

The Contribution of Capital Income to US Income Inequality

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- **Solution:** Decompose inequality into *factors* — capital and labor income — not subgroups. Abandon standard class categories; assume class is a spectrum defined by property ownership.
- **Takeaway:** Capital income drives inequality in factor decomposition, so labor-market mechanisms *cannot* be the whole story!



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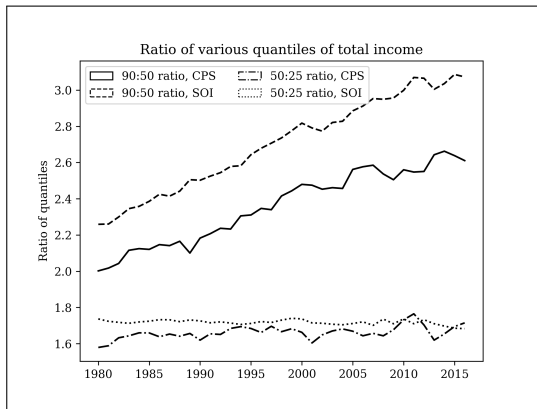
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 - National exposure to offshoring (Wood 2018)

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- Are there *non-labor-market* mechanisms? **This is Puzzle I.**

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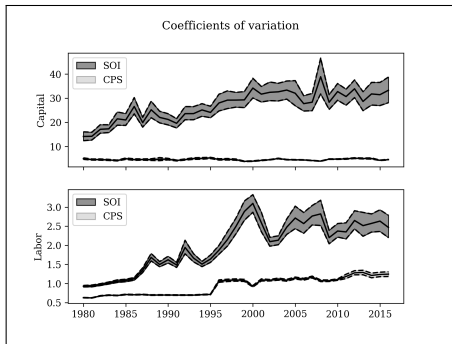


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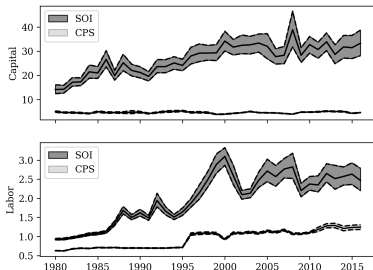


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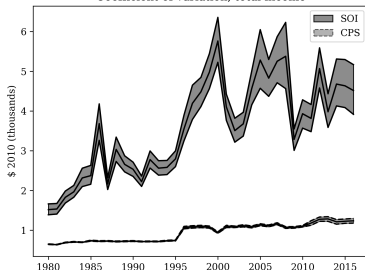


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Coefficients of variation



Coefficient of variation, total income





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- Neo-Durkheimian/Weberian approach does talk about “class” but essentially redefine it to mean simply “large, analytically defined aggregate categories” (Weeden and Grusky 2012: 1726).
- My criticism here is not new. Wright (1985) and, more recently, Wodtke (2016) represent key contributions, along with Fessler and Schürz (2020) and Albertini et al. (2020).



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- This raises **Puzzle II**: How should we incorporate the role of ownership relations?



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- On the next page, we have an example of such a class map.

Background: a class map with “contradictory locations”

TABLE 3.3
Typology of Class Locations in Capitalist Society

<i>Assets in the means of production</i>				
Owns sufficient capital to hire workers and not work Owns sufficient capital to hire workers but must work Owns sufficient capital to work for self but not to hire workers	Owners of means of production	Non-owners [wage labourers]		
	1 Bourgeoisie	4 Expert Managers	7 Semi-Credentialed Managers	10 Uncredentialed Managers
	2 Small Employers	5 Expert Supervisors	8 Semi-Credentialed Supervisors	11 Uncredentialed Supervisors
	3 Petty Bourgeoisie	6 Experts non-managers	9 Semi-Credentialed Workers	12 Proletarians
		+	>0	-
		<i>Skill/credential assets</i>		

+

>0

-

Organization assets

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 - Original impetus — ownership relations and inequality link — gets lost as “class” expands.

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- In Wodtke’s scheme, they are “high-level managers”, but this lumps together C-level executives with people who simply have “subordinates of subordinates”.



