Class Structure and the US Personal Income Distribution,

1918–2011

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Abstract

Using definitions of class motivated by classical political economy, this paper uses the tax-unit based personal income distribution to construct quantitative measures of class on an annual basis from 1918 to 2011. Three classes are identified, by their percentile position and their income share: managers who have sufficient nonlabour income that they do not need labour income from an employment contract (although typically they do engage in such employment); managers who do not have enough nonlabour income to meet that threshold; and the working class. Class measures of inequality are constructed to show that in class terms inequality was greater by 2011 than at any time since 1918.

JEL Classifications: B51, D31, P16

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1 Introduction

Work on understanding how inequality has evolved over time has received a major impetus from the publication of the encyclopaedic book by Piketty (2014). In some ways, this book is a progress report on work by a number of scholars. For example, Atkinson, Piketty and Saez (2011) have surveyed the long run evolution of top incomes; Alvaredo, Atkinson, Piketty and Saez (2013) have focused on the top 1 per cent; and a number of collaborators have constructed and are extending a world database of top incomes.\(^1\) Much of this work was inspired by the Piketty and Saez (2003) work on tax-unit-based income inequality in the United States, which has justly had a wide impact, and with regular updates of the data (currently, Saez 2013) their work has become a standard reference.

Two features of the Piketty and Saez dataset on incomes, constructed out of the Internal Revenue Service (IRS) individual Statistics of Income (SOI) data, are that the basic unit of analysis is a tax unit, and the incomes are pre-tax. While the pre-tax feature provides evidence over time of underlying trends, the tax-unit basis has some awkwardness. For many purposes it would be preferable to have measures of household income, drawn for example from the Census Bureau’s Current Population Survey (CPS), and to be able to compare pre-tax and post-tax household incomes in order to assess the effectiveness of redistributive policies. But neither dataset is entirely satisfactory, as the Congressional Budget Office (CBO) comments:

> The SOI lacks information on couples and individuals who do not file a federal tax return, does not report all income from government cash transfer programs, has no information on the receipt of in-kind transfers and benefits, and uses tax returns rather than households as the reporting unit. The CPS lacks detailed information on high-income households, does not report capital gains, underreports other income from capital, and lacks information on deductions and adjustments necessary to compute taxes. (Congressional Budget Office (2011), p.33)

CBO has accordingly matched detailed SOI records with CPS records such that each pair has both the CPS demographic characteristics and the SOI income, and on that basis has explored the evolution of the US personal income distribution (Congressional Budget Office (2011)). But this study is limited to the period 1979–2007, and does not therefore address crucial issues of how US capitalism has changed over the longer

\(^1\)\text{http://topincomes.g-mond.parischoolofeconomics.eu/#Home.}
run with respect to income inequality. For the latter, there is no choice but to use IRS data.

Since incomes are the sum of labour incomes (deriving from an employment contract) and nonlabour incomes (deriving from the personal ownership of wealth in a variety of forms), some studies focus directly on the evolution of inequalities in the underlying distribution of wealth (for example, Piketty and Saez (2014), Piketty and Zucman (2014), Saez and Zucman (2014). Like the studies of income distribution, these studies look at particular cuts into the (tax-unit) distribution to see how these have evolved over time (for example, the top 10%, the top 1%, the top 0.01%). But there is nothing in particular to motivate the selection of these percentile numbers, save that they are ‘the top’ variously defined. Wolff and Zacharias (2013) have examined household wealth inequality, using a different dataset, matching data from the Census Bureau’s Annual Demographic Supplement with data from the Federal Reserve’s Survey of Consumer Finances, but only for the two years 1989 and 2001. The relevance of this study in the present context is that it attempts to cut into the distribution with sociological categories. Thus

A household is considered to be a capitalist household if it has non-home wealth of at least $4 million or business equity worth at least $2 million (in 2000 dollars). Our thresholds reflect wealth levels that would be, under normal circumstances, sufficient to yield a property income that can provide a household with a standard of living that is over and beyond a life of leisure. (Wolff and Zacharias (2013), p.1384)

But Wolff and Zacharias concede that these thresholds are “arbitrary” (ibid. p.1385).

The challenge is therefore to provide sociologically meaningful thresholds that are both less arbitrary and can be used over the long run with IRS data. That is what this paper attempts, on the basis of the income dataset published by Saez (2013).

