

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

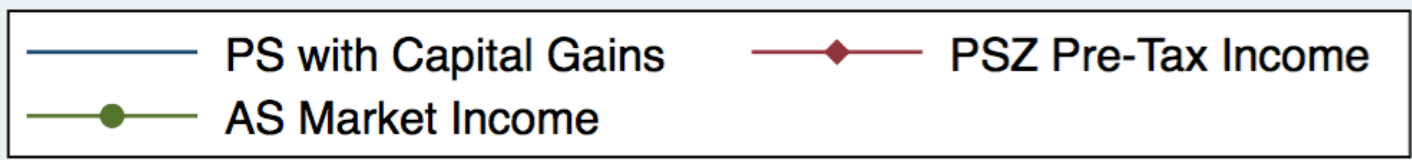
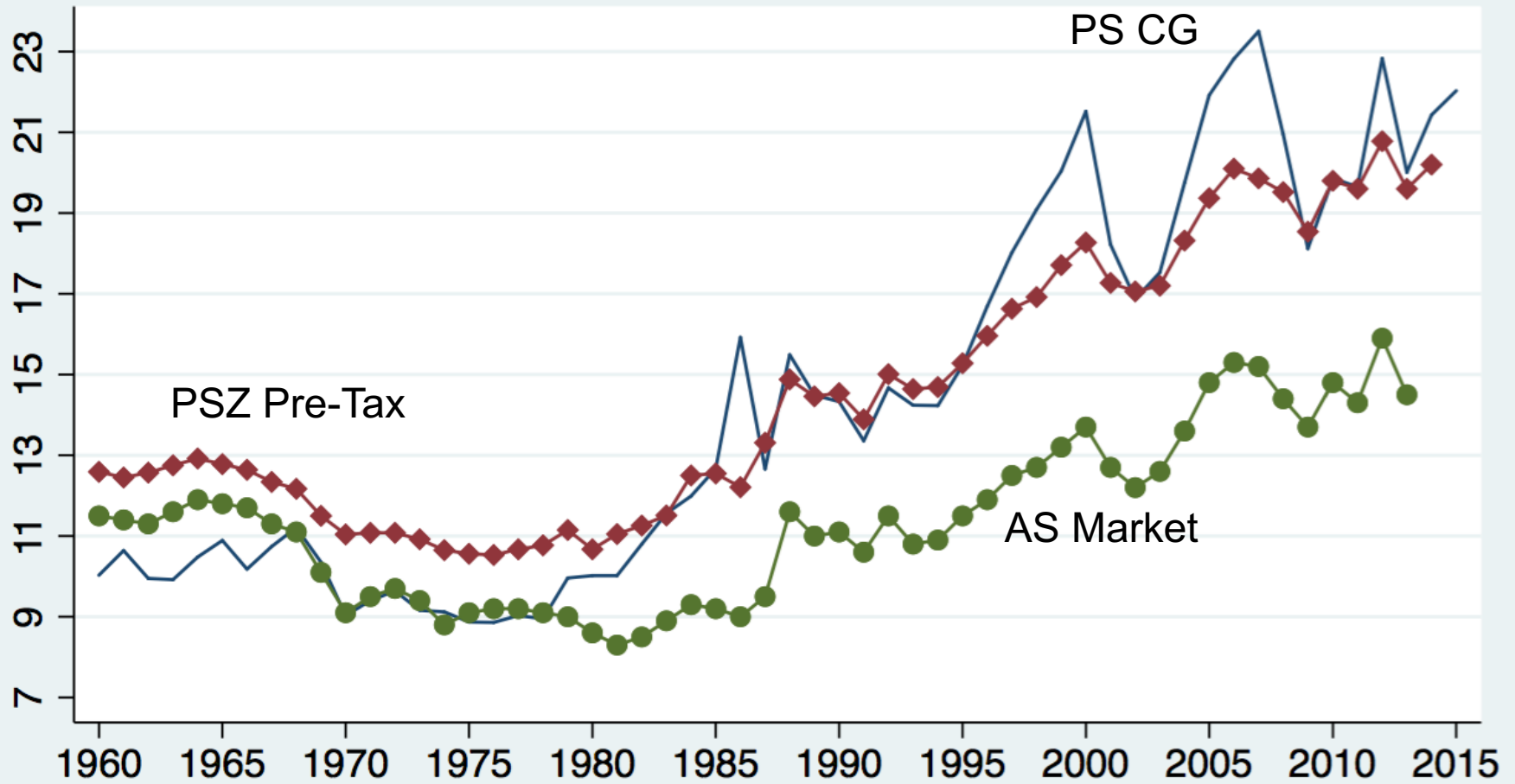
Much smaller growth in Top 1% share since 1979 in *consistent market income* than in Piketty-Saez tax (fiscal) income measure:

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?

