To: Senator Marian Walsh, Massachusetts Senate
From: Robert Tannenwald, Director and Vice President and Yael Shavit, Research Assistant
Date: October 3, 2008
Re: Savings to debt ratios, income inequality and tax incidence by income class

Summary

This memo responds to your request for nationwide statistics concerning: “savings to debt ratios”; the degree of income inequality (“wage gap”); and the incidence of taxes by income class. We have compiled nine exhibits that we believe shed light on these issues.

Highlights:

- There is a significant discrepancy between the median net worth of households in the upper income quintiles and those in the lower income quintiles. Households in the bottom income quintile essentially have no net worth; approximately one in eight households in the bottom quintile have negative net worth.
- The share of income and wealth accounted for by the wealthiest 1 percent of households has grown rapidly, and the wage gap between CEOs and average workers has increased.
- The progressivity of federal taxes has not changed dramatically over time. Data on state and local tax incidence indicate that state and local taxes, on average, are regressive.

Savings to Debt Ratio / Household Net Worth

The issue of savings relative to debt is best measured by household net worth, which captures households’ assets minus their liabilities. We thought you would be interested in the net worth of the median household and how household net worth varies by income classes.

The most recent data available (2008:Q1, Federal Reserves’ Flow of Funds Accounts Report) does not provide median net worth; median household net worth figures are available for 2004 (Federal Reserve Board, Survey of Consumer Finances). Chart 1 illustrates the historical trend of average household net worth as calculated using aggregate data from the Federal Reserves’ Flow of Funds Accounts report and Census figures for the number of US households. The most current information from the 2007 March Current Population Survey lists the total number of households in the US at 116,011,000. It is important to note that these averages are skewed by the large concentration of wealth among high net worth households at the top of the income distribution. Additionally, the aggregate data combines household net worth with the net worth of non-profit organizations, which may also skew the averages. As long as the proportion of households to nonprofits and the proportion of household to nonprofit net worth stay relatively comparable year-to-year, these averages can be instructive. In fact, for 2002 and 2004 the averages calculated using these data are similar to household net worth averages obtained from other data sources that do not include non-profits.

Nonetheless, analysis of historical data showing differences between average and median household net worth is useful. Chart 2 and Table 1 display data from 2002 and 2004. Based on current economic conditions and the recent decline in average household net worth displayed in Chart 1, it is likely that current median household net worth for the bottom income classes is lower than it was in 2004. (In 2004, the housing bubble had not yet burst). These data indicate that the bottom fifth of the income distribution has virtually no net worth to speak of at all: one-eighth of all households in this quintile, by one measure, has negative net worth. As is illustrated in Chart 2, the discrepancy between households in the highest income quintile and everyone else is substantial.

We thought you might also take interest in the personal savings ratio, which is the fraction of personal income that is not consumed. Chart 3 represents monthly data on the personal savings ratio over the last two decades. As you can see, this ratio has been declining steadily throughout the period. One explanation for this trend, which is not reflected in this statistic, is that many Americans lack the luxury of saving or have (or rather, had) their savings tied up in their houses.

Income and Wealth Inequality

As with the data on median household net worth, good data are only available with a lag. However, the trends illustrated by Chart 4 and 5 are telling. Both charts show that the share of income and wealth accounted for by the wealthiest 1 percent of households has grown rapidly. Chart 6 illustrates the wage gap between CEOs and average workers from 1965 to 2005 by plotting the ratio of CEO to worker pay. Note that, barring the recession at the turn of the century, there is a general trend of growing disparity between CEO and worker wages. The same organization that calculated those ratios notes that CEO pay was 262 times that of the average worker in 2006 and 270 times that of the average worker in 2007. The figure for 2007 differs from the often-cited statistic that CEO wages are 364 times those of workers. The difference between these figures is accounted for by the methodology used in each study. The commonly-cited figure includes both full and part-time production workers in the average worker pay calculation while the more conservative figure limits the worker pay calculation to full time workers.

