

# Income Concentration and Intergenerational Mobility

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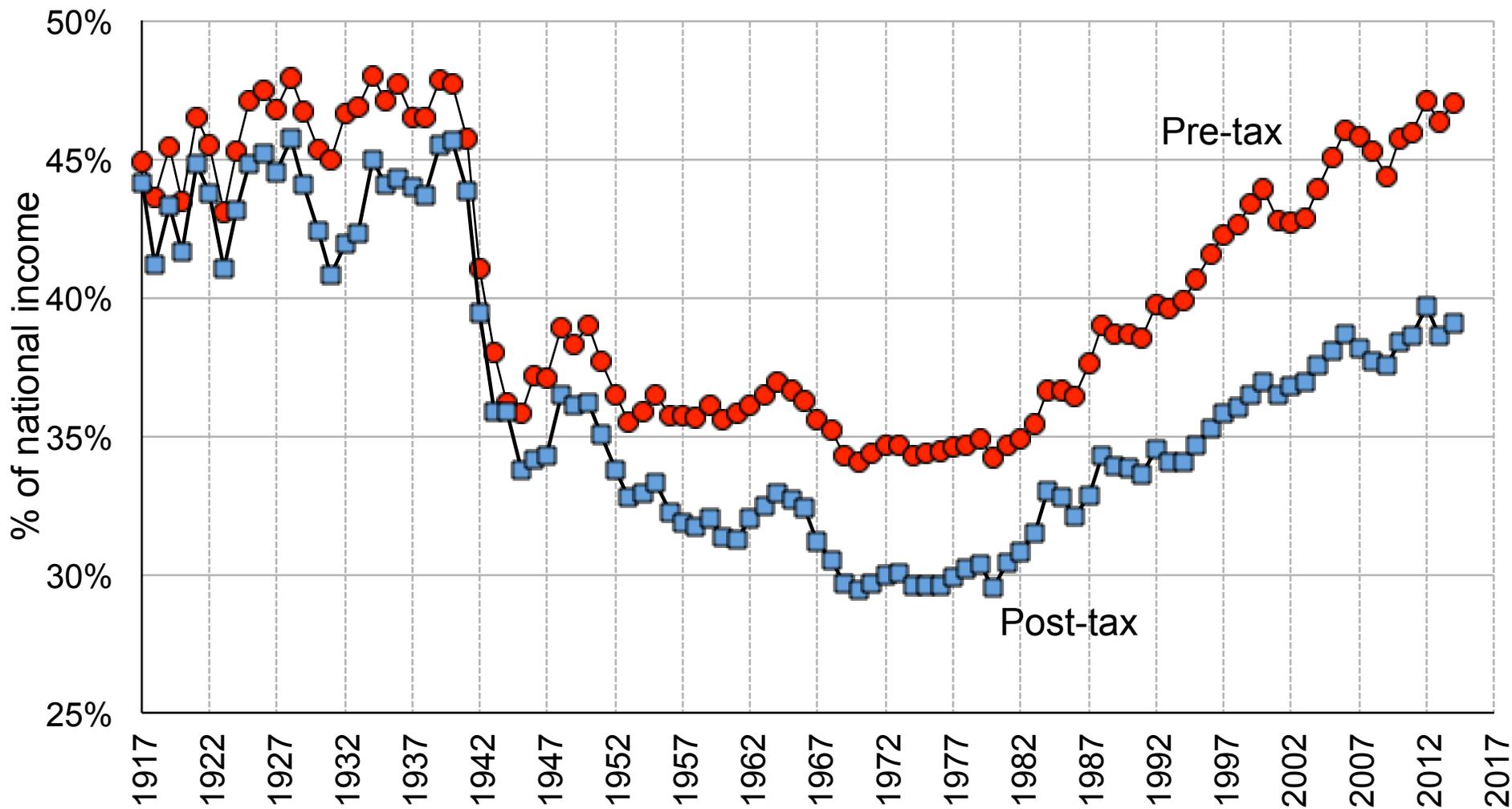
## **Growing Income Concentration**

US has experienced growing income inequality and hence inequitable growth

In Piketty, Saez, Zucman (2016), we distribute total National Income across all adults on a pre-tax and post-tax basis