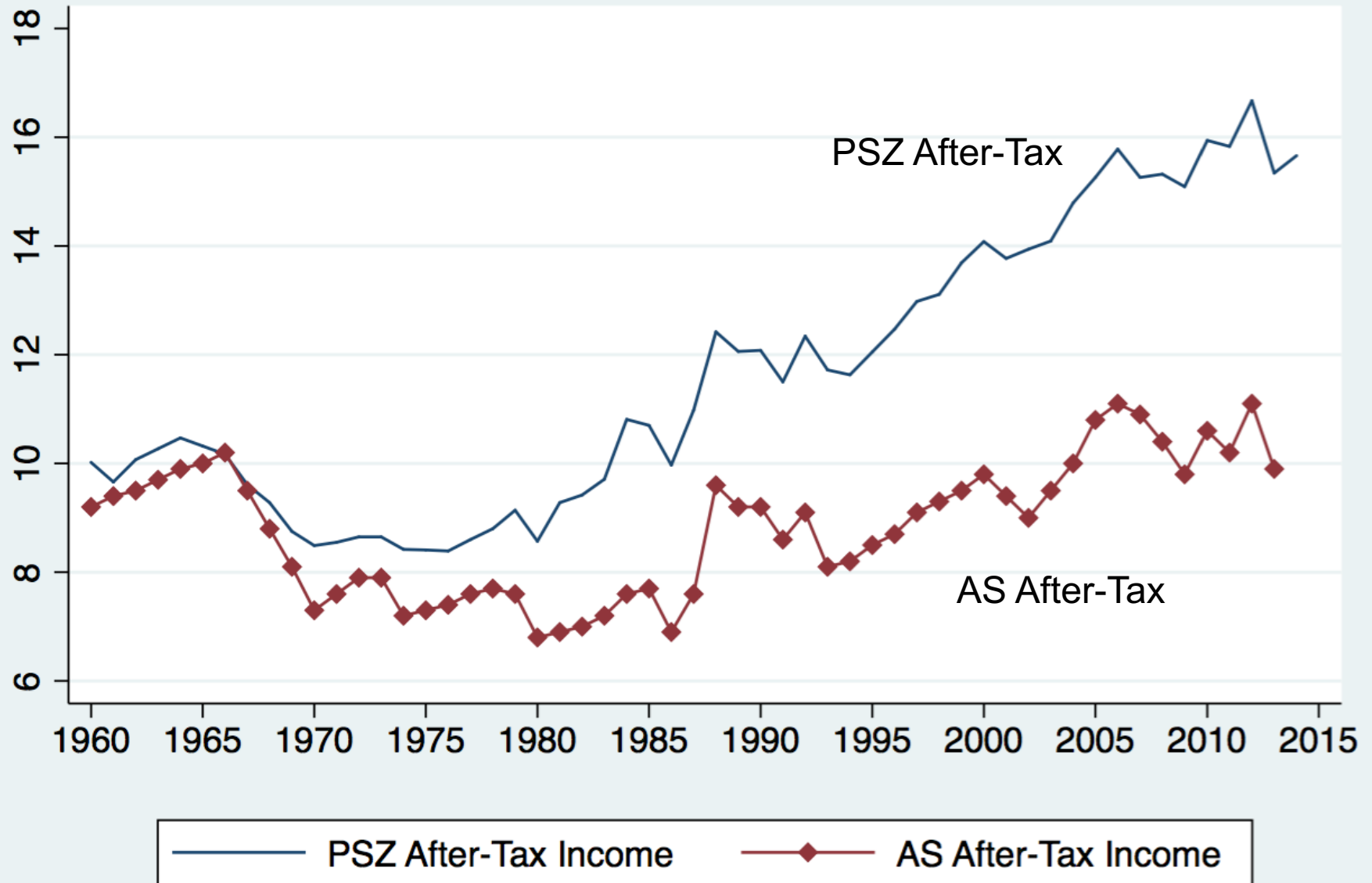
PS with CG vs. PSZ Pre-Tax vs. AS Market Top 1%



