The Rise and Consequences of Inequality

Council of Economic Advisers

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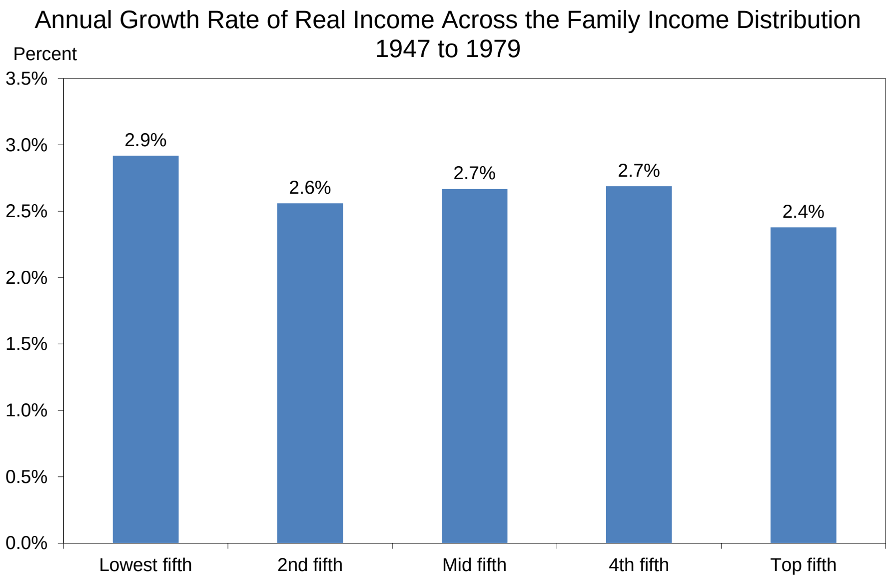
Figure 1: Growing Together, Growing Apart
1947-1979, 1979-2010