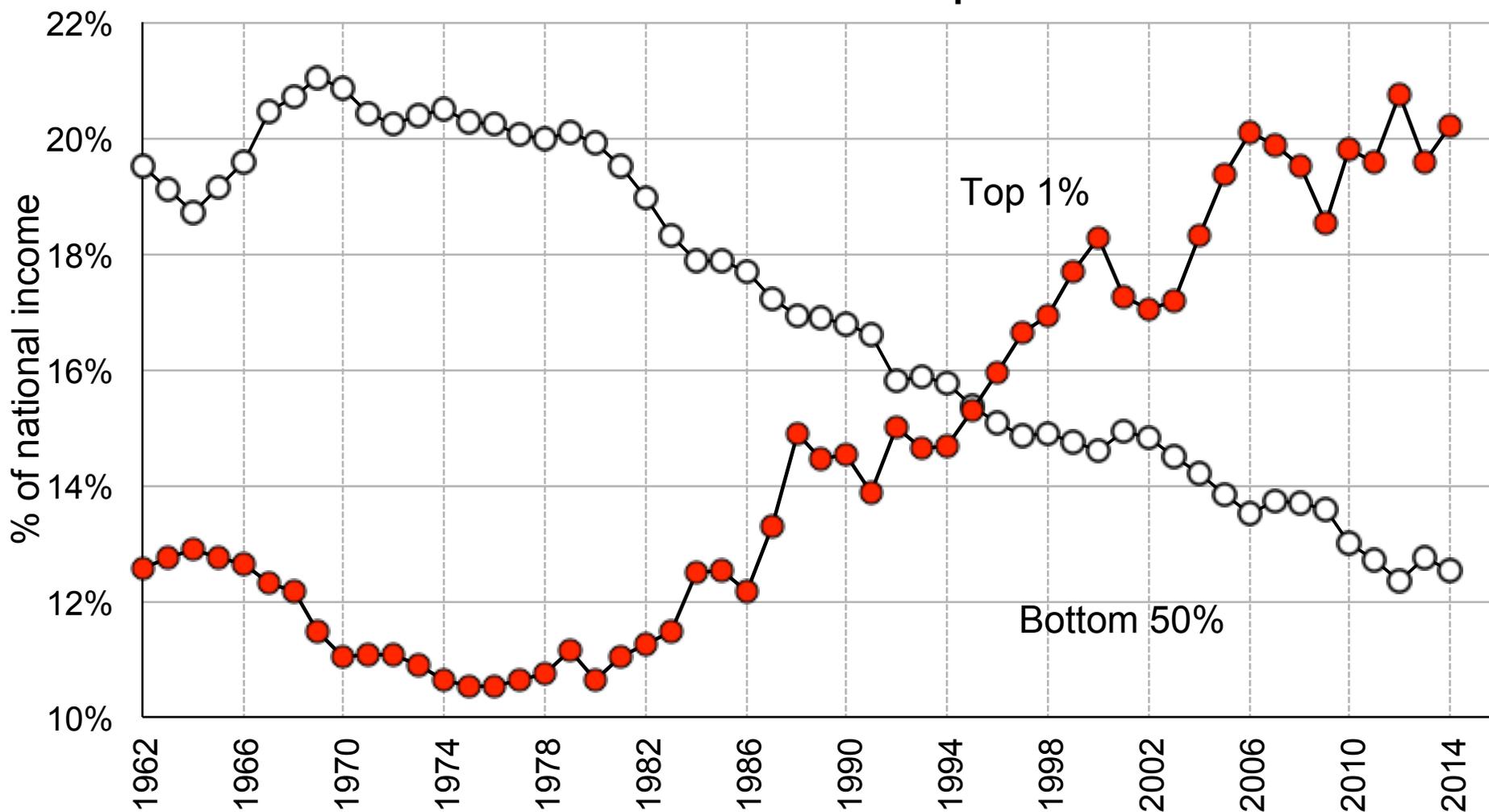
- 1) Share of income going to top groups has increased sharply
- 2) Economic growth much lower when excluding top earners
- 3) Income concentration increase due to both labor and capital

