

INEQUALITY: CHALLENGE OF THE CENTURY?

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ASSA meetings, January 3-5 2015



OUTLINE

Top 10 charts on U.S. evidence ...and recent research

Facts

Labor share

- Whole economy
- ... adjusted for top incomes

Market labor incomes

- Inequality measures
- Top and bottom incomes
- Tcherneva-Giovannoni chart

Post-tax, post-transfers

- LIS-Milanovic chart
- Median incomes

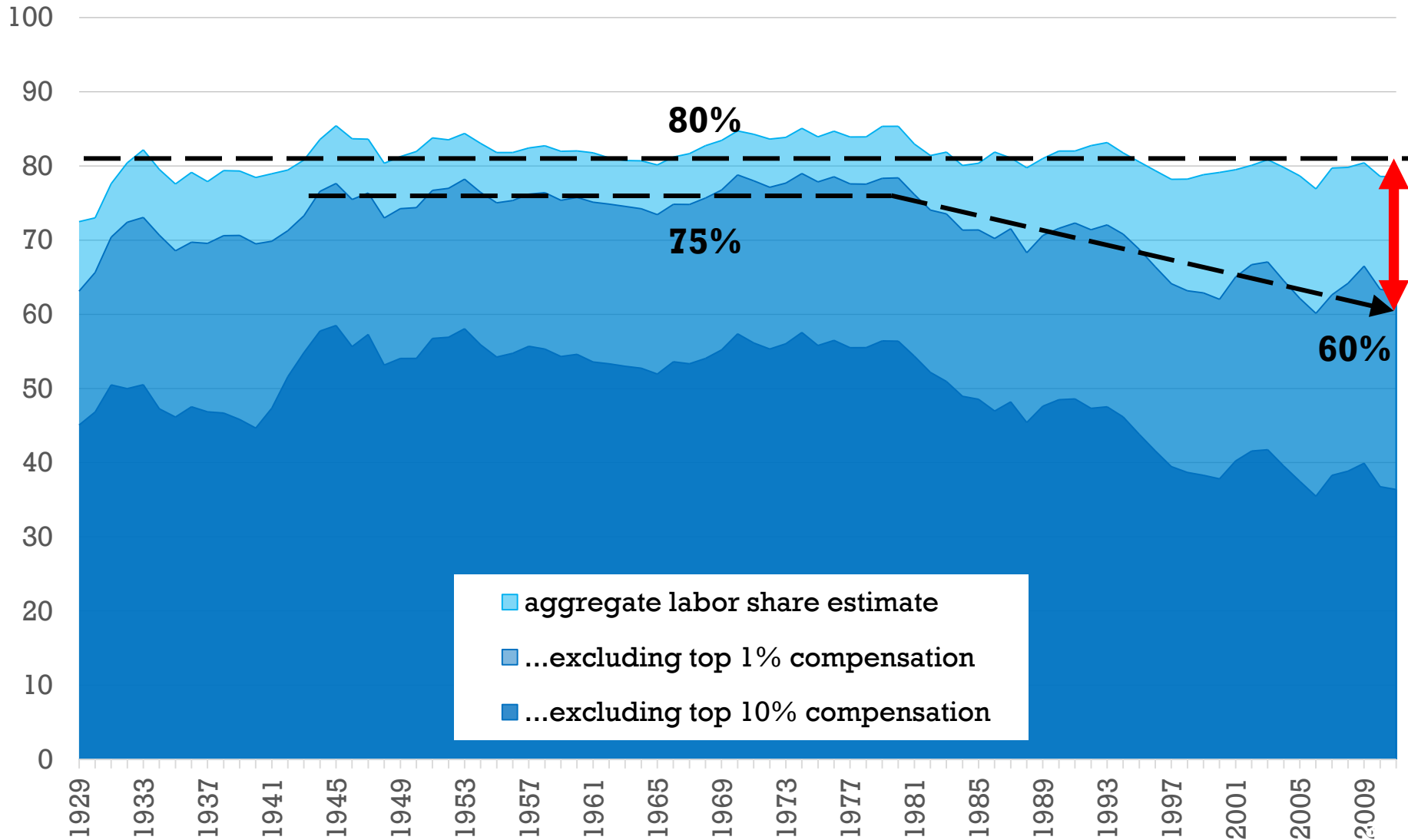
Wealth and debt

Questions

Why care?

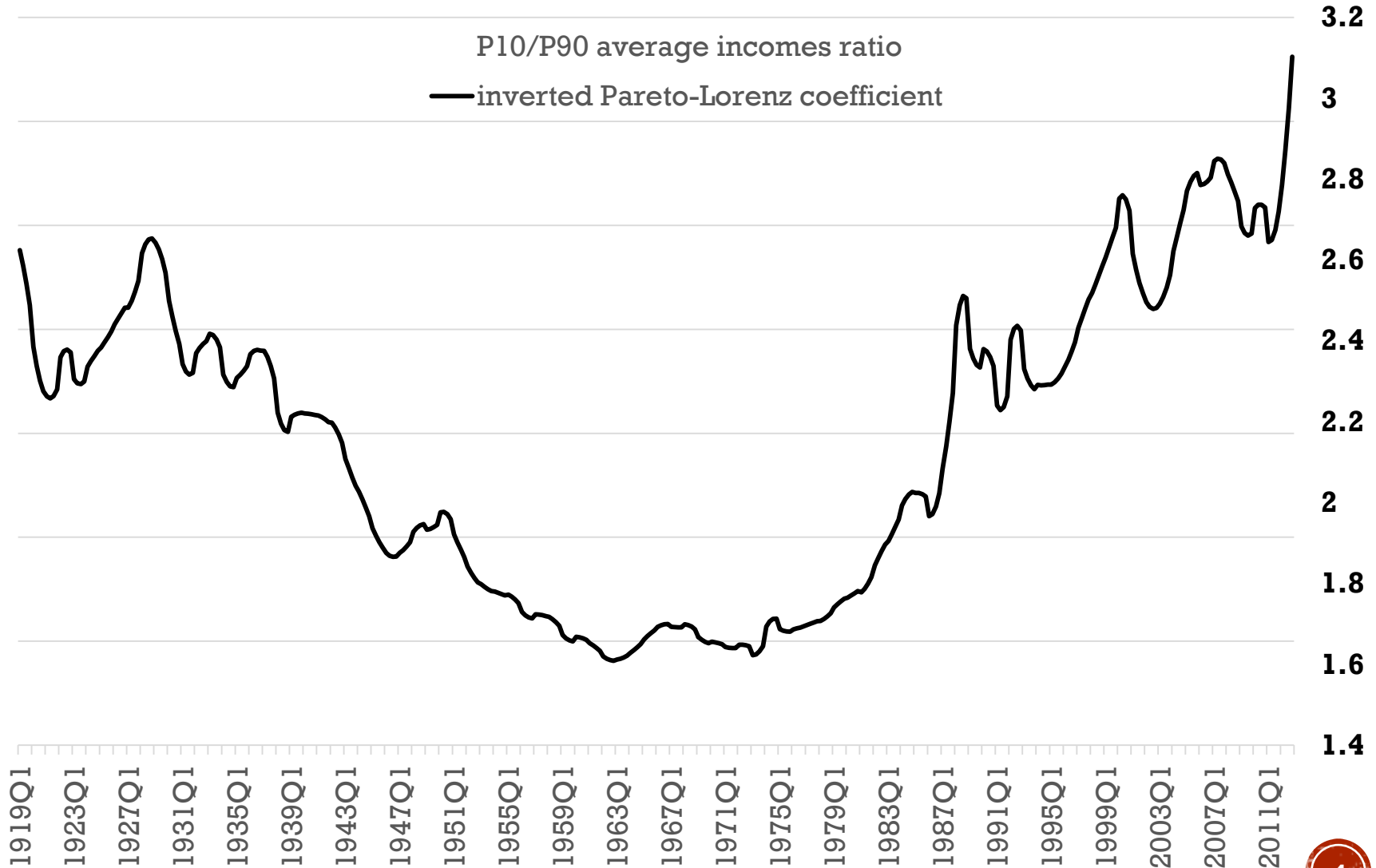
- **Causes?**
- **Implications**
- **Policy?**

