





Distributional National Accounts: New insights from Piketty/Saez/Zucman

A Summary (January 2017)
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A new approach to study inequality

- **Instead of relying only on survey and tax data.....**
 - **.....PSZ combine survey and tax data with national accounts**
 - **Advantage: Captures 100% of national income, not just 60% (as previously was the case)**
 - **In particular: All capital income (which amounts to 30% of total national income) is now included, so also retained profits and capital income going to pension funds. (Whereas in tax returns, only a third of all capital income is reported)**
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The method

1. Starting point: Large sample of income tax returns
 2. Tax data are then supplemented by Current Population Survey to include non-filing tax units
 3. Adding tax-exempt labour income (non taxable health and pension benefits, employer payroll taxes)
 4. Adding tax-exempt capital income (distribution of household wealth times macroeconomic yield, latter also includes corporate retained earnings)
 5. Unit of observation: Adult US residents (over 20 years). Income of married couples split equally between spouses.
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The conclusions

1. Bottom 50% incomes shut off from growth for 40 years
 2. Booming income at the 1% top
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Bottom 50% shut off from growth for 40 years

1. Bottom 50% = 117 million individuals
 2. Their average pre-tax income = 16,000\$ per adultsince 1980
 3. Share of bottom 50% in total (pre tax) NI has fallen from 20% in 1980 to 12,5% in 2014.
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Bottom 50% shut off from growth for 40 years

1. While post-tax income of top 1% tripled
 2. ...the bottom 50 saw an increase by just 21% (over 40 years)....
 3.and this paltry increase was almost fully explained/absorbed by rising Medicare and Medicaid transfers (reflecting more expensive health care besides increased generosity)
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Within the Bottom 50%


- Pre-tax income for working age adults collapsed since 1980
 - Minus 20% for ages 20 - 45
 - Minus 8% for ages 45- 65
 - Post –tax income for working age adults : Stagnation since 40 years
 - All growth in post tax bottom 50 income owes to the elderly population
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The booming 1%

- Average pre tax income of top 1% adults tripled from 420,00\$ in 1980 to 1,3 million\$.
- Top 1 and B50 switched places in terms of share in total national income:

What the bottom 50% lost (8 pp from 20% of NI to 12%)

...the top 1% gained (exactly 8 from 12 to 20%).



It's all about capital (pre-tax income)

- Since 2000, ALL of the growth of average income per adult (0,6%) comes from capital (2,2% per year versus 0,1% for labour income)
- Since 2000, capital income (corporate profits) has been key driver of the top 1% income share, pushing it up by 3pp
- Before 2000, top 1% pushed up by 'working rich' (6pp)

One very interesting message

-In the face of such massive deterioration in the pre-tax distribution of income, there are clear limits to what taxes and transfers can achieve.

-Policy should focus on a more equal distribution of primary assets (human and financial capital) and bargaining power, rather than merely on ex post redistribution.

Shares in national income in 2014 (pre tax income)

- Bottom 50% 12,5%
- Middle 40% 40,5%
- Top 10% 47%
- Top 1% 20,2%
- Top 0,1% 9,3%



Long term trends (in % growth)

	Pre tax income 1980- 2014	Pre-tax income 1946-1981	Post-tax income 1980-2014	Post_tax income 1946-1981
Full population	61%	95%	61%	95%
Bottom 50%	1%	102%	21%	98%
Middle 40%	42%	105%	49%	98%
Top 1%	205%	47%	194%	58%