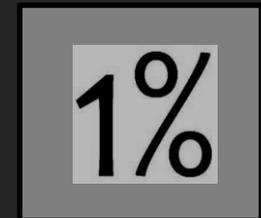
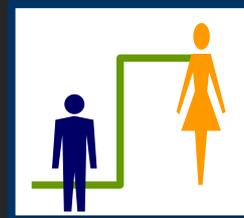


FRBSF Joint Board of Directors Meeting
Economic Research Seminar Session
April 11, 2012

U.S. Income Inequality in Perspective



The Evolution of Top Incomes in the United States

Bradley Heim

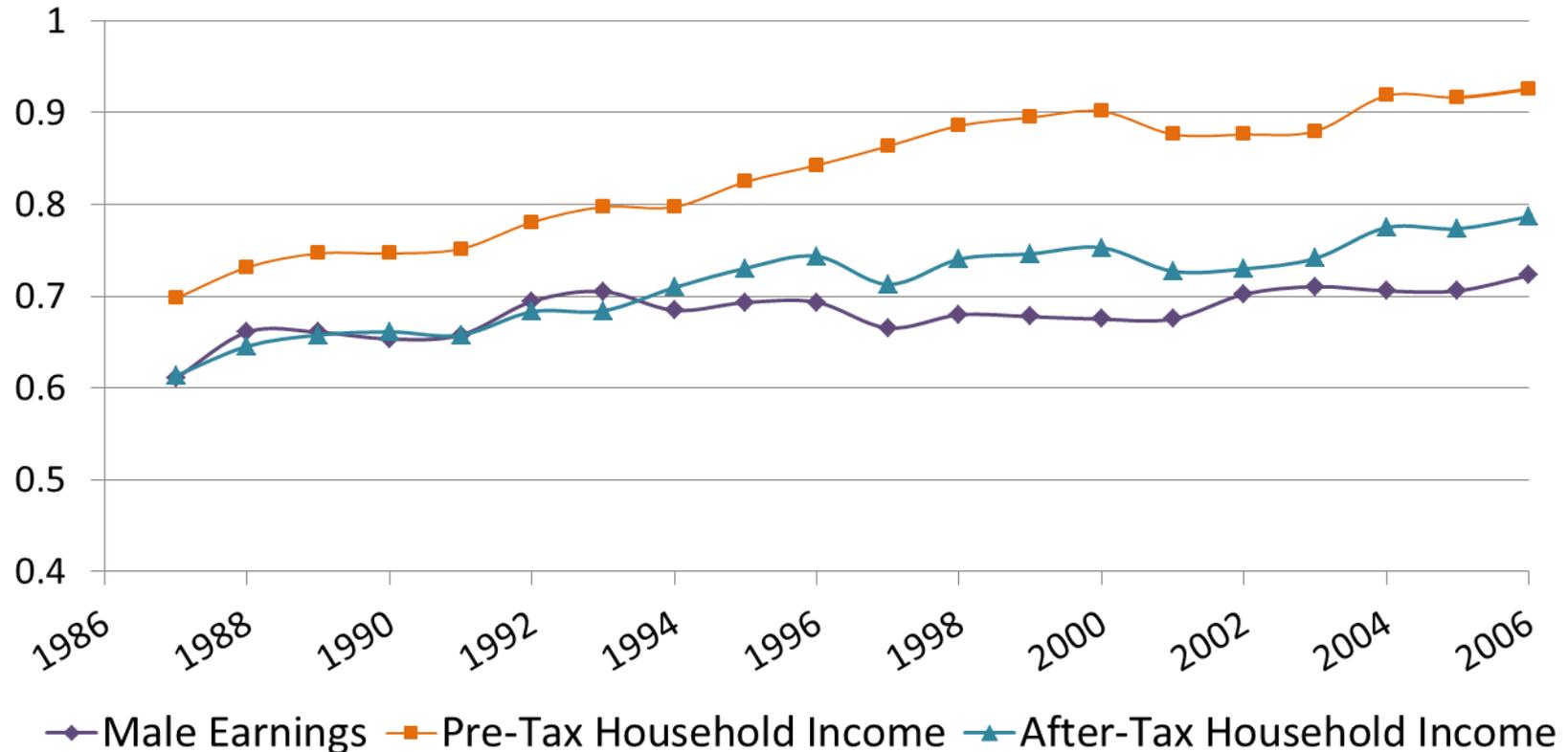
School of Public and Environmental Affairs
Indiana University

Prepared for Federal Reserve Bank of San Francisco
2012 Conference of Twelfth District Directors

The views expressed are those of the author and are not necessarily those of the U.S.
Department of the Treasury.



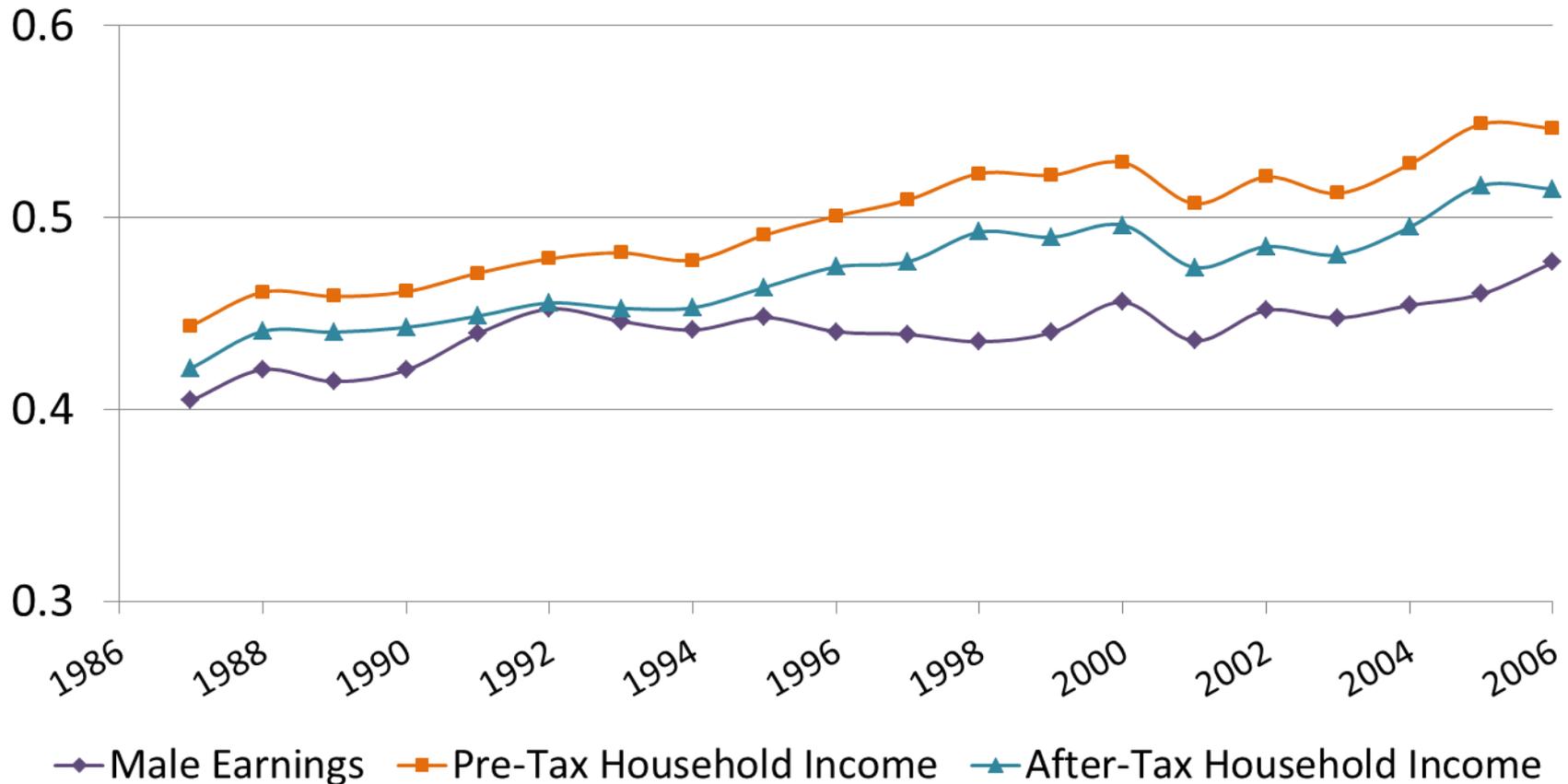
Cross-Sectional Variance of Log Income by Year



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”

