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EARNINGS OF THE TOP 1.0 PERCENT REBOUND STRONGLY IN THE RECOVERY

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There has been some discussion over the last year or so that the growth of income inequality—especially the trends favoring the top 1.0 percent—had been reversed in the recent downturn and, therefore, policymakers need not focus on the overall increase in income inequality since the late 1970s.

Newly available data on the labor earnings of the very highest earners are the first indicators available for 2011 enabling a determination as to whether this is indeed the case. These data allow an assessment of how wages grew for the various wage segments of the workforce, including the top 1.0 percent, during the recent downturn and the recovery through 2011. The data also allow us to update our analysis in *The State of Working America, 12th Edition* (Mishel et al. 2012) of wage growth since 1947—and especially since 1979, when wage inequality began to rise. The data cover annual earnings because they are drawn from the wage records in the Social Security system. Since these data are for annual wages and salaries, the trends identified reflect both changes in hourly wages and changes in annual hours worked (based on changes in weekly hours and weeks worked per year).

This paper draws upon these data to examine wage trends during the downturn (from 2007 to 2009) and the recovery (from 2009 to 2011). It then assesses how these trends mark a continuation of more than three decades of growing wage inequality. Key findings include:

- Those at the top are seeing their wages rebound quite strongly in the recovery. Following a 15.6 percent decline from 2007 to 2009, real annual wages of the top 1.0 percent of earners grew 8.2 percent from 2009 to 2011.

TABLE 1

Percent change in real annual wages during the Great Recession, by wage group, 2007–2011

	WAGE GROUP			
	Top 1.0%	**95–99%**	**90–95%**	**Bottom 90%**
Downturn				
2007–2009	-15.6%	-1.1%	1.0%	-0.6%
Recovery				
2009–2011	8.2	2.1	0.6	-1.2
Since recession began				
2007–2011	-8.6	1.0	1.6	-1.8
Last year				
2010–2011	1.4	0.7	0.4	-0.6

Source: Authors' analysis of Kopczuk, Saez, and Song (2010) and Social Security Administration wage statistics

- The real annual wages of the bottom 90 percent have continued to decline in the recovery, eroding by 1.2 percent between 2009 and 2011.
- Wage inequality grew substantially over 1979–2007, lessened in the 2007–2009 downturn, and began expanding again in the 2009–2011 recovery. Trends over the next few years will determine whether wage inequality returns to or exceeds the heights reached in 2007 or 2000—or simply remains far higher than at any time in the 1980s and 1990s.
- Given the strong stock market recovery and wage growth at the top, the top 1.0 percent's overall incomes (which include wages, capital gains, and other returns on financial assets) probably grew strongly in 2011, thereby increasing income inequality.

