

# **Econ 133 – Global Inequality and Growth**

## **Income inequality across time and space**

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## Roadmap

- Basic orders of magnitude: concentration of labor income vs. capital income
- The decline in income inequality in 1st half of the 20th century
- The 2 worlds of income inequality today
- Reference for this lecture: Piketty (2014), chap. 7 and 8

# 1 Orders of magnitude

Labor income  $Y_L$  always less concentrated than capital income  $Y_K$ :

- Top 10% share is 20-30% for labor income, 50-90% for capital
- Bottom 50% share is 20-30% for labor income, 0-10% for capital
- Gini coefficients: 0.2 – 0.4 for labor income, 0.6 – 0.8 for capital

TABLE 7.1.  
*Inequality of labor income across time and space*

Share of different groups in total labor income	Low inequality (≈ Scandinavia, 1970s–1980s)	Medium inequality (≈ Europe 2010)	High inequality (≈ US 2010)	Very high inequality (≈ US 2030?)
The top 10% (“upper class”)	20%	25%	35%	45%
Including the top 1% (“dominant class”)	5%	7%	12%	17%
Including the next 9% (“well-to-do class”)	15%	18%	23%	28%
The middle 40% (“middle class”)	45%	45%	40%	35%
The bottom 50% (“lower class”)	35%	30%	25%	20%
Corresponding Gini coefficient (synthetic inequality index)	0.19	0.26	0.36	0.46

*Note:* In societies where labor income inequality is relatively low (such as in Scandinavian countries in the 1970s–1980s), the top 10% most well paid receive about 20% of total labor income; the bottom 50% least well paid about 35%; the middle 40% about 45%. The corresponding Gini index (a synthetic inequality index with values from 0 to 1) is equal to 0.19. See the online technical appendix.

Source: Piketty (2014).

TABLE 7.2.  
*Inequality of capital ownership across time and space*

Share of different groups in total capital	Low inequality (never observed; ideal society?)	Medium inequality (≈ Scandinavia, 1970s–1980s)	Medium–high inequality (≈ Europe 2010)	High inequality (≈ US 2010)	Very high inequality (≈ Europe 1910)
The top 10% “upper class”	30%	50%	60%	70%	90%
Including the top 1% (“dominant class”)	10%	20%	25%	35%	50%
Including the next 9% (“well- to-do class”)	20%	30%	35%	35%	40%
The middle 40% (“middle class”)	45%	40%	35%	25%	5%
The bottom 50% (“lower class”)	25%	10%	5%	5%	5%
Corresponding Gini coefficient (synthetic inequality index)	0.33	0.58	0.67	0.73	0.85

*Note:* In societies with “medium” inequality of capital ownership (such as Scandinavian countries in the 1970s–1980s), the top 10% richest in wealth own about 50% of aggregate wealth; the bottom 50% poorest about 10%; and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0.58. See the online technical appendix.

Source: Piketty (2014).

Several ways in which overall income inequality can be high:

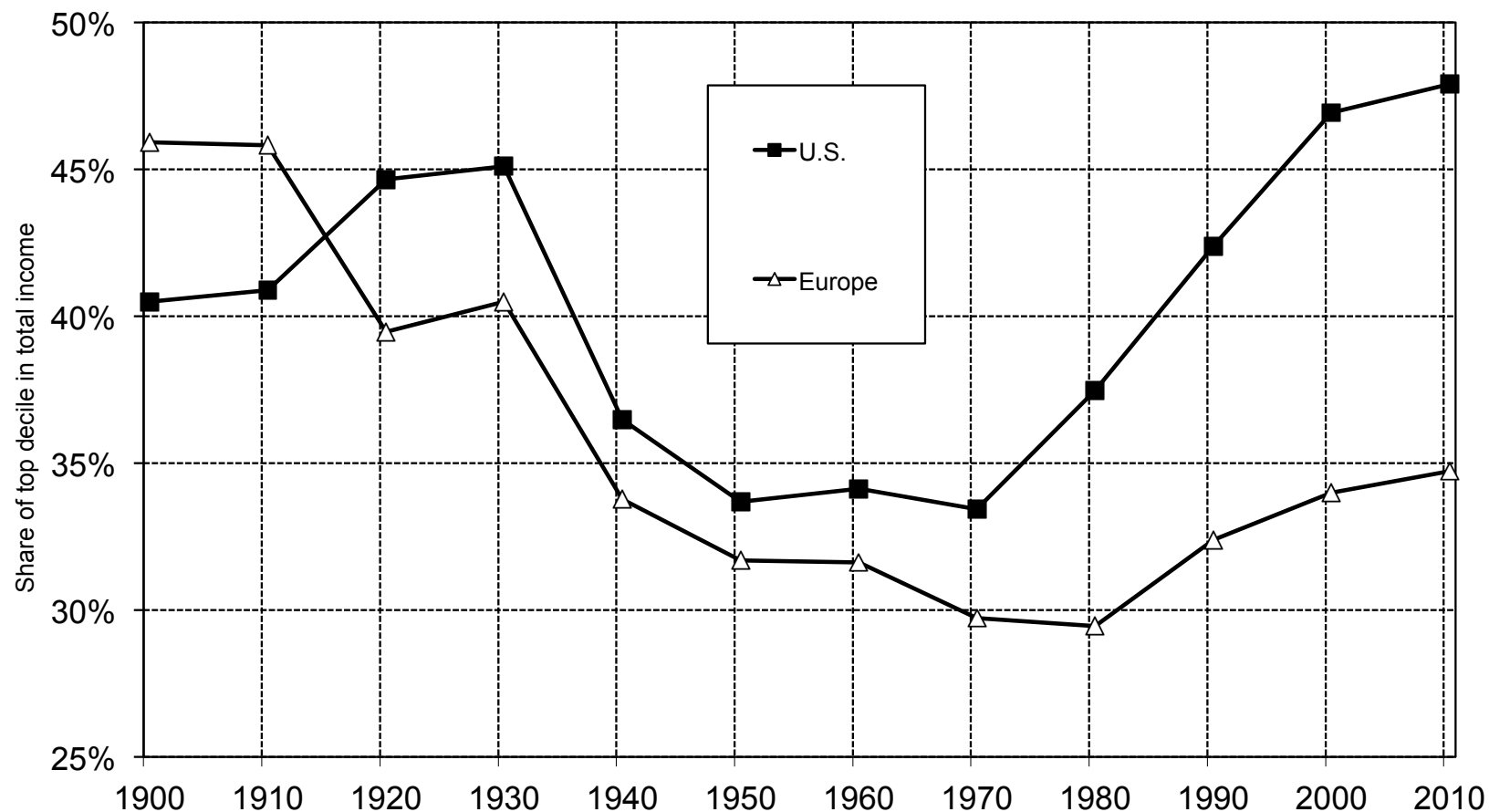
- “Rentier society”: high ineq. of wealth, inherited = Europe in 1913
- “Robber baron society”: high inequality of wealth, self-made = US in 1913
- “Supermanagers society”: high inequality of labor income = US in 1990s
- Combination of the above = the US in 2020 – 2030?

## 2 The decline of income inequality 1913-1950

General ↘ in income inequality 1913-1950

- Largely a capital phenomenon
  - Large shocks to top fortunes 1913-1945
  - Rise of patrimonial middle-class
- But very different trends post 1970

**Figure 9.8. Income inequality: Europe vs. the United States, 1900-2010**



The top decile income share was higher in Europe than in the U.S. in 1900-1910; it is a lot higher in the U.S. in 2000-2010. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

Source: Piketty (2014).

