

Are All the Economic Gains Going to the Top 1 Percent?

The Claim:

“Almost all new income and wealth is going to the top 1 percent.”¹

BERNIE SANDERS

The Reality:

Claims that only the very top earners benefit from economic growth—or that the rich are unaffected by recessions—are patently false.

SCOTT WINSHIP

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Reality Check

According to many observers, incomes have stagnated for most Americans since the Great Recession, while the rich get richer. This claim, however, is based on analyses that cherry-pick start and end dates to assess income growth. The top 1 percent of households see sharper income declines during economic downturns than everyone else, and the Great Recession was especially destructive.

In truth, the top 1 percent is no better off today than before the financial crisis. Indeed, as of 2014, it was no better off than it was in 2000. Economic expansions tend to lift incomes among rich, poor, and the middle class alike, while contractions tend to hurt all three groups. Policies to restore strong economic growth will help working- and middle-class Americans more than will efforts to reduce inequality.

Key Findings

- An accurate accounting of who is gaining and losing in the U.S. economy requires a broad view across an entire business cycle. While the richest households tend to gain the most during economic expansions, this is partly because they also lose the most during recessions.
 - ◆ Between 1982 and 2007, the top 1 percent of households received 30 percent–48 percent of income growth during expansions and 49 percent–59 percent of income declines during contractions.
- In the current, ongoing, business cycle, real incomes declined between 2007 and 2014; the top 1 percent experienced nearly half of that total decline.
 - ◆ From 2007 to 2014, the income of the top 1 percent declined by 18 percent, compared with a 9 percent decline for the bottom 90 percent.
 - ◆ Since 2000, the top 1 percent has seen barely any real income growth, a trend that mirrors what has happened to middle-class incomes.
- From 1979 to 2007, 38 percent of income growth went to the bottom 90 percent of households, amounting to a 35 percent increase (\$17,000) in its average income.
- Even if one ignores the Great Recession and cherry-picks the expansion period of 2009–14, it is not true that all gains during the recent expansion have gone to the top 1 percent—in fact, only about half did.

On the Record

“So far in this business cycle, there have been no income gains to divide between rich and poor. Meanwhile, an enormous share of the losses, 46 percent, have accrued to the top 1 percent. To the extent that income growth has stalled, it has stalled for all Americans. The difference between what has happened at the top and elsewhere is that the top has seen large booms and busts while changes below have been more muted.”

Scott Winship, Senior Fellow, Manhattan Institute

Some on the political left have used analyses by French economists Thomas Piketty and Emmanuel Saez to argue that the “top 1 percent” have captured all of America’s post–Great Recession economic gains. Alas, this claim has no basis in fact. Focusing only on the recovery leaves out vital context, too: higher-income households see the largest losses during recessions and largest gains during recoveries. Painting an accurate picture requires a time frame that includes both.

Data for the Recovery

Saez releases new inequality estimates every year, along with a summary of inequality trends and levels. The claim that all gains have gone to the top 1 percent of U.S. households comes from his January 2015 summary, where he noted that 91 percent of the income growth in the U.S. between 2009 and 2012 went to the top 1 percent of tax units.² But Saez’s June 2015 summary updated his data through 2014 and reported that the top 1 percent had received 58 percent of income gains from 2009 to 2014.³

A more precise way to describe the Saez result is to say that, holding constant the number of tax units (i.e., tax returns, or hypothetical tax returns among non-filers) and adjusting for the rise in the cost of living, the top 1 percent of tax units received 58 percent of the growth in tax return gross income (i.e., the adjusted gross income on tax returns with the adjustments added back in—with realized and taxable capital gains included, income from transfer programs not included, and taxes not deducted).

Saez uses a cost-of-living adjustment that overstates inflation: using the best available measure, 54 percent of income growth went to the top 1 percent from 2009 to 2014.⁴ This means that the top 1 percent saw their incomes rise by 29 percent (\$280,000), on average, and the bottom 90 percent saw a rise of 3 percent (\$900).

Data for the Full Business Cycle

While the top 1 percent of households received an outsize share of income growth during the recovery, they also suffered a disproportionate share of income losses during the Great Recession. From 2007 to 2009, real income declined in the U.S., with fully half the decline falling on the top 1 percent. The average income of the top 1 percent was 36 percent lower (\$553,000, on average) in 2009 than in 2007. Among the bottom 90 percent, income was 12 percent lower (\$4,300).

All told, in 2014, the top 1 percent was still poorer, by 18 percent, than it was in 2007, compared with a 9 percent decline for the bottom 90 percent. So far in this business cycle, there have thus been no income gains to divide between rich and poor (at least according to the Piketty-Saez data). Meanwhile, an enormous share of the losses, 46 percent, have accrued to the top 1 percent. Even more stunning, the top 1 percent’s income was essentially no higher in 2014 than in 2000—a fact that provides context to the income stagnation experienced by the U.S. middle class since 2000.⁵ To the extent that income growth has stalled, it has stalled

for all Americans. The difference between what has happened at the top and elsewhere is that the top has seen large booms and busts while changes below have been more muted.