## Top 10% national income share: pre-tax vs. post-tax



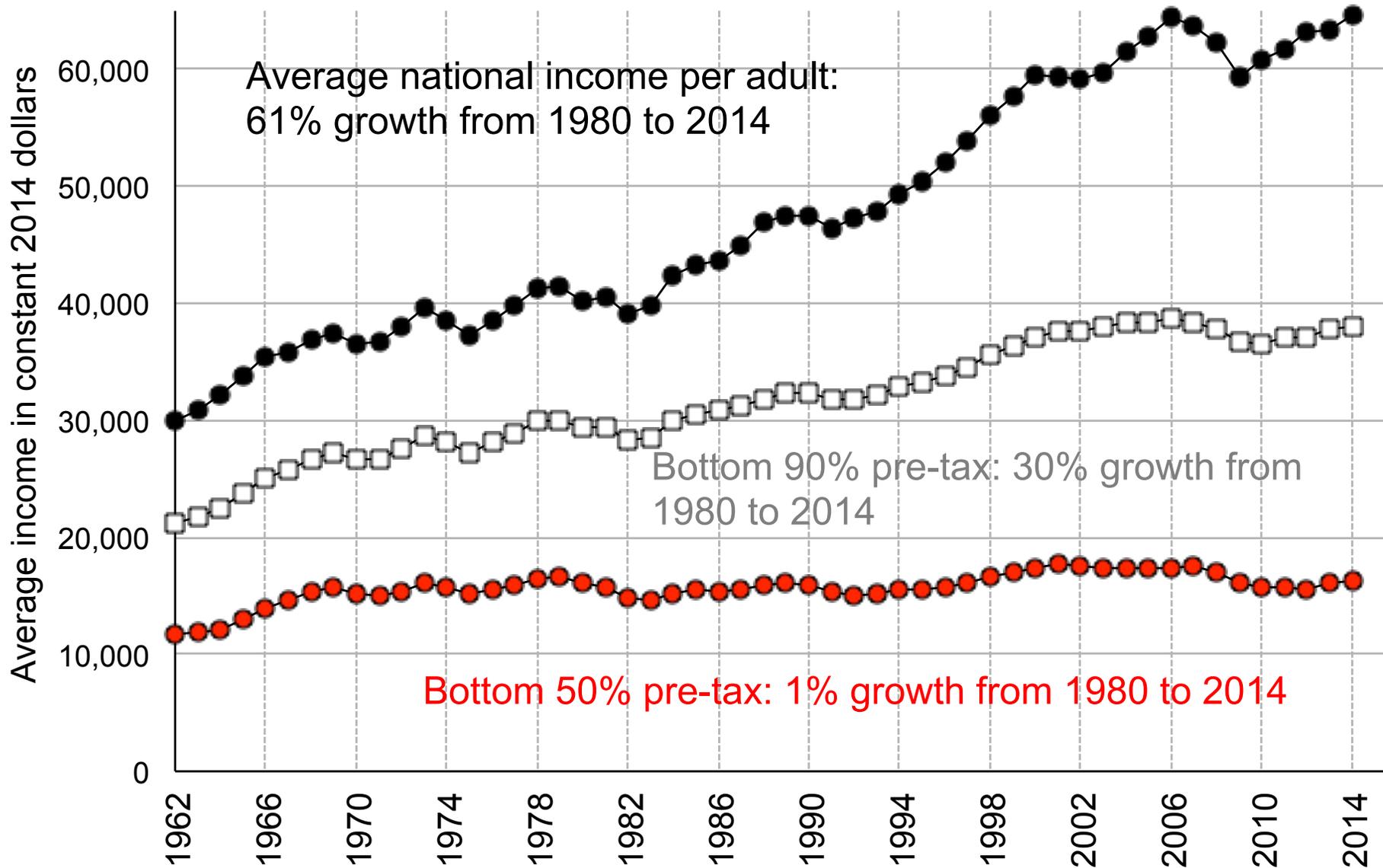
Source: Appendix Tables II-B1 and II-C1

## Pre-tax national income share: top 1% vs. bottom 