The Rise and Consequences of Inequality

Alan B. Krueger
Chairman
Council of Economic Advisers

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Figure 1: Growing Together, Growing Apart Income Growth by Quintile, Various Periods

Annual Growth Rate of Real Income Across the Family Income Distribution
1947 to 1979

Percent

0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0% 3.5%

Lowest fifth 2nd fifth Mid fifth 4th fifth Top fifth

2.5% 2.2% 2.4% 2.4% 2.2%

Annual Growth Rate of Real Income Across the Family Income Distribution
1979 to 2010

Percent

0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0% 3.5%

Lowest fifth 2nd fifth Mid fifth 4th fifth Top fifth

-0.4% 0.1% 0.3% 0.6% 1.2%

Source: Census Bureau

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Figure 2: Growing Together Again 1992-2000

Annual Growth Rate of Real Income Across the Family Income Distribution 1992-2000

Source: Census Bureau
Figure 3: If Real Incomes Had Grown During the 2000s as They Did During the 1990s, the Median Household Would Have an Extra $8,900 in Annual Income in 2010

Note: Shading denotes recession.
Source: Census Bureau; CEA calculations
Figure 4: CBO Estimates Show Much Faster Income Growth for the Top 1%

Growth in Real After-Tax Income, 1979-2007

Source: CBO
Figure 5: Income Inequality Near Record High

Share of Income Earned, 1916-2009

Source: 2010 update to Piketty and Saez (2006)
Figure 6: The Size of the Middle-Class has Fallen

Percent of Households With Annual Income Within 50% of the Median

Source: CEA Calculations from Current Population Survey
Figure 7: “The Great Gatsby Curve”
Higher income inequality associated with lower intergenerational mobility

\[ y = 2.2x - 0.27 \]
\[ R^2 = 0.76 \]

Source: Corak (2011), OECD, CEA estimates
Figure 8: “The Great Gatsby Curve”: Projection

The Great Gatsby Curve

Intergenerational earnings elasticity

United Kingdom

France

Germany

Japan

New Zealand

Norway

Sweden

Finland

Denmark

United States

Inequality
(1985 Gini Coefficient)

0.15 0.20 0.25 0.30 0.35 0.40

0.1 0.2 0.3 0.4 0.5 0.6

0.15 0.20 0.25 0.30 0.35 0.40

0.1 0.2 0.3 0.4 0.5 0.6

y = 2.2x - 0.27

R² = 0.76

Source: Corak (2011), OECD, CEA estimates
Figure 9: Causes of Higher Inequality

Box-5-3.—The Expert's Consensus on Earnings Inequality

Average percent distribution

Figure 10: U.S. Tax Code is Less Progressive than Most Other OECD Countries

Gini Coefficient Before and After Taxes and Transfers, 2010

Source: OECD
Figure 11: Despite large tax cuts, less dynamism

Startup Employment as a Share of Total Employment

Source: Business Dynamics Statistics
Consequences

• Intergenerational Mobility

• Consumption
  • Aggregate demand and excess leverage.

• Economic Growth

• Morale and Productivity
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