

Income Concentration and Intergenerational Mobility

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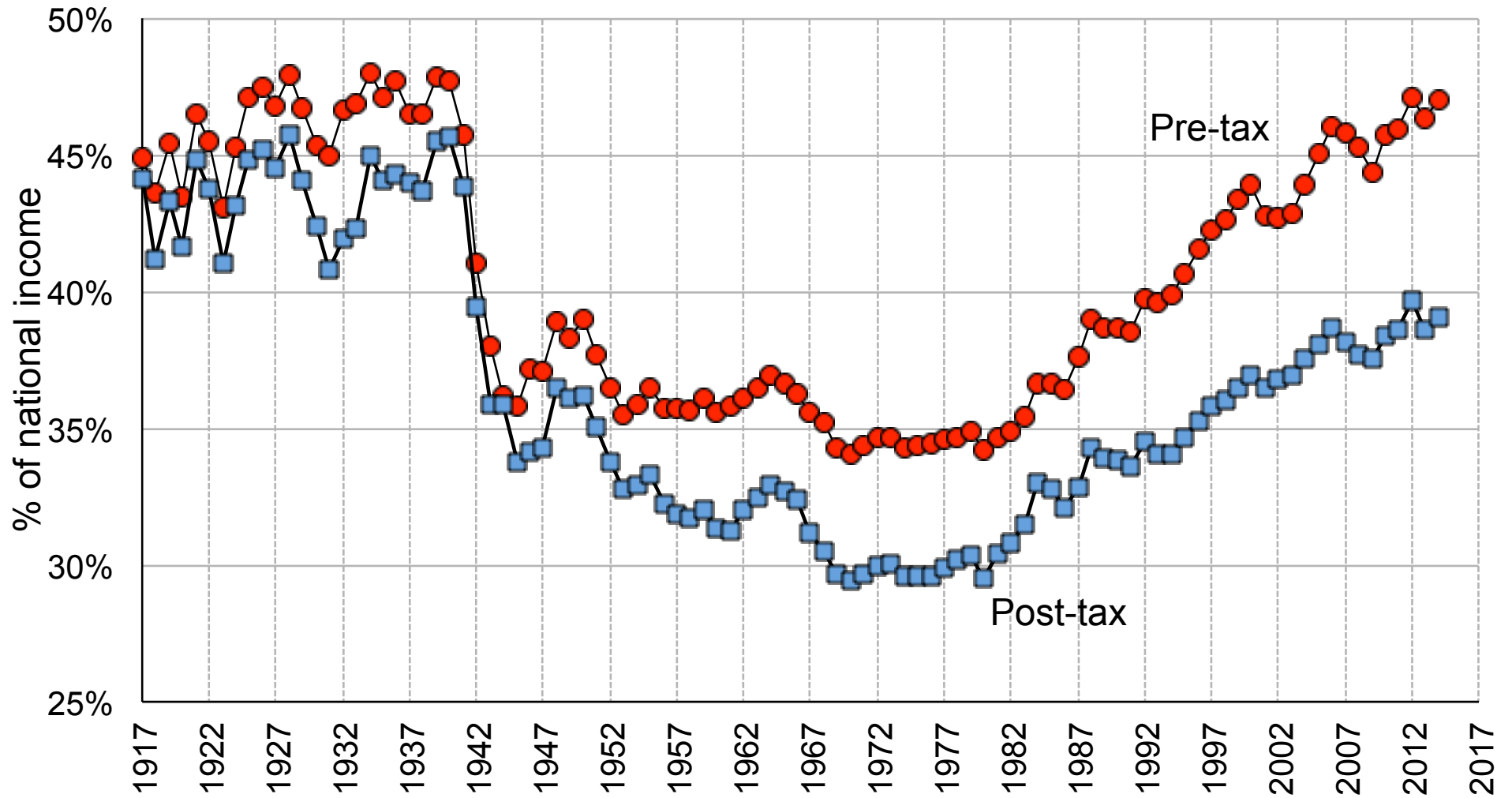
Growing Income Concentration

