"Income Inequality in General Equilibrium"
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Summary

▶ Builds an GE multi-sector input-output model in which the key parameter is the degree of labor mobility across sectors

▶ Characterizes how productivity shocks affect (labor) income inequality

$$\frac{d \log w_i}{d \log z_{sl}} = \underbrace{\frac{d \log \Lambda_i}{d \log z_{sl}}}_{\text{labor centrality channel}} - \underbrace{\frac{d \log l_i}{d \log z_{sl}}}_{\text{labor supply channel}} + \underbrace{\frac{d \log GDP}{d \log z_{sl}}}_{\text{Aggregate channel}} \quad \forall i \in \mathcal{N}$$

Discussion

- ► Very promising paper.

- ► My discussion focuses on two dimensions where I think the analysis could be deepened:

  - ► Link with data/facts on income inequality

  - ► Modeling of the frictions to labor mobility

# What are the main drivers of income inequality in the real world?

▶ Under perfect labor mobility, wages in all sectors are equal, and there is no labor income inequality

▶ In the model, income inequality comes from differences in wages across sectors

▶ Naturally raises the following question: are sectoral differences in wages an important driver of income inequality in the first place?

What are the main drivers of income inequality in the real world?

▶ Labor income inequality have increased in the U.S. since the late 70s

Figure 1
Standard Deviation of Log Labor and Total Income
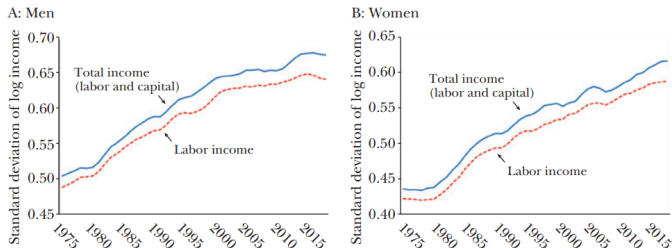
Source: Authors' calculations based on microdata from the March Annual Social and Economic Supplement (ASEC) of the Current Population Survey.
Note: The standard deviations are computed for a sample of full-time/full-year workers age 25-64 earning at least $4 per hour in 2018 dollars. The top 1 percent of the distribution has been trimmed because of inconsistencies in the way earnings at the very top have been collected over time. Labor income consists of net self-employment and wage and salary income. Total income is the sum of labor and capital income (interest income, dividends, and rents). See text for more detail.

Source: Hoffmann Lee Lemieux JEP 2020

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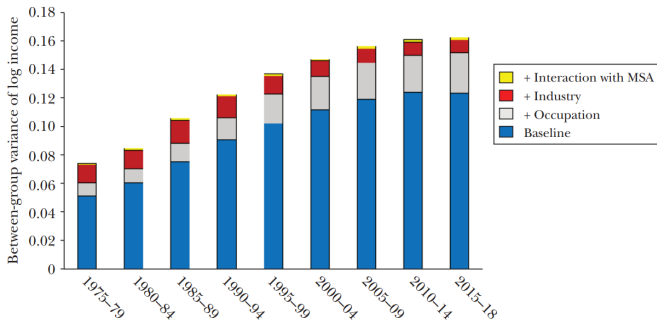 - Higher frictions to labor mobility?

Variance Decomposition Framework

▶ **Workers' industry explains a small fraction of income inequality**, at least when compared to differences in education and experience.

Figure 4
Effect of Additional Covariates on the Between-Group Variance
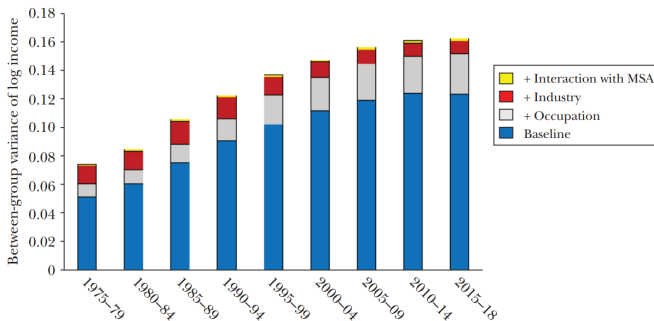
A: Men

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A: Men

▶ More generally, inequality literature somehow shifted focus from industries to occupations and skill requirements

　　▶ Could be useful to explicitly model both sectoral and occupation choices

What are the microfoundations for the frictions to labor mobility?

- ▶ Taste preferences?

- ▶ Industry-specific skills that cannot be easily transferred to other industries?

- ▶ Do they indirectly reflect occupation-specific skills and the overlap in occupation mix across industries?

Why not explicitly take into account "the sectoral labor mobility matrix" in the model?

► **What is the shape of the sectoral job-to-job transition matrix?**

Table 2

Summary of Industry Pairs based on Human Capital Transferability Index

This table lists the top 10 industries based on the Human Capital Transferability (HCT) Index. We define industries using the Fama-French 49 industry classification. The HCT index is the average within each industry pair of the percentage of job changers from each industry who move to the other industry in the pair. We compute the HCT index annually from 1990 to 2007 and use the average over all years to rank industries. For each panel, we report the list based on versions of the HCT index using all workers (left panel) and workers with wages > $5,000 (right panel). In Panel C, we exclude industry pairs if the average industry output flows between the industries exceed 2.5% using the I/O matrix from the Bureau of Economic Analysis (BEA).

Panel A: All Industry Pairs

		All Workers					Workers with Wage >$75K		
Ind1	Ind2	Ind1_Des	Ind2_Des	HCT Index	Ind1	Ind2	Ind1_Des	Ind2_Des	HCT Index
11	33	Hlth	Persv	8.88%	34	42	Bussv	Whlsl	12.44%
34	42	Bussv	Whlsl	8.64%	11	33	Hlth	Persv	8.58%
43	44	Retail	Meals	8.27%	45	48	Banks	Fin	8.48%
33	43	Persv	Retail	8.06%	42	43	Whlsl	Retail	5.98%
33	34	Persv	Bussv	7.69%	35	37	Hardw	Chips	5.72%
42	43	Whlsl	Retail	7.58%	34	37	Bussv	Chips	5.32%
34	43	Bussv	Retail	7.09%	37	42	Chips	Whlsl	5.28%
11	34	Hlth	Bussv	6.47%	18	47	Constr	RlEst	5.20%
18	34	Constr	Bussv	5.56%	33	34	Persv	Bussv	4.94%
34	44	Bussv	Meals	5.34%	32	34	Telcm	Bussv	4.81%

From Tate Yang WP - Micro data from LEHD

► Overlap with the input-output matrix?

► Implications for TFP shock propagation across sectors?