

CONFERENCE ON INEQUALITY
IN MEMORY OF
GARY BECKER

FACTS AT A GLANCE

September 25–26, 2014

Hoover Institution
Stanford University





Conference on Inequality in Memory of Gary Becker

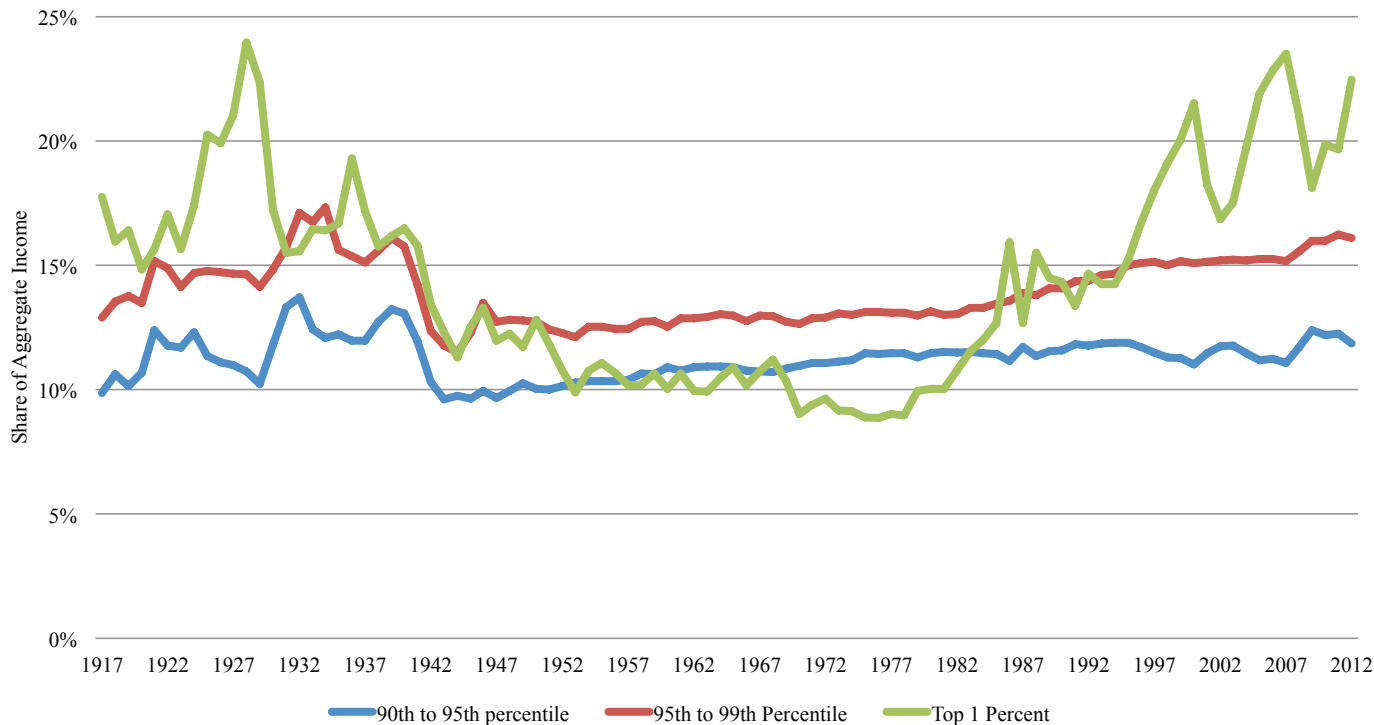
This conference is in memory of Gary Becker and will explore various measures of inequality and pose the question whether or not it is increasing. In exploring this question and examining policy implications, presenters will draw, where possible, on research on human capital and intergenerational mobility. Presenters will address the key policy question of what to do, with particular attention during the discussion to those at the bottom of the income distribution and the overall effects on economic growth.

"Since Rousseau, many intellectuals have been opposed to inequality per se. Most people, however, distinguish deserving from undeserving inequality. Clearly, much of the income and wealth inequality in any country would be considered deserving because it results from greater abilities and dedication. Governments are expected to reduce obstacles to deserving wealth. Unfortunately, they create many of the undeserved sources of inequality themselves."

Gary S. Becker

Contrived Inequality
Hoover Digest, Summer 2013

Top Income Shares Were Flat From the 1940s to the 1980s

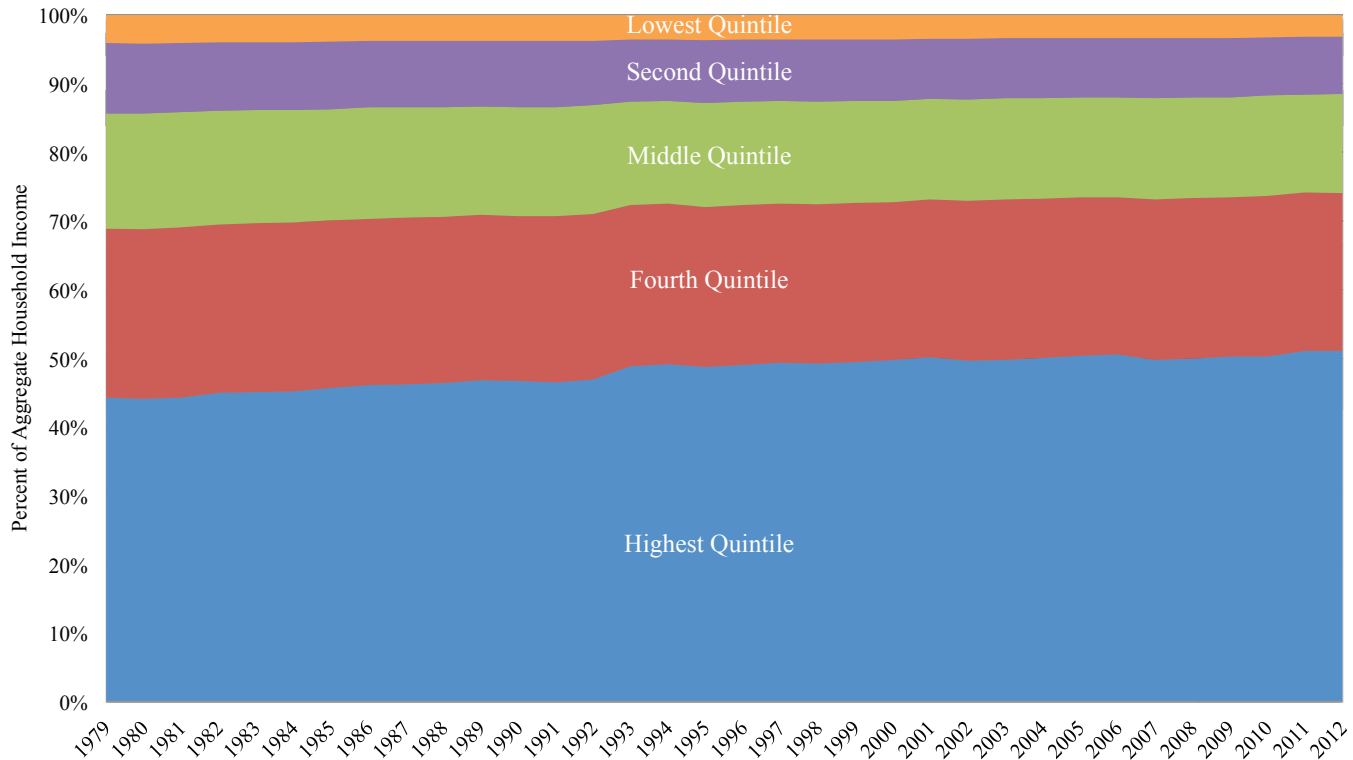


Note: Pre-tax, pre-transfer income, including realized capital gains, and excluding all government transfers.

Data Source: Piketty and Saez 2003 updated through 2012.

Figure 2 – Decomposing the Top Decile US Income Share Into Three Groups, 1913-2012.

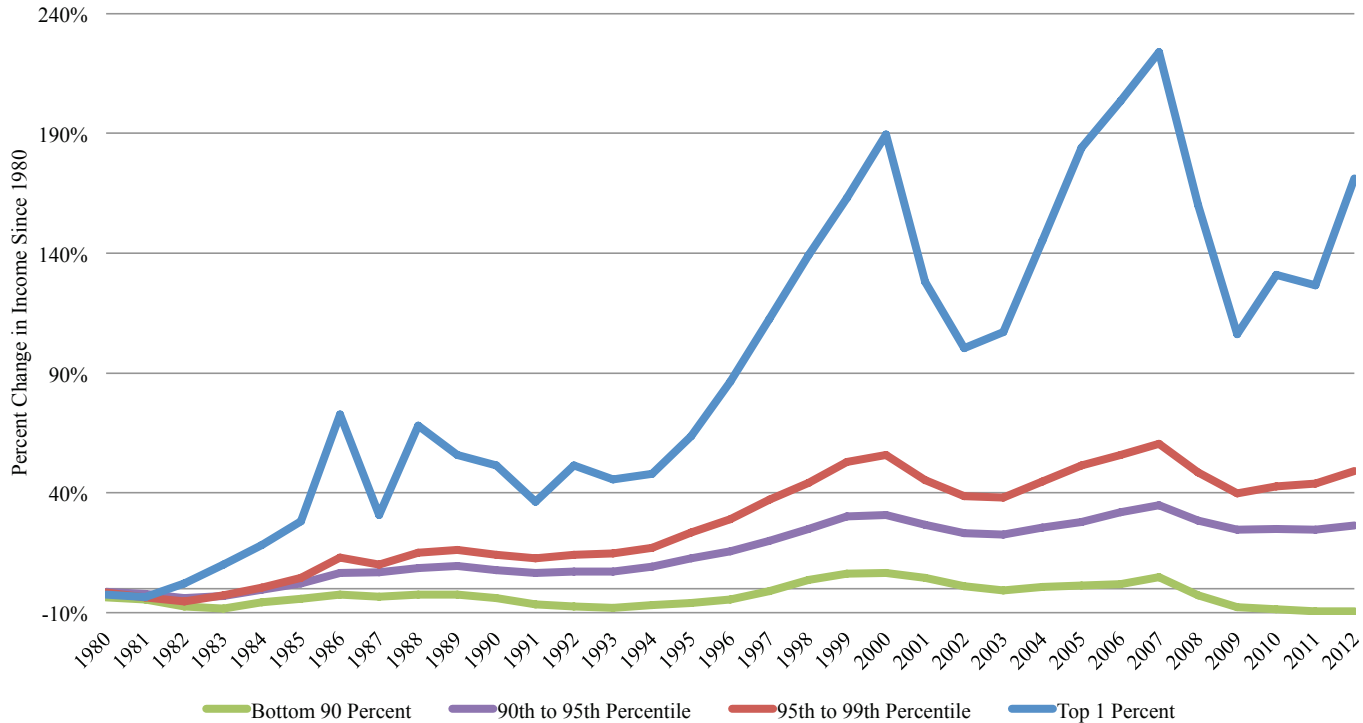
The Highest Quintile's Income Share Has Grown Since the 1980s



Note: Household, pre-tax, post-transfer "money" income.

