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## Income-Inequality Gap Widens

### Boom in Financial Markets Parallels Rise in Share For Wealthiest Americans

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The richest Americans' share of national income has hit a postwar record, surpassing the highs reached in the 1990s bull market, and underlining the divergence of economic fortunes blamed for fueling anxiety among American workers.

The wealthiest 1% of Americans earned 21.2% of all income in 2005, according to new data from the Internal Revenue Service. That is up sharply from 19% in 2004, and surpasses the previous high of 20.8% set in 2000, at the peak of the previous bull market in stocks.

~ **Widening Gap:** The wealthiest Americans' share of national income has hit a postwar record, surpassing the highs reached in the 1990s bull market, and highlighting the divergence of economic fortunes blamed for fueling anxiety among American workers.

~ **Behind the Numbers:** Scholars attribute rising inequality to several factors, including technological change that favors those with more skills, and globalization and advances in communications that enlarge the rewards available to "superstar" performers whether in business, sports or entertainment.

~ **Political Fallout:** The data pose a potential challenge for President Bush and the Republican presidential field. They have sought to play up the strength of the economy and low unemployment, and the role of Mr. Bush's tax cuts in both. Democrats may use the data to exploit middle-class angst about stagnant wages.

~ [See related IRS data](#)<sup>1</sup>.

The bottom 50% earned 12.8% of all income, down from 13.4% in 2004 and a bit less than their 13% share in 2000.


The IRS data, based on a large sample of tax returns, are for "adjusted gross income," which is income after some deductions, such as for alimony and contributions to individual retirement accounts. While dated, many scholars prefer it to timelier data from other agencies because it provides details of the very richest -- for example, the top 0.1% and the top 1%, not just the top 10% -- and includes capital gains, an important, though volatile, source of income for the affluent.

The IRS data go back only to 1986, but academic research suggests the rich last had this high a share of total income in the 1920s.

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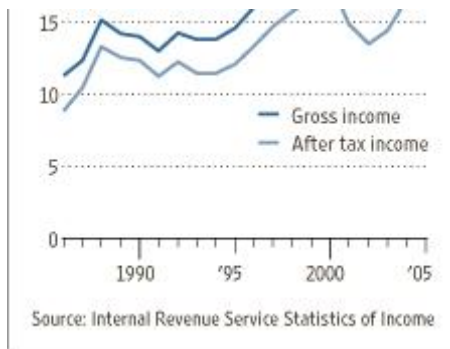
In an interview yesterday with The Wall Street Journal, President Bush said, "First of all, our society has had income inequality for a long time. Secondly, skills gaps yield income gaps. And what needs to be done about the inequality of income is to make sure people have got good education, starting with young kids. That's why No Child Left Behind is such an important component of making sure that America is competitive in the 21st century." ([See article](#)<sup>2</sup>.)

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Jason Furman, a scholar at the Brookings Institution and an adviser to Democratic politicians, said: "We've had a 30-year trend of increasing inequality. There was an artificial reduction in that trend following the bursting of the stock-market bubble in 2000."

The IRS data don't identify the source of increased income for the affluent, but the boom on Wall Street has likely played a part, just as the last stock boom fueled the late-1990s surge. Until this summer, soaring stock prices and buoyant credit markets had produced spectacular payouts for private-equity and hedge-fund managers, and investment bankers.

One study by University of Chicago academics Steven Kaplan and Joshua Rauh concludes that in 2004 there were more than twice as many such Wall Street professionals in the top 0.5% of all earners as there are executives from nonfinancial companies.

Mr. Rauh said "it's hard to escape the notion" that the rising share of income going to the very richest is, in part, "a Wall Street, financial industry-based story." The study shows that the highest-earning hedge-fund manager earned double in 2005 what the top earner made in 2003, and top 25 hedge-fund managers earned more in 2004 than the chief executives of all the companies in the Standard & Poor's 500-stock index, combined. It also shows profits per equity partner at the top 100 law firms doubling between 1994 and 2004, to over \$1 million in 2004 dollars.

The data highlight the political challenge facing Mr. Bush and the Republican contenders for president. They have sought to play up the strength of the economy since 2003 and low unemployment, and the role of Mr. Bush's tax cuts in both. But many Americans think the economy is in or near a recession. The IRS data show that the median tax filer's income -- half earn less than the median, half earn more -- fell 2% between 2000 and 2005 when adjusted for inflation, to \$30,881. At the same time, the income level for the tax filer just inside the top 1% grew 3%, to \$364,657.

Democrats, on the other hand, have sought to exploit angst about stagnant middle-class wages and eroding benefits in showdowns with Mr. Bush over issues such as health insurance and trade.

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