Adjusting for inflation, mean personal income per capita more than doubled between 1967 and 2007, while median family income rose 20%.
Median income was lower in 2012 than in 1989

Median income at business cycle peaks: 1969 to 2007
(in 2012 CPI-U=RS dollars)

Annual increase: 1969-2007 = 0.48%
1969-2012 = 0.22%
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

<table>
<thead>
<tr>
<th></th>
<th>90/50 ratio</th>
<th>50/10 ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1973</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All households</td>
<td>2.08</td>
<td>2.85</td>
</tr>
<tr>
<td>M&amp;F Wages</td>
<td>1.91</td>
<td>1.91</td>
</tr>
<tr>
<td><strong>2007</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All households</td>
<td>2.49</td>
<td>3.43</td>
</tr>
<tr>
<td>M&amp;F Wages</td>
<td>2.33</td>
<td>1.94</td>
</tr>
</tbody>
</table>

Wage data from Economic Policy Institute
Household inequality from 40,000 feet

CPS Gini coefficients for US households' pretax money income: 1967 to 2012

Gini = (0.0015)x(Year) - 2.6241
r = 0.979

* Neither CBO nor IRS data suggest that inequality rose between 1992 and 1993, so the 4.8% increase in the CPS Gini between 1992 and 1993 is probably all spurious. The adjusted estimates inflated all pre-1993 Ginis by 4.8%.
Trend in 90/50 ratio: Rising skill premiums?

90/50 income ratios for households, by age: 1967 to 2012

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.
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.

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."

- Netherlands: 3
- Canada: 5
- Norway: 5
- United States: 5
- Australia: 6
- Sweden: 7
- Germany: 8
- Great Britain: 14
- France: 17
- Italy: 21
- Spain: 27
How have legislators responded? Reduction in market income inequality among working-age households due to taxes and transfers in ten rich democracies

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

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.
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)
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

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

Income shares of top 1%, next 4%, and next 5% of US families, before taxes and excluding capital gains: 1960 to 2012

- **Top 1%**: 1962 share = 8.3%, 1986 share = 9.1%, 2012 share = 19.3%
- **Next 4%**: 1962 share = 12.7%, 1986 share = 13.5%, 2012 share = 16.4%
- **Next 5%**: 1962 share = 11.1%, 1986 share = 12.0%, 2012 share = 12.4%
Wages are not as unequal as household incomes

Ratio of estimated hourly wages at the 90th, 50th, and 10th percentiles of the combined US distribution for men and women: 1973 to 2007