Discussion of Fixler and Johnson

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This is a Terrific Paper

- **It is a professional guide for amateurs on the strengths and weaknesses of a variety of data sources**
- **It will instantly become the bible for anyone attempting to reconcile growth rates of Census income vs. BEA income and productivity**
- **The reference list is a gold mine of sources for people doing research in many areas.**
- **Authors should be proud. Their Table 1 of differences between alternative income concepts should be the title page of the new bible.**

Now Let's Broaden the Horizon

- I have two complaints about this paper which are easily fixed
- The first is that the relationships quantified in the tables for 1999-2009 are RADICALLY different before 1999 or 1995. Why limit the scope to such a short period?
- The second is that the paper has a diffused focus on numerous data issues and loses the chance to focus on the fundamental question:
- WHERE DID THE PRODUCTIVITY GROWTH GO?

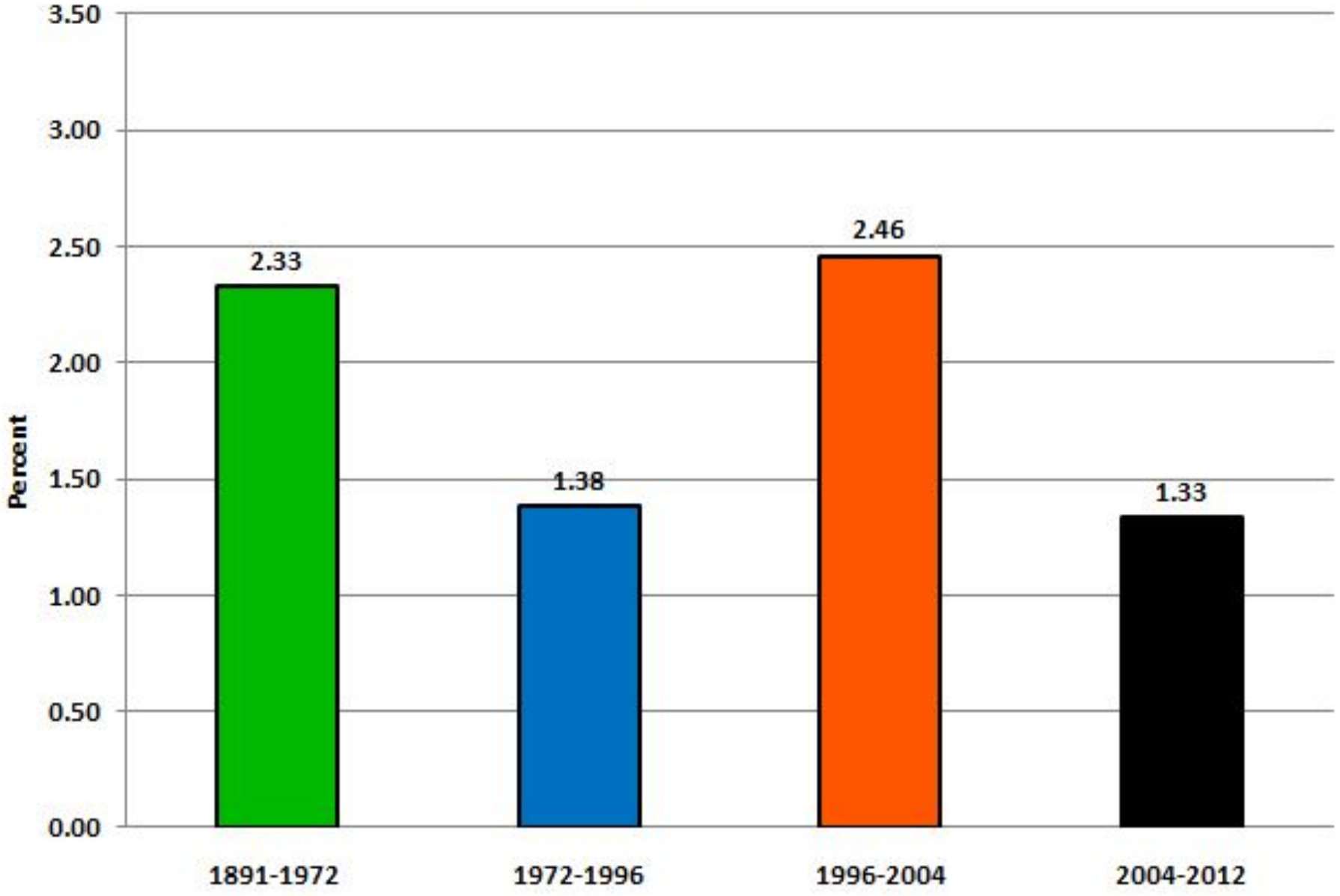
How This Subject Evolved

- During 1948-72 nobody asked about the discrepancy between real wage growth and productivity growth, because there was none.
- Inequality measures started growing after 1977 and people gradually noticed.
- Paul Krugman's breakthrough in the 1992 election campaign