1. LABOR SHARE



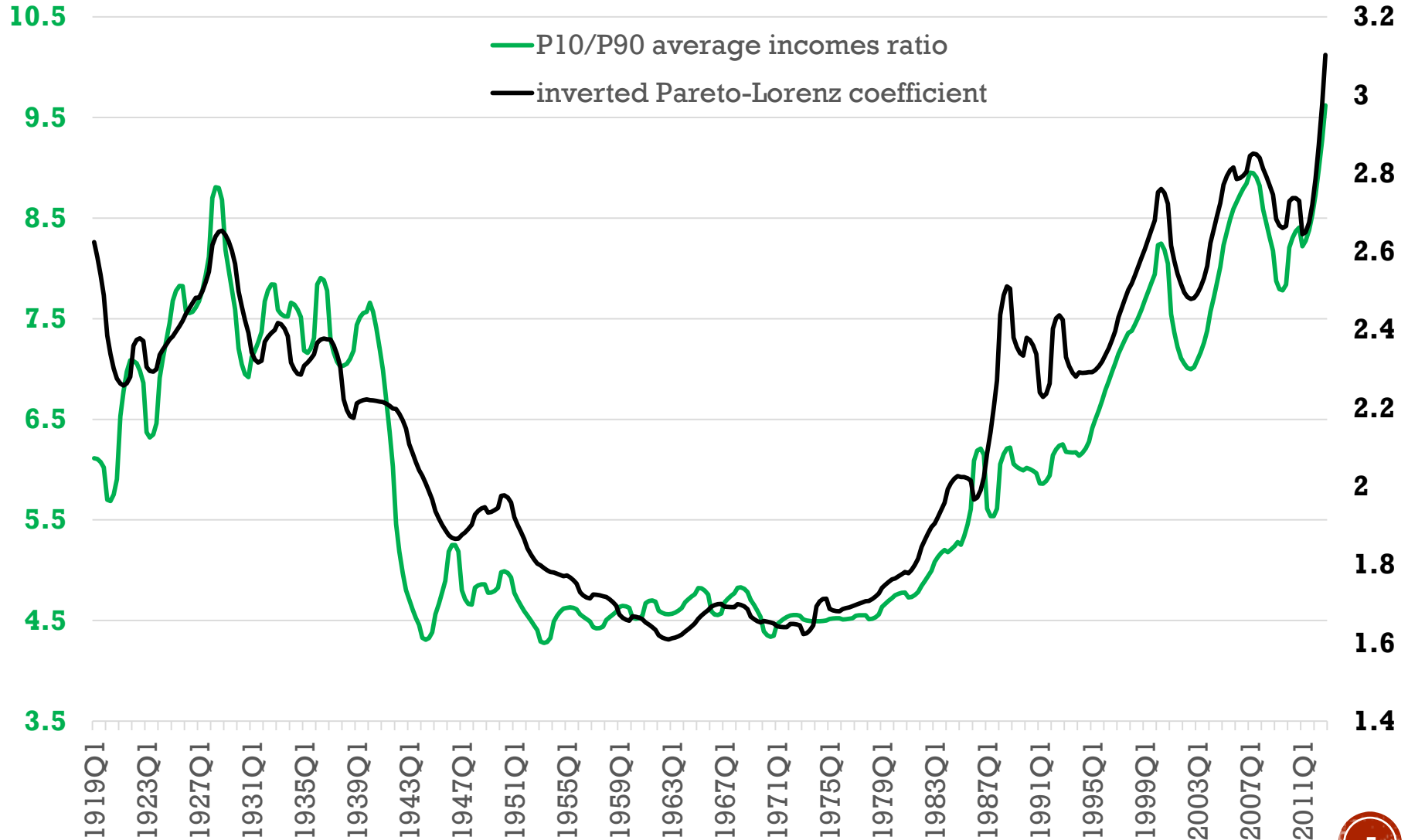
Source: Giovannoni (2014) based on NIPA and WTID data

2. INEQUALITY MEASURES



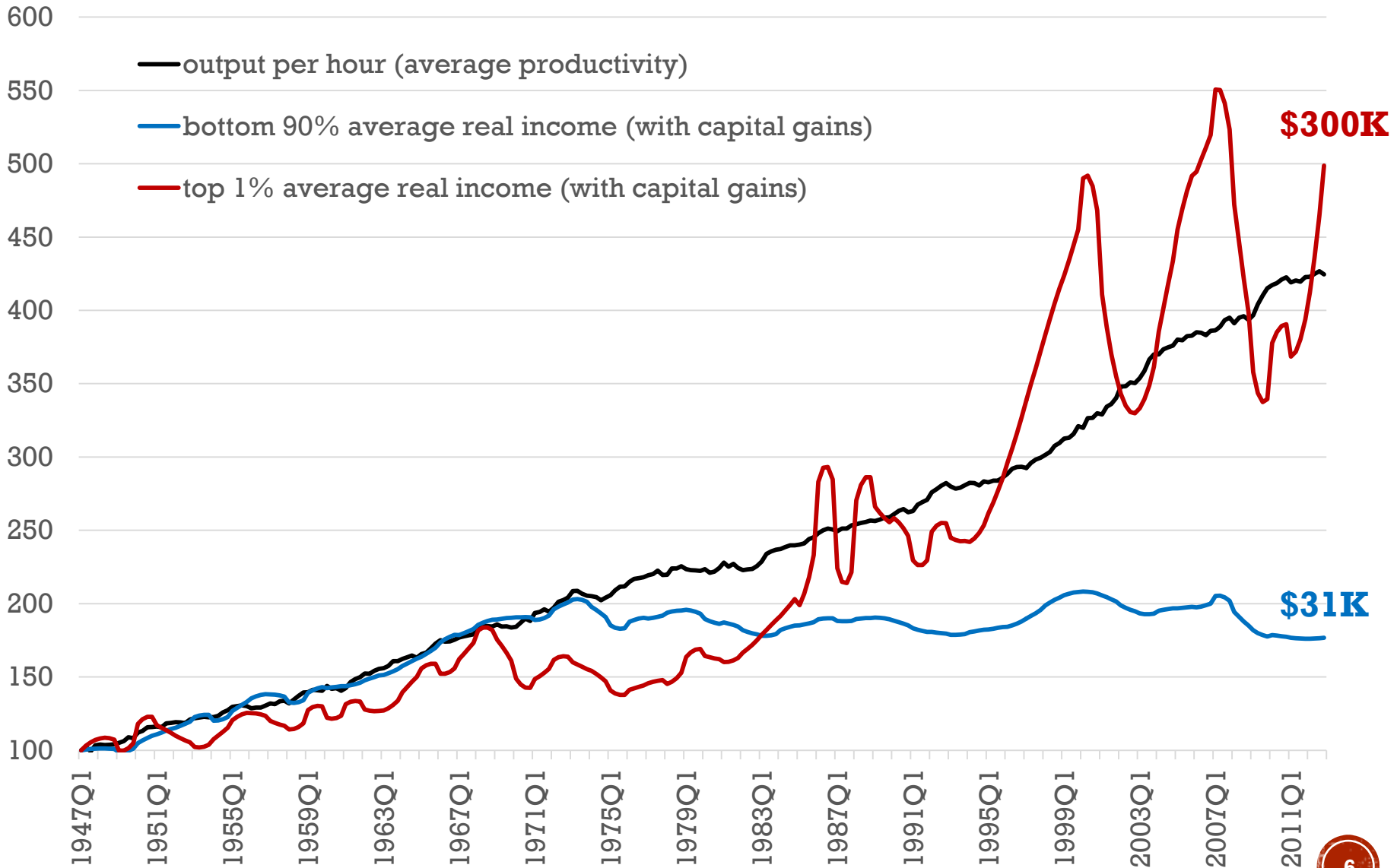
Source: Giovannoni (2014) based on WTID data

