

Econ 133 – Global Inequality and Growth

The United States in international perspective

Gabriel Zucman

zucman@berkeley.edu

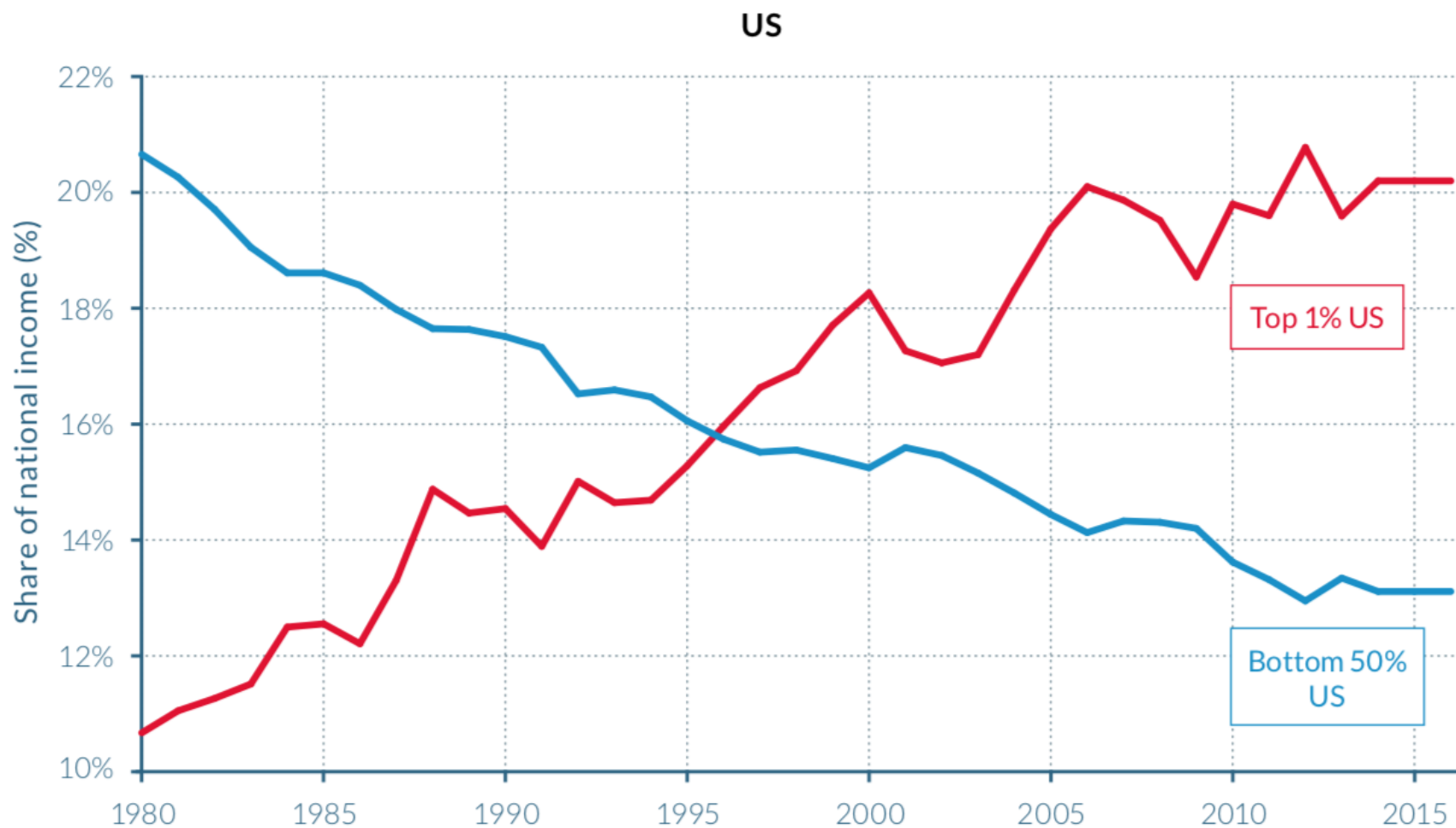
Roadmap

1. Inequality in the U.S. vs. Europe
2. Labor vs. capital
3. Pre-tax vs. post-tax

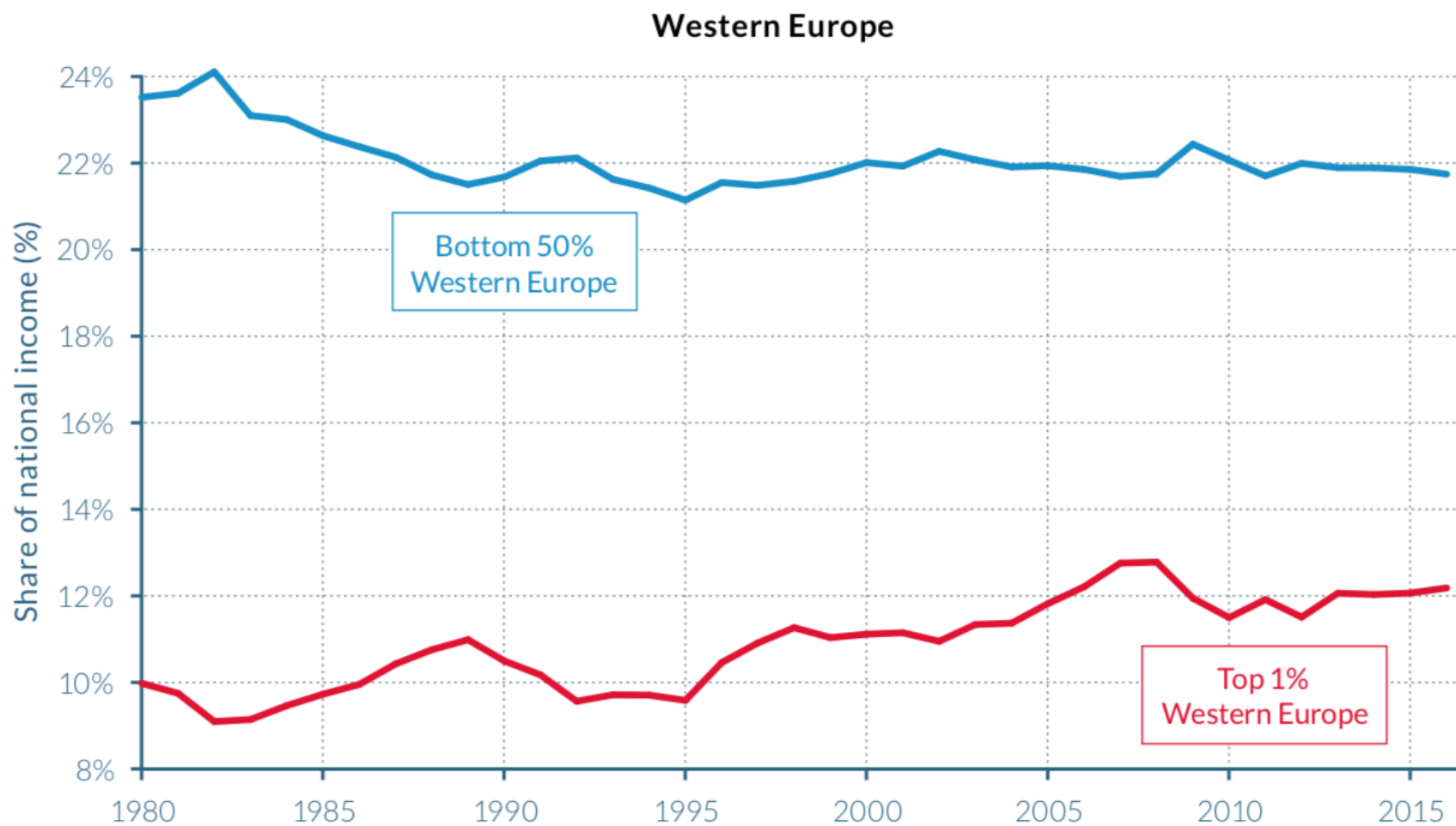
1 The U.S. vs. other developed countries