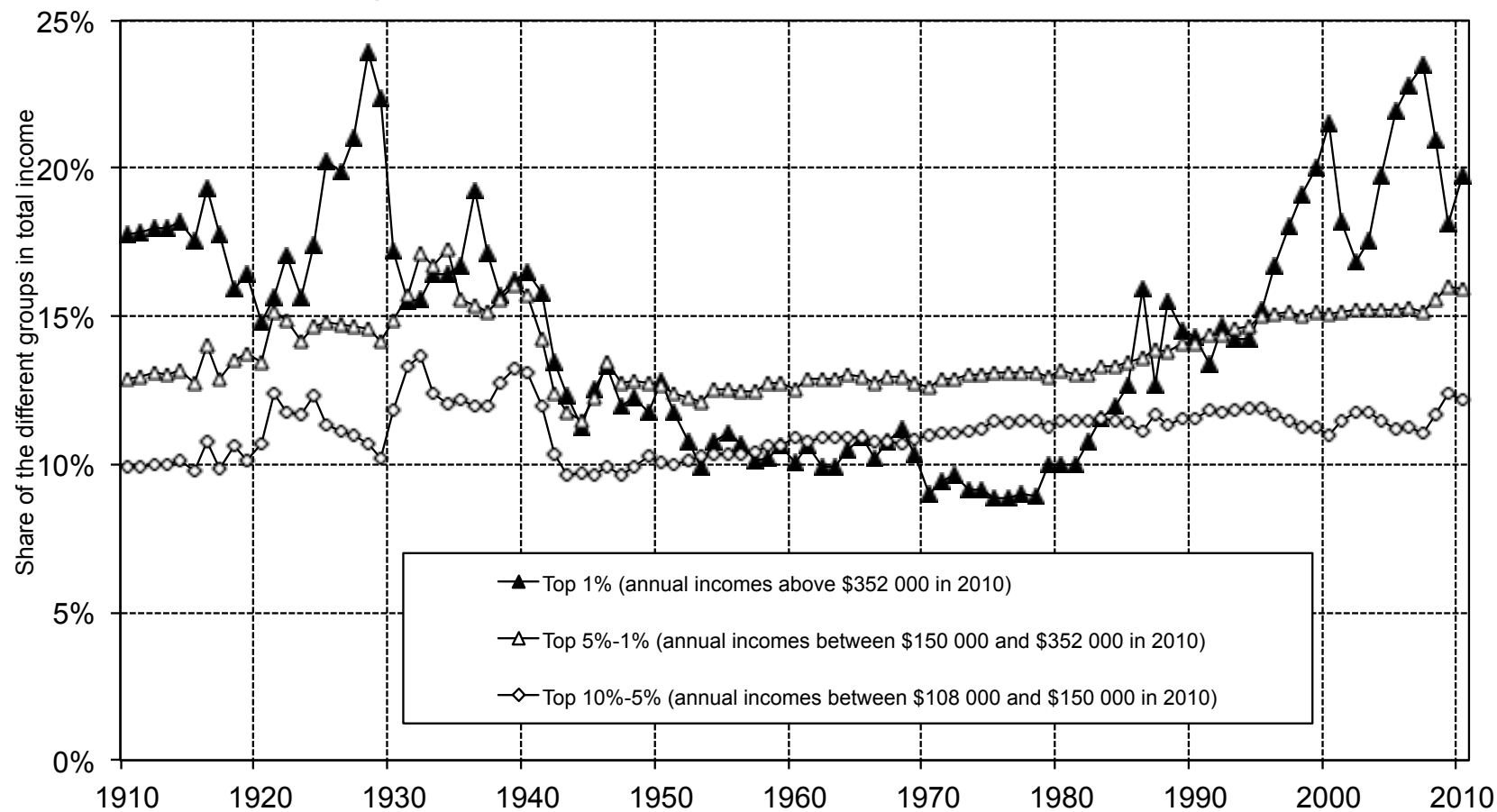


## 3 The two worlds of income inequality today

### 3.1 United States

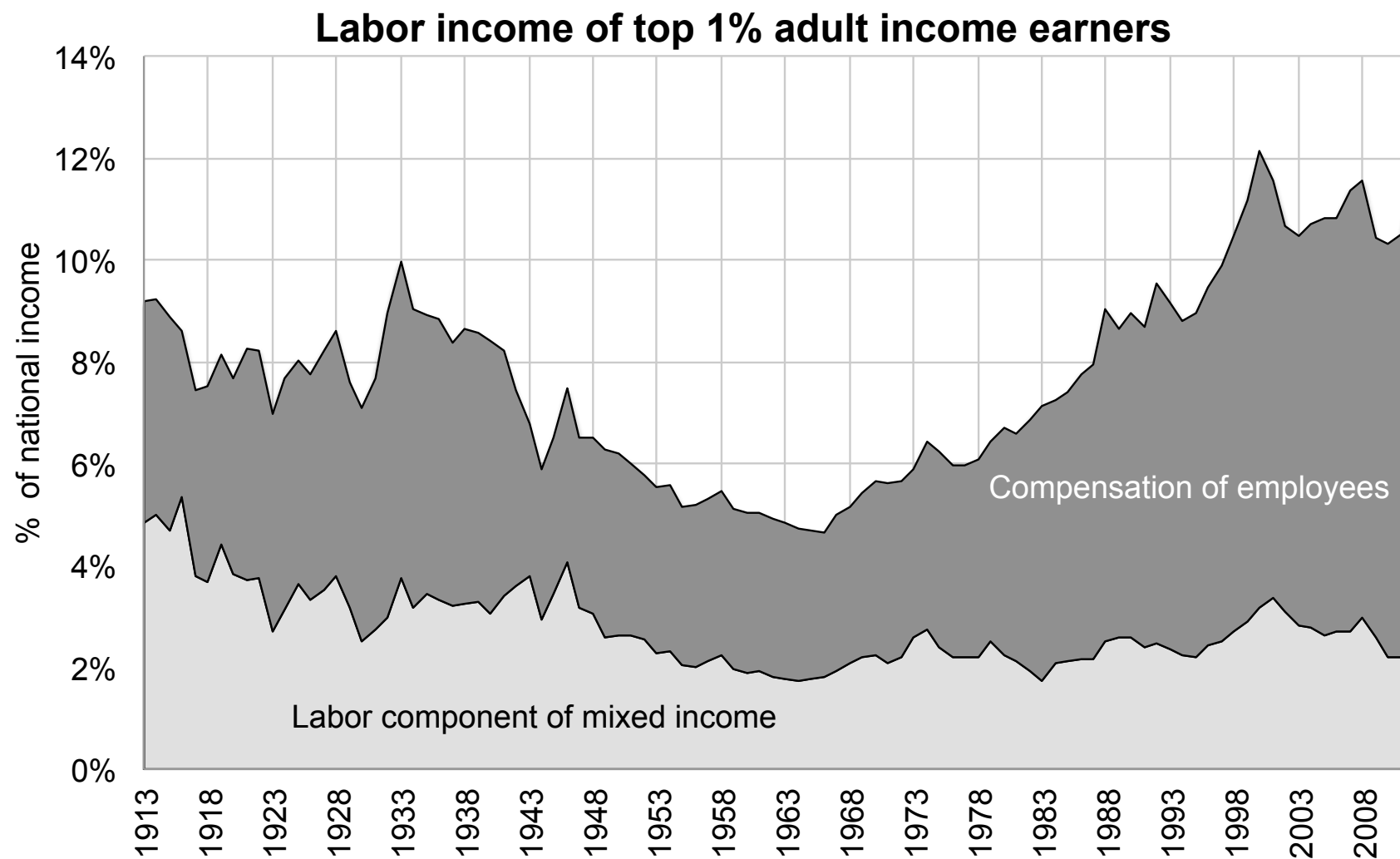
- Inequality of income has grown a lot since 1980s
- Mostly due to ↗ of top 1%, not to next 9%
- Mostly due to ↗ labor income inequality up to 2000s, now mostly due to ↗ capital inequality