2. INEQUALITY MEASURES



Source: Giovannoni (2014) based on WTID data

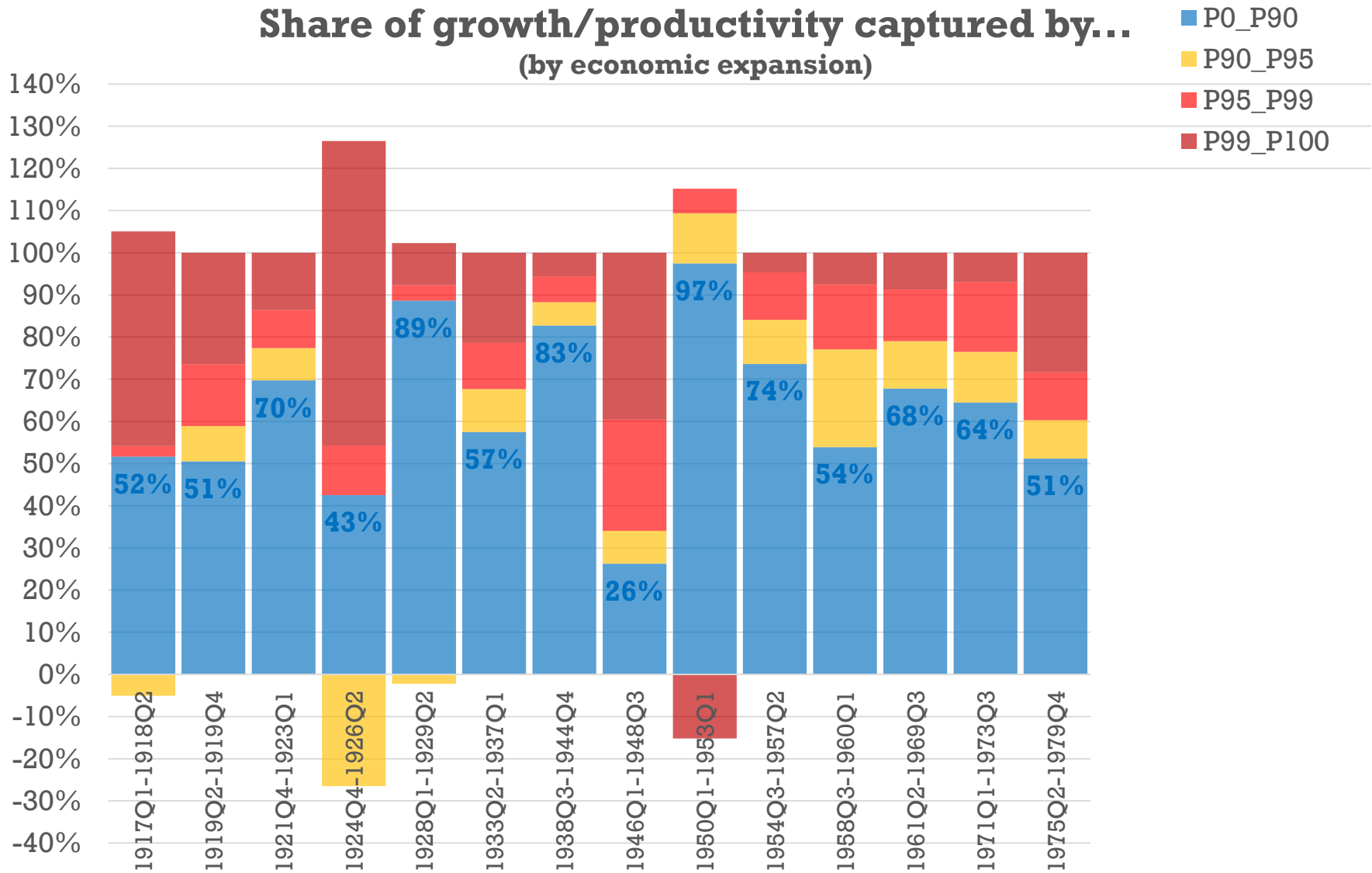
3. TOP AND BOTTOM REAL INCOMES



Source: Giovannoni (2014) based on WTID and BLS data

4. TCHERNEVA-GIOVANNONI

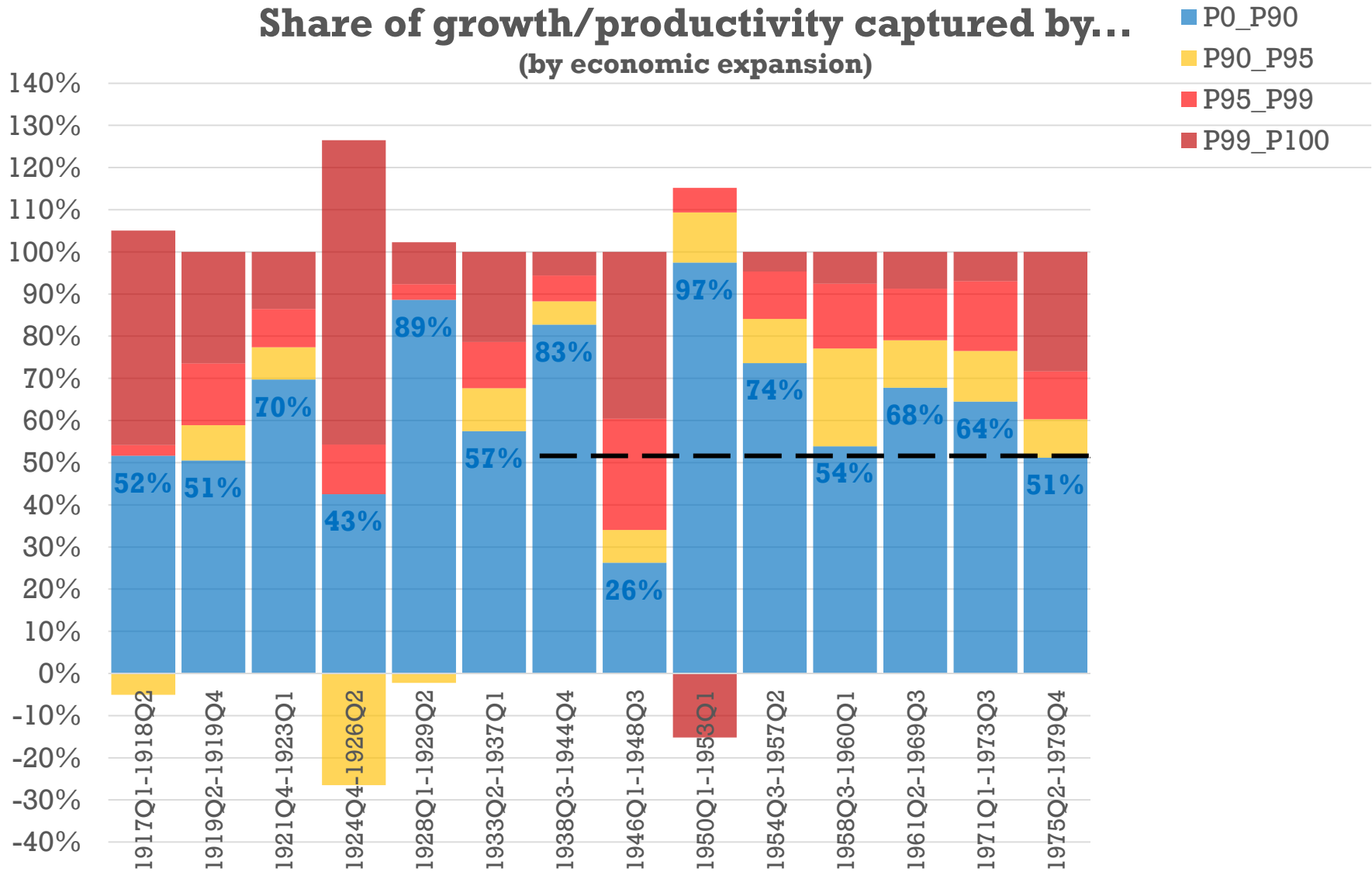
Share of growth/productivity captured by...