Piketty and Saez (2003) summarized their findings as follows:

Our estimated top shares series display a U-shape over the century and suggest that a pure Kuznets mechanism cannot fully account for the facts.... top capital incomes were severely hit by major shocks in the first part of the century [World War I, post-WWI depression, Great Depression and World War II] ... [and] were never able fully to recover from these shocks,
probably because of the dynamic effects of progressive taxation on capital accumulation and
wealth inequality. (Piketty and Saez 2003, p.3)

They further asserted that “the increase in top income shares in the last three decades is the direct conse-
quence of the surge in top wages”. (Piketty and Saez 2003, p.3), concluding that “the working rich have now
replaced the coupon-clipping rentiers” (ibid.). Wolff and Zacharias (2009) pointed out that this conclusion
was overstated, and Piketty has revised it in favour of the two ‘cohabiting’ rather than the one ‘replacing’ the
other (Piketty 2014 n.39, p.607). Thus for Piketty and Saez, both Kuznets and Marx were wrong; Kuznets
because his belief (that growth and competition would in later stages of development reverse the inequalities
of early development) is belied by the data; Marx because his thesis (that concentration of income and
wealth in ever-fewer hands would characterize capitalist development) is also belied by the data. Rather
than a deterministic process, “rising or shrinking inequality ... depends on the institutions and policies that
societies choose to adopt” (Piketty and Saez 2014, p. 843).

But the institutions and policies that a society chooses begs the question of how such social decisions are
made. In a framework of methodological individualism, those choices are fundamentally made by individuals,
and somehow aggregated. But that is not the only possible approach. There is nothing sacrosanct about
starting from individuals, even though that has been the lingua franca of economics at least since the 1870s.
Prior to that, and notoriously in the work of Ricardo and Marx, class took centre-stage and individuals
were conceived only in so far as they were representative of the class to which they belonged. It is worth
considering whether that is a more promising framework for interpreting the data that Piketty and Saez
(hereafter PS) have collected. This paper proposes that underlying the PS data is a class-divided reality,
and it is those class divisions that are reflected in the data. If that is true, the institutions and policies that
a society ‘chooses’ may have more to do with power and class conflict than individual choice.

There is a huge sociological literature on class, to which for example Wright (1976, 2009) has been a
major contributor, but this paper confines itself to quantitative estimates on the basis of the definitions
to be outlined below. The advantage of these definitions is their analytical coherence and tractability over
the long run; the disadvantage is that they cannot address intra-class issues. But in a long run historical
treatment, there is much to be said for analytical simplicity in place of detailed historical complexity.
The paper proceeds as follows. The next section proposes operational definitions of class, and the following three sections discuss the constructed historical record of each of the classes in terms of their percentile position in the income distribution and their income share. The following section focuses on what this reveals about income inequality in class terms, and this is followed by a section that sketches some proposed explanations for the historical patterns displayed. A short conclusion then suggests where this class approach could lead.

2 Definitions of Class

In the classical tradition as it culminated in the work of Marx, the capitalist class is that group defined by its monopoly of ownership and control over nonlabour inputs (the ‘means of production’). The working class has not sufficient nonlabour assets to survive, and is thereby ‘forced’ into the market to sell its capacity to work (its ‘labour-power’) to the capitalist class for a wage, in order to gain market access to consumer goods (minimally food and shelter, and then rather more as real wages rise). The capitalist class purchases labour-power, and ‘consumes’ it in a production process by setting it to work with nonlabour inputs. What is produced by labour exceeds what the labour-power cost the capitalist and the difference is appropriated by the capitalist class as profit.

Critiques of orthodox Marxism from Bernstein onwards have noted the difficulty of ascribing a two-class model to capitalist reality, particularly with the historical development of the separation of ownership from control, and the rise of a managerial stratum. But the PS data further show that the rise in top incomes has been associated with a large rise in labour incomes (both proportionately and absolutely). If those with top incomes enter the labour market\(^2\), the simple identification of classes via the functional distribution of income, while at the heart of classical political economy, is not possible.

Accordingly, a workable notion of class requires some revision. Suppose the capitalist class were defined as that group that has sufficient assets to generate a nonlabour income on which a typical member could survive without having to enter the labour market. This is independent of whether they choose to enter it.

