

CEG Grant: US Distributional National Accounts

Thomas Piketty (PSE)
Emmanuel Saez (UC Berkeley)
Gabriel Zucman (UC Berkeley)

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Summary

The objective of this proposal is to build distributional statistics of income and wealth consistent with national accounts aggregates for the United States. This project aims at bridging the gap between national accounting—which exclusively focuses on macro totals and growth—and inequality analysis—which focuses on distributions but without trying to be consistent with macro aggregates. Bridging this gap is necessary to meaningfully address questions such as: What fraction of total economic growth accrues to the top 10%, top 1%, etc.? How does growth per person of the bottom 90% compare to overall growth? Such data should be the empirical backbone for the analysis of equitable growth that the Berkeley and Washington Centers for Equitable Growth have been pursuing since their creation a few years back. Hence, we view this project as inspired by the Equitable Growth agenda of the centers and fulfilling one of their core mission.

We plan on constructing both pre-tax and post-tax distributions so that we can assess the distributional role of the government when taking into account all taxes, transfers, and government spending on public goods. We will construct annual micro-level datasets that are consistent with the national accounts and would allow researchers to carry out many different types of distributional analysis. All the data and programs will be publicly posted online on a dedicated website. We view this project as a prototype attempt at building the first distributional national accounts, which we hope in the long run will become part of the economic statistics produced by government agencies around the world. Good data on the distribution of pre-tax vs. post-tax income, matching macro aggregates, should become a core component of teaching in public economics at both the undergraduate and graduate level.

The first step of the analysis, started in Saez and Zucman (2014), is to combine income tax data with Flow of Funds aggregates to estimate the distribution of household wealth in the United States. In Saez and Zucman (2014), we estimated US wealth inequality by capitalizing the investment income reported by individual taxpayers and we created detailed series on the composition of wealth by wealth groups. By construction, these series are consistent with the Flow of Funds totals.

The second step is to augment public use individual income tax micro data so as to match total national income as recorded in the national accounts. The gap between tax-returns income and national income comes from the fact that some income is not taxable, such as some fringe benefits and tax-exempt capital income. With a comprehensive definition of income, we will be able to generate a distribution of total pre-tax national income. The data will be statistically matched with the Current Population Survey to add non-filers and impute richer demographic information to each micro record.

Third, we will construct distributional measures of all taxes, transfers, and public good spending so as to estimate the distribution of post-tax national income. Comparing the pre-tax and post-tax distributions will provide a critical view of the distributive effects of all government taxes and outlays.

The potential intellectual merit of our project is to significantly advance our knowledge in the analysis of inequality, the distribution of economic growth, and the redistributive role of the government. Such an understanding is crucial for the public debate, to evaluate the costs and benefits of government tax and transfer policies, and to help policy makers design better tax and transfer systems. We plan on working

with the Washington Center for Equitable Growth (WCEG) which is ideally placed for the dissemination of the series to the press/broader public/policy makers in the United States.

Motivation and Long-term Goal

As shown by the recent broad public success of Piketty (2014)'s book, there is a substantial interest among the global public on issues of income and wealth inequality. The United States has experienced dramatic increases in top income shares (Piketty and Saez, 2003) and top wealth shares (Saez and Zucman, 2014) in recent decades. At the same time, the United States has experienced slow growth in the aftermath of the financial crisis. This combination of slow growth and rising inequality suggests that growth in real incomes or wealth of ordinary families (e.g., the median or bottom 90% families) has been much slower than aggregate growth from the National Accounts. There have also been significant changes in tax progressivity and the generosity of transfer programs in recent decades.

Unfortunately, there is a gap between the study of growth—which uses national accounts data that exclusively focus on economic aggregates—and inequality analysis—which focuses on distributions using micro data but without trying to be consistent with macro aggregates. Economists lack the measurement tools to analyze inequality, growth, and the role of the government together in a coherent framework. The objective of this proposal is to bridge this gap by building *Distributional National Accounts* defined as distributional statistics of pre-tax and post-tax income and wealth consistent with National Income and Product Accounts and Flow of Funds for the United States.

The goal is to construct annual micro-level datasets that are consistent with the national accounts and would allow researchers to carry out many different types of distributional analysis. We plan to construct such datasets starting in 1962 when both individual tax micro data and Current Population Survey data become available, so that we will have over 50 years of national income and wealth micro-data. The micro-data will have information on individual and family pre-tax and post-tax income as well as wealth. Ideally, we would want to impute not only cash transfers but also all in-kind transfers and public goods to individuals so as to distribute total National income both on a pre-tax market income basis and on post-tax, post-government spending basis. We will supplement these annual micro files since 1962 with tabulations of national income and household wealth by income and wealth groups for the earlier period 1913-1961. All the data and programs creating the data and the analysis will be publicly posted online on a dedicated website.

Constructing pre-tax income measures requires to make tax incidence assumptions. Distributional analysis also varies depending on the time frame adopted (such as annual cross sections versus a lifetime perspective). Hence, part of this work will be also to develop a conceptual framework to analyze the interdependence of income, government tax and transfers, and wealth.

The long-term goal is that such statistics would be systematically produced by government agencies in many countries. The current World Top Income Database will be extended into a World Wealth and Income Database (W2ID) to be the archival host for the international data.

References

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