50%

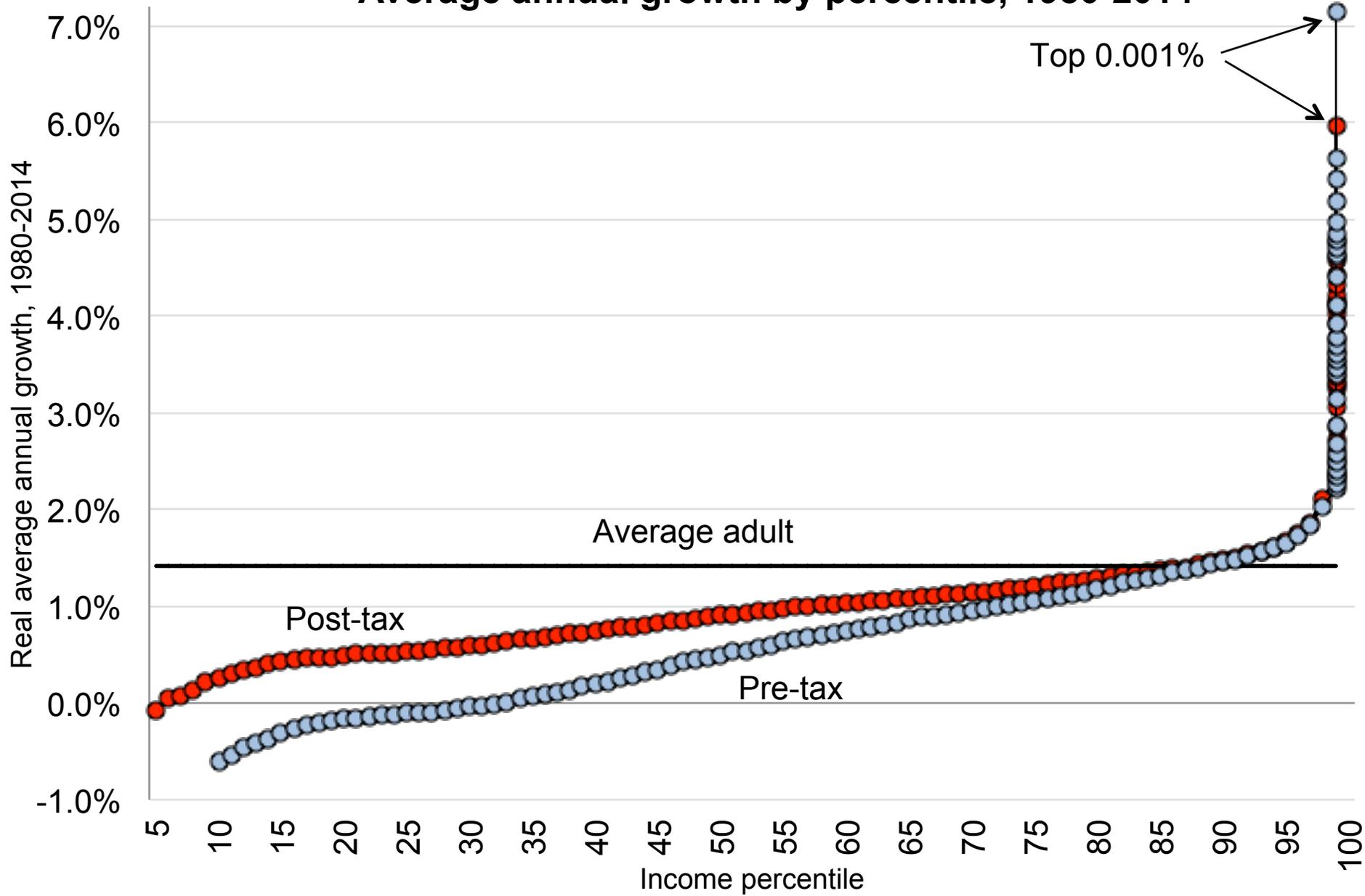


Source: Appendix Table II-B1

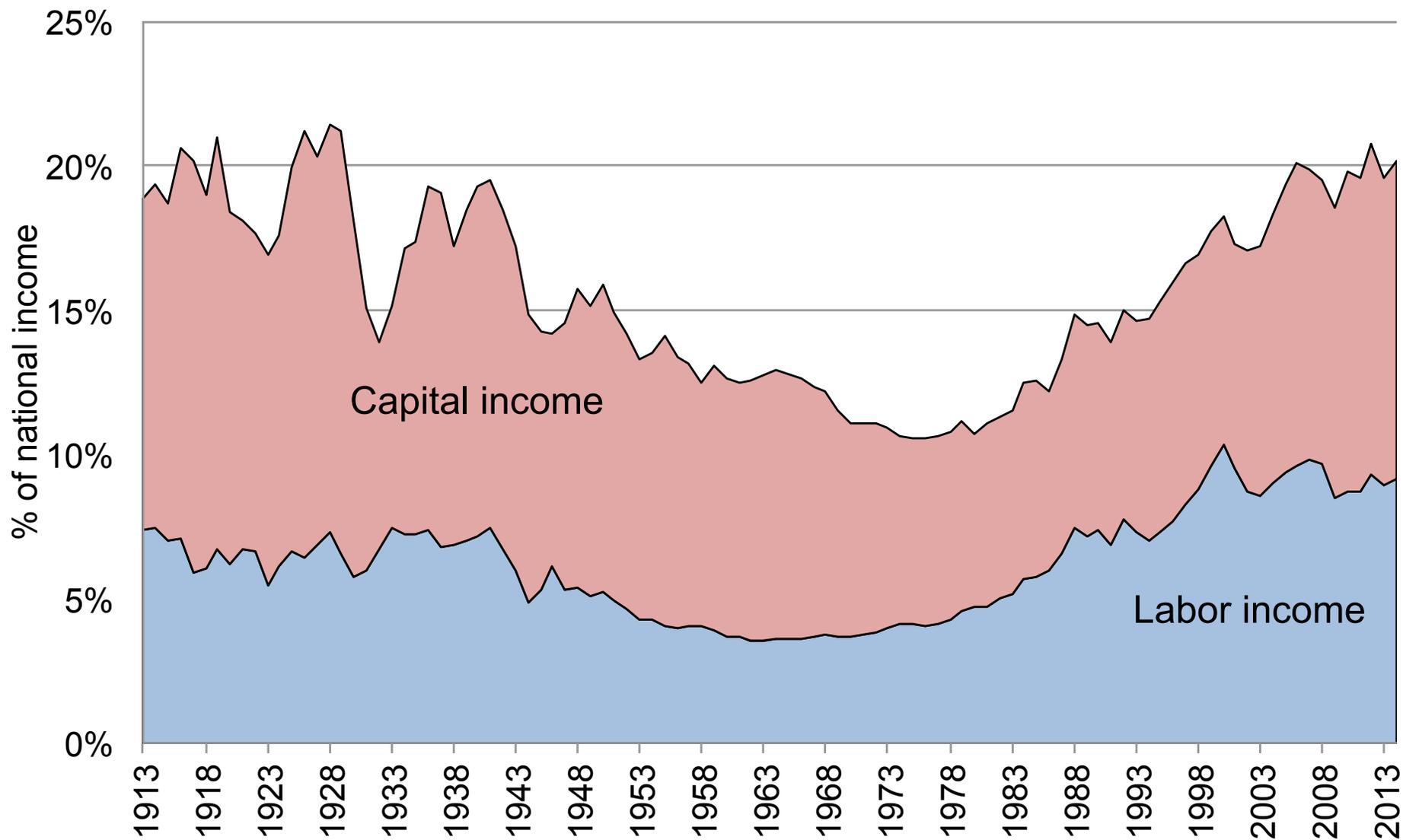
## Average, bottom 90%, bottom 50% real incomes per adult



