The Rise and Consequences of Inequality

Council of Economic Advisers

January 12, 2012
Figure 1: Growing Together, Growing Apart
1947-1979, 1979-2010

Annual Growth Rate of Real Income Across the Family Income Distribution
1947 to 1979

- Lowest fifth: 2.9%
- 2nd fifth: 2.6%
- Mid fifth: 2.7%
- 4th fifth: 2.7%
- Top fifth: 2.4%

Annual Growth Rate of Real Income Across the Family Income Distribution
1979 to 2010

- Lowest fifth: -0.4%
- 2nd fifth: 0.1%
- Mid fifth: 0.3%
- 4th fifth: 0.6%
- Top fifth: 1.2%
Figure 2: Growing Together, Growing Apart 1992-2000

Annual Growth Rate of Real Income Across the Family Income Distribution 1992-2000

<table>
<thead>
<tr>
<th>Percent</th>
<th>Lowest fifth</th>
<th>2nd fifth</th>
<th>Mid fifth</th>
<th>4th fifth</th>
<th>Top fifth</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0%</td>
<td>2.3%</td>
<td>1.7%</td>
<td>1.6%</td>
<td>1.8%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

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Figure 3: If Real Incomes Had Grown During the 2000s as They Did During the 1990s, the Median Household Would Have an Extra $8,900 in Annual Income in 2010

- Adjusted for inflation, median household income grew an average rate of 0.8 percent per year from 1990 to 1999.
- In contrast, real median household income fell an average rate of 0.7 percent per year from 2000 to 2010.
- If instead, real median household income had grown from 2000 to 2010 at the same pace as it did during the 1990s, the typical household would have earned an additional $8,900 in 2010.
- If given an additional $8,900 of income, the typical middle-income household would have spent an extra:
  - $3,100 on housing (including mortgages, rents, utilities, and household expenses)
  - $1,550 on transportation (including vehicles, gas, and public transportation)
  - $1,200 on food
  - $700 on retirement contributions
  - $660 on health care
  - $430 on entertainment
  - $300 on clothing
  - $110 on education

Note: Shading denotes recession.
Source: Census Bureau; CEA calculations.
The share of income going to the top 1 percent increased 13.5 percentage points between 1979 and 2007, the equivalent of $1.1 trillion in 2007.

Households in the top 1 percent save 51 percent of their current income, about 40 percentage points more than the average household.

A shift in 13.5 percent of income to the top 1 percent—all else equal—could reduce consumption by as much as 5 percent.
Figure 5: Income Inequality Near Record High

Share of Income Earned, 1916-2009

Percent of All U.S. Income

Source: 2010 update to Piketty and Saez (2006)
Figure 6: The Size of the Middle-Class has Fallen

Percent of Households With Annual Income Within 50% of the Median

Source: CEA Calculations from Current Population Survey
Figure 7: Higher income inequality associated with lower intergenerational mobility

The Great Gatsby Curve

Source: Corak (2011), OECD, CEA estimates.
Figure 8: Based on past relationships, U.S. is predicted to have even less mobility for future generations.

The Great Gatsby Curve

Intergenerational earnings elasticity

Inequality (1985 Gini Coefficient)

Source: Corak (2011), OECD, CEA estimates.
Figure 9: Causes

Box-5-3.—The Experts’ Consensus on Earnings Inequality

US well above OECD average in both categories
Figure 11: Despite large tax cuts, less dynamism

Startup Employment as a Share of Total Employment

Source: Business Dynamics Statistics
Consequences

- Mobility
  - Intergenerational mobility falls as inequality rises.

- Consumption
  - A shift in 13.5 percent of income to the top 1 percent—all else equal—could reduce consumption by as much as 5 percent.

- Growth
  - Longer growth spells robustly associated with equality in the income distribution