Capitalists in the 21st Century*

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Abstract

We study rising business income among top income households using a large sample of U.S. firms linked to their owners and workers from 1999-2015. We establish four findings. First, business income growth accounts for nearly all of the rise in top income inequality in the 21st century. Second, business income growth is broad-based across sectors and not concentrated among a few top firms. Third, top-owned firms earn higher profit margins than other firms, which is primarily due to diverging firm performance rather than reallocation of top ownership, risk, or disguised labor payments for tax minimization. Fourth, profits have increased most in firms that rely on high-skilled human capital, especially when deployed at the top of the organization. Our findings suggest that market-based forces play a leading role in generating not only labor income inequality, but also capital income inequality. These findings have implications for central issues in economics: the measurement and determinants of income inequality and the labor share, the dispersion in firm productivity, the returns to schooling, and taxation of top labor and capital income.

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