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THIS YEAR'S *ANNUAL REPORT* ESSAY IS ABOUT THE EVOLUTION OF INEQUALITY IN THE UNITED STATES

—specifically, inequality in terms of market income (income measured before taxes and transfers), expenditures, and disposable income (income measured after taxes and transfers are taken into account). The essay focuses on the behavior of inequality during the Great Recession and the subsequent slow economic recovery. As the essay notes, there is a vigorous public policy debate about inequality. The essay contributes to the debate by establishing solid facts and empirics.

There are a host of interesting findings within the essay. Let me emphasize three aspects of the analysis that I think are particularly important.

- It documents key facts about inequality in *disposable* income, which allows us to have a better understanding of the effectiveness of the tax/transfer system in mitigating inequality.
- It documents the evolution of inequality among the bottom half of the income distribution, in addition to the more typical focus on the very top end of the income distribution. This gives us a better understanding of how inequality affects a wide swath of Americans.
- It documents the importance of the tax/transfer system in protecting households against some of the consequences of unemployment and a sharp drop in market income. This provides a clearer perspective on how the most severely hit households fared during the Great Recession and its aftermath.

The Federal Reserve's engagement in public policy debates is always grounded in our strict code, and general ethos, of political neutrality. But we can still play a useful role in even highly passionate debates by providing dispassionate analysis and empirics. I believe this year's essay is an outstanding example along those lines.



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