

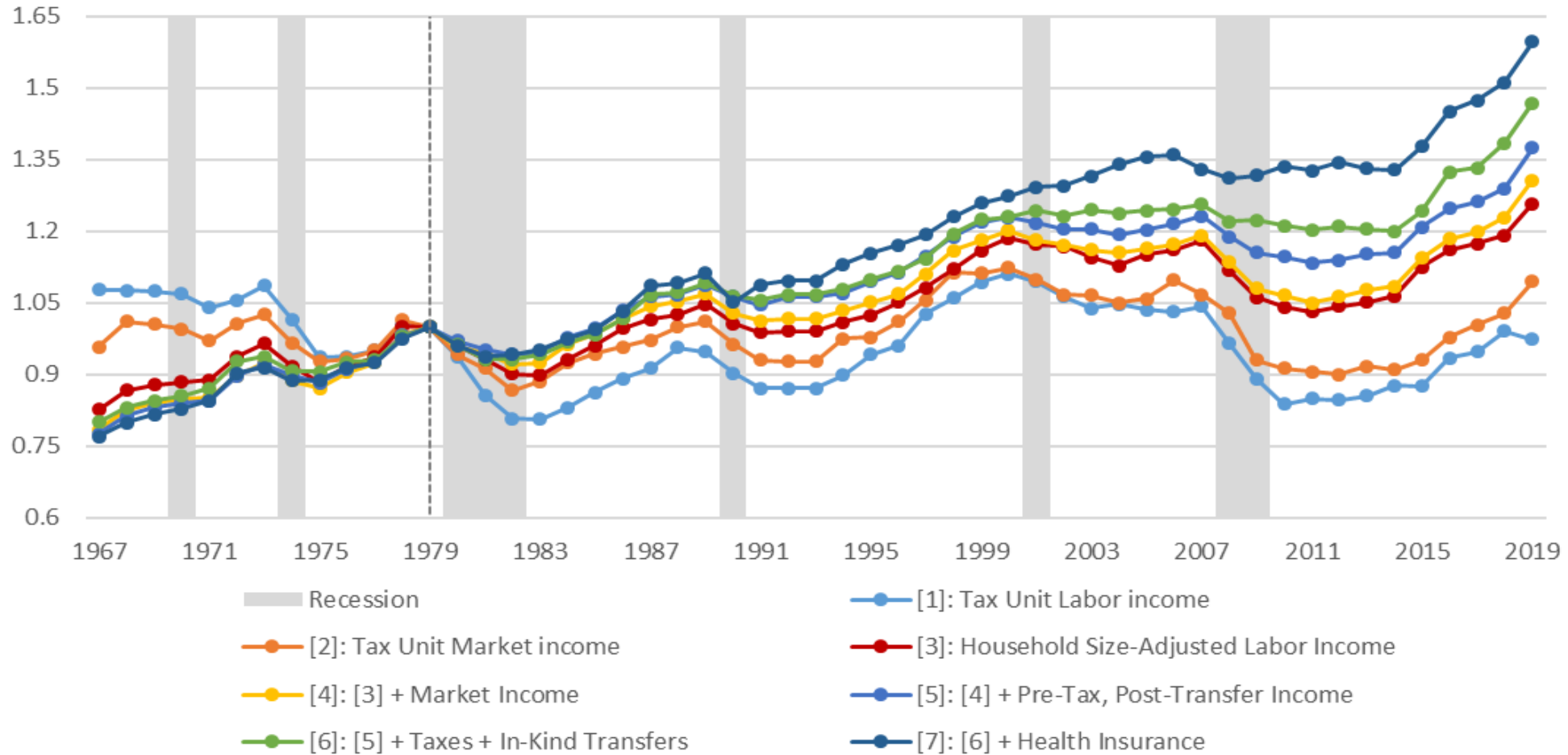
Lessons from Annals 2020

Richard V. Burkhauser

Kevin Corinth

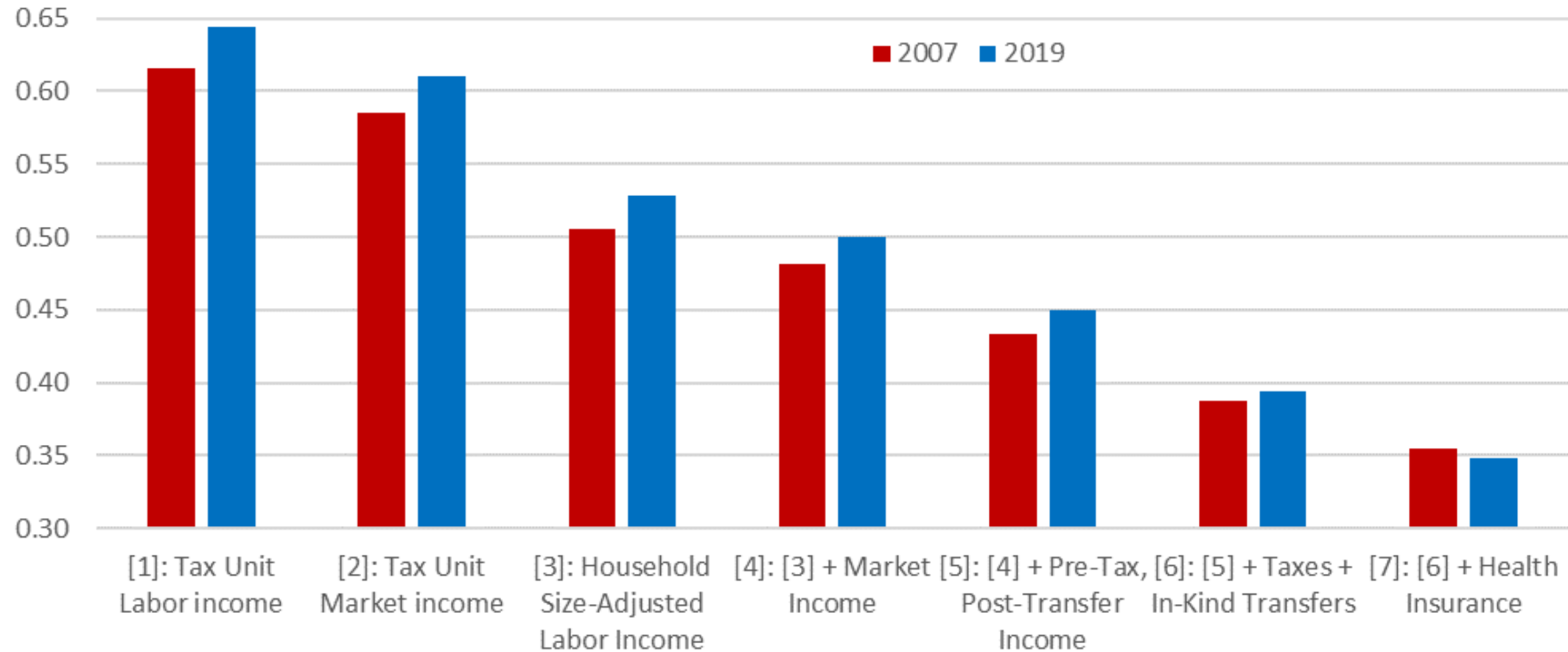
Douglas Holtz-Eakin

Alternative Measures of Median Income Normalized to 1979 Levels



Note: Median income trends normalized to one in 1979 with NBER recession dates in grey. Size adjusted income definitions use a square root equivalence scale. Values are adjusted for survey redesigns in the 1993 and 2013 income years. Median income is adjusted for inflation using the CPI-U-RS in each year. See Elwell et al. (2020) for data sources and methodology for imputations.

Gini Coefficient of Income Inequality, 2007 and 2019



Note: Size adjusted income definitions use a square root equivalence scale. 2007 values are adjusted based on a survey redesign in the 2013 income year. See Elwell et al. (2020) for data sources and methodology for imputations.

Business Cycles Matter

- As the expansion lengthened real income rose and eventually surpassed 2007 peak.
- Peak to Peak market income inequality rose but, tax and transfer policies mostly offset it (Gini).
- The degree and even character of the result would change if the period 2017-2019 was omitted.
- Best way to make comparisons is between business cycle peaks in 12/2007 and 2/2020. (secular change).
- The mechanism for business cycles matters; the Pandemic Recession is not comparable to the Great Recession.

Macro Policy Matters

- A rising tide indeed still lifts all boats.
- The recovery from the Great Recession did so even more than previous recoveries, especially at the lower end of the labor market.
- The slow pace of the recovery from the Great Recession deferred those potential gains.
