

THE RISE OF INCOME AND WEALTH INEQUALITY IN AMERICA: EVIDENCE FROM DISTRIBUTIONAL MACROECONOMIC ACCOUNTS

Emmanuel Saez and Gabriel Zucman

CONTEXT

- We have good macro stats (like GDP) but no equivalent official, standardized, and updated stats for inequality.
- This paper introduces "Distributional National Accounts" (DINA), a methodology to distribute 100% of national income and wealth to the population.
- Traditional sources like tax files and surveys are missing a growing share of economic activity. The gap between income in tax data and total national income has widened, falling from 70% in the 1970s to 60% in 2018.

RESEARCH QUESTION

- Main Question: What has been the true evolution of income and wealth inequality in the United States, particularly since 1980, once we consistently map 100% of macroeconomic aggregates (national income and wealth) to the entire population?
- Specific questions:
 - How big is the rise in wealth concentration (top 10%, 1%, 0.1%)?
 - How much has income inequality risen when we account for all income (labor + capital, including undistributed profits)?
 - How should we measure growth when growth is uneven? (“people’s growth”)
 - What is the role of taxes & transfers in shaping post-tax inequality?

ANSWER

- **Wealth:** (non-financial assets (real estate) + financial assets (equities, bonds, pensions) - debts)

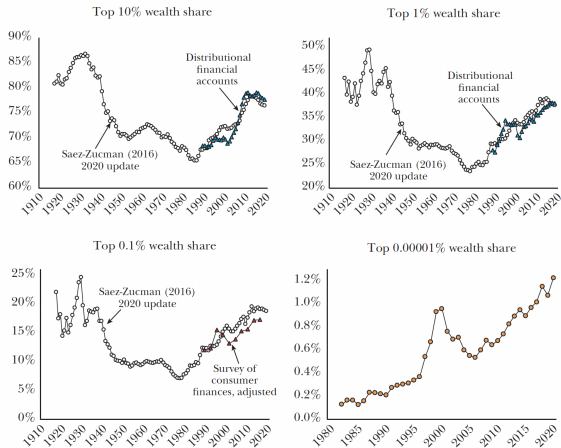
Strong, sustained rise in concentration since 1989; by 2018 the top 1% own 38% of wealth; billionaire wealth has surged.

- **Income:** U-shape for top shares (high pre-1930s → fall to 1970s → rise since 1980). Accounting for all corporate profits matters.
- **Growth:** People's growth is defined as the arithmetic average of the growth rates of each percentile of the income distribution.
- **Taxes:** Long-run collapse in progressivity; 2018 system flat overall, regressive at the very top due to low effective corporate tax.

ILLUSTRATION

Figure 1

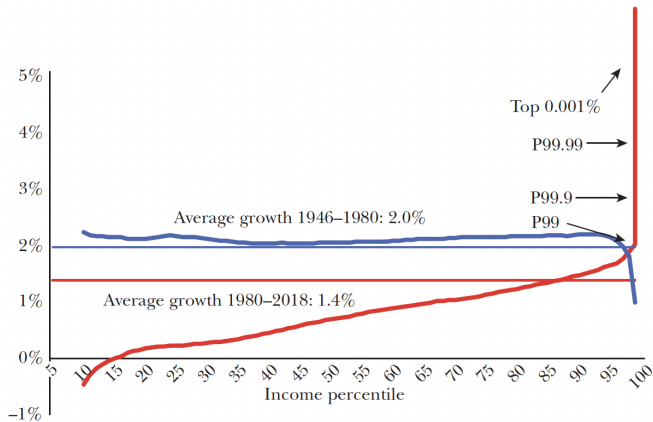
Top Wealth Shares in the United States: Comparing Estimates



Source: Federal Reserve, Saez and Zucman (2016), September 2020 update, and *Forbes*.

Figure 4

Average Annual Income Growth Rates

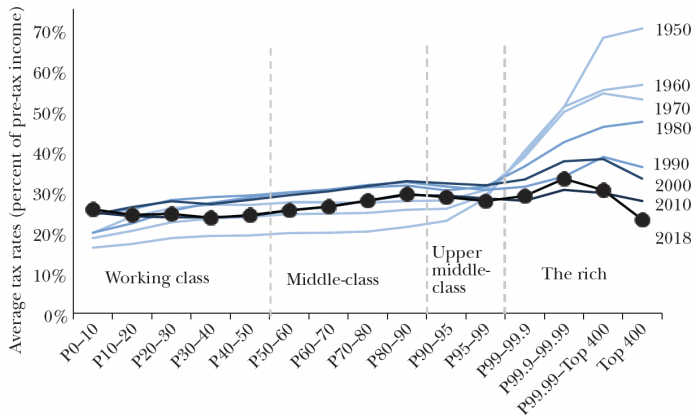


ILLUSTRATION

Figure 5

Average Tax Rates By Income Groups

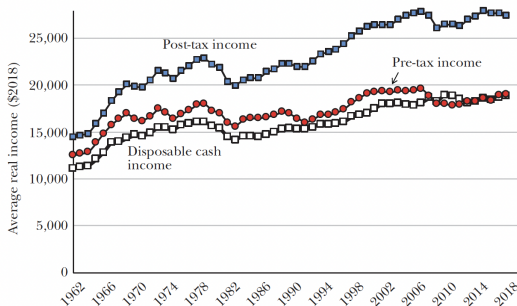
(percent of pre-tax income)



ILLUSTRATION

Figure 6

The Evolution of Bottom 50 Percent Incomes



Source: Piketty, Saez, and Zucman (2018), updated September 2020.

Note: The figure depicts the evolution of the real incomes per adult (in 2018 dollars) for the bottom half of the income distribution for three income concepts: (1) pre-tax income before deducting taxes or adding government transfers (concept sums up to national income), (2) post-tax income that deducts all taxes and adds all transfers (cash and in-kind) and collective public expenditures minus the government deficit (also sums up to national income), (3) disposable cash income which is pre-tax income minus all taxes plus cash (or quasi-cash) transfers, i.e., (3) does not include in-kind transfers (primarily Medicaid and Medicare) and collective public expenditures that are included in (2).

POSITIONING

- Builds On: Earlier work on top incomes using tax data (Piketty & Saez 2003) and wealth measurement (Saez & Zucman 2016).
- Innovation: Provides the first prototype that combines micro-level data (tax, survey) with macro-level data (National Accounts) to distribute 100% of income and wealth.

CONCLUSION

- Different data sources (their DINA, the Fed's DFA) are actually telling the same story once we compare them correctly.
- Governments should take over and publish official, standardized DINA.
- Limitations:
 - Top Wealth: Extremely hard to measure. (offshore, private businesses, etc.)
 - Post-Tax Income: Allocating government spending is conceptually difficult. How do you value in-kind transfers (like Medicaid, which is expensive in the U.S.) or public goods (like defense/police)?