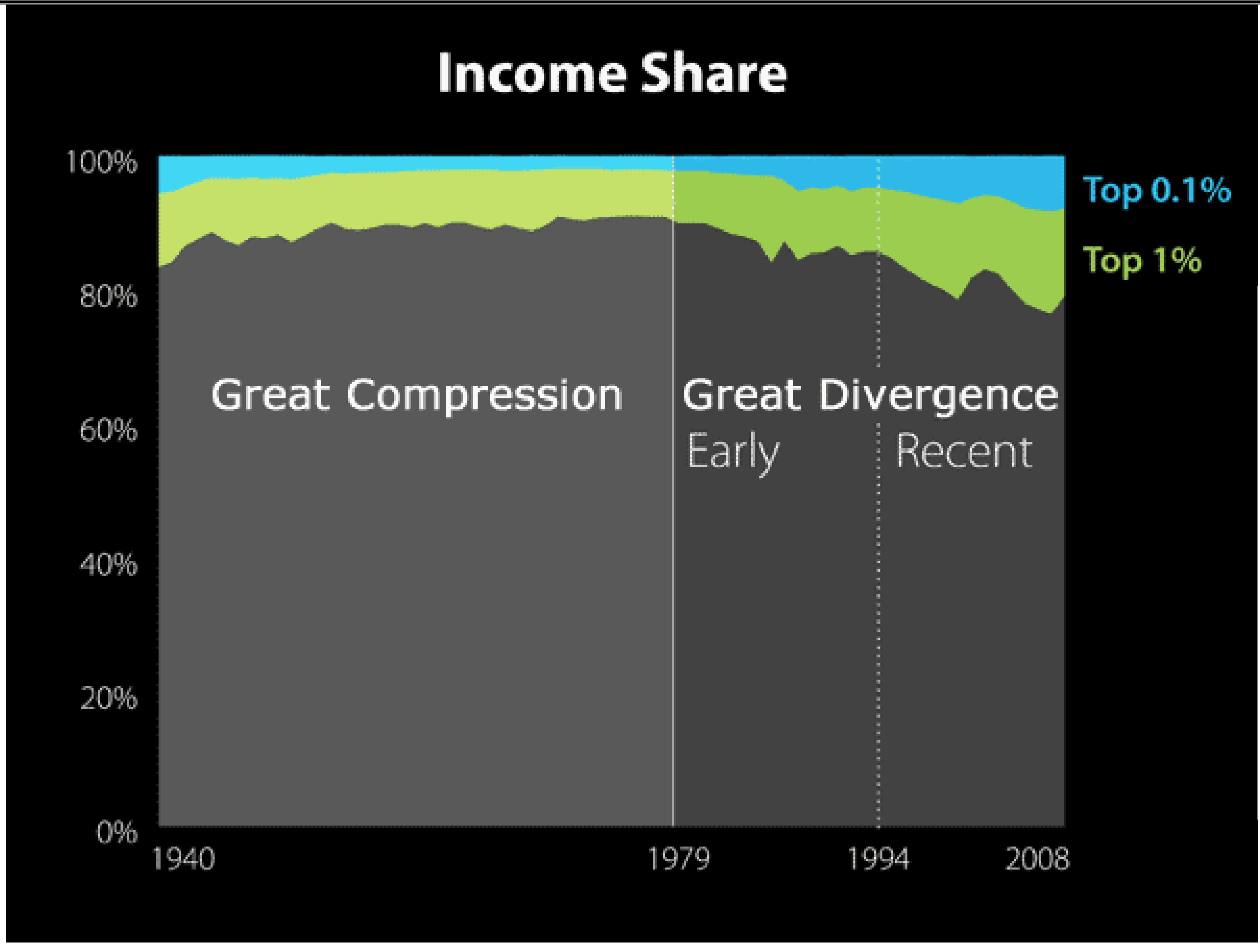
Slate | THE GREAT DIVERGENCE IN PICTURES: A VISUAL GUIDE TO INCOME INEQUALITY.

During the 20th century, the United States experienced two major trends in income distribution. The first, termed the "Great Compression" by economists Claudia Goldin of Harvard and Robert Margo of Boston University, was egalitarian.* From 1940 to 1973, incomes became more equal. The share taken by the very richest Americans (i.e., the top 1 percent and the top 0.1 percent) shrank. The second trend, termed the "Great Divergence" by economist Paul Krugman of Princeton (and the *New York Times* op-ed page), was inegalitarian. From 1979 to the present, incomes have become less equal. The share taken by the very richest Americans increased.

Correction, Sept. 15, 2010: *An earlier version of this slide misstated Goldin and Margo's term as the "Great Convergence."*



Source: Thomas Piketty and Emmanuel Saez.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

