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Income Inequality among the Social Classes in the U.S. Since The Great Recession 2008

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Abstract:
Background: Shiller (2013), Nobel-winning economist, has stated that rising inequality in the United States and elsewhere is among the most important problems that Americans have to deal with today. In reality, the onward trend towards unequal income distribution has existed in the U.S. for a long time; however, after the Great Recession 2008, the issue has become significant when income gap among the classes, especially the gap between the top 1 percent and the bottom 99 percent, was at the highest level. The study aims to answer the question: how have trend and level of income inequality developed and caught concern of the U.S. society since the Great Recession 2008.
Materials and Methods: To conduct the study data analysis research method is adopted to employ statistics, articles, reports and studies.
Results: Study's findings have shown the massive gap between the highest and the lowest income group when top ten percent alone takes around 50 % total income proportion.
Conclusion:
Strikingly difference in income share and income growth between the top 1 percent and the 99 percent has clearly proved the severe income gap in the U.S.
Key words: Great Recession 2008, income, inequality, issue, gap

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I. Introduction

The United States of America always is the centre of the attention of the world due to its impregnable position and extending sphere of influence in the world. The influence of the U.S. is huge in such a way that "the rest of the world sneezes when the U.S. catches a cold" (Verick and Islam, 2010, p.3). However, it does not mean that the U.S. does not have its Achilles heel. Entering the early years of the 21st century, to maintain the foothold as the number-one superpower, the U.S. has handled a number of challenges from both internal and external factors. One of the most striking instances that have devastating impacts on the U.S. is the Great Recession 2008. The Great Recession, also known as the financial crisis, occurred in December 2007 to June 2009 and became the global crisis in 2009, is considered "the worst recession that the world has witnessed for over six decades" (Verick and Islam, 2010, p.2). Not only has the Great Recession influenced the U.S. comprehensively but also shown that there have remained a variety of problems existing in the U.S. intrinsically, in which income inequality is the long-standing issue. However, never ever has unequal income distribution fueled contentious topic as such since the Great Recession 2008, especially when income disparity soared at the highest record in the history of the U.S in 2012. The issue of income disparity has caught concern of the U.S. society, including economists, scholars and publicity. It is inevitable that the ever-widening income gap among the social classes has enormous multifaceted impacts on the U.S. Although income disparity has prompted strong criticisms and mass movements of which the Occupy Wall Street (2011) is the most noticeable event as response of publicity to this problem in evidence, it has remained the issue on debate. Some hold the belief that unequal income distribution benefits the U.S. as a whole, but some dissent. Admittedly, it has posed a challenging question which needs to be settled for the U.S. authorities about how to narrow income disparity among classes. Similar to the impacts of income gap, the answer for the question about the root causes of income inequality has maintained the thought-provoking issue on the table.

In reality, inequality issues, including unequal income distribution, have remained one of the most outstanding problems for those who want to explore the contemporary United States. Furthermore, this issue is of personal interest of many people. These are the reasons why the study on "Income inequality among the social classes in the U.S. since the Great Recession 2008 and its causes" is carried out to answer following research questions:

How has income inequality developed in the U.S. and captured widespread concern of publicity on trend and level of income gap since the Great Recession 2008?

II. Materials And Methods

As cited in *Data Analysis Techniques in Qualitative Research* (Kawulich, 2004, p.97), LeCompte and Schensul (1999) defined data analysis as "the process of reducing large amounts of collected data to make sense of them". This method effectively works in generating and analyzing data.