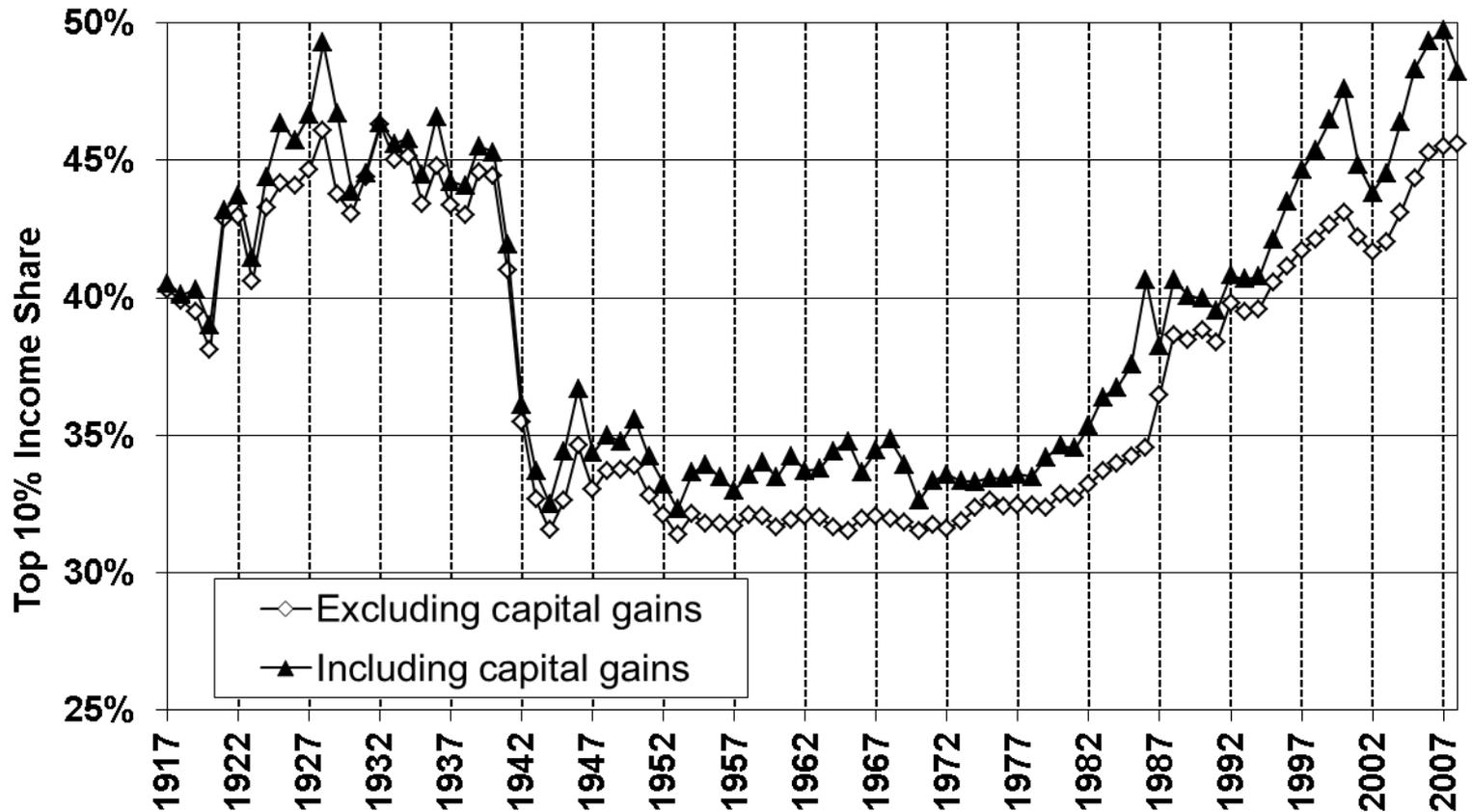


How Much Income Is Needed to be in Top Quantiles? (In 2005)

- 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>

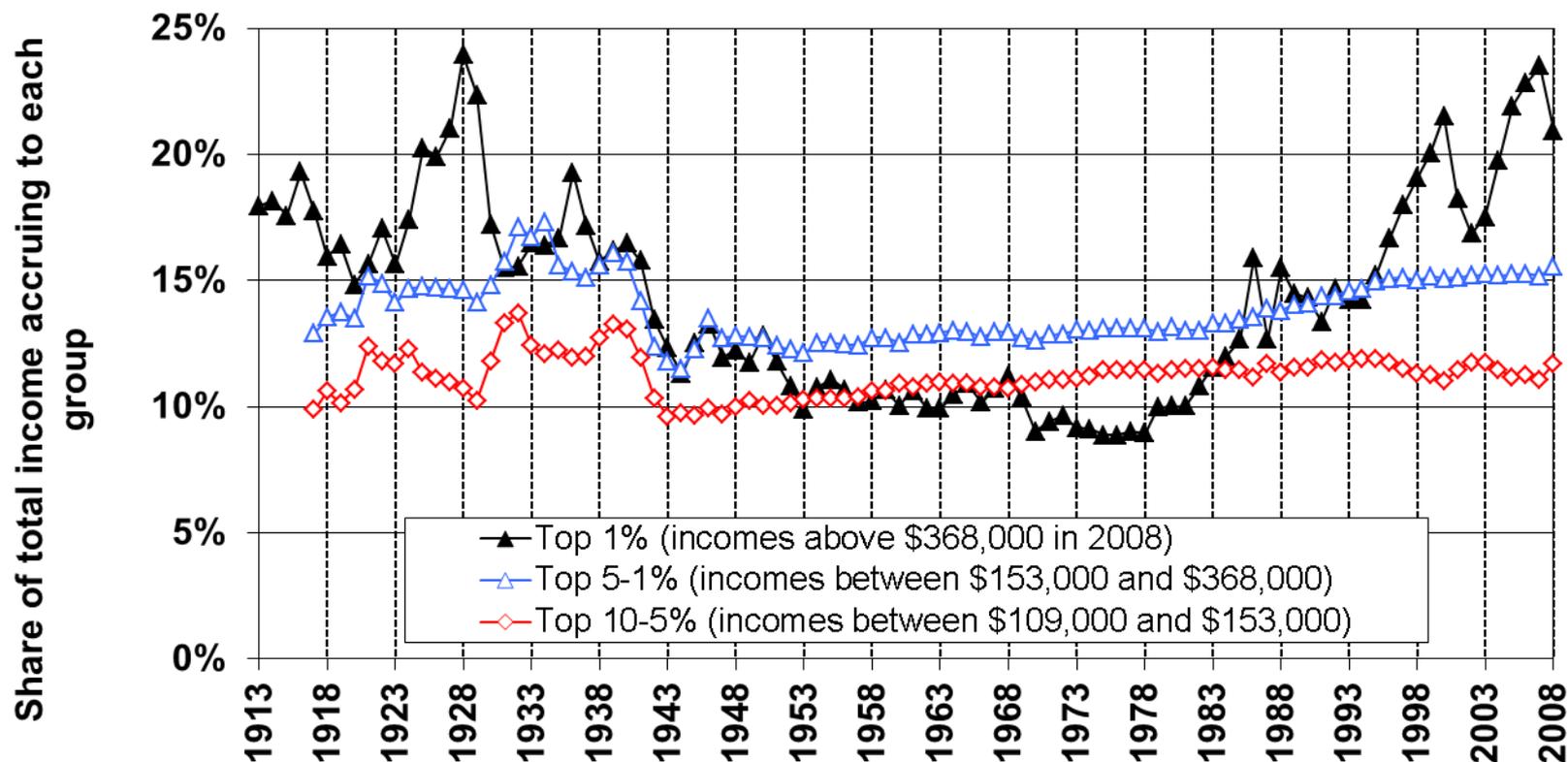


How Much Income Is Needed to be in Top Quantiles? (In 2005)

- 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>

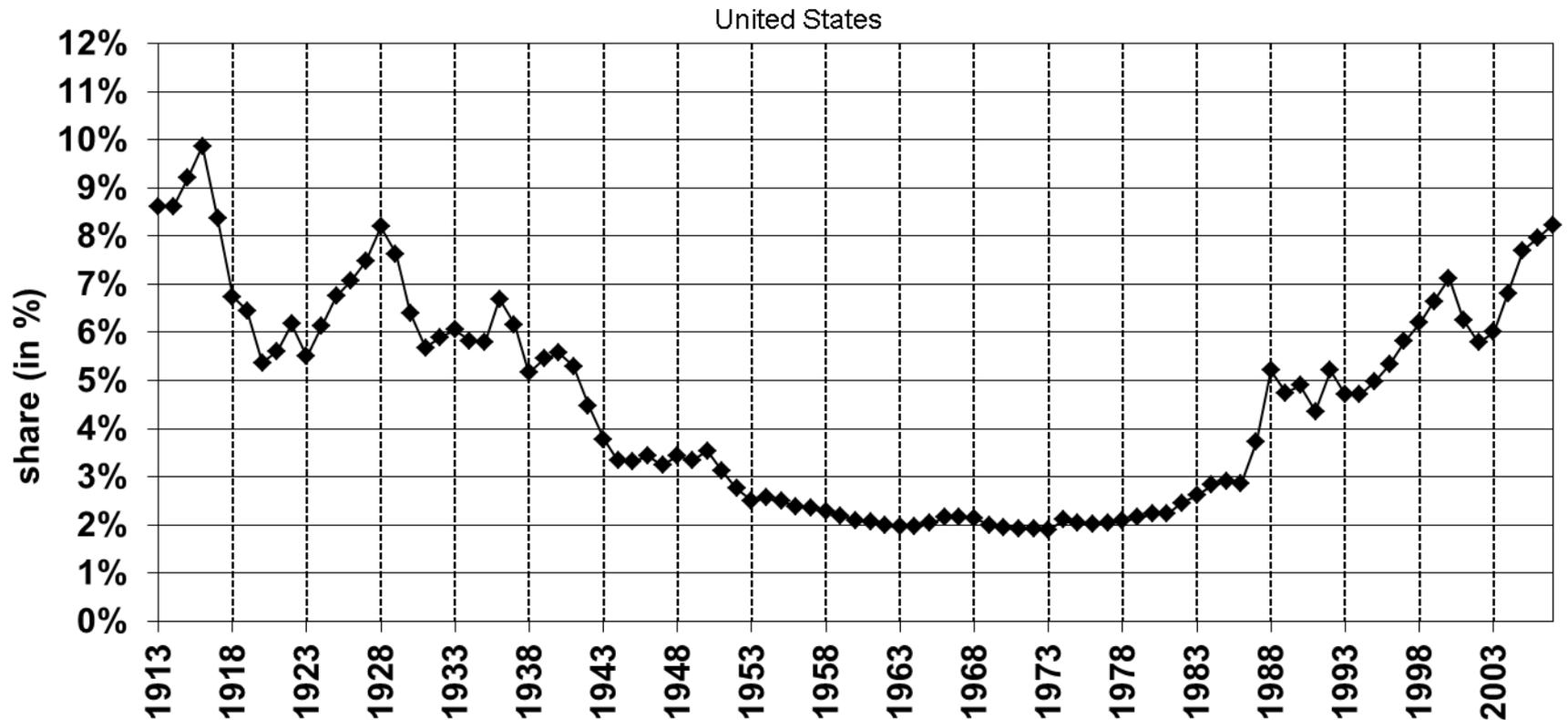


How Much Income Is Needed to be in Top Quantiles? (In 2005)