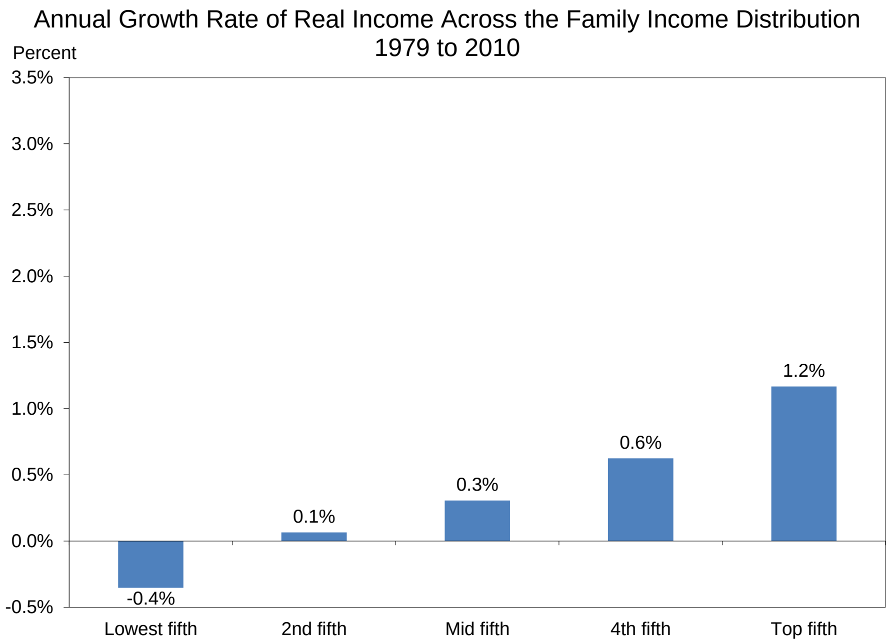


Figure 2: Growing Together, Growing Apart 1992-2000

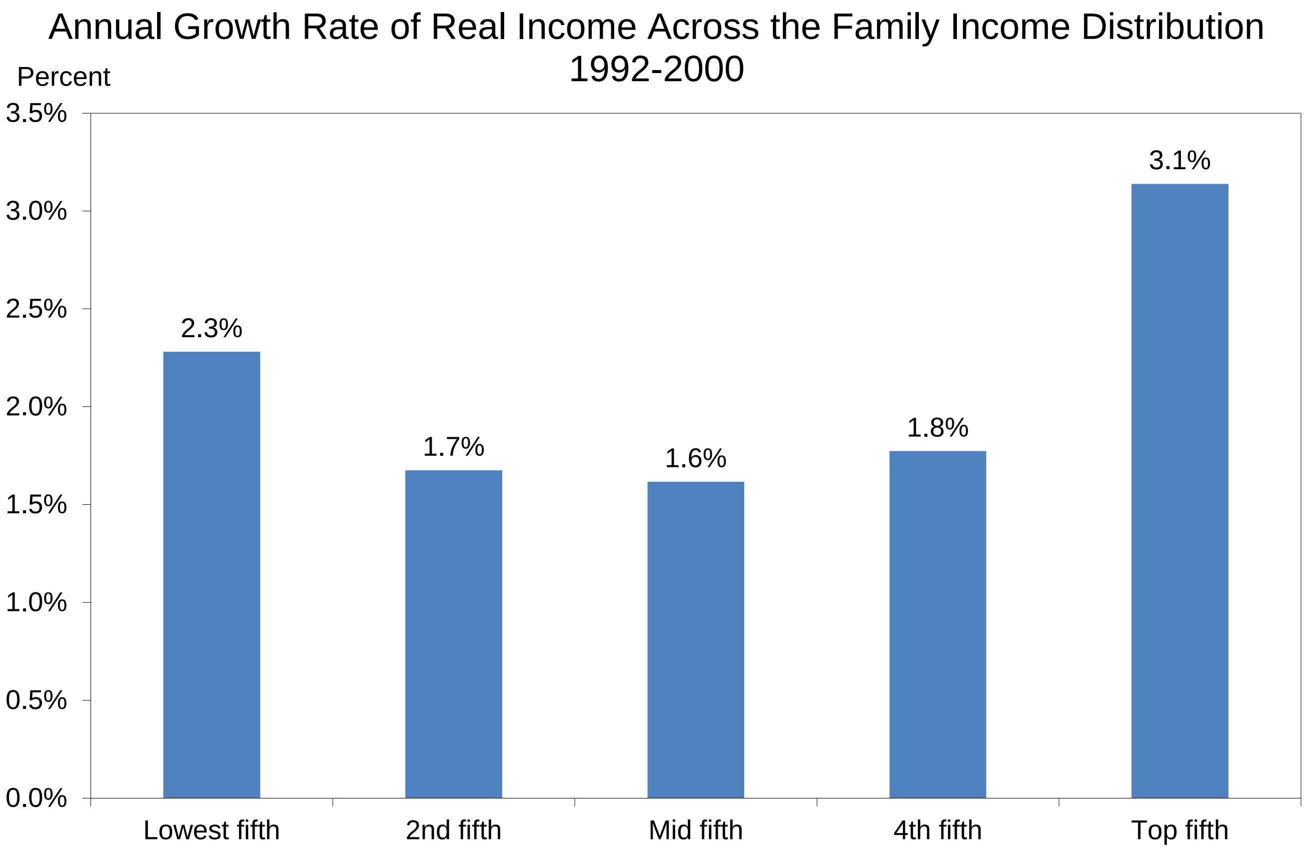
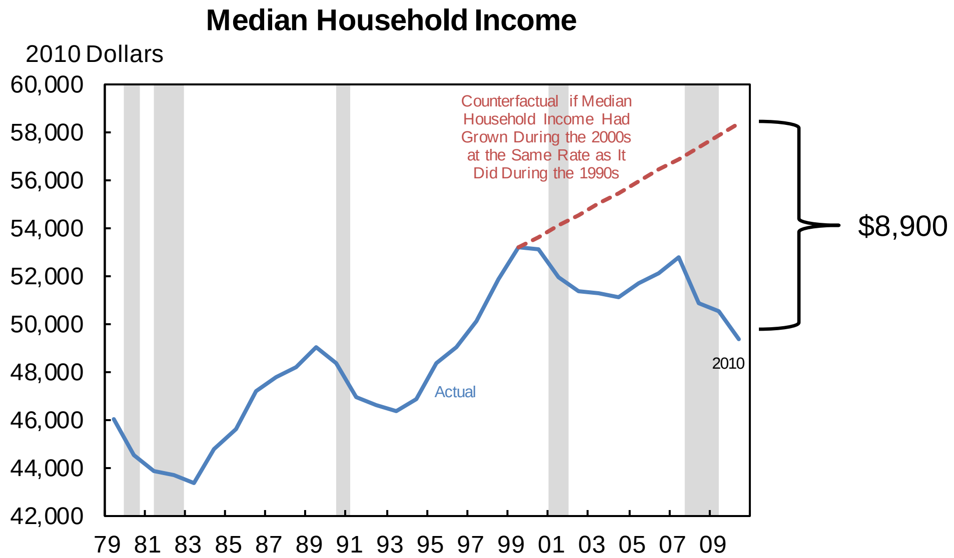