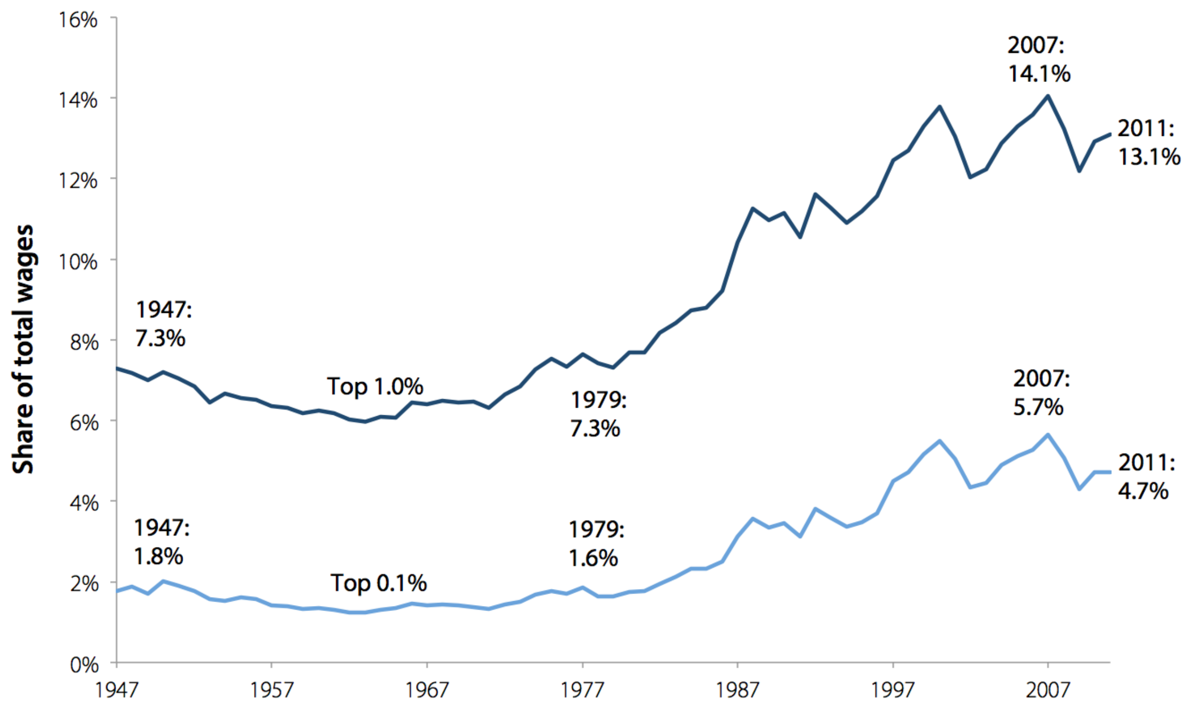
Wages during the downturn and recovery

The wage trends that have prevailed since 2007—in the downturn through 2009 and the recovery from 2009 to 2011—indicate that while the wages of top earners declined sharply during the downturn, they have rebounded rapidly in the recovery.

Table 1 presents the growth of real (inflation-adjusted) annual wages during the downturn from 2007 to 2009, the recovery from 2009 to 2011, and the entire period from 2007 to 2011. It also presents trends from 2010 to 2011. Table 1 shows wage growth for the top 1.0 percent of wage earners, the next 4 percent (the 95th to the 99th percentiles), the next 5 percent (the 90th to the 95th percentiles), and the bottom 90 percent. These data allow an examination of how high-wage and very-high-wage earners fared relative to the vast majority during the downturn and in the recovery so far.

FIGURE A

Share of total annual wages received by top earners, 1947–2011



Source: Authors' analysis of Kopczuk, Saez, and Song (2010) and Social Security Administration wage statistics

In the downturn from 2007 to 2009, the largest decrease in annual wages was at the very top, with real annual wages of the top 1.0 percent of earners falling 15.6 percent. This erosion reflects that these earnings include executives' realized stock options, which declined in this period because of the large fall in the stock market (making options less valuable and hence less likely to be realized). For instance, the S&P index fell 38 percent from 2007 to 2009.[1]

As the stock market regained its value in the recovery, one would expect the top 1.0 percent to fare better than other workers—and they have, with annual wages growing 8.2 percent from 2009 to 2011 (the S&P grew 37.4 percent over this period). As the recovery continues and the stock market sustains its growth, the top 1.0 percent of wage earners are likely to quickly recoup all of the ground lost in the downturn.

In contrast, annual wages of the bottom 90 percent of earners eroded by 0.6 percent in the downturn—and by a further 1.2 percent in the 2009–2011 recovery. This is not surprising given the persistently high unemployment over this period. Meanwhile, high-wage earners from the 90th to the 99th percentile enjoyed wage growth in the recovery—and are the only wage earners to have higher wages in 2011 than in 2007.

Taken together, the trends witnessed over the recovery indicate that the wages of those at the top—particularly the top 1.0 percent—are once again doing far better than the wages of those in the vast middle. Given the strong stock market recovery and wage growth at the top, the top 1.0 percent's overall incomes (which include wages and capital gains and other returns on financial assets) probably grew strongly in 2011 as well.