- The topic temporarily died during the halcyon Clinton years 1995-2000 when everyone did well.
- Then it revived during 2000-07 when median incomes again fell behind productivity growth

How Much to Explain? The Dynamics of US Productivity Growth

- My interpretation of fast-slow-fast-slow
- 1891-1972. The supreme 2nd Industrial Revolution took almost a century to deliver its benefits (last stage 1950-70: interstate highways, jet planes, air conditioning)
- 1972-1996. The dismal slowdown
- 1996-2004. The revival doesn't last long
- 2004-2012. Back to the slowdown
- P.S. This is "Total Economy" Productivity not NFPB Productivity

Figure 4: Average Growth Rates of US Labor Productivity Over Selected Intervals, 1891-2012



The Discrepancy Between Wage and Productivity Growth Grew Sharper

- 2000-04 productivity growth was as fast as 1996-2000 despite collapse in IT investment
- Alarm bells sounded
- "Where Did the Productivity Growth Go?" was a BPEA paper in 2005 with Ian Dew-Becker
- Four sources of discrepancy
  - Wages vs. earnings
  - Deflators
  - Total economy vs. NFPB sector
  - Median vs. mean from IRS micro stats.

Some of our IRS Statistics for 1966-2001

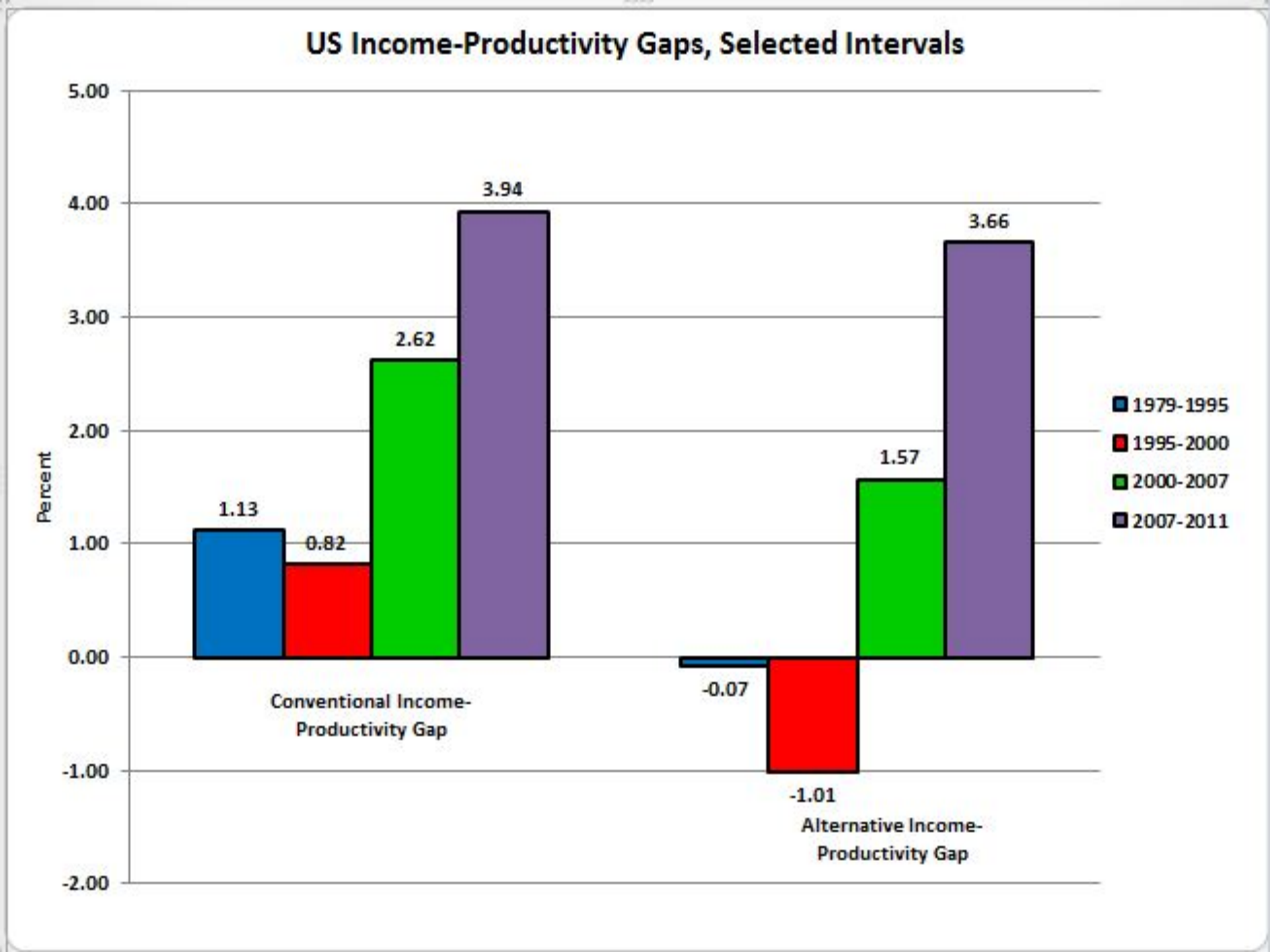
- Skewed real income growth by percentile
- Median 0.30%
- 80th percentile 0.94%
- 90th percentile 1.30%
- 99th percentile 2.26%
- 99.9th percentile 3.44%