- Inequality has increased more in the US than other developed countries
- Technology, globalization cannot explain this pattern
- Domestic policies matter

Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980-2016



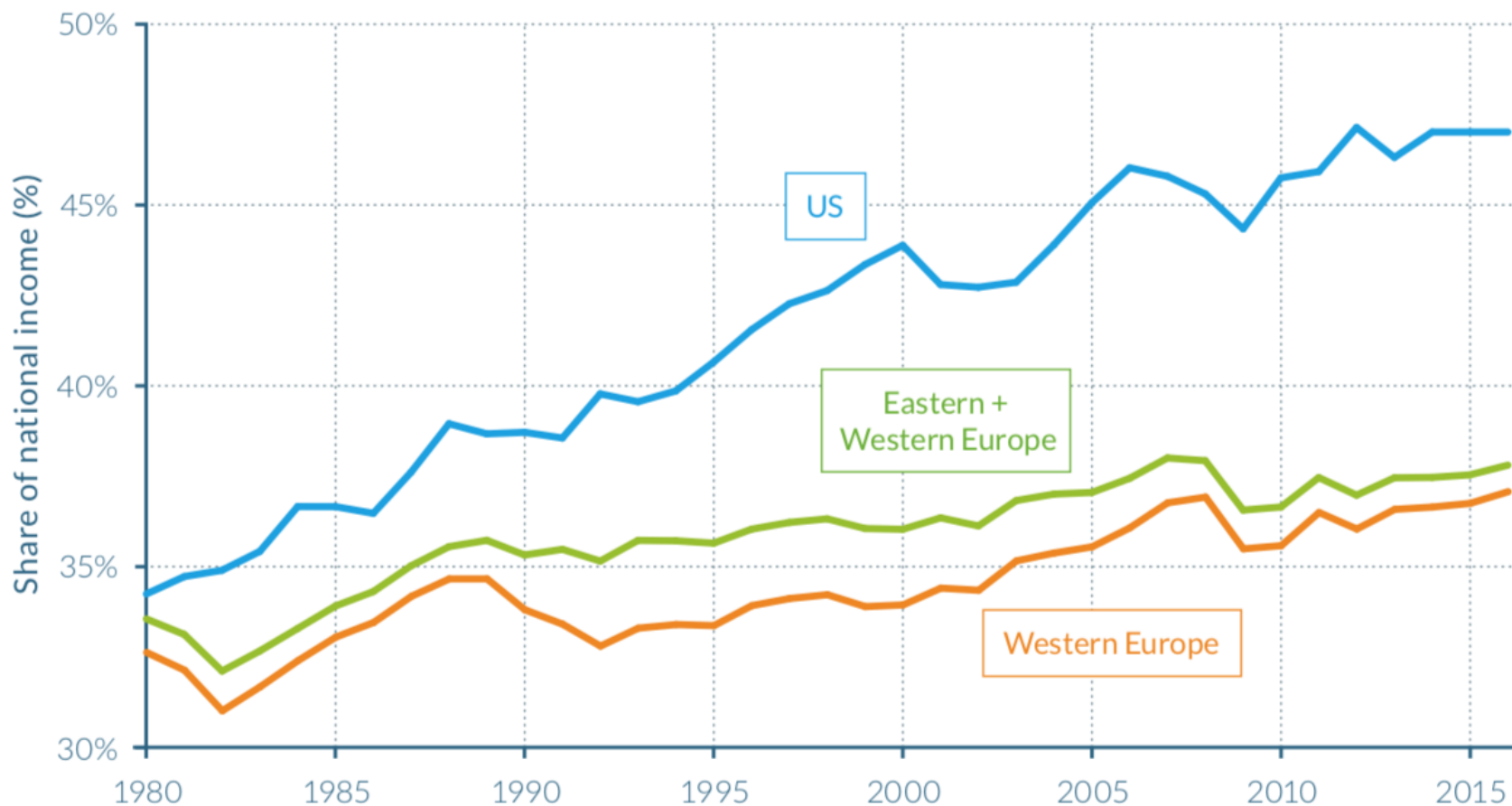
Source: WID.world (2017). See wir2018.wid.world for data series and notes.