AS vs. PSZ on After-Tax Income

- 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



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%

	1960	1979	2012-3	1960-2012/3	1979-2012/3
PS with CG	10.0	10.0	21.4	+11.4	+11.4
PSZ Factor	12.5	11.1	19.6	+7.1	+8.4
PSZ Pre-Tax	12.6	11.2	20.2	+7.6	+9.0
AS Market	11.5	9.0	15.2	+3.7	+6.2
AS Pre-Tax	11.0	8.2	12.8	+1.8	+3.6
PSZ After-Tax	10.0	9.1	16.0	+6.0	+6.9
AS After-Tax	9.2	7.6	10.5	+1.3	+2.9

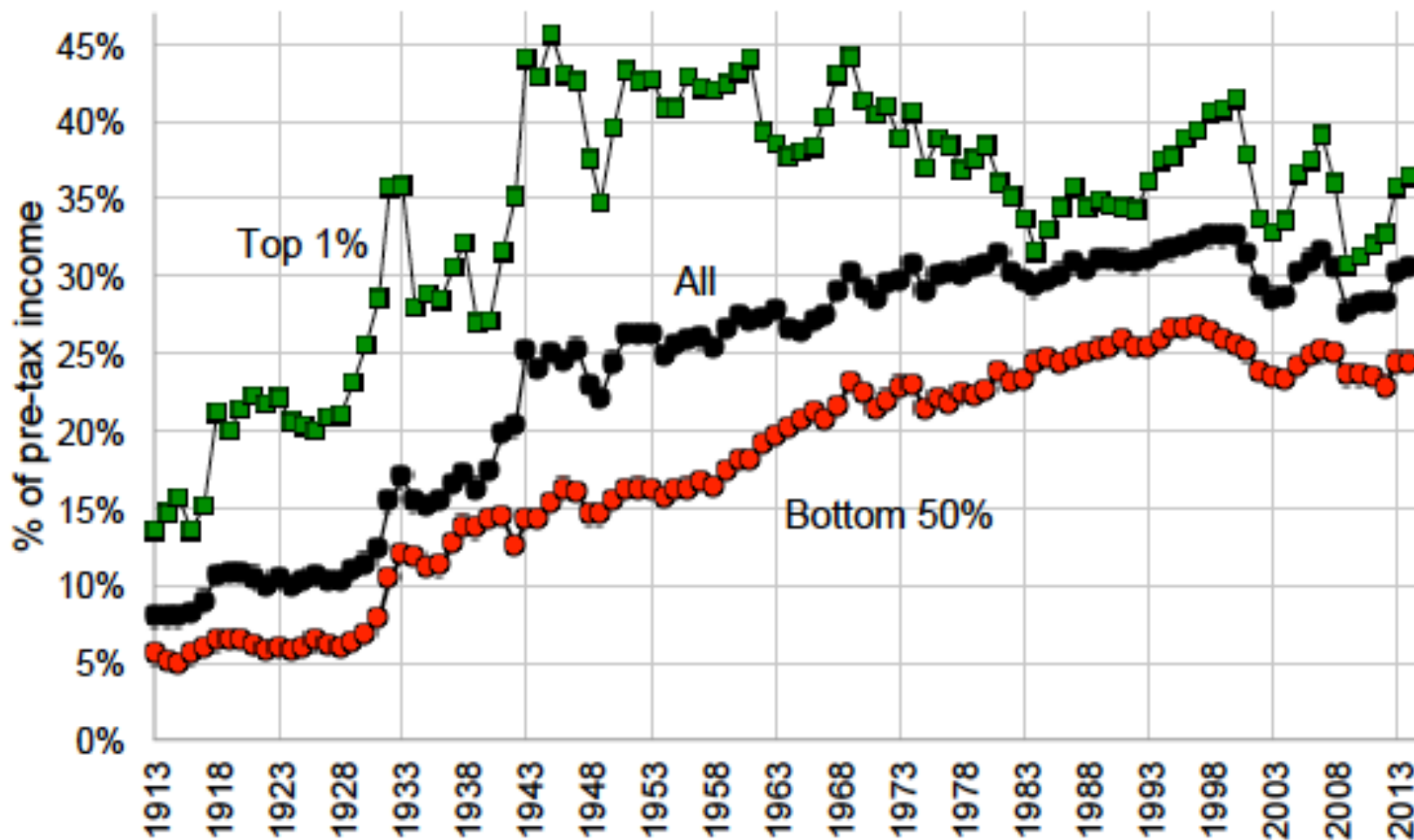
Issues and Sources of Differences in AS vs. PSZ

- 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

PSZ (2017)

Average tax rates by pre-tax income group



Source: Appendix Table II-G1.

