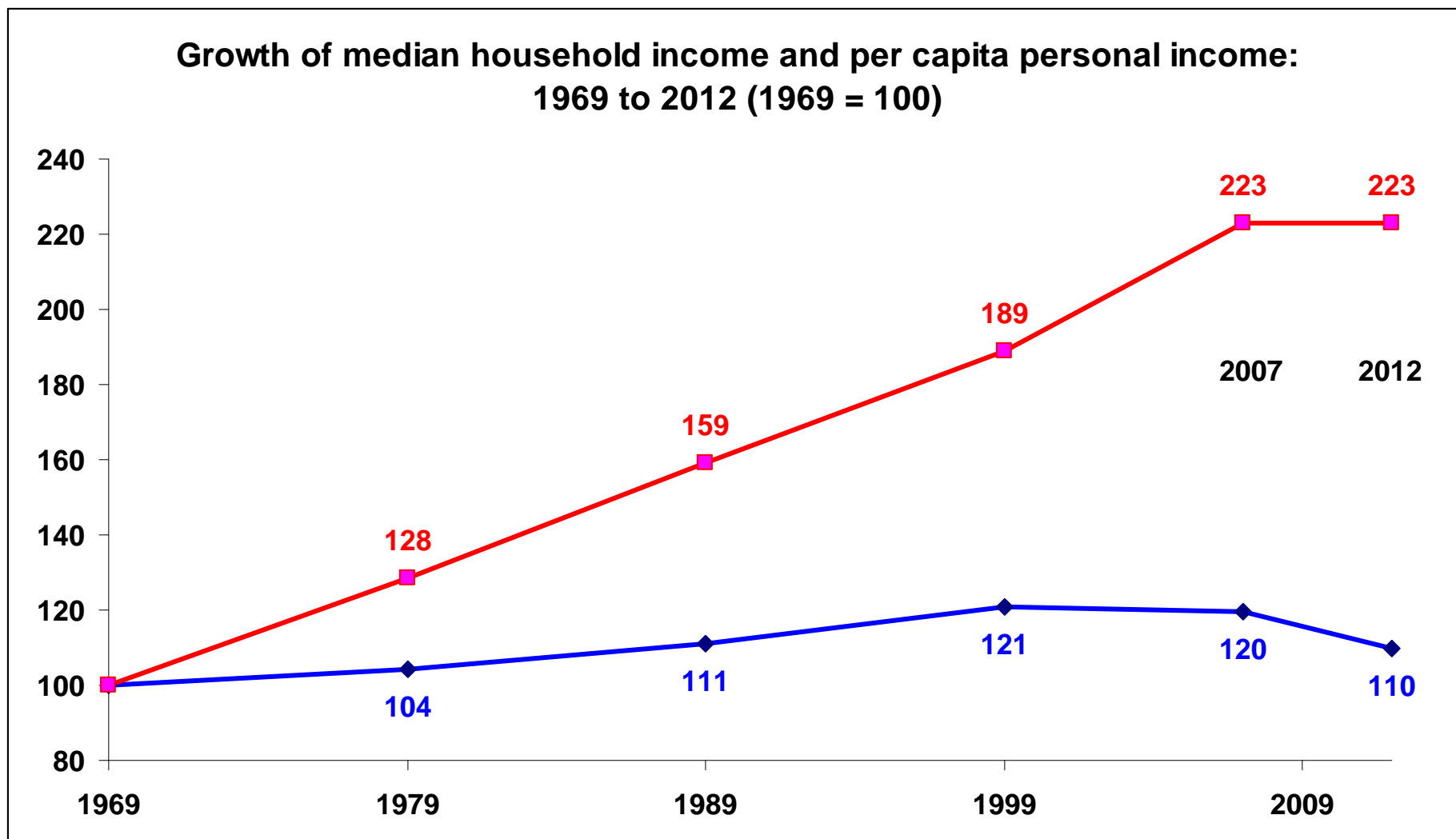


Income inequality and American business

**Christopher Jencks
Harvard Kennedy School**

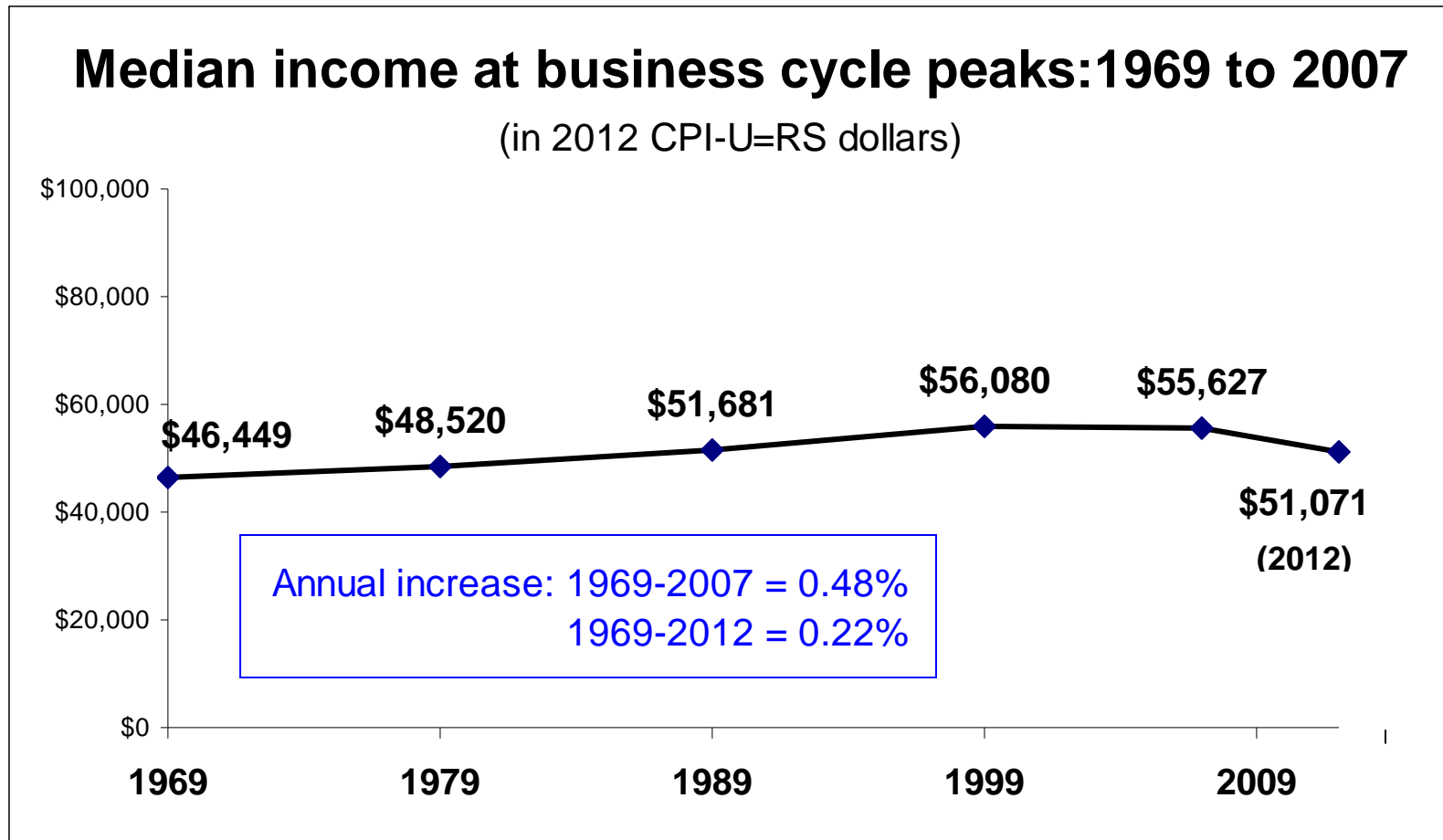
HBS Discussion on 2/13/2014

Adjusting for inflation, mean personal income per capita more than doubled between 1967 and 2007, while median family income rose 20%