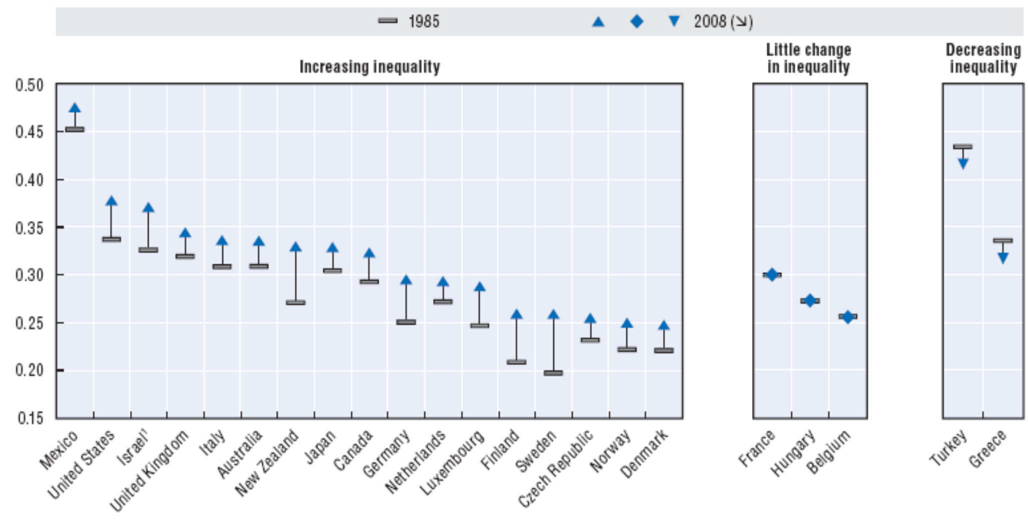
Within the scope of this study, data analysis is applied to evaluate the level of income gap among the U.S. social classes because the best approach is to deal with the statistics. Firstly, this method is employed to interpret statistics under different types, typically bar charts, line charts and tables from different primary and secondary researches. Specifically, findings from the OECD papers and experts are used to evaluate income disparity and incredible increase in the income share of the top percentile in the U.S. in comparison with other countries. Secondly, data from the CBO, UNICEF is taken into account to analyze and assess unequal income distribution in the long run U.S. history. Finally, data analysis is made use of for the focus on data and analyses of the Census Bureau and some experts to show the changes in income distribution among the U.S. classes and to shed a light on massive income gap between the bottom 99 percent and the top 1 percent since the Great Recession 2008. Once collected, data will be analyzed, compared and assessed carefully and thoroughly. Moreover, data analysis creates openness to offer responses to statistics and give assessments on the U.S. income inequality.

In short, the article adopts data as the main research method. This method is taken advantage of to analyze the changes of the U.S. income distribution in the history and since the Great Recession 2008. It will be used correctly to take their advantages in processing data to complete the thesis.

III. Results

3.1. Income inequality in the U.S. in comparison with other nations

The U.S. is among the countries with the highest level of income disparity. This is shown via findings of the OECD in *Divided We Stand: Why Income Inequality Keeps Rising* (2011). Income disparity rose in 17 out of 22 OECD countries, in which it climbed "by more than 4 percentage points in Finland, Germany, Israel, Luxembourg, New Zealand, Sweden, and the United States (OECD, 2011, p22). Despite of different rate of inequality increase in OECD's nations from time to time, the U.S. has remained among the top countries with the high level of income inequality.



Note: For data years see Table 1. "Little change" in inequality refers to changes of less than 2 percentage points.
1. Information on data for Israel: *http://dx.doi.org/10.1787/888932315602.*
Source: *OECD Database on Household Income Distribution and Poverty.*

Figure 1: Gini-coefficients of income inequality in selected OECD countries (OECD, 2011, p.24)

It can be seen from the Figure 1 that the U.S. is among the top-ranked nations in the period from mid-1980s to late 2000s. The U.S. ranked the second place with Gini-coefficient recorded from approximately 0.35 to nearly 0.4 during the period. Although the U.S. yet to experience the income gap increase rate as other countries, namely Israel, New Zealand, Finland or Sweden, the U.S. has maintained the second place after Mexico.

Another finding from OECD's research in different patterns over time has shown the upward trend of income disparity of the U.S. in comparison with other partners in G7 nations.