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In 2016, 22% of national income was received by the Bottom 50% in Western Europe.

Top 10% national income share in Europe and the US, 1980-2016



Source: WID.world (2017). See [wir2018.wid.world](#) for data series and notes.

In 2016, 38% of national income was received by the Top 10% in Eastern and Western Europe.

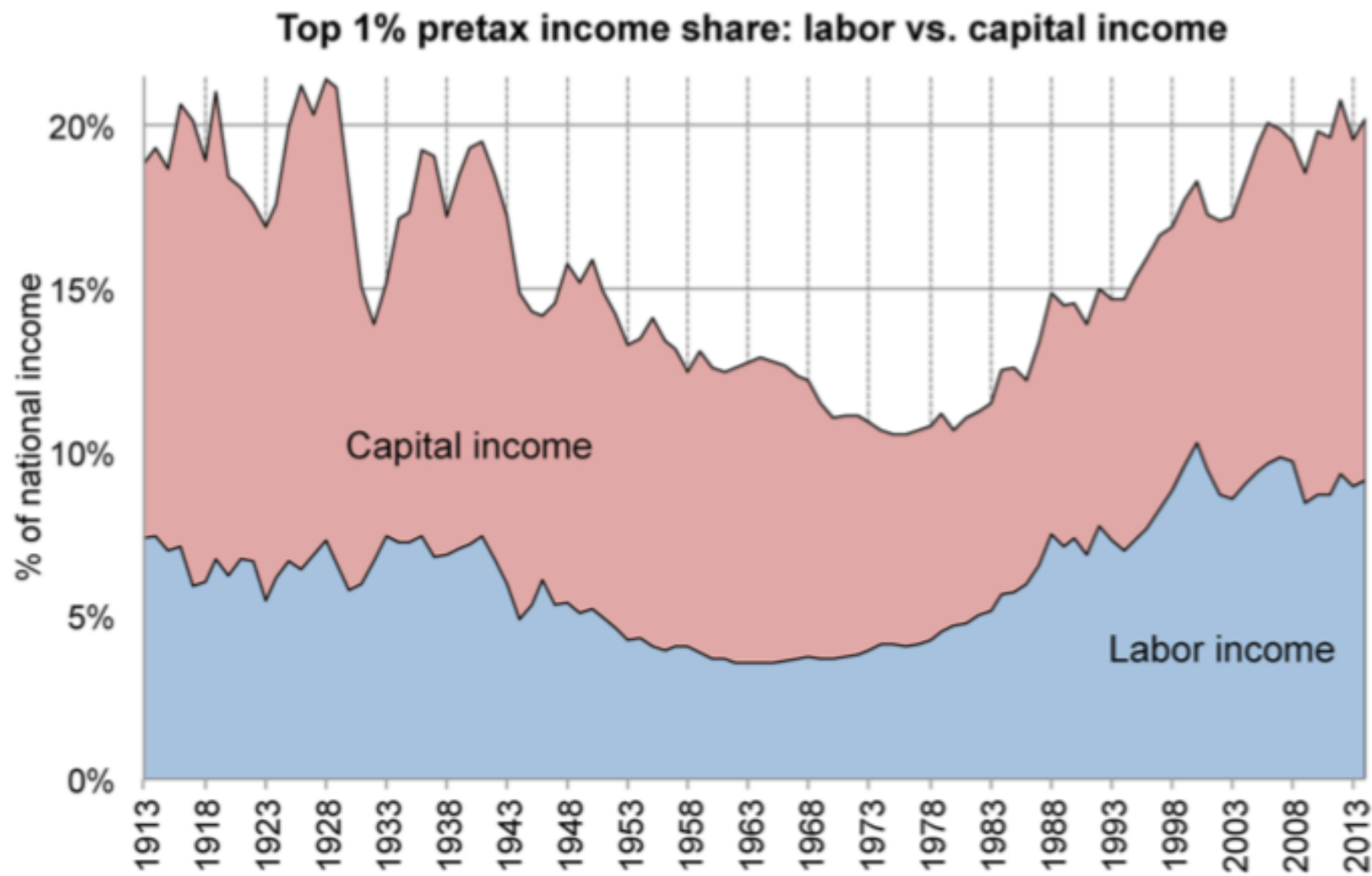
2 The role of capital vs. labor income at the top

Several ways in which overall income inequality can be high:

- “Rentier society”: high ineq. of wealth, inherited = Europe in 1913
- “Robber baron”: high ineq. of wealth, self-made = US in 1913
- “Supermanagers”: high inequality of labor income = US in 1990s
- Combination of the above = the US in 2020 – 2030?

