

A Consistent Data Series to Evaluate Growth and Inequality in the National Accounts

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Paper Abstract:

The relationship between macroeconomic growth and income inequality has been the focus of many recent studies (see OECD (2011), Boushey and Hersh (2012)), and a prominent feature of Stiglitz, Sen and Fitoussi (2009). The concern is whether all segments of society have benefited from the growth of real GDP. This paper provides a comprehensive set of data, based on national account methodology, which can examine the relationship between growth and equity. By examining the distribution of the national accounts, this paper will address the following conference issue: “What is the place of national accounts in the debate about the measurement of wellbeing, sustainability and other issues raised by the Stiglitz-Sen-Fitoussi report?” It will build on the new OECD-Eurostat expert group, OECD-Eurostat Expert Group to measure Disparities in a National Account framework (EG DNA) to construct common distributional measures.

Recent data show that real per-capita GDP increased 65 percent in the past 30 years, while median household income rose only 11 percent. In the past decade (between 1999 and 2010), real mean household income (from the Census Bureau) fell 5.7 percent, while real per capita personal income (from the Bureau of Economic Analysis (BEA)) increased 11.1 percent. And the recent CBO (2013) report shows that using a comprehensive after-tax income measure, average income increased 9.1 percent between 1999 and 2010 (while average market income fell 2.5%).

While there is considerable disagreement regarding the relationship between inequality and growth, a recent OECD report (OECD (2012) suggested that there is “...no general consensus has

emerged and the empirical evidence is rather inconclusive.” In the U.S, the 2012 *Economic Report of the President* suggests that redistribution from high income to lower income households could increase aggregate spending, and hence, growth. The report suggests that the differences in the propensities to consume between income levels could create this difference.

This paper creates a time series of data that can be used to determine the relationship between growth and the size distribution of income, and consumption as measured in the national accounts. As the national accounts provide the source data for discussions of economic growth, the main issue with relating growth and inequality is to have comparable measures of both and that is the focus of this paper. We examine the distribution and movement of household income, as measured by Personal Income, and how it influences the movements of Gross Domestic Income (GDI), and hence GDP. With the distributional aspects of personal income, one can examine how various changes in policy may impact households at various points in the distribution. Just as BEA creates a decomposition of personal income across states and geography, this paper provides a decomposition across the income distribution.

This paper builds on our previous paper, Fixler and Johnson (2014), and McCully (2014). Fixler and Johnson (2014) show that adjusting for the underreporting in the CPS yields a larger level and increases in the trend of the mean and median between 1999 and 2010. This, in turn, yields a larger increase in inequality. Using a more comprehensive income measure that includes the government and employer provided health benefits yields a flatter trend in inequality.

This paper will extend the results of Fixler and Johnson (2014) by including the earlier period of 1989-1998 and the latest years through 2012, updating the concordance in McCully (2014) to provide a complete distribution of disposable personal income, and evaluating the proposed methods suggested by the EG-DNA (see Fesseau and Mationetti (2013)). Finally, with all of these expansions,

we will create a data set with the adjustments for researchers to evaluate the relationships between inequality and growth.

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