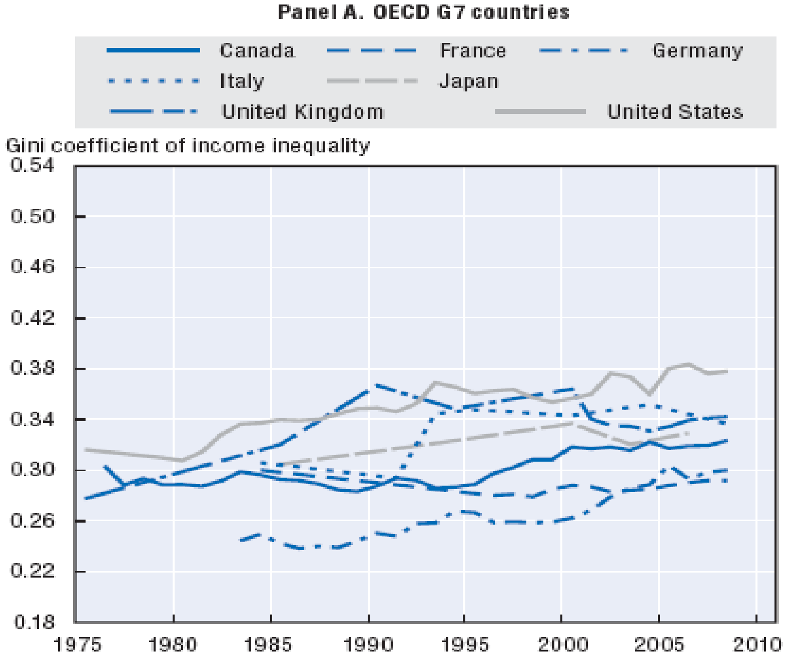


Figure 2: Gini-coefficients of income inequality in G7 countries (OECD, 2011, p.25)

As can be seen from Figure 2, between 1975 and 2008, all G7 nations witnessed ups and downs in Gini-coefficient index. Among these countries, the U.S. ranked first with the highest level of the income gap when its Gini index fluctuated from 0.32 to 0.38 from 1975 to 2008. By 2008, the U.S. Gini-coefficient hit its peak of above 0.38 while the six countries index was recorded lower than 0.34, especially 0.3 in Germany and France. Within more than 30 years, Gini index of the U.S. rose by 0.6 point which shows growing trend of the U.S. income inequality compared to other developed countries.

One of the factors leading to growing income gap is the increase in income share of the top 1 percent in comparison with the rest of population. Dube and Kaplan (2012) compared the income of the top 1 percent of the U.S. with that in European countries within 37 years from 1970 to 2007 and concluded that "In 1970, the top 1 percent made less than 10 percent of total pre-tax income. This was roughly in line with most European countries. However, by 2007, the share of the top 1 percent in pre-tax income had increased to 23.5 percent (p.2)."

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From the above analyses, it can come to conclusion that income inequality has existed and escalated in the U.S. in the long run history. In comparison with the OECD countries and G7 nations, the U.S. unequal income distribution is at the record high. Moreover, there is a huge gap in income share of the top 1 percent and the 99 percent group in the U.S. when the top has achieved incredible gains. It short, income disparity has been becoming an important issue in the contemporary American society.

3.2. Income inequality at the national level

3.2.1. Income inequality in the U.S. history

The issue of unequal income distribution recorded for a long time in the U.S. is shown via huge difference in income share and income growth of each class. Since the 1970s, income share of the richest 1 percent skyrocketed while income of the rest of population went up slightly. As figure 3 taken from Ortiz and Cummins (2011) shows, in the period between 1990 and 2008, the 20 percent group with the lowest income took a moderate share of around 3 percent in total share. The middle 20 percent groups (21 to 79) made up a larger share from 8.7 to 24 percent. The top percentile accounted for a major share ranging from 46.6 to 50.1 percent during the 17-year period. That means the total income share of the middle and the bottom group is equal to the proportion of the top; in other words, income extremely concentrates in the richest percentile. This shows increasingly large income gap among the classes in the passage of time.