# Average annual growth by percentile, 1980-2014

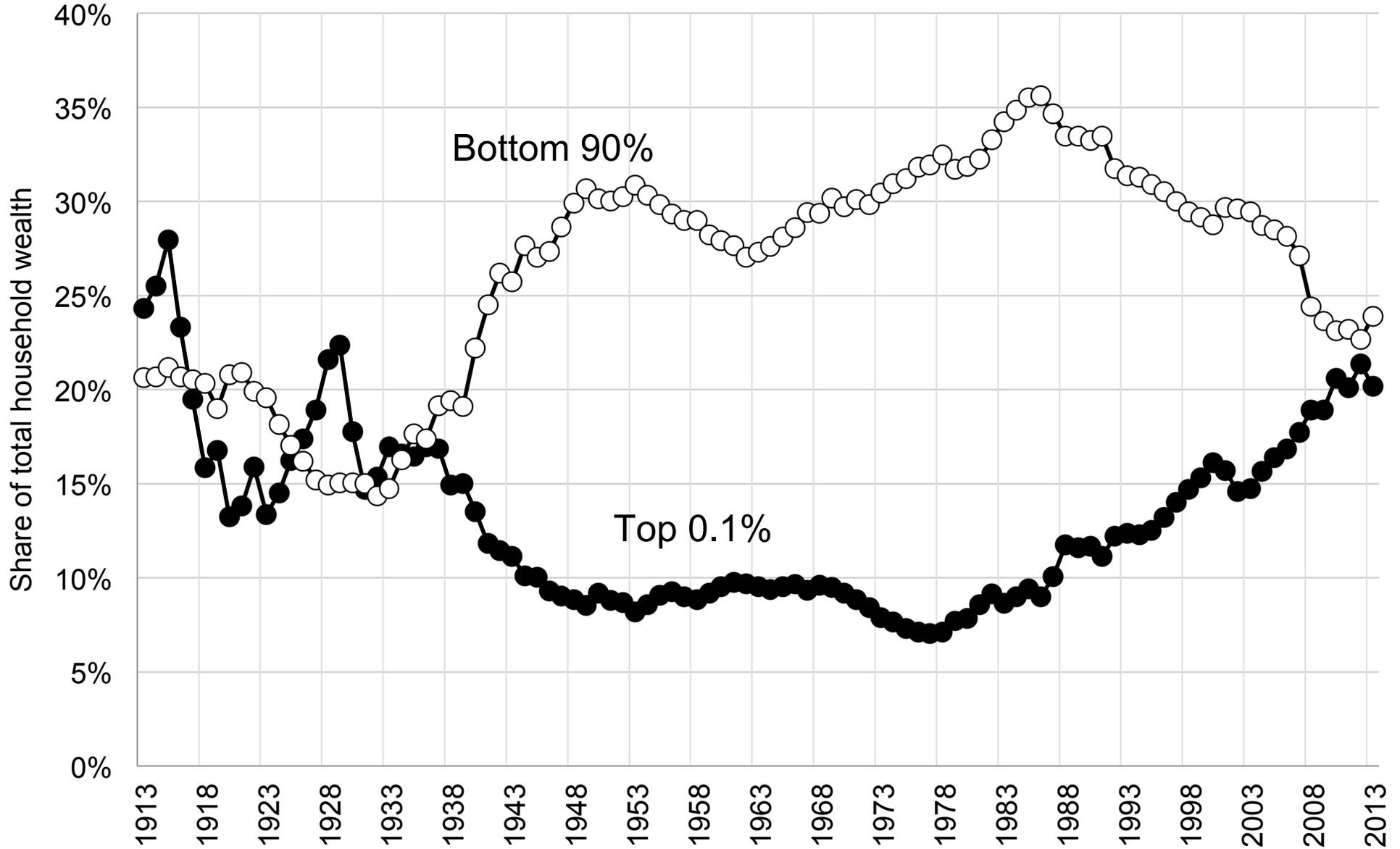


## Top 1% pre-tax income share: labor vs. capital income



Source: Appendix Table II-B2b

# Wealth inequality in the United States



Source: Saez and Zucman (2016), "Wealth inequality in the United States since 1913", *Quarterly Journal of Economics*