- Top 10% - \$94,000
- Top 1% - \$295,000
- Top 0.1% - \$1.25 Million



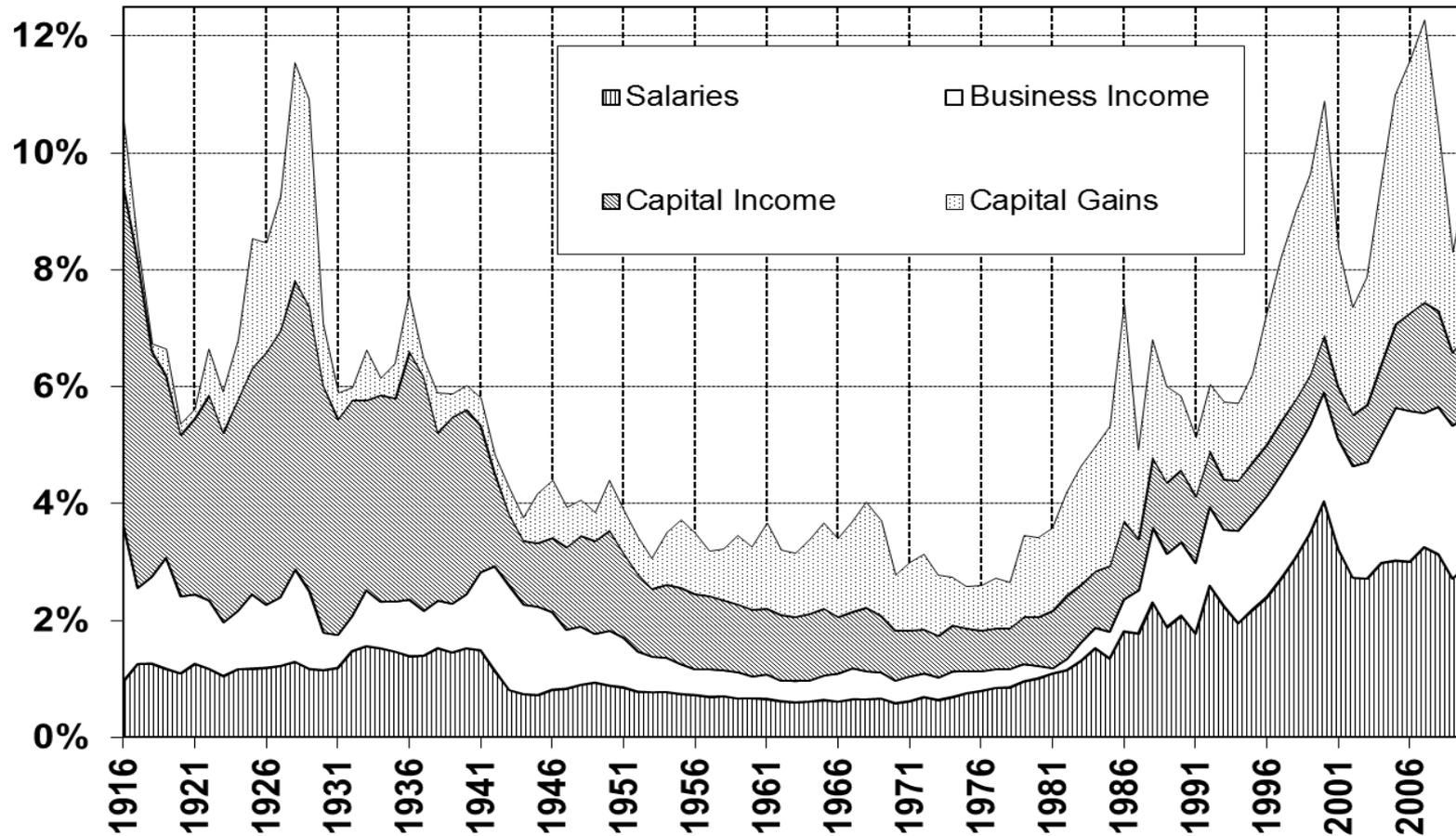
Top 0.1% Income Share in the United States, 1913-2007



Source: Piketty and Saez "Income Inequality in the United States, 1913-1998, Table updated to 2008 at <http://elasa.berkeley.edu>



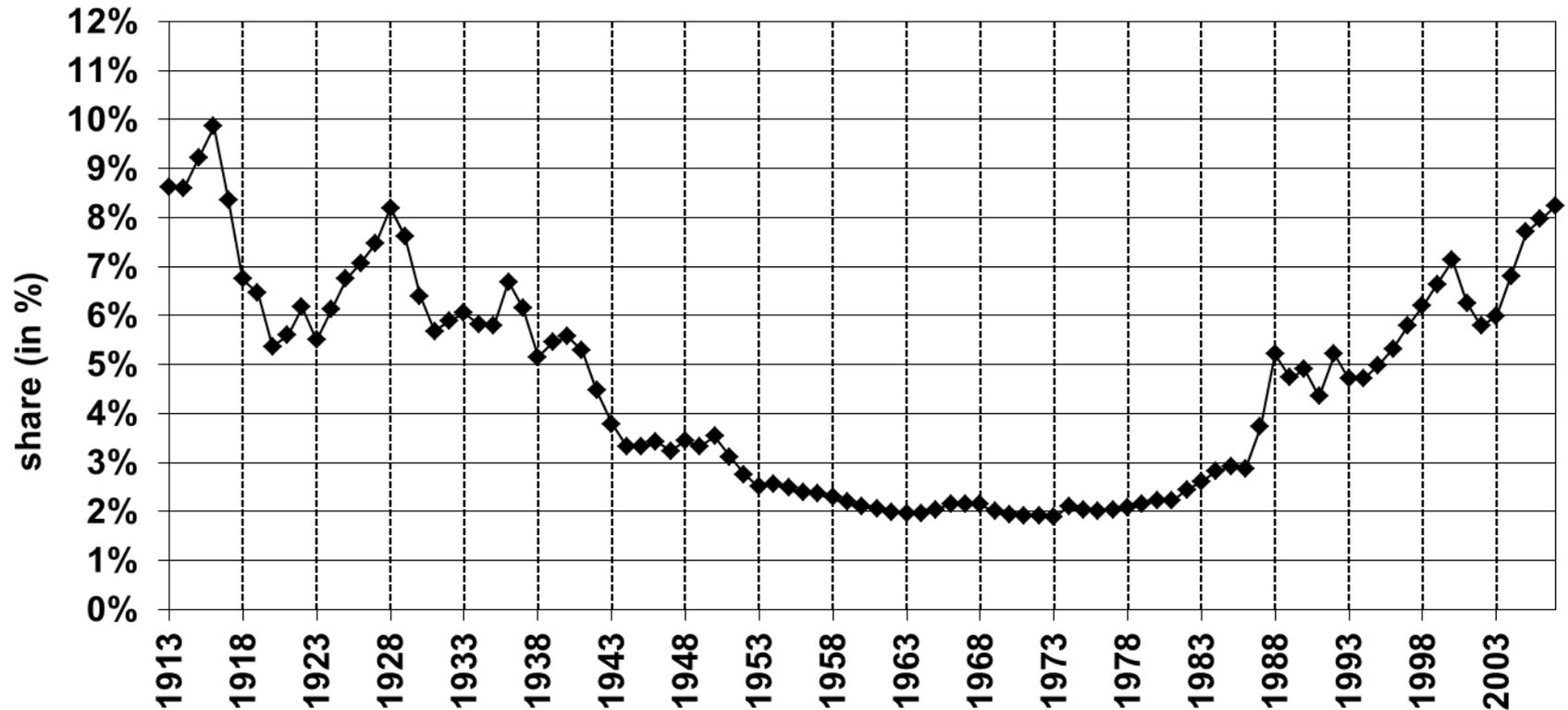
The Top 0.1% Income Share and Its Composition, 1913-2008



Source: Piketty and Saez "Income Inequality in the United States, 1913-1998", Table updated to 2008 at <http://elasa.berkeley.edu>



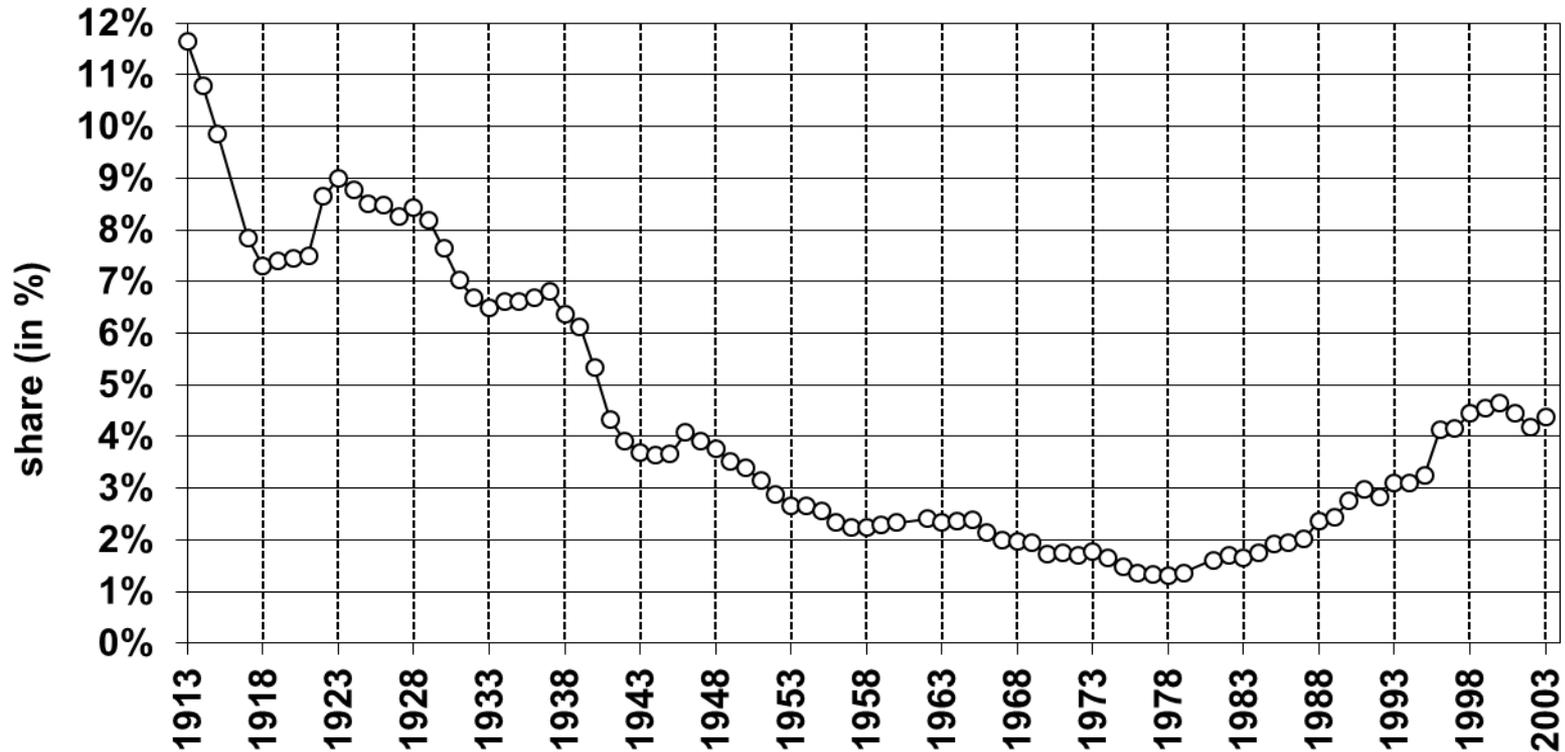
Top 0.1% Income Shares in the **United States**, 1913-2007



Source: Piketty and Saez "Income Inequality in the United States, 1913-1998, Table updated to 2008 at <http://elasa.berkeley.edu>