Data Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

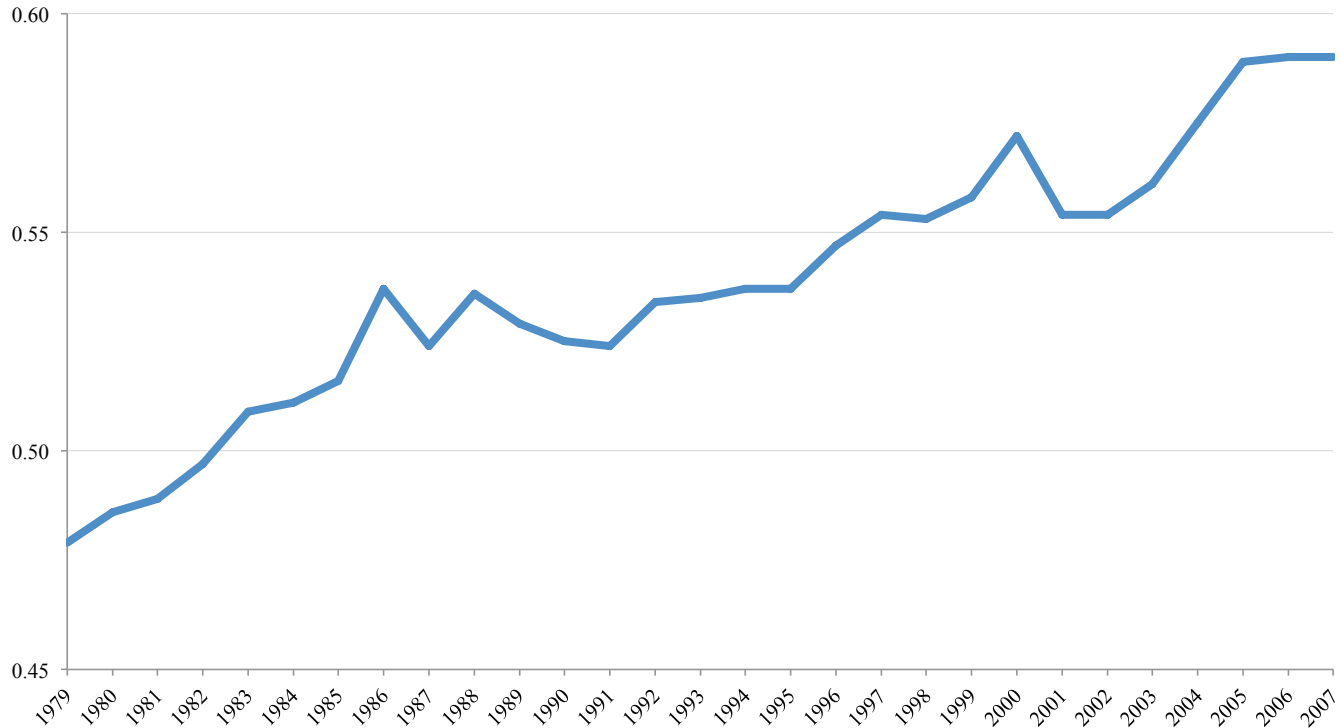
The Top 1 Percent's Incomes Have Grown Faster Than Other Income Groups



Note: Unit of analysis is tax filer. Pre-tax, pre-transfer income including capital gains.

Data Source: Saez, "Income Inequality in the United States, 1913-1998," Updated to 2012, Table A6.

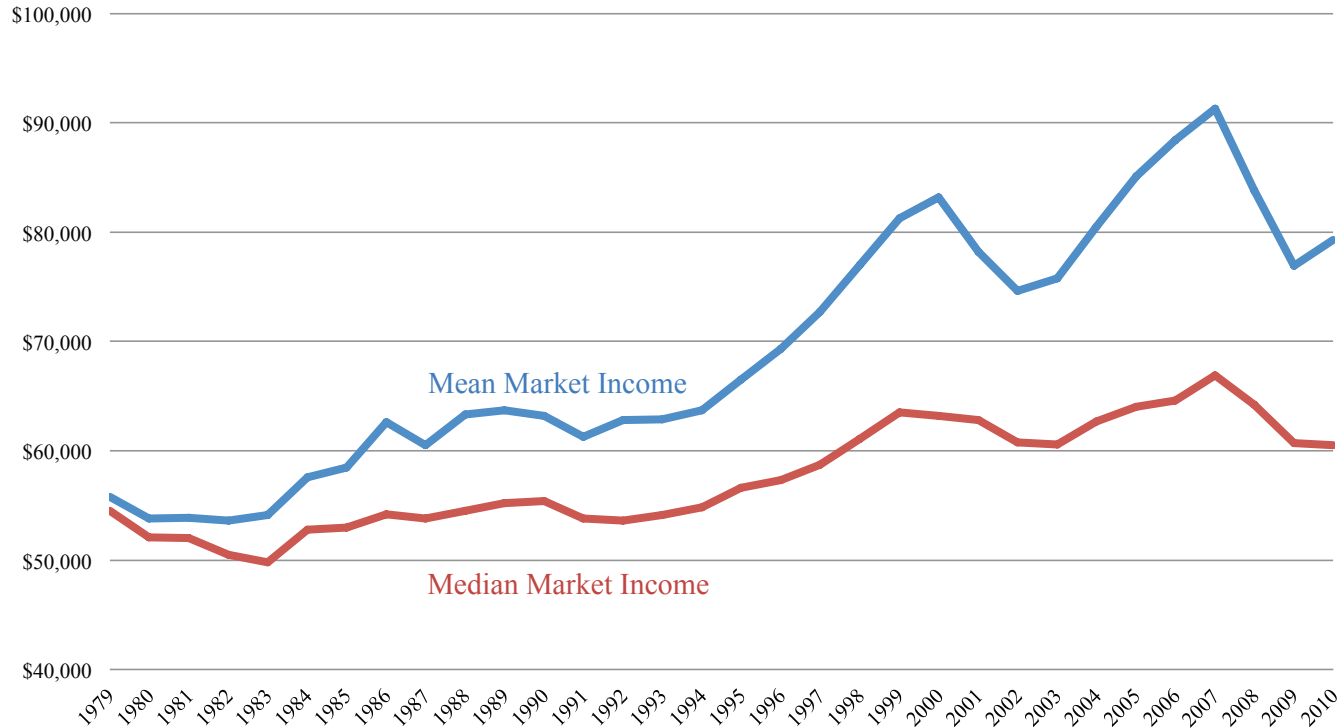
Rising Gini Coefficient Shows Growing Income Inequality



Note: Household, size-adjusted, market income.

Data Source: CBO, "Trends in the Distribution of Household Income Between 1979 and 2007," 2011, Figures 5 and 11.

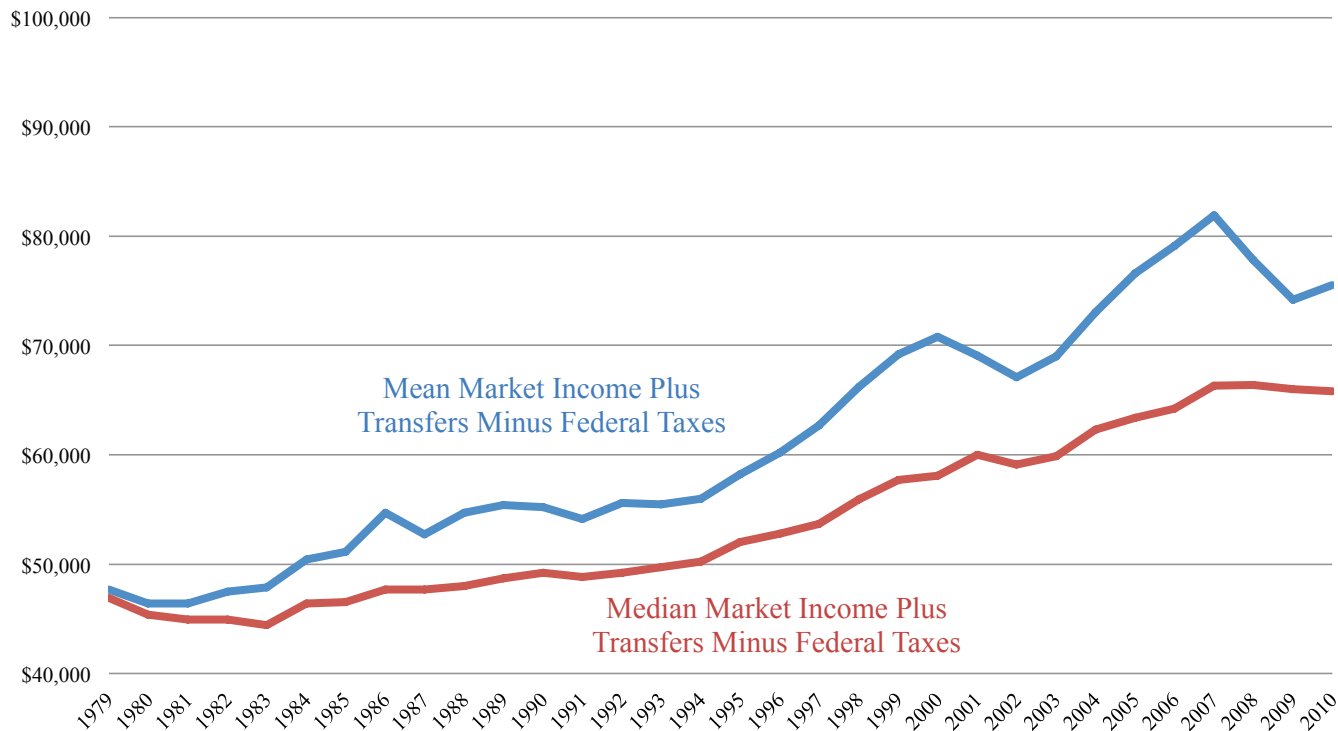
Mean Incomes Growing Faster Than Median Incomes



Notes: Household income. 2010 dollars using CPI-U-RS. Includes realized capital gains.

Data Source: CBO, "Trends in the Distribution of Household Income Between 1979 and 2007," 2011.

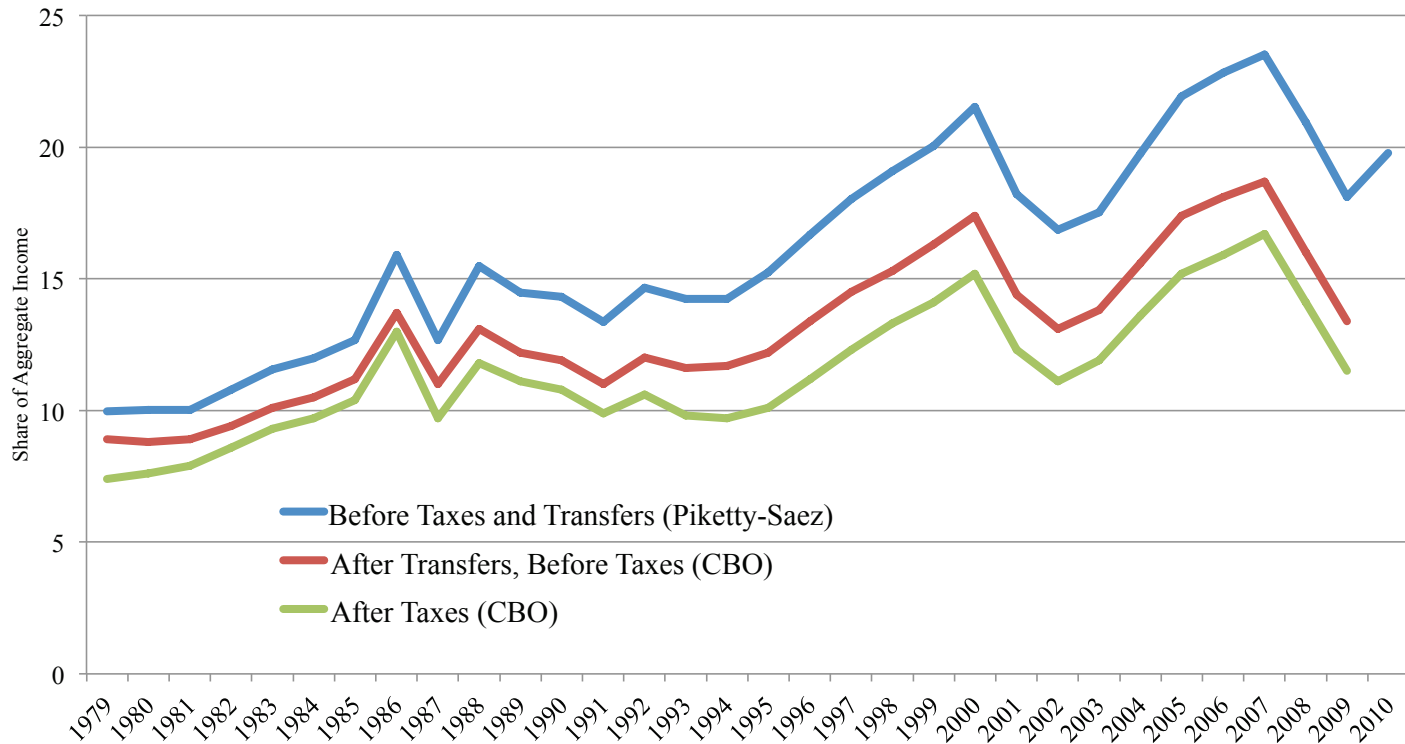
Federal Taxes and Transfers Reduce the Gap Between Mean and Median Income