- There is a large debate over the relative contribution of monetary, fiscal, and regulatory policy to the slow expansion. These are questions of first-order importance to distributional issues.
 - Should monetary policy move pre-emptively to avoid inflation?
 - Should fiscal policy be set to maximize productivity growth?
 - What are the appropriate targets for regulatory burdens?

Safety Net Has Offset Labor Market Weakness

- The middle class is not vanishing; measure of post-tax, post-transfer income indicate rising economic resources.
- Pre-tax, pre-transfer market earnings, however, have diminished, especially relative to the upper-tail of the distribution.
- This places a premium on ensuring that government tax and transfer policies do not diminish incentives for market earnings.

Measurement Matters: What is the working class and who is in it?

Sensitivity of results of measurement decisions:

- Current (weekly, monthly, past year) labor force state (working, looking for work, not looking for work).
- Educational attainment, age, race, gender, disability status.
- Own place in the hourly wage rate or wage earnings (including or excluding zeros) distribution, employer provided benefits?
- Tax units', family's or household's place in the income (what's included in income) distribution (sharing unit).
- Are you a member of the working class based on being in the sharing unit of a working class member? (unit of analysis)

What is taken into consideration in policy recommendations?

- Micro: Initial redistributive consequences
- Micro: Behavioral consequences
- Macro: Growth vs. Equality vs. Social Adequacy (Poverty)
- How are they measured?