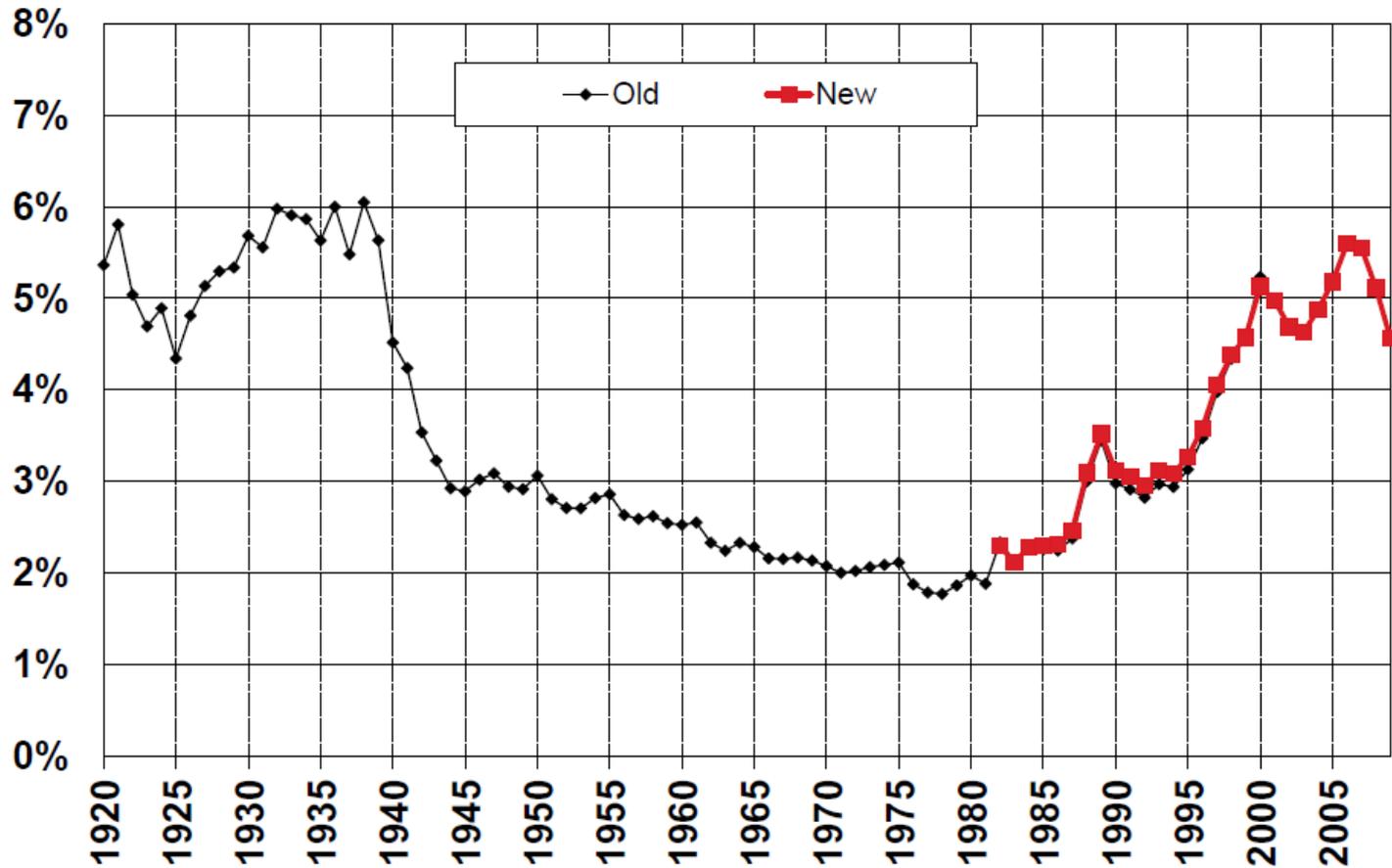
Top 0.1% Income Share in the **United Kingdom**, 1913-2007



Source: Piketty and Saez "Income Inequality in the United States, 1913-1998, Table updated to 2008 at <http://elasa.berkeley.edu>



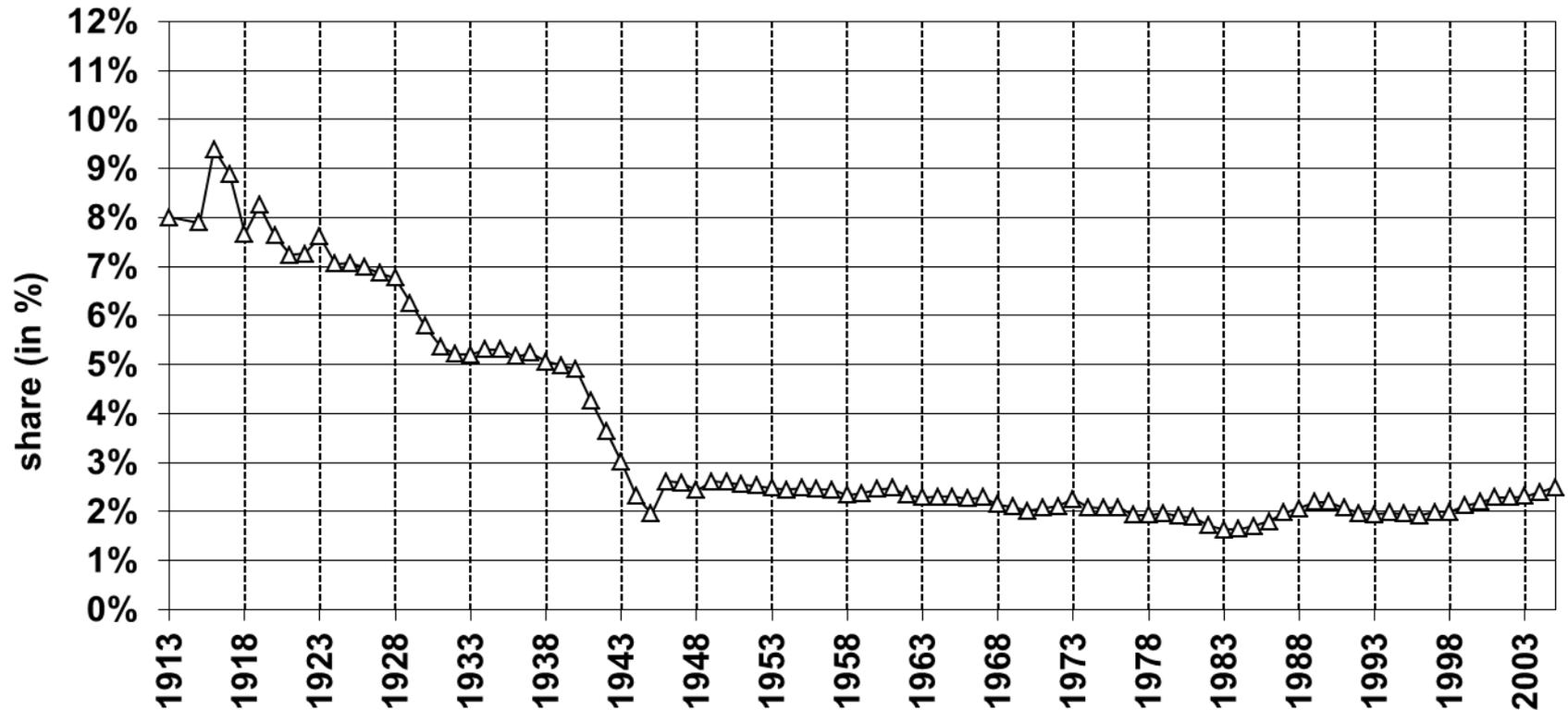
Top 0.1% Income Shares in **Canada**, 1920-2009



Source: Veall "Top Income Shares in Canada: Updates and Extensions"



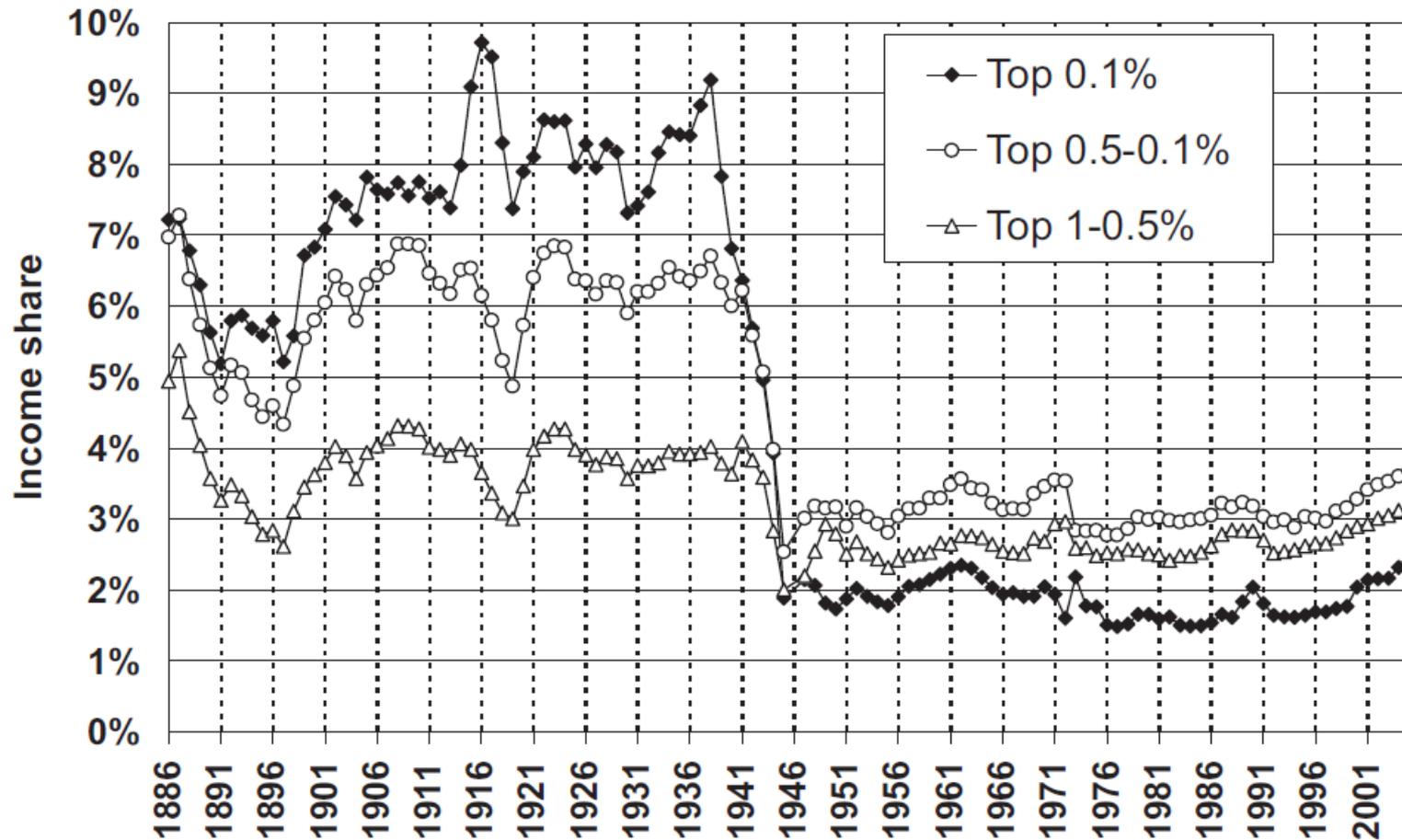
Top 0.1% Income Share in France, 1913-2005