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- Ownership relations can still generate income inequality!
 - E.g. if most people own some property, but ownership is highly dispersed.
- This reading of Marx is unconventional but grounded. But, “what Marx really meant” is irrelevant here.

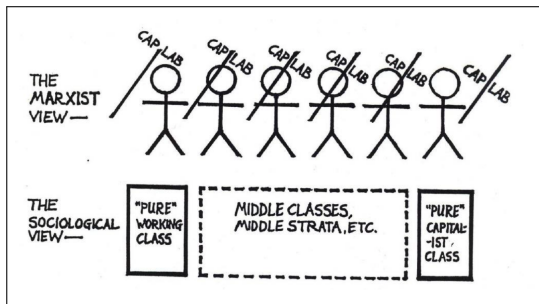


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 - 2 Inequality contributed by capital income
 - 3 Inequality contributed by their correlation.
- If we have a variable Y which is the sum of some components Y_k , then with some algebra tricks, we can write. . .

$$\underbrace{\left(\frac{\sigma_Y}{\mu_Y}\right)^2}_{\text{total inequality}} = \underbrace{\sum_{k=1}^p s_k^2 (CV_k)^2}_{\text{inequality for each source weighted by squared share of income}} + \underbrace{\sum_{k=1}^p \sum_{j \neq k} s_j s_k CV_j CV_k \rho_{jk}}_{\text{correlation } k \text{ with all other factors weighted by shares of each and CV of each}}$$

... where s is the variable's share of total income and ρ is the correlation.



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- Summarizing, each factor k 's contribution to inequality reflects ...
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 - ... weighted by that factor's *squared* share of total income
- ② Its correlation with all other factors $j \neq k$...
 - ... weighted by the share of income of j and k as well as the CV of each
- Here there is only one unique correlation, so this term is common to capital and labor, so it plays a lesser role.



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 - ...in SOI, the above plus S-corporation profits, and capital gains income.
 - *These should be included by most accounts; the CPS lacks them.*

Results I: capital income punches hard. . .



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Results I: capital income punches hard...



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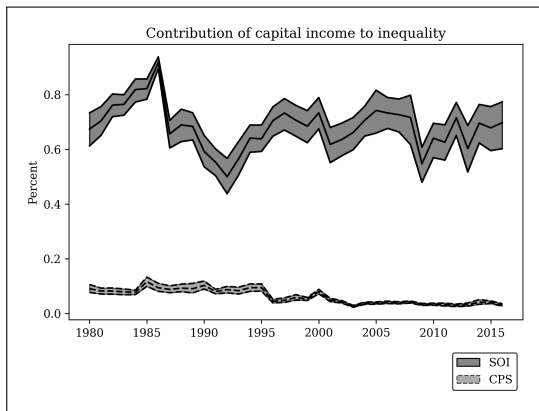


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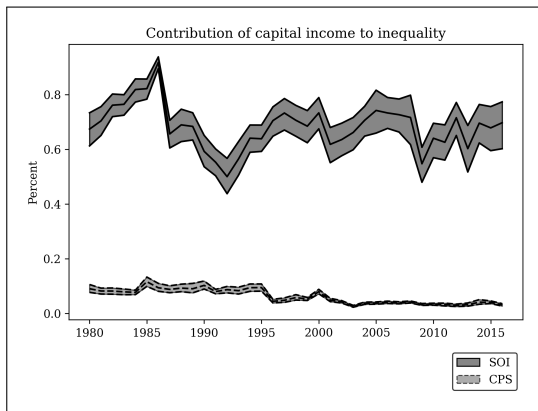
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- Error bars follow same rules as before: bootstrapped 95 CIs from 500 replicates each year.



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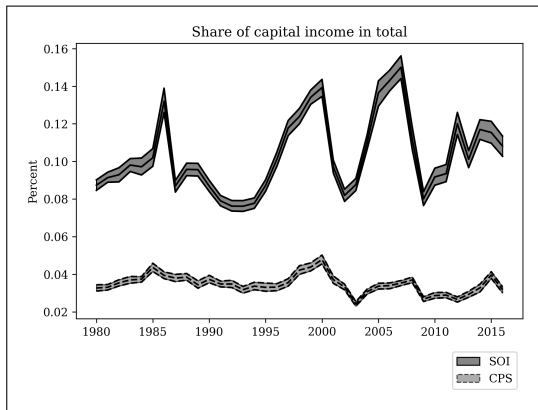


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Results II: ...well above its weight...