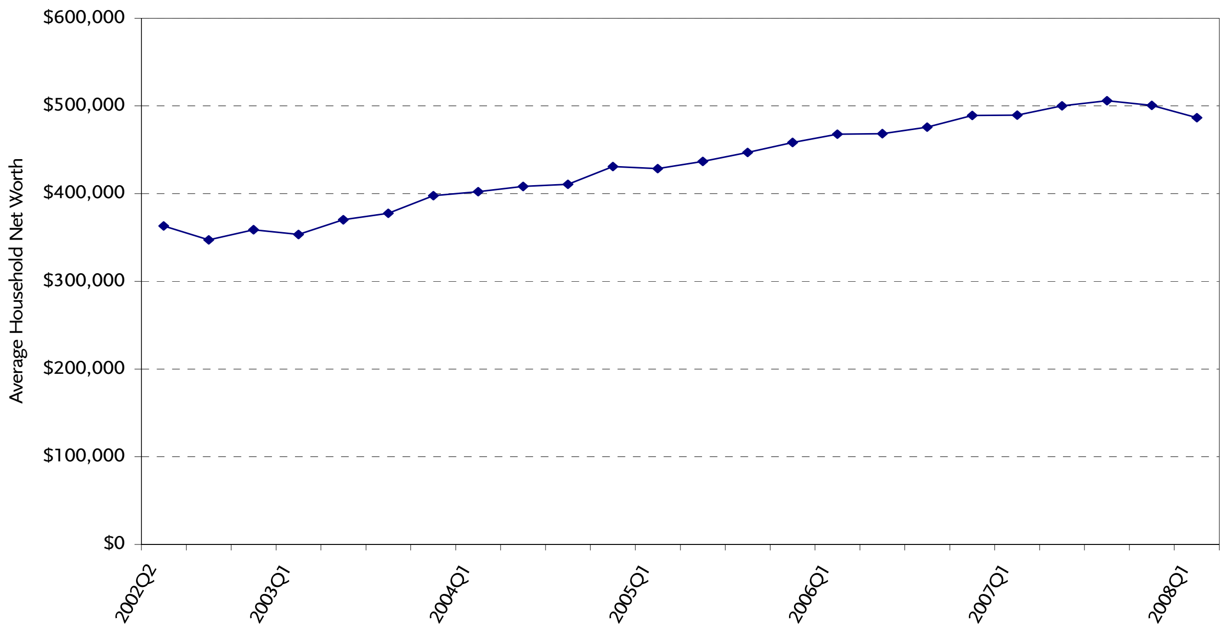
Tax Incidence by Income Class

None of the studies that we found looked at tax incidence by income level of federal, state, and local taxes combined. (Studies of the tax incidence for all of these taxes combined used to be done by Joseph Pechman of the Brookings Institution, but have not been done for decades). Table 2 includes the requested statistics for federal taxes while Table 3 includes US averages for state and local taxes. These data indicate that the degree of progressivity of federal taxes has decreased if one compares the effective tax rate of the wealthiest 1 percent of households relative to the bottom 20 percent of households. In 1979, the difference between these households' effective tax rate was 29 percentage points while in 2005 it was 26.9 percentage points. However, if one compares the effective tax rates of the top and bottom income quintiles the degree of progressivity appears to have increased slightly. The difference between the effective tax rates of the bottom quintile to the top quintile in 1979 was 19.5 percentage points and in 2005 it was 21.5 percentage points. All in all, the progressivity of federal taxes has not changed dramatically over time. However, the extent of progressivity may be overstated by assumptions made in this report. The Congressional Budget Office report from which these data are drawn attributes corporate income taxes to the owners of capital in proportion to their income from interest, dividends, capital gains, and rents. Since income from capital is highly concentrated in high income classes, this assumption exaggerates progressivity and the degree to which it may have increased. Economists are split on the degree to which corporate income taxes are borne by owners of capital, consumers, or workers.

The data on state and local tax burden in 2002 by income class are presented in Table 4 and indicate that state and local taxes tend to be regressive. These data, which come from the Institute for Taxation and Economic Policy, are the latest available that we could find. They are also available for each of the 50 states.