Role of capital vs. labor in dynamics of US top income shares:

- Huge increase in income concentration at the top since 1980s
- Mostly due to ↗ labor income inequality up to 2000s
- Since then, mostly due to ↗ capital inequality



Source: Appendix Table II-B2b

FIGURE VIII

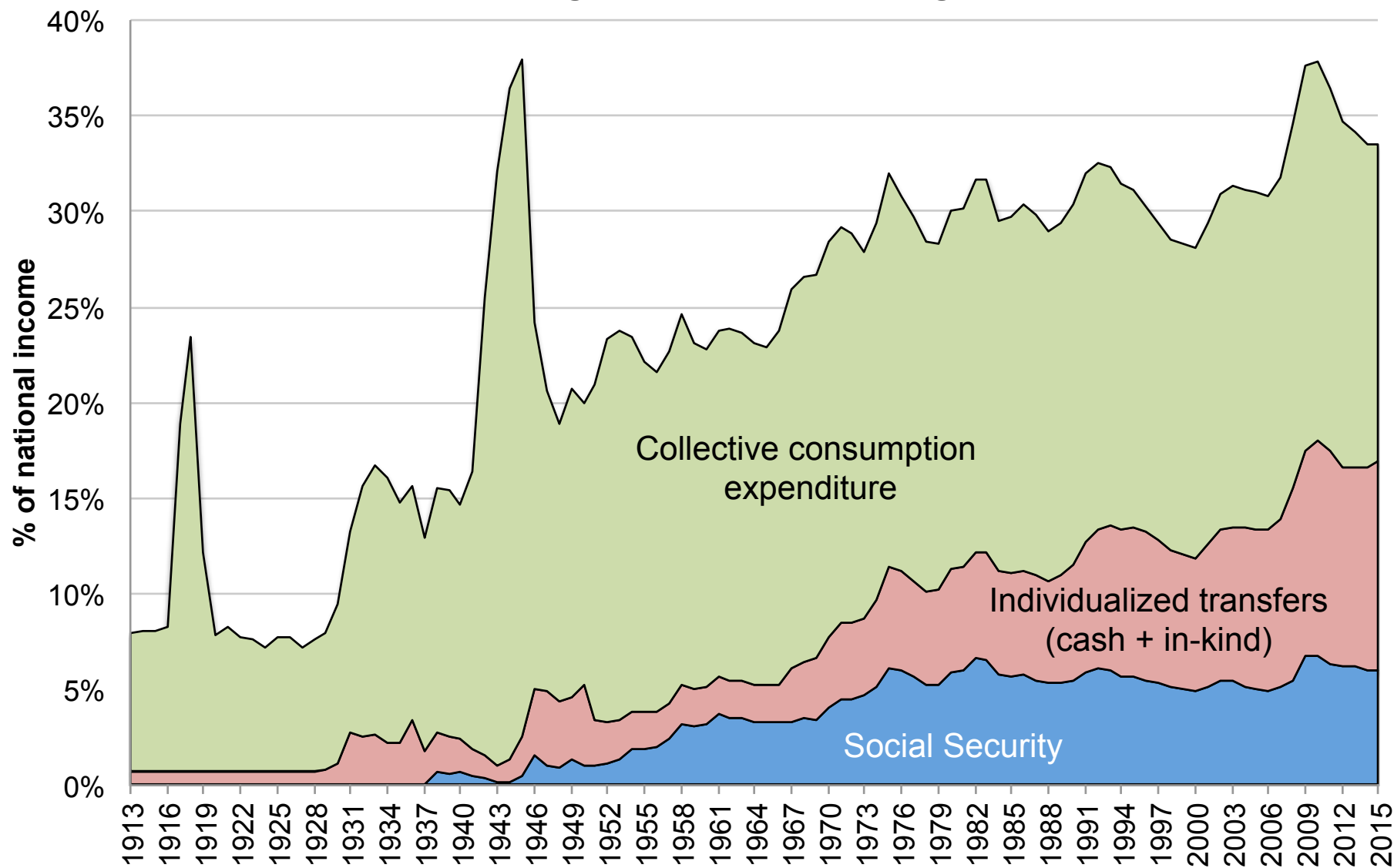
3 Pre-tax vs. post-tax inequality

3.1 What do governments do?

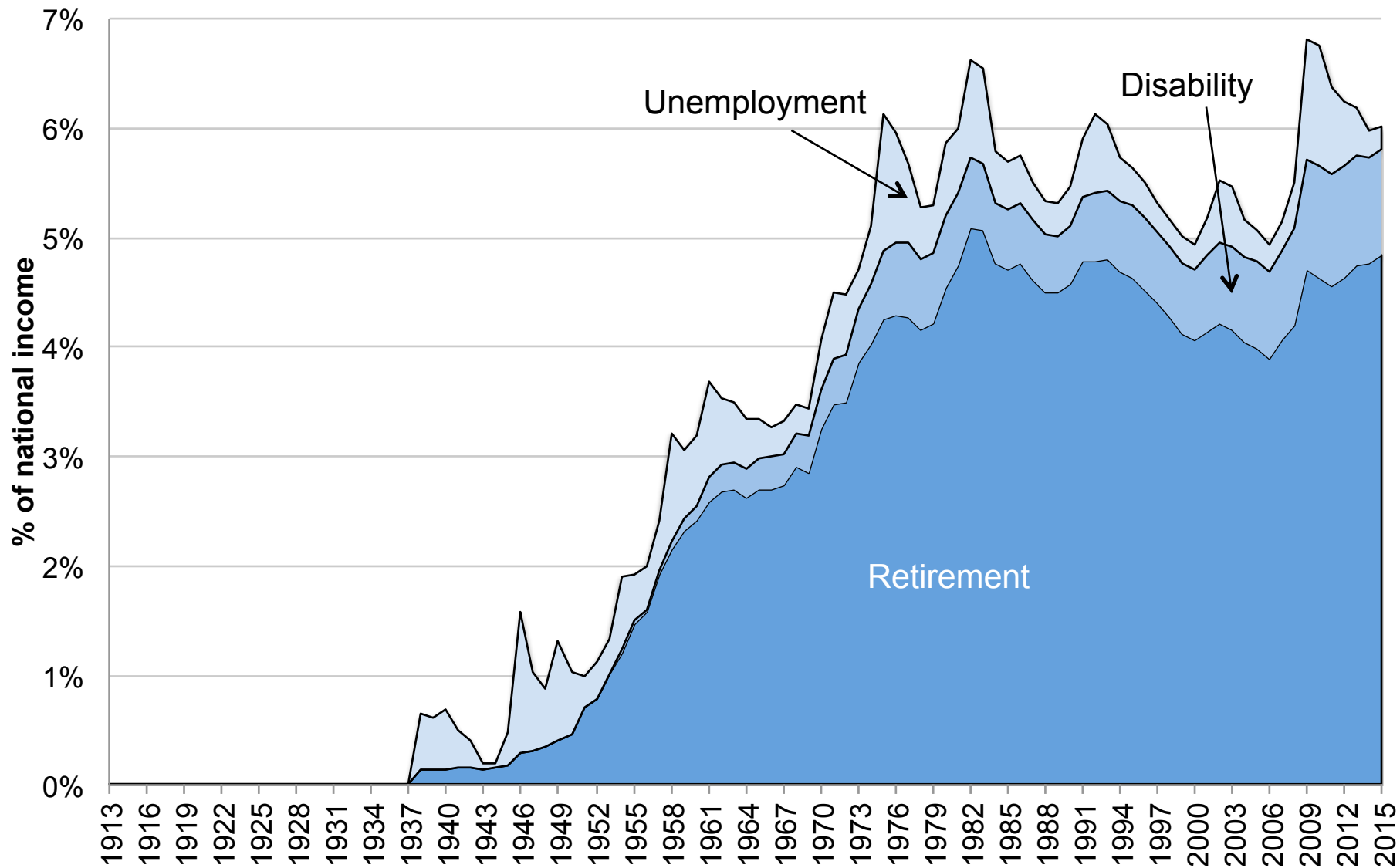
Governments tax and redistribute a big fraction of national income

- US: 1/3 of national income
- Europe: 40-50% of national income
- Developing countries: 5-30% of national income

