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The Upshot
INCOMES AND OUTCOMES

Gains From Economic Recovery Still Limited to Top One Percent

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It's the economic statistic that spawned the Occupy protest movement ("We are the 99 percent"), reshaped President Obama's domestic program ("middle-class economics"), and most recently led the eternal Republican presidential hopeful Mitt Romney to bemoan that "the rich have gotten richer."

I am speaking of the income share of the richest 1 percent of American families. Emmanuel Saez, the economics professor who crunches these numbers based on data provided by the Internal Revenue Service, has just released preliminary estimates for 2013. The share of total income (excluding capital gains) going to the top 1 percent remains above one-sixth, at 17.5 percent. By this measure, the concentration of income among the richest Americans remains at levels last seen nearly a century ago.

It is tempting to note that the latest reading is somewhat below the 18.9 percent share that was recorded in 2012. But Professor Saez warns against reading too much into this year-to-year change. The problem is that his estimates rely on tax data, and tax rates on the rich rose sharply in 2013, leading many to shift taxable income out of 2013, and into 2012. Thus, the latest estimate is probably too low, just as the previous year's number was probably too high.

Far better instead to focus on the average of the past two years. That average supports the narrative that the economic recovery so far has only boosted the incomes of the rich, and it has yielded no improvement for the bottom 99 percent of the distribution. After adjusting for inflation, the average income for the richest 1 percent (excluding capital gains) has risen from $871,100 in 2009 to $968,000 over 2012 and 2013. By contrast, for the remaining 99 percent, average incomes fell by a few dollars from $44,000 to $43,900.

That is, so far all of the gains of the recovery have gone to the top 1 percent. By contrast, this group suffered only one-third of the income declines during the preceding recession.

When we count the robust increase in capital gains, the overall recovery appears stronger. But because capital gains are largely enjoyed by the rich, it remains the case that nearly all the fruits of that recovery have gone to the rich.

I think these data are more puzzling than might appear on first glance. My colleague David Leonhardt has discussed these issues in analyses of "the great wage slowdown." Certainly, meager wage growth explains why the size of the average paycheck has not risen. But for many families, the number of paychecks — whether mom or dad can find work — looms much larger than whether that paycheck is a few percentage points larger. The puzzle is why robust employment growth over recent years — much of it concentrated in middle-class occupations — has not translated into larger income gains for the broader population.

Perhaps we need to be patient, and the recent pickup in employment is yielding more broadly shared growth that will become evident when the data for 2014 are released.

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