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

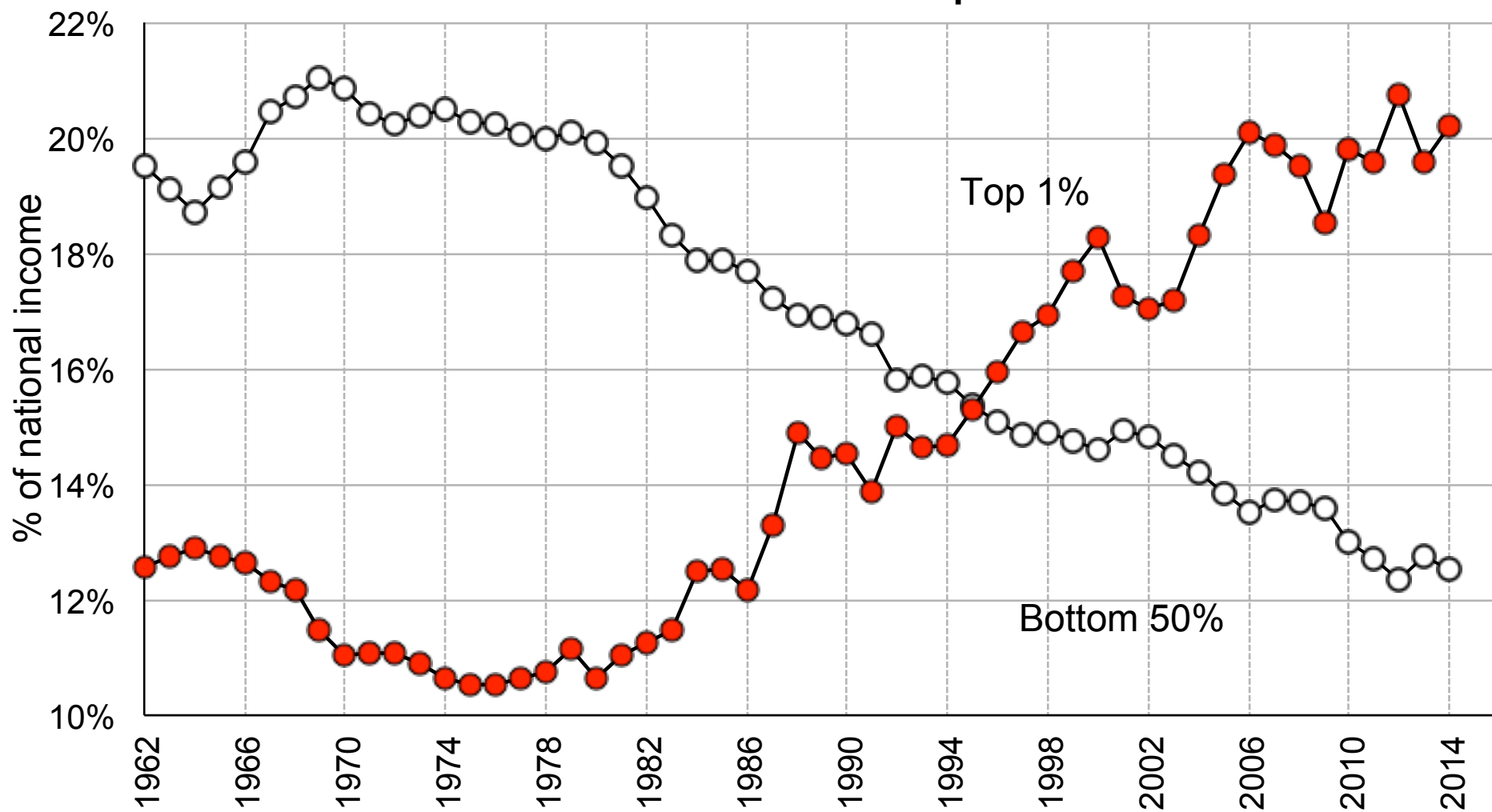
- 1) Share of income going to top groups has increased sharply
- 2) Economic growth much lower when excluding top earners
- 3) Income concentration increase due to both labor and capital