Notes: Household income. 2010 dollars using CPI-U-RS. Includes realized capital gains. Transfers include all cash and in-kind government assistance. Fungible value of government-provided health insurance calculated by Census Bureau.

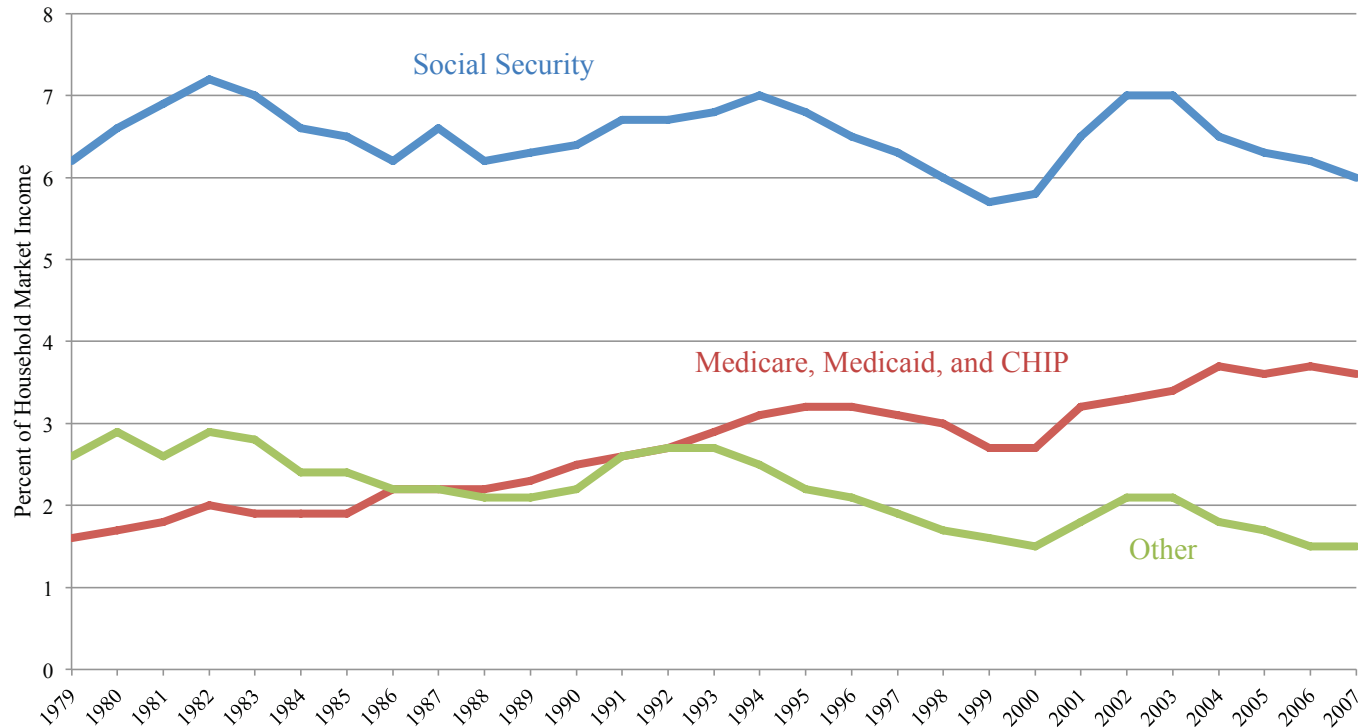
Data Source: CBO, "Trends in the Distribution of Household Income Between 1979 and 2007," 2011.

Share of Income Accruing to the Top 1 Percent



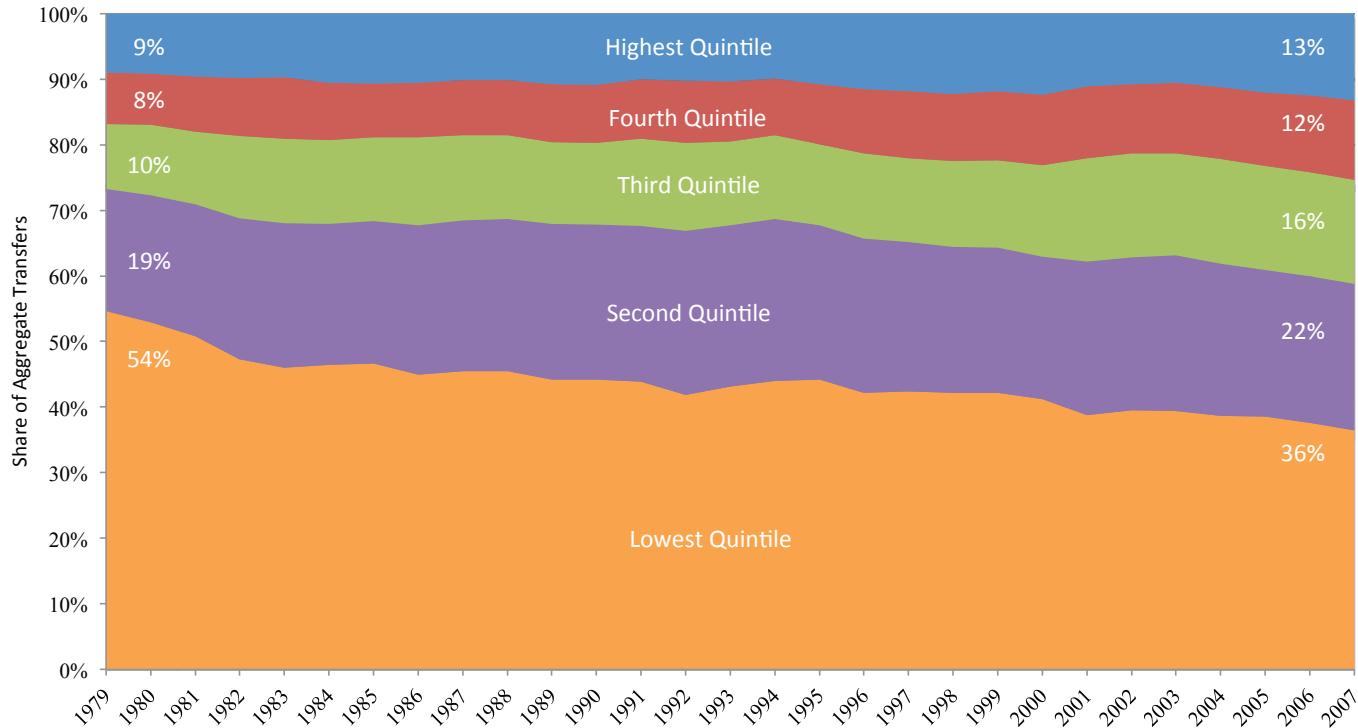
Source: Kaplan and Rauh, "It's the Market: The Broad-Based Rise in the Return to Top Talent," *Journal of Economic Perspectives* 27 (Summer 2013), Figure 4.

Transfers as a Share of Market Household Income Are Flat



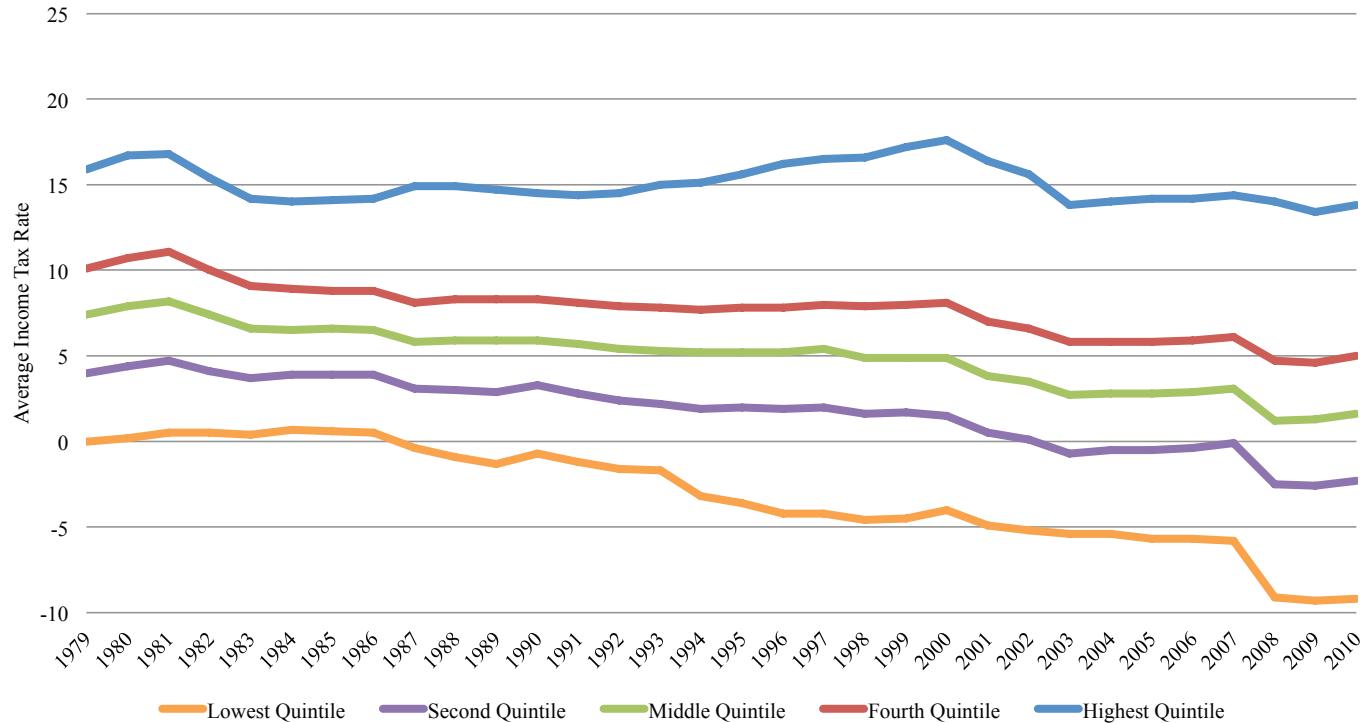
Note: Fungible value of health insurance for Medicaid, Medicare, and CHIP valuations calculated by Census Bureau.
Data Source: CBO, "Trends in the Distribution of Household Income Between 1979 and 2007," 2011, Figure 13.