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



Source: Moriguchi and Saez "The Evolution of Income Concentration in Japan, 1886-2005: Evidence from Income Tax Statistics"



Possible explanations for rising top income shares

Changes in relative demand for labor

- Globalization
- Skill-biased technical change



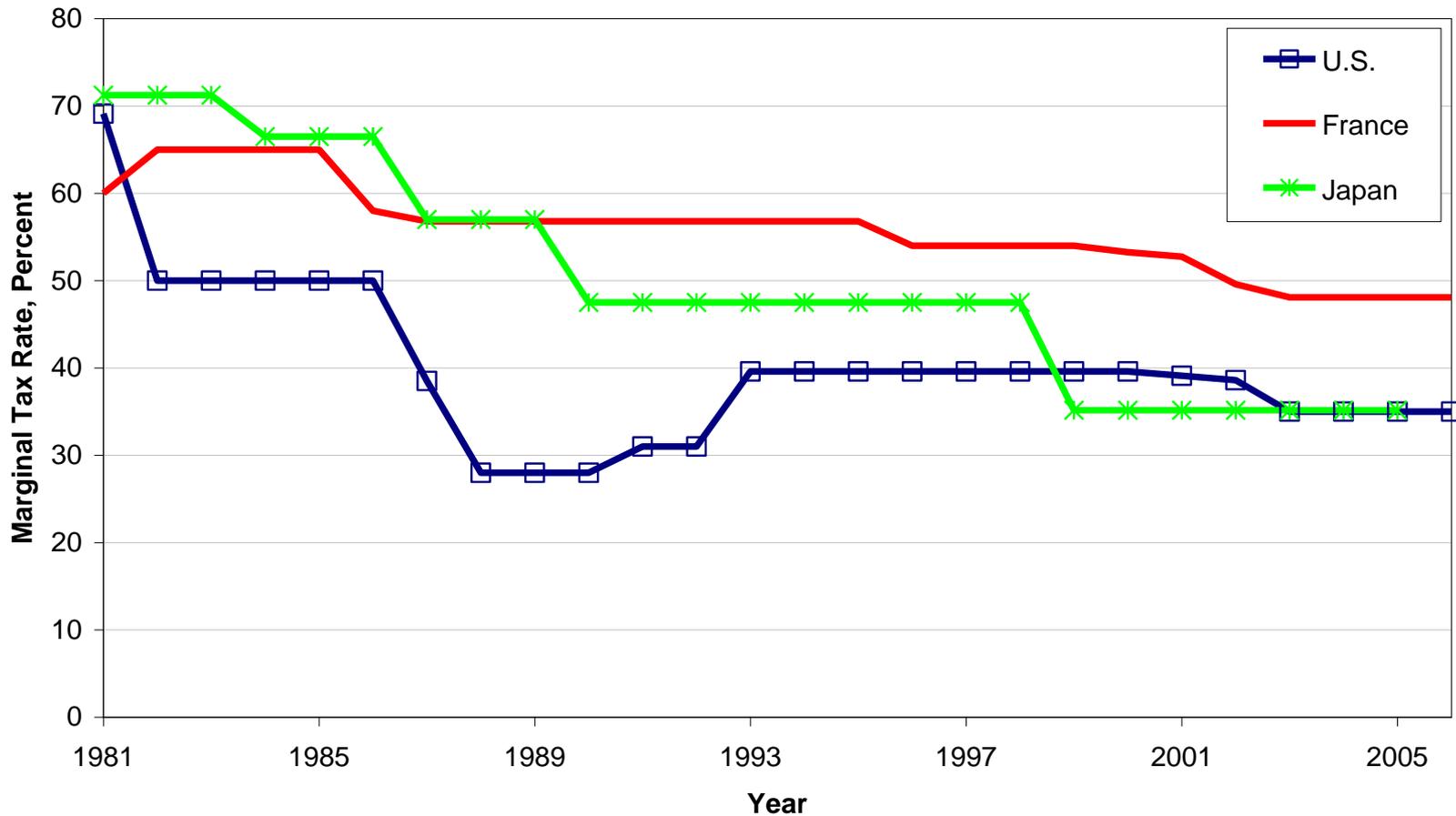
Possible explanations for rising top income shares

Taxes

- Incentive effects due to lowered top marginal rates
- Income shifting between corporate and personal income tax bases after TRA86



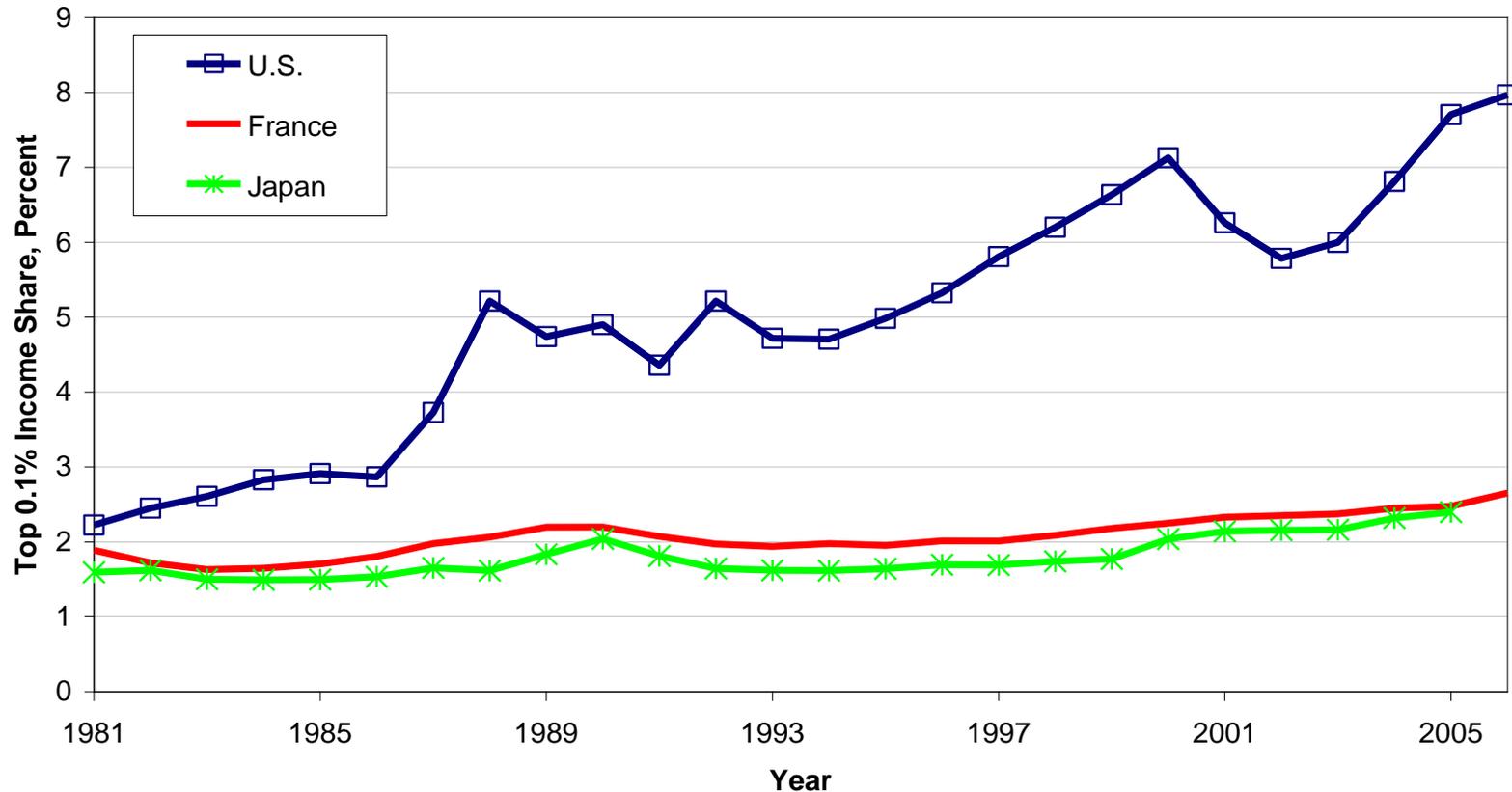
Figure 2 -- Top marginal income tax rate: United States, France, and Japan, 1981 - 2006



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	58	E09400
59	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	59	E09800
60	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	60	E09900
61	Advance earned income credit payments from Form(s) W-2	61	
62	Household employment taxes. Attach Schedule H	62	
63	Add lines 57 through 62. This is your total tax ▶	63	

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	E10700	
65	2005 estimated tax payments and amount applied from 2004 return	65	E10900	
66a	Earned income credit (EIC)	66a		
b	Nontaxable combat pay election ▶ 66b			
67	Excess social security and tier 1 RRTA tax withheld (see page 59)	67	E11200	
68	Additional child tax credit. Attach Form 8812	68	E11070	
69	Amount paid with request for extension to file (see page 59)	69	E11100	
70	Payments from: a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136 c <input type="checkbox"/> Form 8885	70		
71	Add lines 64, 65, 66a, and 67 through 70. These are your total payments ▶	71		

70a F2439=E11400
70b F4136=E11300

Refund

Direct deposit? See page 59 and fill in 73b, 73c, and 73d.

72	If line 71 is more than line 63, subtract line 63 from line 71. This is the amount you overpaid	72	E11900 (-)
73a	Amount of line 72 you want refunded to you ▶	73a	
b	Routing number <input type="text"/>	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number <input type="text"/>		
74	Amount of line 72 you want applied to your 2006 estimated tax ▶	74	E12000

Amount You Owe

75	Amount you owe. Subtract line 71 from line 63. For details on how to pay, see page 60 ▶	75	E11900 (+)
76	Estimated tax penalty (see page 60)	76	E12200

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

Designee's name ▶ _____ Phone no. ▶ () _____ Personal identification number (PIN) ▶

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.

