

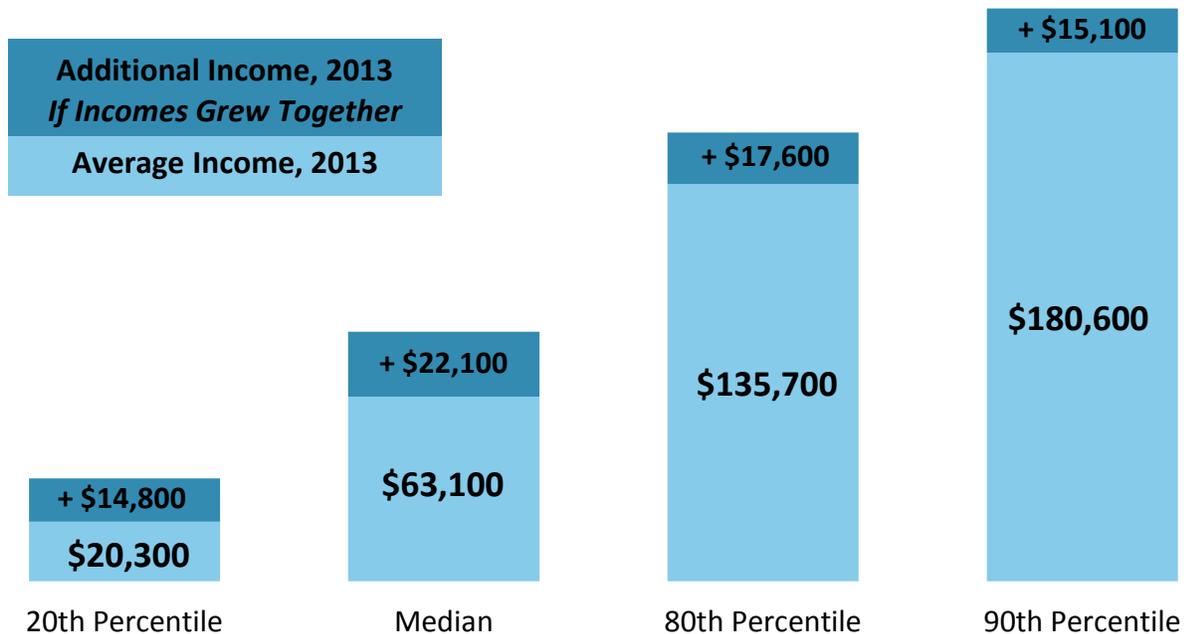
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The Effects of Skewed Growth on Household Incomes

Throughout the 1950s, 1960s, and much of the 1970s, as the U.S. economy grew, incomes increased steadily, and at similar rates, for low, middle, and high income households.¹ Starting in the late 1970s, however, income growth slowed dramatically for most Americans, except those with the very highest incomes. A number of factors led to this change including a sharp decline in the level of unionization, the erosion of the real value of the minimum wage, and changes in trade and macroeconomic policies.^{2&3} This shift in income growth patterns occurred both at the national level and here in Massachusetts. In recent decades, all 50 states have seen a rise in the share of income going to the top 1 percent of households.⁴

Most Incomes Would Be Higher, If Incomes Grew Together (1979-2013)

Average 2013 pre-tax household income in Massachusetts, by income group (2014\$)



Source: Economic Policy Institute Analysis of Current Population Survey.