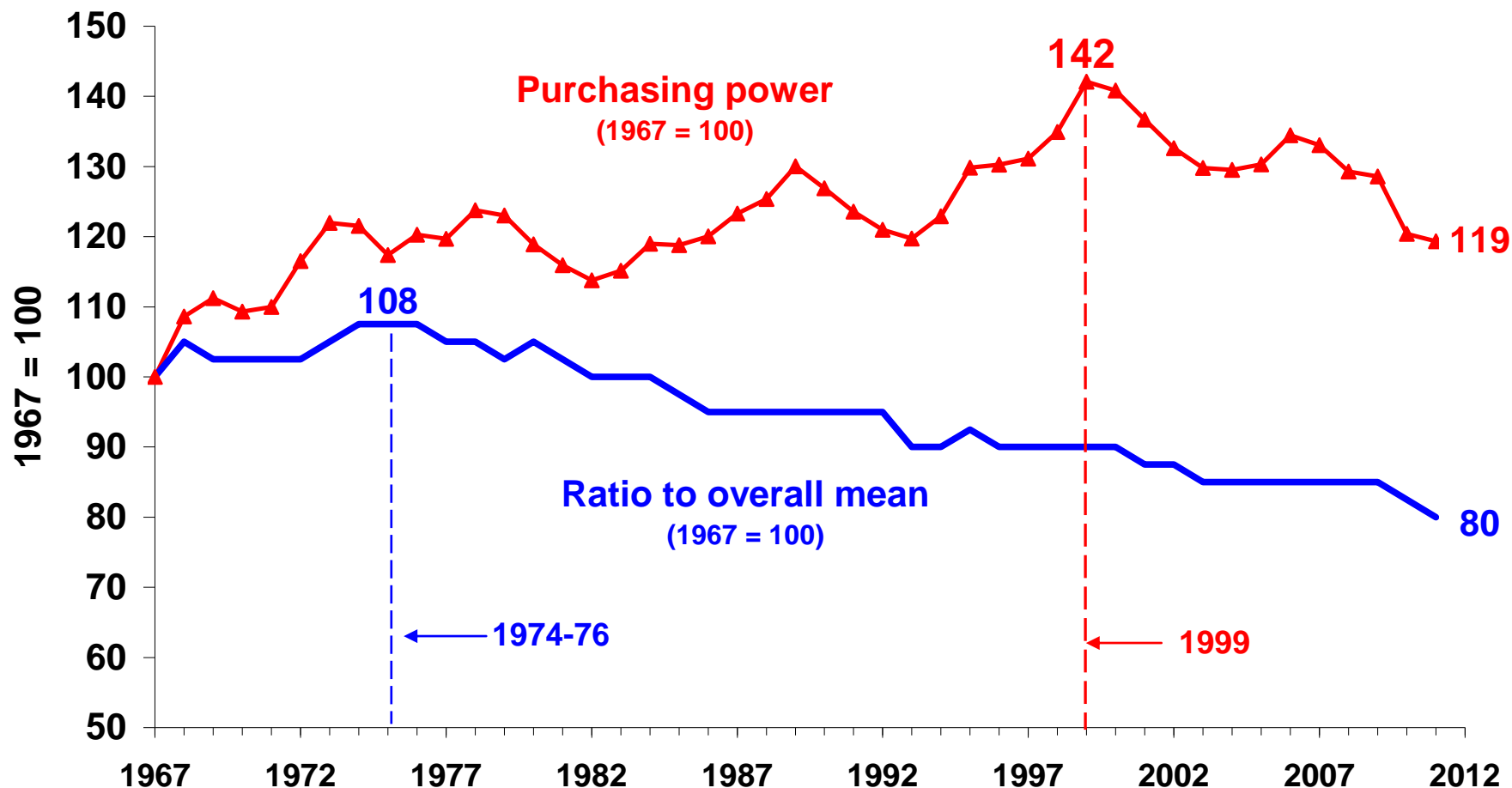
Sources: Economic Report of the President, 2013; Census Bureau, Current Population Reports, P-60,-245, Table A-2. ²

Median income was lower in 2012 than in 1989



Is our problem inequality or poverty? Lately, both.