The PS data show that on average they do so enter it, and it is reasonable to assume that if they enter it they

\(^2\)For the top 5% in the income distribution, labour income accounted for 38.2% of income in 1918, rising to 71.4% in 2011. For the top 1%, labour income was 27.6% of income in 1918, rising to 59.1% in 2011 (Saez 2013).
do so at senior levels. Hence they are managers, although, because of their level of nonlabour income, they
are free to choose whether or not to take employment. So call this class ‘quasi-capitalist managers’ or ‘Qc
managers’ for short. Define the working class as those who, when in employment, are both supervised in a
production process and have no supervisory responsibilities themselves. The lack of any control emphasizes
the power relationships involved; in capitalism, the working class is defined by its subordination. Then there
is a third group, situated between Qc managers and the working class. Like the latter, they do not have
sufficient assets to generate a nonlabour income enabling them not to enter the labour market, but like the
former, they have supervisory responsibilities in production. They are managers, but are not free to choose
whether or not to take employment. Hence call them ‘labour-power dependent managers’ or ‘Lpd managers’
for short.

Because the data are in terms of tax units, these definitions imply that nonworking dependents (whether
young or old) of a working member of a class are also members of that class. Independent retirees are
allocated to a class by their tax unit income no differently from anyone else. Working spouses are allocated
to a class determined by the income of their tax unit. Further, a Qc manager (tax unit) who is made
unemployed remains a member of the Qc managerial class, unless and until sufficient assets have been
liquidated in which case their class location is determined by their total income; similarly, the class location
of an Lpd manager (tax unit) who is made unemployed is determined by total income. Class categories and
boundaries are objectively determined, but this says nothing about the crucial questions of mobility between
classes, class identity and class subjectivity, and the social construction of class-belonging.

3 Qc Managers

What constitutes ‘sufficient’ nonlabour income? This is displayed in Figure 1. An obvious starting point
is the average individual working class wage (production worker wage from BLS). A Qc manager is such
because he or she has a nonlabour income at least equal to the prevailing average working class wage. Since
the basic data are in tax units, combine data from the Census Bureau, the National Income and Product
Accounts (NIPA) and PS to calculate, on average, how many individuals there are in each tax unit, their
age structure, and how many of them earn a wage. Assume the prevailing working class wage is sufficient to
support one person, and then scale for average tax unit composition using the modified OECD procedure for
equivalization (counting the first adult as 1, each additional person aged at least 14 as 0.5, and each person
less than 14 years old as 0.2).³ This determines the threshold nonlabour income that a tax unit must have
to qualify as a member of the Qc managerial class.⁴

Constructing a single Pareto distribution out of the PS data, and interpolating the decomposition of
average income into its labour and nonlabour components enables calculation of the position of Qc managers
in the personal income distribution and their income share. These are displayed in Figure 2. The U-shaped
pattern of the income share in the bottom panel is evident, as is the feature that the climb from the early
1980s has not reached its late 1920 levels (26% in 2007, compared with 31% in 1926). But it would be a
mistake to conclude that class inequality thereby similarly falls short, because the number of Qc managers
has proportionately halved, from around 4% to around 2%. One further noteworthy feature is that, from the
end of the 1980s decade, the threshold income of the top one percent of tax units is approximately the median
Qc (tax unit) managerial income, so that ‘the one percent’ constitute (to a reasonable approximation) the
top half of the Qc managerial class.

³The cut-off changes from 14 to 16 in 1945. An alternative would be to multiply the average working class wage by the
square root of the number of individuals in an average tax unit, but this only makes a negligible difference to the calculations.
⁴Although this is an income threshold, it is income that derives from wealth, so that, for example, in 2010-11 a real nonlabour
income of around $50,000 required a wealth of around a million dollars (if the pre-tax rate of return on all assets were 5%).

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Figure 1: Qc managers: nonlabour income threshold ($2012), USA, 1918–2011
Bakija, Cole and Heim (2012) have examined the occupational structure of this top percentile over the period 1979 to 2005, classifying tax units by occupation of the primary taxpayer. Arts, media and sports occupations, so prominent in popular culture, comprise just under 2% of the total, for, unsurprisingly, most top tax units are related to business (43-47% are nonfinancial executives, managers and supervisors, or work in financial professions; a further 8-10% work in nonfinance business operations, skilled sales, or are entrepreneurs not elsewhere classified; further, some of the 8% who are lawyers will be corporate lawyers. It seems reasonable to assume on this evidence that the majority of Qc managerial tax units comprise business executives of one sort or another.