(by economic expansion)



Source: Tcherneva (2014) extended back to 1917 and decomposed by top income

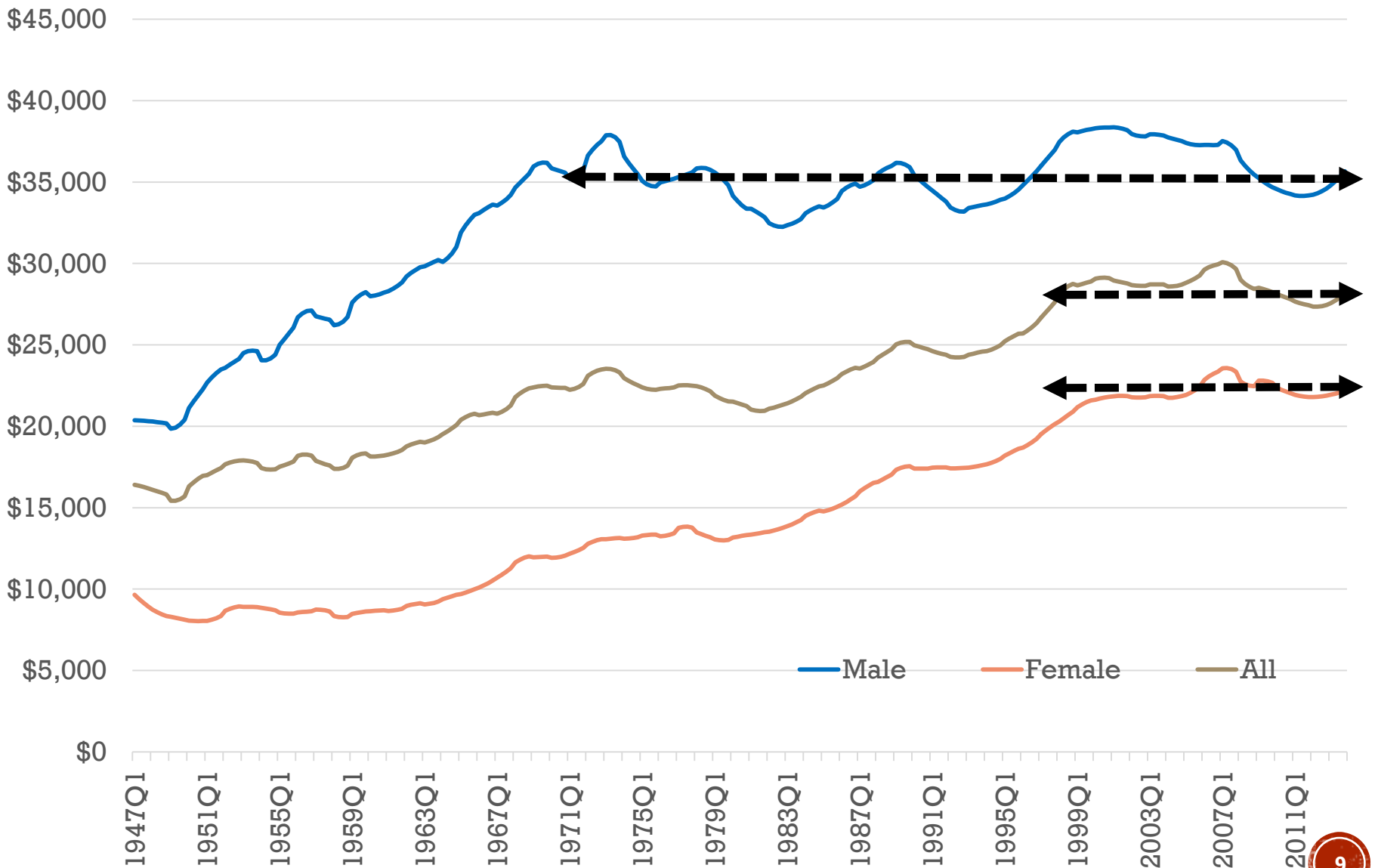
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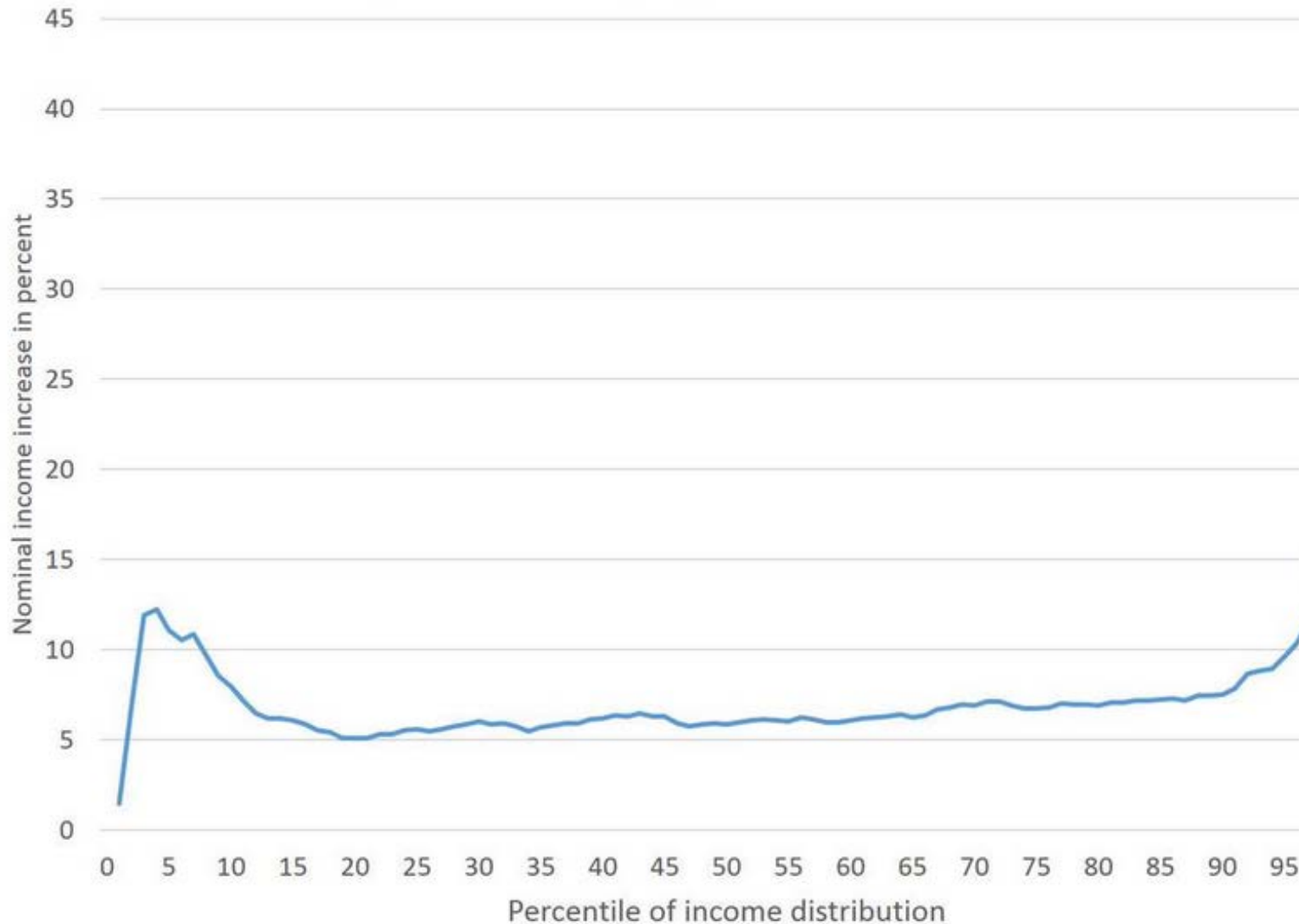
5. REAL MEDIAN INCOMES OF *PEOPLE*



