The following describes the sources and reasoning behind figures regarding the amount aggregate consumption reduced annually in the economy ($1.2 trillion) resulting from increased inequality in the United States since 1973; the number of jobs that that amount of consumption in the American economy ordinarily would support (13-14 million jobs in a year, averaging $22 per hour); and, the reduction in wages to the bottom 90 percent of workers ($13,300 on average annually per equivalent full-time worker) due to rising inequality in pay and to increased profits as a percentage of GDP.

I. Compensation and Profits Going to the Top 10 Percent of Earners Relative to the Median Earner, 1973-2012:

A. Pay to top earners relative to the median earner over the period from 1973-2006 (Source—Economic Policy Institute (EPI), State of Working America, 2008-9, p. 146, 147, 161) Dollar figures for each group (the top 0-1%, 1-5%, and 5-10% of earners, and the median earner) are in real terms.

Pay going to the top 1% of workers (from EPI, pp. 146-47 combined) increased from $195,000 in 1973 to $576,000 in 2006. The difference from 1973-2006 is $381,000. Multiplied by 1.5 million workers (approximately 1 percent of employed workers in 2006) equals $ 572 billion. Subtract 13 percent for the median rise in compensation (shown on graph on p. 161) equals $498 billion coming from widening inequality to the top 1 percent from 1973-2006.

Pay going to the next 4% of workers (the top 1% -5% of workers, again combining EPI, pp. 146-47) increased from $87,000 in 1973 to $148,000 in 2006. The difference from 1973-2006 is $61,000. Multiplied by 6 million workers (approximately 4 percent of employed workers in 2006) equals $366 billion. Subtract 13 percent for the median rise in compensation equals $318 billion.
Pay going to the next 5% of workers (the top 5% -10% of workers, from EPI, pp. 146-47 combined) increased from $63,000 in 1973 to $91,800 in 2006. The difference from 1973 to 2006 is $28,800. Multiplied by 7.5 million workers (approximately 5 percent of employed workers in 2006) equals $216 billion. Subtract 13 percent for the median rise in compensation equals $188 billion.

Adding the three figures ($498 billion, $318 billion, and $188 billion), the total in disproportionate raises going to the top 10 percent from 1973-2006 equals just over $1 trillion.


From Figure B in Mishel, the difference between the average hourly compensation and median hourly compensation curves from 2006-2011 is about 3.5 percent. 3.5 percent of total compensation in the economy (approximately $8 trillion) is $280 billion. Of that, I am assuming that the vast majority of the difference went to the top 10 percent. An estimate is $200 billion.

C. Adding IA+IB together ($1 trillion and $200 billion) equals $1.2 trillion, the total amount of pay going to the top in 2011 relative to 1973 minus the median percentage rise in compensation.

D. Corporate profits as a percentage of the economy: (Source: Ted Kavadas, “Corporate profits as a Percentage of GDP,” based on Federal Reserve economic data, 1950-2014, http://www.economicgreenfield.com/2014/03/29/corporate-profits-as-a-percentage-of-gdp-6/) Profits have risen from a normal historic level at 6.5 percent or less by 4 percentage points or more since 2004. (They have risen similarly relative to aggregate compensation.) As a proportion of a $15 trillion GDP, 4 percent amounts to $600 billion. If one-fifth is due to foreign operations (see Yardeni Research, “U.S. Economic Indicators: Corporate Profits in GDP,” Figure 8, http://www.yardeni.com/pub/ppphb.pdf), that leaves $480 billion
within the United States. A minimum of 75 percent of profits go to the top 10 percent, which equals $360 billion.

E. The year 2012: Adding IC+ID together ($1.2 trillion from pay inequality up to 2011 and $360 billion from increased profits to 2011) equals $1.56 trillion going to the top in 2011 from pay (minus the median percentage raise) and from increased profits relative to GDP. Estimating for 2012, during which profits rose by another half percent of GDP, the total figure of money going to the top in 2012 equals about $1.6 trillion. A little more than three-quarters of the $1.6 trillion comes from widening disparities in pay and the remainder comes from increased profits as a percentage of GDP.

II. Difference in Consumption Relative to Income: Comparing the Top 10 Percent of Households and the Median Household:

(Source: Bureau of Labor Statistics (BLS), Consumer Expenditure Survey, 2011, Tables 2 and 2301)

A. Median income households (from BLS, Table 2): after-tax income for 2011=$44,200 and expenditures= $40,300; propensity to consume equals 91%.

B. Top-income households (above $150,000) relative to penultimate households (income $120,000-$149,999) in 2011, from BLS, Table 2301, spend $35,400 of additional $104,400 after-tax dollars, equals a 34.2% marginal propensity to consume. 2011 CE Expenditure Tables - Bureau of Labor Statistics [www.bls.gov/cex/csxstnd.htm](http://www.bls.gov/cex/csxstnd.htm), Table 2301

The difference in the percentage of income spent on consumption shown in IIA (91%) and IIB (34.2%)—between median-income households and top-income households—equals 57 percent (I use 60 percent, since the vast preponderance of income at the top is far above the $232,000 average of top-income households). The median household, that is, has a marginal propensity to consume that is, on average, approximately three times the marginal propensity to consume of top-income households. For the difference in the marginal propensity to consume (MPC), see also economists Atif Mian (Princeton University)
and Amir Sufi (University of Chicago), "Household Balance Sheets, Consumption and the Economic Slump," 2013 [http://www.stlouisfed.org/household-financial-stability/events/20130205/papers/Sufi.pdf] where they conclude on page 3: “Households with annual income less than $35 thousand have an MPC that is three times as large as the MPC for households with more than $200 thousand in income.”

III. Total Reduced Consumption:

To determine the total reduced consumption in 2012 due to pay raises beyond the median and increased profits going to the top, I multiply $1.6 trillion in disproportionate income to the top (from IE above) by 60 percent (from IB above). That equals $960 billion, plus a standard multiplier of 1.25 ($240 billion), produces a reduction in consumption demand of $1.2 trillion in 2012 following from the widening disparity of pay and increased profits going to the top since 1973.

IV. Calculation Regarding Lost Jobs:

In 2007 (the last year before the recession), consumption demand, including government consumption spending, totaled a little over $12 trillion (Statistical Abstract of the United States, 2011-12, combining Tables 675 and 676), which supported 146 million jobs. That amounts to approximately $85,000 of consumption spending, on average, per job (averaging $22 per hour, according to Department of Labor statistics). At this rate, $1.2 trillion in added consumption demand from gaining control over pay disparities and increased profits has a potential to support up to 13-14 million new jobs averaging $22 per hour. The great majority of the new employment would involve jobs generated from within the private sector. The potential here is large enough to produce an economy of continuing full employment even at higher labor participation rates than now exist.
V. Calculation Regarding Increased Median Pay:

There are 120 million equivalent year-round full-time workers in the economy. Taking the $1.6 trillion in disproportionate pay at the top and in disproportionate profits (see IE above), had the disproportionate revenues instead gone into proportionate pay raises for workers, enabling them also to produce the consumption demand to create the jobs noted in the previous section, it would result in a **median pay increase of about $13,300 per equivalent year-round full-time worker**. A family with an equivalent one and three-quarters year-round full-time workers would realize a boost in pay of about $23,700.