Higher Quintiles Receiving Larger Share of Transfers



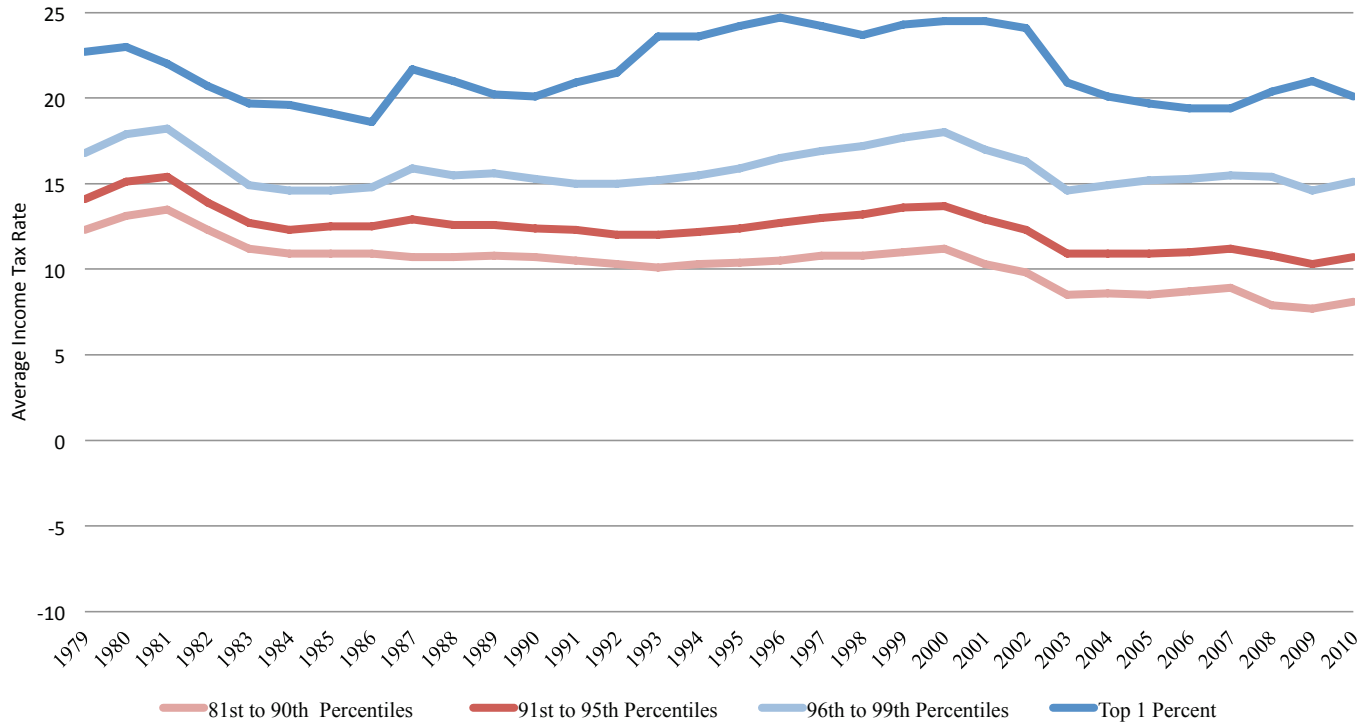
Note: Fungible value of health insurance for Medicaid, Medicare, and CHIP valuations calculated by Census Bureau.
Data Source: CBO, "Trends in the Distribution of Household Income Between 1979 and 2007," 2011, Figure 14.

Income Tax Rates Have Fallen Across Quintiles



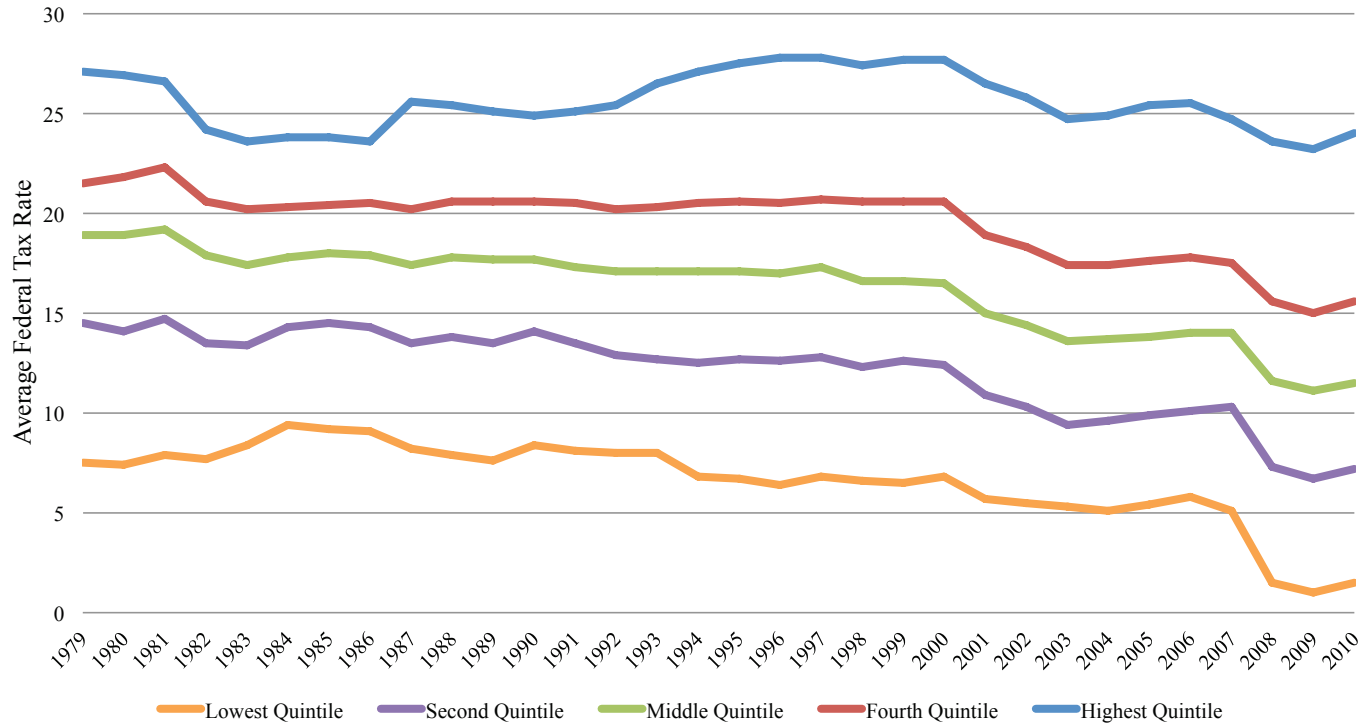
Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

Within the Top Quintile, Income Tax Rates Have Also Fallen



Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

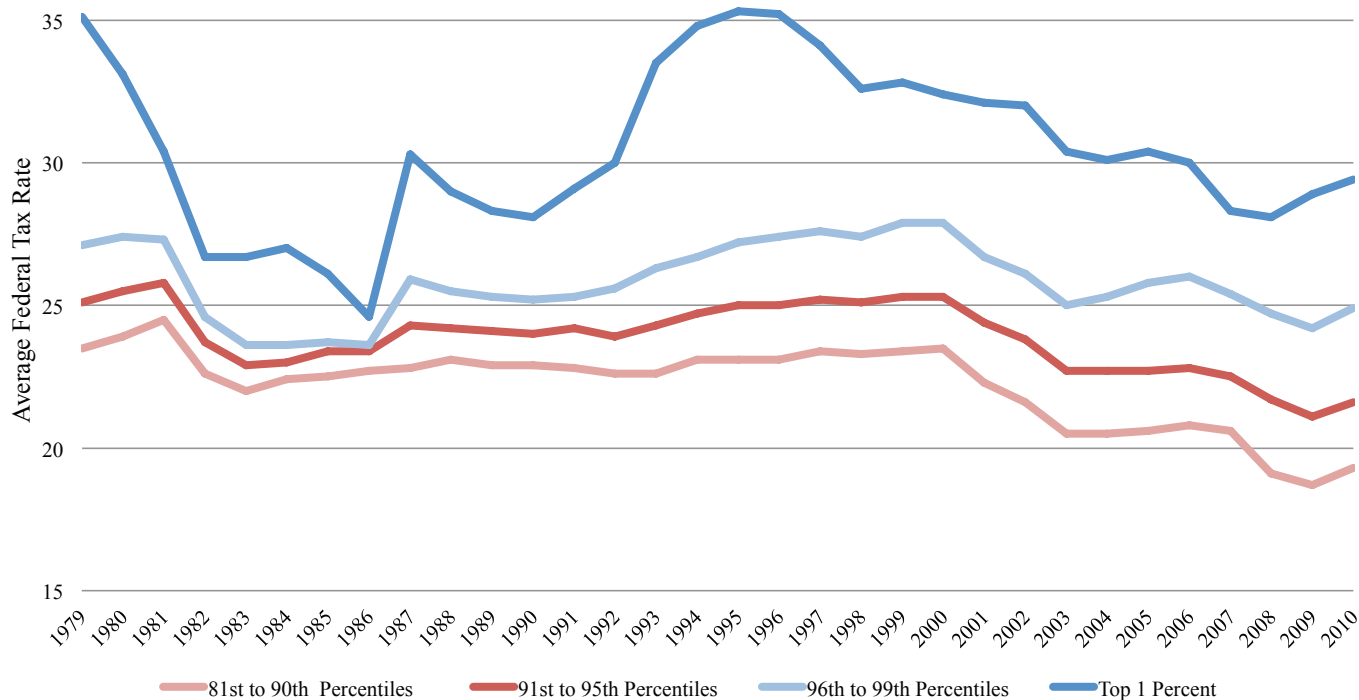
Total Federal Tax Rates Have Also Fallen



Note: Includes income, social insurance, corporate, and excise taxes.

Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

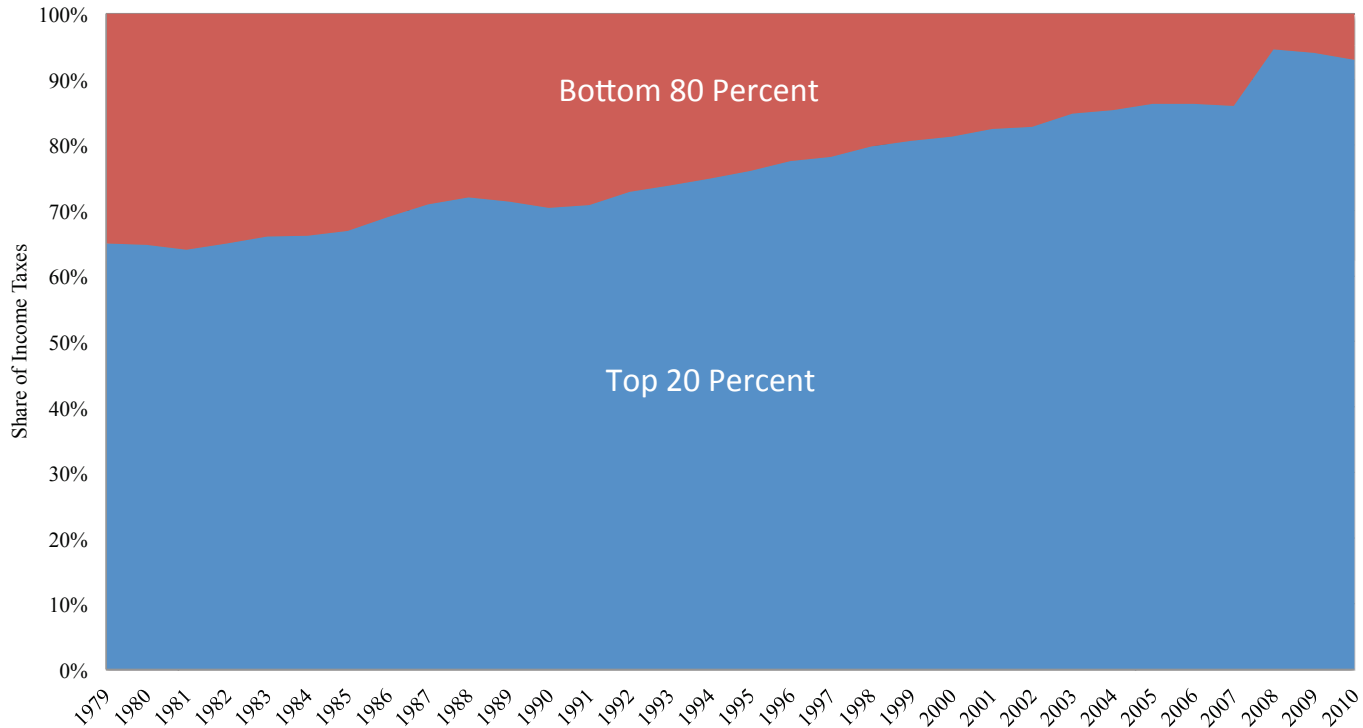
Total Federal Tax Rates Within the Top Quintile Are Also Lower



Note: Includes income, social insurance, corporate, and excise taxes.

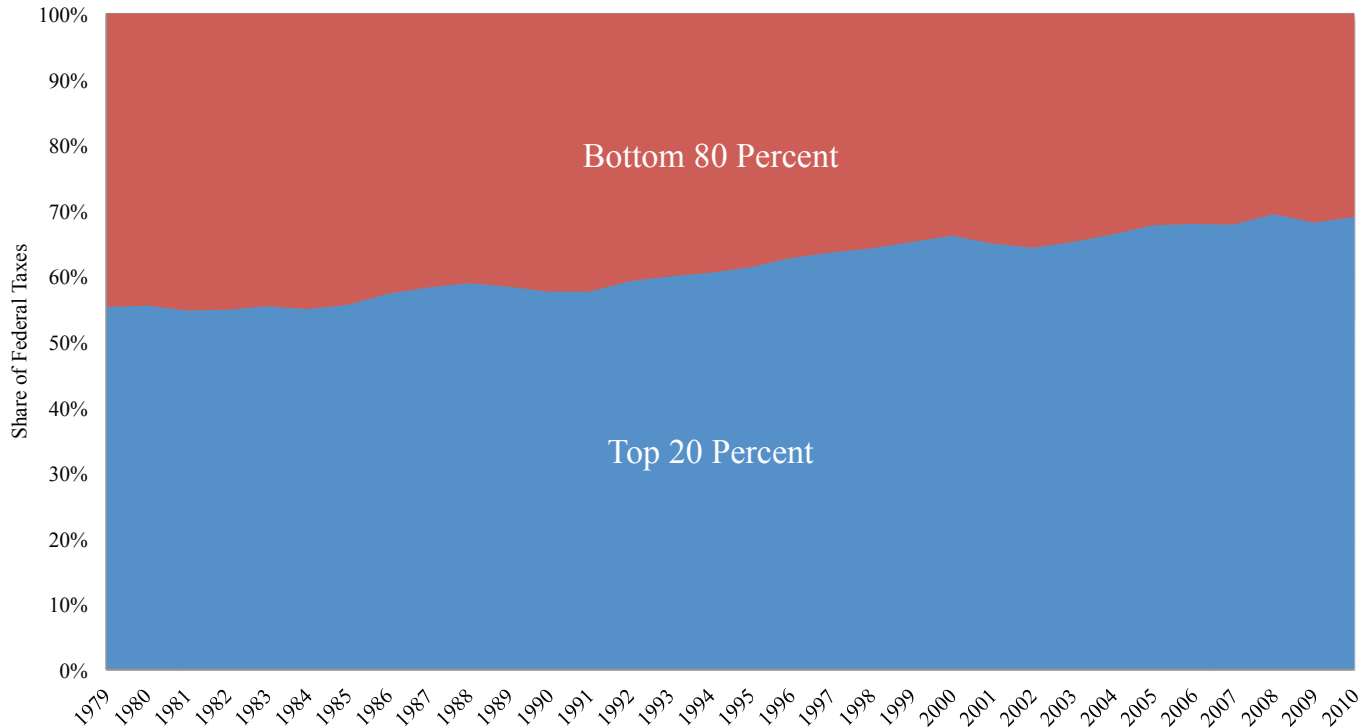
Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

Top Quintile Paying a Greater Share of Income Taxes



Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

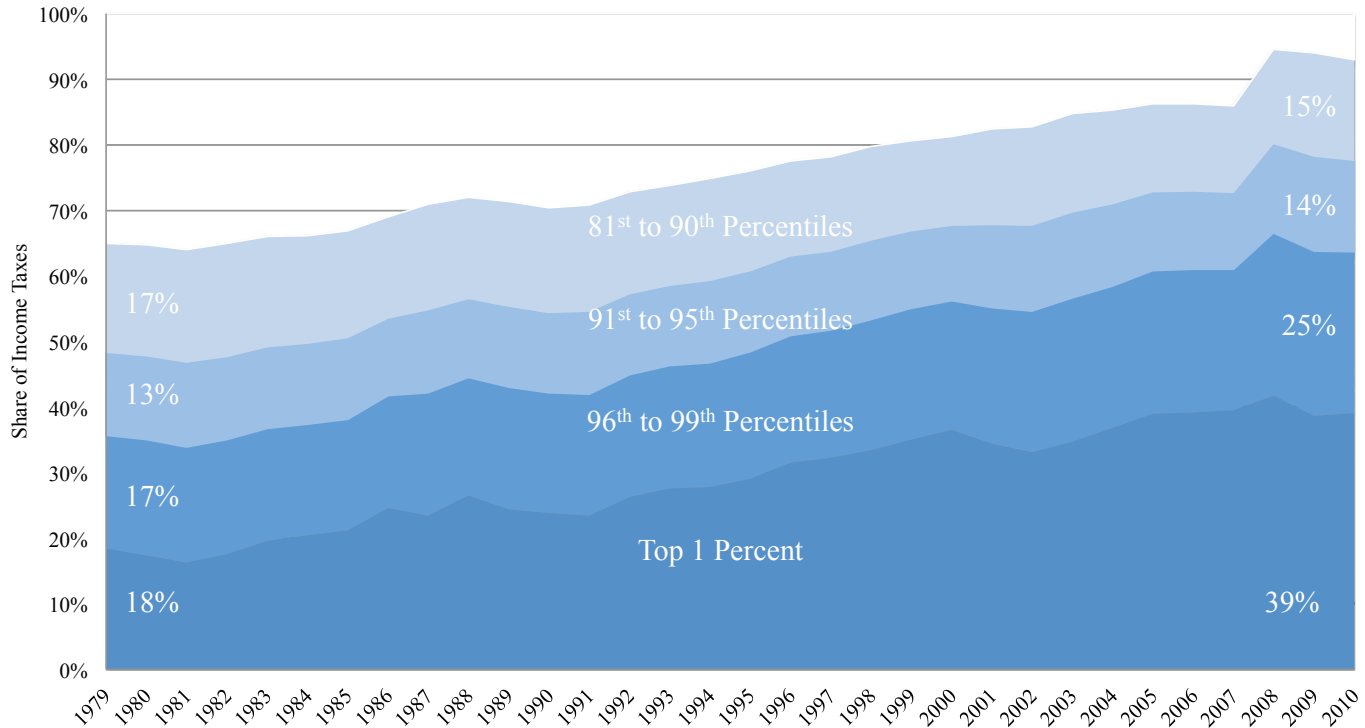
Top Quintile Paying a Greater Share of Total Taxes



Note: Includes income, social insurance, corporate, and excise taxes.

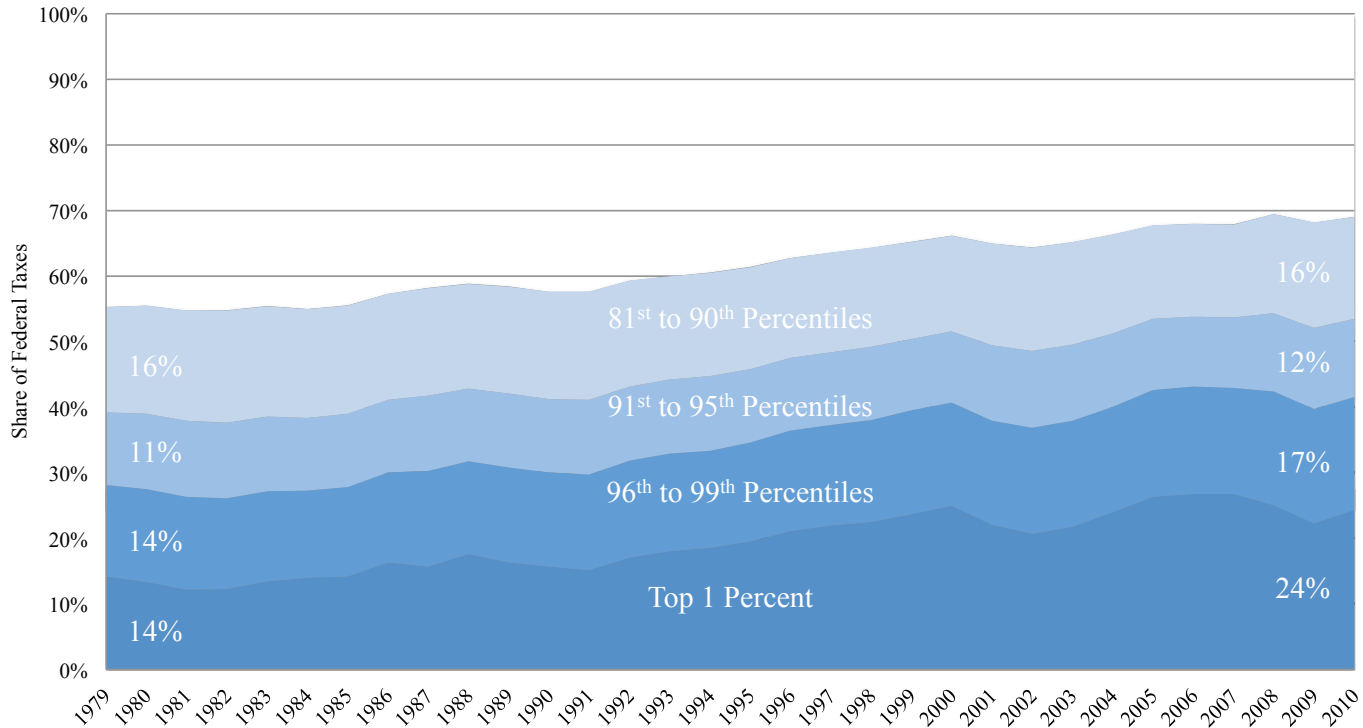
Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