Source: Census Bureau, Historical Table P-2, CPI adjusted

6. POST-TAX

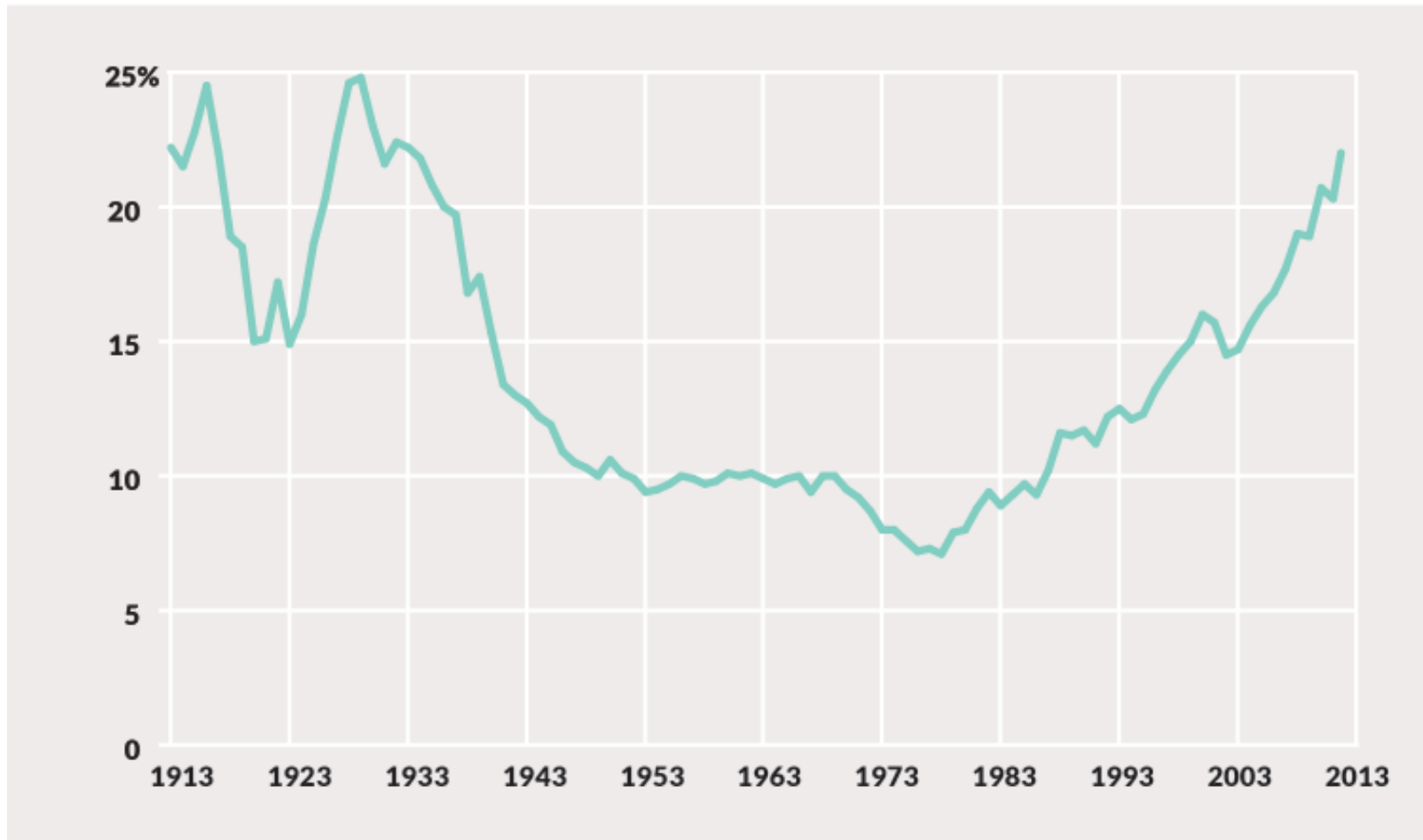
Percentage gains at different parts of US income distribution 2010-13