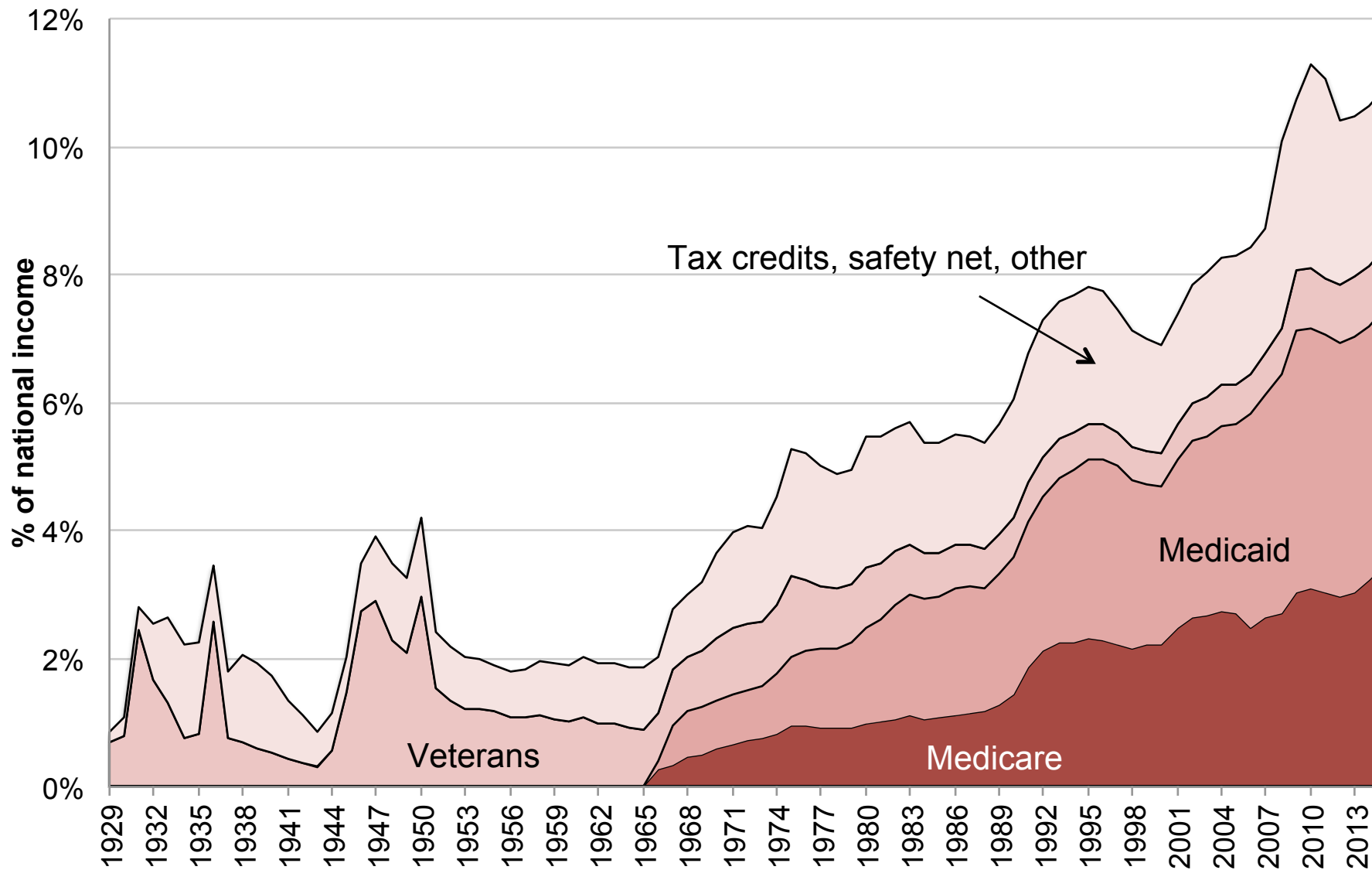
US government spending



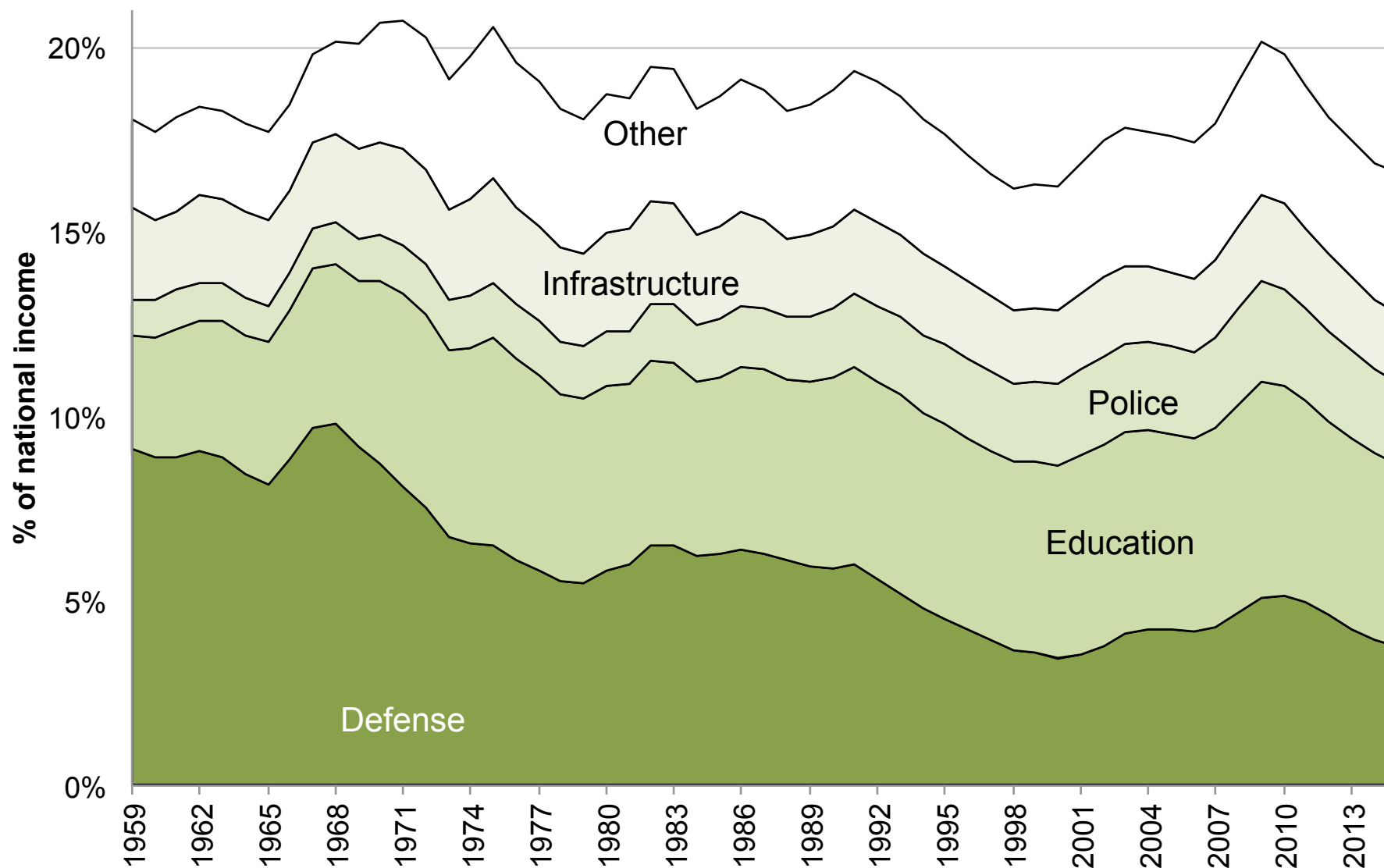
Social Security spending



Individualized transfers (cash + in-kind)