Share of Federal Income Taxes Paid by Top 1 Percent Has Doubled



Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

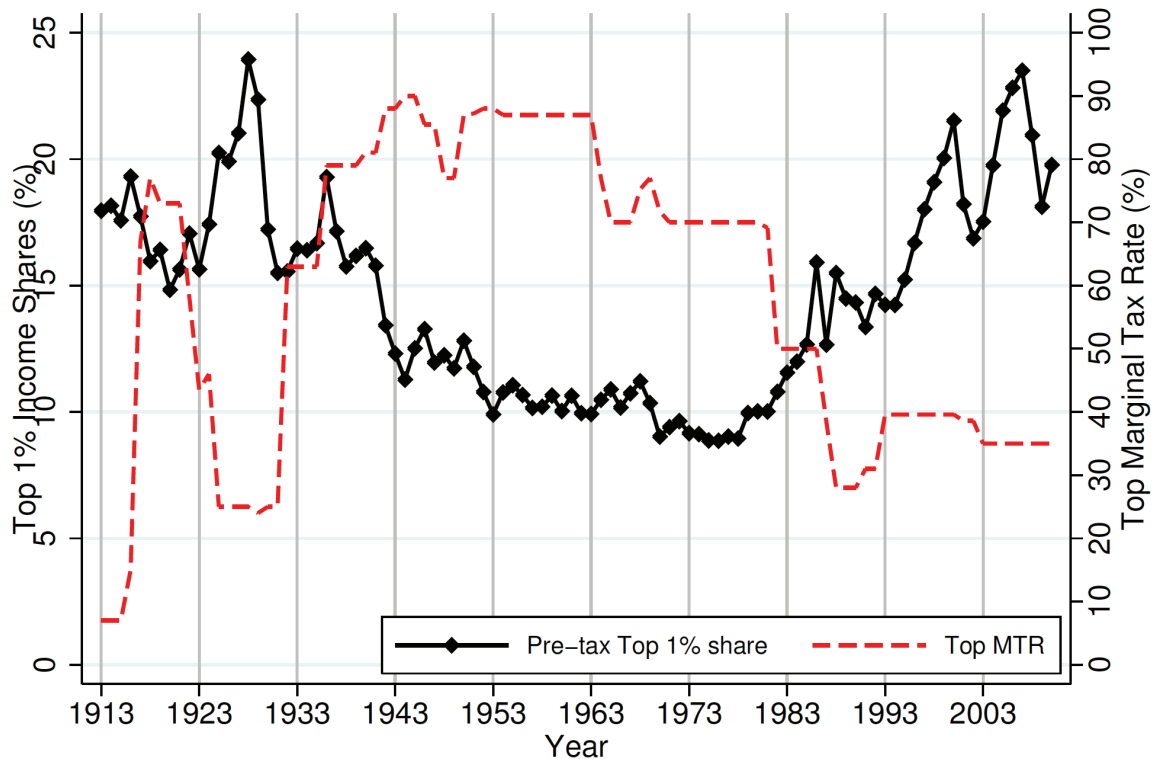
Share of Federal Taxes Paid by Top 1 Percent Has Increased



Note: Includes income, social insurance, corporate, and excise taxes.

Data Source: CBO, "The Distribution of Household Income and Federal Taxes, 2010," 2013.

Top Marginal Tax Rates Inversely Correlated with Pre-Tax Top Income Shares



Source: Emmanuel Saez, 2013 Arrow Lecture, Stanford University. Series is pre-tax, cash market income including realized capital gains and excluding government transfers.

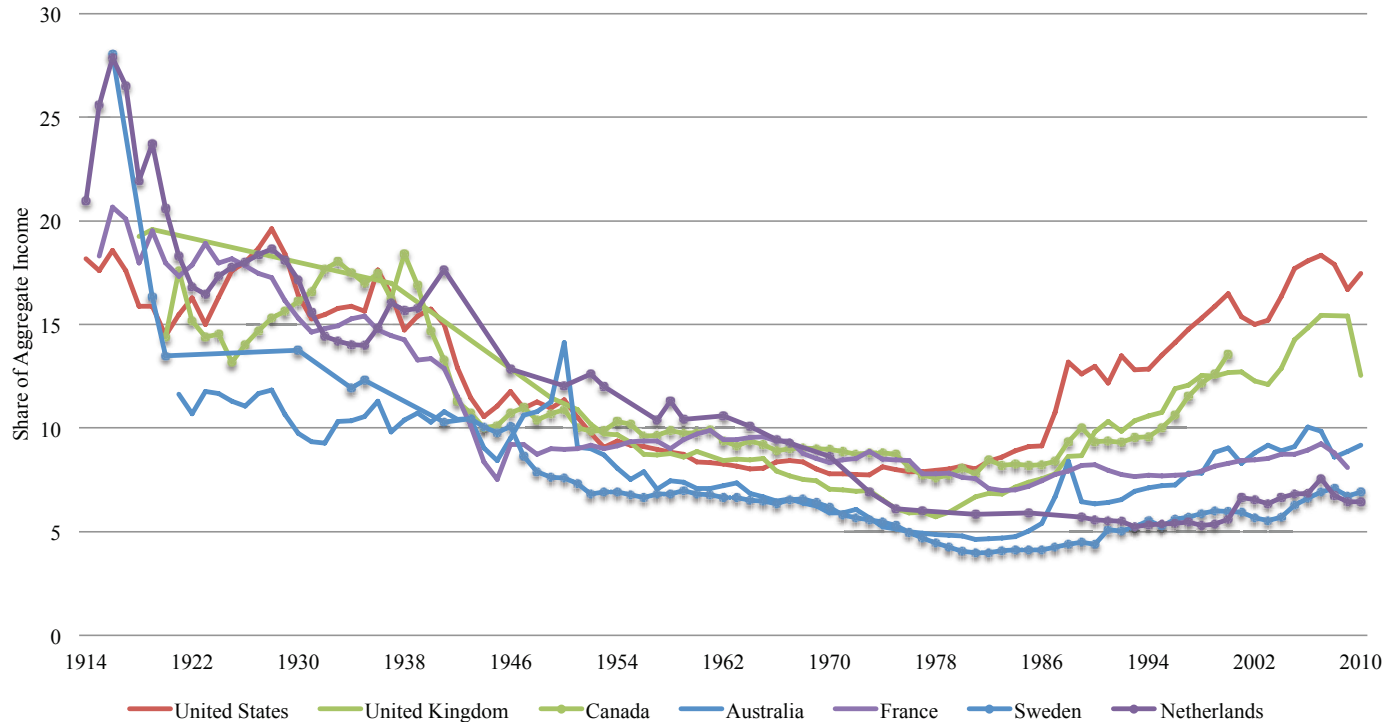
Few Filers Are in Top Tax Brackets When Marginal Tax Rates Are High

Year	Total Tax Filers	Estimated Tax Filers Paying Top Rate	Percent of Filers Paying Top Rate	Top Marginal Tax Rate	Top Tax Bracket (Nominal Dollars)
1920	7,600,000	33	0.0005%	73%	\$1,000,000
1930	3,700,000	6,200	0.17%	63%	\$100,000
1940	14,600,000	1	0.00001%	79%	\$5,000,000
1950	53,100,000	4,900	0.009%	91%	\$200,000
1960	61,000,000	5,800	0.01%	91%	\$200,000
1970	74,300,000	77,300	0.10%	70%	\$180,000
1980	93,900,000	559,400	0.60%	70%	\$107,700
1990	113,700,000	64,200,000	56.5%	28%	\$16,225
2000	129,400,000	6,800,000	5.3%	39.1%	\$144,175
2010	142,900,000	7,100,000	4.9%	35%	\$186,825

Note: Top tax brackets shown for 1960 to 2010 are lowest bracket for top marginal tax rate out of married, single, or head of household filing statuses. Where top brackets do not split evenly by IRS data, a proportional share of tax filers is calculated. Tax filers paying top rate is therefore an estimate of the maximum number of individuals paying the top marginal tax rate.

Data Sources: IRS Statistics of Income, Individual Income Tax Returns. Historical marginal federal tax rates from The Tax Foundation, "Federal Individual Income Tax Rates History."

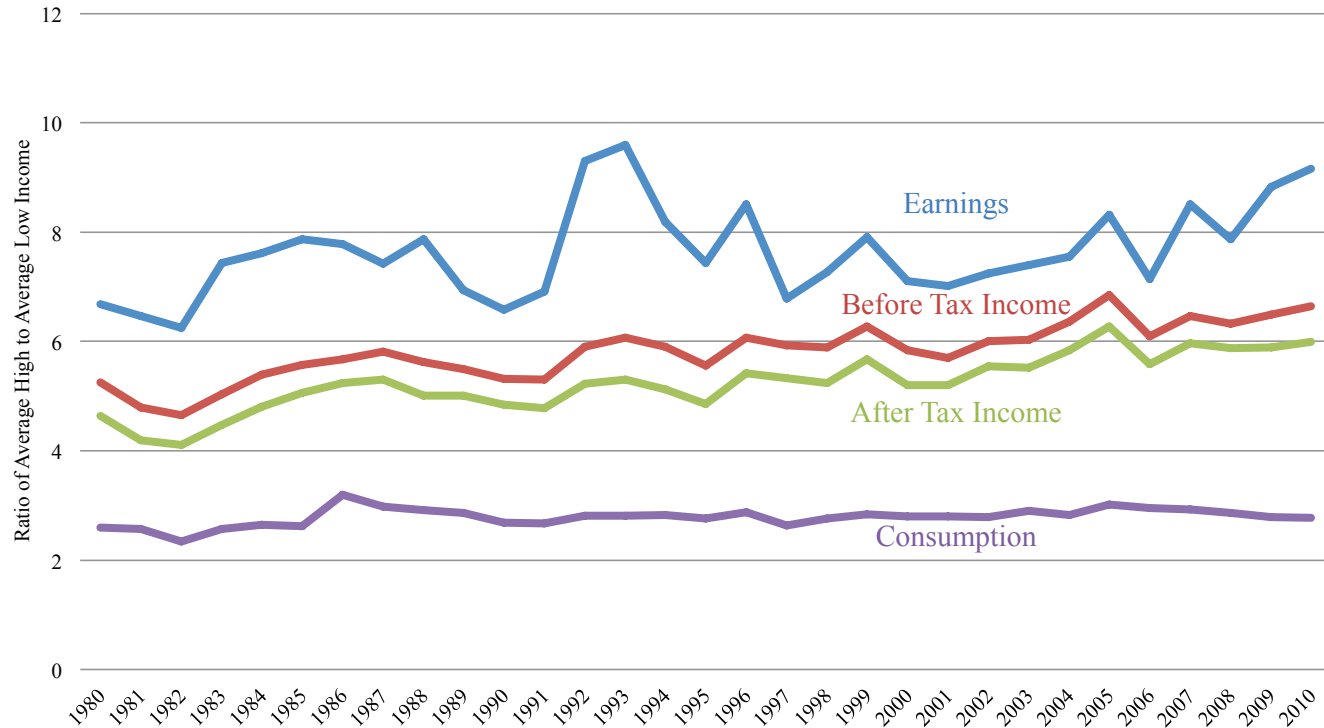
Growth in the Share of Income of the Top 1 Percent is Unique to United Kingdom, United States, and Canada



Note: Income is pre-tax, pre-transfer income. Includes capital gains and excludes all government transfers.