Country Name	Year	Q1	Q2	Q3	Q4	Q5	Gini Index
Turkmenistan	1990	9.1	12.4	16.8	22.9	38.8	26.6
	1995	6.6	10.9	15.7	22.4	44.4	29.9
	2000	6.0	10.2	14.9	21.7	47.2	30.6
	2005						40.3
Uganda	1990	5.3	9.6	14.3	21.2	49.6	41.7
	1995	7.0	10.9	15.1	21.0	46.0	36.8
	2000	5.8	9.7	13.9	20.2	50.4	42.6
	2005	6.1	9.8	14.1	20.7	49.3	40.3
	2007/8						39.1
Ukraine	1990	9.8	14.3	18.4	23.3	34.2	21.7
	1995	7.7	12.4	16.8	22.6	40.6	38.4
	2000	8.8	13.4	17.5	22.8	37.6	30.5
	2005	9.0	13.4	17.6	22.9	37.2	33.4
	2007/8	9.3	13.5	17.5	22.7	37.1	32.5
United Kingdom	1990	7.6	12.2	16.8	22.8	40.7	32.8
	1995	7.4	12.3	16.6	22.7	41.3	34.4
	2000	7.7	12.5	16.6	22.4	41.2	34.5
	2005	7.1	12.2	16.5	22.3	41.9	34.6
	2007/8	7.5	12.6	16.9	22.6	40.4	35.8
United States	1990	3.9	9.6	15.9	24.0	46.6	33.5
	1995	3.7	9.1	15.2	23.3	48.7	36.3
	2000	3.6	8.9	14.9	23.0	49.6	36.8
	2005	3.4	8.7	14.7	23.2	50.1	37.0
	2007/8						36.0

Figure 3: Income Distribution and Gini index data by country (Ortiz and Cummins, 2011, p.60)

Not only is the income gap presented through income share that each class holds, but also through their income growth. Via collected data, the income of the top class has accelerated considerably while the income of the middle and the bottom class has been recorded at the marginal rate. It is more clear when comparing the income growth between the richest one percent and the lowest twenty percent class. In a report released by the Congressional Budget Office (CBO) (2011), real growth in after-tax (and transfer) household income of all the U.S. classes from 1979 to 2007 has illustrated the strikingly different income growth.

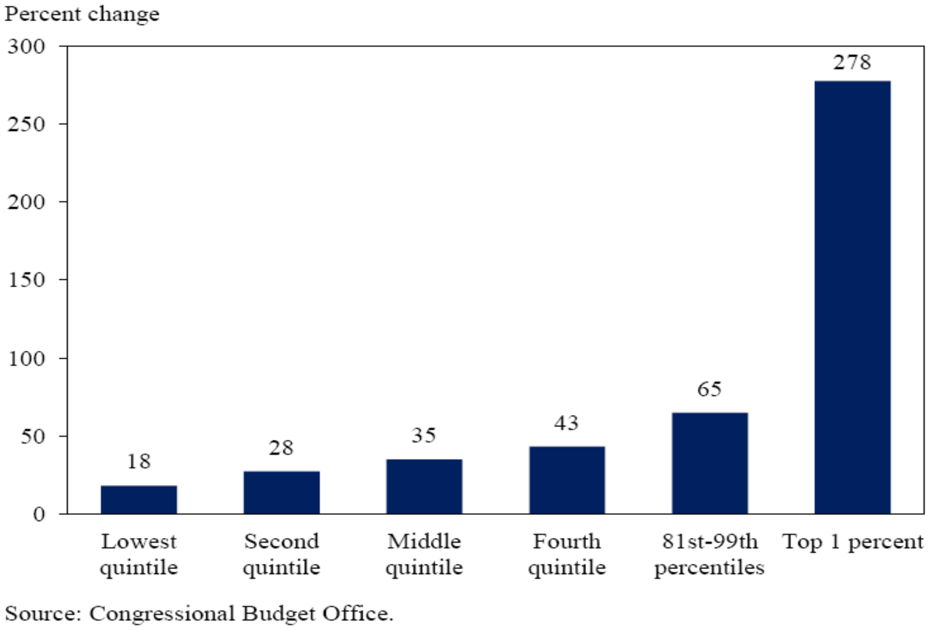

Figure 4: Growth in Real after tax income, 1979-2007 (CBO, 2011, p.x)

There had a great difference in income growth among groups in which income of the top 1 percent rocketed up in comparison with that of the left groups hovering at low rate within nearly 30 years, as figure 4 illustrates. For the 20 percent with the lowest income, from 1979 to 2007, average income grew by only 18 percent. There was a significant increase in income of the middle class (the second, the third and the fourth quintile) ranging from 28 to 43 percent. Income of the 81^{st} - 99^{th} percentile rose by 65 percent in this period of time. Meanwhile, the top 1 percent witnessed the enormous growth when it rocketed by 278 percent. The increase in income of only the top 1 percent is 15 times than the lowest 20 percent group.

