12] Poverty among children is particularly worrisome because research indicates that growing up in poverty affects long-term cognitive development and lifetime earnings potential.[13] Children living in poverty are 1.3 times more likely to experience learning disabilities and developmental delays,[14] and children living in long-term poverty are more likely to have behavioral problems.[15]

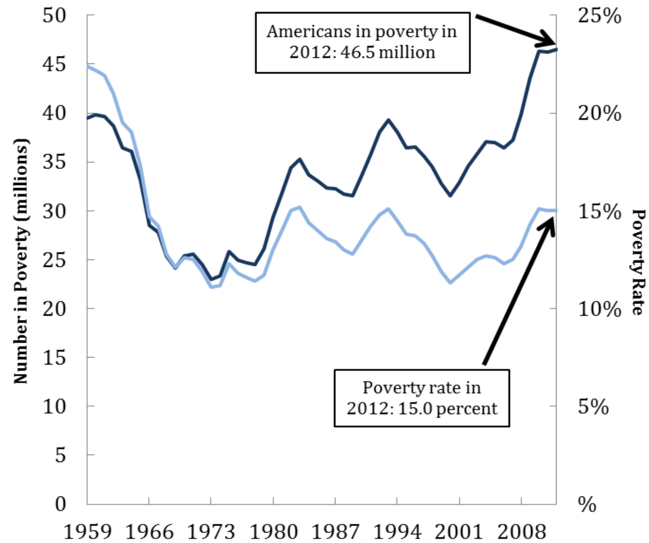
African Americans[16] and Hispanics are also more likely to live in poverty than the population as a whole. While the overall poverty rate in 2012 was 15.0 percent, the poverty rate was 27.2 percent for African Americans and 25.6 percent for Hispanics.[17]

Inability to work affects the likelihood of falling into poverty. Over 28 percent of those with a disability were living in poverty in 2012.[18]

The likelihood of living in poverty is also affected by education. In 2012, only 4.9 percent of those with at least a bachelor's degree were living in poverty, compared to 15.2 percent of those with only a high school diploma and 26.1 percent of those with no high school diploma.[19]

Even those who work cannot always fight their way out of poverty. In 2012, 7.3 percent of workers aged 18 to 64 lived in poverty. Among those who worked full time, 2.9 percent lived below the poverty line, while 16.6 percent of those who worked part time lived in poverty.[20] Raising the minimum wage would help reduce the number of working

Figure 2. Poverty Trends in the United States
Poverty rate and number in poverty, 1959 - 2012



Source: JEC Democratic Staff based on data from the U.S. Census Bureau, Current Population Survey, 1959 - 2013, Annual Social and Economic Supplements.

Americans in poverty: if the minimum wage were raised to $10.10 per hour (as proposed in legislation currently before Congress),[21] 4.6 million Americans could be lifted out of poverty.[22]

Almost all adults in the United States will experience economic insecurity at some point in their lives. Nearly 40 percent of Americans aged 25 to 60 will fall below the poverty line for at least one year,[23] and four out of five will experience unemployment, live in poverty or near-poverty, or rely on government assistance programs.[24]

The Shrinking Middle Class

While poverty has remained a persistent problem, the middle class has also faced increased economic insecurity. Median household income (adjusted for inflation) is 8.3 percent lower than it was before the recession (**Figure 3**).[25] Real median household income is now lower than it was in 1989, wiping out the gains from the economic expansion of the 1990s.[26]

At the same time that households have faced stagnant incomes, their living expenses have risen. On average, per capita healthcare expenses in the United States were $8,925 in 2012, compared to $2,681 in 1980 (adjusted for inflation).[27] College costs have also risen: the average cost for a four-year institution was $21,657 in 2010, compared to $8,756 in 1980 (adjusted for inflation).[28] Eighty-five percent of those who self-identify as middle class say it is more difficult now to maintain their standard of living than it was a decade ago.[29]

The middle class has seen a decrease in employment opportunities that provide good wages. Over the past few decades, most job growth has been in either traditionally low- or high-wage occupations. Workers in the middle of the wage spectrum have experienced little or even negative job growth,[30] which has led to a significant decline in the share of households with annual income earnings between 50 and 150 percent of the median (**Figure 4**).