Two measures of bottom quintile's mean income:
Purchasing power and ratio to population mean
(both shown as percent of 1967 level)

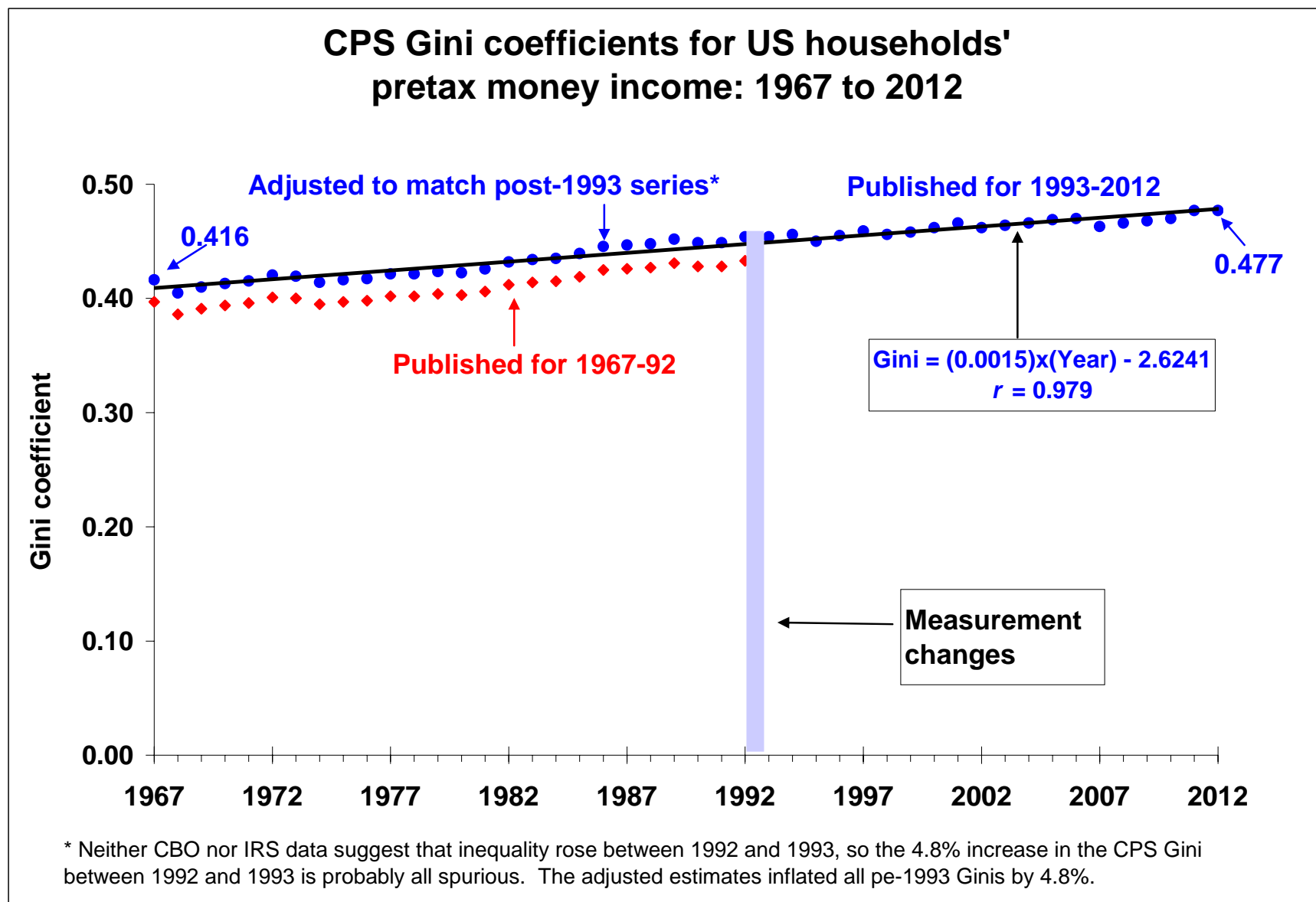


1967 mean = \$9,419. Share of total personal income = 4.0%. Source: CPS, Series P-60-167, Table B-2.