Issues #2

- 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

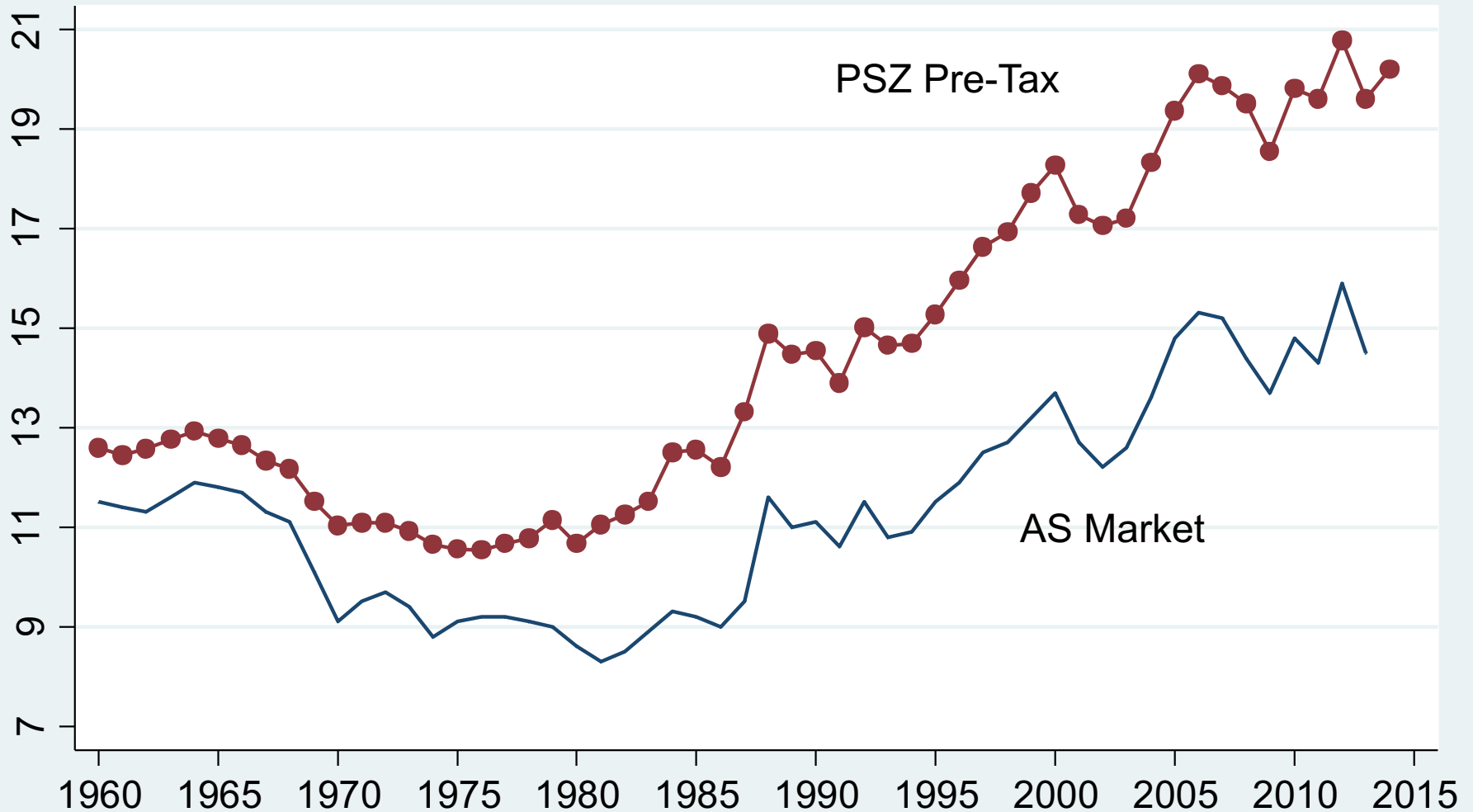
How large is Top 1% share growth? Piketty and Saez (2013)

