

2013 Update on the U.S. Earnings, Income, and Wealth Distributional Facts: A View from Macroeconomics

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Motivation

- Debate on policy responses to income and wealth inequality
- Provide a description of inequality in the U.S.
- Earnings, income, and wealth data from the Survey of Consumer Finances
- Focus on 2013 contrast to trends over past 25 years

Survey of Consumer Finances

- Starting in 1989 triennial representative household survey
- Oversampling of rich households based on tax returns
- Repeated cross-sections with household-level information

Variables

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- **Wealth:** consolidated household portfolio (assets net of debt)

A quick reminder: U.S. inequality in 2013

- Wealth most unequally distributed
- Distributions highly right-skewed
- Earnings, income, and wealth concentration “at the top”

	Earnings	Income	Wealth
Coefficient of variation	3.69	4.19	6.81
Variance of logs	1.50	0.99	4.80
Gini indexes	0.67	0.58	0.85
Location of mean	70	74	83
99-50 ratio	17.46	14.78	96.81
90-50 ratio	4.15	3.33	11.56
Mean-to-median ratio	1.96	1.85	6.49
50-30 ratio	3.21	1.64	5.50

Income inequality trends 1989 - 2013

- Gini coefficient of income increased (0.55 ↗ 0.58)
⇒ Disappearance of the middle class

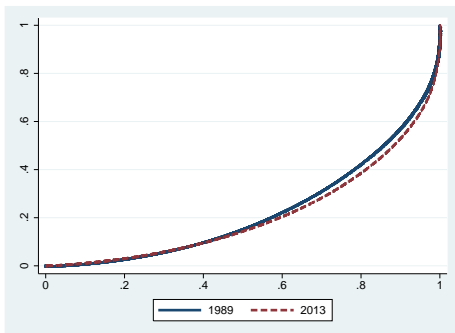


Figure: Lorenz curves of income

▶ details

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- Coefficient of variation of income decreased (4.61 ↘ 4.19)
⇒ Catching-up of the poor

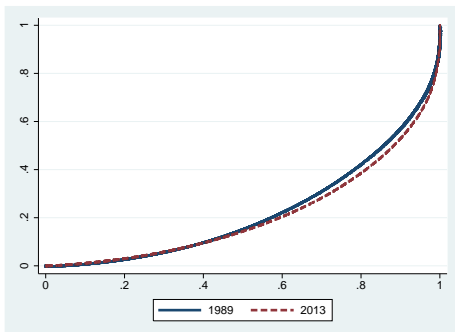


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Sources of inequality

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- SCF data has information about who the wealthy are

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- They are older
80 % are over 50 years (50 % in population)

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- Taxing wealth? Tax on the older, better educated, and entrepreneurial

▶ details

Wealth and income inequality

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- Wealth and (capital) income only weakly correlated

	Net Wealth	Financial Wealth	Wealth net Houses
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- Capital income likely accrues as retained earnings

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- Three asset classes account for 70 % of inequality (Gini coefficient)

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- Three asset classes account for 70 % of inequality (Gini coefficient)
- Stocks, bonds, and mutual funds account for less than 20 % of inequality

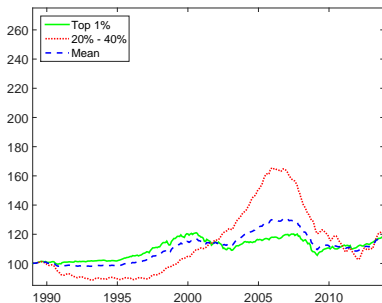
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Household portfolios

- Household portfolios differ along the wealth distribution

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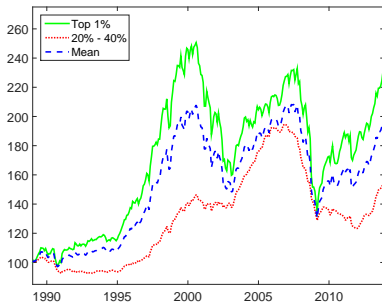
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- Household portfolios differ along the wealth distribution
- Low-wealth households highly leveraged in housing
⇒ high house price sensitivity
- High-wealth households largest share in business wealth
⇒ high sensitivity to equity prices