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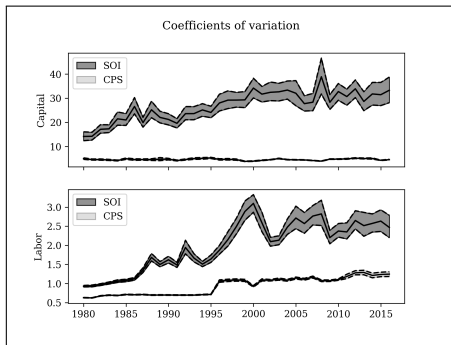


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Results III: key to capital's role



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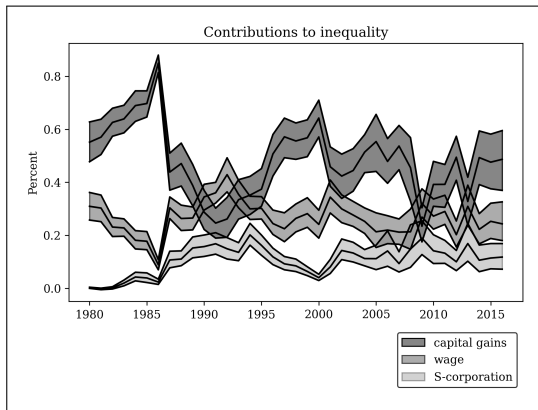
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Results IV: detailed decomposition



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Results V: what accounts for the different results?



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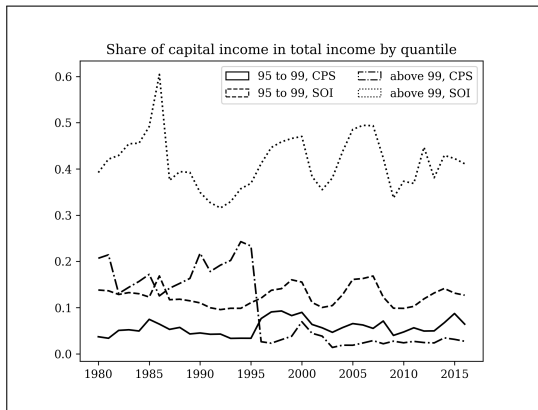


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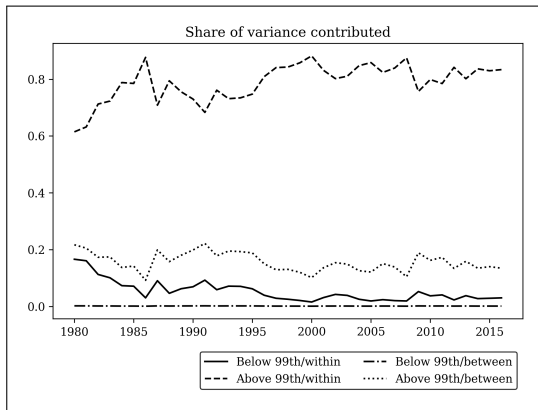
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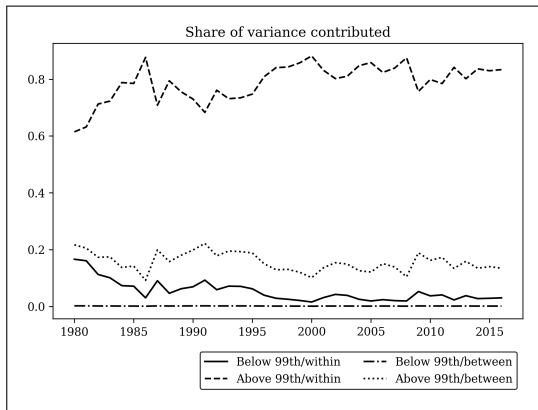
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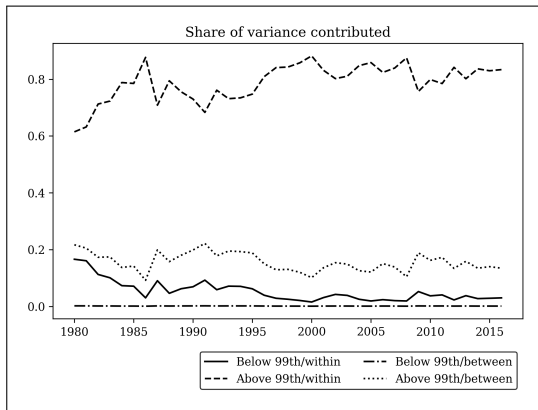
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Results VI: the role of dispersion among the rich