Joint return? See page 17. Keep a copy for your records.

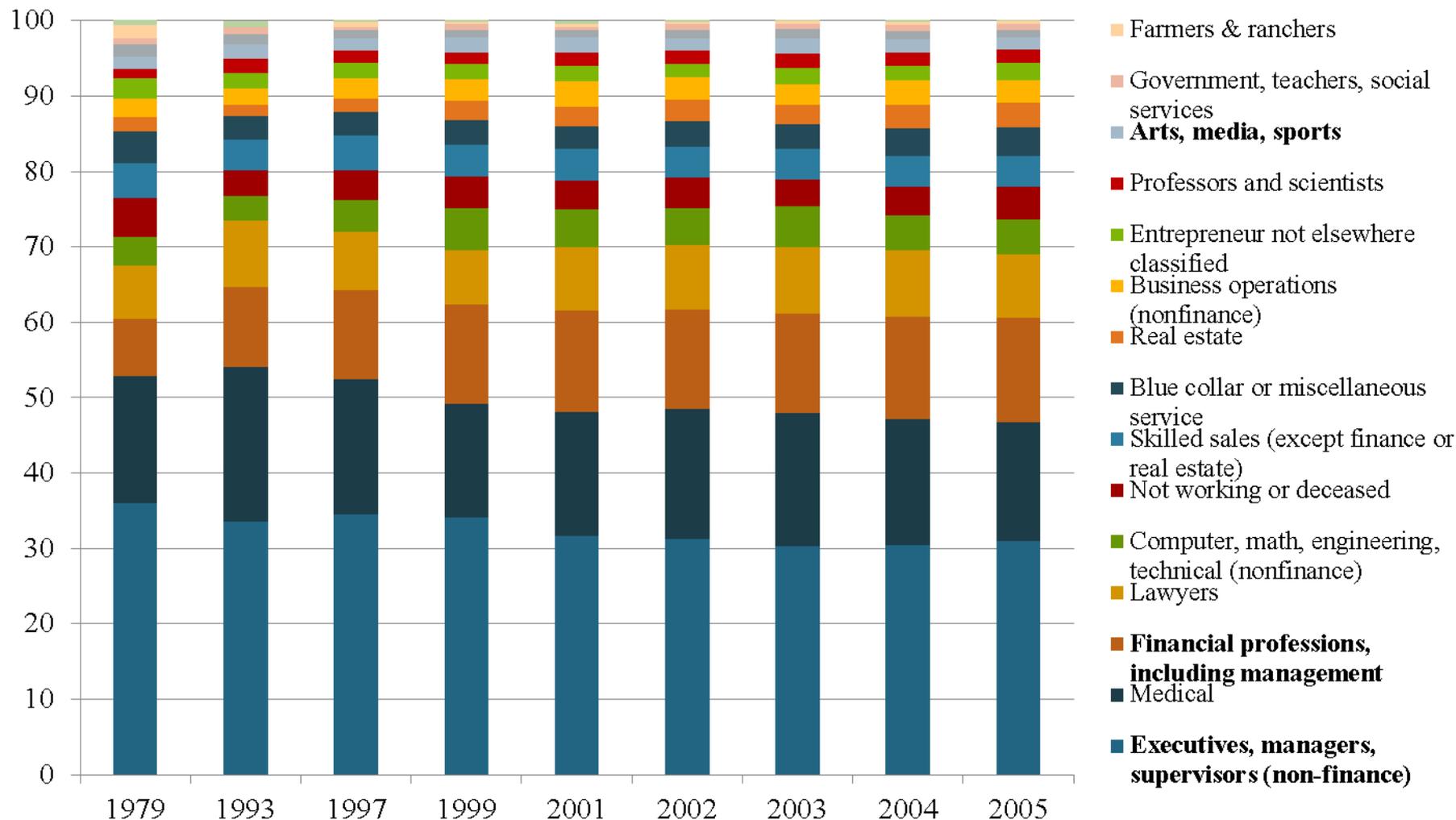
Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

Paid Preparer's Use Only

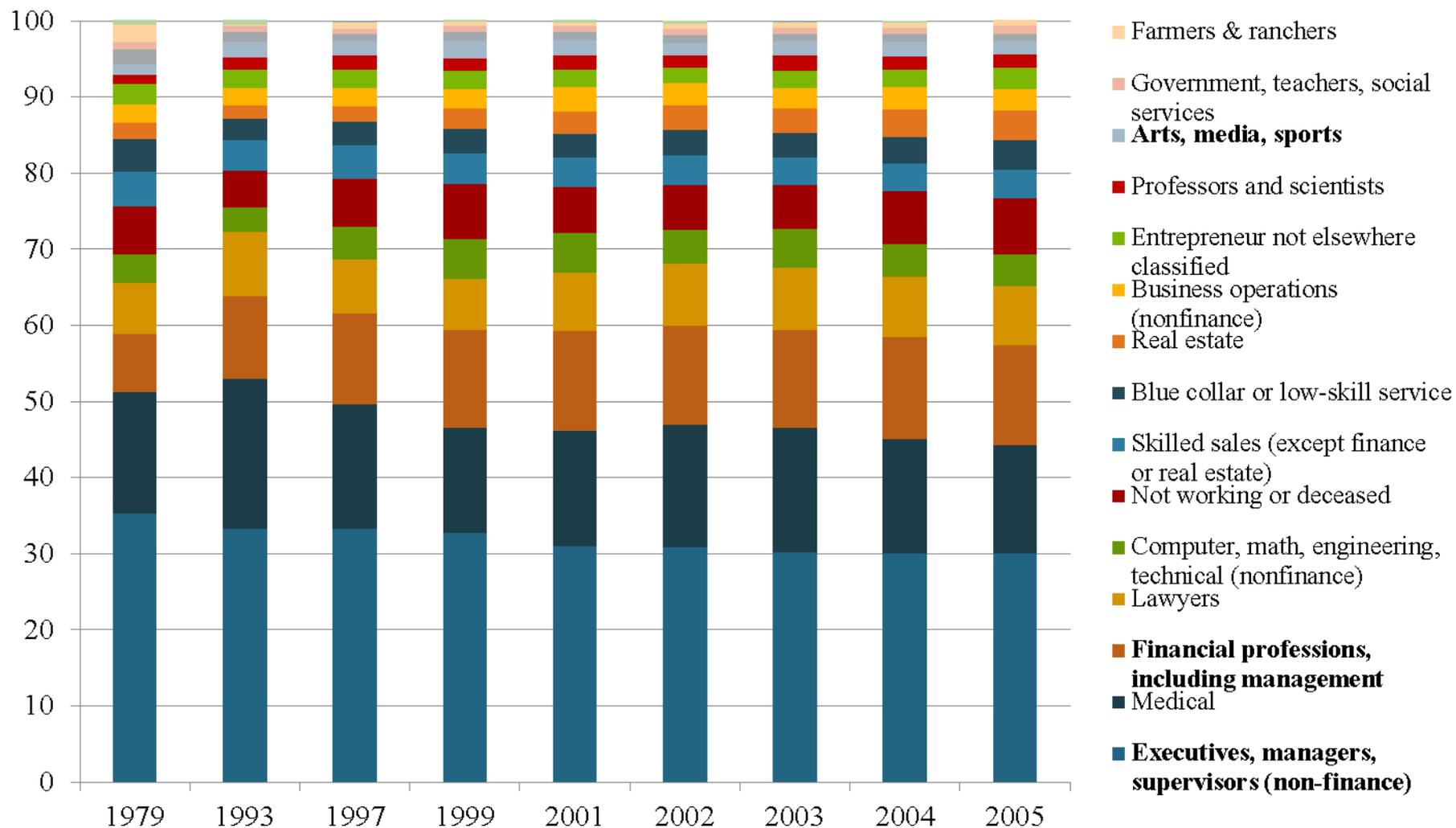
Preparer's signature ▶ **PREP** Date _____ Check if self-employed Preparer's SSN or PTIN _____

Firm's name (or yours if self-employed), address, and ZIP code ▶ _____ EIN _____ Phone no. () _____

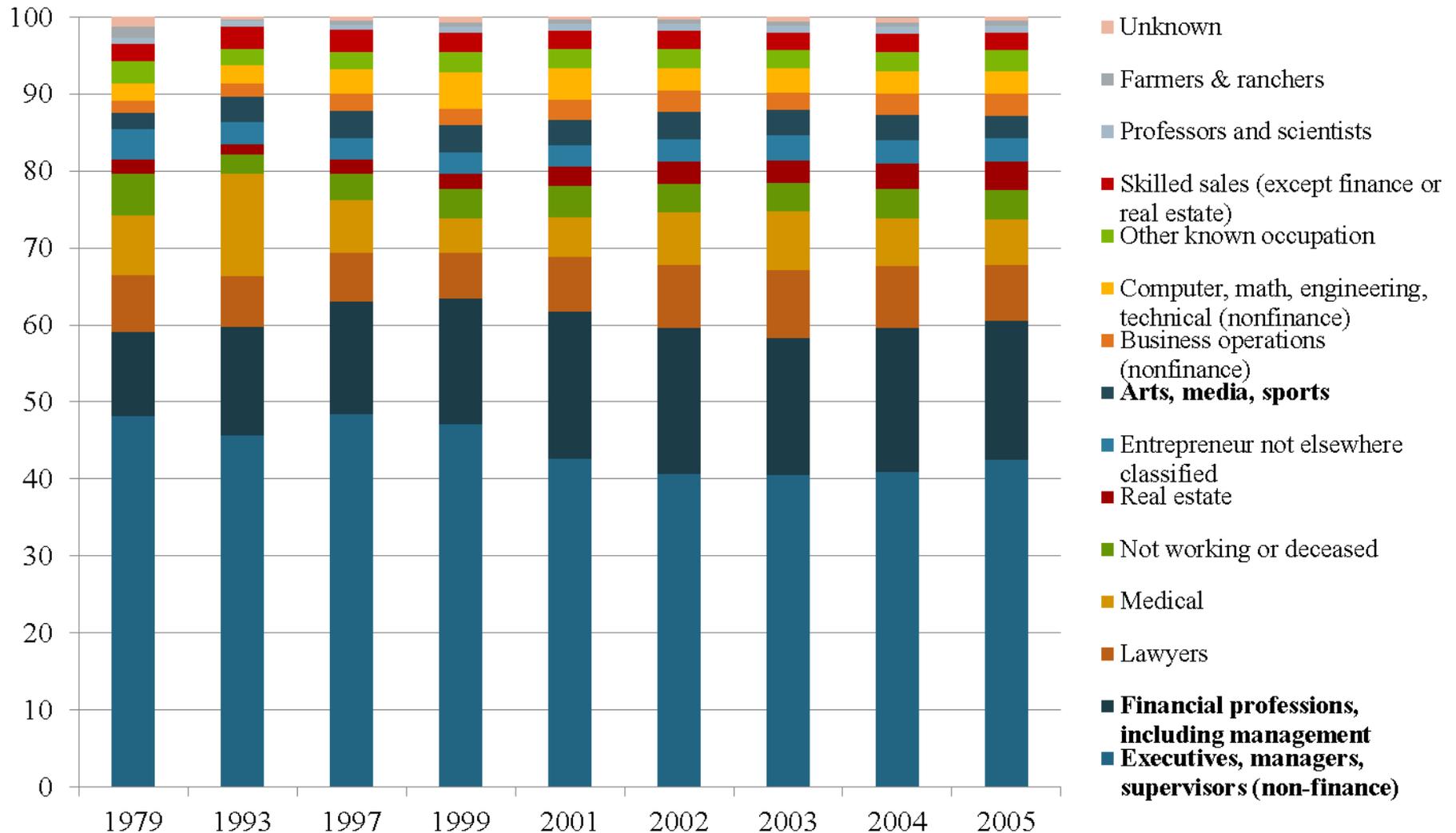
Percentage of primary taxpayers in top 1 percent of the distribution of income (excluding capital gains) that are in each occupation