Whereas in 1918 just over one-third of Qc managerial tax unit income was accounted for by labour income, by 2011 this proportion had more or less doubled, labour income being nearly two-thirds of average Qc managerial tax unit income. Hence the rise in Qc managerial average tax unit income has been driven by the rise in labour income. Moreover, the increasing proportion of executive occupations in closely held businesses\(^5\) over time, at the one percent level rising from one seventh of nonfinancial executives, managers

\(^5\)A closely held business has more than 50% of its stock owned by no more than 5 individuals (and is not a personal service corporation).
and supervisors in 1979 to two-thirds in 2005 (Bakija, Cole and Heim (2012), Table 2), has both counteracted to some extent the effects of the separation of ownership from control and blurred the distinction between labour and nonlabour income.

4 The Working Class

Turning to the working class, in Figure 3 the number of working class tax units peaked during World War II at around 94% of the total, with a corresponding income share of 74% in 1944. The (percentage) number of working class tax units then fell by about 14 percentage points to the early 1980s, with about half the fall occurring during the ‘golden age’ and about half more precipitately during the 1970s. But their income share fell much further, by 24 percentage points, to just over 50% by the late 1980s, and since 2001 has fluctuated between 46% and 48%.

The fact that the data are in tax units is particularly important, because in the bottom half of the income distribution there are a large number of tax units that have no labour income because of unemployment,
sickness and, most of all, retirement (and most government transfers are not in the data at all). Hence the calculation of average working class income and labour income can mislead. For example, in 2011 average working class (tax unit) income (in $2012) was $28,849 (and labour income $27,760), but this is defined across all working class tax units, and not across all workers. By contrast, the Employment, Hours and Earnings survey of the Bureau of Labour Statistics shows that average worker wage income in 2011 was $34,577, and that excludes the various substantial supplements to employee compensation.

In sum, in recent years the bottom 83% of all tax units have around 47% of all personal income, and the top 17% of tax units some 53%. Since of this 17%, the top 2% take some 24% of income, the 15% below the Qc managerial class take around 29% of income. These last are the Lpd managerial class.

5 Lpd Managers

The pattern followed by the intermediate stratum of Lpd managers, shown in Figure 4, was similar to Qc managers up until World War II.

Figure 4: Lpd managers: number (% tax units) and income share (%), USA, 1918–2011
But then Lpd managers rose sharply in both numbers and income share, from about 4% of tax units and 10% income share in the late 1940s to 18% of tax units and 34% of income share in 1982. These gains were largely at the expense of the working class. Since the early 1980s, Lpd managerial numbers and income share have both declined somewhat; while some have slipped into the working class, for those who have not their income share has not followed the pattern of the Qc managers above them. While they are structurally similar to the working class in having to sell their labour-power, their supervisory status has enabled them to avoid the falling income share of those they supervise. But their labour market dependence has not enabled them to increase their share.

6 Inequality

Figure 2 shows that the Qc managerial income share peaked in the second half of the 1920s, and at its post-World War II peak of 2007 was some 5 percentage points lower then its pre-War peak. But Figure 2 also shows the changing numerical composition of the Qc managerial class. Similarly, Figure 4 shows that, over the whole period, the Lpd managerial income share peaked in the 1980s (in 1982 and 1986) at almost three times its 1950 level before gently declining, and it also shows that their (percentage) number increased some four and a half times from 1950 to the early 1980s. Hence it is difficult to make temporal comparisons of inequality as both incomes and numbers change.

One way to approach this issue is to look directly at the inverted Pareto coefficient $b$. Because of the way in which PS constructed their data, their $b$ (average income divided by threshold income at the various percentile points) varies across the distribution; whereas the $b$ underlying the construction of classes here is
uniform. Figure 5 illustrates, showing the evolution of the $b$ of this paper (denoted SM) over time between the PS P95 $b$ and the PS P99 $b$. If $b$ is taken as an index of inequality, its pre-War peak of 2.62 in 1928 was surpassed by 2005, and had risen to 2.72 by 2007. While it then fell back by a small amount, it is still (as of 2008–11) hovering around its 1928 peak of around 2.6. On this basis, class inequality today is on a par with its levels in the late 1920s.