- 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

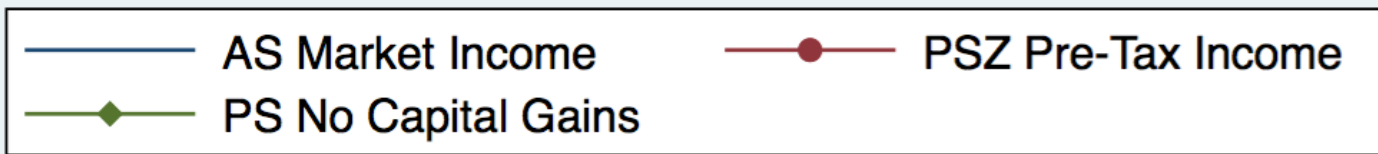
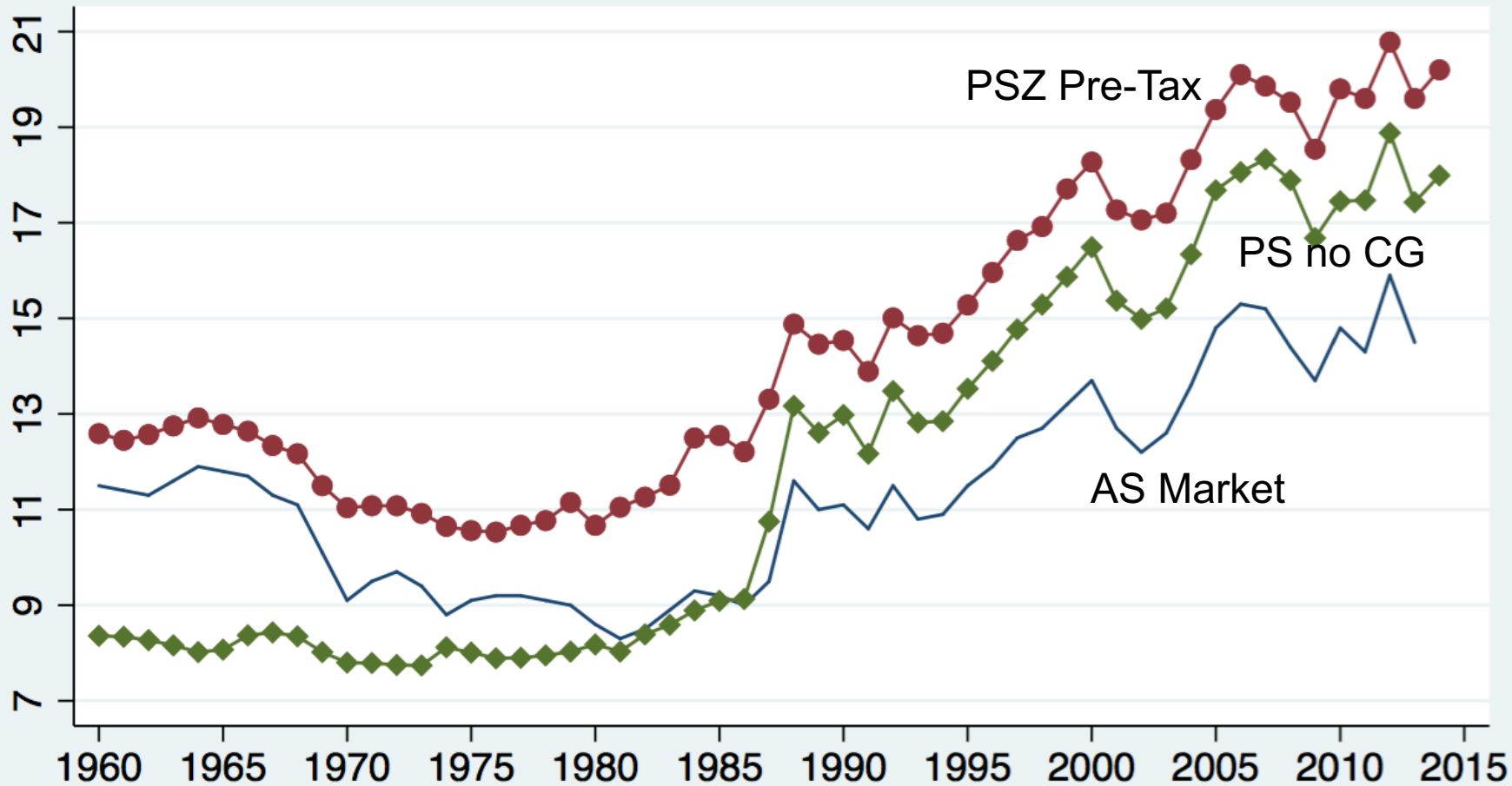
How large is the college wage premium growth? CPS data

- 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 vs. AS Market vs. PS NCG Top 1% Shares



AS vs. PSZ Pre-Tax Income Top 1% Share