## What is Driving up Income Concentration?

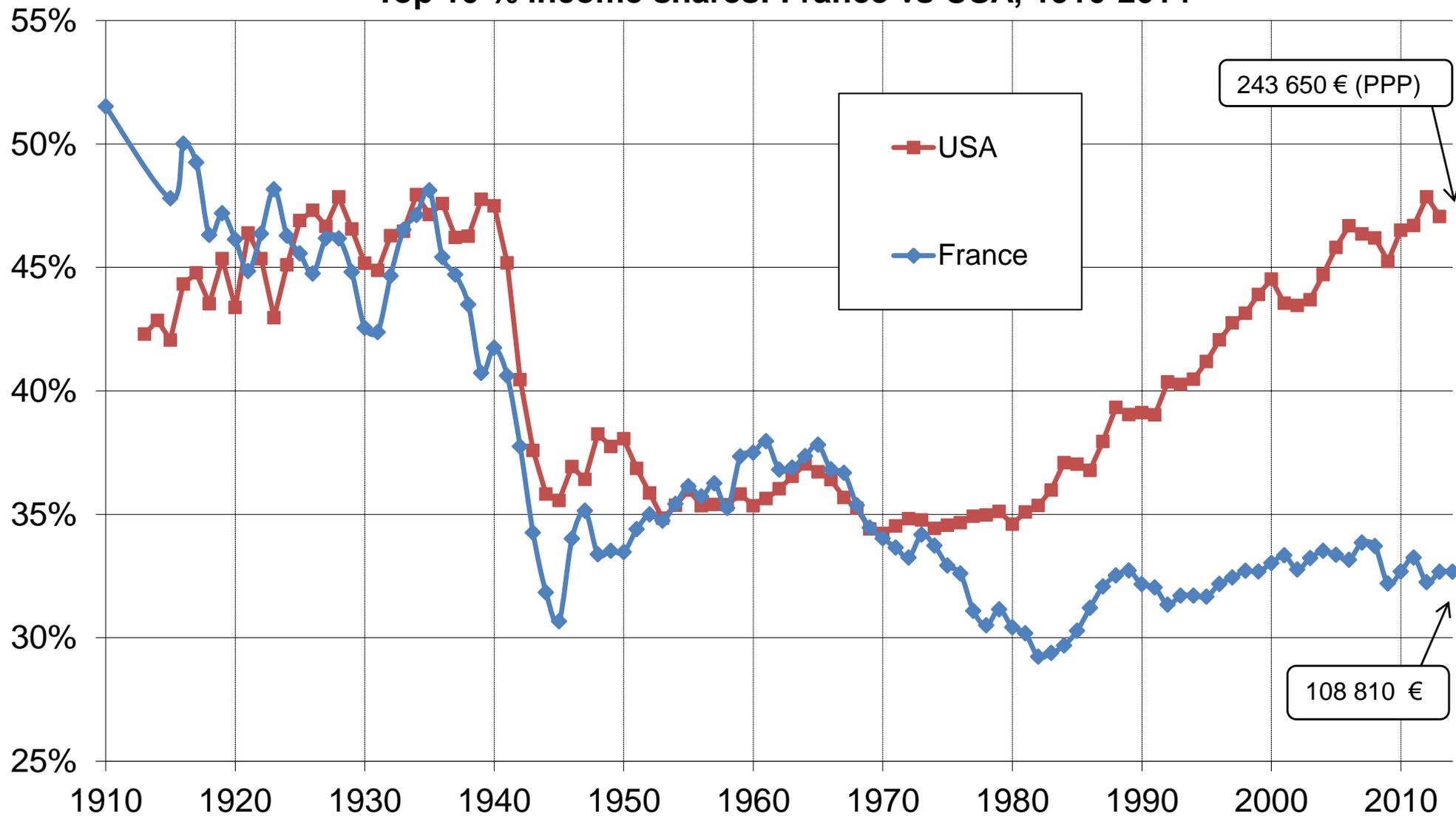
Globalization/technological change cannot be the sole explanation