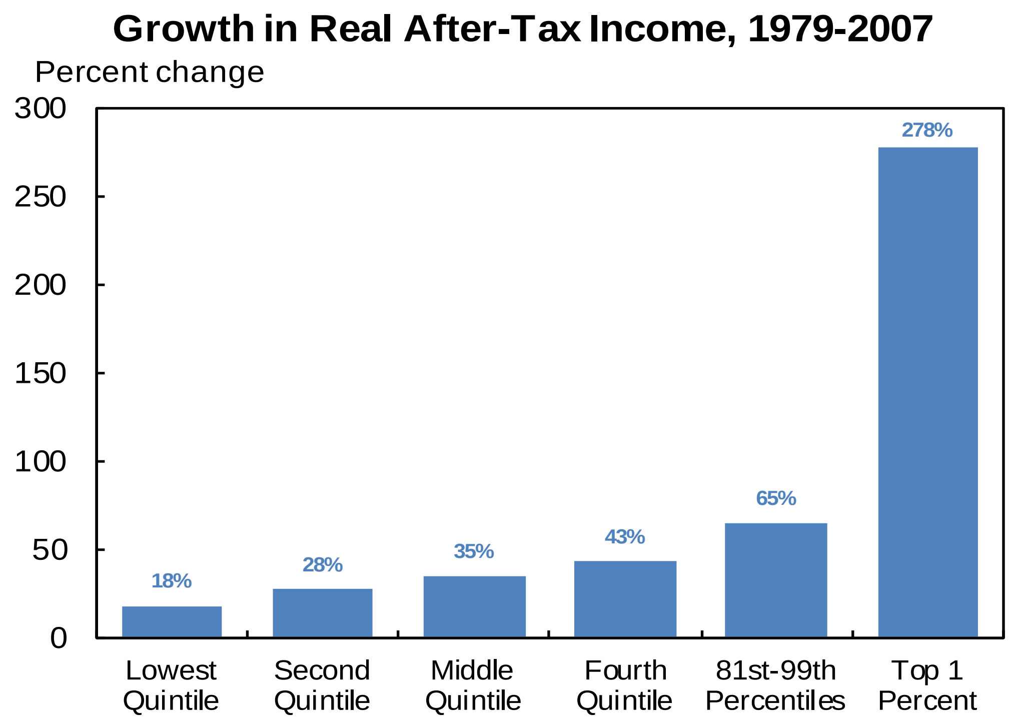
Figure 3: If Real Incomes Had Grown During the 2000s as They Did During the 1990s, the Median Household Would Have an Extra $8,900 in Annual Income in 2010



Note: Shading denotes recession.
Source: Census Bureau; CEA calculations.

- 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

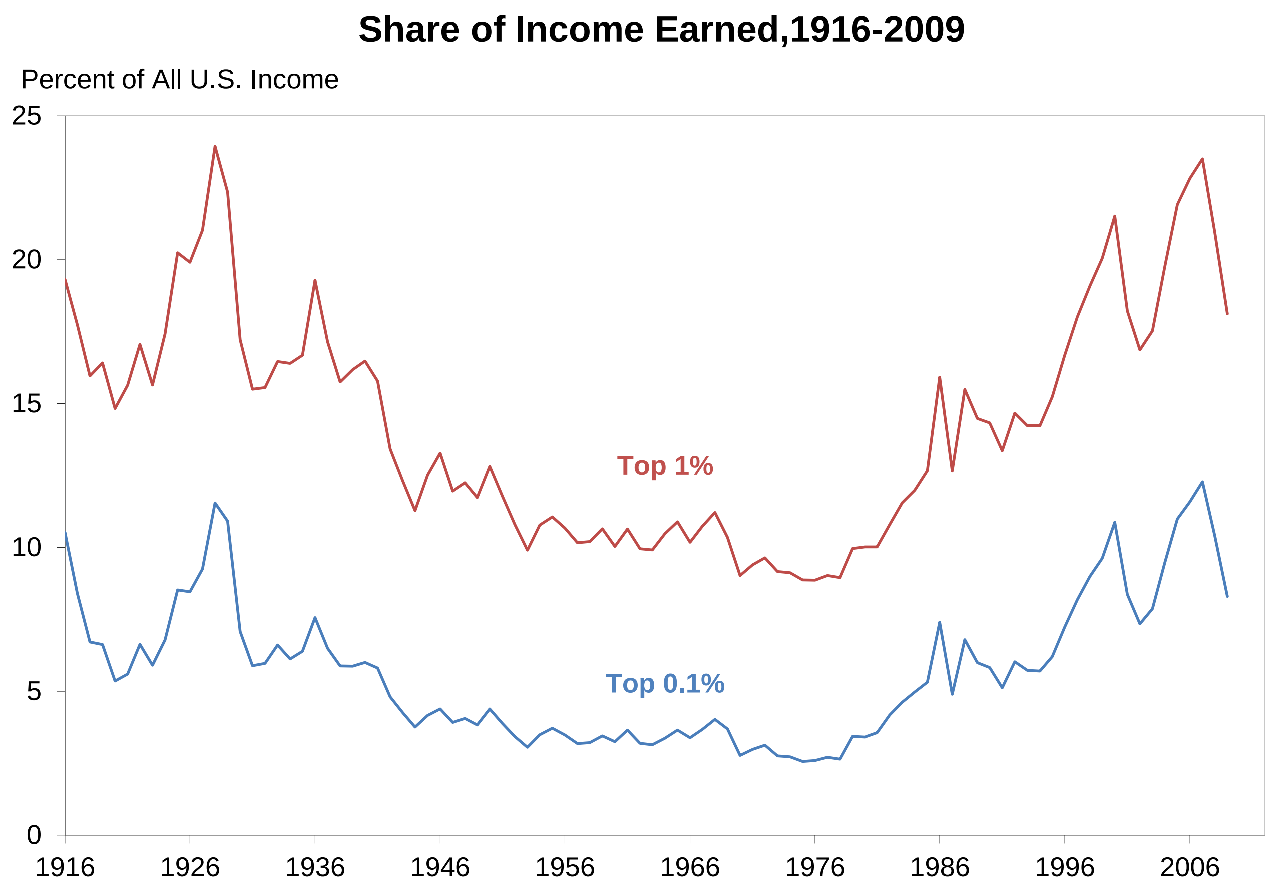
Figure 4: Rise in Income Inequality from 1979 to 2007 Shifted the Equivalent of $1+ Trillion of Annual Income to the Top 1 Percent