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



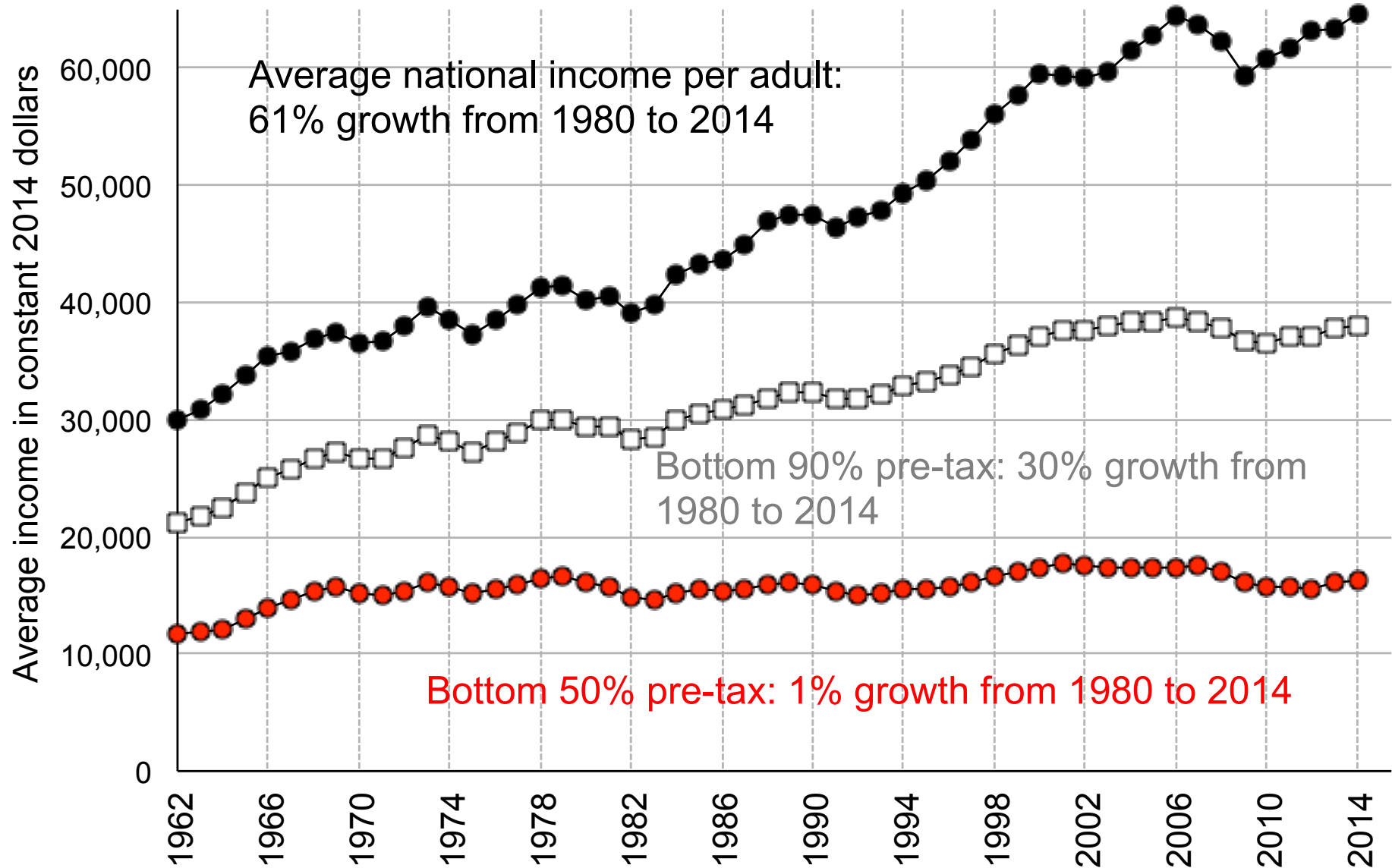
Source: Appendix Tables II-B1 and II-C1

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

