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INCOME INEQUALITY IN THE UNITED STATES WORSENS WITH EACH POSTWAR ECONOMIC EXPANSION, NEW LEVY INSTITUTE REPORT SAYS

Average Real Income for Bottom 90 Percent of Households Fell During First Six Years of Current Recovery, While Lion's Share of Benefits Went to Nation's Wealthiest Families

ANNANDALE-ON-HUDSON, N.Y.— Growth in the United States increasingly has brought income inequality, a trend that has accelerated sharply since the 1980s, when economic recoveries began delivering the vast majority of income growth to the wealthiest U.S. households, says a new study from the **Levy Economics Institute of Bard College**. In her Policy Note *Inequality Update: Who Gains When Income Grows?* Research Associate Pavlina R. Tcherneva looks at the distribution of average income growth (with and without capital gains) between the bottom 90 percent and top 10 percent of households, and between the bottom 99 percent and top 1 percent of households. Her report shows that, with every postwar expansion, as the U.S. economy grew, the bottom 90 percent of households received a smaller and smaller share of that growth.

"The entire 2001–7 recovery produced almost no income growth for the bottom 90 percent of households and, in the first years of recovery following the 2008 great financial crisis, their incomes kept falling during the expansion, delivering all benefits from growth to the wealthiest 10 percent," writes Tcherneva. Moreover, she observes, while average real income for the bottom 90 percent of households began to recover in 2014–15, these households still capture a historically small proportion of that growth—only 18–22 percent. Looking at the postwar trend, Tcherneva finds that the majority of families, despite their declining share, captured the majority of the income growth until the 1970s, but that trend reversed sharply starting in the 1980s. "In sum, the growth pattern that emerged in the '80s and delivered increasing income inequality is alive and well. The rising tide no longer lifts most boats. Instead, the majority of gains go to a very small segment of the population."

Addressing potential policy solutions to address these growth trends and inequality, Tcherneva suggests that tax reforms alone will not do enough. "Returning to a more equitable variety of capitalism requires far more than just rolling back regressive tax cuts; it requires resuscitating and modernizing those labor-market-focused policies left behind by the shift to a trickle-down, financial-sector-driven policy regime," she writes. "Aggressive increases in top marginal tax rates will reduce incomes at the top and thereby improve the income distribution, but more extensive progress will not be made until steps are taken to ensure that incomes at the bottom and the middle rise faster than those at the top."

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Policy Note 2017/1: *Inequality Update: Who Gains When Income Grows?*

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit levyinstitute.org/publications/inequality-update-who-gains-when-income-grows.

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