TABLE 2

Change in wage groups' shares of total wages, 1979–2011

Wage group	SHARE OF ANNUAL WAGES 1979	2004	2007	2009	2011	CHANGE IN SHARE 1979–2004	1979–2007	2007–2011	1979–2011
Bottom 90%	69.8%	62.5%	61.1%	62.3%	61.2%	-7.3	-8.8	0.1	-8.6
Bottom fifth	3.8	3.3	–	–	–	-0.5	–	–	–
Second fifth	9.4	8.1	–	–	–	-1.3	–	–	–
Middle fifth	15.6	13.6	–	–	–	-2.0	–	–	–
Fourth fifth	24.1	21.4	–	–	–	-2.8	–	–	–
Next tenth	17.0	16.1	–	–	–	-0.9	–	–	–
90th to 99th percentile	22.8%	24.6%	24.9%	25.5%	25.7%	1.8	2.0	0.8	2.9
90–95	10.8	10.9	10.8	11.2	11.2	0.1	0.1	0.4	0.5
95–99	12.1	13.8	14.1	14.3	14.5	1.7	2.0	0.4	2.4
Top 1.0%	7.3%	12.9%	14.1%	12.2%	13.1%	5.6	6.7	-1.0	5.8
99.0–99.5	2.6	3.3	–	–	–	0.8	–	–	–
99.5–99.9	3.1	4.7	–	–	–	1.5	–	–	–
99.9–100 (Top 0.1%)	1.6	4.9	5.7	4.3	4.7	3.3	4.0	-0.9	3.1

Source: Authors' analysis of Kopczuk, Saez, and Song (2010) and Social Security Administration wage statistics

The longer view of wage inequality growth

The wage trends documented from 2007 to 2011 demonstrate that while the trend of growing inequality that began in the late 1970s did partially reverse for a short time during the recession, wage gaps began widening again in the recovery. These recent trends thus represent a continuation of more than three decades of growing wage inequality—and likely resulted in a strong increase in income inequality in 2011.

Figure A presents the share of total annual wages received by the top 1.0 percent and top 0.1 percent of earners from 1947 through 2011. Wage shares of these and lower-earning groups are presented in **Table 2**, and the corresponding annual wages are presented in **Table 3**. The average annual wages in 2011 of the top 1.0 percent and top 0.1 percent of earners, respectively, were $598,570 and $2,158,892 (in 2011 dollars).

Figure A shows that the top 1.0 percent of earners' share of total earnings was relatively stable from 1947 into the 1970s but then nearly doubled, from 7.3 percent in 1979 to 14.1 percent in 2007. During the recession, the top 1.0 percent's earnings share fell to 12.2 percent in 2009 but recovered to 13.1 percent by 2011. The growth of the earnings share of those in the top 0.1 percent, the upper tenth of the top 1.0 percent, was even sharper over the 1979–2007 period, more than tripling from 1.6 percent to 5.7 percent. The top 0.1 percent's earnings share fell to 4.3 percent in 2009 and slightly recovered to 4.7 percent in 2011.

The erosion of the top earners' share of all earnings in the recession reflects the scaling back of stock options

TABLE 3

Change in annual wages, by wage group, 1979–2011 (2011 dollars)

Wage group	AVERAGE ANNUAL WAGES (2011 DOLLARS)					CHANGE			
	1979	2004	2007	2009	2011	1979–2004	1979–2007	2007–2011	1979–2011
Bottom 90%	$27,110	$31,344	$31,626	$31,443	$31,050	16%	17%	-2%	15%
Bottom fifth	6,569	7,471	–	–	–	14	–	–	–
Second fifth	16,369	18,192	–	–	–	11	–	–	–
Middle fifth	27,236	30,787	–	–	–	13	–	–	–
Fourth fifth	42,173	48,234	–	–	–	14	–	–	–
Next tenth	59,293	72,724	–	–	–	23	–	–	–
90th to 99th percentile	$88,670	$123,588	$128,857	$128,562	$130,473	39%	45%	1%	47%
90–95	75,191	98,319	100,801	101,776	102,429	31	34	2	36
95–99	105,519	155,175	163,927	162,044	165,527	47	55	1	57
Top 1.0%	$255,760	$580,976	$655,171	$553,002	$598,570	127%	156%	-9%	134%
99.0–99.5	179,591	299,742	–	–	–	67	–	–	–
99.5–99.9	272,532	525,903	–	–	–	93	–	–	–
99.9–100 (Top 0.1%)	569,521	2,207,437	2,633,800	1,945,820	2,158,892	288	362	-18	279