Another way of considering this in class terms is to consider the three ratios of average Qc managerial income to average working class income, average Lpd managerial income to average working class income, and average Qc managerial income to average Lpd managerial income. These are depicted in Figure 6, remembering that all averages are defined across tax units, not individuals. While all three panels display the familiar U-shape, these shapes are nevertheless significantly different in each panel. The bottom panel shows how average Qc managerial income pulled away from average Lpd managerial income in the 1920s, from 3 times larger in 1923 to 4.3 times larger in 1929. But depression and war saw a substantial compression of managerial differentials; average Qc managerial income fell to just 2.4 times average Lpd managerial income by 1946. Thereafter through to 1974, the ratio was fairly stable, and for two decades from the early 1950s to the early 1970s varied between 2.7 and 2.9. With the end of the ‘golden age’, managerial differentials increased, to 3.5 by 1980, fluctuating around 5 a decade later, and around 6 from 2004 onwards.
The middle panel of Figure 6 shows a similar relationship between average Lpd managerial income and average working class income. After an initial large increase in 1920-21 (a consequence of the severe recession of that time), in 1923 average Lpd managerial income was 3.4 times average working class income, and rose to 3.9 times by 1928. The pattern through the 1930s was determined by Lpd managers on average faring less badly than the working class (they did not regain their 1928 level of real income until 1936, whereas for the working class it was 1939); but average relativities then dropped sharply as employment recovered with rearmament, from 4.9 in 1940 to 3.2 in 1944. After a short-lived rise in the second half of the 1940s, average Lpd managerial income as a multiple of average working class income fell back through the first half of the 1950s, and from 1955 to 1975 fluctuated in a narrow band between 3.1 and 3.2. It then fell in the early 1980s to 2.5, before rising to 3.3 by the mid-90s. It was then fairly constant until 2008, and then rose to between 3.6 and 3.7. To a large extent, the relationship between average Lpd managerial income and average working class income was determined by how the general level of economic activity affected working class incomes.
By contrast, the relationship between average Qc managerial income and average working class income, in the top panel of Figure 6, combines the effects displayed in the bottom two panels. Like the middle panel, there was a sharp rise in 1920-21; like the bottom panel, there was a sharp rise through the 1920s; like the middle panel, there was a steep drop in the first half of the 1940s; like both panels, the ‘golden age’ saw a long period of stability; and then there was a sustained rise from 1979 to 2011. But the scale in the top panel is different. The 1920s witnessed a rise in average Qc managerial income as a multiple of average working class income from 10.4 in 1923 to 14.7 in 1929; and in the 1930s it fluctuated between 15.5 and 16.5. But from a ratio of 15 in 1940, it fell to 9 by 1944, and then for 30 years fluctuated between 8.4 and 9.8 (and mostly less than 9). After 1979, the multiple rose steadily (with only small fluctuations), from 9.7 in 1979 to 14.9 in 1988, to 18.7 by 2000 and 21.8 in 2011. The pre-war peak multiple of 16.6 in 1932 was surpassed in 1997, and by 2011 was around 30% higher.

It might be thought that this historical record is illustrative of what is happening right at the top of the income distribution. This is explored in Figure 7, which shows the relationship of median managerial income (both Qc and Lpd) to average working class income. The bottom panel shows Lpd managerial median

Figure 7: Managerial median income to working class average income, USA, 1918–2011
income to working class average income. There is very little difference from the middle panel of Figure 6, either in pattern or in scale, because Lpd managerial average income is not very much larger than Lpd managerial median income. This is not true for Qc managers, as can be seen in a comparison of the top panel of Figure 6 with the top panel of Figure 7; while the pattern is almost identical, the scale is considerably compressed. Nevertheless, the pre-war peak of Qc managerial median income as a multiple of working class average income was 11 in 1932; this was surpassed in 2000, and was 12.9 by 2011. In class terms, inequality of income by 2011 was considerably greater than that experienced in the late 1920s and the 1930s.

7 Power

Explaining this within a framework based on individualism has proved difficult. The most common approach to labour market inequality focuses on marginal productivity and competition, seeing educational expansion increasing the supply of skills at a lower rate than technical progress has increased the demand for skills. This difference has been exacerbated first, because technical progress has evolved in ways that complement the skills of the already highly-skilled and substitute for the less highly-skilled, and second, because globalization has undercut the wages of the less-skilled in the U.S. with the lower wages of low-skilled workers in the rest of the world. Further, globalization and accompanying technological change has created a market for the very best that has enabled them to pull away from those who are less than ‘superstars’.