Data sources: Australia (Atkinson and Leigh, 2007), Canada (Saez and Veall, 2005), France (Piketty, 2001), Netherlands (Salverda and Atkinson, 2007), Sweden (Roine and Walderstrom, 2010), United Kingdom (Atkinson, 2007), and United States (Piketty and Saez, 2007). Collected at World Top Incomes Database.

U.S. Consumption Inequality Is Growing, But Slower Than Income Inequality



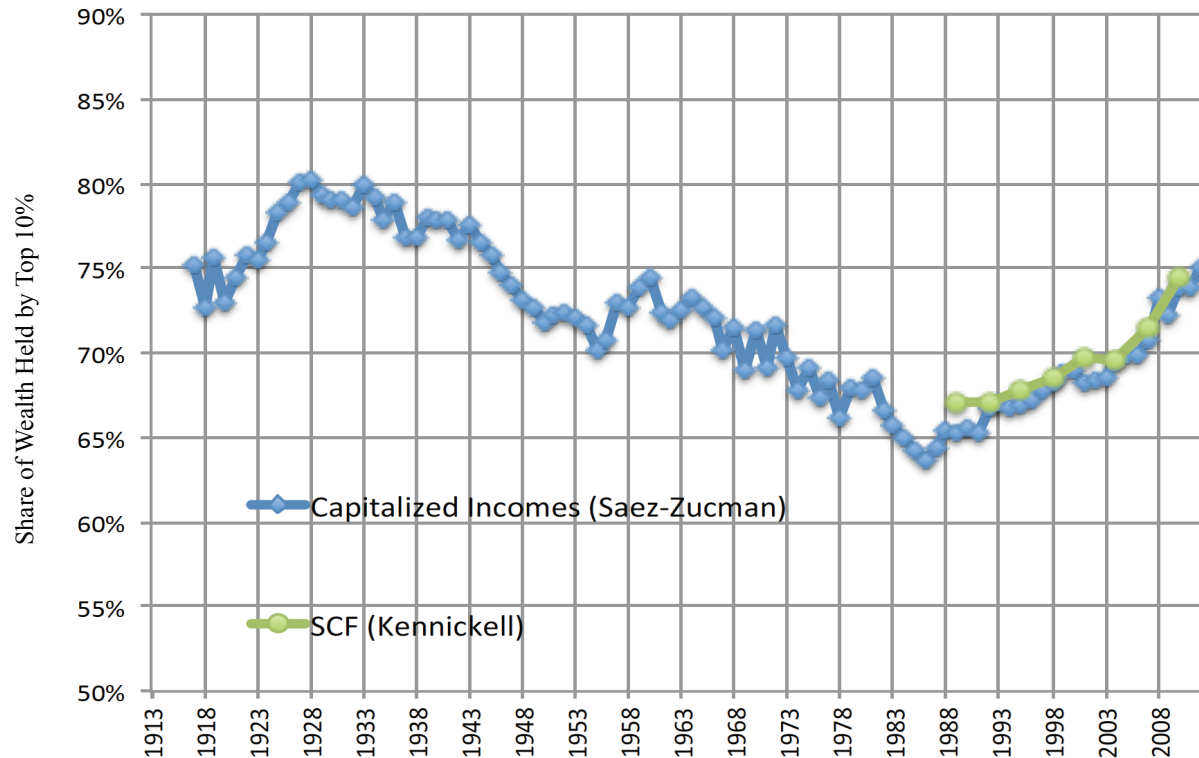
Notes: Figure is the ratio of high income (80th-95th percentile) to low income (5th-20th percentiles) labor earnings, before-tax income, after-tax income, and consumption expenditures. Estimates of earnings and consumption from Consumer Expenditure Survey.
Source: Aguiar and Bils, 2011, Figure 1.

Varying Estimates on Consumption Inequality

Findings on the change in consumption inequality relative to income inequality

Krueger and Perri (2005)	Consumption inequality is growing, but not as quickly as income inequality
Attanasio, Hurst, Pistaferri (2012)	Consumption and income inequality are growing at the same rate
Aguiar and Bils (2013)	Estimates are between Krueger & Perri and Attanasio, Hurst & Pistaferri

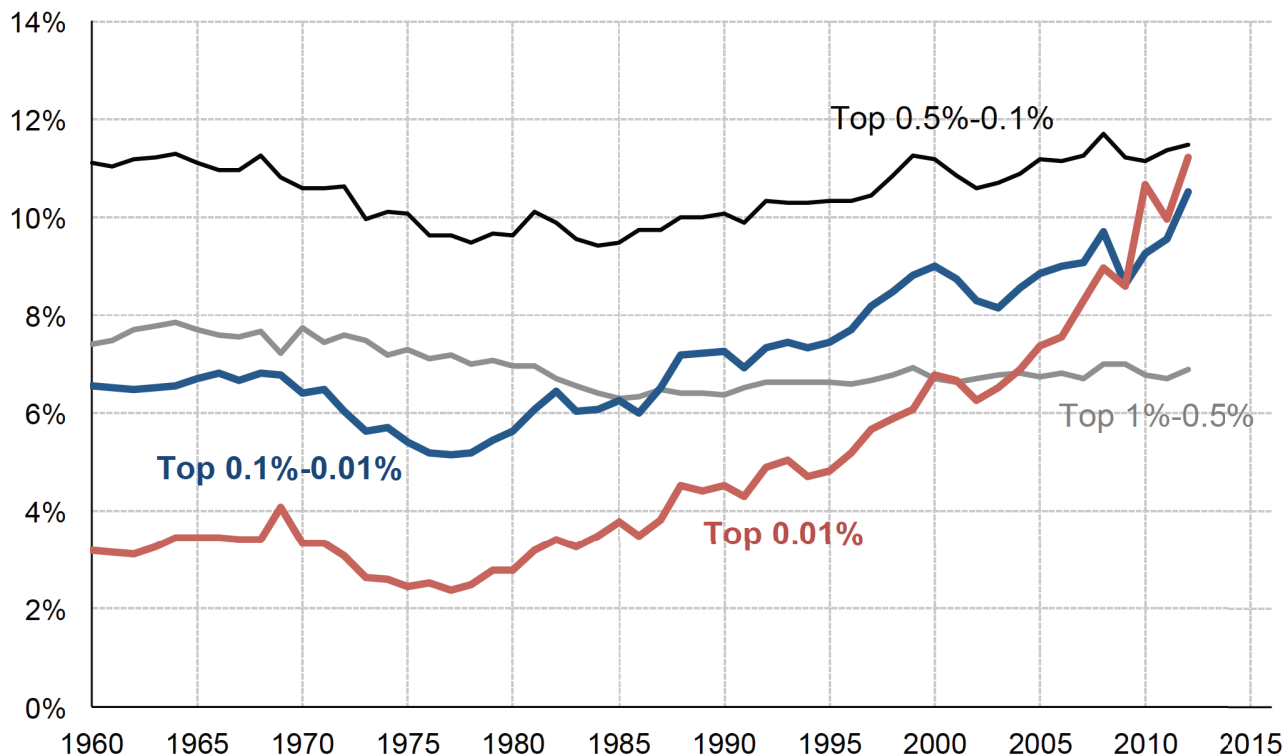
Estimates of U.S. Wealth Inequality Follow Same Trend as Income Inequality



Notes: Saez-Zucman data is derived from IRS data and typical returns on various asset classes. Kennickell data is the Survey of Consumer Finances.

Source: Saez and Zucman, "The Distribution of US Wealth, Capital Income and Returns Since 1913," March 2014, Slide 57.

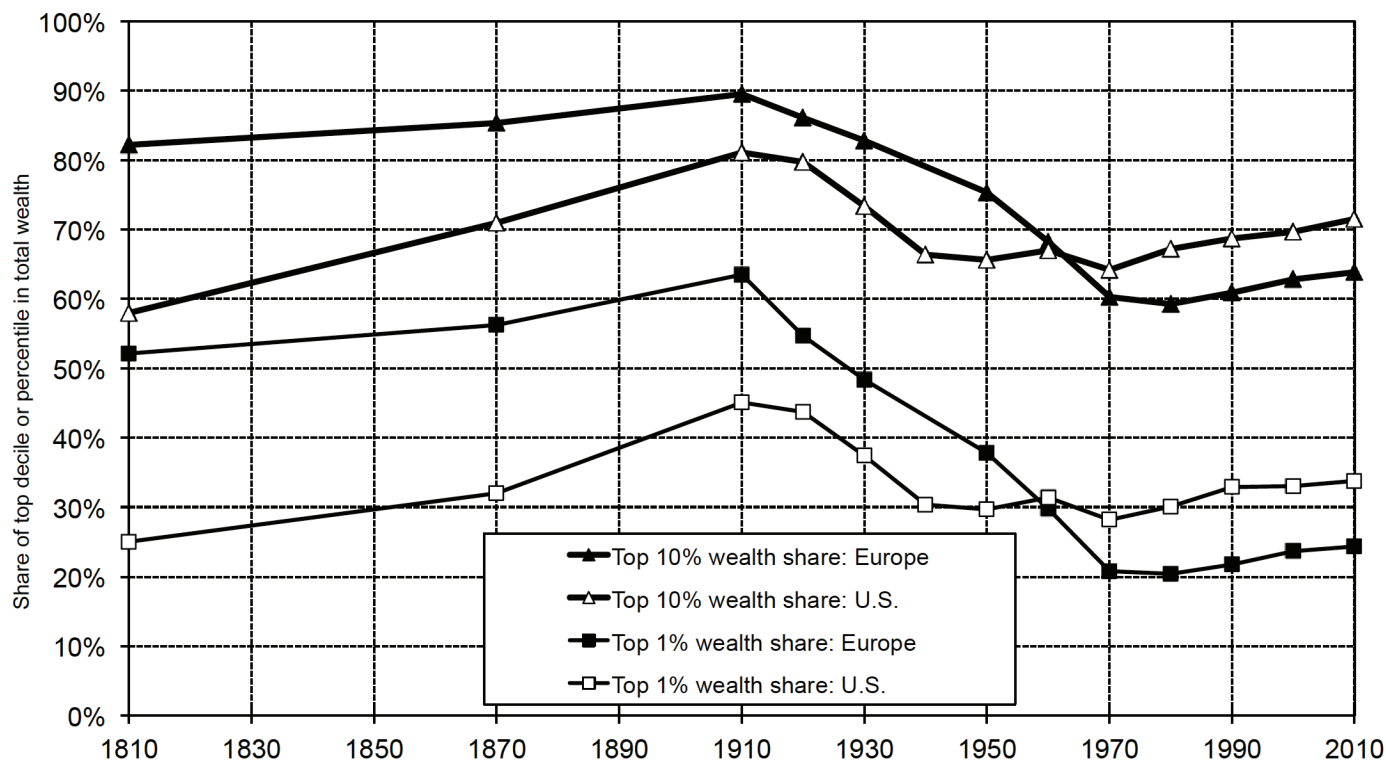
Like Income Inequality, Wealth Inequality Is Driven by the Wealthiest 0.1 Percent



Note: Estimates are derived from IRS data and typical returns on various asset classes.

