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 national income per adult:
61% growth from 1980 to 2014

Bottom 90% pre-tax: 30% growth from 1980 to 2014

Bottom 50% pre-tax: 1% growth from 1980 to 2014
Average annual growth by percentile, 1980-2014

Real average annual growth, 1980-2014

Average adult

Pre-tax

Post-tax

Top 0.001%
Top 1% pre-tax income share: labor vs. capital income

% of national income

Capital income

Labor income

Source: Appendix Table II-B2b
Wealth inequality is surging in the United States.

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
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).
Average pre-tax income of bottom 50% adults: United States

Average pre-tax income of bottom 50% adults: France
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
14.5% of students from top 1%

Note: “Ivy Plus” = Ivy League, Chicago, Stanford, MIT, Duke
14.5% of students from top 1%

More students from the top 1% than the bottom 50%

13.5% of students from bottom 50%