The difficulties of this type of explanation for what has happened at the top of the income distribution are legion (difficulties in identifying marginal products, implicit competitive assumptions, the production function framework, and the scale of what has to be explained). For example, looking at the compensation of individuals rather than tax units, and total compensation rather than wages and salaries, Mishel and Davis (2014) report that the CEO-to-worker compensation ratio has increased from 22.3 in 1973 to 231.8 in 2011 (having peaked at 383.4 in 2000 and then fallen back somewhat, because of its correlation with stock market returns); while a typical worker’s compensation increased by 10.2% in total between 1973 and 2011, CEO compensation increased by some 937%. Yet this spectacular increase has translated into a worse overall performance of the economy than in the preceding ‘golden era’.

For reasons such as this, attention has rather focussed on the responsiveness of income to changes in
marginal tax rates. In 1918 in the U.S., the top marginal income tax rate was 77% (having risen from 7% in 1913–15). Following the Great War and its aftermath, the top rate was successively lowered, down to 25% by 1925. In 1932 it was raised to 63%, and raised successively in 1936, 1940, 1942 and 1944 when it was 94%. Once World War II was won, the top rate fell back to the low 80s, but then rose again by 10 percentage points during the Korean War and its aftermath. From 1953 to 1963, the top rate was 91%, and was then cut to 70% by 1965, where it remained until 1981. By the end of that decade, it had more than halved to 28%. It increased to 40% during the Clinton years, and was reduced to 35% in 2003, at which rate it remained through to 2011. So the supposition is that top marginal rate tax cuts from the early 1980s created incentives to earn more, and high income earners responded appropriately. But there were similar cuts to top marginal income tax rates in the U.K. after 1981, without the same degree of wage surge, so that, at the least there are difficult identification issues in separating causal factors.

A related argument concerns the particular effects of the Tax Reform Act of 1986. Before 1986 top corporate income tax rates were considerably less than top personal income tax rates, which created an incentive for the very rich to organise their entrepreneurial income through a C-corporation; keeping their personal income within a corporation enabled them to defer high personal income tax rates and pay corporation income tax instead. The 1986 Act reduced the top personal rate below the top corporate rate. This had two effects. First, the incentive just mentioned was reversed, so that there was a considerable incentive to convert from a corporate to a pass-through entity (such as a partnership), in order that what was corporate income became individual income and was then taxed on an individual basis. Second, for those firms that retained a corporate legal status, there was an incentive to reduce their taxable income by transferring it to the individual tax base through higher royalty, interest and rent payments, as well as through higher wage payments to entrepreneurs. The effects on Qc managers are clearly visible in the bottom panel of Figure 2, but equally, Figures 6 and 7 show a continued and sustained rise from 1979 through to 2011. Changing marginal tax rates and the effects of the 1986 Tax Reform Act might be part of an account of the wage surge in top incomes, but they are clearly not the whole story.

A different focus is not on changing marginal tax rates but on changing practices of corporate governance, and especially on how executive compensation packages are determined. Partly this has to do with
the increasing role of stock options, which, when exercised, are (mostly) treated as a part of employee compensation on tax returns. The use of stock options is supposed to align managers’ interests with shareholders’ interests. But presumably the interests of the latter are concerned with their stock rising faster than their competitors’ stock (or indeed any alternative stock they could hold); yet a general rise in stock prices gives very large benefits to holders who exercise their options, so that the alignment of interests is hardly clear – top executives have been massively rewarded for doing no better than other top executives. Corporate governance is an issue because executive compensation committees are selected by top executives from among their peers, and these committees then make compensation recommendations for those top executives. But Frydman and Saks (2010) argue that it is difficult to attribute the growth in top incomes to problems with corporate governance, because if anything, corporate governance has been strengthened over time and not weakened as the attribution would appear to require.

Bakija, Cole and Heim (2012) found significant heterogeneity in income growth rates across professions, and divergence of income within professions, in the top one percent, which they took to indicate that a successful explanation “cannot just, or even primarily, be things that are changing in similar ways over time for everyone within the top one percent” (Bakija, Cole and Heim (2012), p.24), and they concluded that explanations for the rise in top income shares should be sought in financial market asset prices, the effects of the 1986 Tax Reform Act and perhaps corporate governance and entrepreneurship.