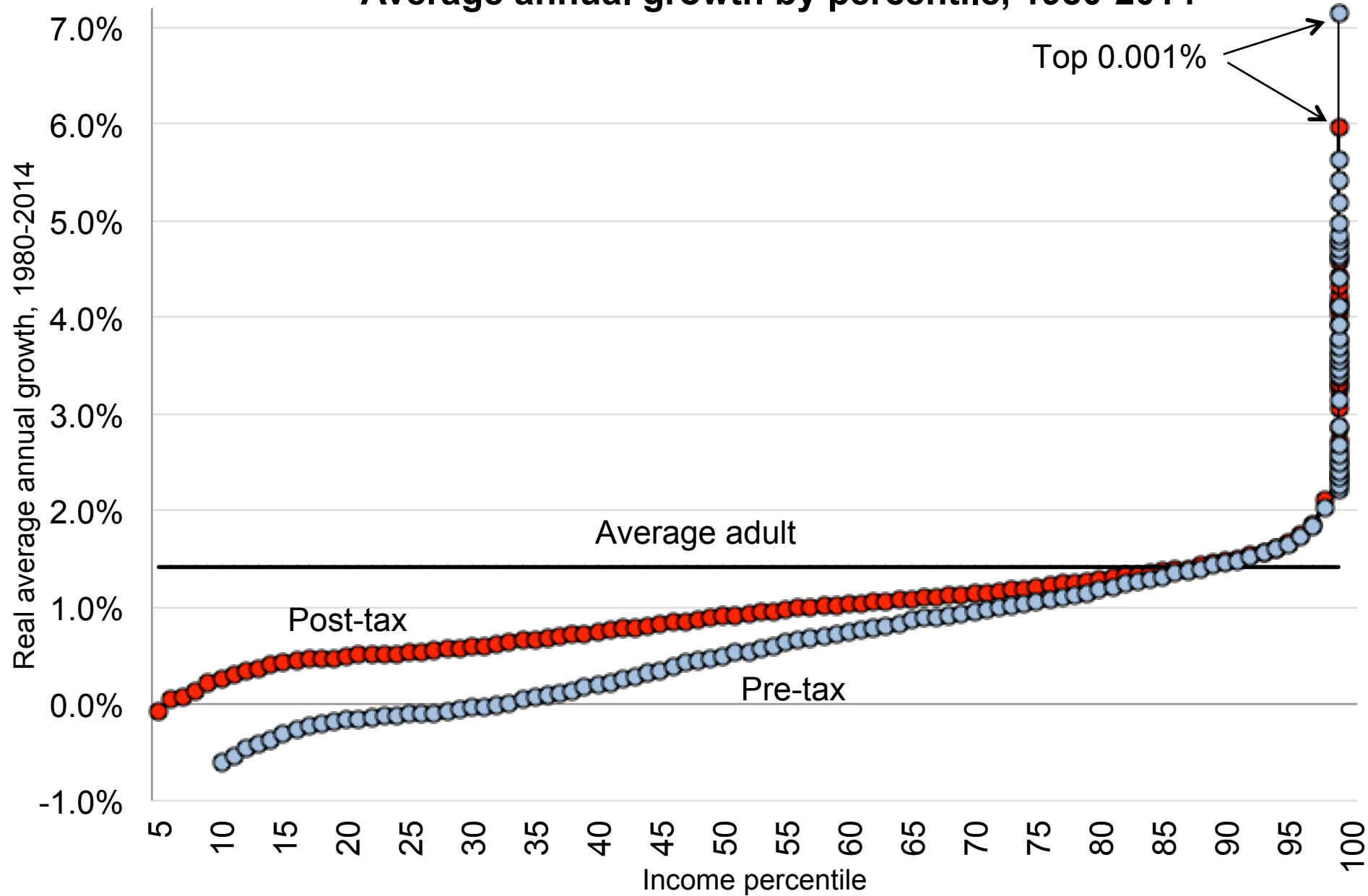


Source: Appendix Table II-B1

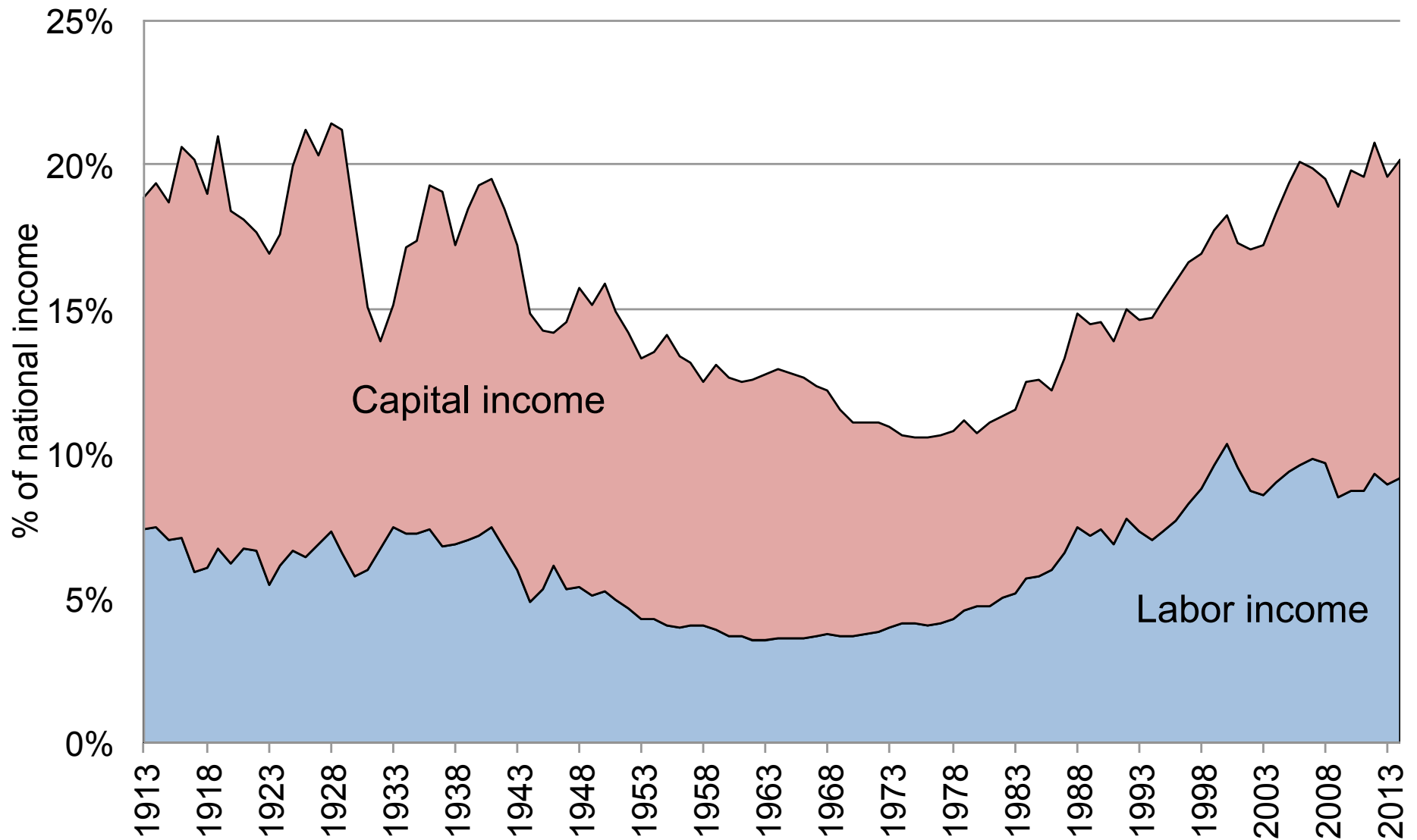
Average, bottom 90%, bottom 50% real incomes per adult