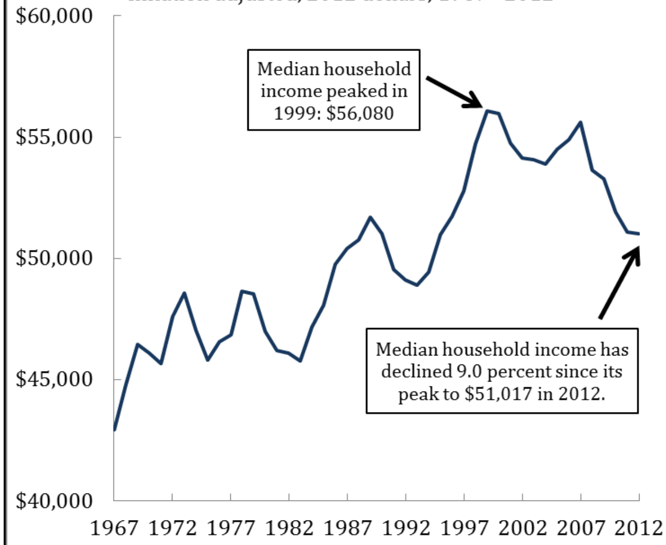
Earnings for the median American worker are effectively unchanged since the first quarter of 1979.[31] Although wages grew by 5.4 percent from 1993 to 2000, this growth slowed significantly during the 2000s.[32]

While median wages have stagnated or declined for workers at all levels of education since 2000, the losses have been particularly severe for workers with less education. Since the first quarter of 2000, wages for those who have not completed high school have decreased by 4.6 percent and wages for those with only a high school education have decreased by 4.8 percent. People with bachelor's degrees have seen a 3.0 percent decrease in earnings. Those with advanced degrees have seen a modest 0.5 percent decrease in their earnings.[33]

Finally, wages have fallen in industries where many workers have been able to find jobs during the economic recovery. In the service sector (where much of the job growth since the recession has occurred), wages are down 2.7 percent since the first quarter of 2000.[34]

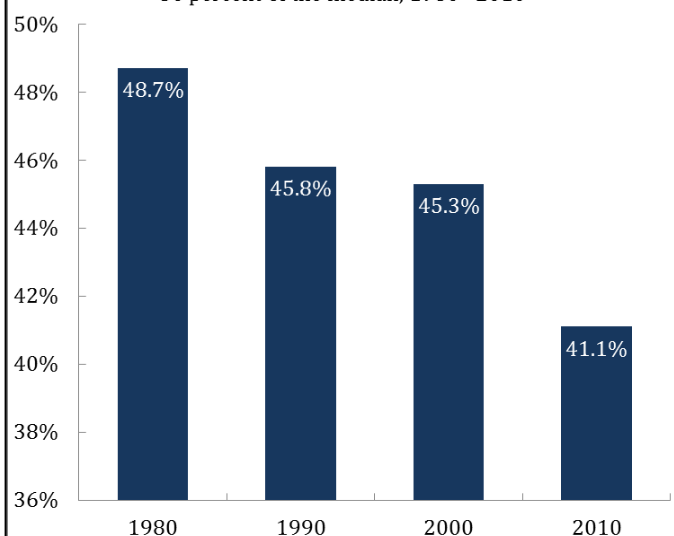
The decline of the middle class is particularly worrisome since it is an important driver of the American economy. Since 2001, personal consumption expenditures have averaged 68 percent of GDP,[35] and much of that spending comes from the middle class.[36] The stagnation of wages for the middle class could lead to a decrease in consumption, which has negative implications for overall economic growth.[37] A recent study found that income inequality is the most important factor in determining which countries are able to maintain long periods of steady economic growth.[38]

Figure 3. Median Household Income
Inflation adjusted, 2012 dollars, 1967 - 2012



Note: Income in 2012 dollars, adjusted using the CPI-U-RS.
Source: JEC Democratic staff calculations based on data from the U.S. Census Bureau.

Figure 4. The Shrinking Middle Class
Share of households with annual income within 50 percent of the median, 1980 - 2010



Source: JEC Democratic staff calculations based on data from the U.S. Census Bureau, American Community Survey.