From what have been analyzed, income disparity has increased remarkably in the U.S. history. The income share of the top 20 percentile accounted for a half of the total income proportion. In addition, income growth among classes is considerably different when income of the top richest group grew above 10 times than that the bottom one.

3.2.2. Income inequality since the Great Recession 2008

After economic downturn 2008, income disparity has been growing larger, which is illustrated clearly via distribution of income share among the social classes and huge income gap between the top 1 percent and the bottom 99 percent. In the stable economy, income distribution was not a serious problem because people's life was in better condition and income of all groups climbed up even with different rate. However, in the period of crisis, the downturn has worsened income inequality in the U.S. due to the slumping economy, so that society paid more attention to this issue with the striking illustration of the OWS in 2011. While almost households decreased income in which the middle group was most hard hit, the top 20 percent witnessed the modest increase in their income proportion. The huge difference in income distribution among social groups since the financial crisis 2008 has been shown via data of the Census Bureau (2012) in Figure 5.

Year	**Share of aggregate income**					
	Lowest fifth	**Second fifth**	**Third fifth**	**Fourth fifth**	**Highest fifth**	**Top 5 percent**
2012	3.8	9.2	15.1	23.0	48.9	21.3
2011	3.8	9.3	15.1	23.0	48.9	21.3
2010	3.8	9.5	15.4	23.5	47.8	20.0
2009	3.9	9.4	15.3	23.2	48.2	20.7
2008	4.0	9.6	15.5	23.1	47.8	20.5

Figure 5: Share of aggregate income received by each fifth and top 5 percent of families; All races: 2008 to 2012 (Census Bureau, 2012)

Income of the lowest and the middle percentile declined from 0.1 percent to 0.4 percent in the 5-year period, especially the middle class shrinking 0.4 percent. Otherwise, only the highest percentile witnessed the 1.1 percent increase in their income from 47.8 to 48.9 percent from 2008 to 2012. These data were specified via numbers of dollars as follows

Year	**Mean income received by each fifth and top 5 percent of families,**					
	Lowest fifth	**Second fifth**	**Third fifth**	**Fourth fifth**	**Highest fifth**	**Top 5 percent**
2012	15,534	38,184	62,464	95,474	202,559	352,338
2011	15,282	37,556	61,032	93,232	197,932	344,531
2010	14,923	36,911	60,161	91,786	187,120	312,876
2009	15,289	37,045	59,907	90,962	189,486	325,023
2008	15,906	38,125	61,582	92,160	190,400	326,928

Figure 6: Mean income received by each fifth and top 5 percent of families; All races: 2008 to 2012 (Census Bureau, 2012)

The difference in income among the U.S. classes is extremely massive, as the figure 6 shows. It is recorded that income of the lowest and the second fifth took a mere fraction of the highest group. The income gap is clearly seen when income of the lowest compares to the 5-percent group. The former group stood at around 15,000 dollars meanwhile the latter's income reached more than 300,000 dollars.

Since the Great Recession 2008, unequal income distribution between the richest 1 percent and the bottom 99 percent has been a thorny issue. Never has the income gap between the two groups been paid much attention before. A number of studies have been undertaken to research on the income gap between the two mentioned groups within this period. Collected data have shown the growing massive gap between the top 1 percent and the bottom 99 percent.

According to Pew finding (2011), during the economic recovery 2009 – 2011, income of the top 1 percent grew by 11 % while there was a moderate decrease in the income of the bottom 99 percent.

