A Different Perspective on Inequality

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Three Things About Inequality That “Everyone Knows”

• National income has shifted away from labor compensation and towards productive capital

• A substantial share of the rise in inequality is due to an increase in the ratio of CEO to typical worker pay within each firm

• Workers are increasingly mobile, shifting from tenuous job to tenuous job
Labor’s Share

Compensation of Employees, Paid: Share of Gross Domestic Income

% Pt

Source: Bureau of Economic Analysis / Haver Analytics
But that’s mostly housing….

Change in Shares of Gross Domestic Income, 2014 vs. 1970-1999 Average

Percentage Points
-4 -3 -2 -1 0 1 2 3 4

Labor Income: -3.8
Returns to Housing: 2.8
Returns to Capital ex-Housing: 0.3
Taxes & Depreciation: 0.7

Note: “Labor income” is defined as compensation of employees by domestic employers. “Returns to housing” is defined as the sum of rental income of persons in the housing sector, corporate profits in the housing sector, and proprietors’ income in the housing sector. “Returns to capital excluding housing” is defined as the net operating surplus of all domestic enterprises excluding returns to housing. “Taxes and depreciation” is the sum of the consumption of fixed capital and government tax receipts for production and imports, less government subsidies. These four defined terms sum to gross domestic income, and are all expressed as a share of gross domestic income.

Source: Bureau of Economic Analysis; CEA calculations.
It’s All *Within* Firm (CEO vs. Median), Right?

## Table 1. Level and Changes in Variance in Ln Earnings Between and Within Establishments, 9 LEHD states 1992-2007

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>2007</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance across individuals, total</td>
<td>0.480</td>
<td>0.563</td>
<td>0.083</td>
</tr>
<tr>
<td>Between establishments</td>
<td>0.219</td>
<td>0.275</td>
<td>0.056</td>
</tr>
<tr>
<td>Within establishments</td>
<td>0.260</td>
<td>0.287</td>
<td>0.027</td>
</tr>
</tbody>
</table>

# of individuals (millions) | 19.0 | 26.0 |
# of establishments (millions) | 1.33 | 1.81 |

**Note:** The 9 LEHD states are: California, Colorado, Idaho, Illinois, Maryland, North Carolina, Oregon, Washington, and Wisconsin. Annual earnings, full year employees, main job. Results for quarterly earnings for all individuals observed at the employer in the 2nd quarter, as well as figures including 22 states for shorter periods of time, show similar patterns and are available from the authors on request.

Source: Barth et al. (2014)
Increased Earnings Disparities Appear to Be Largely Between Firms, Not Within Firms

Source: Song et al. (2015).
Decline in Labor Mobility


Job Creation

Job Destruction

Migration Rates by Distance

Source (left): Decker et al. (2014), based on Census Bureau (Business Dynamics Statistics).
Source (right): Molloy, Smith, and Wozniak (2014).
An Alternative View: Superstar Firms?

Return on Invested Capital Excluding Goodwill, U.S. Publicly-Traded Nonfinancial Firms

Note: The return on invested capital definition is based on Koller et al (2015), and the data presented here are updated and augmented versions of the figures presented in Chapter 6 of that volume. The McKinsey data includes McKinsey analysis of Standard & Poors data and exclude financial firms from the analysis because of the practical complexities of computing returns on invested capital for such firms. For further discussion of that point, see Koller et al. (2015).
Source: Koller et al. (2015); McKinsey & Company.
Final note: Life expectancy inequality

FIGURE 3-2 Estimated and projected life expectancy at age 50 for males and females born in 1930 and 1960, by income quintile. SOURCE: Committee generated from Health and Retirement Study data.
FIGURE 4-23 Total net benefits as share of inclusive wealth as of age 50 for males. SOURCE: Committee generated using Health and Retirement Study data and cohort assumptions.