

Inequality in the Distribution of Income from Labor and Income from Capital over the Recession

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Abstract

In this paper we document lost jobs and earnings and how they affect income distribution in the “Great Recession.” We also assess the change in income from capital due to the financial and housing crises and bring the two together. We use the 2008 Current Population Survey (CPS), several waves of the Survey of Consumer Finances (SCF), and other data sources, and create a simulation for incomes from labor and from capital to bring us up to 2008–2009 (labeled 2009 below).

The Great Recession is having a much bigger negative impact on some Americans than others. Indeed, we have lost over 8 million jobs and unemployment rates are higher, and long-term unemployment higher still, than in any other recession since the Great Depression. Employment reports suggest that joblessness is especially widespread amongst young adults who are not in school, including those with children. This is especially true for young under-skilled men and women and their families (whether living together or not). Poverty is rising amongst the young and will continue to rise in coming years. Until the economy recovers

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enough to lower unemployment to 5 percent levels (likely in 4 to 5 years, if then), the young and under skilled will continue to do poorly in employment and wages (Peck, 2010).

Standard measures of earnings, income, and wealth inequality show only small changes in 2008. This is because of two issues. First, 2009 (and 2010) is when the brunt of the distributional changes are occurring, and we have not observed these data. And second, vagaries of data collection (top coding, categories of capital income) and timing limit the extent to which we can see income and wealth inequality in any case.

In contrast to labor income's stagnation and decline, capital income has recovered most of its value for higher income stockholders and pensioners, though some not-quite-yet pensioners (workers nearing retirement age) have lost a portion of their retirement savings portfolio value. In contrast, housing wealth either continues to fall, or at best has flattened out, with housing prices and the flow value of housing income falling with it. This drop is particularly felt by middle-income owners whose home is their major asset. Older owners have lost equity since the 2006 housing peak. But younger owners, especially those who bought at or near the peak, are most likely to be "underwater"

For the well-to-do, the flow value of capital income is surely below its 2007 peak, but portfolios have recovered at the end of 2009, so that inequality in income from capital is at least as high as it was in 2004. Further recovery in 2010 in capital but not labor markets will bring the inequality of labor and capital income closer to its 2007 peak. Other research cited here suggests that the high-income rich generally do well during, and especially right after, recessions and so far, this recession is not liable to be any different in this regard.