Average annual growth by percentile, 1980-2014

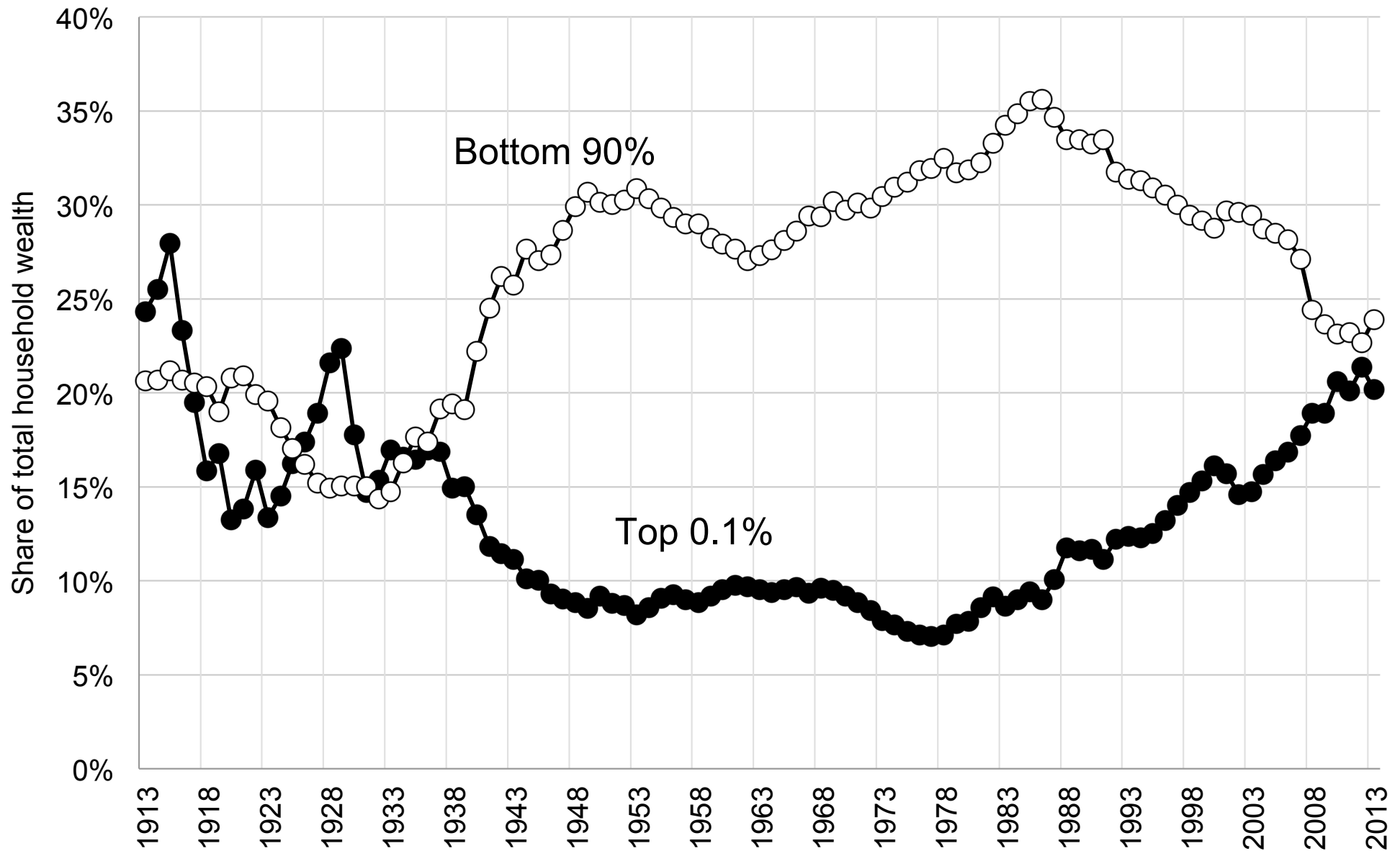


Top 1% pre-tax income share: labor vs. capital income