Inheritance as source of inequality

- 80% of wealth is **NOT** inherited

Wealth Group	Wealth	Inheritance	Expected Inheritance	Inherited Wealth Share	Exp. Inh. Wealth Share
All	528.2	109.7	63.9	20.8%	12.1%
80-100%	2,298.1	442.0	163.0	19.2%	7.1%
90-95%	1,278.2	227.5	87.8	17.8%	6.9%
95-99%	3,614.7	918.0	298.6	25.4%	8.3%
99-99.5%	9,468.0	1,757.7	760.1	18.6%	8.0%
99.5-99.9%	17,623.9	1,330.3	266.5	7.5%	1.5%
Top 0.1%	69,575.9	6,381.3	828.3	9.2%	1.2%

Thousands of 2013 Dollars, excluding deceased spouses
inheritance at present value (3 % p.a.), expectations at face value

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- Inheritance highly concentrated

Inheritance	Top 25%	Top 10%	Top 5%	Top 1%	Top 0.5%	Top 0.1%	Top 0.01%
Received	0	128	352	1,589	2,879	13,030	41,152
Expected	0	50	265	1,260	2,000	6,000	13,000

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- Wealth inequality not transmitted through inheritances
- Potential transmission through human capital (education, social skills, business contacts, ...)
- 6 out of the Top 10 of Forbes richest Americans entrepreneurs who build wealth on their own

What we also do

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- any many, many more things ...

Conclusions

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5. 80 % of wealth is **NOT** inherited

Take a look yourself

- All results can be founded and downloaded at

<https://sites.google.com/site/kuhnecon/home/us-inequality>

Additional slides

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Inequality trends

	Coefficients of Variation			Gini Indexes		
	Earn.	Income	Wealth	Earn.	Income	Wealth
1989	4.47	4.61	5.51	.61	.55	.79
1992	4.19	3.84	6.11	.63	.57	.79
1995	3.53	4.63	6.28	.62	.55	.79
1998	2.86	3.56	6.47	.61	.55	.80
2001	2.88	3.63	5.25	.62	.57	.81
2004	3.00	3.11	5.68	.62	.54	.81
2007	3.60	4.32	6.01	.64	.57	.82
2010	3.26	3.45	6.35	.65	.55	.85
2013	3.69	4.19	6.81	.67	.58	.85

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Who are the wealthiest in 2013?

	≤ 30	31-40	41-50	51-60	≥ 61	DR	HS	SC	CO	PG	WKR	SE	RET	NW	MAR	KIDS
	All Households															
	13.5	17.2	18.6	19.9	30.7	11.0	31.3	18.9	26.3	12.5	56.9	9.7	20.8	12.6	57.2	57.0
	Top 10 Percent															
Earnings	1.9	21.3	29.7	30.4	16.7	0.6	10.4	9.3	41.7	38.1	71.4	22.4	2.8	3.4	91.8	39.6
Income	1.8	15.7	24.9	28.5	29.1	0.5	9.2	9.1	39.4	41.8	62.1	24.6	9.5	3.7	90.7	47.7
Wealth	0.4	6.0	16.5	28.9	48.2	0.9	9.2	12.9	37.4	39.6	41.0	31.5	25.0	2.5	83.0	64.5
	Top 1 Percent															
Earnings	0.5	9.1	31.1	34.0	25.4	0.0	2.8	5.6	38.4	53.2	45.0	48.8	5.9	0.2	84.6	38.3
Income	0.0	8.7	28.7	30.6	32.0	0.0	3.1	8.9	35.9	52.1	40.5	49.0	10.2	0.2	84.0	45.3
Wealth	0.8	4.2	11.6	25.3	58.1	0.3	7.4	12.4	33.2	46.7	17.4	59.5	20.0	3.1	88.3	67.3
	Top 0.1 Percent															
Earnings	0.0	9.2	19.7	46.5	24.6	0.1	4.0	4.2	32.3	59.3	29.4	66.4	4.2	0.0	95.6	51.4
Income	0.0	8.3	23.0	34.4	34.3	0.3	2.8	4.7	40.6	51.7	15.7	72.5	11.8	0.0	95.8	45.3
Wealth	0.0	4.5	13.5	26.9	55.1	0.5	1.4	7.8	40.2	50.1	19.3	60.1	20.6	0.0	89.1	56.6