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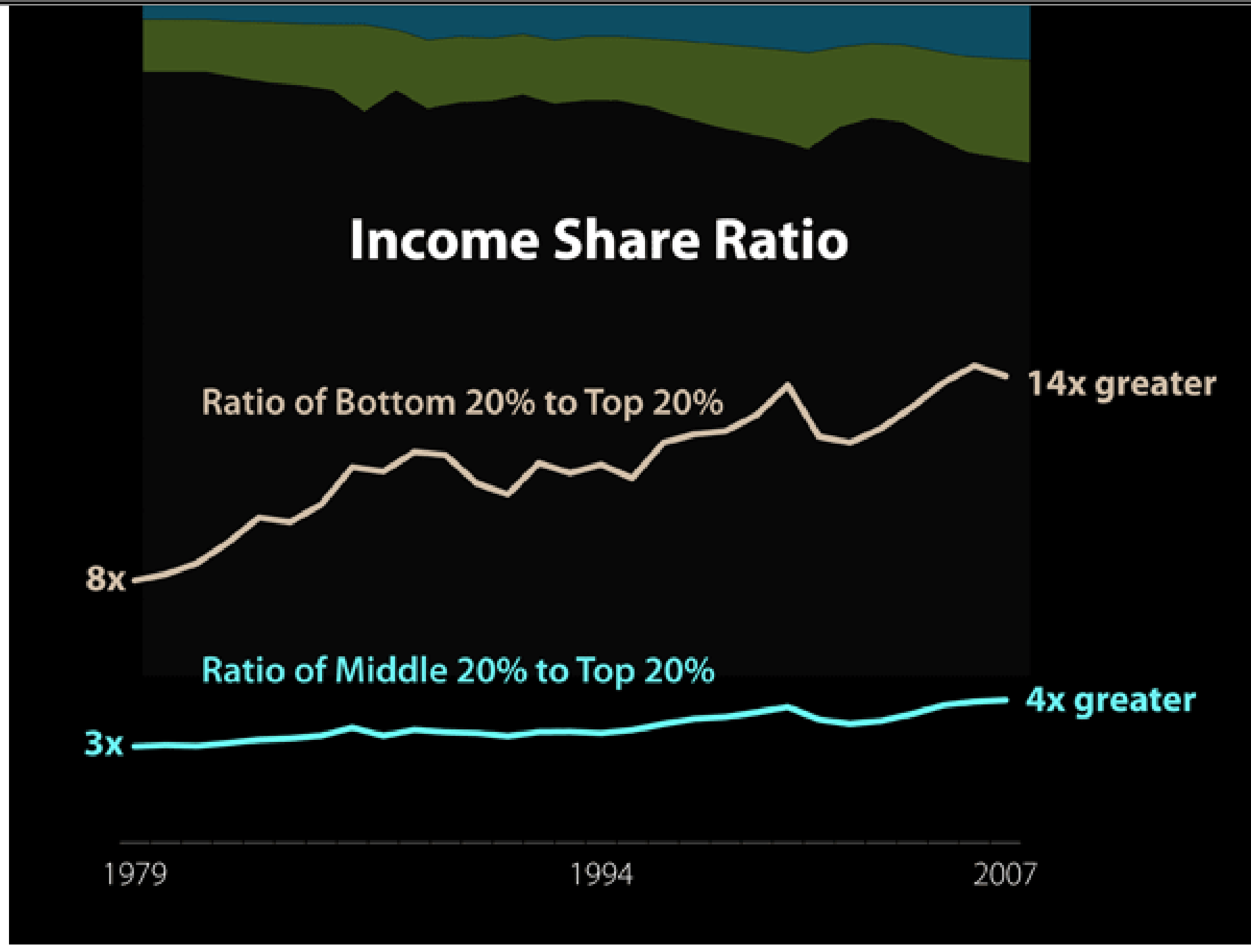
The Great Divergence isn't really one trend, but two (hence the dotted line in the previous slide separating the "early" divergence from the "recent" one). Here we look at the first trend—or at least the first one economists took note of. This trend divides the population into five groups ("quintiles") according to household income data. The top line charts income share for the bottom 20 percent (i.e., the poorest fifth) relative to the top 20 percent (the richest fifth). In 1979 the top quintile's income share was eight times that of the bottom quintile. By 2007 the top quintile's income share was 14 times that of the bottom quintile. The bottom line shows that the top 20 percent's share also increased relative to the middle 20 percent, rising from three times that of the middle quintile in 1979 to four times that of the middle quintile in 2007. These trends reflect in large part a growing "college premium." Since 1979 the income gap between people with college or graduate degrees and people without them has grown. The moderately skilled middle class is hollowing out.



Sources: Congressional Budget Office, Census Bureau.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