An Increase in Income Inequality…

The downward trend in the economic situation of low- and middle-income Americans has been accompanied by a rise in income inequality. From 1993 to 2012, the top one percent of earners saw real income growth of 86.1 percent, while the bottom 99 percent saw growth of only 6.6 percent.[39] The top 10 percent of workers in America now earn more than half of total income.[40]

The growth in income for top earners is due both to increased wages and capital gains. The average income of the top one percent was $1,264,065 in 2012, $1,021,761 if capital gains are excluded. In 1980, the equivalent numbers (in 2012 U.S. dollars) were $455,242 and $355,296.[41]

The distribution of income in the United States used to be far more equal. Income inequality was at its lowest in the 1960s, but it has increased rapidly and is now near record high levels.[42]

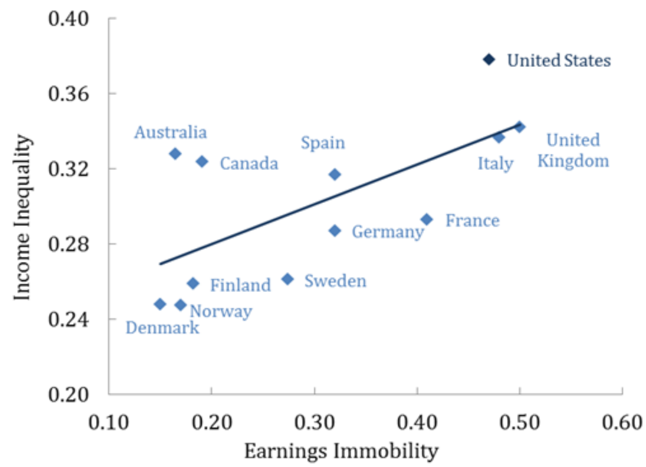
While some advanced economies (such as the United Kingdom) have also seen an increase in inequality in recent years, this trend is not universal. Some countries (such as Denmark) have not seen a spike in the share of total income earned by the top one percent over the past few decades.[43] According to the Organisation for Economic Co-operation and Development (OECD), the United States now has one of the largest disparities in incomes among advanced economies.[44]

Income inequality in the United States is also worse than in many emerging economies. According to the World Bank, income inequality in the United States is higher than in India, Russia and Jordan.[45]

…Accompanied by Low Economic Mobility

Increasing income inequality is likely to be associated with lower levels of intergenerational mobility. **Figure 5** plots economic mobility (defined as the relationship between a child's earnings and the parents' earnings) against inequality across countries and shows a strong relationship between inequality and decreased economic mobility.[46]

Figure 5. Income Inequality and Earnings Immobility
Gini coefficient vs. intergenerational income elasticity



Note: Income inequality is measured by the most recent Gini coefficient available for each country, calculated between 2006 and 2009. Earnings immobility is measured using intergenerational income elasticity data calculated in 2006 and 2007.
Source: JEC Democratic staff based on data from the Organisation for Economic Co-operation and Development (OECD).

Although the United States has a reputation for high levels of economic mobility, in reality recent research shows a high correlation between a father's economic status and that of his son.[47] Children of very low-income or very high-income parents are particularly likely to end up with a similar economic status as their parents. Forty-three percent of Americans raised in the bottom income quintile remain there as adults, while 40 percent of those raised in the top quintile maintain that status.[48]

Economic mobility in the United States lags behind most other advanced economies. Among OECD countries, only the United Kingdom, Italy, Chile and Slovenia have higher correlations between the earnings of fathers and sons.[49] On the other hand, in Denmark, Norway, Finland and Canada, the correlation between a father's and son's earnings is less than half of what it is in the United States.[50]

State-by-State Variations

Poverty, inequality and economic mobility vary significantly across the United States. Prospects for workers and their children depend in part on where they live.

The poverty rate ranges from 8.1 percent in New Hampshire to 22.0 percent in Mississippi (**Appendix Table 1**).[51] The poverty rate is highly correlated with the high school dropout rate. Although the national share of the population with less than a high school diploma is 13.6 percent, that number is higher than 15 percent in 11 states and higher than 17 percent in three states.[52] Those three states also have poverty rates above the national average.

Compensation for middle-class workers also varies widely by state, from a median household income of $71,836 in Maryland to less than half as much in Mississippi.[53] Three states have a median household income of less than $40,000, while four have a median household income of more than $65,000 (**Appendix Table 1**).[54]

The wide variation in the poverty rate and the median household income across states has contributed to a similar variation in income inequality and economic mobility. Income inequality is highest in the District of Columbia and lowest in Wyoming.[55] Economic mobility is more than four times as high in North Dakota as it is in Georgia (**Appendix Table 1**).[56] In seven states, less than six percent of children whose parents were in the bottom quintile of income reach the top quintile. In North Dakota and Wyoming, both of which have relatively high secondary education completion rates, that number tops 15 percent (relative to 20 percent in a completely mobile society).[57]

Policy Proposals

There are a number of policies that can address the twin challenges of low economic mobility and growing income inequality. Economic mobility can be improved by creating better employment prospects for low- and middle-income Americans, by ensuring that all Americans have access to education and by strengthening the social safety net.[58] Income inequality can also be reduced by ensuring that government and corporate policies do not disproportionately favor top income earners.