Source: CBO

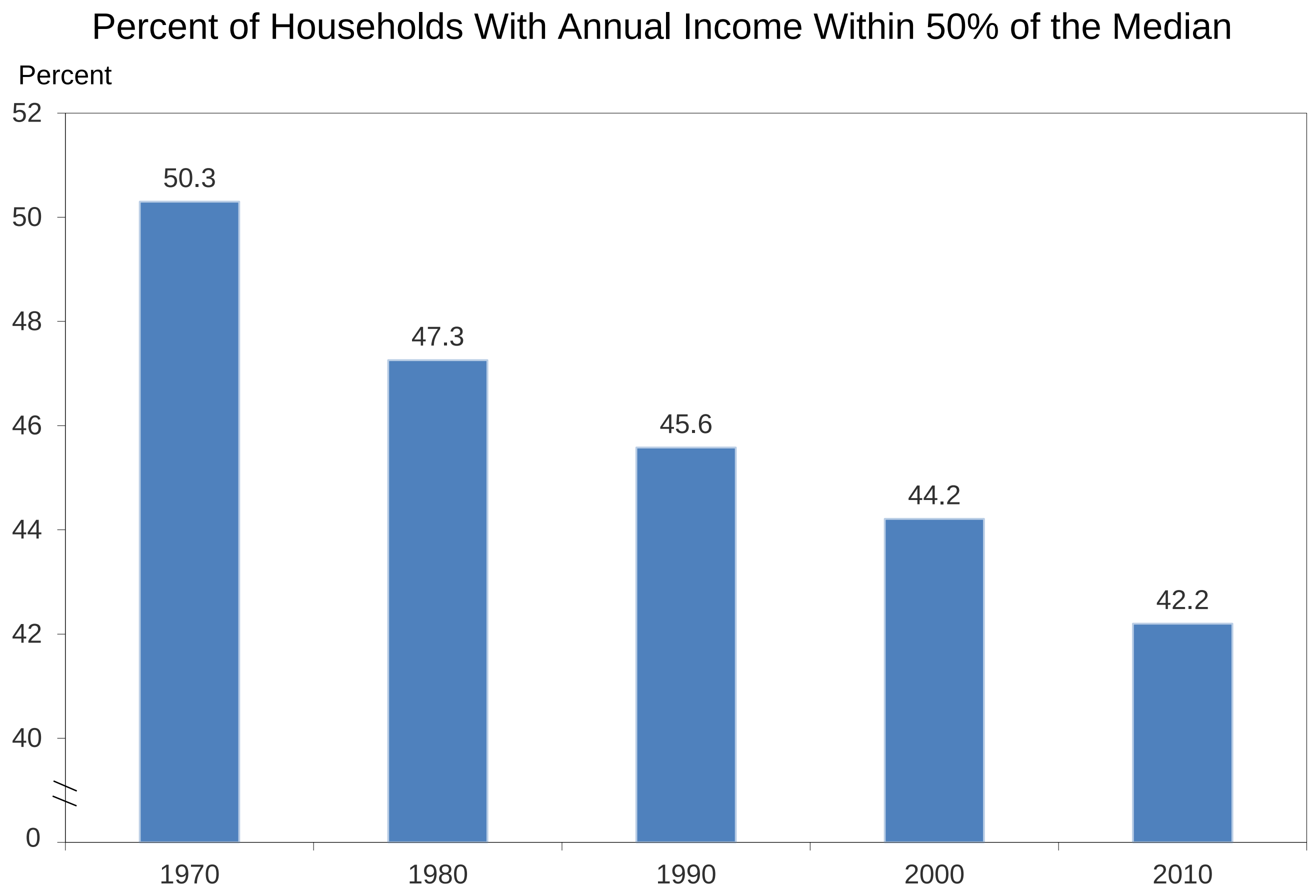
- The share of income going to the top 1 percent increased 13.5 percentage points between 1979 and 2007, the equivalent of $1.1 trillion in 2007.
- Households in the top 1 percent save 51 percent of their current income, about 40 percentage points more than the average household.
- **A shift in 13.5 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