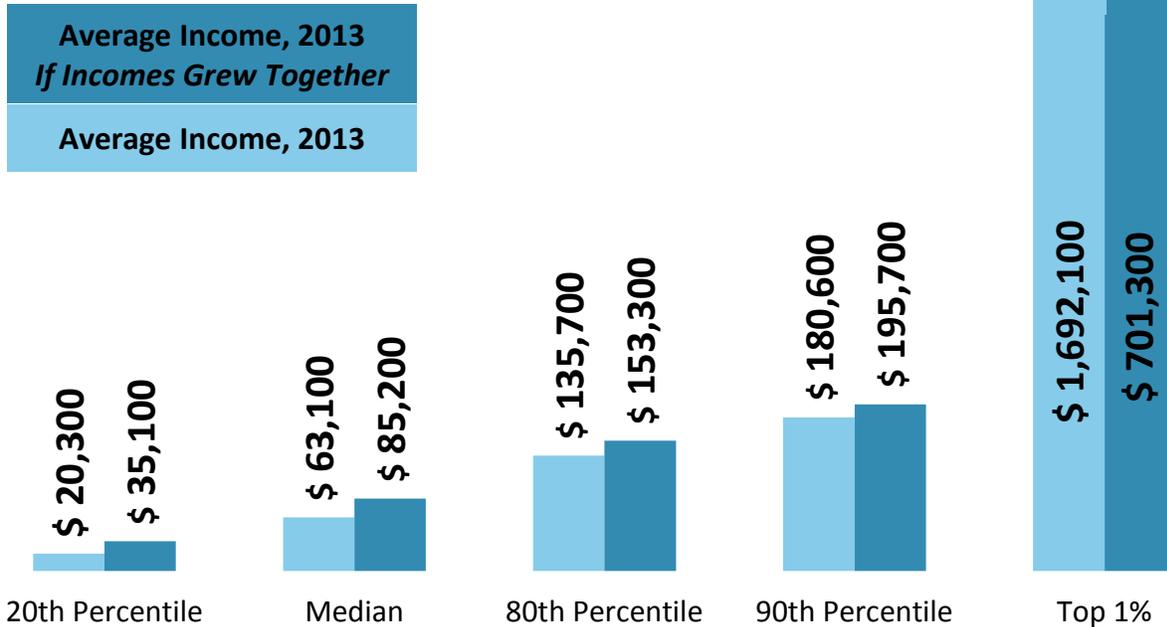
Note: The overall MA pre-tax income growth rate between 1979 to 2013 is 62.1%.

Had incomes for people at all income levels continued to grow in line with overall income growth from 1979 through 2013, 90 percent of Massachusetts households would have substantially higher incomes today.⁵ Median household income would have been about \$22,000 higher in 2013, and households in the bottom 20 percent would have seen about \$15,000 more income. Even those in the 80th and 90th percentile of income earners would have seen a substantial boost (\$17,600 and \$15,100, respectively).

The same is not true of those in the top 1 percent. Had their income grown in line with the overall average income growth of 62.1 percent, rather than the 291 percent by which their income actually grew, then the average income of these households in 2013 would have been about \$701,000 a year rather than \$1.7 million.

Top Incomes Have Grown at Faster Rates (1979-2013)

Average 2013 pre-tax income in Massachusetts by income group (2014\$)



Source: Economic Policy Institute Analysis of Current Population Survey (90th percentile and below) and top income dataset in Massachusetts (top 1 percent).

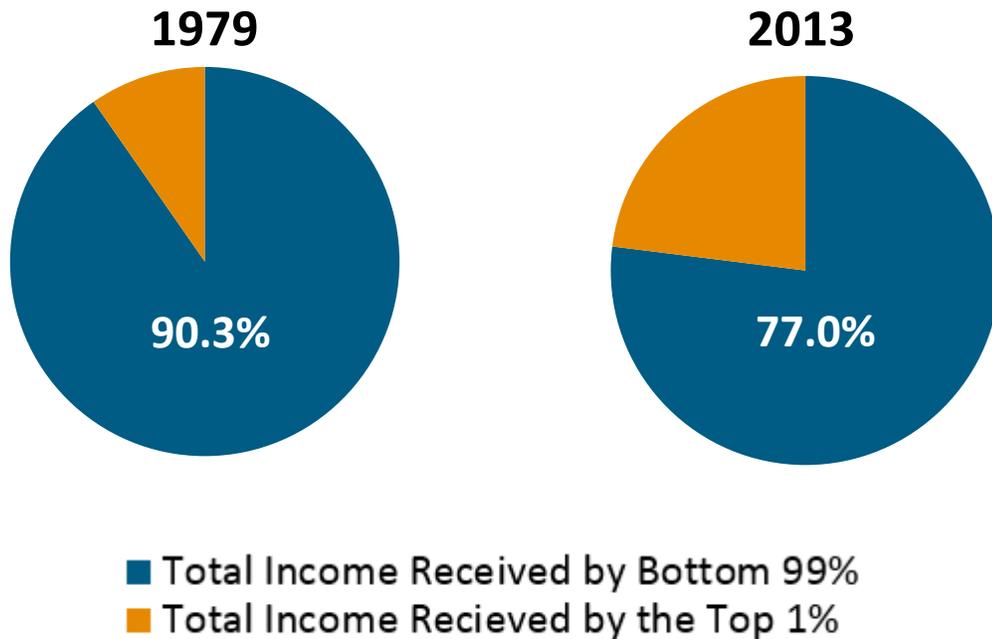
Note: The overall MA pre-tax income growth rate between 1979 to 2013 is 62.1%.