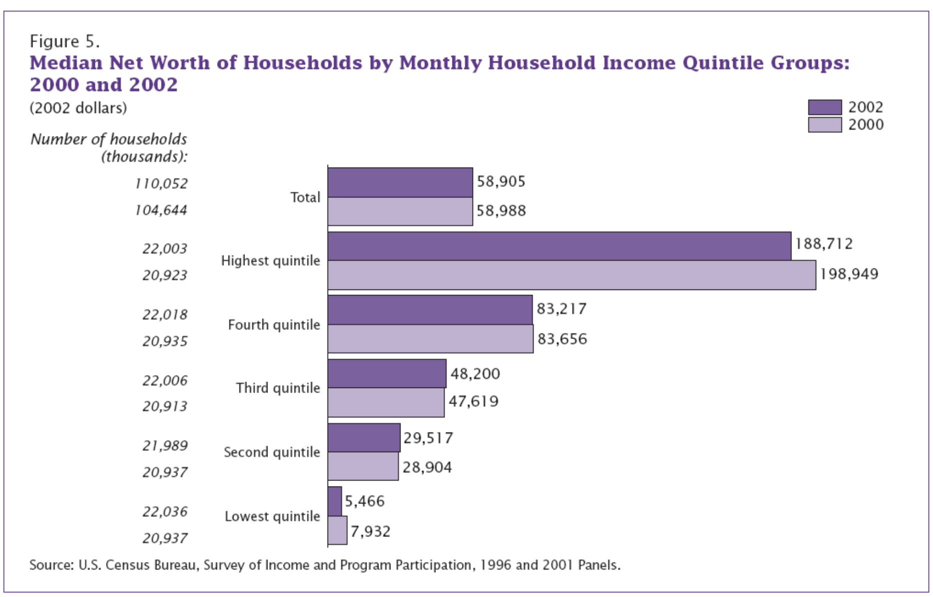
Please let us know if we can be of further help.

Chart 1: Average Household Net Worth per Quarter 2002-2008



Source: Federal Reserve Statistical Release, Flow of Funds Accounts of the United States, September 18, 2008 and US Census Bureau

Chart 2: Median Net Worth of Households by Household Income Quintile Groups: 2000 and 2002



Source: US Census Bureau, "Net Worth and the Assets of Households: 2002"

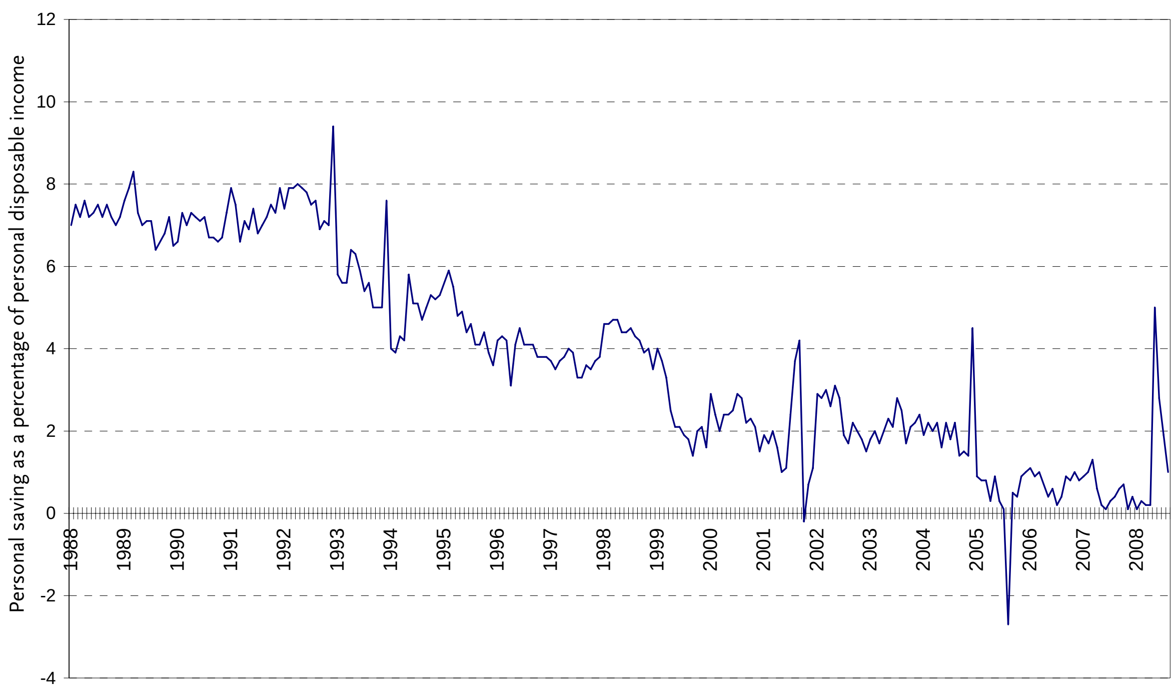
Table 1: Family Net Worth, by Selected Characteristics of Families, 1989-2004 Surveys