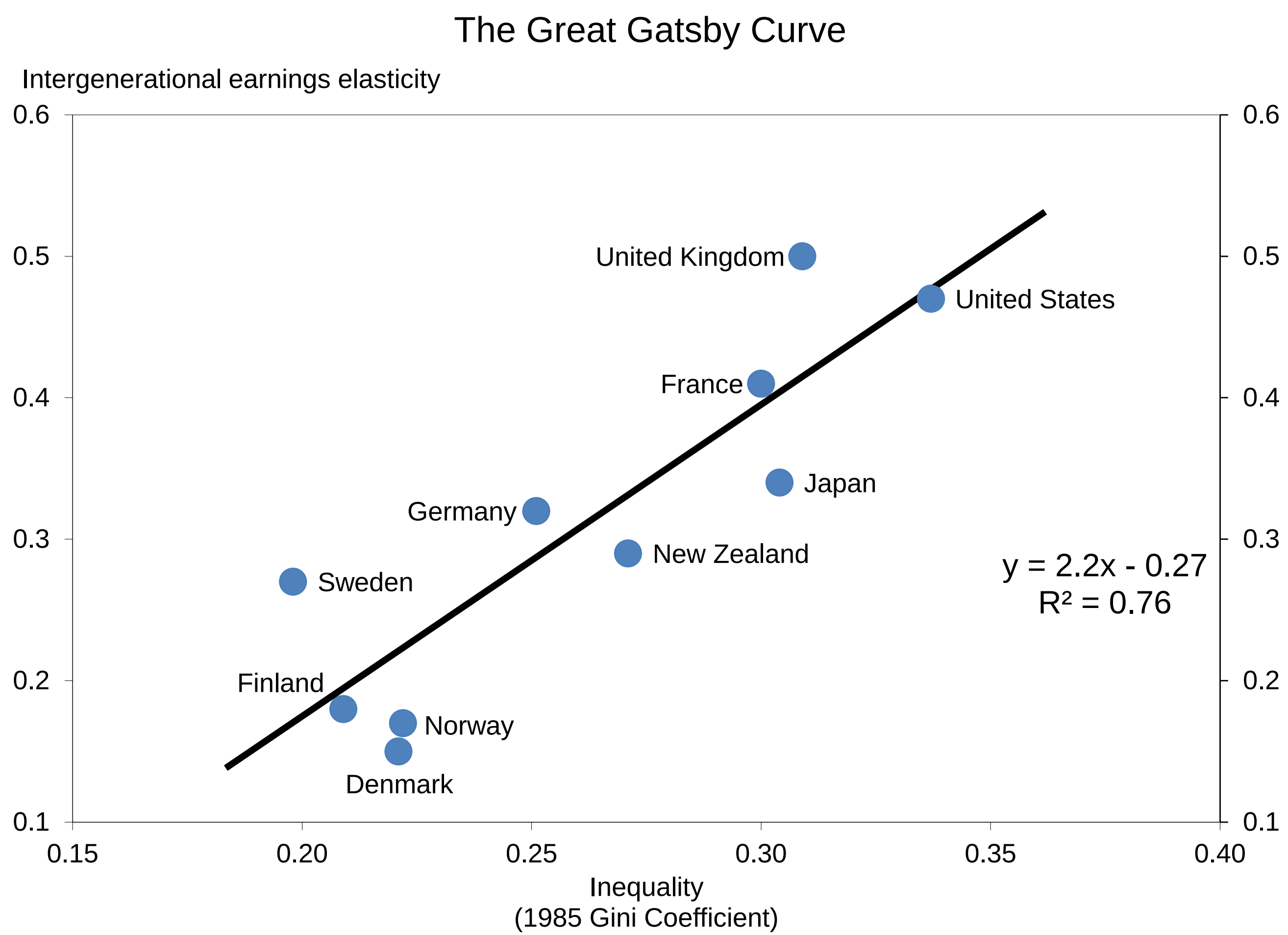
Source: 2010 update to Piketty and Saez (2006)