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?

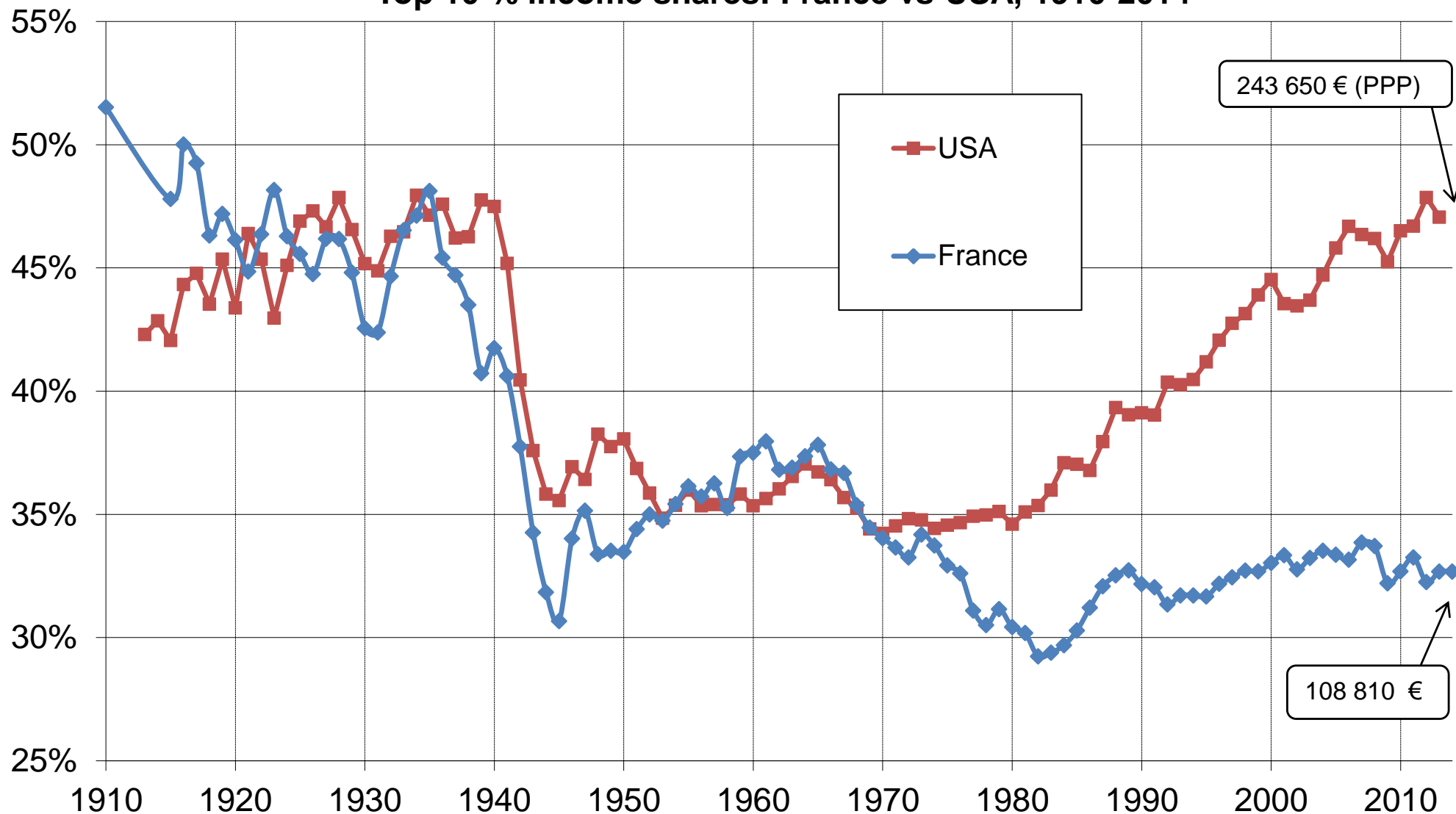
Globalization/technological change cannot be the sole explanation