(Thousands of dollars)

	2001		2004	
	Median	Mean	Median	Mean
All Families	86.6	397.2	93.0	448.0
Percentiles of net worth				
Less than 25	1.2	†	1.7	-1.3
25-49.9	41.0	44.4	43.6	47.2
50-74.9	157.9	167.3	171.0	185.5
75-89.9	431.5	452.0	506.8	526.9
90-100	1,312.3	2,763.3	1,429.5	3,110.5

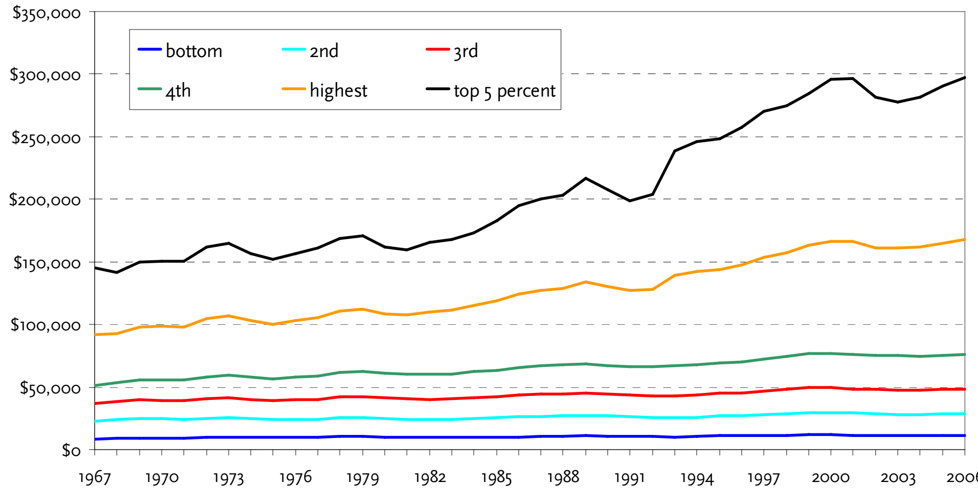
Source: Survey of Consumer Finances 2004

Chart 3: Personal Saving as a Percentage of Income by Month



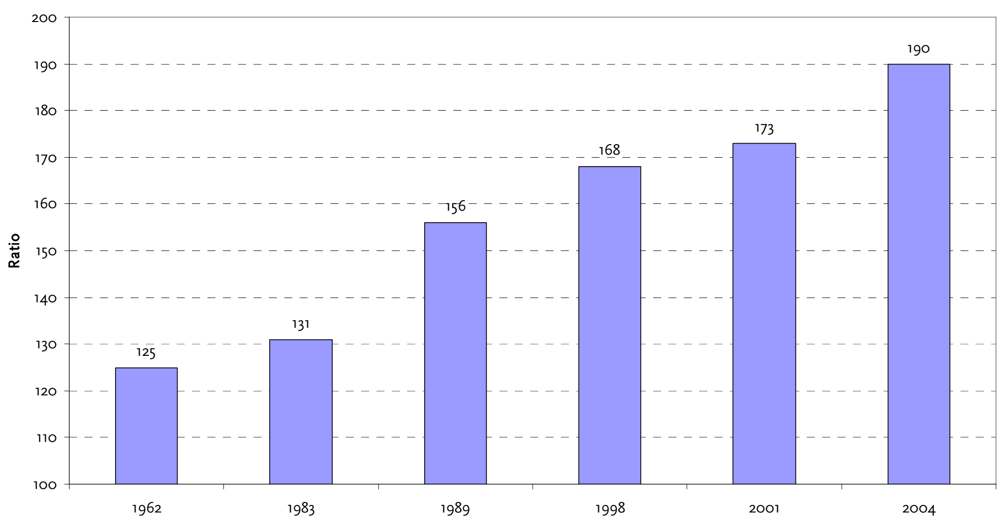
Source: Bureau of Economic Analysis

Chart 4: Growth in Income Inequality, 1967-2006 Average Real Household Income by Quintile and for Top Five Percent