THE FULL BENEFITS OF ECONOMIC GROWTH ARE NOT REACHING MOST FAMILIES

The chart below displays a snapshot of the years 1979 and 2013. The circles represent the total personal income of all people in Massachusetts in each of those years and the distribution of that income between the highest income 1 percent of the population and everyone else. In 1979, the bottom 99 percent of households received about 90 percent of the income in the state. By 2013, this group received a much smaller share of the overall income in the state – just 77 percent. In Massachusetts, the incomes of the top 1 percent are, on average, 30 times the average income of those in the bottom 99 percent. In 1979, the top 1 percent had incomes about 10 times larger than the average household did in the bottom 99 percent.

Share of Income Received by Bottom 99 Percent Has Declined Since 1979

Income shares of top 1% and bottom 99% of earners in Massachusetts, 1979 and 2013



Source: Economic Policy Institute Analysis of top income dataset in Massachusetts.

TOP 1 PERCENT PAYS SMALLEST SHARE OF INCOME IN STATE AND LOCAL TAXES

As those with high incomes continue to benefit the most from economic growth, they also pay a smaller share of their income in state and local taxes than the rest of the taxpayers in the Commonwealth. If our highest income households were contributing at the same average level as the bottom 99 percent of taxpayers, this would generate over \$2 billion per year in additional tax revenue. This revenue could be directed toward smart investments that would expand opportunity for Massachusetts families and strengthen our state economy. See MassBudget's [Examining Tax Fairness and Funding Improvements for Schools, Roads, and Public Transit with Tax Reforms that Improve Fairness](#) factsheets.

Big Winners in the Economy Have Lower Tax Levels

MA state and local taxes as a share of household income by income group



Source: Institute on Taxation and Economic Policy. All Taxpayers, 2012 income and 2015 tax law

While many of the deep solutions for raising the wages and income of working people would need to be implemented at the national level, states like Massachusetts can continue adopting policies that will help strengthen our state economy while also reducing extreme inequality. Our Commonwealth already has taken important steps to improve the economic lives of working people and families. In recent years, Massachusetts has passed Earned Paid Sick Time legislation, adopted a phased increase of the state minimum wage to \$11 an hour by 2017, and expanded the state Earned Income Tax Credit (EITC), boosting after-tax incomes for Massachusetts' working families. But, there is more we can do to raise wages, improve working conditions, and expand educational and job opportunities for people in every community of our Commonwealth.

¹ Economic Policy Institute, "Rising income Inequality and the Role of Shifting Market-Income Distribution, Tax burdens, and Tax Rates." June 2013: <http://www.epi.org/publication/rising-income-inequality-role-shifting-market/> Pg. 1 & 3

² Economic Policy Institute, "Raising America's Pay." June 2014: <http://www.epi.org/publication/raising-americas-pay/> Pg. 7

³ Economic Policy Institute, "Raising the Minimum Wage to \$12 by 2020." July 2015: <http://www.epi.org/publication/raising-the-minimum-wage-to-12-by-2020-would-lift-wages-for-35-million-american-workers/> Figure A

⁴ Economic Policy Institute, "The Increasingly Unequal States of America." January 2015: <http://www.epi.org/publication/income-inequality-by-state-1917-to-2012/> Pg. 4

⁵ **Technical Note:** To make this factsheet more user-friendly, the terms households, taxpayers, and families are used interchangeably. The income data used throughout is derived from two separate datasets, which blend together reported *household* income data and *tax filer* unit data. Data for the 20th percentile, median, 80th and 90th percentile comes from the U.S. Census Current Population Survey, which provides accurate income data on most households, but is not well suited to track trends among the highest-income households, especially the top 1 percent. Therefore, top income trends in this paper draw on the Economic Policy Institute's Price/Sommeiller top income dataset, which in turn offers estimates using data from the U.S. Internal Revenue Service (IRS) SOI Tax Stats on *tax filer* units. When people file taxes with the IRS, they do so on behalf of their tax unit, which may be an individual or a married couple that file together. In most, but not all, cases a household and tax unit are one and the same. The second chart uses the two data sources. It shows what incomes were for the 20th percentile, median, 80th percentile, 90th percentile, and the top 1% in 2013 and compares that to what they would have been if income at each level had grown at the same rate (the rate of average income growth) since 1979. This average rate (62.1%) comes from the SOI tax stats. Lastly, in an effort to reduce their tax liabilities in anticipation of higher top marginal federal tax rates set to take effect in 2013, many high income earners shifted income from 2013 into 2012 (by selling stocks and other assets).