Other countries do not experience such large increases in income concentration

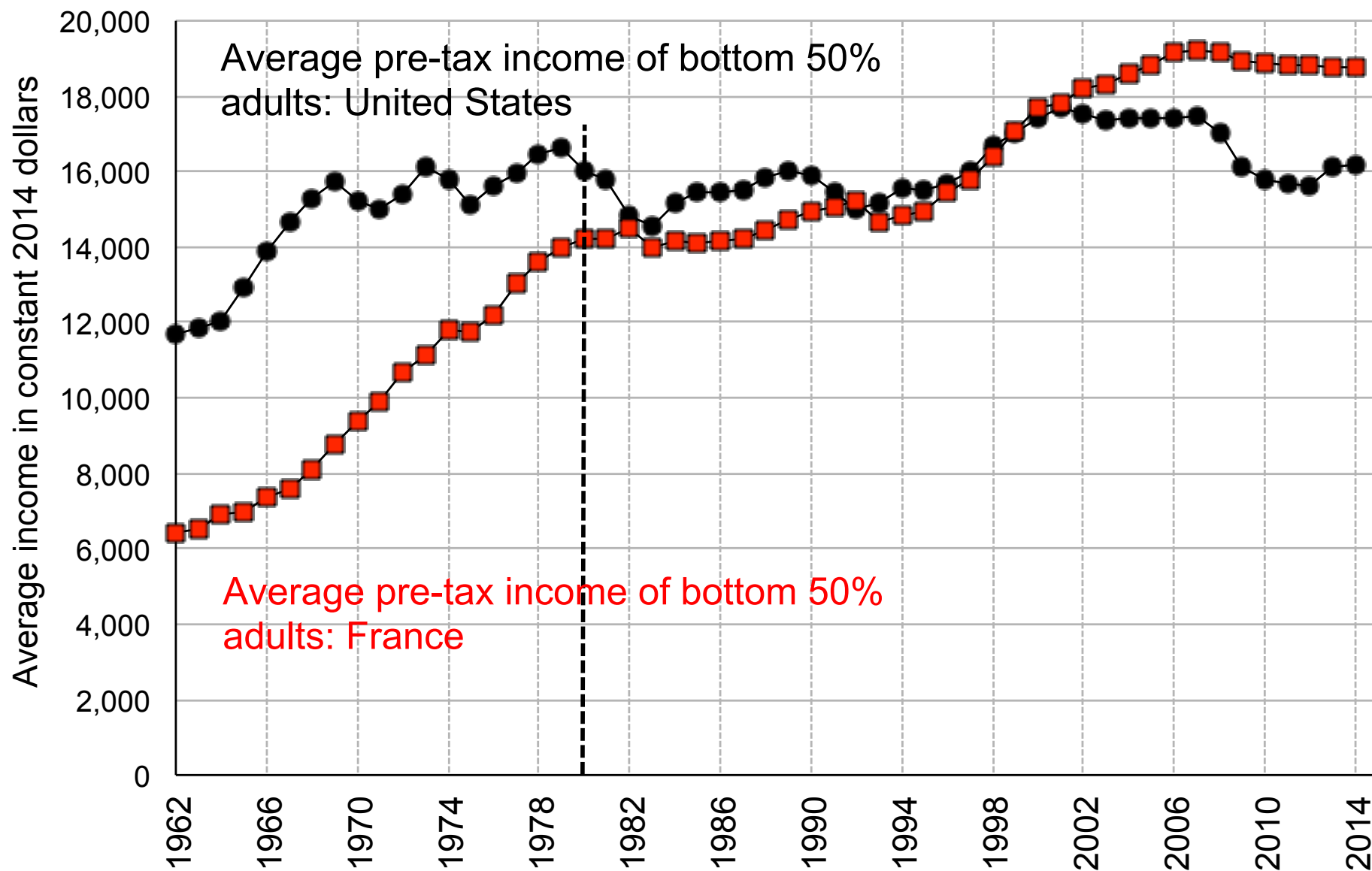
⇒ Institutions (unions, fairness norms) and policies (taxes, regulations, min wage) likely play big role in shaping pre-tax inequality