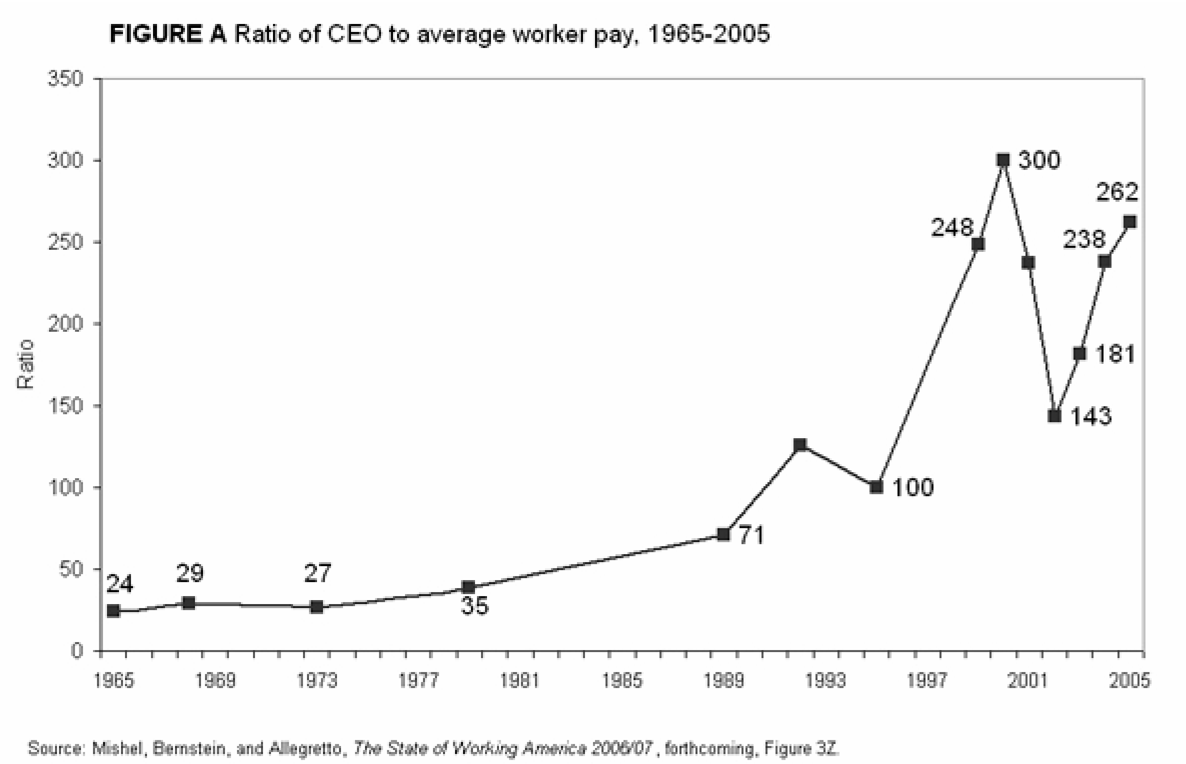
Source: U.S. Census Bureau

Chart 5: The Ratio of the Wealthiest One Percent to Median Wealth in the United States



Source: Ed Wolff, unpublished data, 2006

Chart 6: CEO to Average Worker Wage Gap



Source: Economic Policy Institute, *Economic Snapshots* July 21, 2006

Table 2: Effective Federal Tax Rates for All Households, by Comprehensive Household Income Quintile, 1979-2005 *