Source: Branko Milanovic, via Twitter, based on LIS data

7. WEALTH

The share of total U.S. wealth owned by the top 0.1 percent of families, 1913-2012

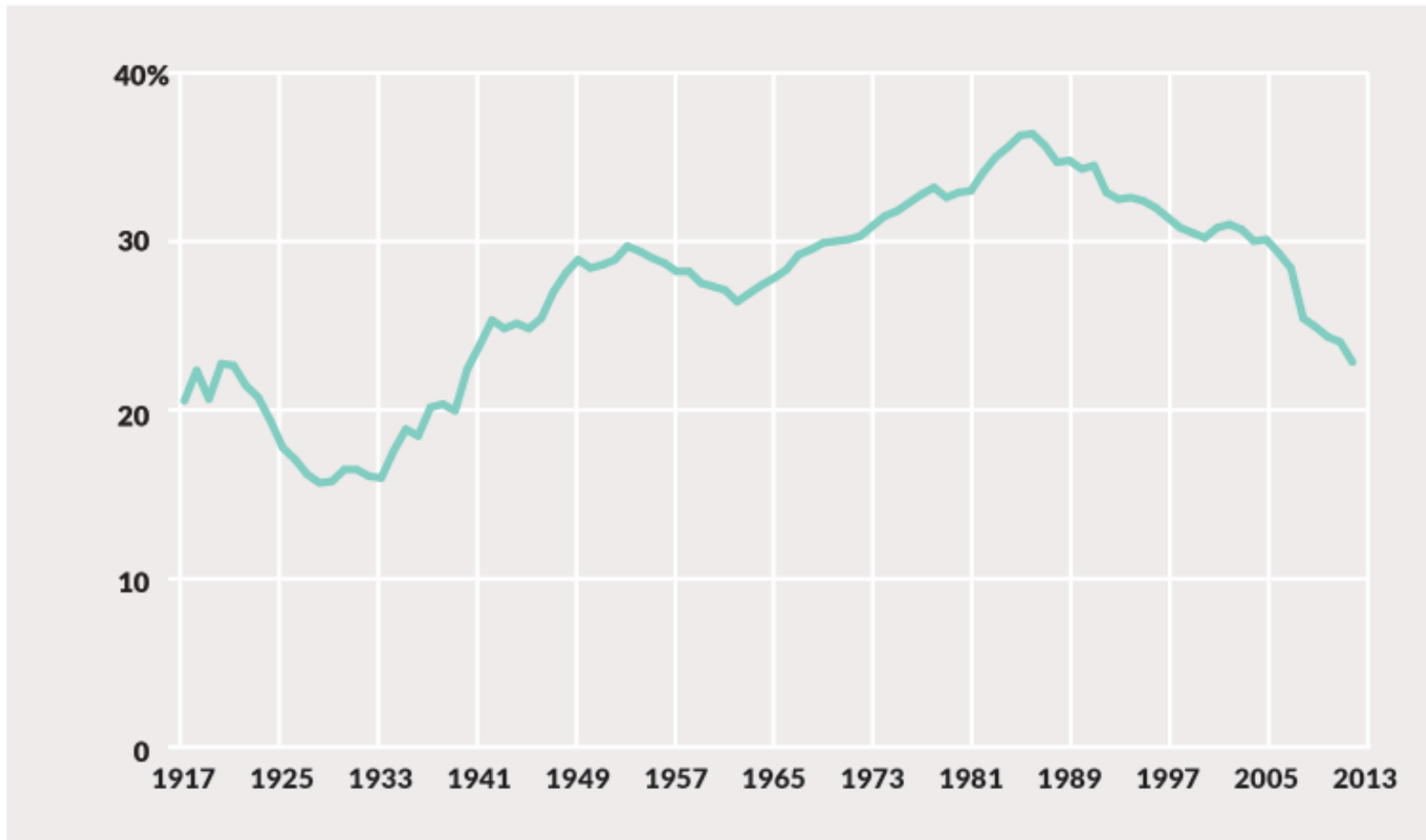


Notes: Wealth is total assets (including real estate and funded pension wealth) net of all debts. Wealth excludes the present value of future government transfers (such as Social Security or Medicare benefits).

Source: Saez, Emmanuel and Gabriel Zucman "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data", NBER Working Paper, October 2014, online at <http://gabriel-zucman.eu/uswealth/>

7. WEALTH

The share of total U.S. wealth owned by the bottom 90 percent of families, 1917-2012