Past Cycles

This pattern for the top 1 percent—outsize gains during recoveries and outsize losses during contractions—has recurred since 1982. To explore longer-term trends, we can use Congressional Budget Office data on households, rather than tax-unit data. Doing so allows us to control for the aging of the baby boomers over time by adding Social Security retirement benefits to pretax and pre-transfer income. If no transfers are included in income and as more and more boomers retire and come to rely on Social Security, income-growth trends look worse and worse simply because of this demographic change.⁶

Since 1979, the only anomaly to the aforementioned pattern was the 1979–82 contraction, when the top 1 percent saw a small rise in income, while everyone else saw a decline. Thereafter, the top and bottom saw their incomes move in the same direction. When full business cycles are considered, the top 1 percent of households received 36 percent of income growth between 1979 and 1989, 36 percent from 1989 to 2000, and 38 percent from 2000 to 2007. Overall, from 1979 to 2007, the top 1 percent received 37 percent of income growth and the bottom 90 percent received 38 percent. While inequality grew during this period, the gain within the bottom 90 percent amounted to a 35 percent rise (\$17,000) in real income, on average.

As the current recovery continues, one can expect income growth to continue accelerating at the bottom; and one can expect income gains over the entire cycle for the top and bottom. By the time we reach our next peak, the share of gains going to the top is likely to be similar to the respective shares of earlier business cycles.

Note, too, that in the presence of initial inequality, the top 1 percent will receive an outsize share of income growth—even if everyone’s income rises by the same amount. For example, the top 1 percent received 18 percent of total income in 2009. Had incomes risen by the same amount across the board between 2009 and 2014, the top 1 percent would have received 18 percent of income growth. Its actual 54 percent share, as well as its eventual peak-to-peak share once this business cycle ends, should be compared with this baseline (18 percent of gains), not with a hypothetical baseline in which the top 1 percent receives only 1 percent of income growth.⁷

None of this is to deny that income inequality has risen in America in recent decades. But all the gains have *not* gone only to the top, and the rise in income concentration has been considerably less severe than widely acknowledged. Indeed, claims that only the very top earners benefit from economic growth—or that the rich are unaffected by recessions—are patently false. U.S. income data reveal that an economy that works for those at the top is also one that works for everyone.

Endnotes

- ¹ See <http://bigstory.ap.org/article/afae7289453c409590d11bce78d807d0/ap-fact-check-dems-new-hampshire>.
- ² See <http://eml.berkeley.edu/~saez/saez-UStopincomes-2013.pdf>.
- ³ See <http://eml.berkeley.edu/~saez/saez-UStopincomes-2014.pdf>.
- ⁴ I use the Personal Consumption Expenditures (PCE) deflator from the Bureau of Economic Analysis. Piketty and Saez use the CPI-U-RS from the Bureau of Labor Statistics. All subsequent analyses in this brief use the PCE deflator to adjust for inflation. On inflation adjustment, see Scott Winship (2015), "Debunking Disagreement over Cost-of-Living Adjustment," *Forbes.com*, <http://www.forbes.com/sites/scottwinship/2015/06/15/debunking-disagreement-over-cost-of-living-adjustment/#59d77bd470fc>.
- ⁵ The data, below, from the Congressional Budget Office, which extends only through 2011, indicates that the bottom 90 percent's income was only 1 percent lower in 2011 than in 2000; in 2014, the bottom 90 percent's income would therefore have been at least slightly higher than in 2000. In contrast, CBO shows the top 1 percent's income as 10 percent lower in 2011 than in 2000; but the Piketty-Saez data indicate that faster growth at the top also probably put the top 1 percent's income higher in 2014 than in 2000. The CBO data are superior to the Piketty-Saez data for a number of reasons, including their inclusion of more income sources in their definition of household income (see n. 7 below) and their use of household, rather than tax, units.
- ⁶ In the CBO data, people are ranked according to their household-size-adjusted household incomes. In the estimates I use, the ranking is based on pretax and pre-transfer income (not the main published estimates, which are based on pretax, post-transfer incomes). The cutoff for the top 1 percent is defined based on this ranking. CBO provides average household incomes (unadjusted for household size) for households in different percentile groups, by income category. I add Social Security income to market income, which includes the same income sources as in the Piketty-Saez data plus employer-provided health insurance and employer payroll tax contributions; it also imputes corporate taxes as income to households at different percentiles. See https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/49440-Distribution-of-Income-Taxes_Supplemental_0_0.xlsx, Tab 6.
- ⁷ The analyses in this brief examine the share of real income gains received by the top 1 percent. Looking at the share of nominal gains changes the picture considerably: while all these analyses adjust incomes for inflation before estimating income growth and the share of growth going to the top and bottom, one can also examine income growth and its allocation before taking inflation into account. Nominal income did rise between 2007 and 2014: the bottom 99 percent received 97 percent of those gains. (When nominal income is used, the top 1 percent receives a smaller share of gains and a bigger share of losses.)