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-slow
• 1891-1972. The supreme 2^{nd} 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

- 1891-1972: 2.33%
- 1972-1996: 1.38%
- 1996-2004: 2.46%
- 2004-2012: 1.33%
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
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