U.S. Income Inequality in Perspective
The Evolution of Top Incomes in the United States

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The views expressed are those of the author and are not necessarily those of the U.S. Department of the Treasury.
Cross-Sectional Variance of Log Income by Year

Source: DeBacker, Heim, Panousi, Vidangos “Rising Inequality: Transitory or Permanent? New Evidence from a Panel of U.S. Tax Returns”
Cross-Sectional Gini Coefficient by Year

Source: DeBacker, Heim, Panousi, Vidangos “Rising Inequality: Transitory or Permanent? New Evidence from a Panel of U.S. Tax Returns”
How Much Income Is Needed to be in Top Quantiles? (In 2005)

- Top 10% - $94,000
The Top 10% Income Share, 1917-2008

Source: Piketty and Saez “Income Inequality in the United States, 1913-1998”, Table updated to 2008 at http://elasa.berkeley.edu
How Much Income Is Needed to be in Top Quantiles? (In 2005)

- Top 10% - $94,000
- Top 1% - $295,000
Decomposing the Top Decile US Income Share into 3 Groups, 1913-2008

Source: Piketty and Saez “Income Inequality in the United States, 1913-1998”, Table updated to 2008 at http://elasa.berkeley.edu
How Much Income Is Needed to be in Top Quantiles? (In 2005)

- Top 10% - $94,000
- Top 1% - $295,000
- Top 0.1% - $1.25 Million
Top 0.1% Income Share in the United States, 1913-2007

Source: Piketty and Saez “Income Inequality in the United States, 1913-1998, Table updated to 2008 at http://elasa.berkeley.edu
The Top 0.1% Income Share and Its Composition, 1913-2008

Source: Piketty and Saez “Income Inequality in the United States, 1913-1998”, Table updated to 2008 at http://elasa.berkeley.edu
Top 0.1% Income Shares in the United States, 1913-2007

Source: Piketty and Saez “Income Inequality in the United States, 1913-1998, Table updated to 2008 at http://elasa.berkeley.edu
Top 0.1% Income Share in the United Kingdom, 1913-2007

Source: Piketty and Saez “Income Inequality in the United States, 1913-1998, Table updated to 2008 at http://elasa.berkeley.edu
Top 0.1% Income Shares in Canada, 1920-2009

Source: Veall “Top Income Shares in Canada: Updates and Extensions”
Top 0.1% Income Share in France, 1913-2005

Source: Piketty and Saez “Income Inequality in the United States, 1913-1998, Table updated to 2008 at http://elasa.berkeley.edu
Top Income Shares in Japan, 1886-2005

Possible explanations for rising top income shares

Changes in relative demand for labor

- Globalization
- Skill-biased technical change
Possible explanations for rising top income shares

Taxes

- Incentive effects due to lowered top marginal rates
- Income shifting between corporate and personal income tax bases after TRA86
Figure 2 -- Top marginal income tax rate: United States, France, and Japan, 1981 - 2006

Source: OECD (2009).
Figure 1 -- Percentage of national income (excluding capital gains) received by top 0.1% of income earners: United States, France, and Japan, 1981 - 2006

Source: Piketty and Saez (2003, updated in 2008 at <http://elsa.berkeley.edu/~saez/TabFig2006.xls>); Moriguchi and Saez (2008); Piketty (2003); Landais (2008); and unpublished tables provided to the authors by Camille Landais.
Possible explanations for rising top income shares

Occupation related explanations

• Superstars
• Executive compensation
• Compensation of financial professionals

• Are there enough at top?
### Other Taxes

- **58** Self-employment tax. Attach Schedule SE
- **59** Social security and Medicare tax on tip income not reported to employer. Attach Form 4137
- **60** Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
- **61** Advance earned income credit payments from Form(s) W-2
- **62** Household employment taxes. Attach Schedule H
- **63** Add lines 57 through 62. This is your total tax

### Payments

- **64** Federal income tax withheld from Forms W-2 and 1099
- **65** 2005 estimated tax payments and amount applied from 2004 return
- **66a** Earned Income credit (EIC)
  - **66b** Nontaxable combat pay election
- **67** Excess social security and tier 1 RRTA tax withheld (see page 59)
- **68** Additional child tax credit. Attach Form 8812
- **69** Amount paid with request for extension to file (see page 59)
- **70** Payments from:
  - **70a** Form 2439
  - **70b** Form 4136
  - **70c** Form 885
- **71** Add lines 64, 65, 66a, and 67 through 70. These are your total payments