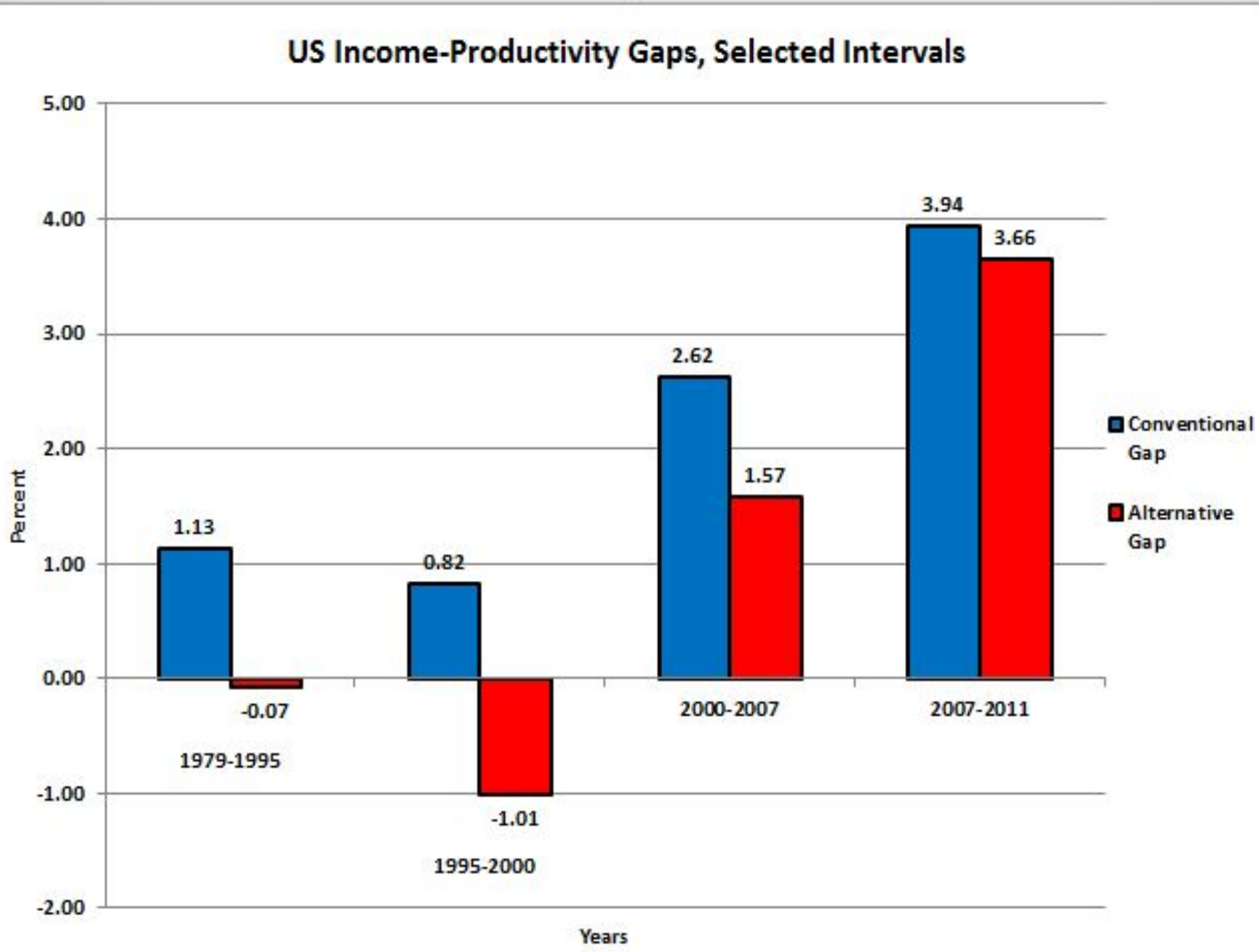
What We Learned and Didn't Learn in 2005