Ensuring a fair minimum wage: Workers need the opportunity to earn a living wage. The real value of the minimum wage is now lower than it was in 1968.[59] Extremely low wages hurt not only workers but also cost the rest of society. For instance, more than half of the nation's fast-food workers rely on the federal safety net because their wages are low, resulting in annual costs of over $6.8 billion to taxpayers.[60] Raising the minimum wage can help ensure that workers are sharing in the nation's economic growth. The Fair Minimum Wage Act of 2013 (S. 460) would increase the federal minimum wage to $10.10 per hour and index it to inflation. If the minimum wage were raised to $10.10 per hour, 4.6 million Americans could be lifted out of poverty.[61]

Helping workers train for and find jobs: The United States spends less than other advanced economies on workforce training and job-search programs.[62] Improving federal job-training programs would help workers gain new skills and find higher-quality jobs. The On-the-Job Training Act (S. 1227) would create grants for on-the-job training, including programs for dislocated workers. The SECTORS Act (S. 1226) would encourage private-sector employers to craft programs that build skills that will be in demand in particular geographic areas. The AMERICA Works Act (S. 453) would ensure that federal job-training programs focus on industry-recognized and nationally portable credentials.

Helping students acquire necessary workforce skills: Recent reports have highlighted the need to enhance the skills of American students.[63] Students must acquire the necessary skills to succeed in college and the workforce during their elementary and secondary school years. The Innovate America Act (S. 1777) would fund 100 new STEM-focused high schools, expand undergraduate research opportunities, encourage more students to enter STEM fields and measure graduation rates for STEM students. The bill would boost the number of computer science teachers in elementary and secondary schools to increase computer science training for all students. The American Opportunity Tax Credit Permanence and Consolidation Act of 2013 (S. 835) would establish a permanent tax credit for education expenses and make 40 percent of the credit refundable. The Graduation Promise Act of 2013 (S. 940) would allow matching grants to states for programs aimed at schools with low student achievement and graduation rates. The RAISE UP Act (S. 1117) would help disconnected youth graduate from high school and obtain a postsecondary school credential.

Making college affordable for all Americans: Education acts as a ladder into the middle class and is crucial for economic mobility, but it has become more expensive in recent years. Helping students pay for college will allow them to gain the skills they need to obtain good-paying jobs. The Bipartisan Student Loan Certainty Act of 2013, enacted earlier this year, caps the rate that undergraduate and graduate students pay on their William D. Ford Federal Direct Loans and ties that rate to the yield on 10-year Treasury notes.

Solidifying the social safety net for working families: The social safety net keeps many Americans out of poverty and helps them move up the economic ladder. Ensuring that programs like the Earned Income Tax Credit and the Supplemental Nutrition Assistance Program are supported adequately will help keep many Americans out of poverty during tough economic times.

Guaranteeing fair tax treatment for all workers: In 2009, the top 400 earners in the United States paid a tax rate of 19.9 percent,[64] despite a top marginal tax rate on earned income of 35 percent,[65] while the average tax rate for all Americans was only slightly lower at 17.4 percent.[66] The Paying a Fair Share Act (S. 321) would implement the "Buffett Rule," which would apply a minimum tax rate of 30 percent on people making more than one million dollars a year. The Joint Committee on Taxation estimated that an earlier version of the bill would raise more than $47 billion over 10 years in new revenue that could be used to pay down the deficit.[67]

Aiding workers in fighting pay discrimination: The average full-time working woman still earns only 81 cents for every dollar a man earns.[68] This pay discrimination has a negative impact on the economic security of women and their families. Households increasingly rely on women's paychecks. Nearly two-thirds of mothers are employed outside the home either part or full time, and mothers are the sole earners in 35 percent of families.[69] Mothers account for over half of family income in families that are in the lowest 10 percent of the income distribution.[70] The Paycheck Fairness Act (S. 84) amends the Equal Pay Act to provide more effective remedies to victims of gender-based wage discrimination. The bill would strengthen penalties for wage discrimination based on gender and give workers greater ability to determine whether their pay is discriminatory while protecting them from employer retaliation.