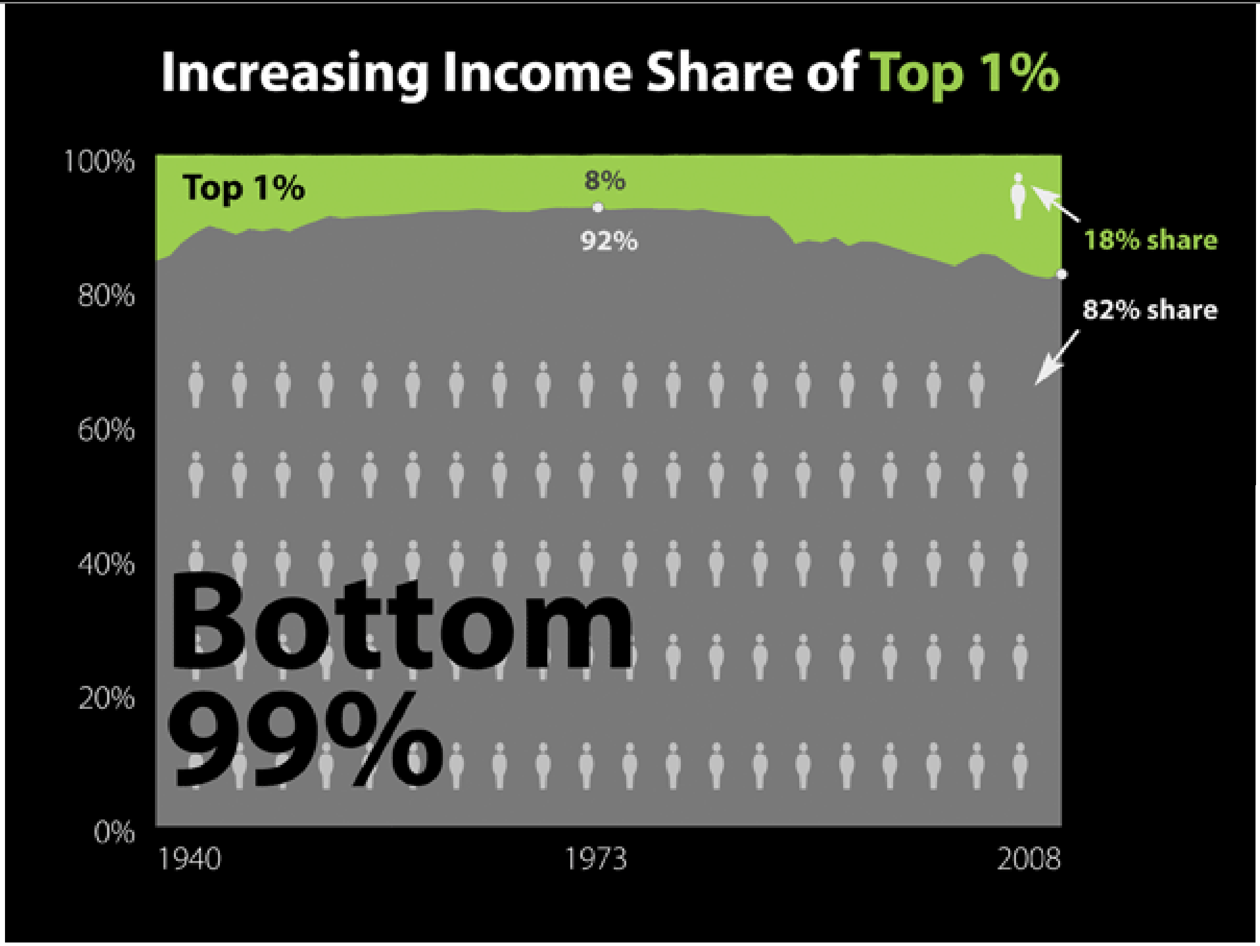
Beginning| < 2 of 10 > | End [Exit]

Slate | THE GREAT DIVERGENCE IN PICTURES: A VISUAL GUIDE TO INCOME INEQUALITY.

The second trend contributing to the Great Divergence concerns not the middle class but the rich. It went unnoticed for a long time because of limitations to the quintile data shown in the previous slide. That data is based on household income surveys conducted monthly by the Census Bureau, which aren't particularly useful for making fine distinctions at the top of the income scale. Seeking more precise information about the rich, economists Thomas Piketty of the Ecole d'Economie de Paris and Emmanuel Saez of Berkeley turned to income data from the Internal Revenue Service.

What Piketty and Saez found was that much of the Great Divergence was driven by a stunning rise in income for the top 1 percent (who today earn about $368,000 or more). This group's share of national income more than doubled, from 8 percent in 1973 (the end of the Great Compression) to 18 percent in 2008. Meanwhile, the bottom 99 percent's share of income, which stood at 92 percent in 1973, dwindled to 82 percent in 2008.

The top 1 percent's share of income accelerated at a particularly fast rate starting in the mid-1990s, even as the education-based income gap leveled off. During the Great



Source: Thomas Piketty and Emmanuel Saez.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

Divergence, Part 2, having a college or graduate degree was no protection against falling behind relative to the top 1 percent.

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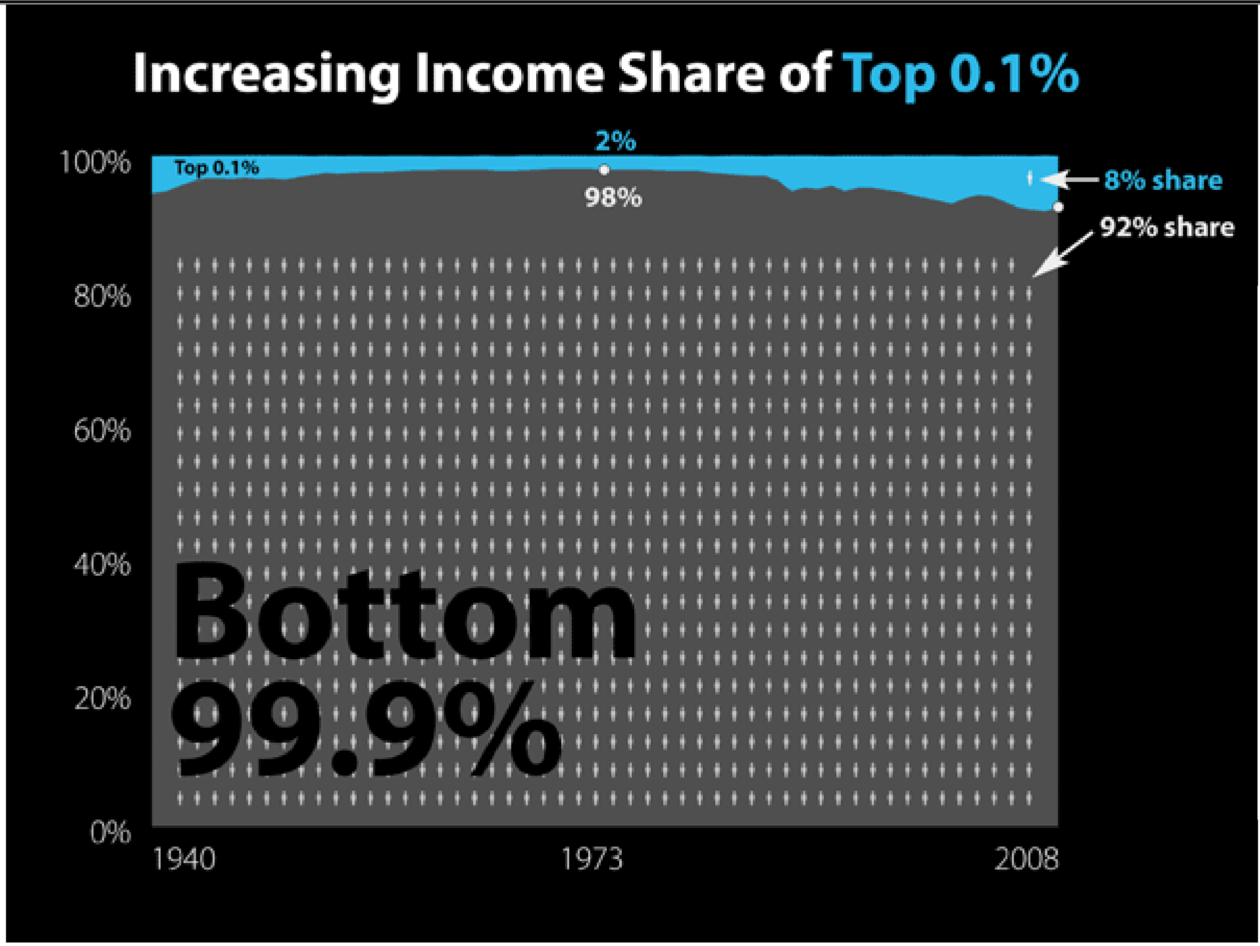
To review: Income gains made during the Great Divergence by the top 20 percent relative to the middle and bottom 20 percent pale in comparison to income gains made during that period by the top 1 percent relative to the bottom 99 percent—especially after 1994. Since 1979, the top 1 percent's income share has more than doubled.