### Refund

- **72** If line 71 is more than line 63, subtract line 63 from line 71. This is the amount you overpaid
- **73a** Amount of line 72 you want refunded to you
- **74** Amount of line 72 you want applied to your 2006 estimated tax

### Amount You Owe

- **75** Amount you owe. Subtract line 71 from line 63. For details on how to pay, see page 60
- **76** Estimated tax penalty (see page 60)

### Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 61)?
- **Yes.** Complete the following. **No**

### Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

- **Your signature**
- **Date**
- **Daytime phone number**
- **Spouse’s signature. If a joint return, both must sign.**
- **Date**
  - **Spouse’s occupation**

### Paid Preparer’s Use Only

- **Preparer’s signature**
- **Preparer’s SSN or PTIN**
- **Preparer’s name (or yours if self-employed), address, and ZIP code**
- **Phone no.**

Form 1040 (2005)
Percentage of primary taxpayers in top 1 percent of the distribution of income (excluding capital gains) that are in each occupation
Percentage of primary taxpayers in top 1 percent of the distribution of income (including capital gains) that are in each occupation.

- Farmers & ranchers
- Government, teachers, social services
- Arts, media, sports
- Professors and scientists
- Entrepreneur not elsewhere classified
- Business operations (nonfinance)
- Real estate
- Blue collar or low-skill service
- Skilled sales (except finance or real estate)
- Not working or deceased
- Computer, math, engineering, technical (nonfinance)
- Lawyers
- Financial professions, including management
- Medical
- Executives, managers, supervisors (non-finance)
Percentage of primary taxpayers in top 0.1 percent of the distribution of income (excluding capital gains) that are in each occupation

- Unknown
- Farmers & ranchers
- Professors and scientists
- Skilled sales (except finance or real estate)
- Other known occupation
- Computer, math, engineering, technical (nonfinance)
- Business operations (nonfinance)
- Arts, media, sports
- Entrepreneur not elsewhere classified
- Real estate
- Not working or deceased
- Medical
- Lawyers
- Financial professions, including management
- Executives, managers, supervisors (non-finance)
Percentage of primary taxpayers in top 0.1 percent of the distribution of income (including capital gains) that are in each occupation

- Unknown
- Farmers & ranchers
- Professors and scientists
- Skilled sales (except finance or real estate)
- Other
- Computer, math, engineering, technical (nonfinance)
- Business operations (nonfinance)
- Arts, media, sports
- Entrepreneur not elsewhere classified
- Real estate
- Not working or deceased
- Medical
- Lawyers
- Financial professions, including management
- Executives, managers, supervisors (non-finance)
Percentage of national income (excluding capital gains) going to the top 1 percent of the income distribution, by occupation

- Other
- Computer, math, engineering, technical (nonfinance)
- Business operations (nonfinance)
- Real estate
- Medical
- Arts, media, sports
- Lawyers
- Financial professions, including management
- Executives, managers, supervisors, entrepreneurs (non-finance)
Percentage of national income (excluding capital gains) going to the top 0.1 percent of the income distribution, by occupation.
Percentage of national income (excluding capital gains) going to top 1 percent by occupation, relative to 1979

- Real estate
- Financial professions, including management
- Business operations (nonfinance)
- Computer, math, engineering, technical (nonfinance)
- Arts, media, sports
- Medical
- Executives, managers, supervisors, entrepreneurs (non-finance)
- Lawyers
- Other
Figure 10 -- Percentage of national income (excluding capital gains) going to top 0.1 percent by occupation, relative to 1979
Implications

- Executive and financial compensation practices important causes
  ▫ Due to concentration of executives, managers, supervisors, and financial professionals in top quantiles
- Shifting between tax bases also likely to be important
  ▫ Due to larger and increasing share of exec/man/sup with closely held businesses
- Superstar theory plays a small role
  ▫ Arts/media/sports not a large fraction at top
Implications

- If caused by factors changing in same ways for everyone at the top (e.g. tax policy), different people must have responded in different ways
  - Due to heterogeneity across professions and divergence within professions