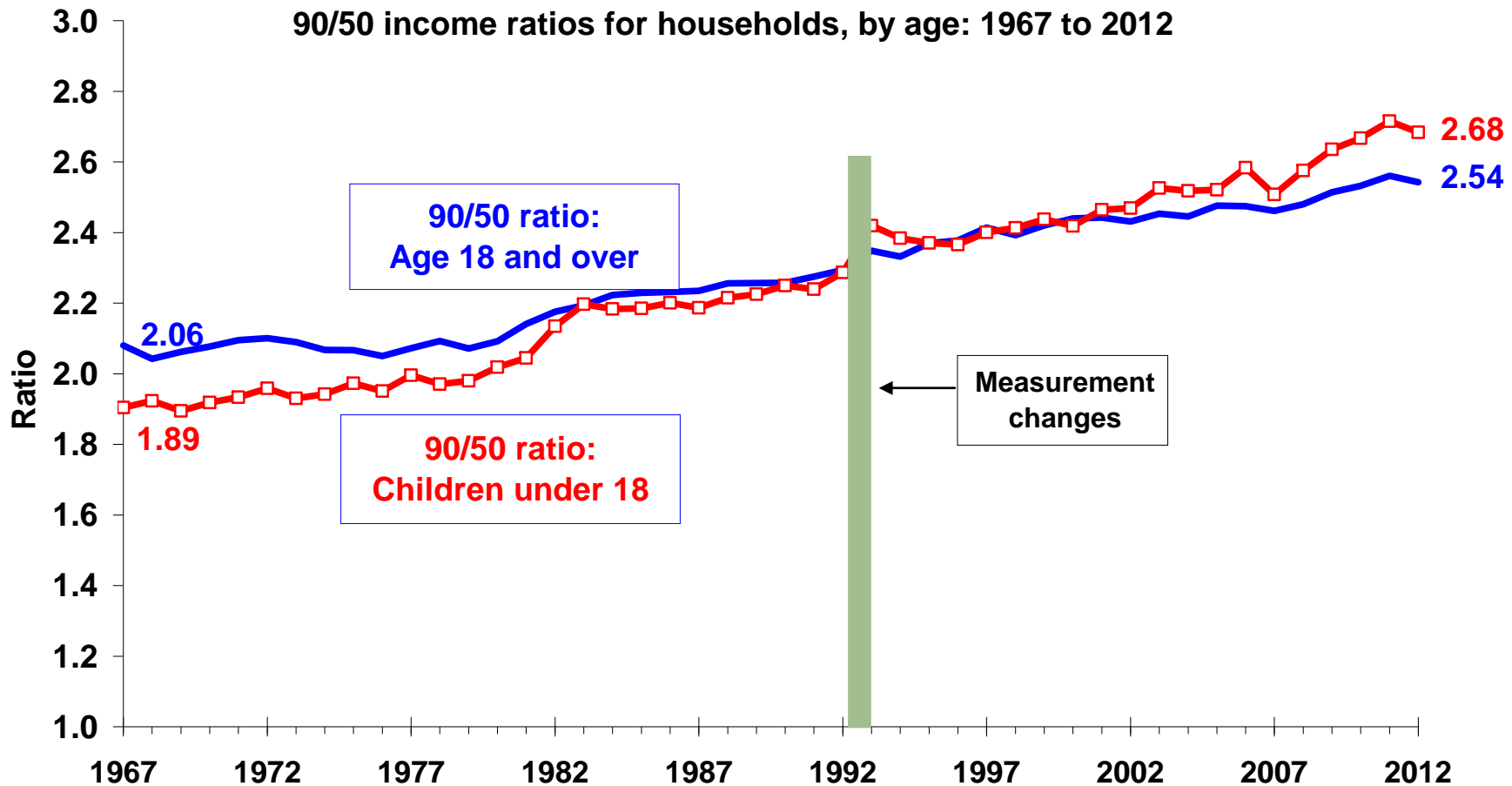
Household income is more unequal than hourly wages

	90/50 ratio	50/10 ratio
1973		
All households	2.08	2.85
M&F Wages	1.91	1.91
2007		
All households	2.49	3.43
M&F Wages	2.33	1.94

Household inequality from 40,000 feet



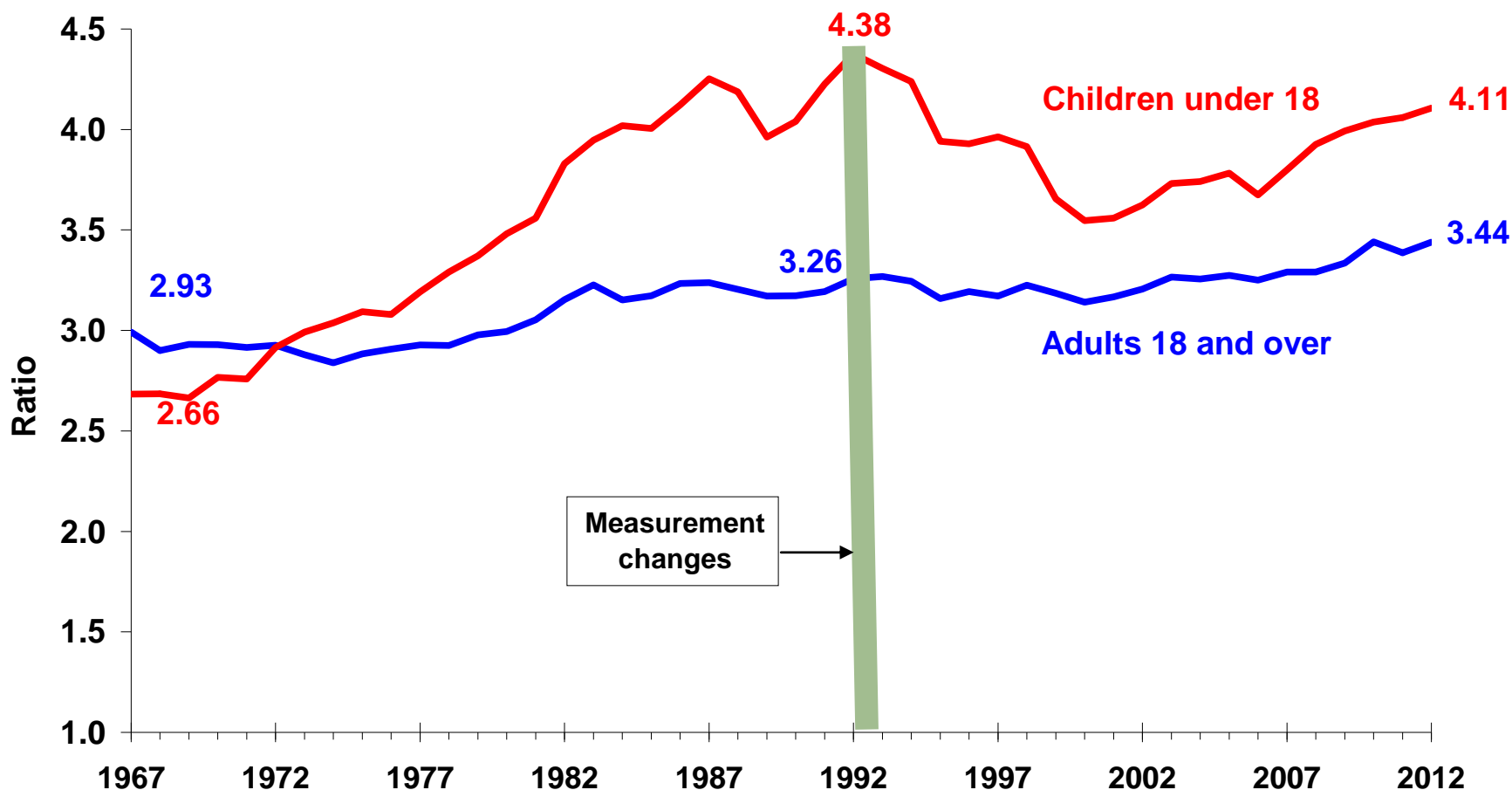
Trend in 90/50 ratio: Rising skill premiums?