- **Much of the discrepancy before 1995 is explained by**
  - **Wages vs. compensation (incl. fringe benefits)**
  - **Price deflators**
  - **Total economy vs. NFPB productivity**
  - **We didn't take account of shrinking household size**
- **Updated contribution of inequality from Saez web site**
  - **1993 to 2008. Average real income growth = 1.30**
  - **For bottom 99% average = 0.75**
  - **This gigantic gap of 0.55 is percent *per year***

But the Role of these four factors differ over time

- Big conclusions of the handout
- #1 For 1979-95 ALL of the growth discrepancy between median income and NFPB productivity growth can be explained by traditional answers
- But very little after 1995 can be explained by these traditional factors. Why?
- This paper provides only a few hints and the authors do not address the wage/productivity gap framework that would help clarify their findings


US Income-Productivity Gaps, Selected Intervals
5.00
4.00
3.00
2.00
1.00
0.00
-1.00
-2.00
Percent
1.13
0.82
2.62
3.94
-0.07
-1.01
1.57
3.66
Conventional Income-Productivity Gap
Alternative Income-Productivity Gap
1979-1995
1995-2000
2000-2007
2007-2011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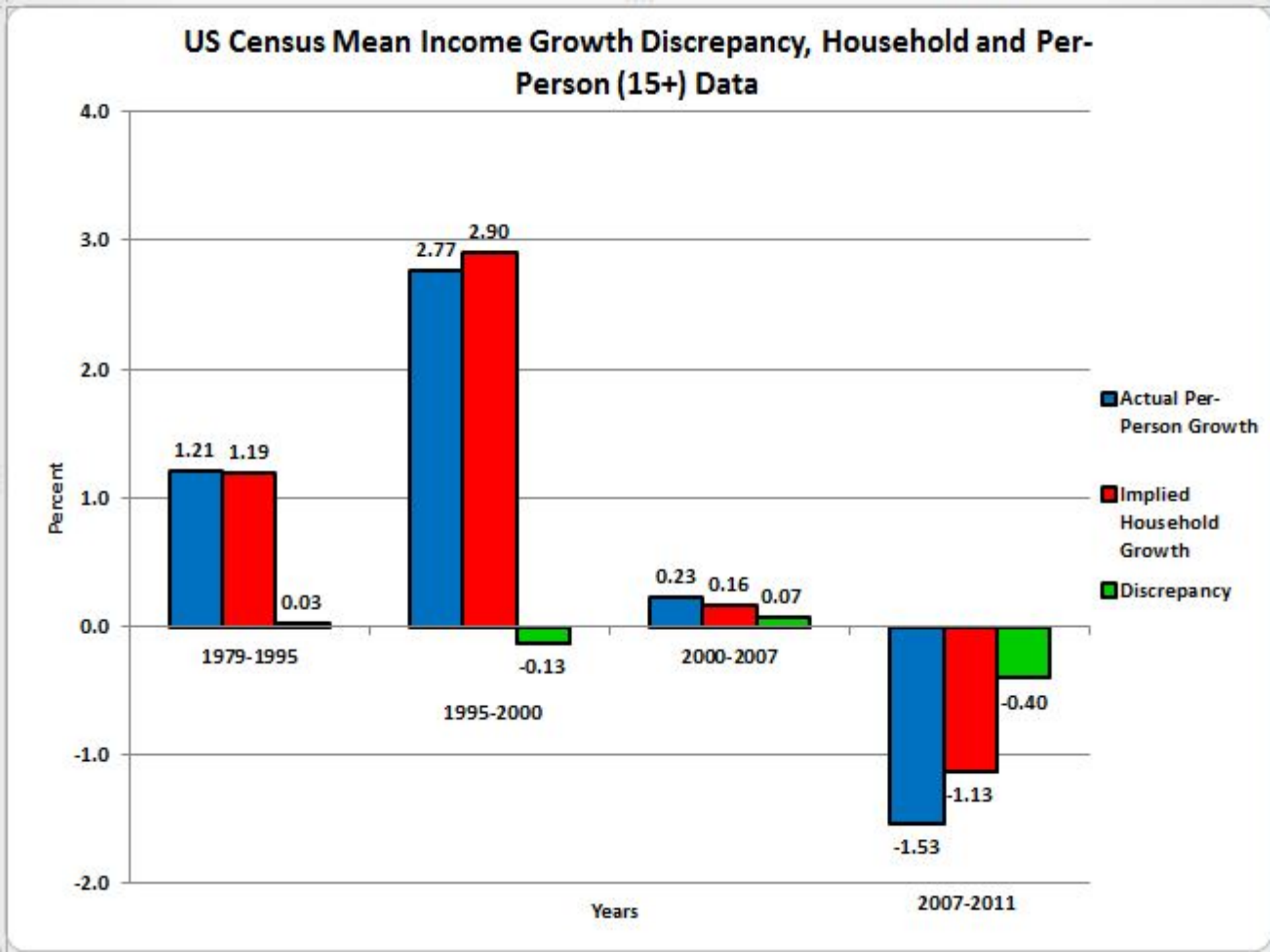
US Census Mean Income Growth Discrepancy, Household and Per-Person (15+) Data
4.0
3.0
2.0
1.0
0.0
-1.0
-2.0
Percent
1.21
1.19
0.03
2.77
2.90
-0.13
0.23
0.16
0.07
-1.53
-1.13
-0.40
1979-1995
1995-2000
2000-2007
2007-2011
Years
Actual Per-Person Growth
Implied Household Growth
Discrepancy

Assessment of the Paper