Improving corporate governance: Helping shareholders have a larger say in corporate governance could help reduce income inequality by making executive pay more reflective of actual performance. This could help improve corporate performance and outcomes for workers, as well as the overall U.S. economy.[71]

The Wall Street Reform and Consumer Protection Act of 2010 (i.e. the Dodd-Frank Act) included provisions to enhance compensation disclosures specifically related to CEO pay. As required by this law, the Securities and Exchange Commission has proposed a rule to require public companies to disclose the ratio of the compensation of the CEO to the median pay of its workers. This will give shareholders a better perspective on how businesses choose to allocate salaries among employees.[72]

Conclusion

Growing income inequality and low economic mobility are significant problems that must be addressed to ensure that more Americans have the opportunity to achieve the American dream. As income inequality increases and the percentage of people living in the middle class decreases, it is imperative to help workers gain the tools they need to succeed in the new economy and earn good wages. Policymakers should take the necessary actions to ensure that all Americans can earn enough to support their families and give their children the chance to succeed.

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Appendix Table 1. Inequality and Mobility in the United States - 2012				
State	**Poverty Rate**	**Share of Population with Less than a High School Diploma**	**Median Household Income (2012 Dollars)**	**Probability that the Children of Parents in the Lowest Income Quintile Reach the Highest Income Quintile**
United States	15.0%	13.6%	$51,017	8.3%
Alabama	16.2%	16.0%	$43,464	6.1%
Alaska	10.0%	8.0%	$63,648	12.6%
Arizona	19.0%	14.3%	$47,044	7.7%
Arkansas	20.1%	15.2%	$39,018	7.8%
California	15.9%	18.5%	$57,020	10.1%
Colorado	11.9%	9.4%	$57,255	9.7%
Connecticut	10.3%	10.1%	$64,247	8.2%
Delaware	13.5%	11.5%	$48,972	6.3%
District of Columbia	18.4%	11.4%	$65,246	9.5%
Florida	15.3%	13.5%	$46,071	6.7%
Georgia	18.1%	15.0%	$48,121	4.4%
Hawaii	13.8%	9.6%	$56,263	9.7%
Idaho	14.4%	10.2%	$47,922	9.5%
Illinois	12.6%	12.4%	$51,738	6.9%
Indiana	15.2%	12.4%	$46,158	6.7%
Iowa	10.3%	8.4%	$53,442	13.5%
Kansas	14.0%	9.8%	$50,003	9.6%
Kentucky	17.9%	16.2%	$41,086	8.1%
Louisiana	21.1%	17.0%	$39,085	8.1%
Maine	12.8%	8.4%	$49,158	8.7%
Maryland	9.9%	10.9%	$71,836	6.7%
Massachusetts	11.3%	10.3%	$63,656	9.5%
Michigan	13.7%	10.8%	$50,015	5.8%
Minnesota	10.0%	7.5%	$61,795	10.9%
Mississippi	22.0%	17.7%	$36,641	5.6%
Missouri	15.2%	12.0%	$49,764	7.1%
Montana	13.4%	7.2%	$45,088	12.6%
Nebraska	12.2%	9.5%	$52,196	11.6%
Nevada	15.8%	15.1%	$47,333	8.5%
New Hampshire	8.1%	8.2%	$67,819	9.8%
New Jersey	9.3%	11.7%	$66,692	9.6%
New Mexico	20.4%	15.6%	$43,424	8.8%
New York	17.2%	14.7%	$47,680	9.1%
North Carolina	17.2%	14.8%	$41,553	5.0%
North Dakota	11.4%	8.3%	$55,766	18.3%
Ohio	15.4%	11.2%	$44,375	6.0%
Oklahoma	18.0%	13.3%	$48,407	9.7%
Oregon	13.5%	10.1%	$51,775	8.7%
Pennsylvania	13.9%	11.1%	$51,904	9.2%
Rhode Island	13.6%	13.9%	$56,065	8.8%
South Carolina	16.7%	15.1%	$44,401	4.6%
South Dakota	12.8%	9.5%	$49,415	13.9%
Tennessee	18.6%	14.9%	$42,995	5.7%
Texas	17.0%	18.6%	$51,926	8.5%
Utah	11.0%	9.0%	$58,341	12.5%
Vermont	11.2%	8.3%	$55,582	10.0%
Virginia	10.6%	12.1%	$64,632	6.8%
Washington	11.6%	9.6%	$62,187	10.3%
West Virginia	16.7%	15.5%	$43,553	11.8%
Wisconsin	11.4%	9.3%	$53,079	9.1%
Wyoming	9.6%	8.3%	$57,512	16.8%

Note: Education data include those age 25 and over. Income in 2012 dollars, adjusted using the CPI-U-RS.

Source: JEC Democratic staff based on data from the U.S. Census Bureau, Current Population Survey and The Equality of Opportunity Project, Harvard University.

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