US government collective consumption expenditure

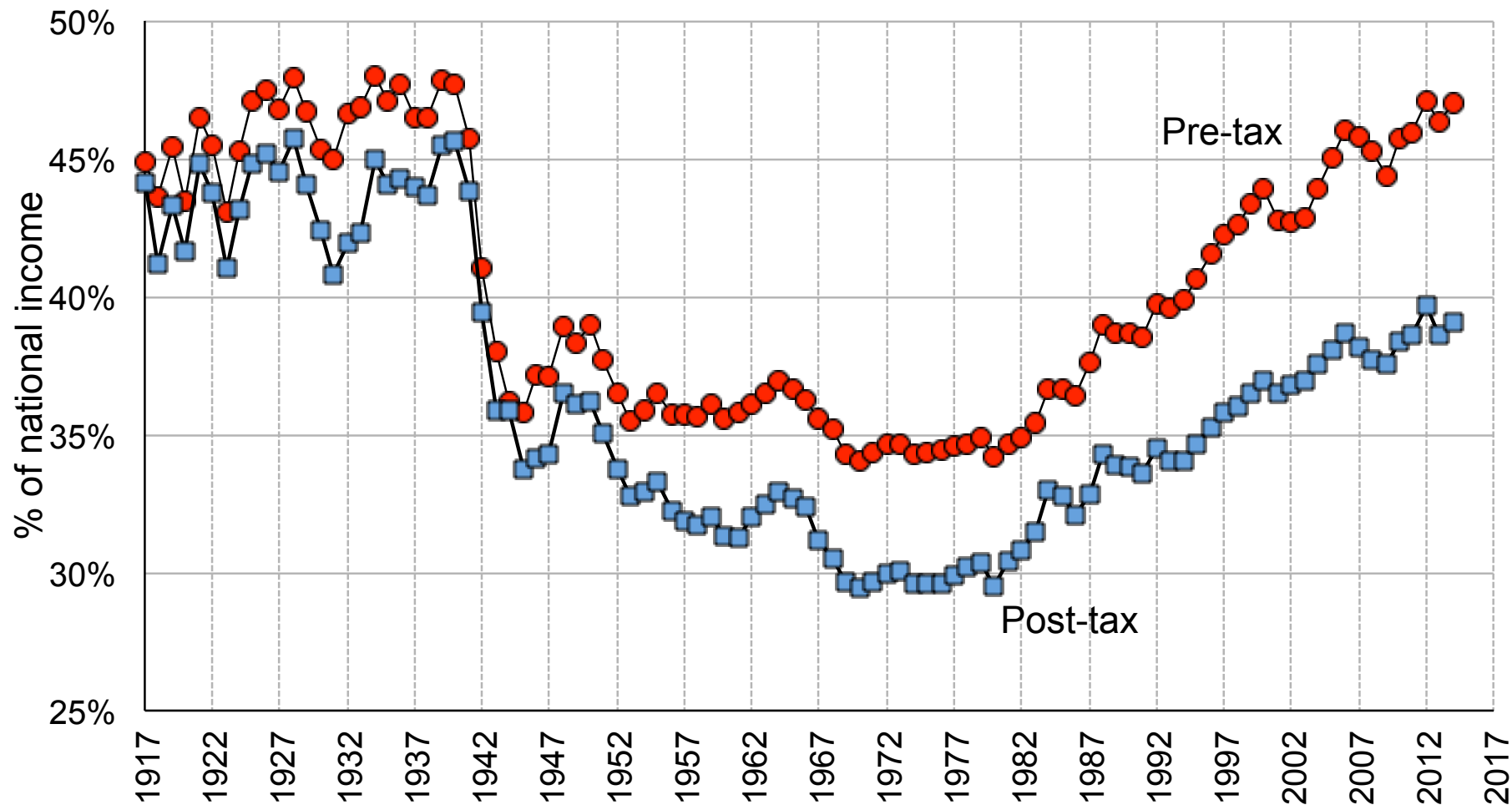


3.2 Post-tax vs. pre-tax inequality

- Denote z pre-tax income, $y = z - T(z) + B(z)$ post-tax income
- If inequality in y is less than inequality in $z \Leftrightarrow$ tax and transfer system is redistributive (or progressive)