Ratios are based on percentiles of total household income, adjusted for household size by dividing total household income by the square root of household size. Household income is converted into 2012 dollars using the Implicit Price Deflator for Personal Consumption Expenditure from the National Income and Product Accounts. Source: Tabulations by Anny Fenton using the March Current Population Survey. File=Fenton CPS ratios with Jan 2014 AF edits (65+ head of HH incl) 011014 FINAL.

50/10 ratio: Less marriage? Lower male wages?

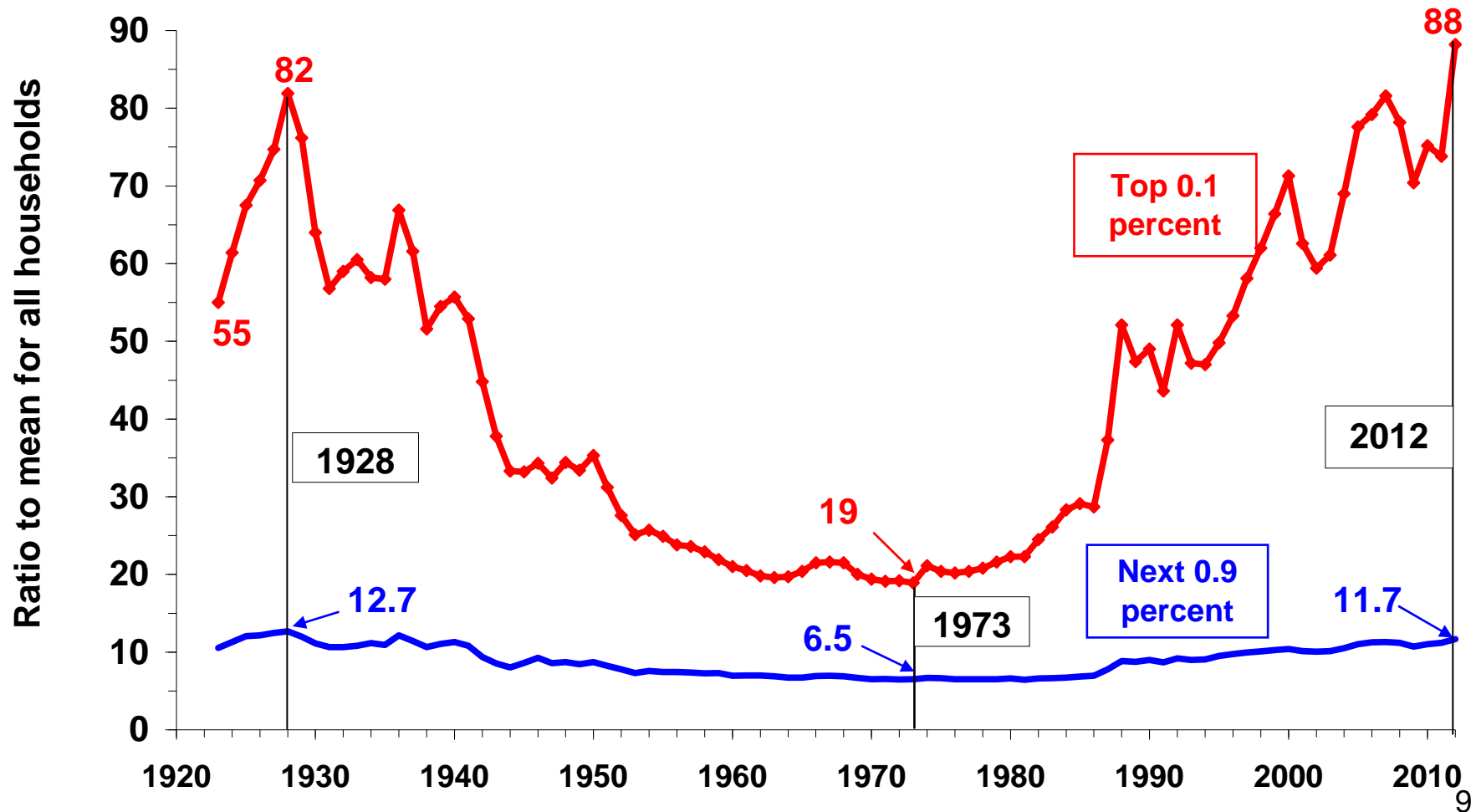
50/10 household income ratios for individuals, by age: 1967 to 2012



Ratios are based on percentiles of total household income. Incomes are adjusted for household size by dividing total household income by the square root of household size. Household income is converted into 2012 dollars using the Implicit Price Deflator for Personal Consumption Expenditure from the National Income and Product Accounts. Source: Tabulations by Anny Fenton using the March Current Population Survey.

The return of the super-rich: Globalization? Computers? Tax cuts? Deregulation? Insider trading? A culture of risk-taking? And greed??

