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Top Earners Not So Lofty in the Days of Recession

By JASON DePARLE

WASHINGTON — Hold the condolence cards, but the recession cost the rich.

The share of income received by the top 1 percent — that potent symbol of inequality — dropped to 17 percent in 2009 from 23 percent in 2007, according to federal tax data. Within the group, average income fell to $957,000 in 2009 from $1.4 million in 2007.

Analysts say the drop largely reflects the stock market plunge, and most think top incomes recovered somewhat in 2010, as Wall Street rebounded and corporate profits grew. Still, the drop alters a figure often emphasized by inequality critics, and it has gone largely unnoticed outside the blogosphere.

By focusing on the top 1 percent, the Occupy Wall Street movement has made economic fairness a subject of street protest and political debate.

“It’s very interesting that this has become such a big topic now when the numbers are back to where they were in the 1990s,” said Steven Kaplan, an economist at the University of Chicago’s business school. “People didn’t seem to be complaining about it then.”

In 2009 the average income of the top 1 percent, adjusted for inflation, fell below its 1998 level, but remained well above where it was in 1990: $662,000. While the protests follow the worst downturn since the Great Depression, inequality has been growing for three decades, driven by economic and political forces. Globalization created larger markets for those with scarce talents but hurt less educated workers by pitting them against cheap foreign labor. New technology also hurt unskilled workers, by replacing many with machines.

Unions declined, eroding blue-collar bargaining power. The financial industry grew, with paydays heavily weighted toward the top. Corporate culture accepted the growing gap between the executive suite and the factory floor.

Falling tax rates on the highest earners added to the net income divide, by allowing top earners to keep more of their pay and increasing their incentive to maximize it.

In the decades after World War II, by contrast, the average income of the top 1 percent grew only marginally faster than inflation and significantly slower than middle-class incomes. That combination caused inequality to decline throughout much of the 1950, ’60s and early ’70s.

As recently as 1980, only about one-tenth of the nation’s pretax income went to the top 1 percent. By 2000, that share had grown to about 22 percent. It slumped to about 18 percent in 2003, after a market crash, only to rebound by 2007 to levels not achieved since the Roaring ’20s.

Pointing to the recent declines at the top, Mr. Kaplan argues the Occupy protesters have accused the wrong villain by focusing on inequality, which he called an inevitable byproduct of growth. “If you want to reduce inequality, all you need to do is put the economy in a recession,” he said. “If you want the economy to do well, as all of us do, then you’ll get more inequality.”

But Harry J. Holzer, an economist at Georgetown University, argues much of the recent growth at the top reflects insider privilege instead of real productivity. “The notion that the really high earners are earning it has become very questionable,” he said. “Look at outrageousness of the damage they imposed on the rest of the economy and the cost being born by middle-income Americans.”

“There’s been rising income inequality all over the world, but nowhere as much as in the United States,” he said.

Critics of the Occupy Wall Street movement say the falling incomes at the top show that concerns about inequality are outdated.

“We don’t want to spend years focused on income inequality, only to learn that the financial crisis fixed it for us,” wrote Megan McArdle in a blog post for The Atlantic.

“Get a time machine, Occupy Wall Street,” wrote James Pethokoukis, a blogger at the American Enterprise Institute.

But Jared Bernstein, a former Obama administration official, said that after previous market-related dips, income inequality only soared to new highs. “If you believed the inequality problem had been solved in the early 2000s, you would have been proven terribly wrong,” said Mr. Bernstein, now of the Center on Budget and Policy Priorities.

While top incomes probably rose in 2010, most analysts doubt they returned to their 2007 peak, since stocks remain about 20 percent lower. Mr. Kaplan argues that new restraints on Wall Street will keep the income shares of the rich below those earlier levels, a view Mr. Bernstein disputes.

“The structural forces driving inequality remain very much in place,” he said.

The income shares of the top 1 percent became a common metric of inequality after a 2003 study by the economists Thomas Piketty and Emmanel Saez, which traced trends back to 1913. It peaked at 24 percent in 1928, just above its 2007 level. Mr. Saez, of the University of California, Berkeley, sides with those who think the rich will soon get richer.

“Barring an economic cataclysm ahead, top earners will be recovering faster than the other 99 percent,” he wrote in an e-mail. “The inequality problem is not going away and won’t until drastic policy changes are made (as happened during the New Deal).”