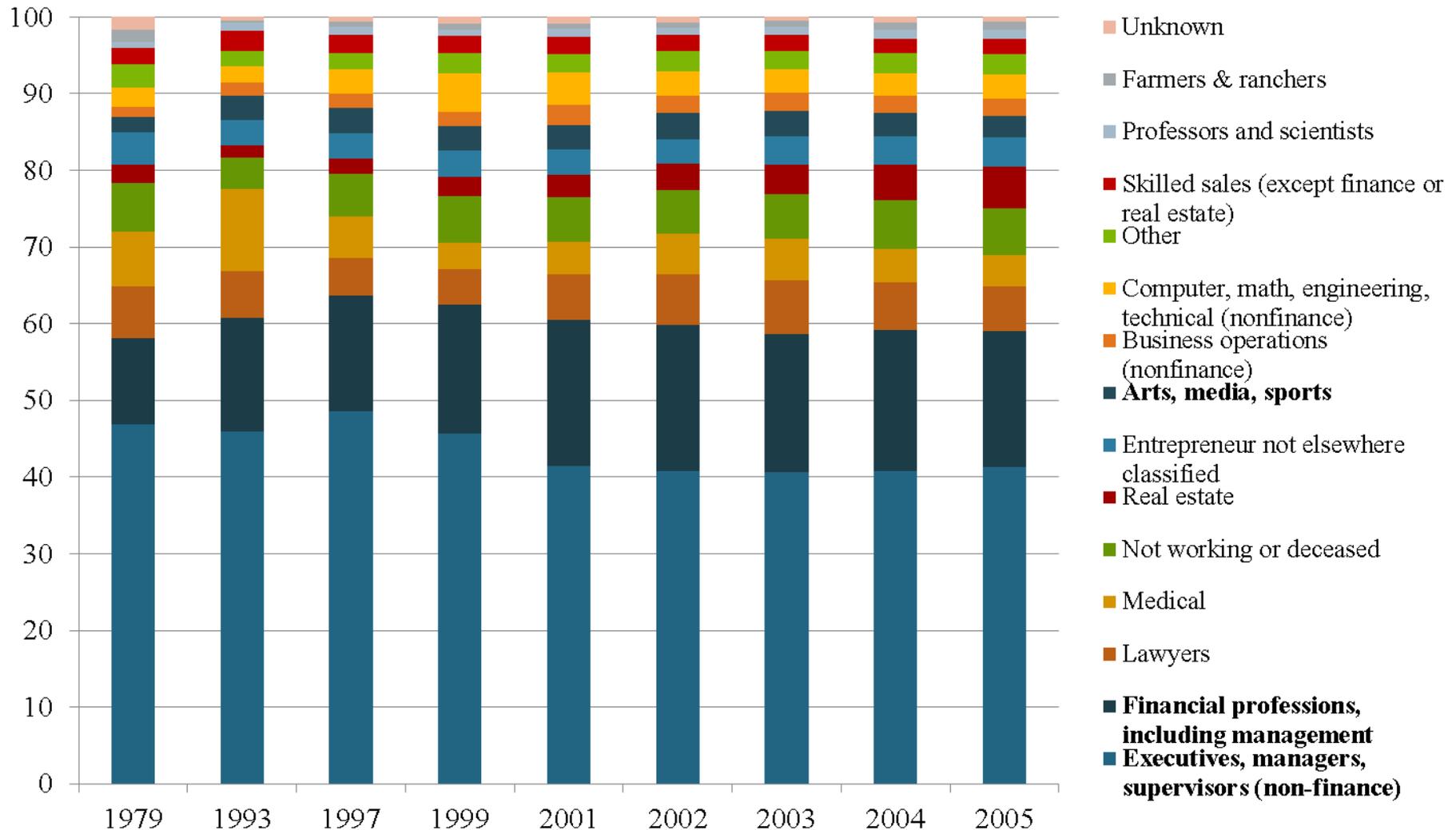
Percentage of primary taxpayers in top 1 percent of the distribution of income (including capital gains) that are in each occupation



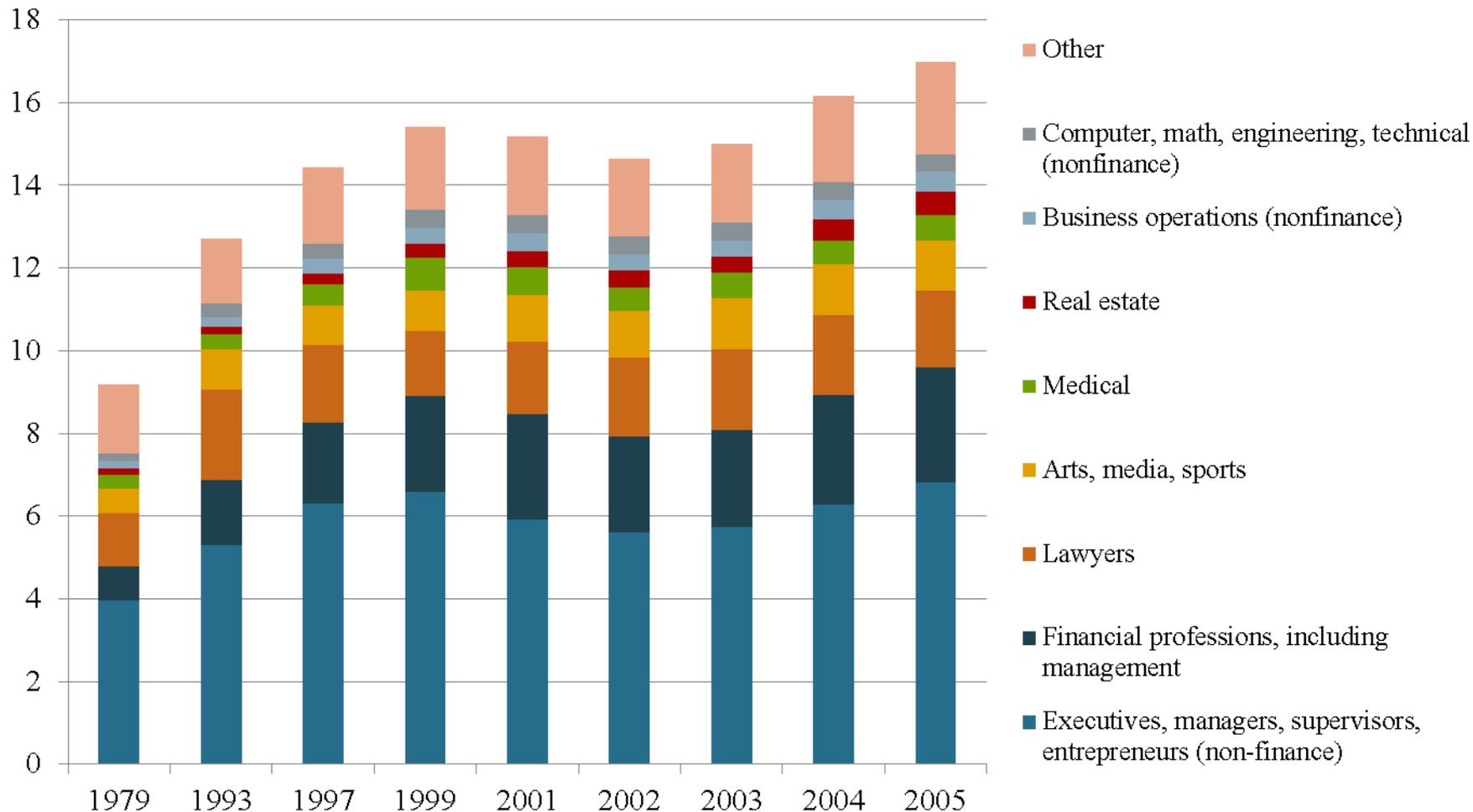
Percentage of primary taxpayers in top 0.1 percent of the distribution of income (excluding capital gains) that are in each occupation