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Sources of Wealth Inequality, 2013

Wealth Component	Share S_k	Coeff. G_k	Corr. R_k	Conc. C_k	Contrib. I_k/G
Liquid assets	0.06	0.87	0.89	0.77	0.06
Mutual funds	0.07	0.98	0.95	0.94	0.08
Stocks	0.07	0.98	0.95	0.93	0.08
Bonds	0.02	1.00	0.97	0.97	0.02
Ret. accts.	0.19	0.87	0.90	0.78	0.17
Houses	0.32	0.68	0.83	0.56	0.21
Vehicles	0.04	0.54	0.57	0.31	0.01
Business	0.21	0.99	0.96	0.95	0.23
Mtge + HELOCs	-0.13	-0.77	-0.43	0.33	-0.05
Installment loans	-0.02	-0.80	0.27	-0.22	0.01
TOTAL	1.0	0.85	1.0	0.85	0.85

S_k : wealth share

R_k : correlation between component and wealth

G_k : Gini of wealth component

$I_k = R_k \times G_k \times S_k$: contribution to Gini

Portfolio shares of the Wealth Partition, 2013

	0-1	1-5	5-10	1st	2nd	3th	4th	5th	90-95	95-99	99-100	all
Liquid Assets	2.8	4.8	22.9	8.1	17.0	10.2	7.4	5.9	6.5	7.0	4.6	6.4
CDs	0.0	0.6	1.7	0.5	0.6	1.0	1.6	0.9	1.5	0.7	0.5	0.9
Mutual Funds	0.0	0.4	1.1	0.3	0.4	0.8	1.6	7.9	5.2	7.6	10.5	7.0
Stocks	0.0	0.9	2.0	0.7	1.5	1.1	1.9	8.2	5.6	9.4	9.7	7.4
Bonds	0.0	0.0	0.0	0.0	0.0	0.1	0.1	1.8	0.5	2.0	2.5	1.5
Saving Bonds	0.0	0.1	0.6	0.2	0.3	0.4	0.2	0.1	0.2	0.1	0.0	0.1
Other mgd assets	0.0	0.0	2.1	0.3	0.3	0.7	1.9	3.9	2.9	3.3	5.1	3.6
Cash value life ins.	0.1	1.3	2.2	1.1	4.9	1.9	1.7	1.2	1.4	1.0	1.1	1.3
Other fin. assets	0.1	0.3	1.2	0.6	2.1	0.8	0.8	0.8	0.9	0.9	0.7	0.8
Ret. accts.	5.2	9.0	31.8	12.0	21.5	19.6	24.3	17.8	29.0	19.6	9.4	18.7
Houses	48.8	122.9	308.7	140.3	207.1	120.5	74.8	21.7	33.8	21.5	9.0	32.4
Vehicles	7.7	29.1	102.8	40.3	73.1	20.3	8.7	1.7	2.5	1.4	0.6	3.7
Other res. RE	1.4	11.8	33.0	10.0	5.5	6.7	6.8	8.0	9.0	8.6	7.3	7.9
Nonres. RE	0.0	0.1	0.6	0.3	1.3	1.7	2.0	3.9	4.0	4.3	3.7	3.6
Business	5.2	2.3	3.9	4.3	2.2	2.6	4.0	23.3	9.0	19.5	36.9	20.8
Other nonfin. assets	0.4	0.4	2.1	0.7	1.5	1.1	0.7	0.9	0.9	0.6	1.2	0.9
Mtge + HELOCs	-66.5	-145.9	-333.1	-161.1	-178.4	-71.4	-30.7	-6.0	-10.0	-5.6	-1.5	-12.7
Res. debt	-0.4	-13.9	-36.0	-10.7	-3.6	-3.9	-2.4	-1.3	-1.9	-1.4	-0.8	-1.6
Other LOC	0.0	-0.4	-5.2	-0.8	-1.1	-0.2	-0.1	-0.1	0.0	-0.1	-0.2	-0.1
Credit Card	-7.4	-7.9	-32.8	-13.0	-9.3	-2.4	-1.1	-0.1	-0.2	0.0	0.0	-0.4
Installment	-97.3	-108.4	-204.4	-129.7	-45.7	-10.9	-3.9	-0.4	-0.6	-0.2	-0.1	-2.3
Other Debt	-0.2	-7.5	-5.1	-4.4	-1.3	-0.6	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2