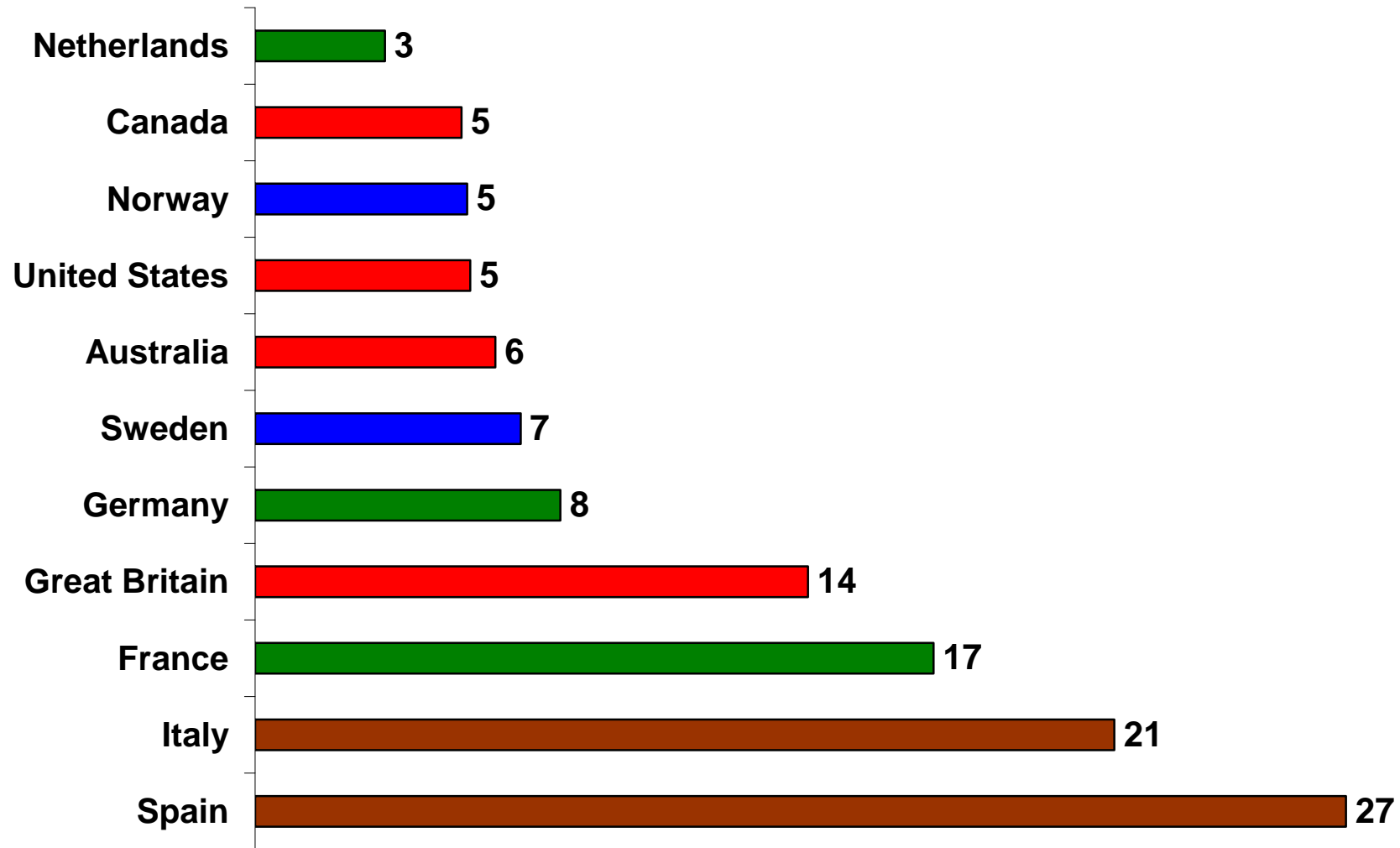
Ratio of pretax personal income means within the top one percent to the mean for all households, excluding capital gains: 1923-2012



Source: Paris Top Incomes Database. *Paris detailed percentiles for US (HBS Fig 3)*

How do ordinary citizens feel about all this?

Ratio of those who agree or agree strongly to those who disagree or disagree strongly that "income differences in this country are too large."



How have legislators responded? Reduction in market income inequality among working-age households due to taxes and transfers in ten rich democracies

	Market Gini	Disposable Gini	Percent reduction
Sweden 2000	0.375	0.238	36.5
Finland 2000	0.352	0.233	33.8
Denmark 1997	0.345	0.237	31.3
Norway 2000	0.337	0.236	30.0
Germany 2000	0.360	0.254	29.4
Australia 1994	0.396	0.293	26.0
Great Britain 1999	0.450	0.341	24.2
Canada 2000	0.380	0.300	21.1
United States 2000	0.436	0.363	16.7
Switzerland 1992	0.332	0.297	10.5
MEAN	0.376	0.290	23.0

Source: Kenworthy and Pontusson (2006)

Effects of rising inequality in rich democracies

■ **Economic growth**

Short-term: small but positive.

Long-term: unclear

■ **Employment**

Haven't found (or done) any research

■ **Life expectancy**

Small but negative cross-nationally in LIS

Effects limited to infants and males 35-59?

Effects of rising inequality in rich democracies

■ Disparities in children's economic prospects.

Strong theoretical reasons to expect less mobility when parents resources are more unequal.

But no good evidence of such effects so far.

Maybe too soon to say.

Effects of rising inequality in rich democracies

■ Disparities in children's test scores

Wider in more unequal countries, but effect of within-country changes is unclear.

Widened a lot in US for post-1980 cohorts.
Mostly due to rising absolute effect of parental income, not to change in parental income dispersion.

Macro versus micro effects of inequality

Effects of rising inequality in rich democracies

■ Disparities in political influence

Meltzer-Richard theorem predicts that demand for redistributive government spending will rise as the fraction of voters with incomes below the mean rises, **but**

1. Rising inequality allows the very rich to exert more influence on the political views of the less affluent (Fox News) and politicians (K Street).
2. Rising inequality may lower turnout more among the less affluent. Passivity, vote suppression, disenfranchisement of felons, no path to citizenship.

Political effects of high inequality in the past

If there are men in this country big enough to own the government of the United States, they are going to own it.

Woodrow Wilson (1913:286)

We must make our choice. We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we cannot have both.

Louis Brandeis, quoted in Dillard (1941)

An agenda for the private sector

1. It is unreasonable to expect most businesses not to pursue profits or to give away a larger share of profits than the law or the market requires to either workers or good causes.
2. However, a democratic government's job is not to maximize business profits but to protect the public interest. That inevitably means making rules that limit what business can do by regulating wages, hours, safety, labor unions, and other business practices.