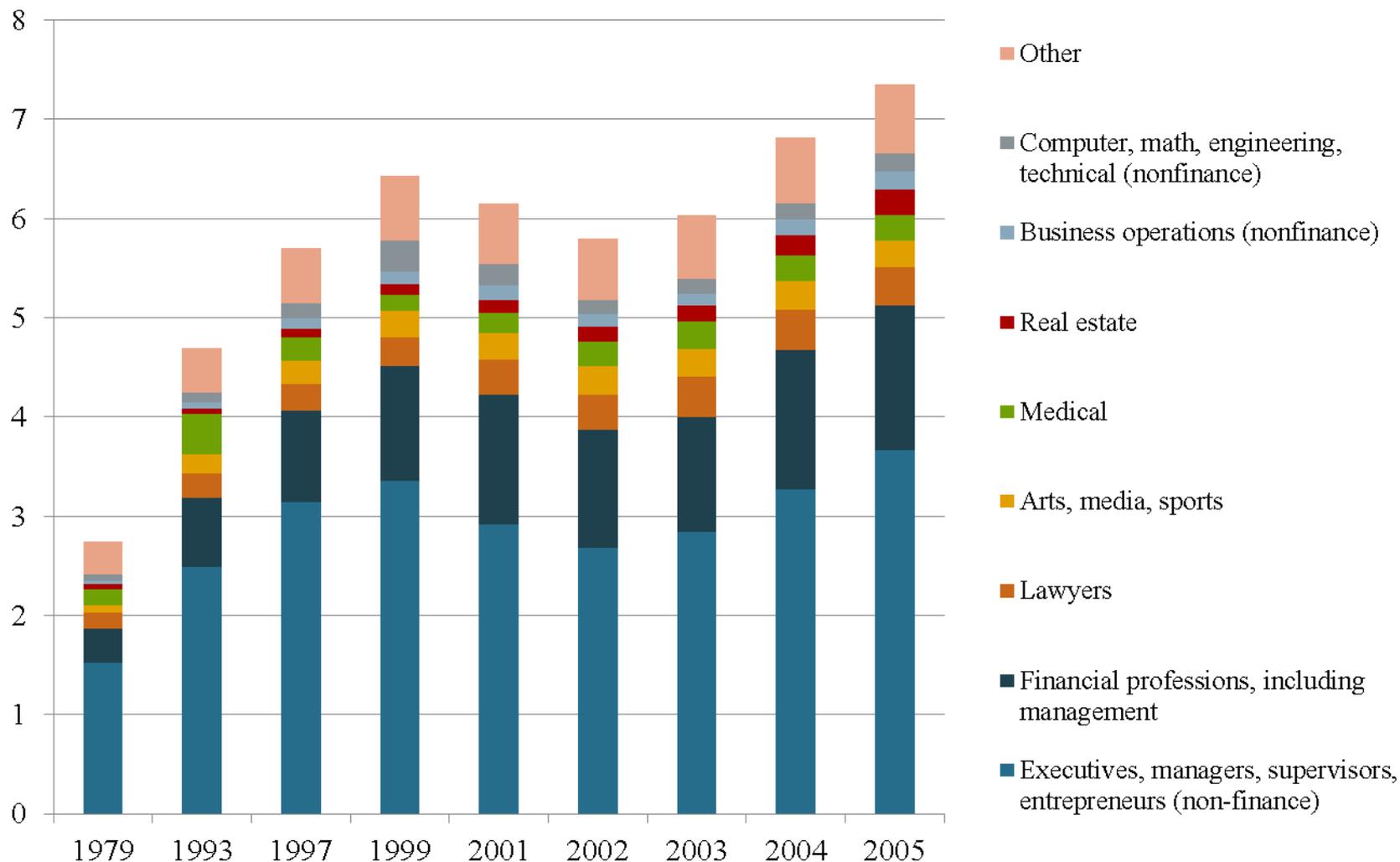
Percentage of primary taxpayers in top 0.1 percent of the distribution of income (including capital gains) that are in each occupation



Percentage of national income (excluding capital gains) going to the top 1 percent of the income distribution, by occupation



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

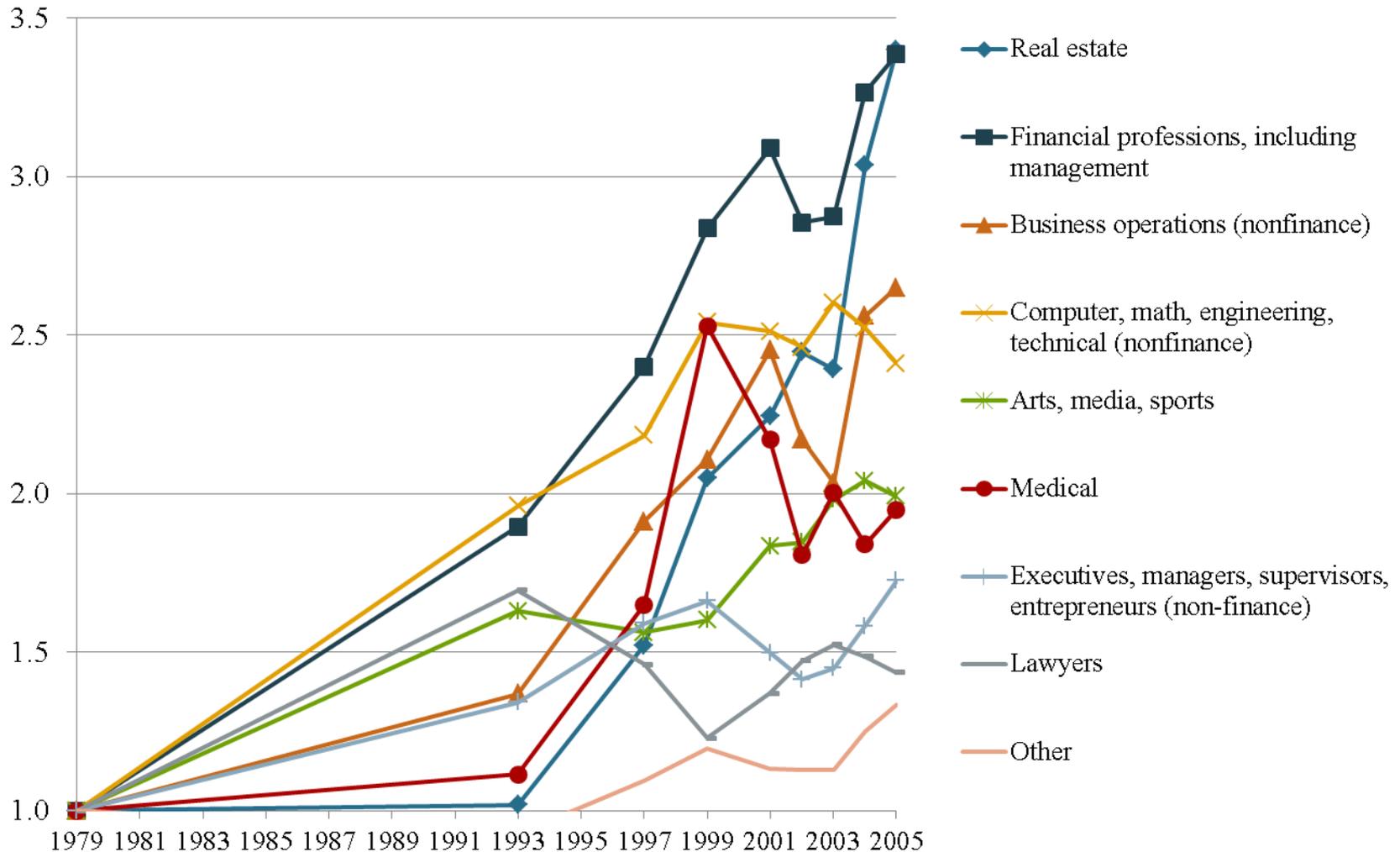
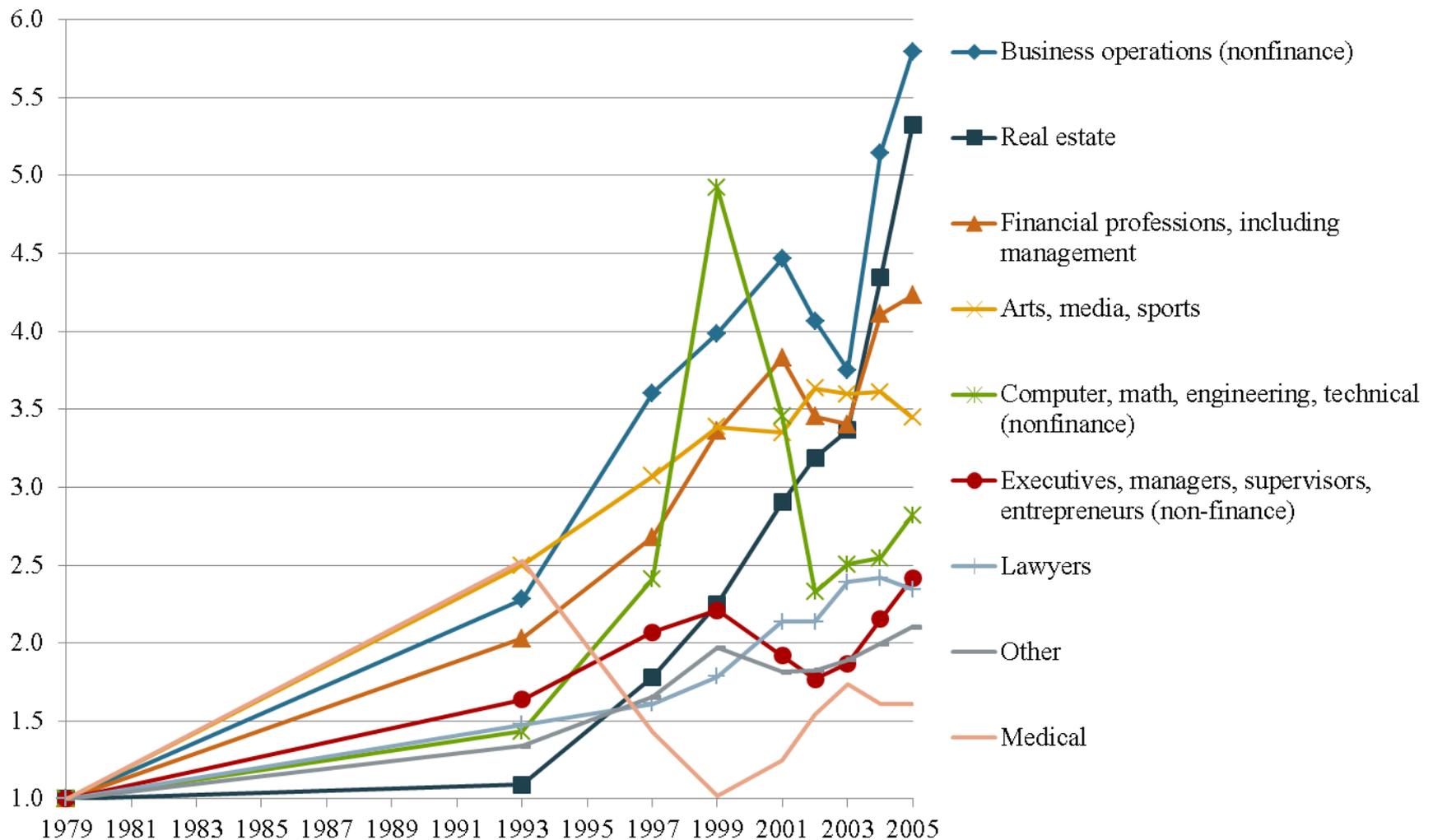


Figure 10 -- Percentage of national income (excluding capital gains) going to top 0.1 percent by occupation, relative to 1979



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



