

Bush tax cuts, stock market widen income gap

Tami Luhby

January 04, 2012

The rich have gotten richer, thanks to the stock market and the Bush tax cuts, a recent report has found.

Growth in income from capital gains and dividends has widened the divide between the wealthy and the poor in recent years, according to the non-partisan Congressional Research Service. It supplanted wage inequality as the primary driver of the growing income gap, which helped spur the Occupy Wall Street movement last fall.

After-tax income for the top 1% of taxpayers soared 74%, on average, between 1996 and 2006. The top 0.1% benefited even more, nearly doubling their income over that decade.

By comparison, the bottom 20% of taxpayers saw their income fall by 6%, while the middle quintile experienced a meager 10% gain.

But "income" means something very different for the rich than for the poor.

High-income people benefited in particular from the stock market boom in the late 1990s and from companies enjoying strong profit growth and paying out healthy dividends more recently, said Harry Holzer, professor at the Georgetown Public Policy Institute. In 1996, the top 1% of taxpayers relied on wages for 34.4% of their income. A decade later, that number had fallen to just over a quarter, the report found. Meanwhile, income from capital gains and dividends grew by nearly 7.5 percentage points to 38.2% of earnings.

The Bush tax cuts, which lowered rates on both income and capital gains, also helped fuel the growth in income inequality, according to the report. The difference in tax rates paid by the poor and the rich narrowed, with the Top 0.1% of American taxpayers seeing their average tax rate fall by about a quarter.

"It made the tax system less progressive, one more thing favoring the wealthy," Holzer said.

Just what happens to the Bush tax cuts, which expire at the end of the year, remains to be seen. They were the subject of a heated partisan battle at the end of 2010, with Democrats favoring increasing rates on wealthy Americans to help narrow the deficit.

Republicans, meanwhile, staunchly opposed any tax hikes on the rich, saying it would hurt job creation and weaken the economy.

This year, the two parties will likely lock horns again over taxes as they fight for control of the White House.

Last month, President Obama came out swinging against the GOP in a speech in December, blasting the party for exacerbating inequality by supporting the Bush tax cuts.

"We know it doesn't result in a prosperity that trickles down. It results in a prosperity that's enjoyed by fewer and fewer of our citizens," he said.