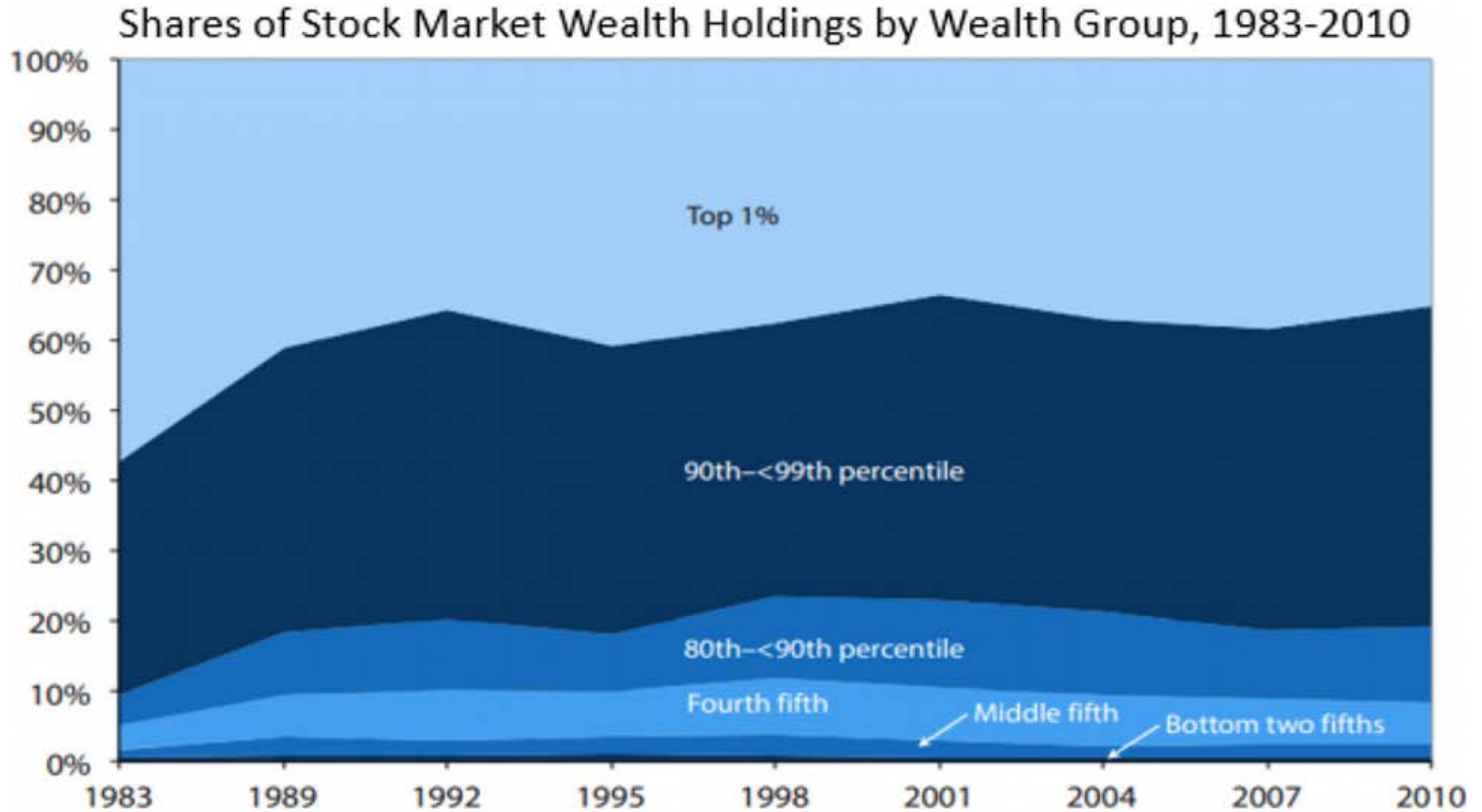


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Source: Saez, Emmanuel and Gabriel Zucman "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data", NBER Working Paper, October 2014, online at <http://gabriel-zucman.eu/uswealth/>

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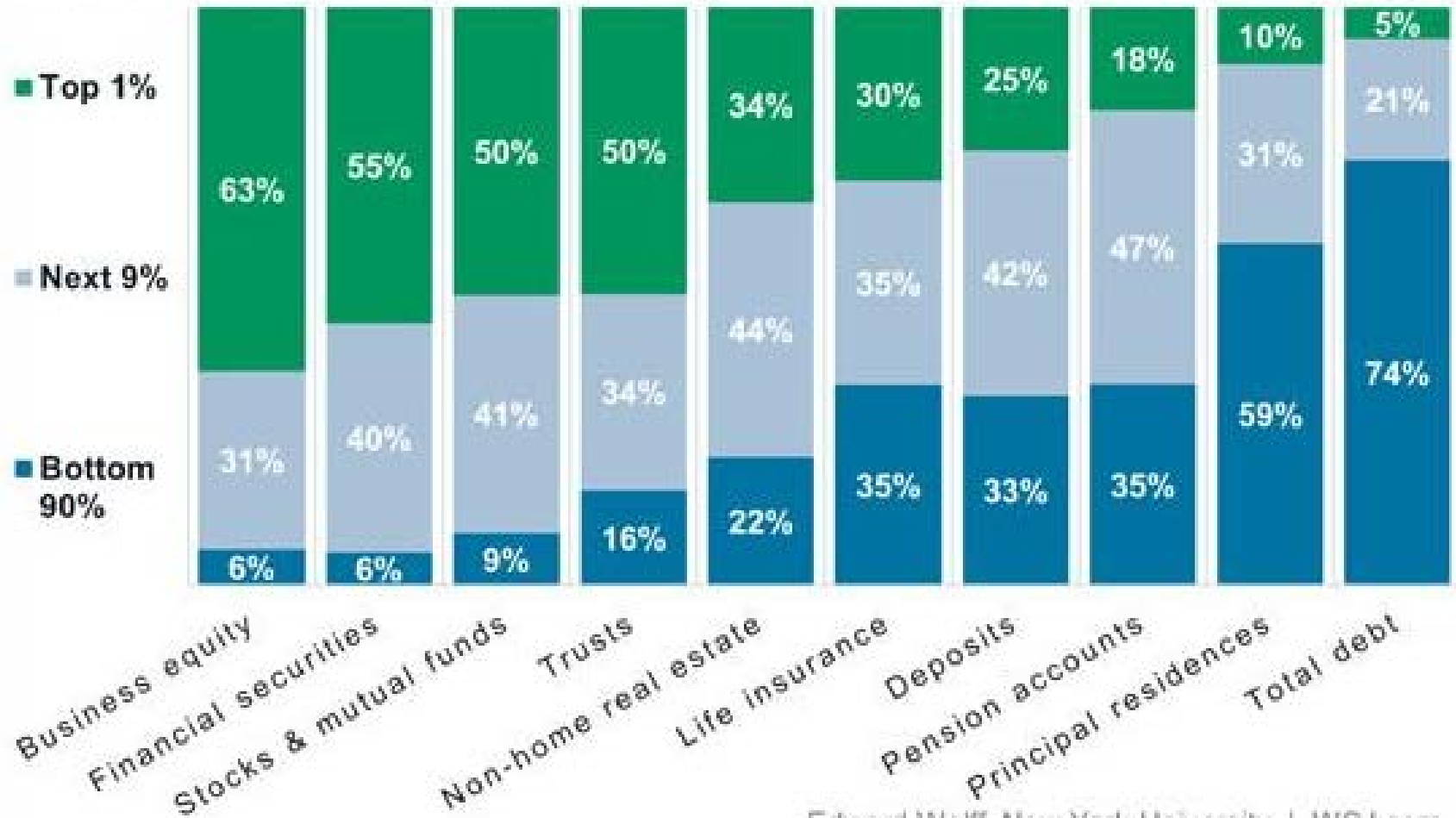
8. STOCK MARKET WEALTH



Source: Wolff (2012)