- If inequality in y is more than inequality in $z \Leftrightarrow$ tax and transfer system is regressive
- US tax and transfer system is overall redistributive

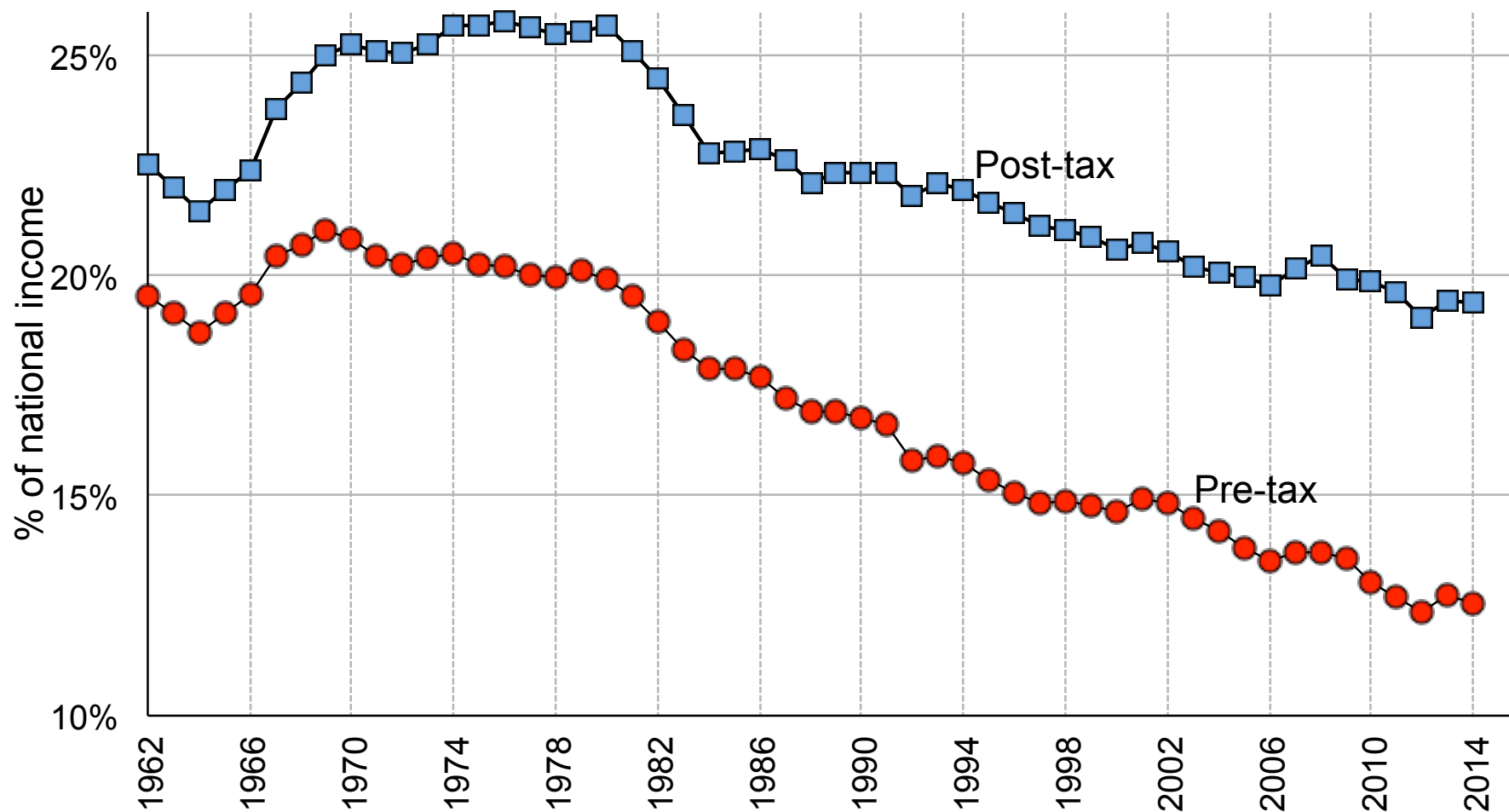
- But redistribution of limited size and has not offset rise in pre-tax inequality
- Excluding health transfers, negligible net redistribution toward bottom 50%