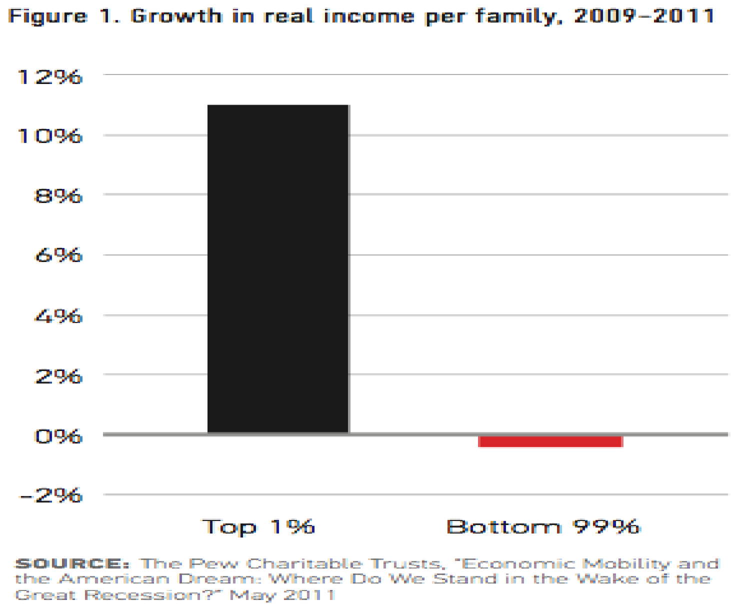

Figure 7: Growth in real income per per family, 2009 – 2011 (The Pew Charitable Trusts, 2011)

Saez (2013) has illustrated the similar result of income disparity in his research as shown via Figure 8. In the period of the Great Recession 2007-2009, fraction of total growth held by the top 1 percent was 49 % even though the top 1 percent decreased sharply by 36.3 % while the bottom 99 percent fell 11.6 %. In the next period, recovery 2009-2012, the gains were uneven. While average income of the top 1 percent climbed by 31.4 %, the bottom 99 percent made up decimal fraction of the top, 0.4 %. Hence, the total income growth held by the top 1 percent up to 95 %.

	Average Income Real Growth (1)	Top 1% Incomes Real Growth (2)	Bottom 99% Incomes Real Growth (3)	Fraction of total growth (or loss) captured by top 1% (4)
Full period 1993-2012	**17.9%**	**86.1%**	**6.6%**	**68%**
Clinton Expansion 1993-2000	31.5%	98.7%	20.3%	45%
2001 Recession 2000-2002	-11.7%	-30.8%	-6.5%	57%
Bush Expansion 2002-2007	16.1%	61.8%	6.8%	65%
Great Recession 2007-2009	-17.4%	-36.3%	-11.6%	49%
Recovery 2009-2012	6.0%	31.4%	0.4%	95%

Figure 8: Real Income Growth by Groups (Saez, 2013, p.7)

The top 1 percent includes CEOs and entrepreneurs who run the financial empires and huge corporations. They hold the extremely important role in promoting economic development and creating new jobs for employees. It is impossible to deny their importance but cannot reject their responsibility in causing the Great Recession 2008 when numerous giant financial groups, banks and enterprises collapsed. The point is that despite of the severe impacts of the financial crisis, the richest 1 percent has experienced income growth while the rest has suffered from declining income share. CEOs circle has not only received high salary, executive compensation but also been saved by bailouts of governments. As cited in Gallagher (2013, p.21), Whoriskey (2011) has shown that compensation for CEOs at the largest firms in the U.S. has quadrupled since the 1970s while pay for 90 percent of America has retarded.

The income gap between the richest 1 percent and the bottom 99 percent is huge when the income growth of the former is strikingly different from the latter’s (Figure 7). Almost profits are on the hand of top executives but shortchange those that work for them (Gallagher, 2013, p.20). Hacker and Pierson (2010) have reached the conclusion about the U.S. income gap that “It must be consistent with the fact that American inequality is “winner- take-all,” with a very small slice of the population becoming dramatically richer and the rest largely holding steady.” (p.153)

Buffet (2012) has stated the relation between the top 1 percent and the 99 percent that “the winners include corporations, who have seen good equity returns, as well as the wealthiest American citizens. The losers? The housing market and average American worker”.

As analyzed, the income share of the top percentile has maintained its upward trend while the rest percentiles have witnessed the contrasting situation since the Great Recession 2008. In the period, income of the highest 1 percent and the lowest 99 percent has becoming urgent in the U.S. when the gap between the two has grown massive.

IV. Conclusion

The study has shown some main findings to answer the research question. The growing trend and level of income disparity among the classes have been analyzed in the U.S. history, especially in the period of the economic downturn 2008. Moreover, strikingly difference in income share and income growth between the top 1 percent and the 99 percent has clearly proved the severe income gap in the U.S. Based on above analyses, research question one has been answered to illustrate income problem does matter in the modern American society.

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