PS point to the issue, that executive pay is “probably determined to a significant extent by herd behavior” (Piketty and Saez (2003), p.35), and, in addition to fiscal policy, point to social norms as the area in which to pursue an explanation. Appeal to herd behaviour and social norms does not imply that all in the herd behave in exactly the same way; rather herd behaviour and social norms imply the social construction of a permissive environment, in which those with most power prosper the most. But once issues of the social are raised in this manner, it is a small step from treating individuals as influenced by unexplained social norms to treating them as the bearers of social relations, who embody in their behaviour a culture of class power expressed by the norms they have created. Changing norms reflect changing regimes of capitalist relations.
8 Conclusion

In order to construct a picture of long run US economic development in class terms, this paper has proposed a method of cutting into the distribution of income such that the intervals constructed reflect the different classes of the economy. These intervals are not the constant percentile categories that have been the subject of so much attention in recent papers, although, coincidentally, it transpires that average income at the threshold of the top percentile has been a reasonable approximation to median Qc capitalist income for the last 20 years or so. Apart from the construction of the basic class categories themselves, the main finding is that inequality of income in class terms is currently greater than at any time since 1918.

There are two obvious directions in which to take this analysis further. First, it is commonly considered that the era culminating in the 1929 stock market crash was characterized by a particular set of relationships that were transformed by the New Deal and wartime planning into a very different set of relationships that characterized the ‘golden age’ from the late 1940s to the early 1970s. Similarly these relationships were again transformed around the end of the 1970s into ones more reminiscent of the pre-1929 era. While this specification requires more rigour, the data in class terms are suggestive of a periodization of capitalism into different regimes over the long run, and this deserves taking further. In particular, why did all managers (both Qc and Lpd) do so badly through the 1930s and most of the 1940s? What was it that so entrenched the stabilities revealed by the ‘golden age’, and how and why were they so easily disrupted by the experience of the 1970s? Did the financial crisis beginning in 2007 mark the beginning of another period of transition, or are the post-2007 years characterized by a neoliberal ‘business as usual’? The data constructed in this paper provide a basis for a more detailed examination of these issues.

Second, in class terms corporate governance is something of an irrelevance, and the income of Qc managers is not distinguishable from distributed profits. If capitalist development can be summarized by the aggregate rate of profit for the economy as a whole, and if the numerator is broadly defined as net national product less employee compensation, it is worth investigating what difference is made to the profitability time trend by excluding Qc managerial income from employee compensation (and hence treating all Qc managerial income as a component of total profit, conceived in broad surplus terms). While in individualist terms such a procedure would be a category error, a class analysis positively invites it.
A Appendix

All of the data underlying this paper are from my own calculations using the data sources below. A detailed description of how the data have been constructed is available on request. The class data themselves are available for download from my homepage.6

A.1 Data sources


Census Bureau: population estimates at <http://www.census.gov/popest/data/historical/index.html>

Federal Reserve Bank of St. Louis: Federal Reserve Economic Data (FRED), at <http://research.stlouisfed.org/fred2/>


Internal Revenue Service:


Saez (2013)


6<http://webspace.qmul.ac.uk/smohun/>[tba once a final version is ready].
A.2 Data construction

A single Pareto distribution is constructed out of the Saez (2013) data, and the percentages of Saez’s Table A7 are interpolated in units of 0.01%. Wherever they are in the income distribution, tax units in any year are assumed to have the same population composition. Classes are constructed by importing information derived elsewhere. In constructing the Qc managerial nonlabour income threshold, the average working class individual wage is assumed sufficient for one person, and the modified OECD equivalization procedure multiplies this up to the number of people represented by the tax unit. Total labour income is split between the working class on the one hand and all supervisors (both Qc and Lpd managers) on the other hand according to the ratio of Bureau of Labour Statistics (Current Employment Statistics) production worker wages to the NIPA-derived wage and salary accruals total. The only nonlabour income accruing to the working class is assumed to derive from self-employment; the number of self-employed working class is assumed to be given by the proportion of working class employees to total employees (in full-time equivalents) and their income is imputed as the average working class wage. The ratios of data constructed from outside the IRS are applied to relevant IRS totals (for example, the ratio of working class self-employment income to NIPA total proprietors’ income is applied to IRS business or profession net income less loss).

References