Other countries do not experience such large increases in income concentration

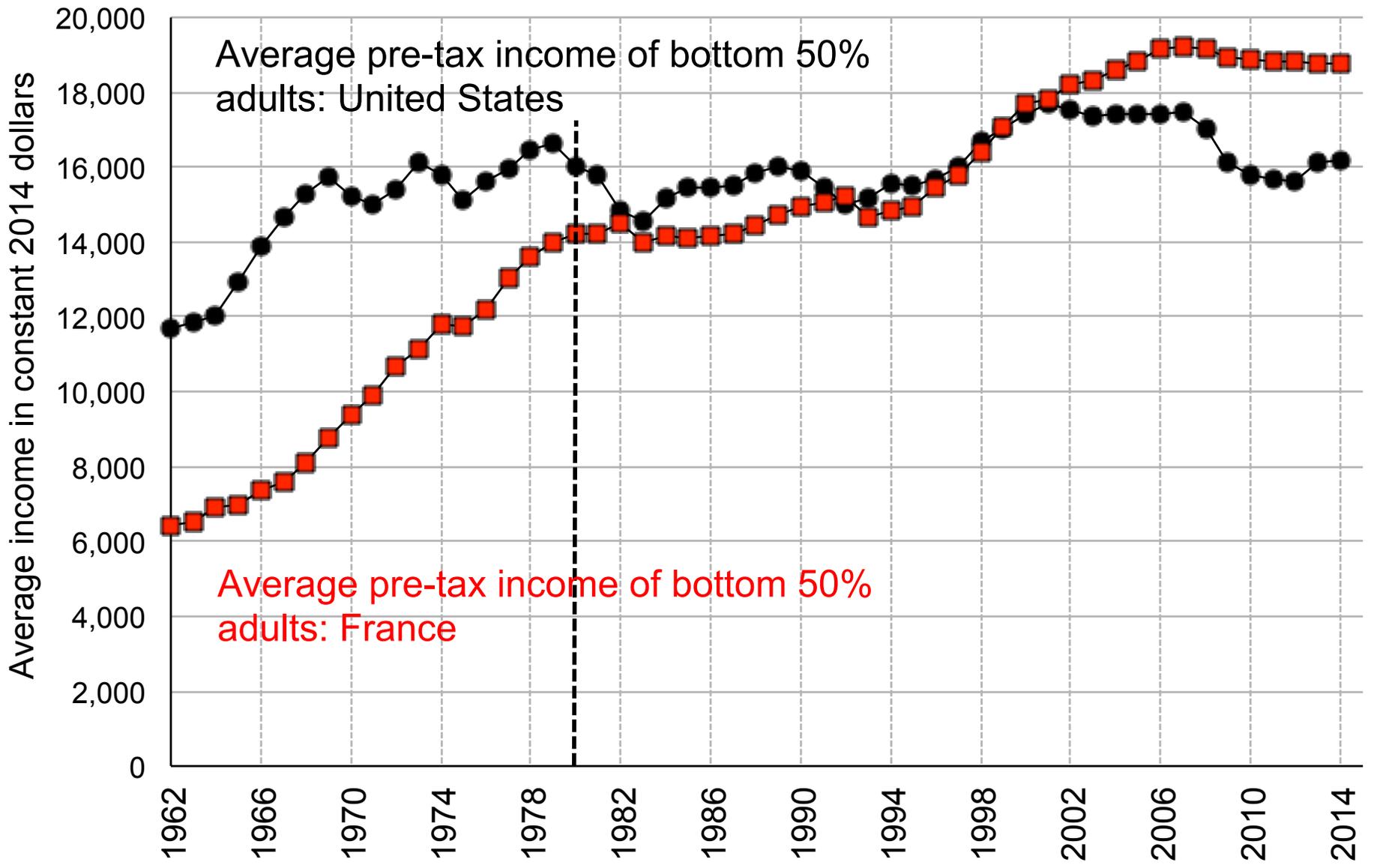
⇒ Institutions (unions, fairness norms) and policies (taxes, regulations, min wage) likely play big role in shaping pre-tax inequality

⇒ Standard neo-classical model of wage determination is a very incomplete depiction: power (monopoly, bargaining, monopsony) plays a big role

## Top 10 % income shares: France vs USA, 1910-2014



Distribution of pretax national income (before all taxes and transfers, except pensions and unempl. insurance) among adults. Equal-split-adults series (income of married couples divided by two).



## The role of regulations

**Financial regulations:** Evidence that financial sector plays a large role in surge of top incomes (Bakija-Cole-Heim 2012) and size of financial sector tightly linked to regulations (Philippon-Reshef 2012)

**Anti-trust regulations:** Evidence that market concentration has increased in recent decades, leading to a higher profit share (and less consumer surplus).