Year	Lowest Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Highest Quintile	All Quintiles	Top 10%	Top 5%	Top 1%
1979	8.0	14.3	18.6	21.2	27.5	22.2	29.6	31.8	37.0
1980	7.7	14.1	18.7	21.5	27.3	22.2	29.0	30.8	34.6
1981	8.3	14.7	19.2	22.1	26.9	22.4	28.2	29.4	31.8
1982	8.2	13.8	17.9	20.6	24.4	20.7	25.3	26.0	27.7
1983	9.1	13.7	17.5	20.1	23.9	20.4	24.8	25.6	27.7
1984	10.2	14.6	18.0	20.4	24.3	21.0	25.2	26.1	28.2
1985	9.8	14.8	18.1	20.4	24.0	20.9	24.7	25.4	27.0
1986	9.6	14.8	18.0	20.5	23.8	20.9	24.3	24.6	25.5
1987	8.7	14.0	17.6	20.2	25.8	21.6	27.2	28.5	31.2
1988	8.5	14.3	17.9	20.6	25.6	21.8	26.7	27.8	29.7
1989	7.9	13.9	17.9	20.5	25.2	21.5	26.3	27.2	28.9
1990	8.9	14.6	17.9	20.6	25.1	21.5	26.1	27.0	28.8
1991	8.4	14.2	17.6	20.5	25.3	21.5	26.6	27.6	29.9
1992	8.2	13.7	17.4	20.2	25.6	21.5	26.9	28.1	30.6
1993	8.0	13.5	17.3	20.2	26.8	22.0	28.6	30.5	34.5
1994	6.6	13.1	17.3	20.4	27.4	22.3	29.4	31.3	35.8
1995	6.3	13.4	17.3	20.5	27.8	22.6	29.8	31.8	36.1
1996	5.6	13.2	17.3	20.3	28.0	22.7	30.1	32.0	36.0
1997	5.8	13.6	17.4	20.5	28.0	22.9	29.9	31.6	34.9
1998	5.8	13.0	16.8	20.4	27.6	22.6	29.3	30.8	33.4
1999	6.1	13.3	16.9	20.5	28.0	22.9	29.7	31.2	33.5
2000	6.4	13.0	16.6	20.5	28.0	23.0	29.6	31.0	33.0
2001	5.1	11.5	15.3	18.9	26.7	21.4	28.5	30.0	32.8
2002	4.7	10.8	14.8	18.3	26.0	20.7	27.9	29.5	32.8
2003	4.6	9.8	13.8	17.4	25.0	19.8	26.8	28.5	31.7
2004	4.3	9.9	14.1	17.3	25.2	20.1	27.1	28.7	31.4
2005	4.3	9.9	14.2	17.4	25.5	20.5	27.4	28.9	31.2

Source: Congressional Budget Office, "Historical Effective Federal Tax Rates 1979 to 2005

* Effective tax rates are for the four largest sources of federal revenues - individual income taxes, social insurance (payroll) taxes, corporate income taxes, and excise taxes

Table 3: State & Local Taxes in 2002: Shares of Family Income for Non-Elderly Taxpayers

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than $15,000	$15,000 – $25,000	$25,000 – $40,000	$40,000 – $69,000	$69,000 – $147,000	$147,000 – $304,000	$304,000 or more
Average Income in Group	$9,300	$19,700	$31,900	$52,500	$95,300	$202,300	$1,080,900
Sales & Excise Taxes	**7.8%**	**6.4%**	**5.1%**	**4.1%**	**3.1%**	**2.0%**	**1.1%**
General Sales—Individuals	3.6%	3.3%	2.7%	2.3%	1.8%	1.2%	0.6%
Other Sales & Excise—Ind.	1.9%	1.3%	0.9%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.3%	1.9%	1.4%	1.1%	0.8%	0.6%	0.4%
Property Taxes	**3.1%**	**2.3%**	**2.5%**	**2.6%**	**2.6%**	**2.3%**	**1.4%**
Property Taxes on Families	3.0%	2.2%	2.4%	2.4%	2.4%	2.0%	0.8%
Other Property Taxes	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.6%
Income Taxes	**0.6%**	**1.6%**	**2.3%**	**2.7%**	**3.2%**	**3.8%**	**4.8%**
Personal Income Tax	0.5%	1.6%	2.2%	2.7%	3.2%	3.7%	4.5%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	**11.4%**	**10.4%**	**9.9%**	**9.4%**	**8.9%**	**8.1%**	**7.3%**
Federal Deduction Offset	–0.0%	–0.1%	–0.3%	–0.6%	–1.2%	–1.6%	–2.0%
TOTAL AFTER OFFSET	**11.4%**	**10.3%**	**9.6%**	**8.8%**	**7.7%**	**6.5%**	**5.2%**

Note: Table shows 2002 tax law at 2000 income levels.

Source: The Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax