

# The rents of the top 1%

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# Our points

1. Top 1% income gains are redistribution of rents, not rewarding skills/productivity;
2. Top 1% gains have been impediments to income gains for vast majority;
3. Reversing accumulated or further rents has little or no adverse impact on growth;
4. Complementary policies: dismantle sources of rent and reduce rent-seeking behavior via higher marginal taxes.

# Income Inequality Dynamics

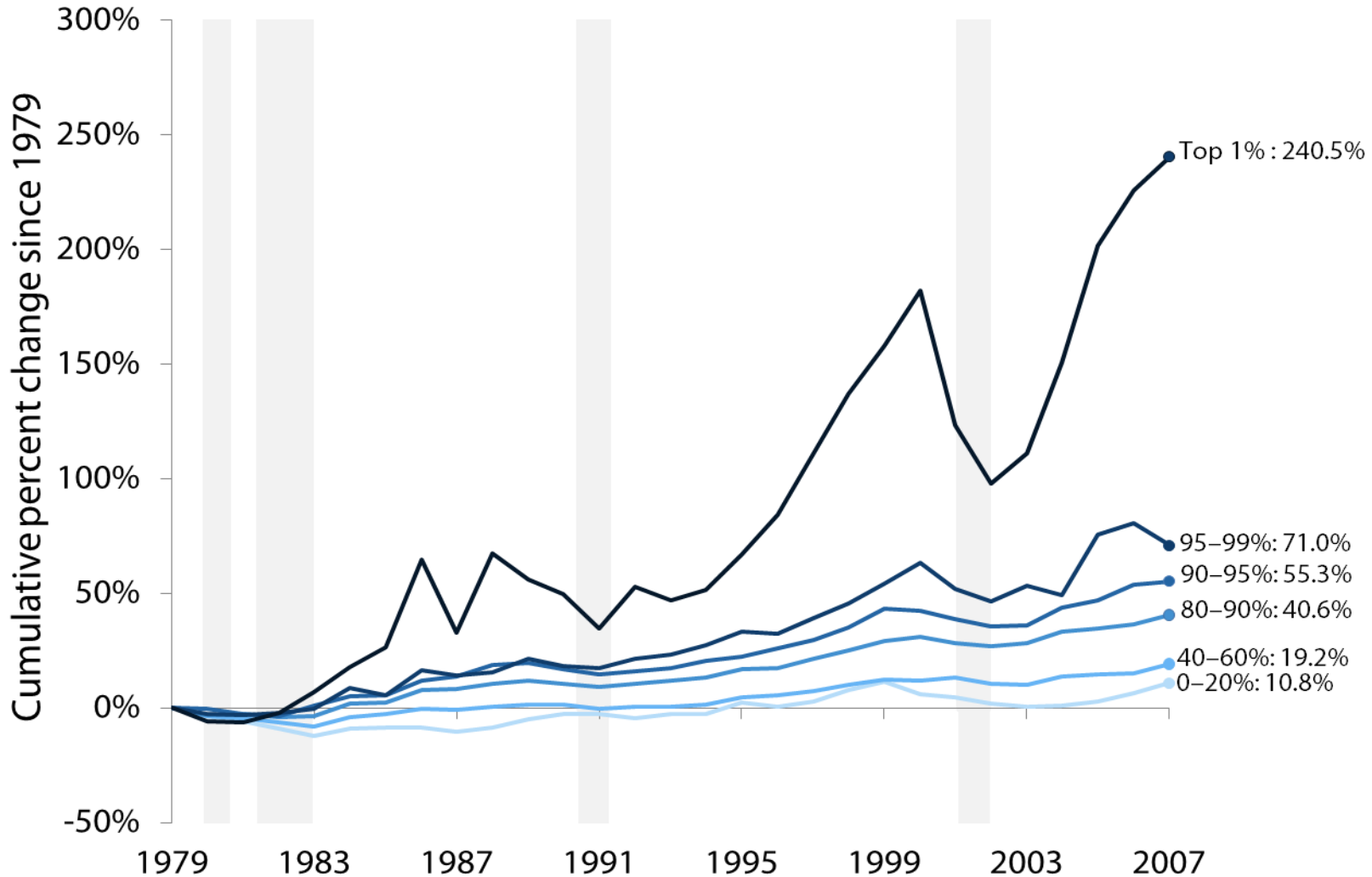
- Growing concentration of wages and compensation
- Growing concentration of capital income
- More capital income, less labor income
- Wealth inequality

# Top 1 Percent incomes

Top 1 share	<u>Total income</u>	<u>labor</u>	Capital Income				<u>other transfers</u>	
			<u>Dividends*, interest and rent</u>	<u>Capital gains</u>	<u>S-corporation dividends and proprietors' income (business income)</u>	<u>Total Capital Income</u>		
1979	<b>8.9%</b>	<b>4.1%</b>	26.9%	58.5%	21.3%	<b>31.8%</b>	5.0%	1.0%
2007	<b>18.7%</b>	<b>8.8%</b>	43.8%	74.2%	50.6%	<b>56.2%</b>	7.1%	1.0%
<b>Income category share</b>								
1979	100.0%	69.8%	10.2%	3.6%	4.5%	18.3%	3.2%	8.7%
2007	100.0%	60.3%	8.7%	8.0%	6.1%	22.8%	6.3%	10.7%

Source: Authors' analysis of CBO (2012)

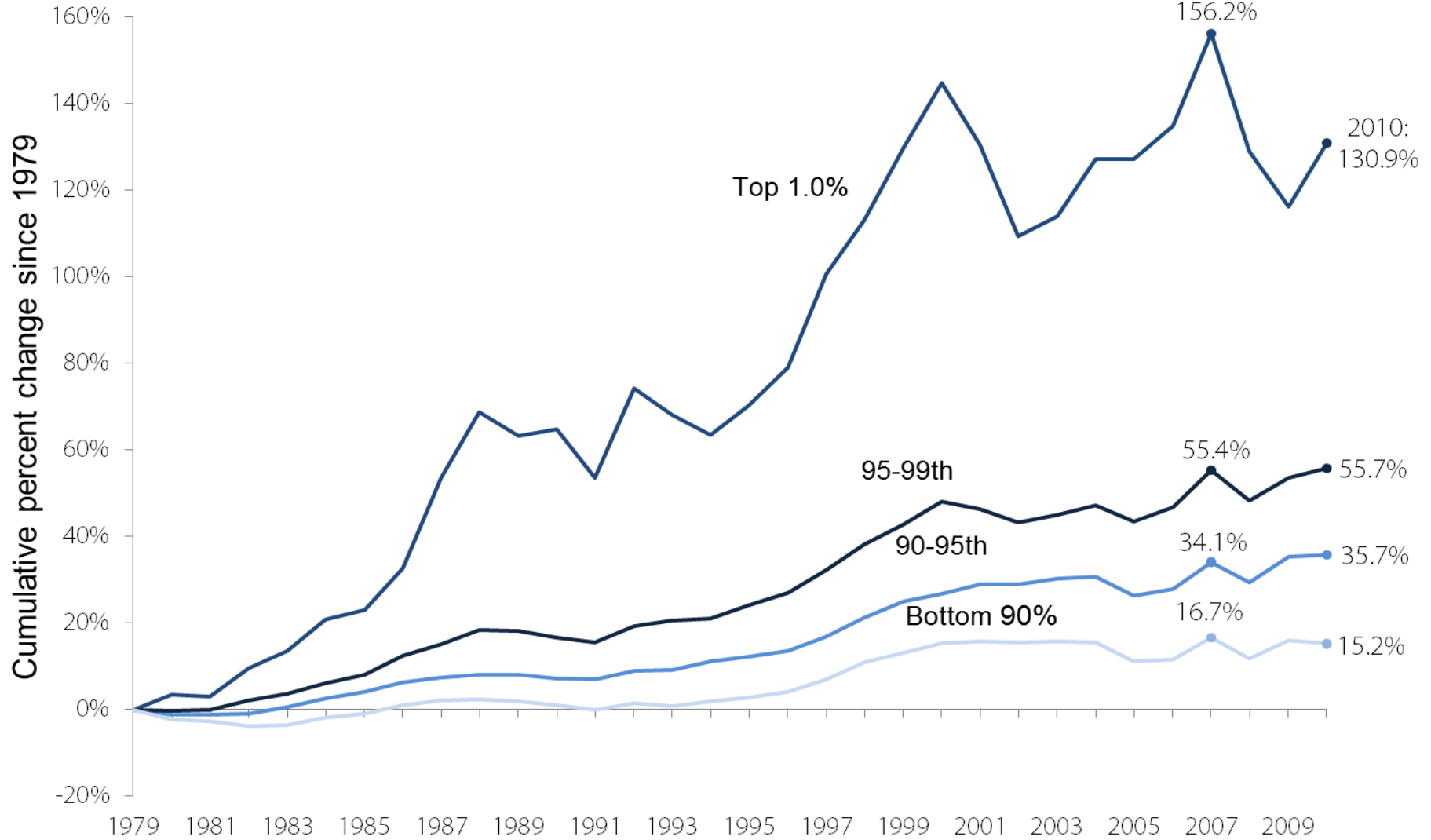
**Figure 2M** Cumulative change in real annual household income, by income group, 1979–2007



Note: Data are for comprehensive income. Shaded areas denote recessions.

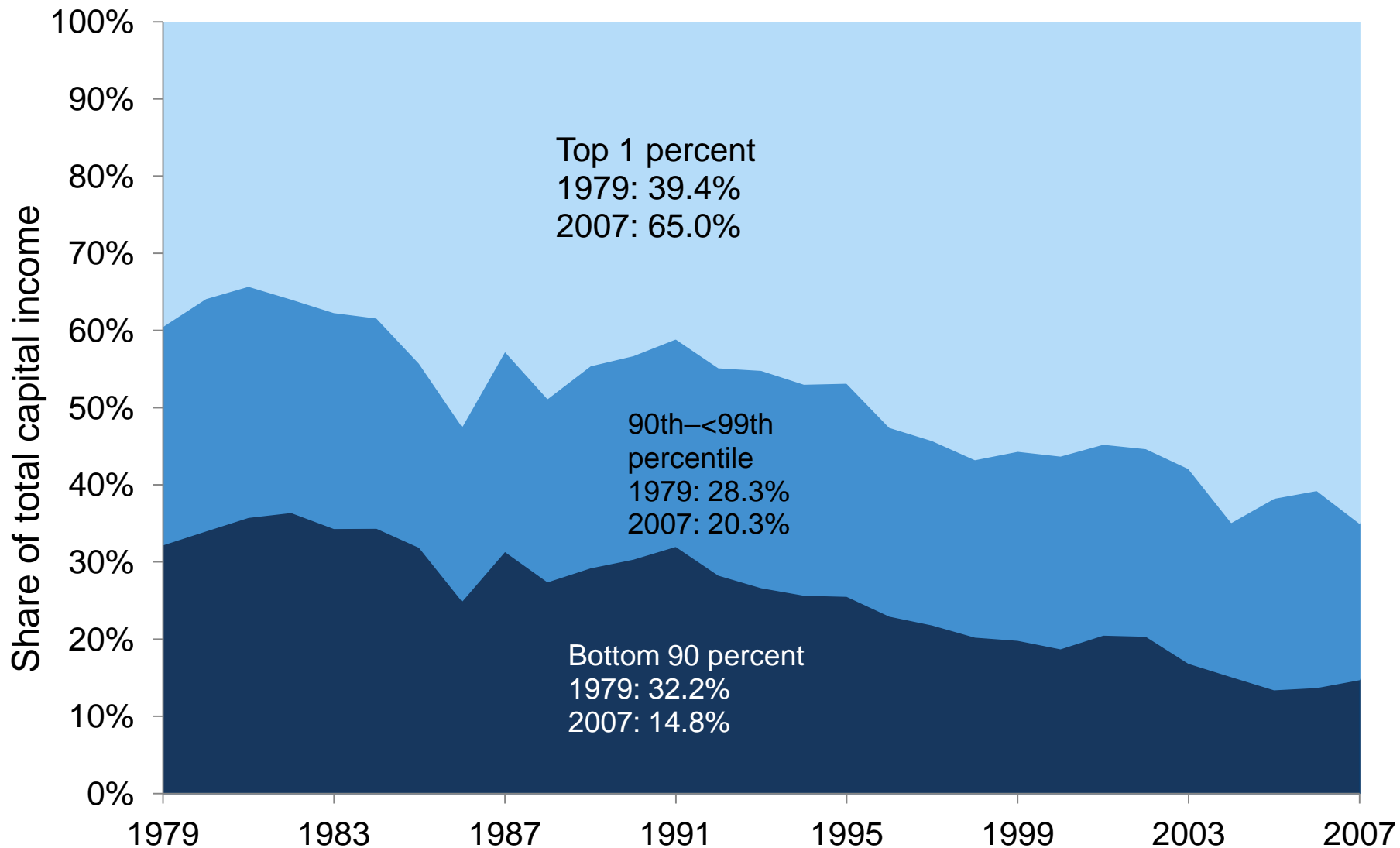
Source: Authors' analysis of data from the Congressional Budget Office (2010)

**Figure 4H** Cumulative change in real annual wages, by wage group, 1979–2010



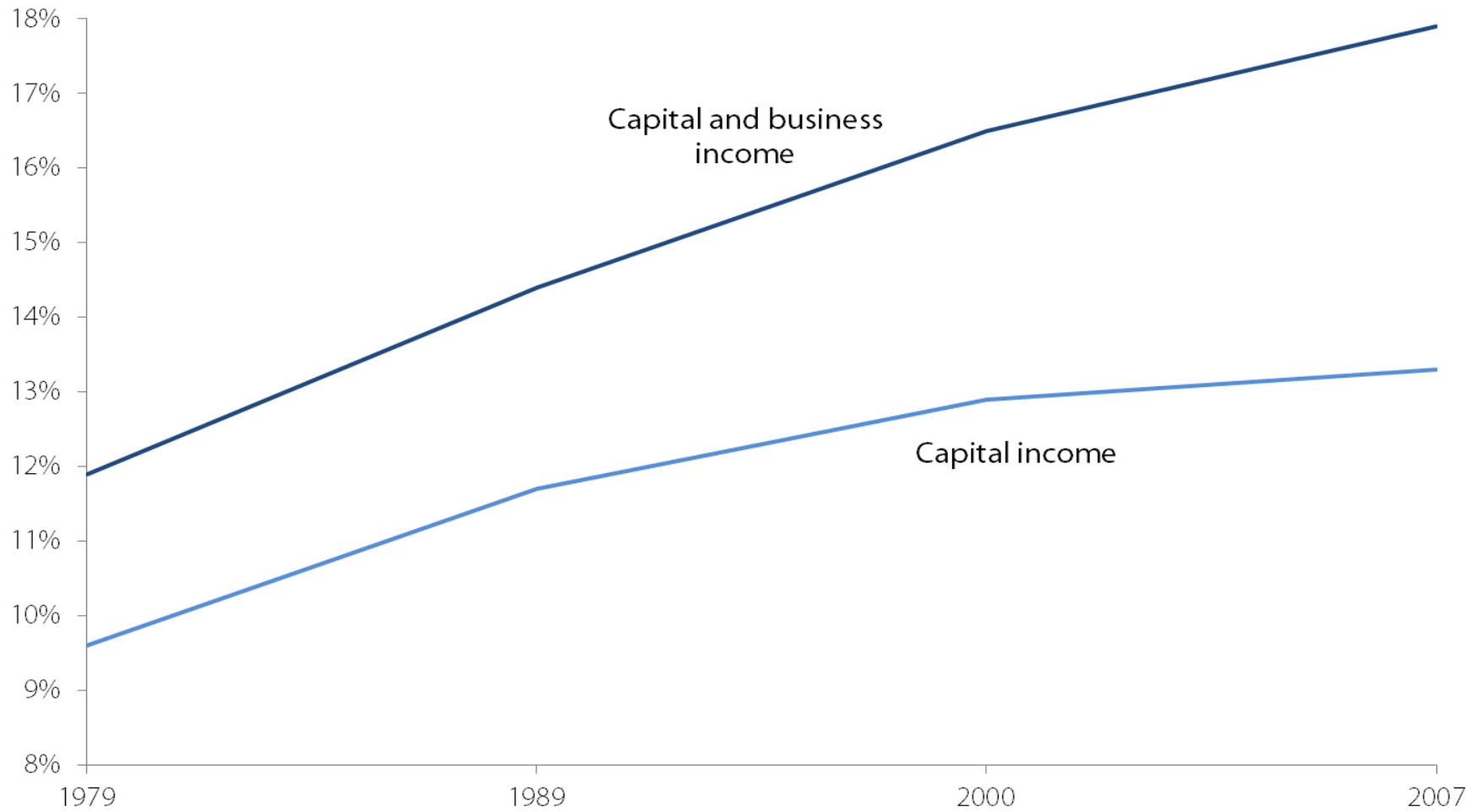
Source: Authors' analysis of Kopczuk, Saez, and Song (2010) and Social Security Administration wage statistics

Figure 2V Share of total household capital income claimed, by income group, 1979–2007



Source: Authors' analysis of Congressional Budget Office (2010)

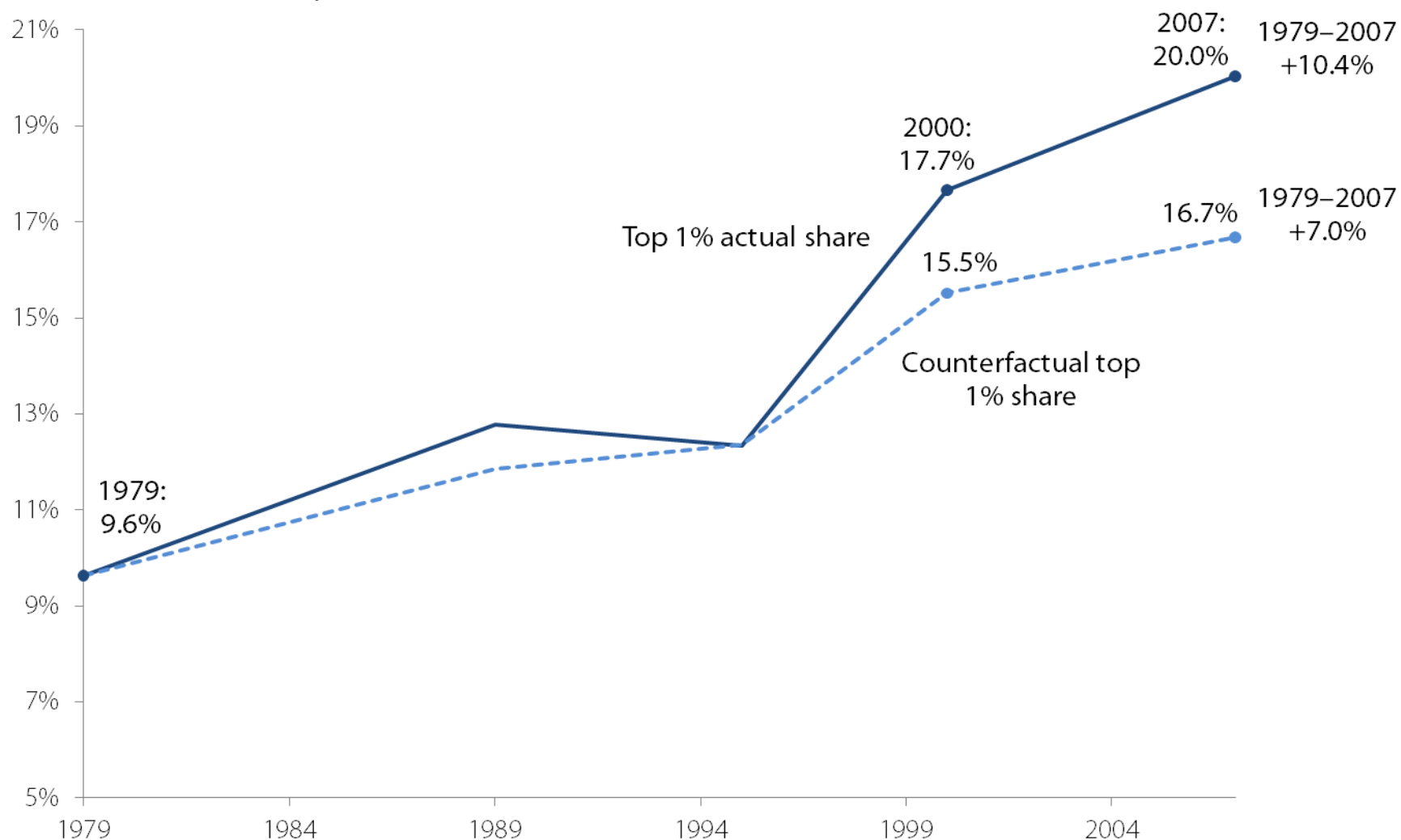
## Capital income as a share of total income, 1979–2007



Source: Authors' analysis of Congressional Budget Office (2010)

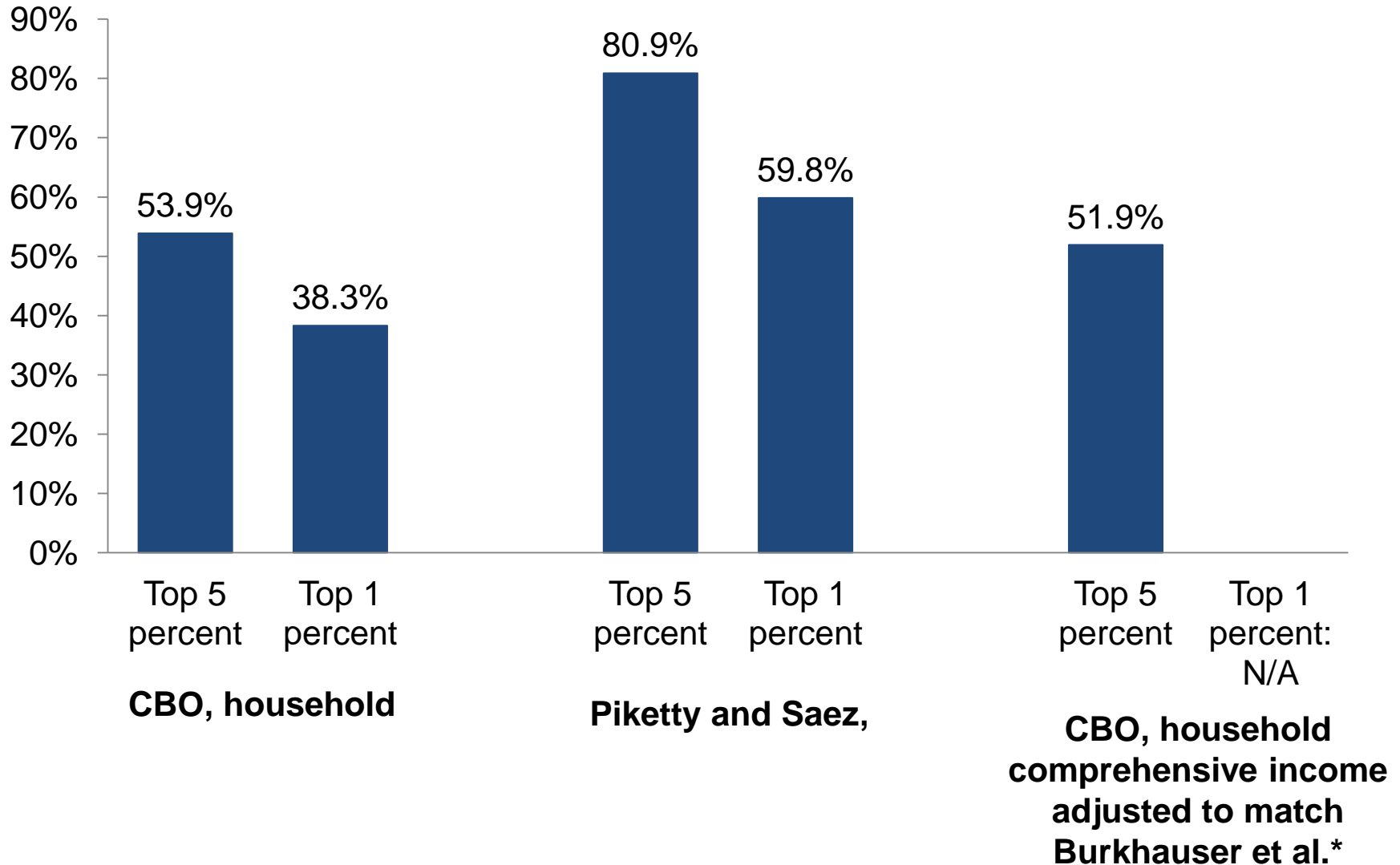


## Effect of the shift from labor to capital income on the top 1 percent of total household income, selected years, 1979–2007 (2011 dollars)



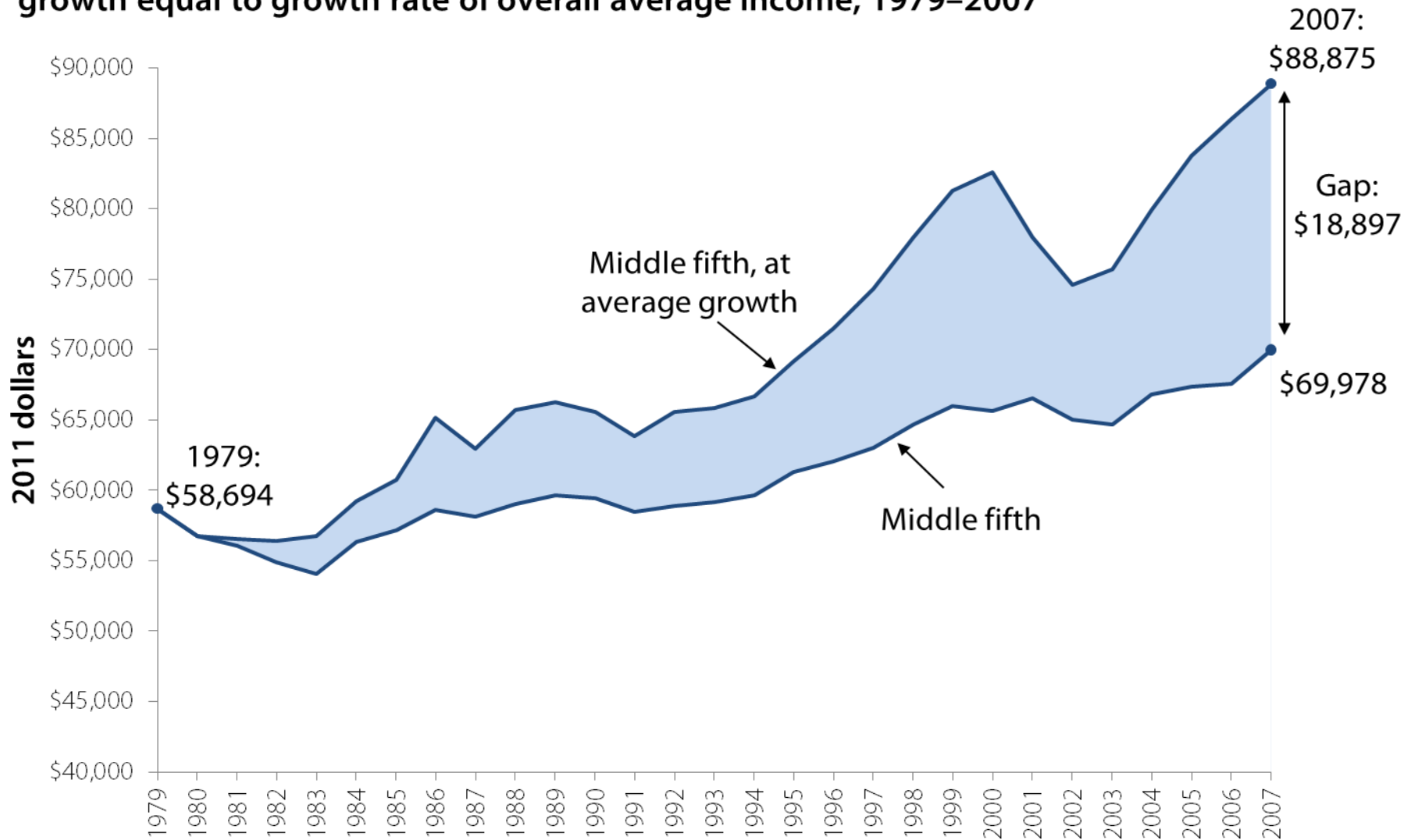
Source: Authors' analysis of Congressional Budget Office (2010)

**Figure 1H Share of average income growth accounted for by the top 5 percent and top 1 percent, by dataset and income concept, 1979–2007**



Source: Authors' analysis of Piketty and Saez (2012, Table A-6), Congressional Budget Office (2010), Burkhauser

**Figure 1K Household income for the middle fifth, actual and projected assuming growth equal to growth rate of overall average income, 1979–2007**



Note: Data are for comprehensive income.

Source: Authors' analysis of Congressional Budget Office (2010)

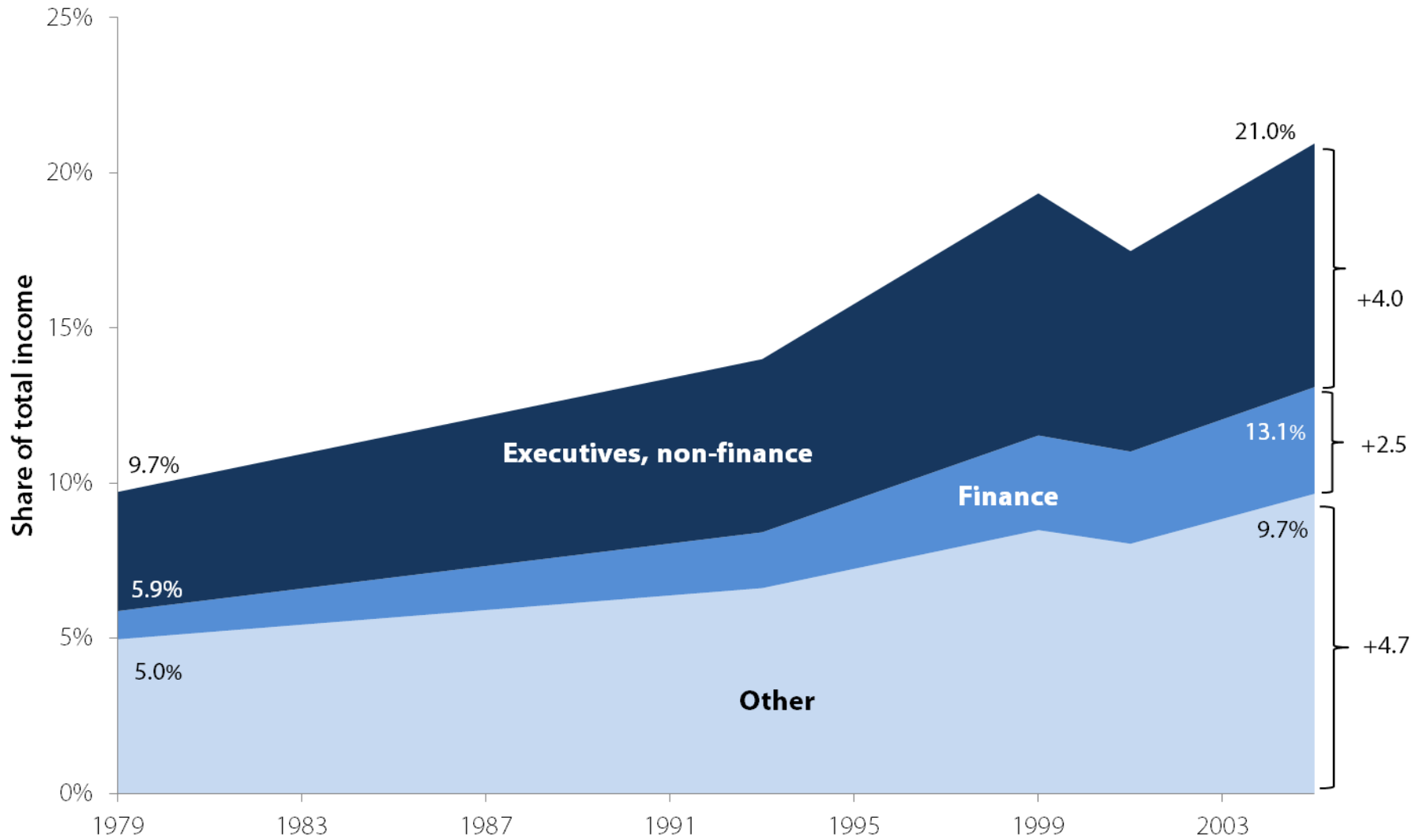
# Rents

Labeling any group's income growth as largely stemming from economic rents does not necessarily imply that they are ill-gotten gains. Instead, all it means is that this income growth was in excess of what was needed to induce them to supply labor and capital to these respective markets.

# Key drivers of top 1% incomes

- Executives, escalating pay
- Financial sector, larger and better paid

## Share of total income\* of the top 1.0% of earners, by occupation, 1979–2005

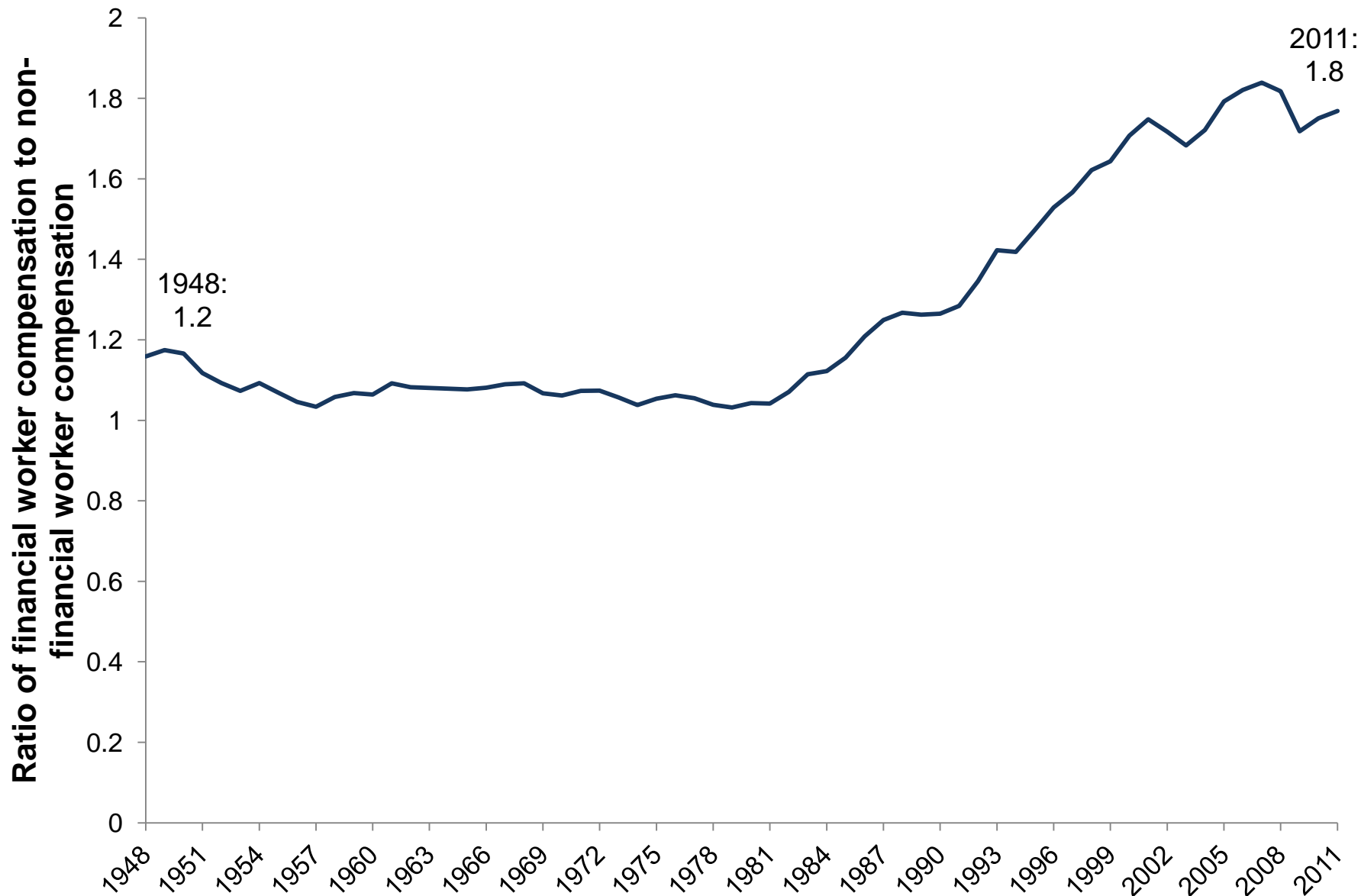


\*Household income including capital gains

Note: data available for years 1979, 1993, 1999, 2001, and 2005. Intervening years calculated by linear interpolation.

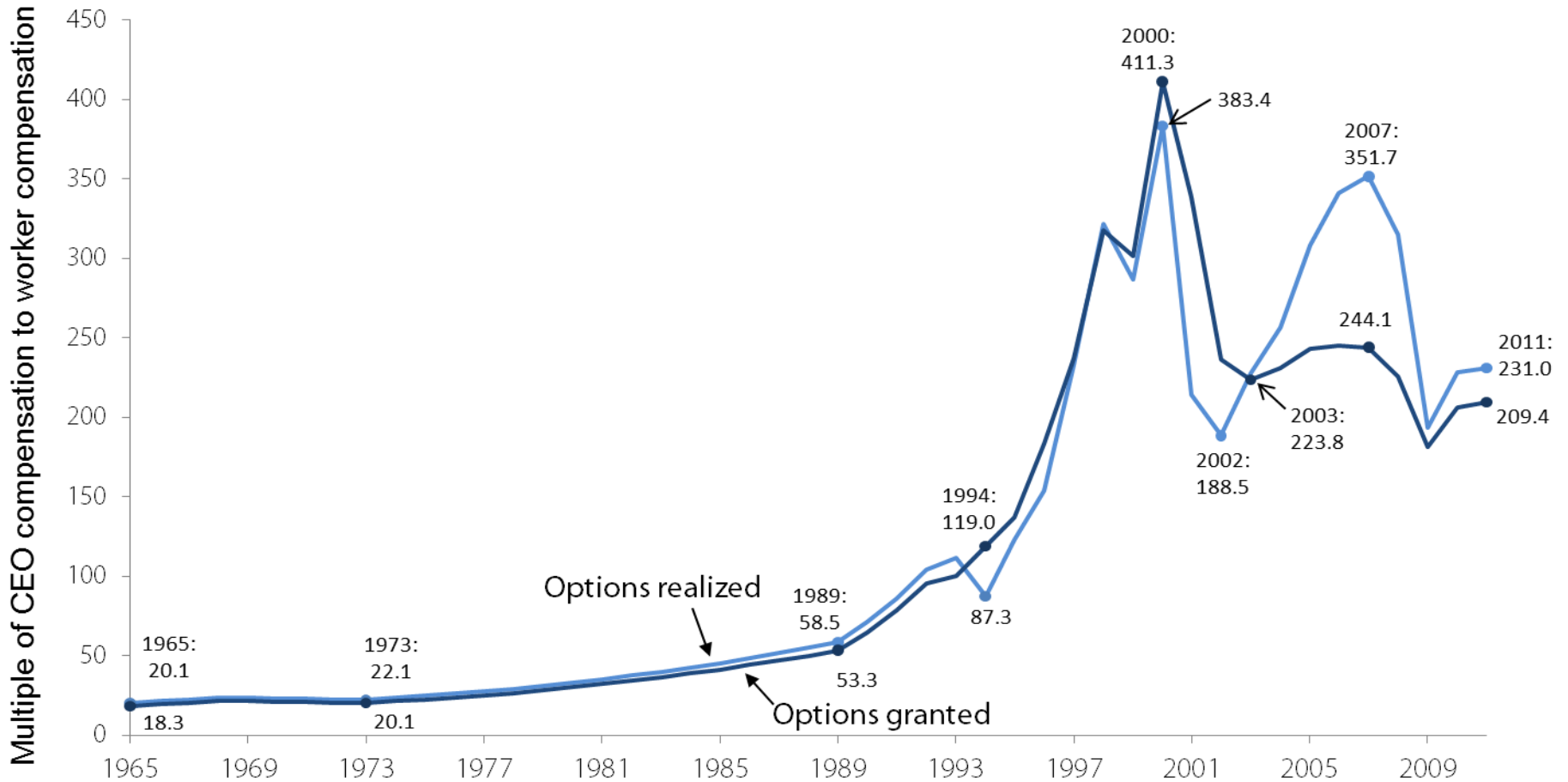
Source: Author's analysis of Bakija, Cole, and Heim (2012, Tables, 4, 5, 6a, and 7a)

**Figure B Excess pay in the financial sector**



Source: Authors' analysis of Bureau of Economic Analysis National Income and Product Accounts data

**Figure 4AH** CEO-to-worker compensation ratio (options granted and options realized) 1965–2011

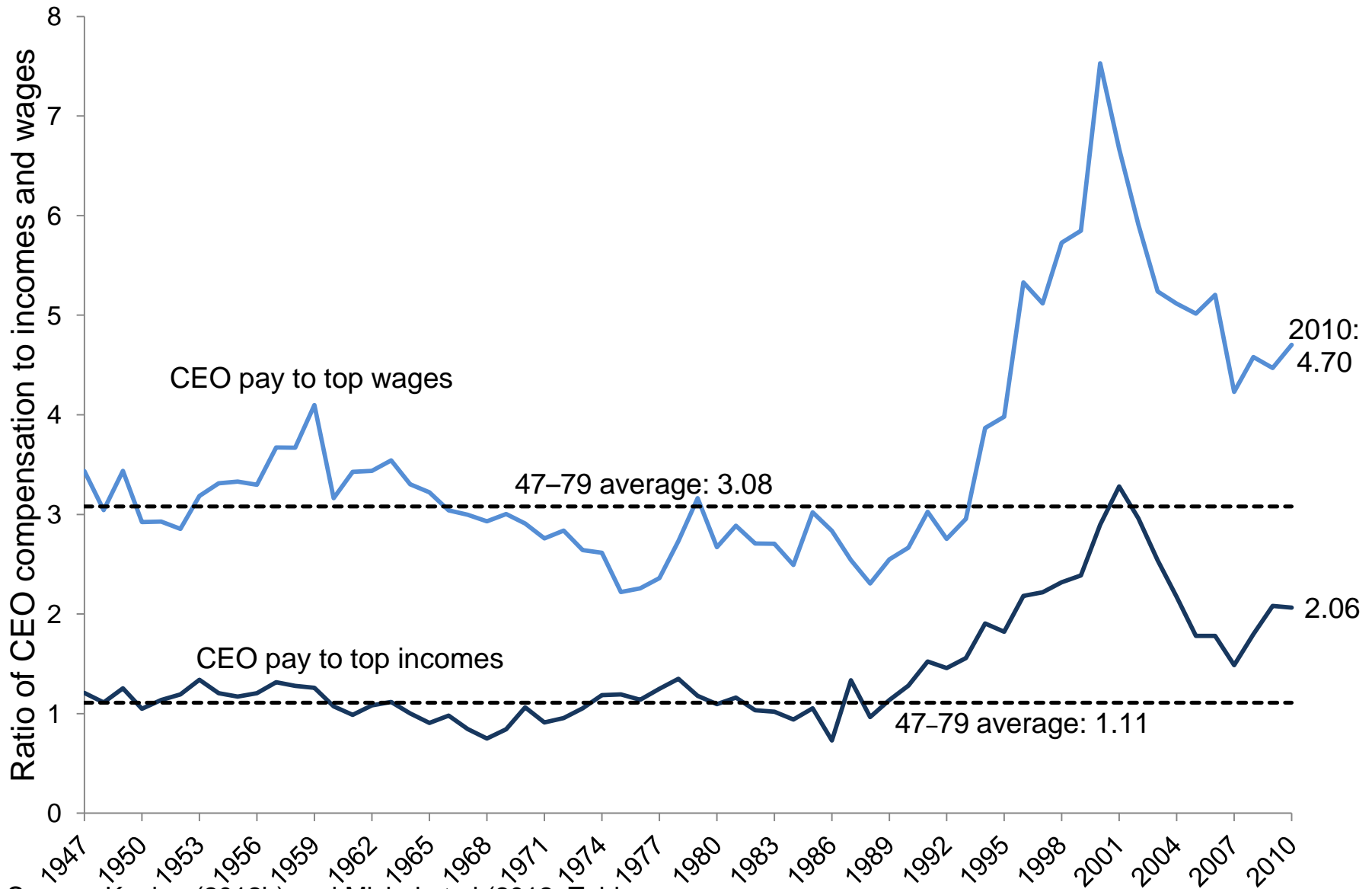


Note: "Options granted" compensation series data include salaries, bonuses, restricted stock grants, options granted, and long-term incentive payouts for CEOs at the top 350 U.S. firms ranked by sales. "Options exercised" compensation series data include salaries, bonuses, restricted stock grants, options exercised, and long-term incentive payouts for CEOs at the top 350 firms ranked by sales.

Sources: Authors' analysis of data from Compustat ExecuComp database, Bureau of Labor Statistics Current Employment Statistics, and Bureau of Economic Analysis National Income and Product Accounts



# Comparison of CEO compensation to top incomes and wages, 1947–



Source: Kaplan (2012b) and Mishel et al (2012, Table

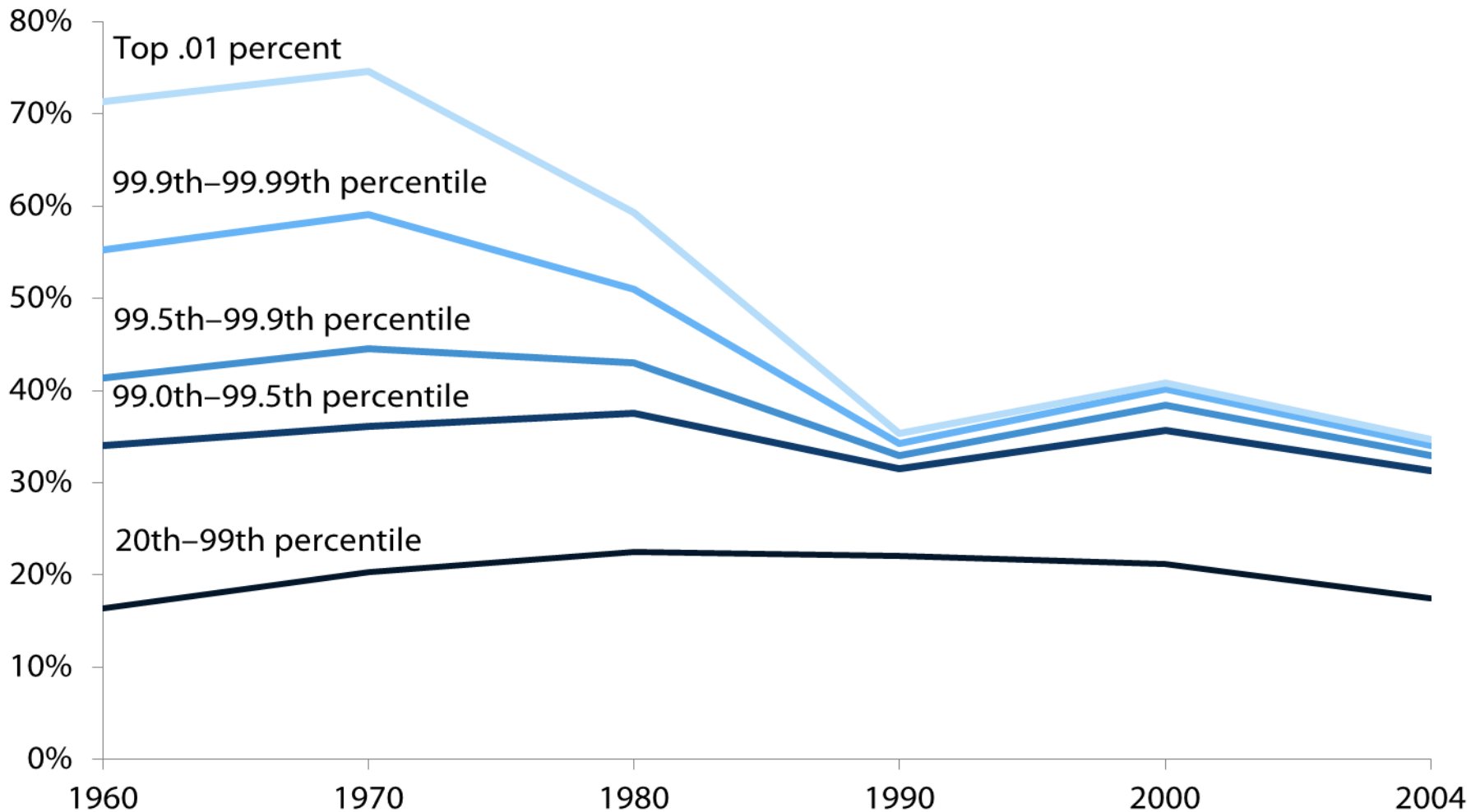
# Relative CEO and college wages, 1979-2010

	<u>Ratio</u>			<u>Log Ratio</u>		
	<u>CEO compensation to:</u>		<u>College to:</u>	<u>CEO compensation to:</u>		<u>College to:</u>
	top 0.1%	top 0.1%	High School	top 0.1%	top 0.1%	High School
	households	wage earners	Hourly wages	households	wage earners	Hourly wages
Ratio						
1979	1.18	3.16	1.40	0.164	1.151	0.338
1989	1.14	2.55	1.57	0.128	0.936	0.454
1993	1.56	2.95	1.63	0.443	1.083	0.488
2000	2.90	7.53	1.75	1.063	2.019	0.557
2007	1.49	4.23	1.76	0.396	1.442	0.568
2010	2.06	4.70	1.77	0.725	1.548	0.574
Change						
1979-2007	0.31	1.07	0.36	0.23	0.29	0.23
1979-2010	0.89	1.54	0.37	0.56	0.40	0.24
1989-2010	0.93	2.15	0.20	<b>0.60</b>	<b>0.61</b>	<b>0.12</b>

# Policies

- Higher marginal tax rates
- Corporate governance
- End tax preference for CEO performance pay
- Financial transactions tax
- Policies to raise wages for bottom 99%:  
collective bargaining, minimum wages, labor standards levels and enforcement

**Figure 2Q** Average effective federal tax rates, by income group, 1960–2004

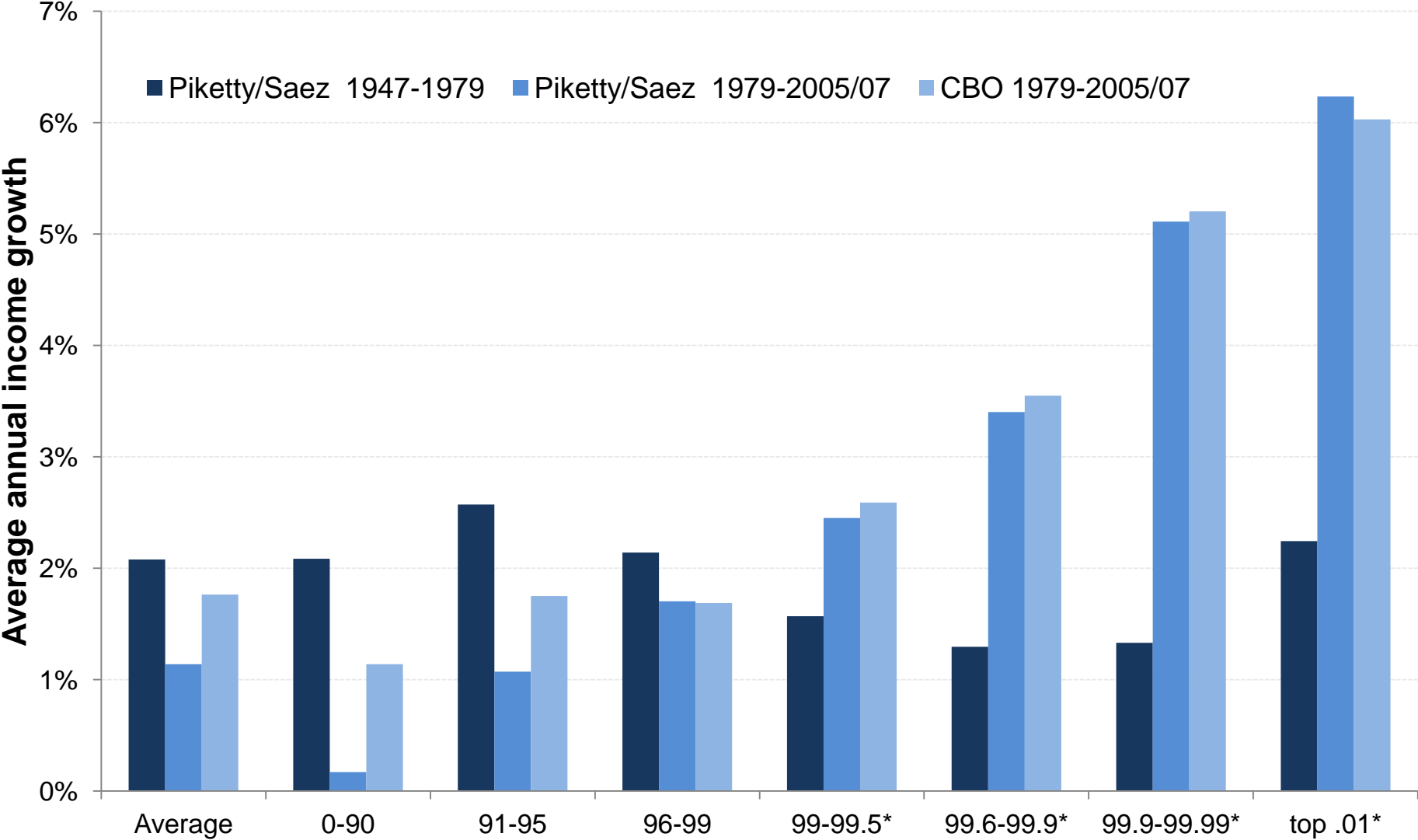


Note: Data are for tax units

Source: Authors' analysis of Piketty and Saez (2007, Table 2)

End

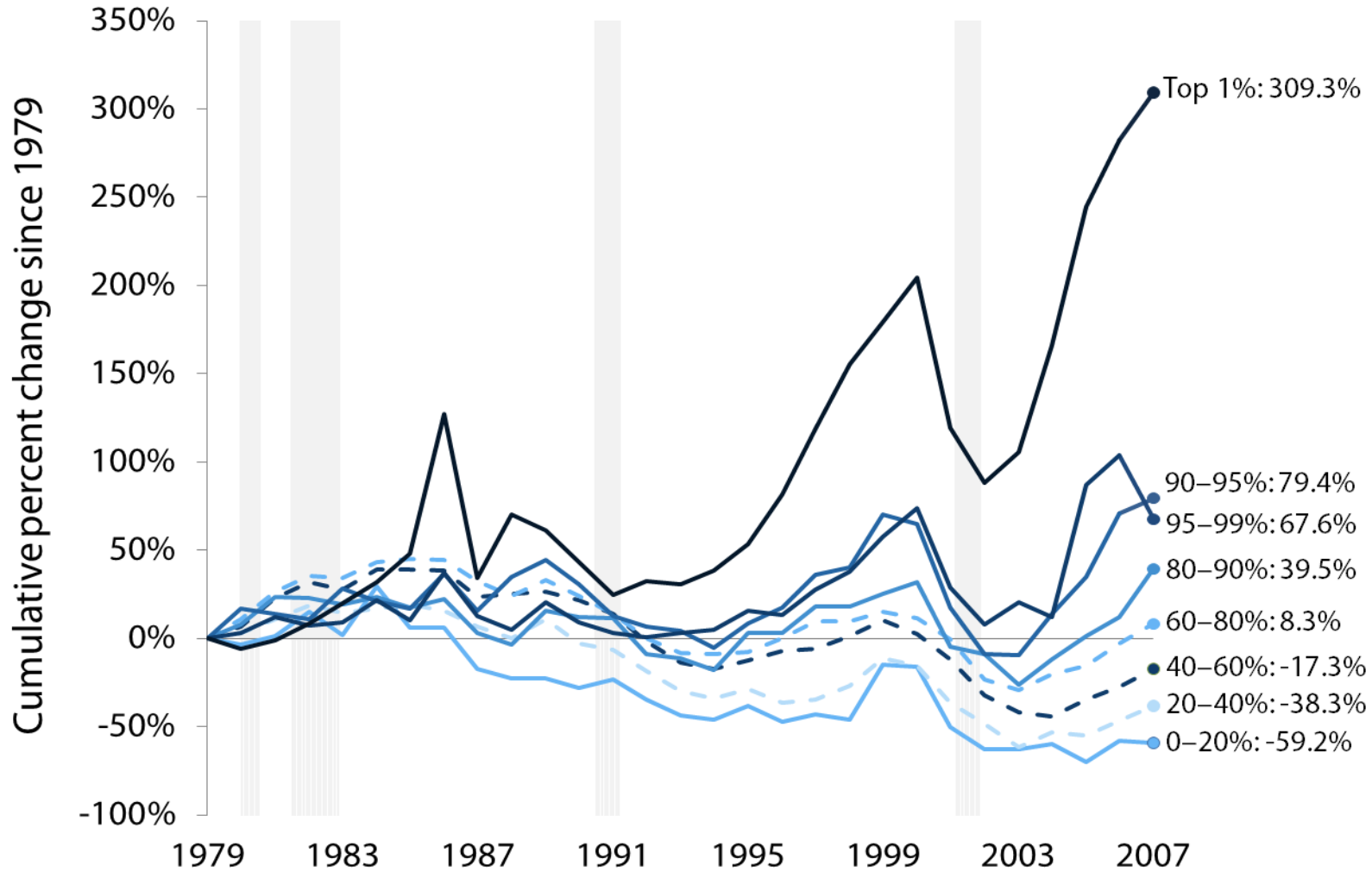
**Figure A Average annual income growth by fractiles, by time-period and data-**



\* Indicates data goes from 1979 to 2005

Source: Authors' analysis of data from Piketty and Saez (2003, updated) and CBO (2012)

**Figure 2U** Cumulative change in real annual household capital income, by income group, 1979–2007



Note: Shaded areas denote recessions.

Source: Authors' analysis of Congressional Budget Office (2010)