9. DEBT

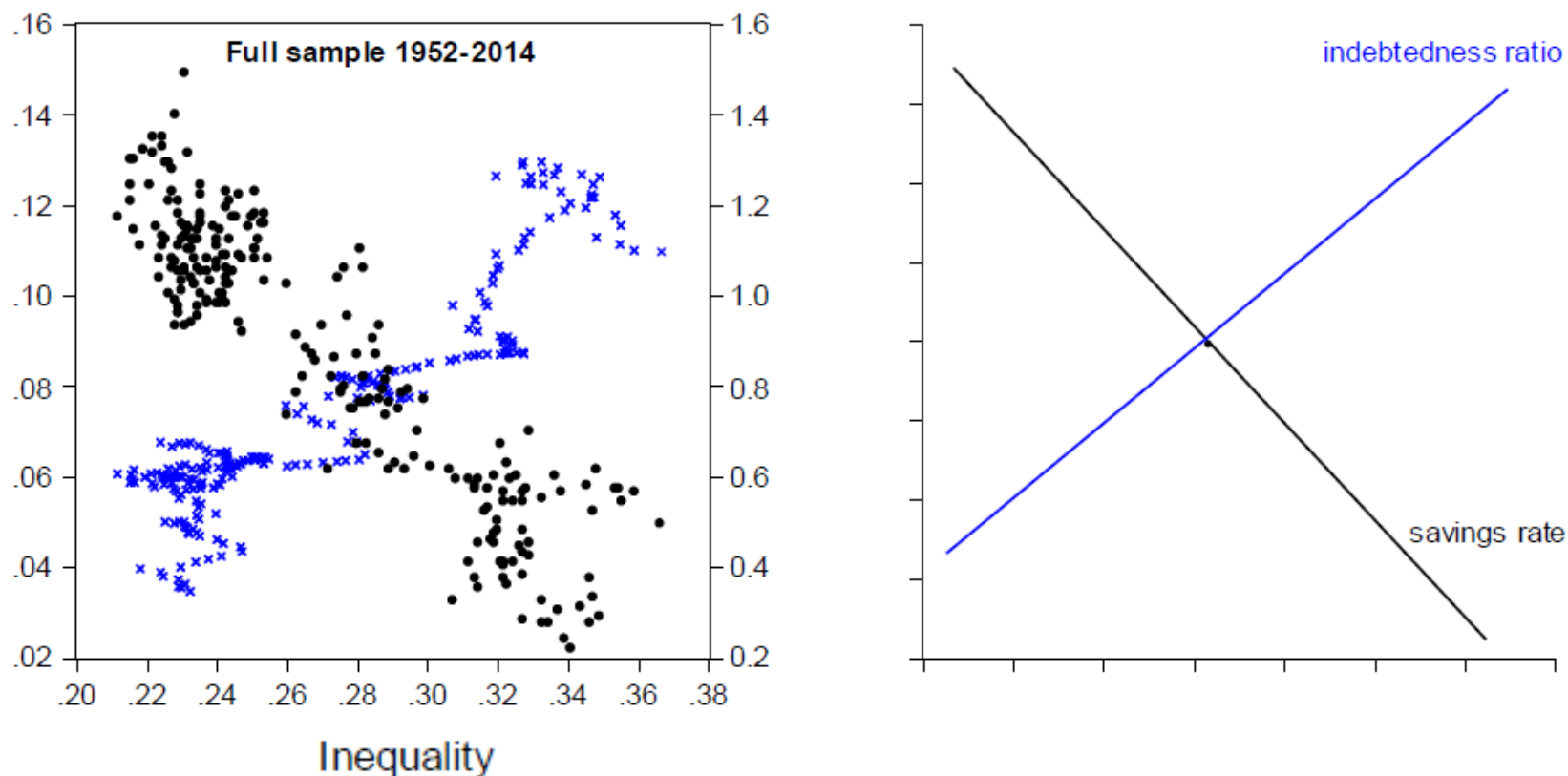
Percent of total assets and liabilities held by wealthiest 1%, next 9% and bottom 90%



Edward Wolff, New York University | WSJ.com

10. HOUSEHOLD BALANCE SHEETS

Figure 1: Inequality and households' balance sheets



Sources Savings rate from NIPA table 2.1, Indebtedness ratio from Flow of Funds table D.3. Inequality is proxied by the property share, including top 1% wages (see Giovannoni 2014).

QUESTIONS

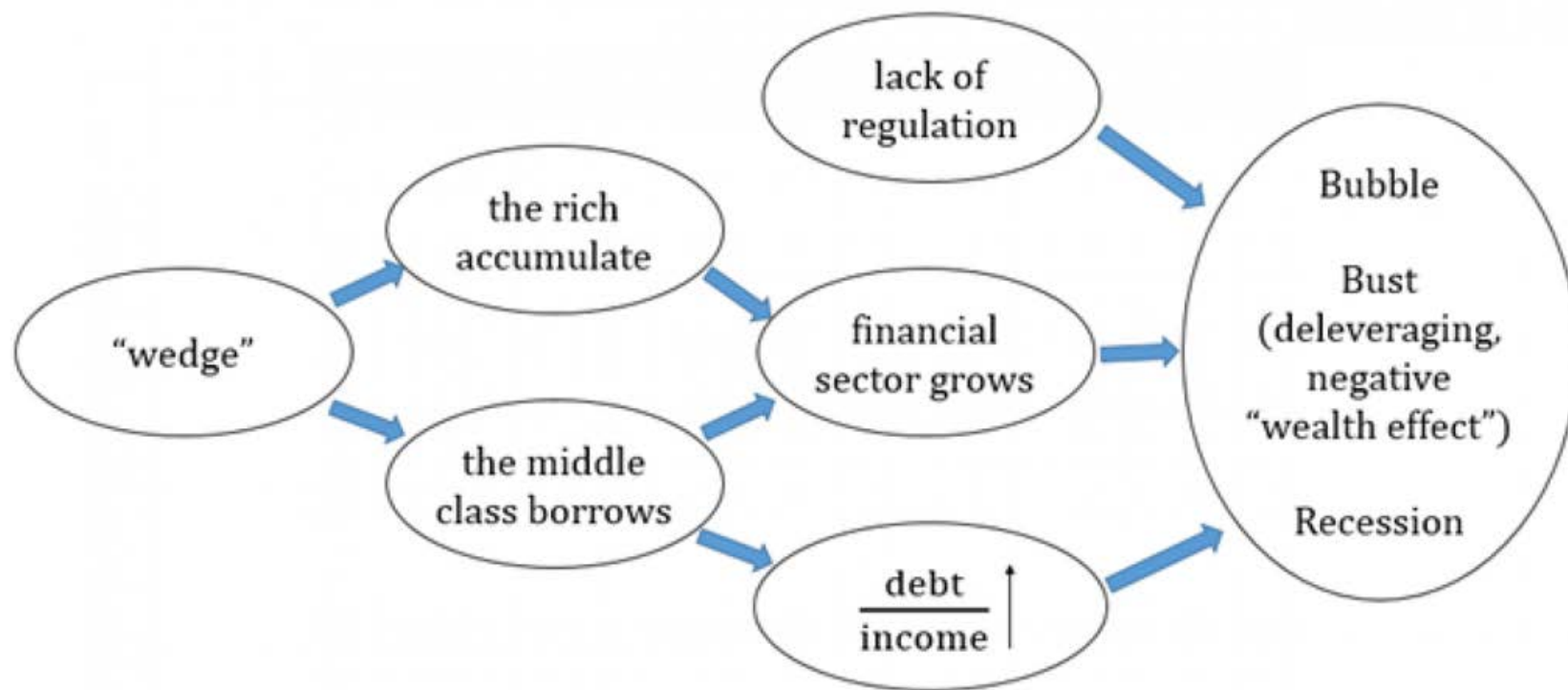


Why care about inequality?

1. Because the trends are worrisome
2. **To understand the causes:** Trade, finance, rents, technology (SBTC), policy shift, or...?
 - How to integrate in our models?
3. **To analyze the implications:** instability?
4. **Policies?**
 - Education as a cure?
 - Full employment?
 - Tax and redistribute?
 - Minimum wage?

(EPI estimates: \$18 min wage to keep pace with productivity, +\$18K /yr)

“Inequality and the balance sheet channel of instability”



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- **James K. Galbraith (moderator)**
- **Branko Milanovic**
- **Stephen Rose**
- **Joseph E. Stiglitz**