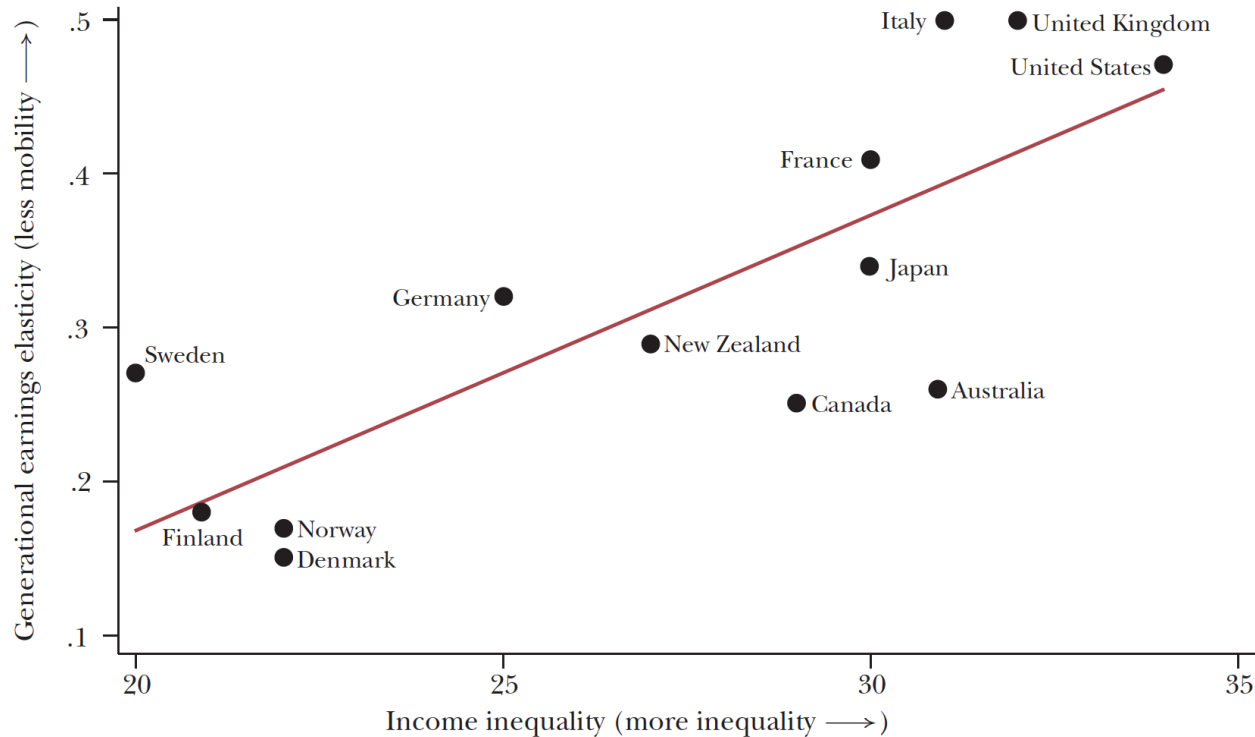
Source: Saez and Zucman, "The Distribution of US Wealth, Capital Income and Returns Since 1913," March 2014, Slide 57.

U.S. Wealth Inequality Surpassed Europe in 1960



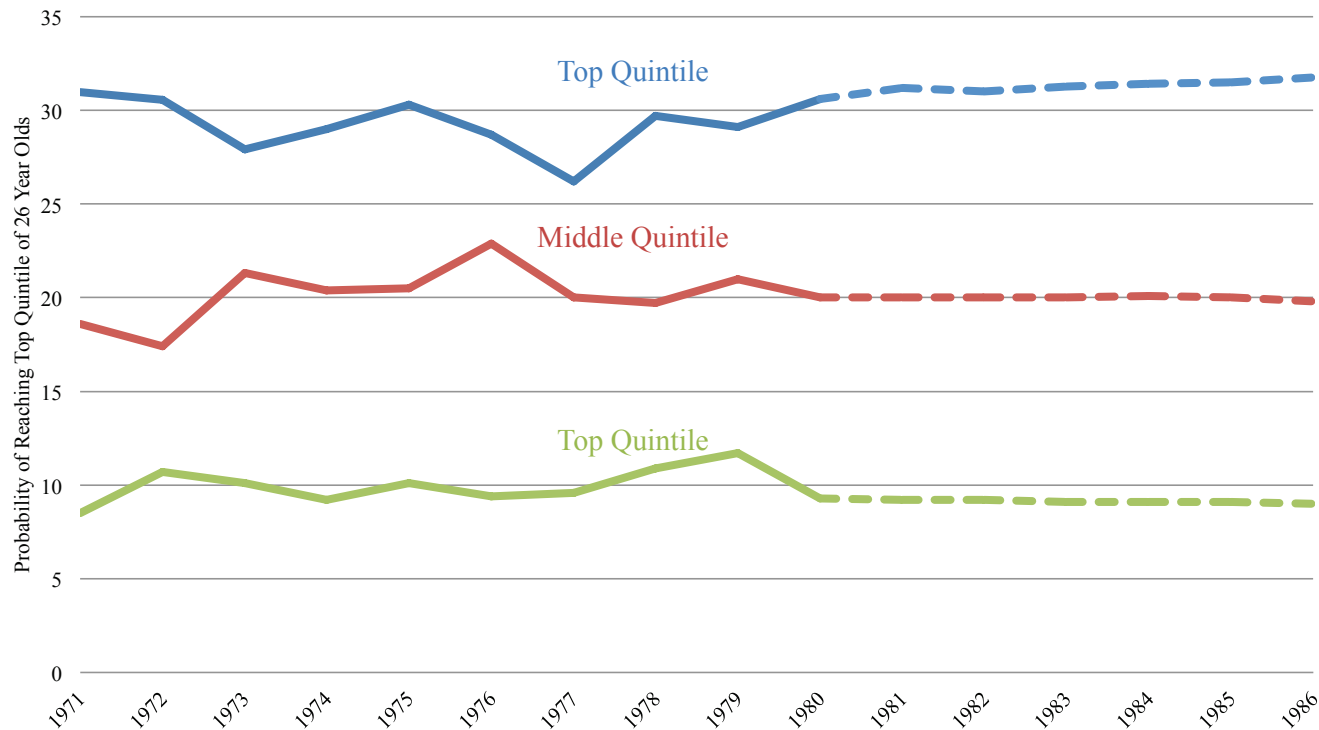
Source: Thomas Piketty, *Capital in the 21st Century*, Figure 10.6. Top World Incomes Database.

Income Inequality Inversely Correlated with Intergenerational Mobility



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *Journal of Economic Perspectives*, Summer 2013, Figure 1.

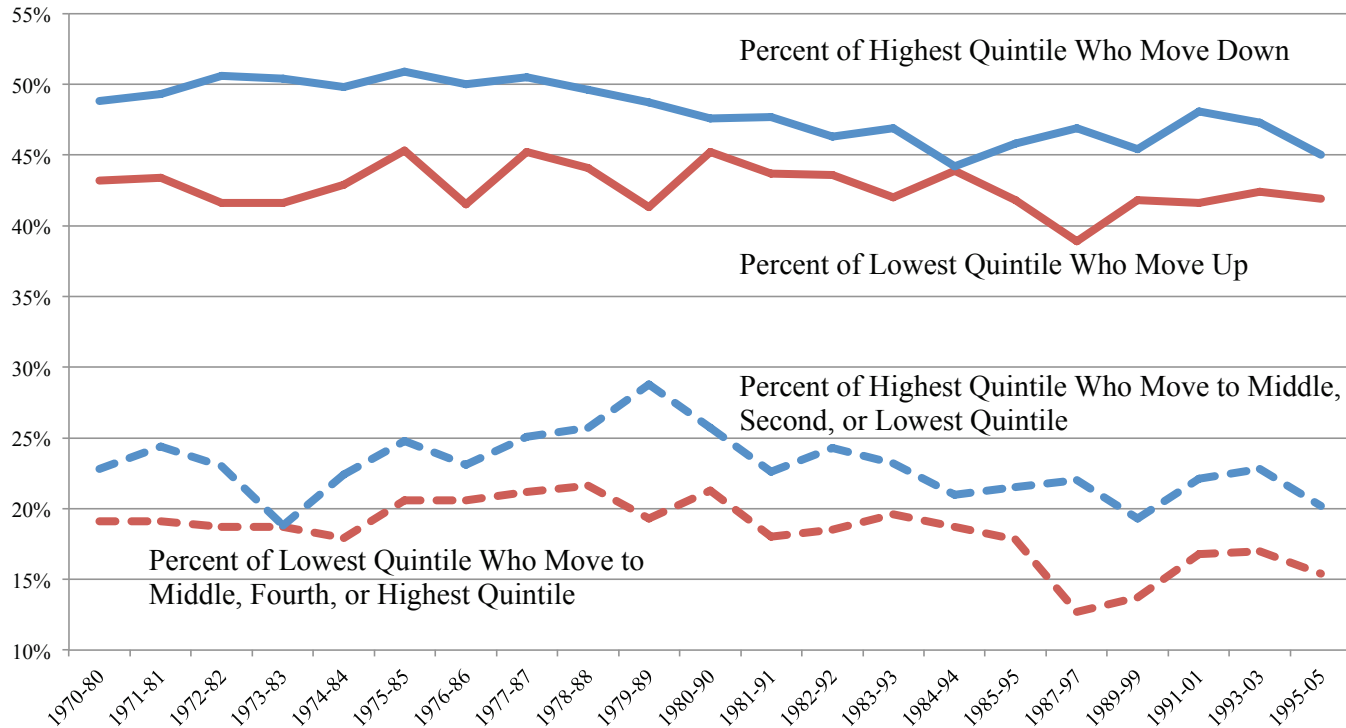
Chetty Finds U.S. Intergenerational Mobility is Relatively Constant



Notes: Graph shows probability of reaching top quintile at age 26, sorted by parents' income quintile. Solid lines are from matched SOI sample using 1971-82 birth cohorts. Dotted lines are from population-based sample for 1980-86 birth cohorts.

Source: Chetty et al., "Is the United States Still the Land of Opportunity? Recent Trends in Intergenerational Mobility," Presentation, Slide 33

Bradbury Finds Declining U.S. Intergenerational Mobility



Source: Katharine Bradbury, "Trends in U.S. Family Income Mobility, 1969-2006," Federal Reserve Working Paper, October 2011, Table 2.

Lowest Quintile in the U.S. Is Less Mobile Than Other Countries

Percent of men whose fathers were in the **lowest quintile** of the earnings distribution

	Remained in the lowest quintile	Climbed to second, third, or fourth quintiles	Climbed to the highest quintile
Denmark	25%*	61%	14%*
Finland	28%*	61%	11%
Norway	28%*	60%	12%*
Sweden	26%*	63%	11%
United Kingdom	30%*	57%	12%*
United States	42%	50%	8%

Notes: * denotes significant difference from the United States. Data for the United States come from National Longitudinal Survey of Youth. Individuals measured were born between 1957 and 1964, parental incomes measured in 1978, and current individual earnings measured between 1996 and 2002.

Source: Jantti et al. 2006, Tables 4 and 12.

Top Quintile in the U.S. Has Similar Mobility to Other Countries

Percent of men whose fathers were in the **top quintile** of the earnings distribution

	Dropped to the lowest quintile	Dropped to second, third, or fourth quintiles	Remained in the highest quintile
Denmark	15%*	45%	36%
Finland	15%*	50%	35%
Norway	15%*	50%	35%
Sweden	16%*	47%	37%
United Kingdom	11%	60%	30%
United States	10%	55%	36%

Notes: * denotes significant difference from the United States. Data for the United States come from National Longitudinal Survey of Youth. Individuals measured were born between 1957 and 1964, parental incomes measured in 1978, and current individual earnings measured between 1996 and 2002.

Source: Jantti et al. 2006, Tables 4 and 12.



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