Figure 6: The Size of the Middle-Class has Fallen



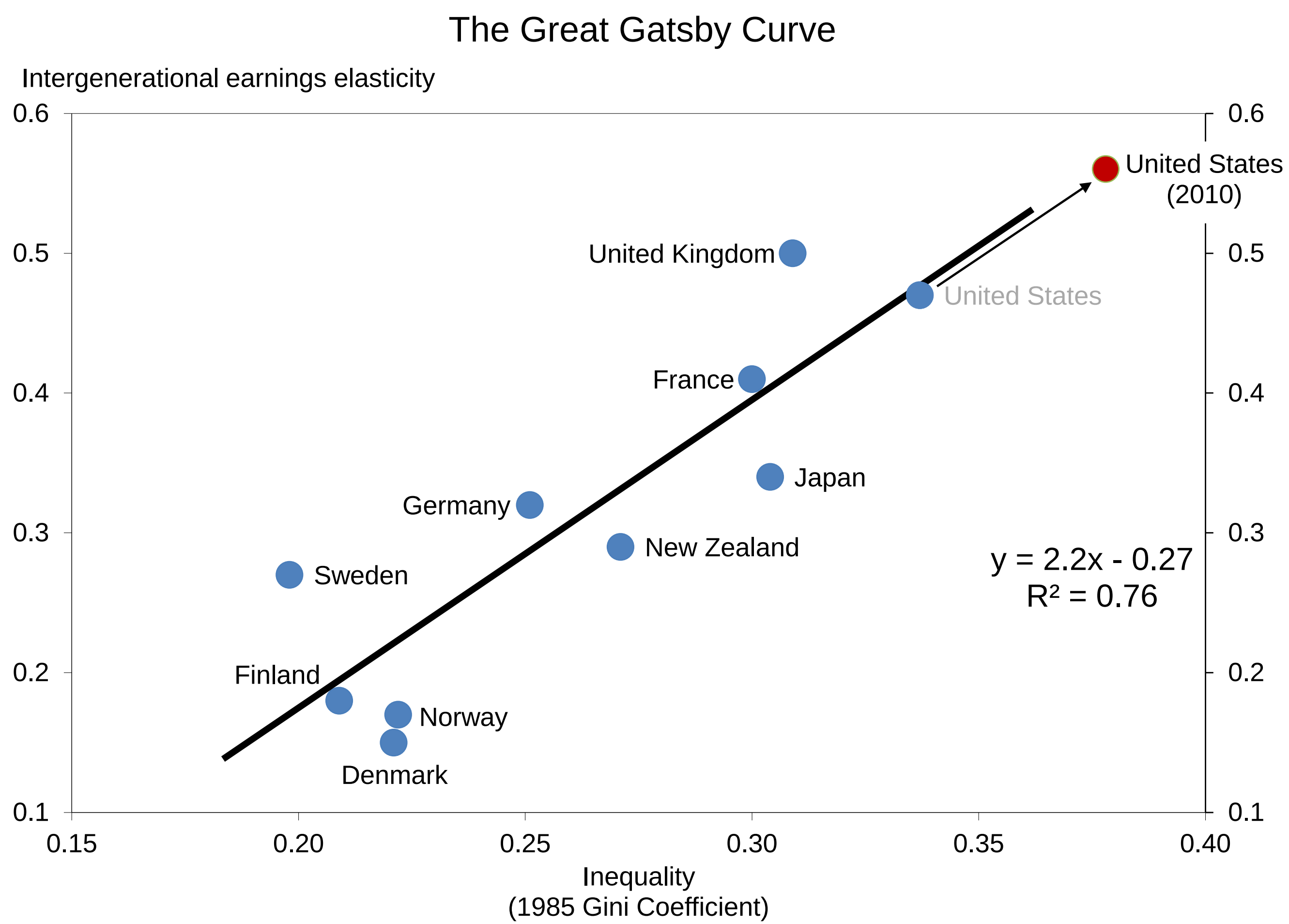
Source: CEA Calculations from Current Population Survey

Figure 7: Higher income inequality associated with lower intergenerational mobility