- Right is a between/within decomposition of the variance for the top one/bottom 99 percent for tax data only.
- Dispersion among the rich matters enormously.
- The SOI seems to capture more of that dispersion by capturing more of capital income.



Results VII: perhaps data-sets just not that comparable?

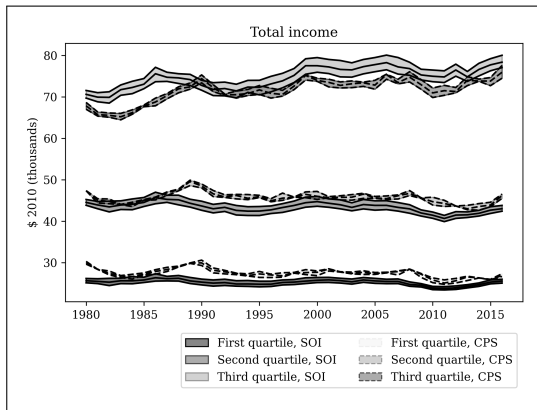
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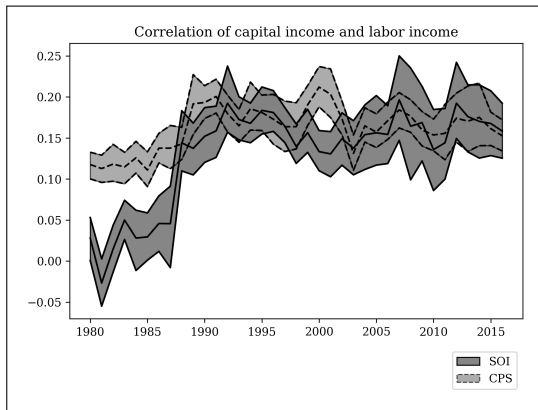
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Results VIII: correlation between types of income



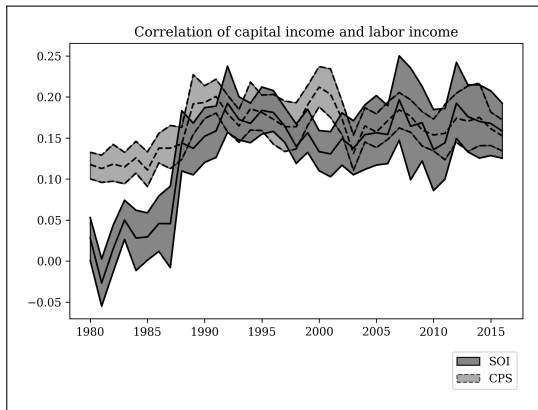
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Results VIII: correlation between types of income



- Correlation between capital/labor cannot cause a difference in their contributions: it is shared.
- Nevertheless, it is interesting to see the similarity across data-sets.



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- Paying attention to the role of property income does not require adoption of the “crude Marxian” worker/capitalist schema.
- It also does not require the more complex — but somewhat intractable — schemas with middle classes.



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 - Much more to be said about how exactly property ownership produces income inequality.



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- Income from rents, dividends, royalties and trusts, and interest are fairly straightforward: these are all forms of income that clearly result from the mere ownership of titles.



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- With respect to high incomes. . .
 - Since the CPS topcodes high incomes, no observations were excluded from those data for sporting values too large.

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- Since some of the values reported are truly large, it seemed prudent to omit them.



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