Now let's look at the top 0.1 percent. If the top 1 percent are the Rich, the top 0.1 percent (who today earn about $1 million or more) are the Stinking Rich. Since 1979, their income share hasn't doubled; it's *quadrupled*. In 1973 the top 0.1 percent's share of the national income stood at 2 percent. By 2008 it was 8 percent. The bottom 99.9 percent's share fell from 98 percent to 92 percent.



Thomas Piketty and Emmanuel Saez.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

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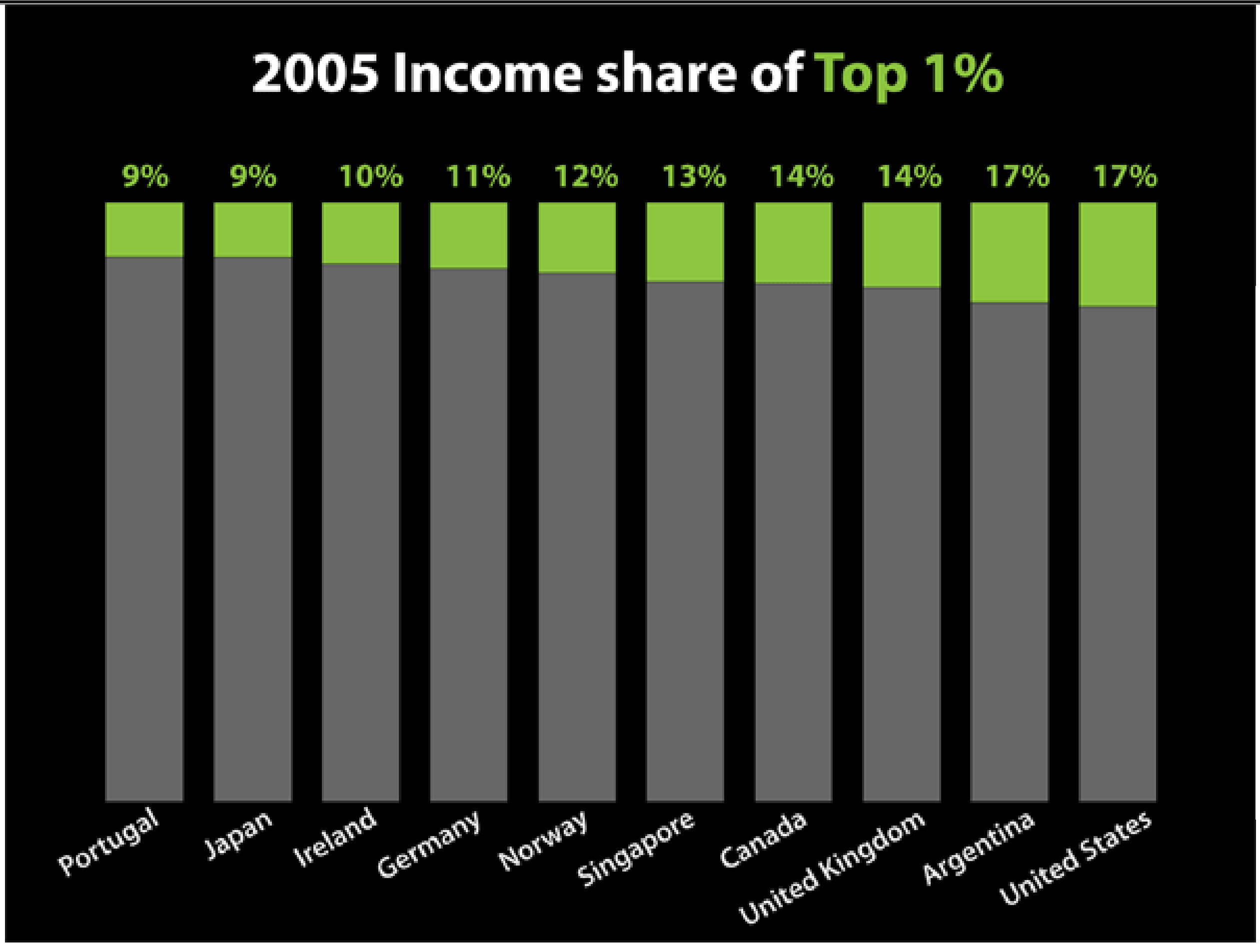
Is the Great Divergence an inevitable result of global trends in capitalism? If it were, we'd expect to see the same trend in other countries. But while incomes have over time tended to become less equal in industrialized countries, that hasn't happened everywhere. (In France, incomes have been becoming *more* equal.) And *nowhere* has the income-inequality trend been more dramatic than in the United States.