Source: Corak (2011), OECD, CEA estimates.

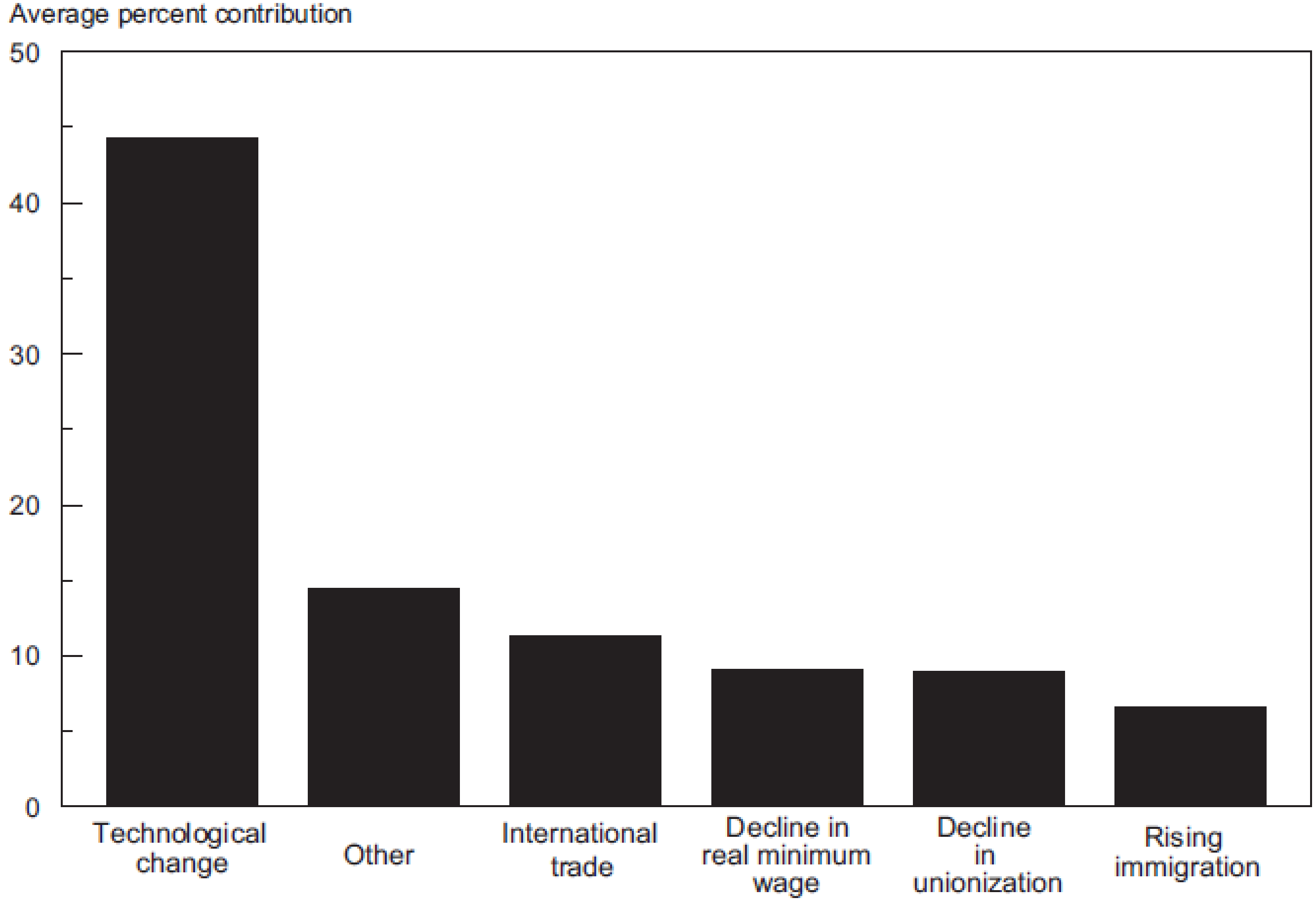
Figure 8: Based on past relationships, U.S. is predicted to have even less mobility for future generations



