

Unequal We Stand? Inequality in the United States 1967–2021

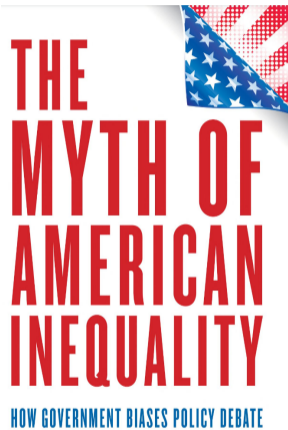
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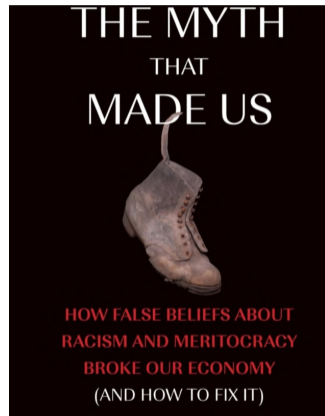
Based on work with Gianluca Violante and Lichen Zhang

The views herein are those of the authors and not necessarily those of the Federal Reserve Bank Minneapolis or the Federal Reserve System

Much Ado About Nothing?



- Gramm, Ekelund, and Early: Inequality is low and declining



- Jeff Fuhrer: Inequality is high and rising

Measure for Measure

- The evolution of inequality in America 1967-2021 in several public datasets
- **Outcomes**: wages, earnings, income, consumption expenditures, wealth
- **Units**: individuals and households (aged 25-60)
- **Inequality where**: top and bottom
- **Dynamics**: long run trends and cyclical fluctuations

Organizing device: Household budget constraint

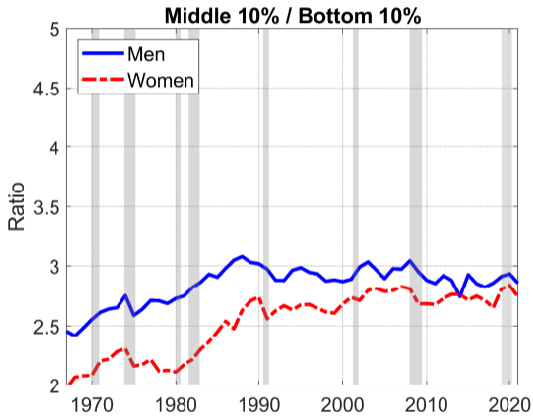
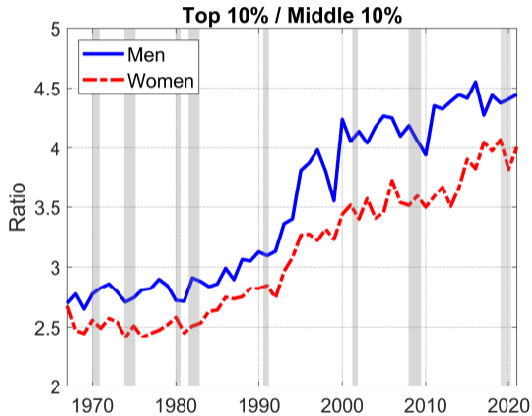
- **individual earnings** = hourly **wage** \times hours worked
- **household earnings** = sum of earnings of household members
- **consumption** + saving = $\underbrace{\text{hh earnings} + \text{unearned income} + \text{govt. transfers} - \text{taxes}}_{\text{disposable income}}$
- **wealth** = cumulated saving \times returns

Key Message: Inequality is multi-faceted

- Inequality in **earnings** has risen sharply over past 50 years
- Inequality in **disposable income** has risen much less
- Inequality in **consumption** looks flat

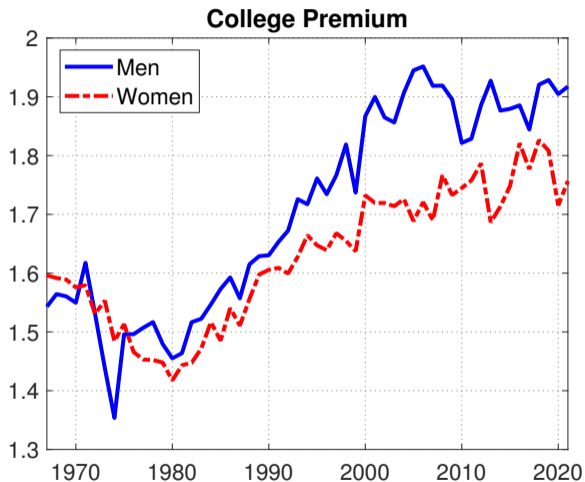
Wage Inequality

Current Population Survey (CPS)



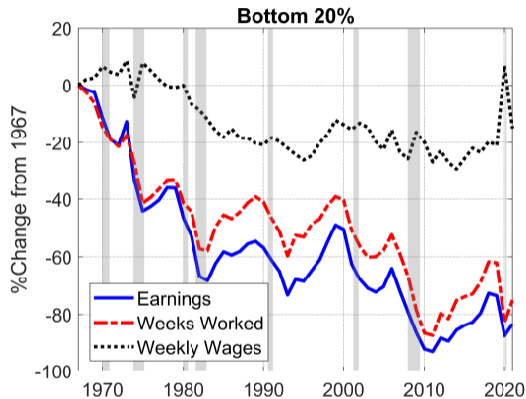
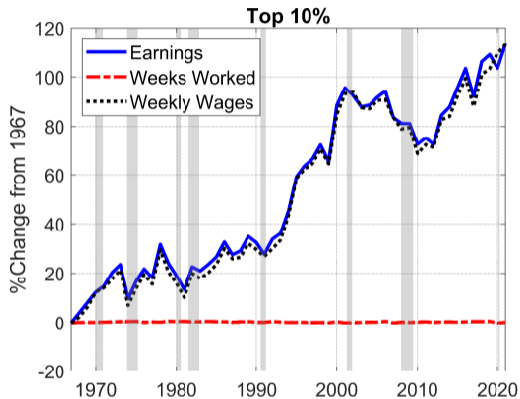
- Large increase in hourly wage inequality, for both men and women, mostly at the top

Is it all about college?



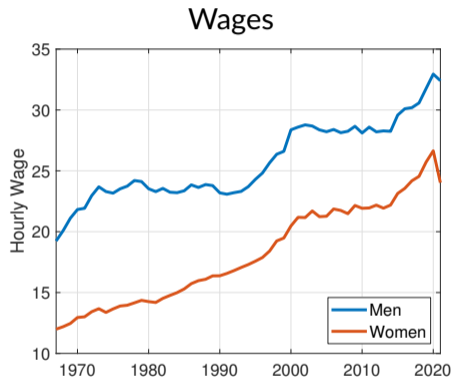
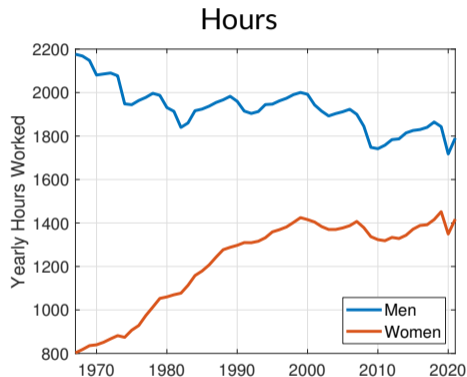
- Rising college premium explains a part of the increase

From wages to annual earnings: Men aged 25-60, CPS



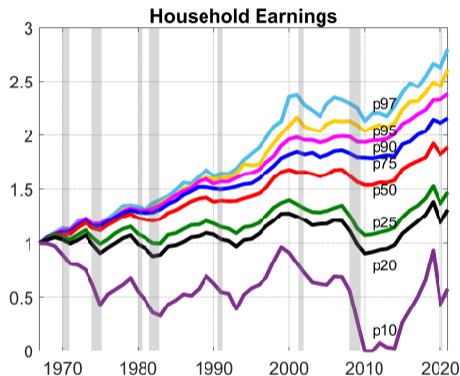
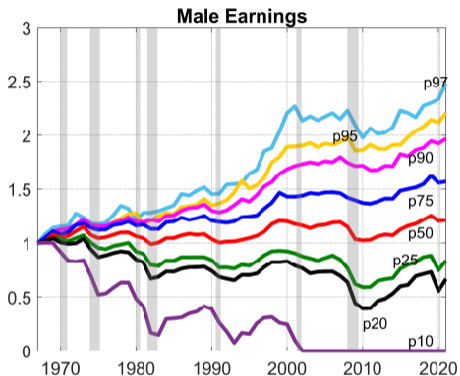
- At the top, earnings growth tracks wage growth
- At the bottom, earnings collapsing as men drop out of the labor force