This chart shows select nations where the income share of the top 1 percent was highest in 2005. *These are all countries with income-inequality problems.* But none of them can beat the United States, where in 2005 the top 1 percent gobbled up 17 percent of national income. The best Argentina can do is tie us.



Sources: Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

Beginning| < 5 of 10 > | End [Exit]

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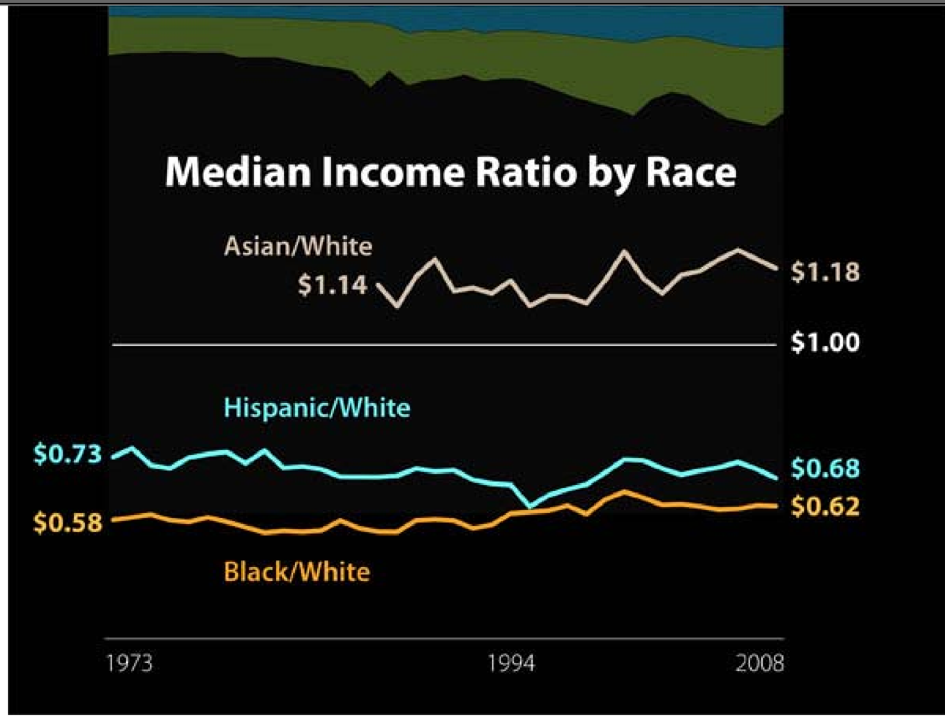
Does the Great Divergence reflect racial inequality between whites and blacks? That's a good guess, considering the median annual income for black families in the United States is 38 percent lower than the median income for white families. Even so, it's wrong.

Yes, there's a sizable (and worrisome) gap between incomes for blacks and whites. But as this chart demonstrates, the relationship between median black income and median white income has scarcely changed since 1973. In 1973, blacks made 58 cents for every dollar whites made. In 2008 they made 62 cents. For black-white inequality to influence the Great Divergence, the gap would have to have widened significantly, and it hasn't—at least as measured by family income, the principal metric for the Great Divergence. The median Hispanic income relative to white income is also virtually unchanged, though there's been a bit more movement up and down. The only major change relating to ethnic groups has been for Asians, who started out more prosperous than whites ($1.14 for every white dollar) and became more so ($1.18 for every white dollar*), with some ups and downs in between, during a shorter time period.

We don't mean to suggest it's peachy that the black-white income gap (and the Hispanic-and-white gap) hasn't changed in 30 years. These are serious social problems. They just aren't problems that have anything to do with the Great Divergence.