⇒ 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)

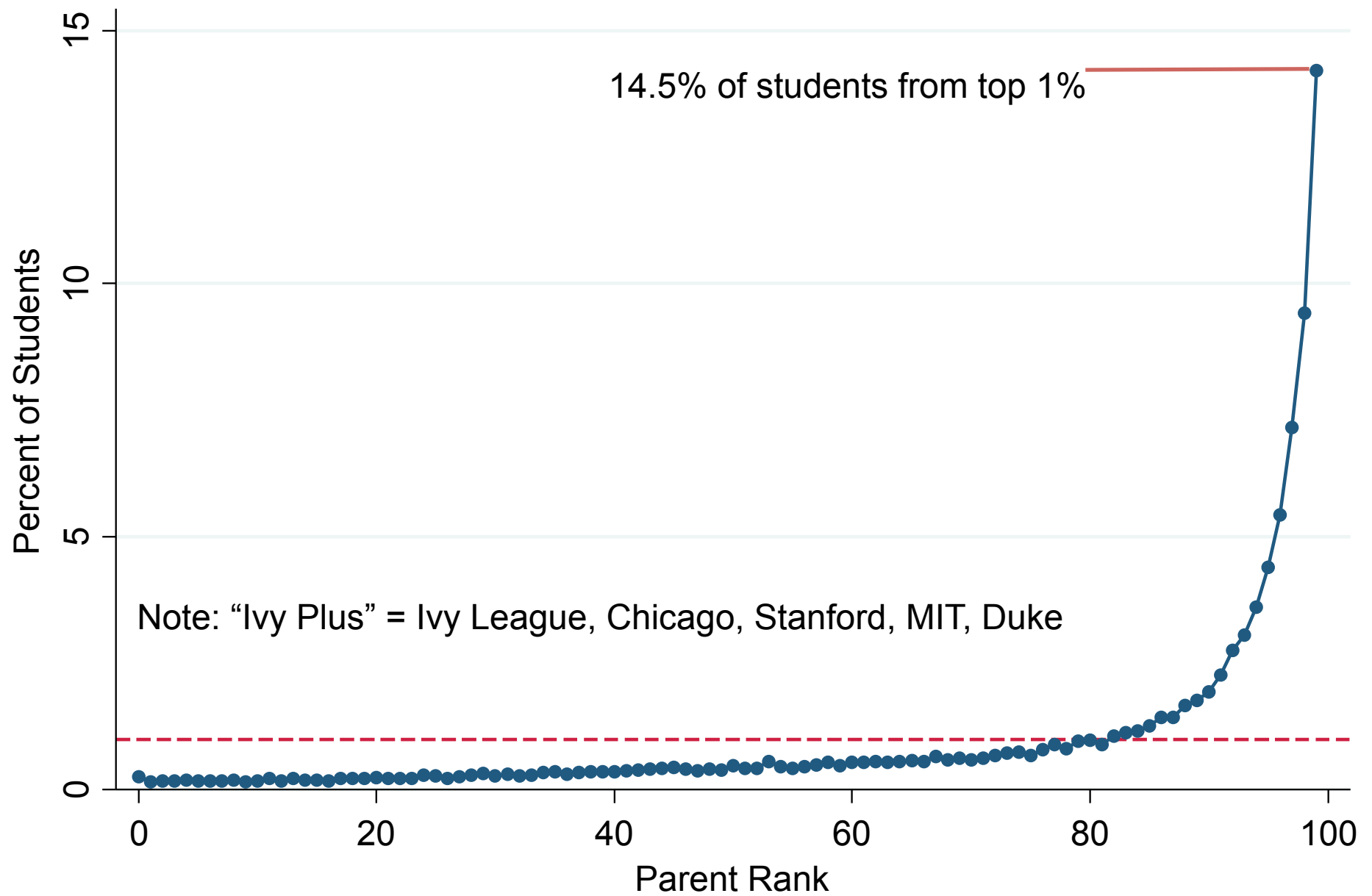
2) Labor: Human capital easier to transmit when top earners have more resources: Chetty et al. (2017) build college level distributional stats: 15% of students at elite schools come from top 1% families

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