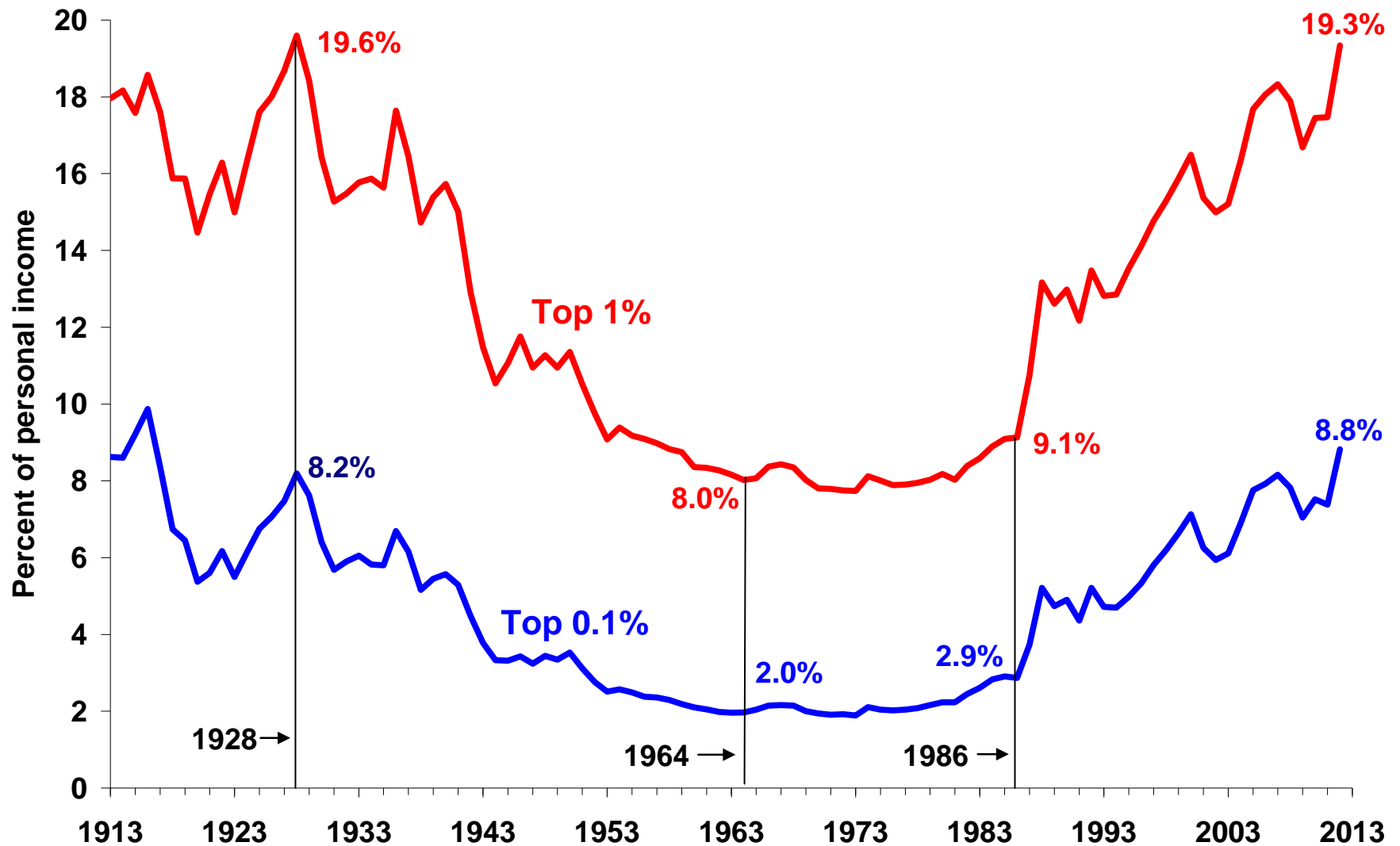
An agenda for the private sector

3. If business does not like being seen as a predatory enterprise, it needs to accept such rules as a legitimate feature of democracy.
4. It also needs to refrain from trying to undermine or change such rules covertly.
5. Business should not be expected to do good, but it should be expected to abide by both the law and community norms, and to do no harm.
6. A good rule of thumb is that business should not be doing anything that it wants or needs to hide from public view or from public officials.