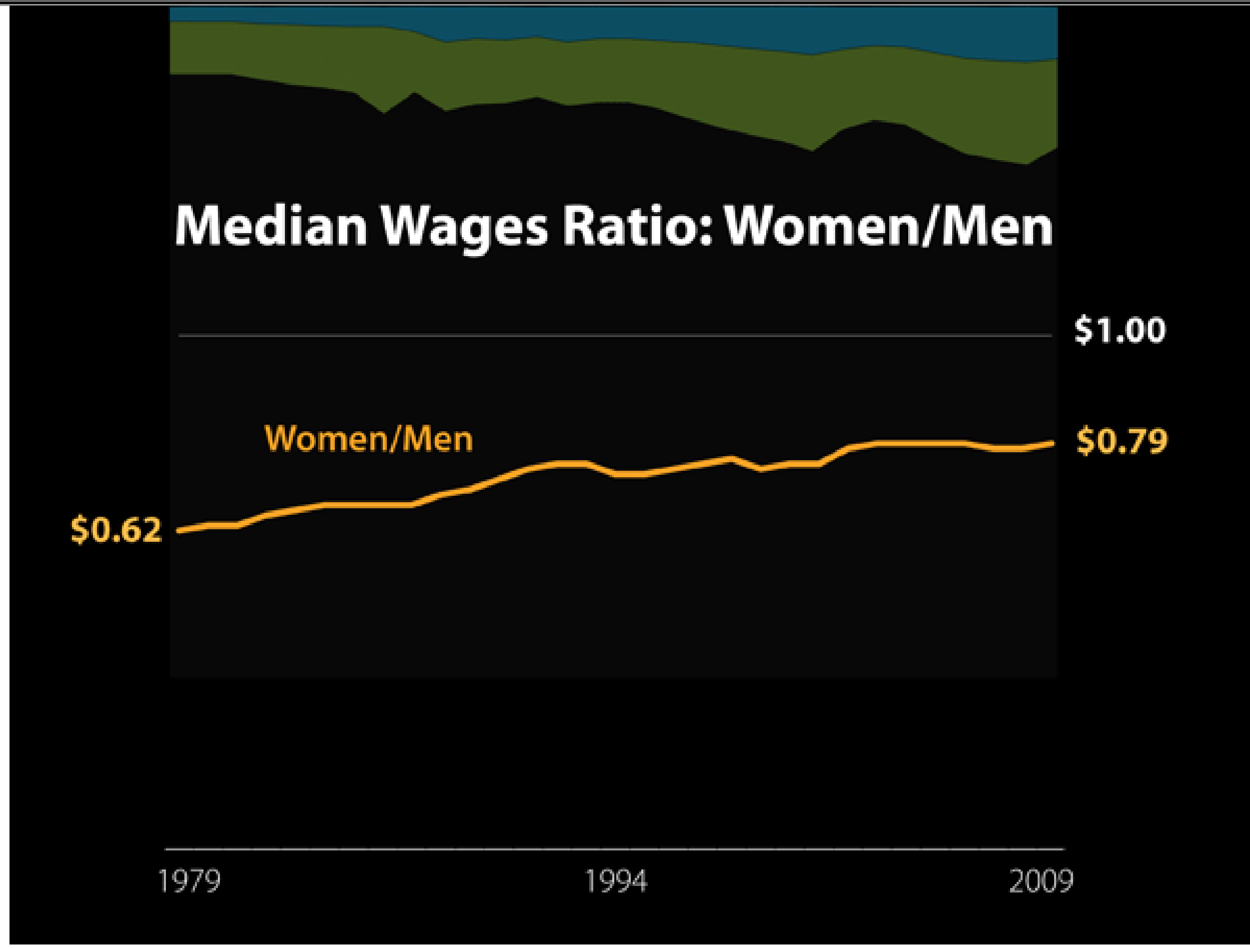
Correction, Sept. 29, 2010: *An earlier version of this slide misreported the ratio of Asian median income to white median income in 2008 as $1.82. In fact, it was $1.18.*



Source: Census Bureau.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

Beginning| < 6 of 10 > | End [Exit]

The Great Divergence, we can say with even greater confidence, has nothing to do with gender-based inequality. That's because since 1979 median wages for women have going *up* relative to median wages for men. The 62-cent dollar—that is, for every dollar made by a man, a woman made 62 cents—was, by 2009, a 79-cent dollar. Considering women now outnumber men at colleges and universities, it seems likely the male-female wage gap will continue to shrink in the future.



Source: Bureau of Labor Statistics.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

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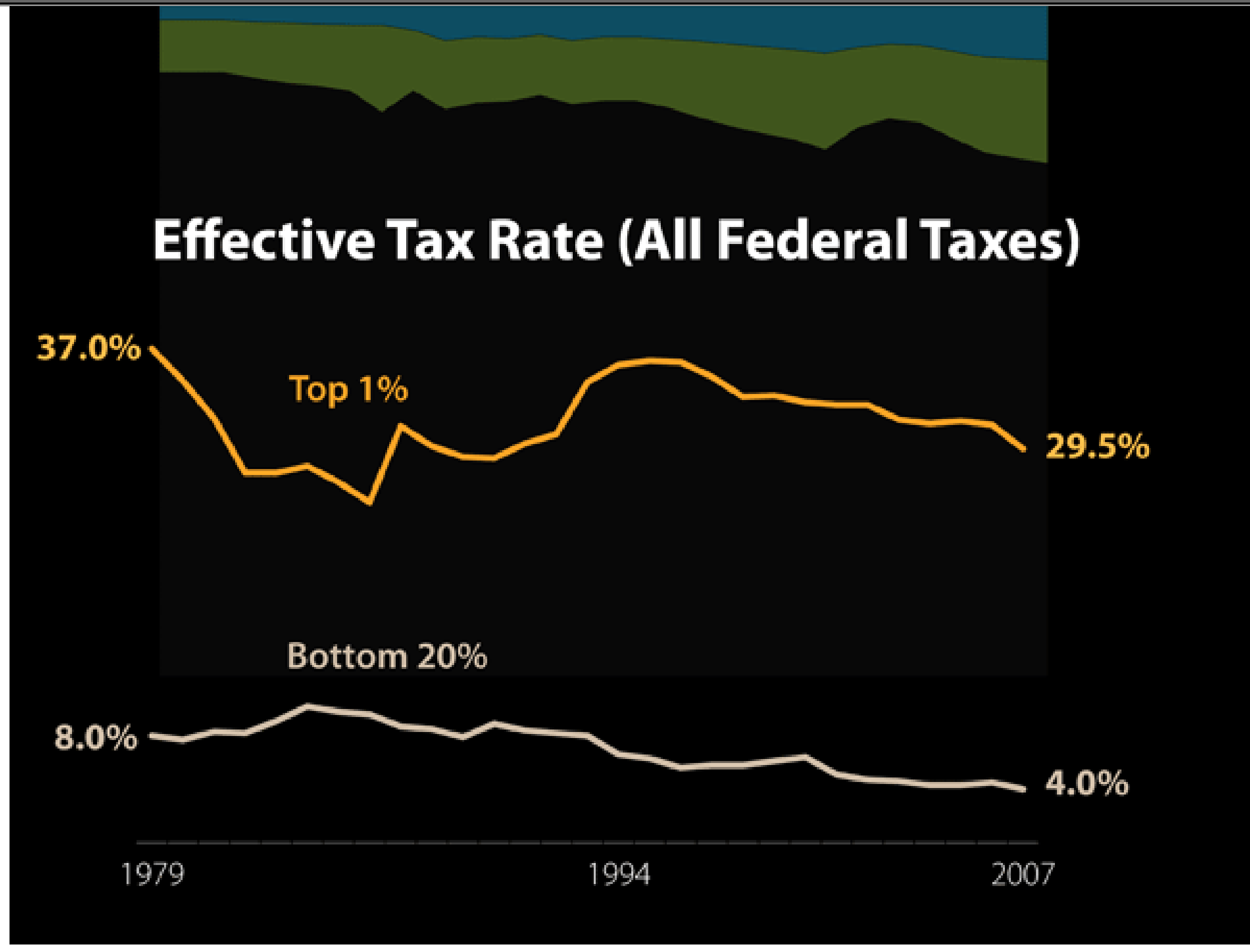
Did tax cuts for the rich create the Great Divergence?