Source: Corak (2011), OECD, CEA estimates.

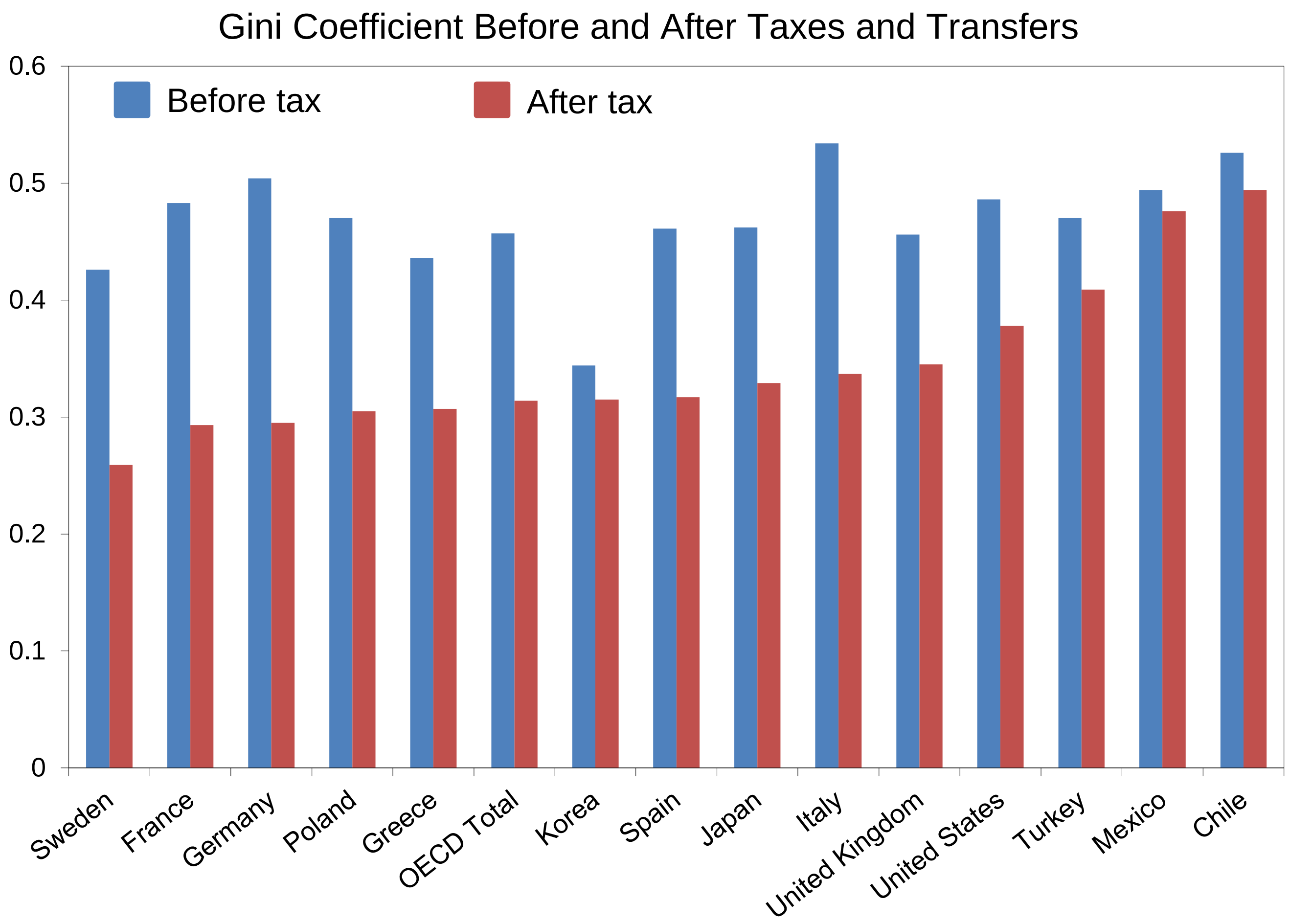
Figure 9: Causes

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



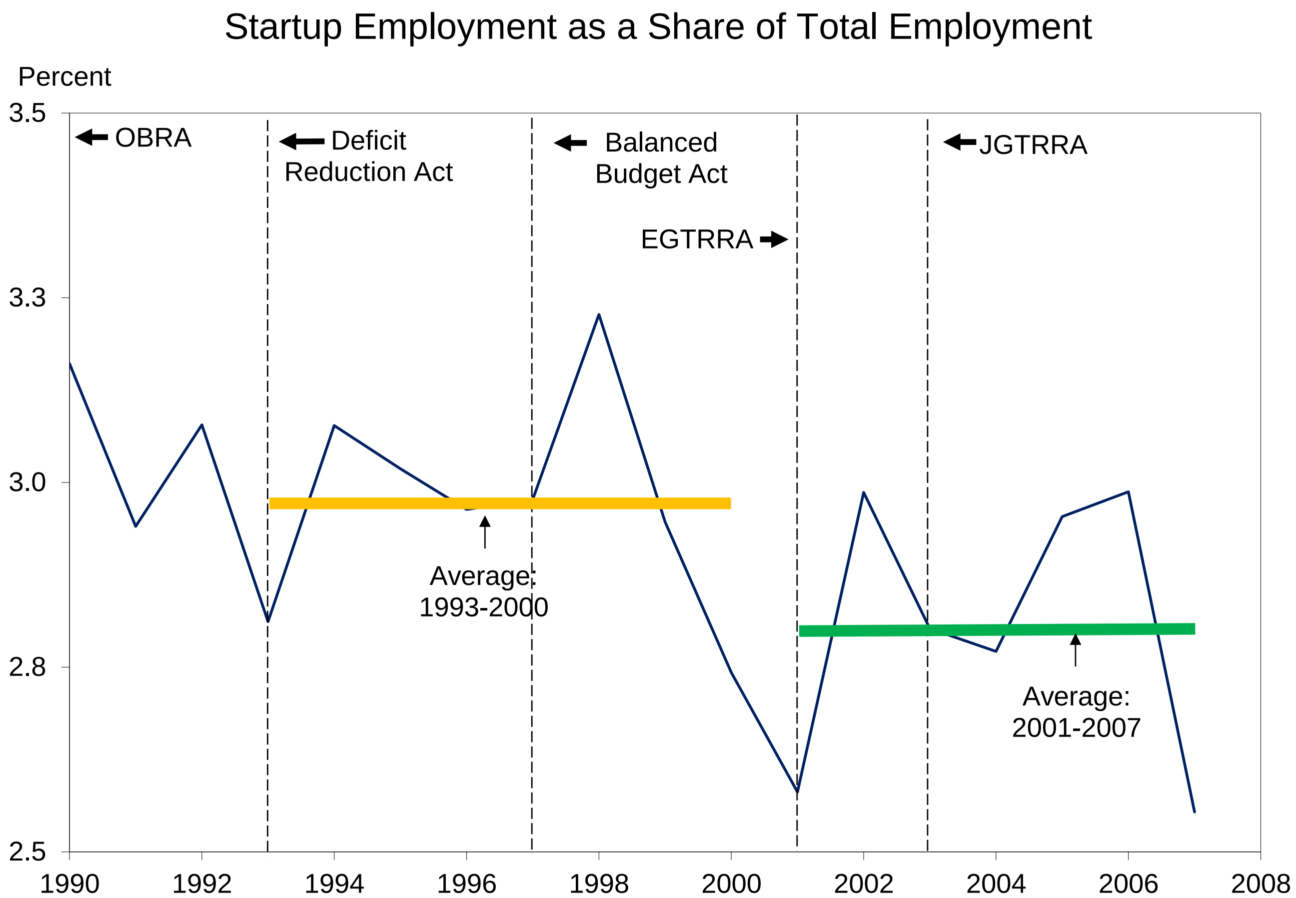
Source: Economic Report of the President, 1997

Figure 10: U.S. After Tax Income Inequality Well Above OECD Average, 2010



US well above OECD average in both categories

Figure 11: Despite large tax cuts, less dynamism



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