The End

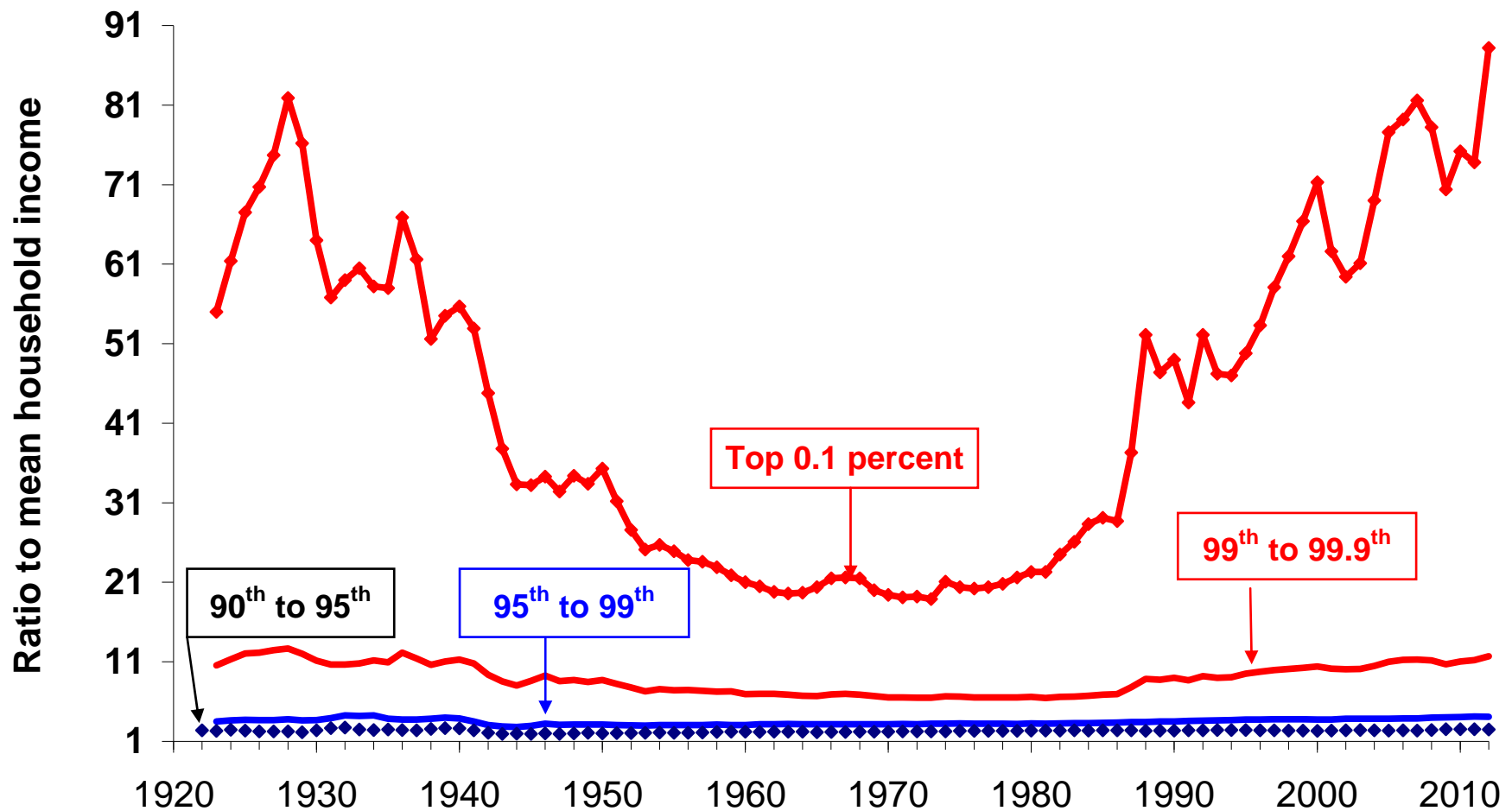
The 100 year overview

Pretax income shares of top 1% and 0.1%, excluding capital gains: 1913-2012



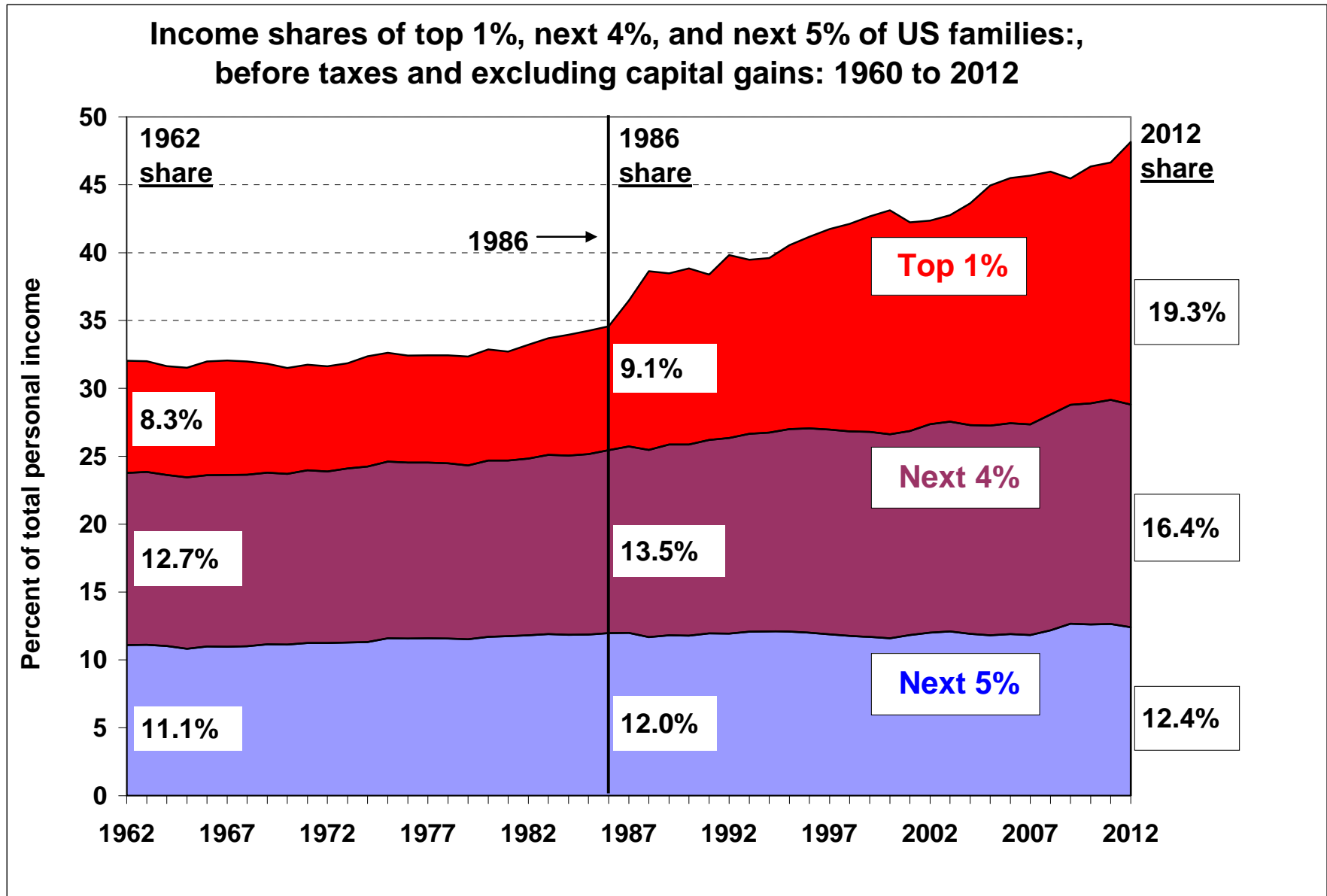
The return of the super-rich: Globalization? Computers? Tax Cuts? Deregulation? Cultural Change?

Percent of pretax income going to families in the top decile, excluding capital gains: United States, 1923-2012



Source: Paris Top Incomes Database. *Paris detailed percentiles for US (HBS Fig 3)*

The 50 year overview: The top 1% is different



Wages are not as unequal as household incomes