Income tax rates have changed dramatically during the past 30 years. During the Reagan administration (1981-89), the top marginal rate dropped from 70 percent to 58 percent, and eventually to 28 percent. Under subsequent presidents it has hovered between 30 percent and 40 percent. But *effective* tax rates—what people actually pay—didn't change nearly as much. For incomes in the top 1 percent, the effective tax rate went from 37 percent in 1979 to 29.5 percent today, with a big drop and subsequent rise during the 1980s. For incomes in the bottom 20 percent, the percentage change in the effective tax rate was much more dramatic—it was halved, from 8 percent in 1979 to 4 percent in 2007. But to contribute to the Great Divergence, the bottom quintile's effective tax rate would have to have *increased*.

Tax cuts for the rich certainly contributed to the Great Divergence. But it would be hard to argue, based on this data, they were a major factor.



Source: Congressional Budget Office.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

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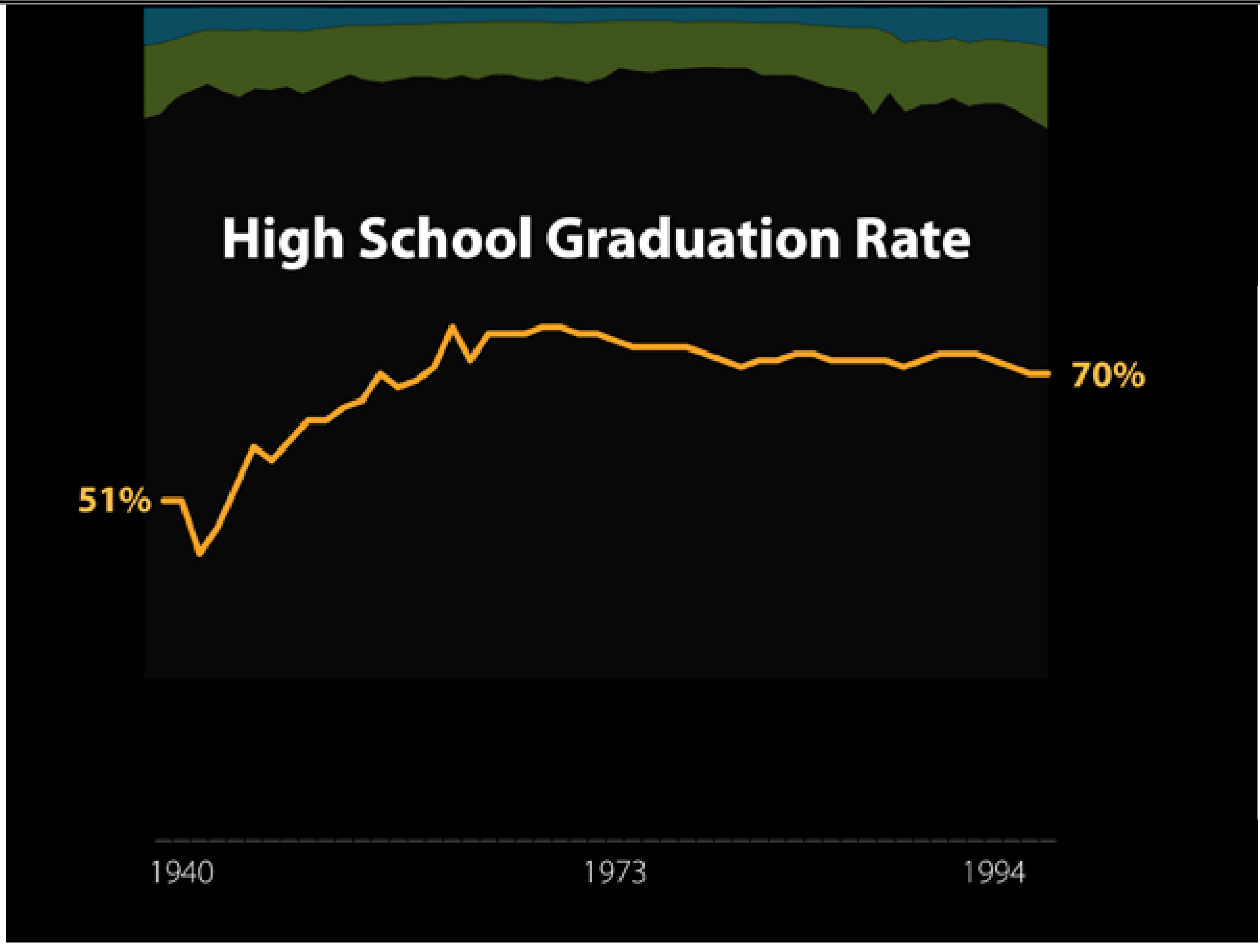
Did the education system contribute to the Great Divergence? Yes, in a big way.