**Figure 8.6. Decomposition of the top decile, U.S. 1910-2010**

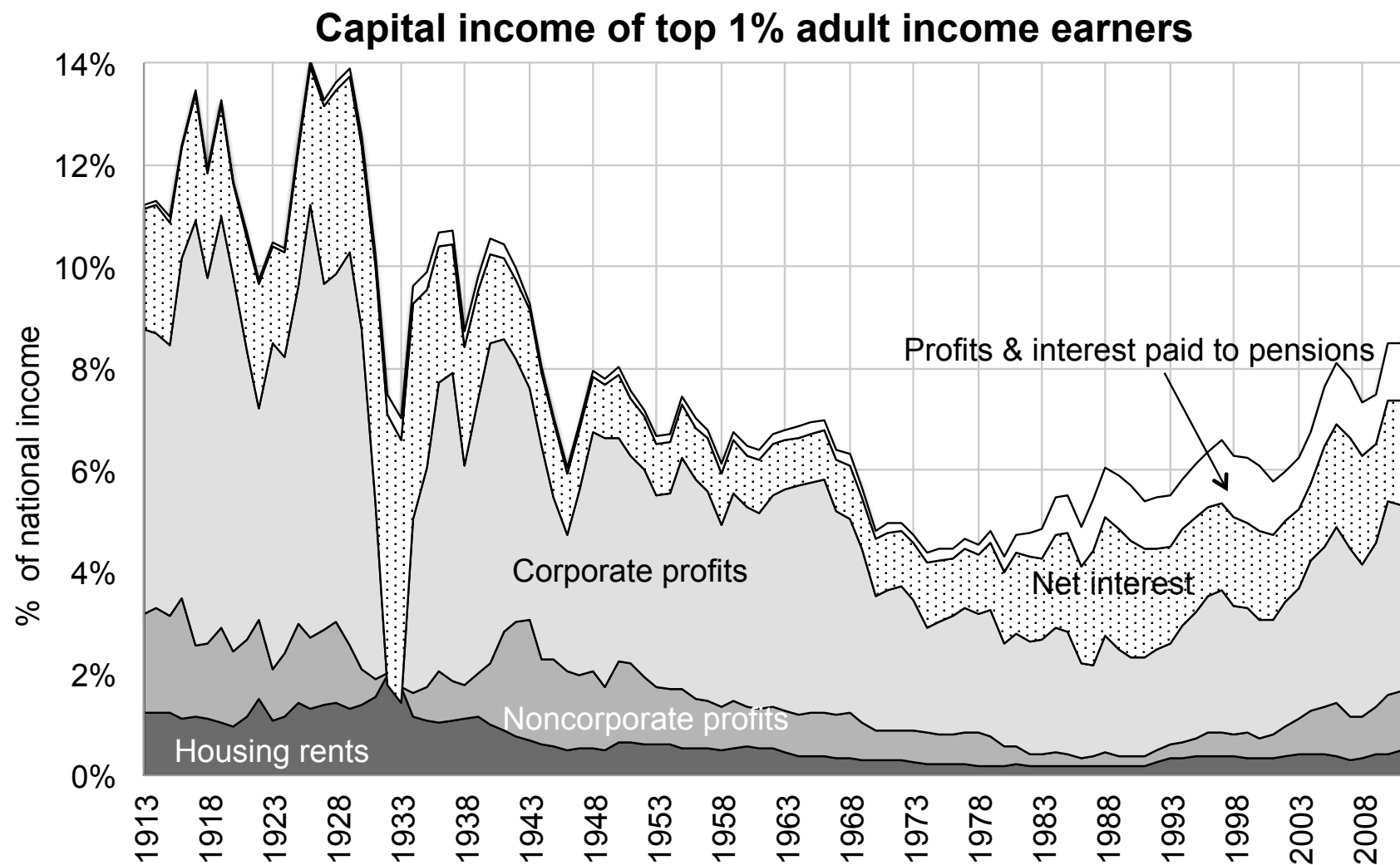


The rise of the top decile income share since the 1970s is mostly due to the top percentile.  
Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

Source: Piketty and Saez (2003), updated



Source: Piketty, Saez and Zucman (2016)