Gender gap



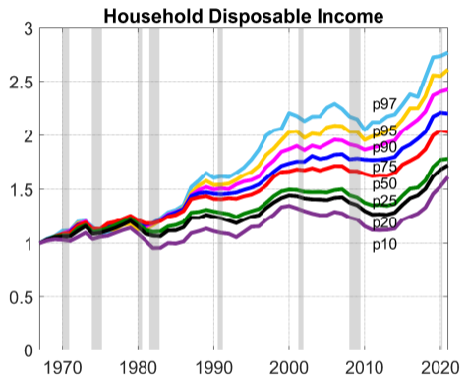
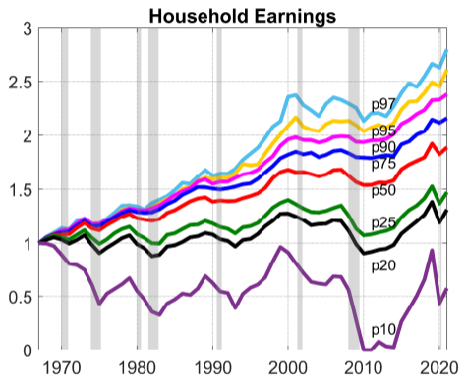
- 1967-1997: women enjoy faster wage and hours growth → strong hh income growth
- 1997-2021: convergence slower

Household Pooling



- Huge fanning out of male earnings, no growth at the median
- Smaller fanning out of household earnings
- Rising female earnings drives household earnings growth

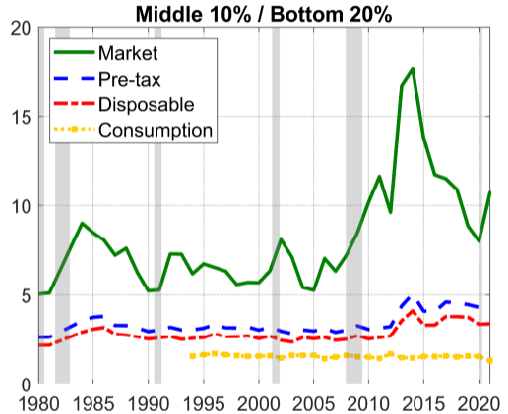
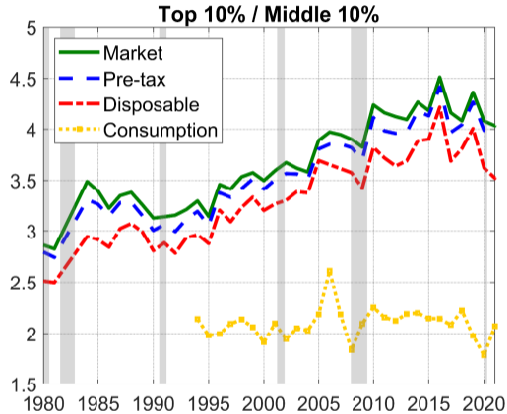
Government Redistribution



- Large fanning out of household earnings
- Much smaller increase in disposable income dispersion – and growth at the bottom!

Consumption Inequality

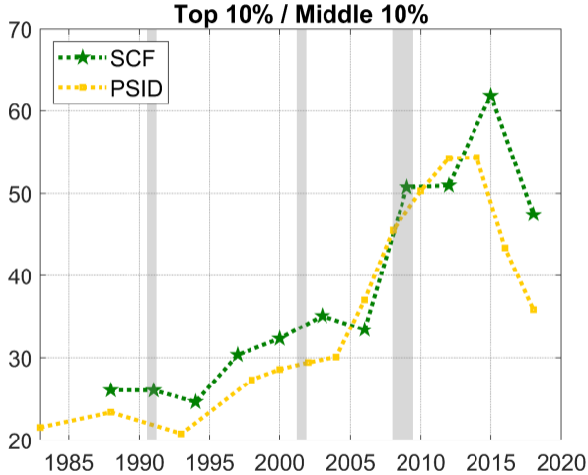
Consumer Expenditure Survey



- No increase in measured consumption inequality over time
- All's Well That Ends Well?

Wealth Inequality

Survey of Consumer Finances (SCF), Panel Study on Income Dynamics (PSID)



- Wealth is extremely concentrated and becoming more so
- Are high income households just saving their income gains?

What have we learned?

Labor earnings, the main resource for most U.S. households, has become much more unequally distributed over the past half century

- Widening **wage gaps** at the top of the distribution (for men and women)
- Widening **participation gaps** at the bottom of the distribution (for men)

Three factors have mitigated the impact of this trend on inequality in living standards

- ① Household resource pooling: women are working more
- ② More government redistribution: taxes at the top and transfers at the bottom
- ③ Saving and borrowing: income-rich accumulated wealth, income-poor borrowed

What's past is prologue?

- AI, automation, trade, immigration point toward ever more inequality in labor earnings
 - Past factors that softened the impact might be waning:
 - Rise in female participation seems to have stalled
 - High debt limits scope for additional govt. redistribution
 - The poor cannot indefinitely increase borrowing while the rich increase saving
 - Next generation likely to be more unequal than the current one
- ⇒ Inequality will become ever more salient political issue, focusing attention on appropriate education and tax / transfer policies