In a modern economy, widely shared prosperity depends on rising education levels. Innovation typically creates a need for a workforce with higher skills. From World War II through the 1960s, the U.S. economy mostly boomed and incomes grew more equal; not coincidentally, the high-school graduation rate climbed from 51 percent to more than 70 percent. Starting in the 1970s, the high-school graduation rate declined and then leveled off at 70 percent. The economy boomed again in the late 1980s and late 1990s, and many prospered, but this time the prosperity wasn't shared equally because the supply of high-school graduates didn't rise with growing technology-driven demand. The flat line in this chart creates inequality.



Source: Claudia Goldin.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.

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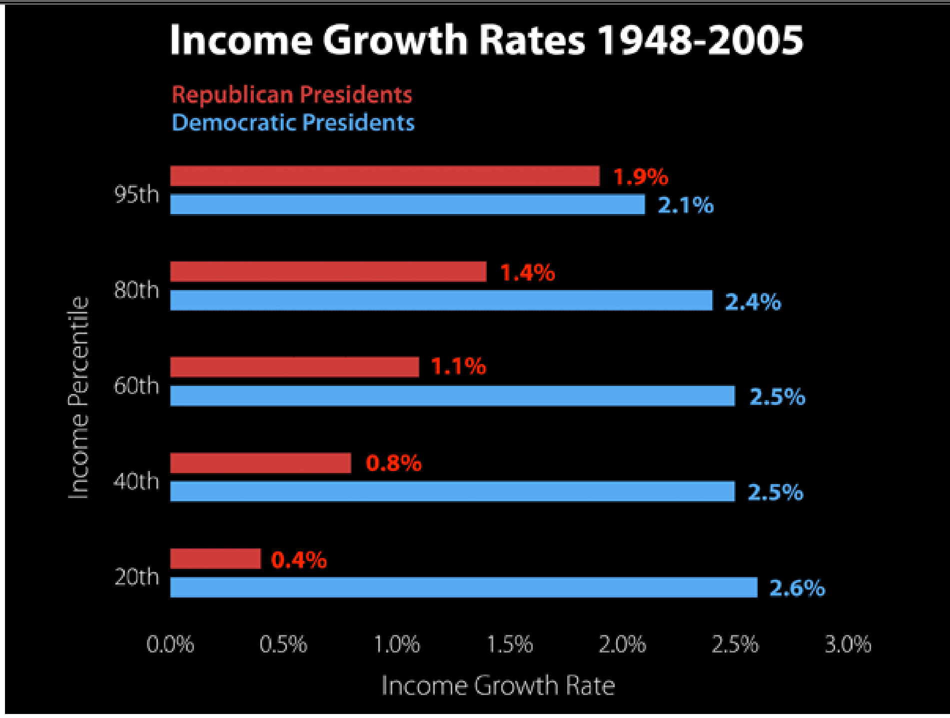
Did the United States grow more unequal while Republicans were in power? It sounds crude, but Princeton political scientist Larry Bartels has gone a long way toward proving it. Bartels looked up income growth rates for families at various income percentiles for the years 1948 to 2005, then cross-checked these with whether the president was a Republican or a Democrat. He found two distinct and opposite trends. Under Democrats, the biggest income gains were for people in the bottom 20th income percentile (2.6 percent). The income gains grew progressively smaller further *up* the income scale (2.5 percent for the 40th and 60th percentiles, 2.4 percent for the 80th percentile, and so on). But under Republicans, the biggest income gains were for people in the 95th percentile (1.9 percent). The income gains grew progressively smaller further *down* the income scale (1.4 percent for the 80th percentile, 1.1 for the 60th percentile, etc.).

Two other observations are worth making:

1) In *all* income categories except the 95th percentile, income growth rates under Democratic presidents exceeded income growth rates under Republican ones. That suggests greater income equality can coexist with (or even help create) greater prosperity.

2) The 95th percentile fared about the same under Democrats and Republicans. (This chart shows it doing slightly better under Democrats, but the margin of error erases the Democrats' advantage.) Bartels' party-based interpretation of income inequality can't address the Great

Divergence, Part 2—the stratospheric rise in incomes at the very top—because for this group, it doesn't matter much whether a Democrat or a Republican inhabits the White House. Political scientists Jacob Hacker and Paul Pierson, of Yale and Berkeley, respectively, argue that the apparently nonpartisan solicitude Democrats and Republicans express toward the rich is the result of a massive increase in Washington's corporate lobbying sector since the 1970s—and that the growing power of big business in Washington has been a major contributor to the Great Divergence.



Source: Larry M. Bartels.
Chart by Catherine Mulbrandon of VisualizingEconomics.com.