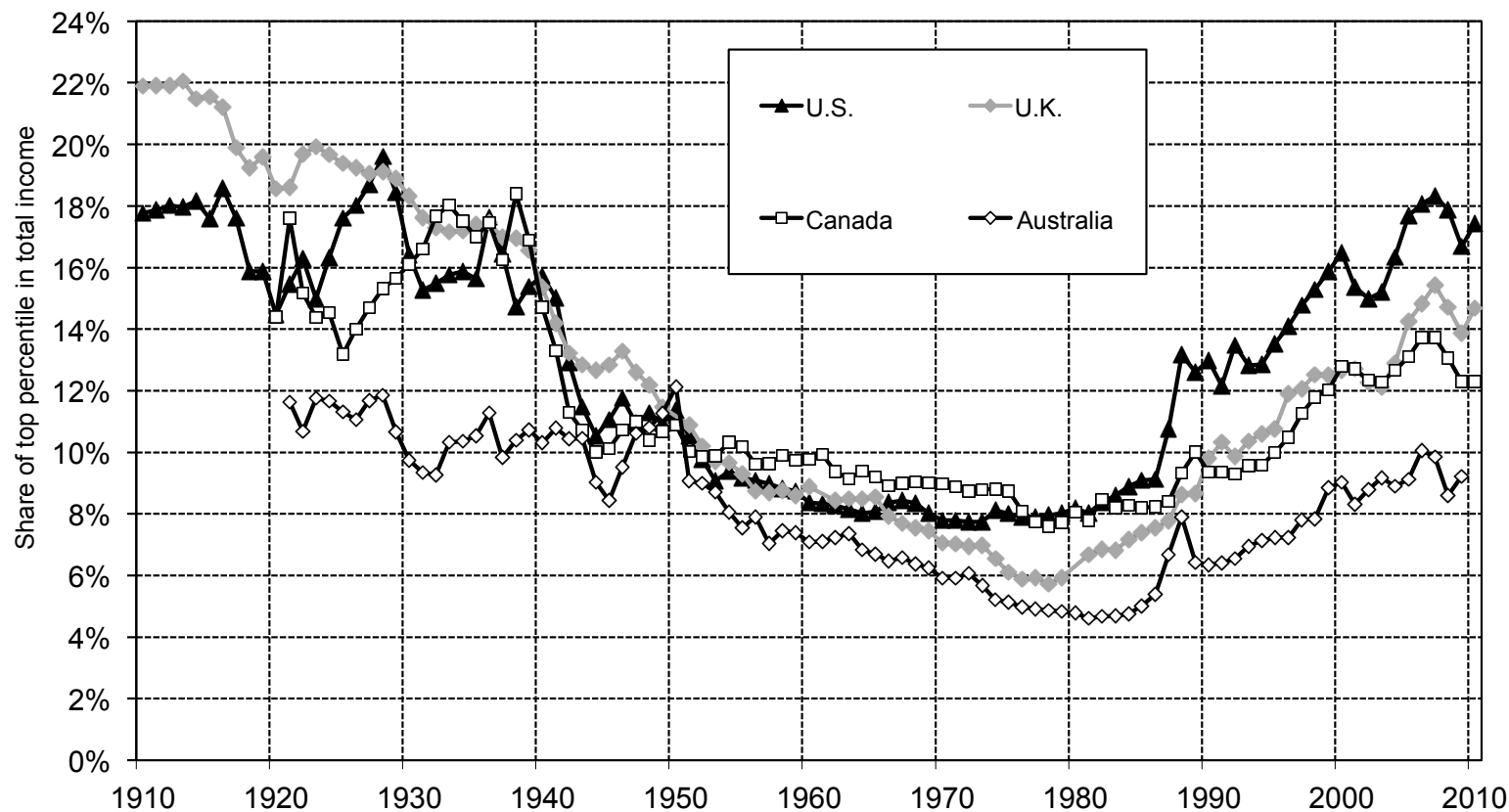


Source: Piketty, Saez and Zucman (2016)