Top 10% national income share: pre-tax vs. post-tax

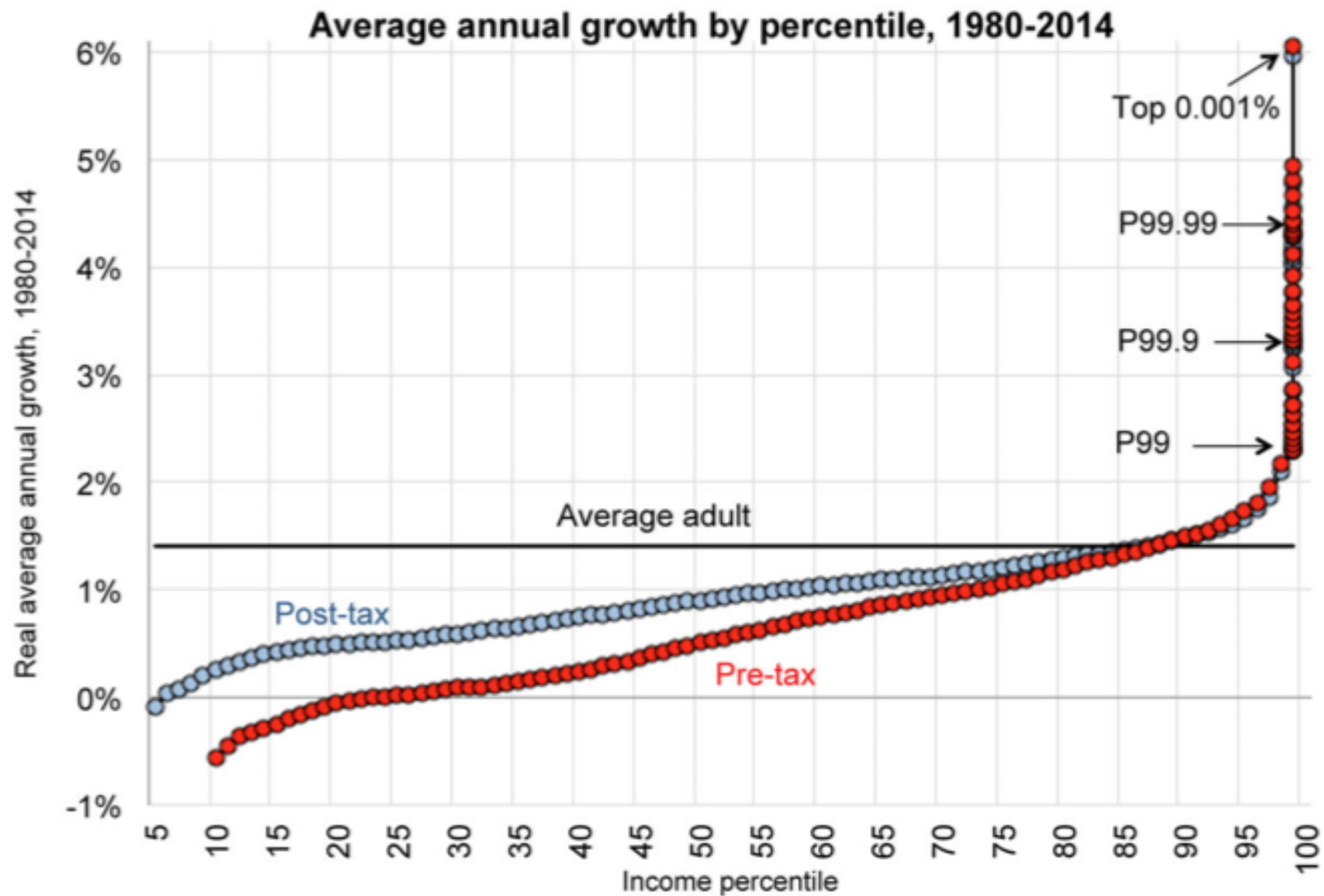


Source: Appendix Tables II-B1 and II-C1

Bottom 50% national income share: pre-tax vs. post-tax



Source: Appendix Tables II-B1 and II-C1



In the United States today, government intervention (total taxes + total transfers):

A — Does not affect the distribution of income

B — Exacerbates inequality

C — Reduces inequality

D — Has offset the rise of pre-tax inequality since the 1980s

4 Summary

- Rising labor income inequality explains bulk of rising income inequality in the US from 1970 to 2000s; now capital is key
- Bottom 50% shut off from growth in US since '80 (\neq Europe)
- Government spending has increased in US since the 1960s
- Overall, government redistribution has offset only a small fraction of the rise in pre-tax inequality

References

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