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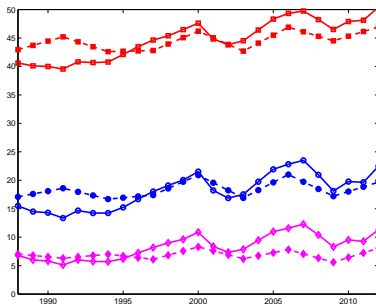
Decomposing inequality

	Whole Sample			Without Top 1%			Without Top 10%			Without Bottom 20%			Only Ages 20-65		
	E	I	W	E	I	W	E	I	W	E	I	W	E	I	W
Coefficient of variation	3.69	4.19	6.81	1.31	1.11	2.48	1.00	0.70	2.38	3.27	3.84	6.02	3.29	4.06	7.31
Variance of logs	1.50	0.99	4.80	1.38	0.89	4.55	1.16	0.66	3.77	1.50	0.61	2.98	1.27	0.99	4.87
Gini indexes	0.67	0.58	0.85	0.61	0.49	0.79	0.55	0.39	0.71	0.58	0.52	0.80	0.60	0.56	0.87
Location of mean	70	74	83	65	67	77	58	60	67	71	76	83	70	73	83
99-50 ratio	17.46	14.78	96.81	10.32	9.15	55.25	4.76	3.65	14.48	14.16	13.25	59.84	13.03	13.6	129.40
90-50 ratio	1.96	1.85	6.49	3.97	3.28	10.72	3.38	2.56	7.70	3.26	2.99	7.74	3.27	3.18	14.84
Mean-to-median ratio	4.15	3.33	11.56	1.61	1.53	4.34	1.33	1.24	2.50	1.71	1.75	4.5	1.68	1.79	8.14
50-30 ratio	3.21	1.64	5.50	3.33	1.62	5.53	4.43	1.62	5.54	1.84	1.47	2.74	1.93	1.66	5.50

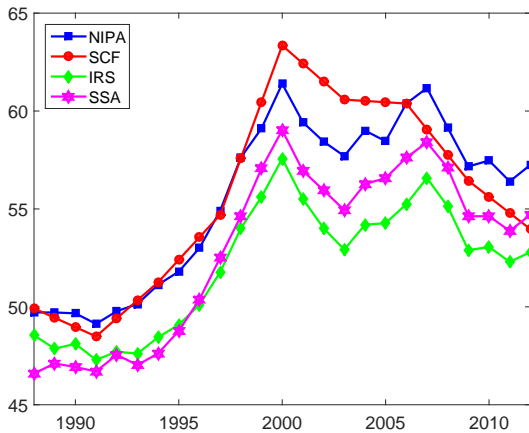
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Income concentration “at the top”

- Income shares of top 10 %, 1 %, 0.1%
- Income concentration in SCF data relative to tax returns



SCF labor income comparison



SCF wealth comparison

