Discussion of Auten-Splinter on “Income Inequality in the U.S.: Using Tax Data to Measure Long-Run Trends”

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Auten-Splinter Key Findings on Market Income

Much smaller growth in Top 1% share since 1979 in consistent market income than in Piketty-Saez tax (fiscal) income measure:

*PS with capital gains* up 11.4 pp from 10% in 1979 to 21.4% in 2012-3

*AS Consistent Market Income* up only 54% as much by 6.2 pp from 9.0% in 1979 to 15.2% in 2012-3

- Take into account tax reforms, tax base changes and missing income sources
- Adjust for decline in marriage by adjusting for number of adults in a tax unit
- Puzzle is that *PSZ Pre-Tax* analogous approach gets 9.0 pp increase from 11.2% in 1979 to 20.2% in 2012-3
- Why is AS increase in Top 1% share of market income since 1979 only 2/3 of similar approach of PSZ?
• AS find that taking into account taxes and transfers leads to much smaller increase in top 1% share of income since 1979 of 2.9pp vs. 6.2pp of market income
• PSZ also find smaller growth in after-tax income but still get 6.9 pp increase vs. 9.0 pp for market income
PSZ After-Tax vs. AS After-Tax Top 1% Shares

PSZ After-Tax

AS After-Tax

PSZ After-Tax Income

AS After-Tax Income
Comparisons of Levels and Changes in Top 1% Share for Different Series from 1960 to 2012-3 (averaged):

Why do “comparable” PSZ and AS Series show such a Divergence? PSZ After-Tax still large increase in Top 1%

<table>
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<th>1960</th>
<th>1979</th>
<th>2012-3</th>
<th>1960-2012/3</th>
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Issues and Sources of Differences in AS vs. PSZ

• AS use 2013 as end year but problematic from top end marginal tax increases and income shifting of top 1% into 2012 so should look at average of 2012 and 2013

• PSZ look at per capita income (equal split) in tax units for adult (20+) vs. family adjusted equivalents (square of family size) in AS for after-tax income series

• What is going on with Retained Earnings and Corporate Taxes in 1960s-70s vs. 2000s in AS vs. PSZ?

• PSZ find taxes become less progressive since 1960s and top 1% average tax rate falls and everyone else’s rising, but AS find rising tax progressivity with no change in top end average tax rate. Why?
Figure 9: Average Tax Rates Across the Distribution

Average tax rates by pre-tax income group

Source: Appendix Table II-G1.
• PSZ make all series add up to national income but AS missing 4.5% of national income -- PSZ allocate government collective consumption, ...

• AS Figure 5: How much of bottom 90% growth in social transfers from the elderly?

• What if one does this exercise for just the non-elderly?
Top 1% vs. College Wage Premium Growth

How large is Top 1% share growth? Piketty and Saez (2013)

- Keep Top 1% share fixed at 1979 level so the 12.5% growth in share to 2012 (from 10% to 22.5%) is redistributed then
  - To bottom 99% get $7105 per tax unit or 16% increase
  - To bottom 90% get $7815 per tax unit or 28% increase
  - To 70% of units with <BA get $10048 per tax unit

How large is the college wage premium growth? CPS data

- FTFY college plus/HS wage gap at the median increased by about $19,100 for 1979 to 2012 for males and by $11,400 for females
- College premium growth of $30,000 for two full-time earners couple at median vs. $10048 from redistribution from Top 1% to non-BAs
- PDV College vs. HS earnings net of tuition up $330K from 1980 to 2009 or $10K per annum for males using 3% discount rate and $230K or $7K per annum for females (Avery-Turner 2012 JEP)
PSZ Pre-Tax Income vs. AS Market Income Top 1% Shares

PSZ Pre-Tax

AS Market


AS Market Income

PSZ Pre-Tax Income