

** SUPPLEMENTAL DISCUSSION **

How has the income distribution in America changed over time?

This is a good question! One popular claim is that the RICH keep on getting RICHER and the POOR keep on getting POORER. Well, why don't we do something SHOCKING and see what the ACTUAL DATA has to say about this!?! Now, the data that I'm summarizing for you in this discussion comes straight from the US Census Bureau, so it's "official government data" or propaganda or whatever you want to call it. YOU can access this and more data online using the following link:

<http://www.census.gov/hhes/www/income/histinc/inchhtoc.html>

In the table below, consider the average income for each quintile for a selection of years. These income statistics reflect dollar values that have been adjusted for the effects of inflation (converted in year 2008 dollars). That is the only appropriate way to study what's called "time series" data.

	First Income Quintile	Second Income Quintile	Third Income Quintile	Fourth Income Quintile	Fifth Income Quintile
1970	\$9,857	\$26,701	\$42,996	\$60,607	\$107,295
1980	\$10,722	\$26,687	\$44,037	\$64,887	\$115,675
1990	\$11,444	\$28,793	\$47,559	\$71,706	\$139,155
2000	\$12,699	\$31,709	\$52,804	\$82,086	\$177,878
2008	\$11,656	\$29,517	\$50,132	\$79,760	\$171,057
Change	+ 18.25%	+ 10.55%	+ 16.60%	+ 31.60%	+ 59.43%

First, let us consider changes in average income over the entire 1970 – 2008 time period. The average income for each income quintile increased over the 1970 – 2008 time period. So the average person had more dollars available for purchasing goods and services and likely improving the economic quality of their life. So, it seems as though the RICH were getting RICHER, but the POOR were getting RICHER too! In the LAST ROW of the table, I computed the percentage increase in average income for each quintile over this same time period. Clearly, the percentage increase in average income was GREATER for the 4th and 5th income quintiles than for the 1st – 3rd income quintiles. We should not be surprised by that result. There is no reason to believe that everyone's income will grow at the same rate over time. People who are more productive and perform better on the job should expect greater increases in their incomes!

OK, so what's been happening so far this decade? In the table below, I have provided average income data for each quintile. In the last row of the table, I computed the percentage change in average income so far this decade.

YEAR	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
2000	\$12,699	\$31,709	\$52,804	\$82,086	\$177,878
2001	\$12,327	\$30,973	\$51,843	\$81,287	\$177,522
2002	\$11,956	\$30,399	\$51,226	\$80,577	\$172,035
2003	\$11,702	\$30,061	\$51,027	\$80,770	\$172,181
2004	\$11,677	\$29,878	\$50,623	\$79,821	\$172,620
2005	\$11,751	\$30,172	\$51,065	\$80,318	\$176,003
2006	\$12,123	\$30,730	\$51,496	\$81,510	\$179,586
2007	\$11,995	\$30,573	\$51,888	\$82,151	\$174,425
2008	\$11,656	\$29,517	\$50,132	\$79,760	\$171,057
CHANGE	-8.21%	-6.91%	-5.06%	-2.83%	-3.83%

Clearly, the average income for each quintile has DECREASED so far this decade. We must conclude that the POOR are getting POORER, but the RICH are getting POORER too! If you know anything regarding macroeconomic conditions during this decade, then this result is no surprise. In 2001, we experienced a mild recession (peak unemployment of 6.3%) and a very sluggish recovery that lasted well into the summer of 2003. The US economy entered into a severe recession in December 2007, we've seen unemployment hit 10.2% so far, and this recession isn't over yet! When the economy goes into recession, some workers will (a) lose their only job, (b) lose one of their jobs, (c) experience a reduction in the number of hours worked, and/or (d) have great difficulty locating new employment. However YOU PERSONALLY are impacted, it's likely that you experience a decrease in your income.

Now, what about MOBILITY in America's income distribution? Meaning, as a college student you might currently be a part of the first income quintile. Will you ALWAYS be there? Probably not! One day you will complete your college degree, move into a higher-paying professional job, and move up into the second or third income quintile (or even higher). People who start out in the fifth income quintile also confront the possibility of moving down the income distribution. People experience bad luck and make bad choices, which can result in a loss of income.

In a study conducted by the US Treasury Department using taxpayer data from 1996 - 2005:

More than half of taxpayers moved to a different income quintile between 1996 and 2005.

About half of those in the bottom income quintile in 1996 moved to a higher income group by 2005.

The composition of the very top income groups changes dramatically over time. Less than half of those in the top 1 percent in 1996 were still in the top 1 percent in 2005.

If you'd like to learn more about income mobility, check out this link:

<http://ustreas.gov/offices/tax-policy/library/incomemobilitystudy03-08revise.pdf>