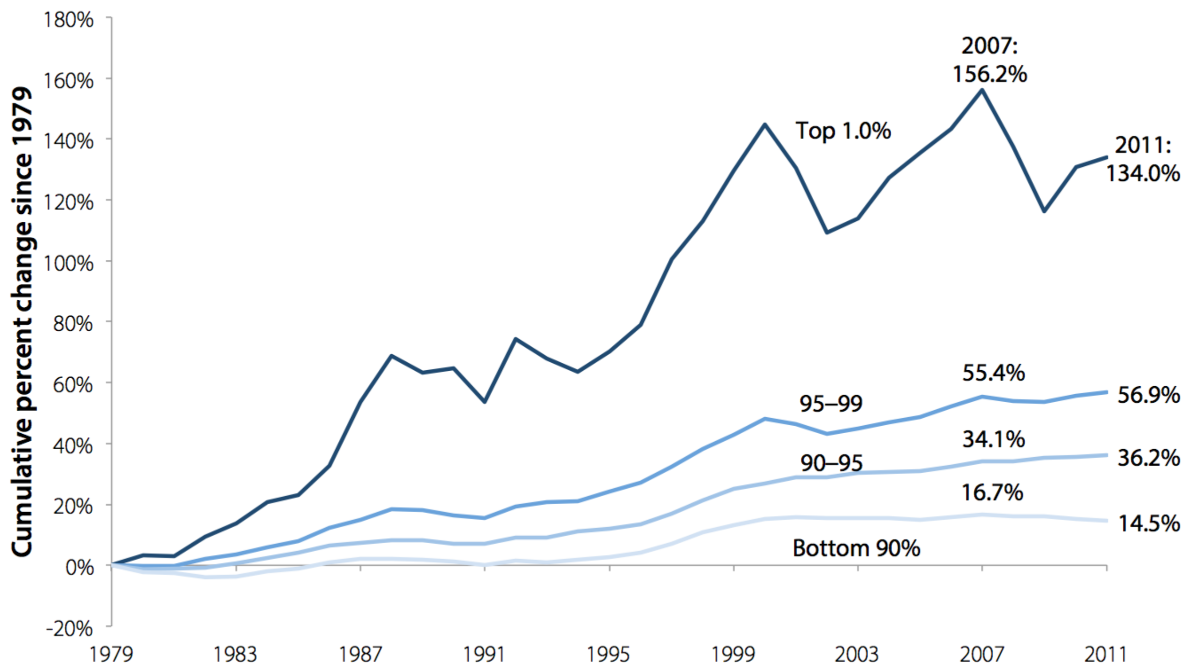
Source: Authors' analysis of Kopczuk, Saez, and Song (2010) and Social Security Administration wage statistics

income for executives (which is counted as wages), which stemmed from the stock market's decline in the wake of the financial crisis. As noted earlier, as the stock market revived after the financial crisis had passed, the top earners started to reverse some of the prior erosion in their earnings share: By 2011, the top 1.0 percent regained 0.9 of the 1.9 percentage points lost from 2007 to 2009 (Table 2). Should the stock market continue to improve, the top 1.0 percent's earnings share will likely return to near the share obtained in 2007—and may surpass it. Even if top earnings do not return to the heights of 2007, the top 1.0 percent's earnings share will clearly remain far above that of the mid-1990s and even further above that of the late 1970s. That is, we will certainly not see any major reversal of wage inequality between the top earners and the vast majority.

As an illustration (and consequence) of the extent of wage inequality growth between 1979 and 2011, note that earnings of the top 1.0 percent grew 134 percent over the period, while those of the bottom 90 percent grew 15 percent (Table 3). These trends, along with annual wage trends of other key wage segments, are presented year-by-year in **Figure B.** It shows that since 1979, wages of the

FIGURE B

Cumulative change in real annual wages, by wage group, 1979–2011



Source: Authors' analysis of Kopczuk, Saez, and Song (2010) and Social Security Administration wage statistics

very highest earners have grown much faster than those of all other workers—both prior to the downturn and in the recovery. This trend was particularly pronounced from 1979 to 2007 (before the recession began), when the cumulative growth of real annual wages of the bottom 90 percent was 17 percent. In contrast, wages grew 156 percent for the top 1.0 percent of earners over this period, nearly 10 times as fast as wage growth among the bottom 90 percent. The top sliver (top 0.1 percent) of earners saw by far the fastest wage growth, enjoying a 362 percent increase from 1979 to 2007 (Table 3). In contrast, the group of earners from the 95th to the 99th percentile experienced wage growth of 55 percent from 1979 to 2007, about a third that of the top 1.0 percent—though more than three times that of the bottom 90 percent.