- **The time period should have gone back to 1979 because none of these relationships in 1999-2009 was similar to 1979-99.**
- **The focus should have been on "why not?"**
- **Almost all the data examined by the authors is available back to 1979**
- **The primary conclusions of the paper:**
  - **Underreporting at the top understates rise of inequality. Question: underreporting vs. top-coding?**
  - **Omission of Medical care-in-kind overstates " " "**

Decadal Growth vs. AAGR

- **My starting point of a conventional income-productivity gap for 1979-2011 of 1.76 is reduced to 0.46 by alternative data**
- **Use the EXP function, this is restated for the 32 years:**
- **Conventional gap (line 13 of handout) grows by 75.6 percent 1979-2011**
- **Revised gap (line 14) grows by 15.8 percent**
- **These are big differences**

Compare These to the Paper's Small Numbers

- These are an indirect consequence of the limited time period
- P. 25 of paper, the choice is between cumulative changes of 3.1 and 7.4 and 5.9.
  - These are small numbers in the context of the overall subject

Fiscal Multipliers

- They provide a valuable service by quantifying multipliers by which slice of the income distribution receives the government benefits or spending or tax cuts
- They should cite the summer 2010 paper by Blinder and Zandi
- Multipliers: 1.8 for food stamps and U comp
  - But only 0.4 for corporate taxes and tax cuts for the rich
- Solution to our current fiscal cliff problem lies in Chapter 12 of my econ principles text: the balanced budget multiplier