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Bridging the income gap

Though the gulf between rich and poor has grown, spending levels have been steady, thanks to credit.

October 25, 2002: 8:12 AM EDT

By [Mark Gongloff](#), CNN/Money Staff Writer

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NEW YORK (CNN/Money) - While the rich got richer and the poor got poorer in recent decades, a new economic study has found that the difference between the spending power of rich and poor Americans has barely changed -- but mostly because poorer Americans have sunk deeper into debt.

In the study, published in the November 2002 edition of the National Bureau of Economic Research's monthly "Digest," Stanford economist Dirk Krueger and New York University economist Fabrizio Perri found that, while one measure of the income gap between the richest and poorest Americans rose by 25 percent between 1972 and 1998, the spending gap between them grew just two percent.

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The economists, who based their findings on a study of the annual Consumer Expenditure surveys conducted by the Bureau of Labor Statistics, in a sense offered a response to an article by Princeton economist Paul

Krugman published last Sunday in the *New York Times Magazine*.

In that article, Krugman warned of the return of a "Gilded Age," such as one that existed in the United States before the Great Depression, when the richest Americans had a stranglehold on the nation's resources.

But Krueger and Perri suggested that, this time around, rich Americans seem actually to be helping poorer Americans get access to cash to raise their living standards.

Richer Americans, the economists said, saved more money in the 1990s, as insurance against the higher volatility of their income. Meanwhile, poorer Americans had greater access to credit than ever because banks had more funds on deposit, enabling banks to borrow from the rich and lend to the poor.

"This development was the crucial factor

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for the divergence between income and consumption inequality in the last 25 years," the economists said. "[T]he distribution of current income might not measure well how economic well-being is distributed among households in the United States."



Of course, "economic well-being" in this context simply means the ability of poorer Americans to buy stuff like houses, cars and clothes. It doesn't refer to the economic consequences of millions of Americans sinking deeper into debt.

Americans spend about \$1.22 for every dollar they earn, according to credit-counseling site Myvesta.org, and the American Bankruptcy Institute has reported that personal bankruptcy filings have jumped 44 percent since 1992, due largely to excessive levels of debt. ■

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