These data thus illustrate a key characteristic of the wage inequality we have experienced over the last few decades: The gap between the vast middle of wage earners and the top earners has grown—but so has the gap between the top and the very top earners. The upper one-thousandth (the top 0.1 percent) and the upper one-hundredth (the top 1.0 percent) are faring far better than those just below them in the wage hierarchy. As discussed at greater length in *The State of Working America, 12th Edition,* these growing wage gaps—those between the top and the middle, and between the very top and other top wage earners—represent two of the three key wage gaps (the other being the gap between the middle and the bottom) that need to be explained in order to understand the growth of wage inequality.

Conclusion

This paper's findings indicate that while the earnings of the top 1.0 percent fell in the recession, they have rebounded strongly in the recovery. Thus, the trend of growing wage inequality that began in the late 1970s continues today. Trends over the coming years will determine whether wage inequality returns to or exceeds the heights reached in 2007 or 2000—or simply remains far higher than in the 1980s and 1990s. In addition, given the strong stock market recovery and wage growth at the top, the top 1.0 percent's overall incomes (which include wages and capital gains and other returns on financial assets) probably grew strongly in 2011 and, consequently, increased income inequality.

These trends should remain a key focus of policymakers. One important cause of the rapid wage and income growth of the highest earners—particularly the top 1.0 percent—is the sharp increase of corporate CEO pay, a subject explored in *The State of Working America, 12th Edition* and an EPI issue brief previewing the findings (Mishel and Sabadish 2012). Another is the expansion of the financial sector and the increased pay, relative to other workers, of those in the financial sector. Other factors contributing to the overall increase in wage inequality discussed at greater length in *The State of Working America, 12th Edition* include policy decisions (of omission as well as commission) such as those concerning globalization, the minimum wage, collective bargaining rights, industry deregulation, and unemployment.

—***Editor's note:*** *This report is an update to the section of Chapter 4 in* The State of Working America, 12th Edition (*Mishel et al. 2012) entitled "Trends among very high earners fuel growing wage inequality" (pages 194–198). Figures 4G and 4H are updated here as figures A and B; similarly, tables 4.7 and 4.8 are updated as tables 2 and 3.*

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Methodological appendix

Data calculated for this publication represent an extension of earlier research with our own methods. Data are taken from Kopczuk, Saez, and Song (2010), Table A-3. Data for 2006 through 2011 are extrapolated from 2004 data using changes in wage shares computed from Social Security Administration (SSA) wage statistics (data for 2010 are available at http://www.ssa.gov/cgi-bin/netcomp.cgi). The final results of the paper by Kopczuk, Saez, and Song printed in a journal used a more restrictive definition of wages, so we employ the original definition, as recommended in private correspondence with Kopczuk. SSA provides data on share of total wages and employment in annual wage brackets, such as for those earning between $95,000.00 and $99,999.99. We employ the midpoint of the bracket to compute total wage income in each bracket and sum all brackets. Our estimate of total wage income using this method replicates the total wage income presented by SSA with a difference of less than 0.1 percent. We use interpolation to derive cutoffs, building from the bottom up to obtain the 0–90th percentile bracket and then estimating the remaining categories. This allows us to estimate the wage shares for upper wage groups. We use these wage shares computed for 2004 and later years to extend the Kopczuk, Saez, and Song series by adding the changes in share between 2004 and the relevant year to their series. To obtain absolute wage trends, we use the SSA data on the total wage pool and employment and compute the real wage per worker (based on their share of wages and employment) in the different groups in 2011 dollars.

Endnote

1. Stock market percent change for the S&P is calculated from inflation-adjusted S&P index data, available in Mishel et al. (2012), Table 4.43.

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This publication updates data presented in EPI's *The State of Working America, 12th Edition*. Chapters from the book and other resources can be accessed at stateofworkingamerica.org.