**Labor market regulations:** Shift to contracted work (Uber) or fissuring (contracting out services performed by low paid workers)

Analyzing effect of regulations on inequality requires granular data on firms profits and individual earnings

## Intergenerational mobility

Rise of inequality affects intergenerational mobility along both capital and labor dimensions

**1) Capital:** Accumulated wealth can become inherited wealth (especially as estate taxation is disappearing)

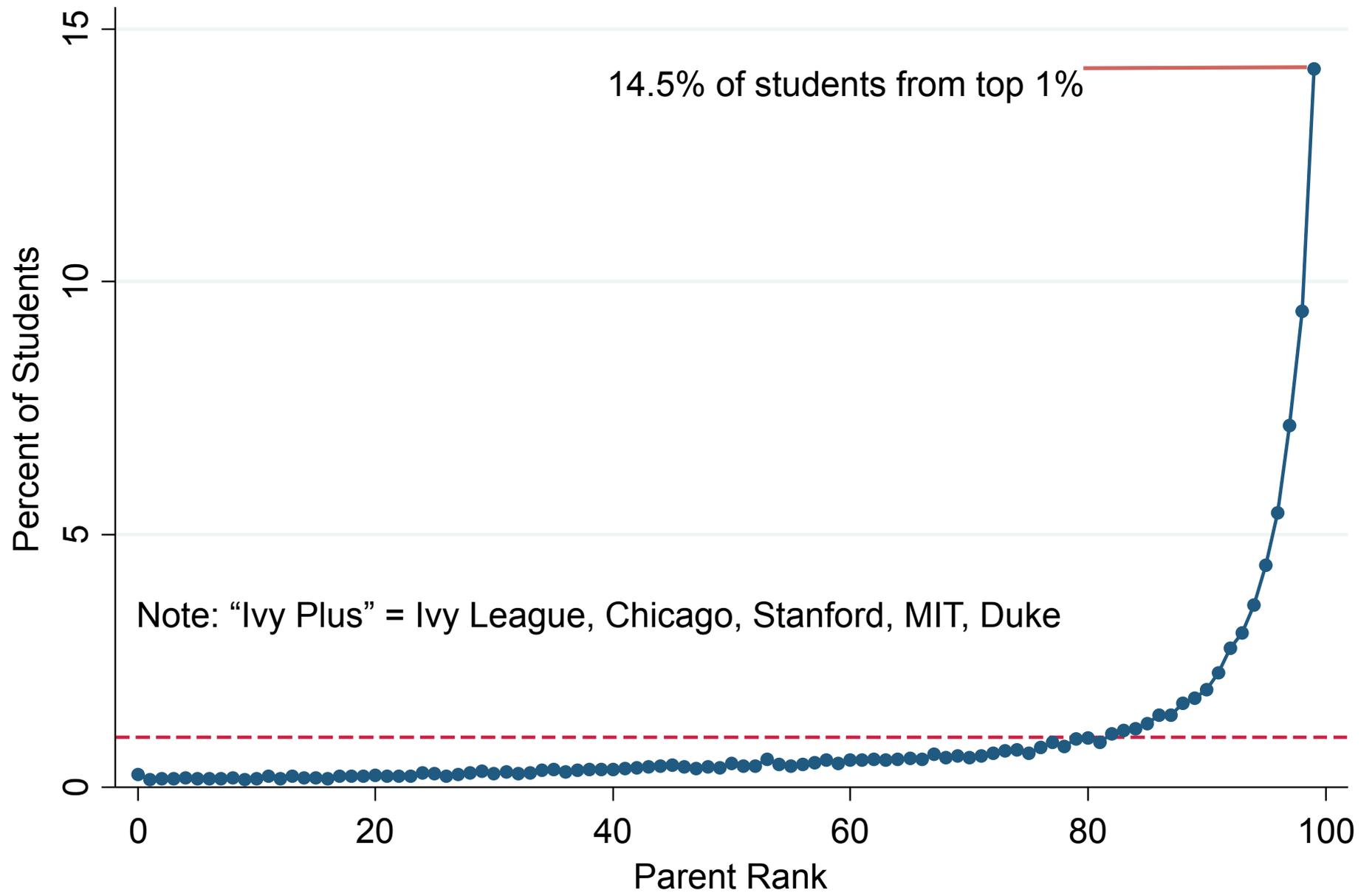
**2) Labor:** Human capital easier to transmit when top earners have more resources: Chetty et al. (2017) build college level distributional stats: 15% of students at elite schools come from top 1% families

Kids at elite schools from lower income families have similar wage earnings as rich kids and many talented but poor kids fail to apply (Avery-Hoxby 2012)

⇒ Higher education system plays a large role in intergenerational mobility

# Parent Income Distribution by Percentile

## Ivy Plus Colleges



# Parent Income Distribution by Percentile Ivy Plus Colleges