## 3.2 The rest of the world

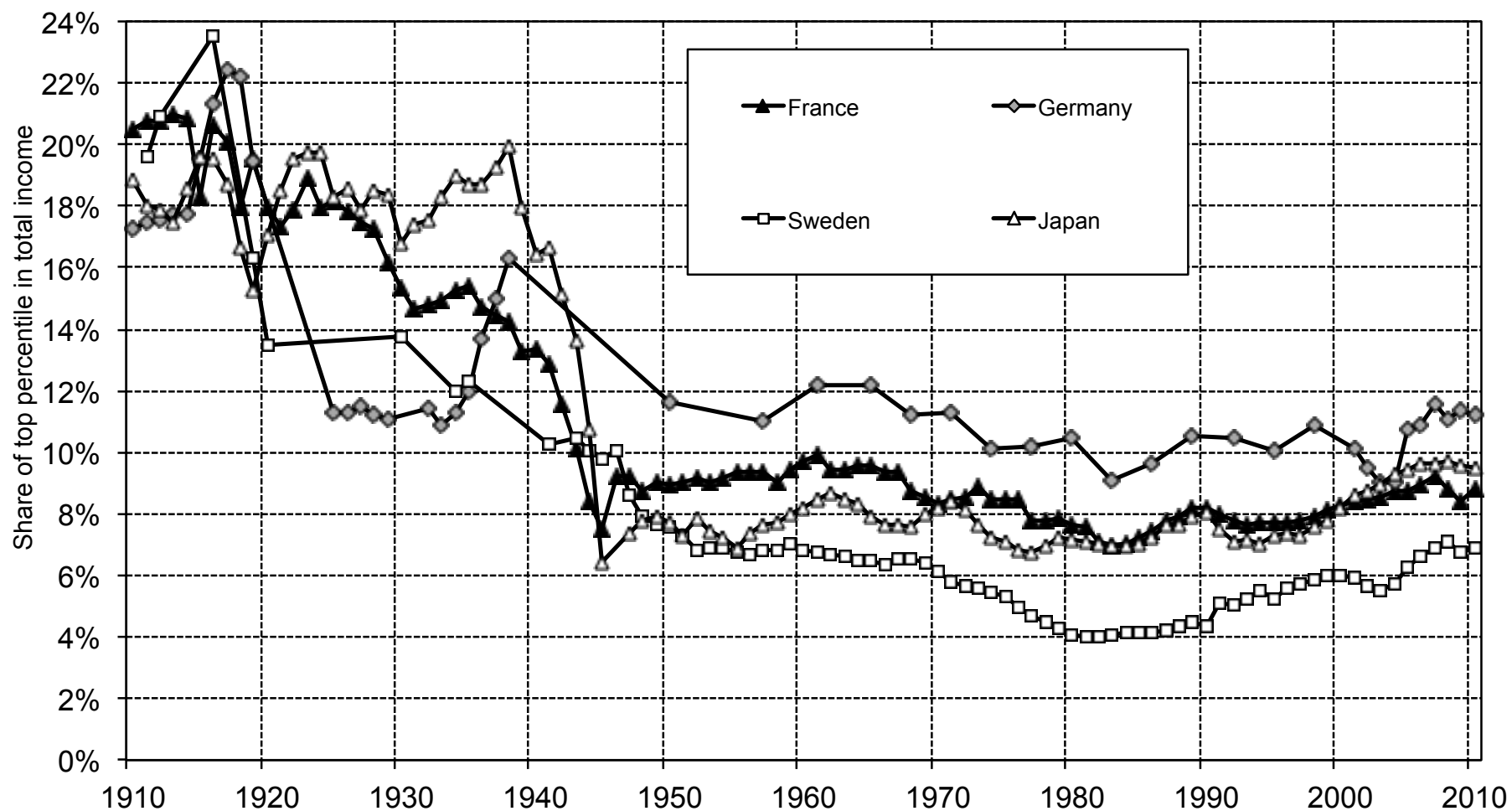
- Variety of trajectories
- Key pattern: large ↗ in inequality in Anglo-saxon countries, not much in Continental Europe & Japan
- Reference on this: Atkinson and Piketty (2007, 2010) and <http://wid.world>.

**Figure 9.2. Income inequality in Anglo-saxon countries, 1910-2010**



The share of top percentile in total income rose since the 1970s in all Anglo-saxon countries, but with different magnitudes. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

**Figure 9.3. Income inequality: Continental Europe and Japan, 1910-2010**



As compared to Anglo-saxon countries, the share of top percentile barely increased since the 1970s in Continental Europe and Japan. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

## 4 Summary

- Labor income inequality has increased a lot in the US, less so elsewhere
- Rising labor income inequality explains bulk of rising income inequality in the US from 1970 to 2000s; now capital is key
- Over the long run, change in capital concentration is usually the main driver of changes in income concentration



## References

Atkinson, Anthony, and Thomas Piketty (2007), *Top incomes over the twentieth century: a contrast between continental european and english-speaking countries*, Oxford : Oxford university press, 2007 (web)

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