

Econ 133 – Global Inequality and Growth

Inequality between individuals: Trends

Gabriel Zucman
zucman@berkeley.edu

Roadmap

- Basic orders of magnitude: concentration of labor income vs. capital income
- Trends in top pre-tax income shares
- Trends in bottom 50% pre-tax income share

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:

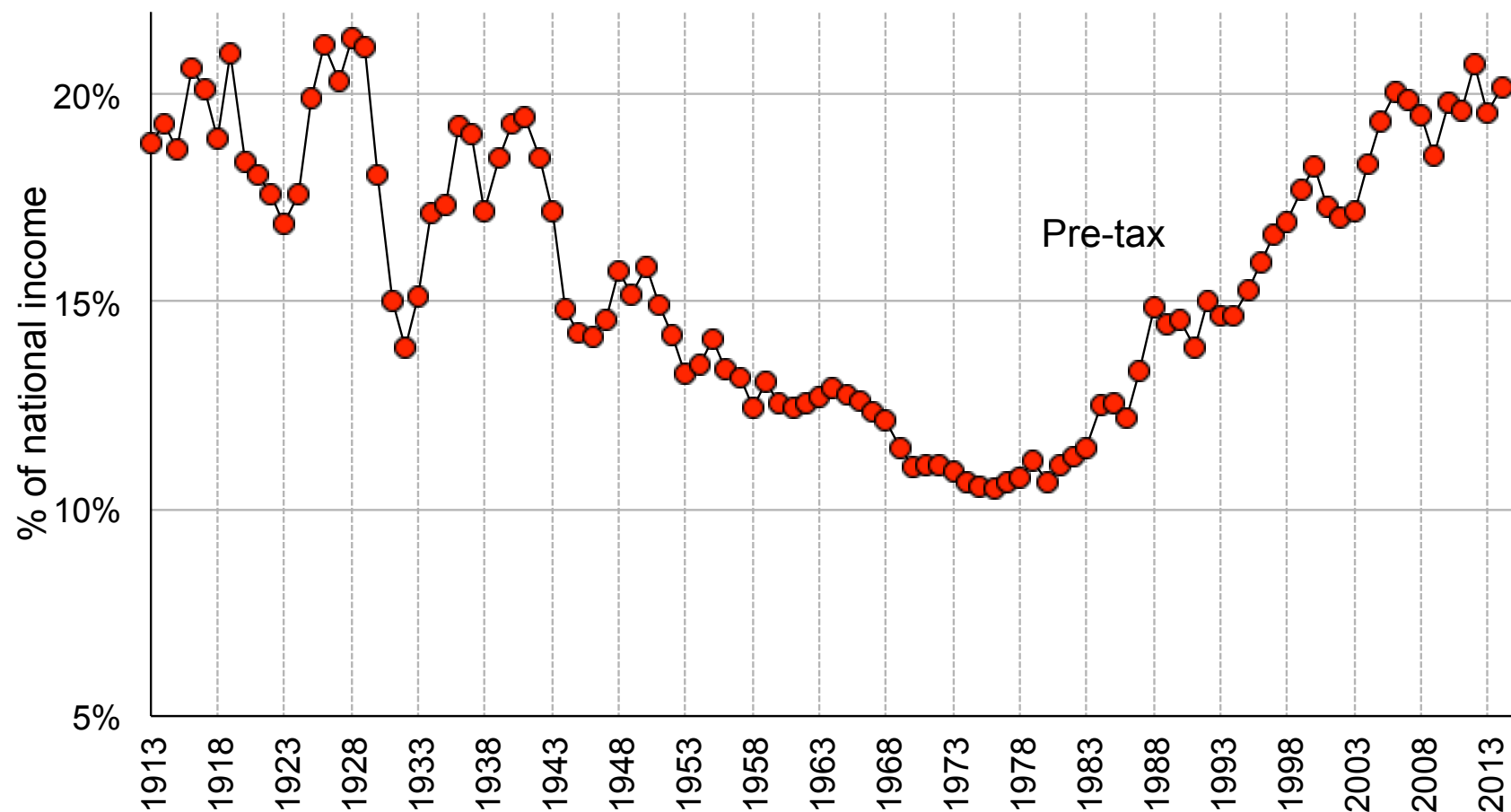
- “Rentier society”: high ineq. of wealth, inherited = Europe in 1913
- “Robber baron society”: high inequality of wealth, self-made = US in 1913
- “Supermanagers society”: high inequality of labor income = US in 1990s
- Combination of the above = the US in 2020 – 2030?

2 Trends in top pre-tax income shares

2.1 The rise in top income shares in the United States

- 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

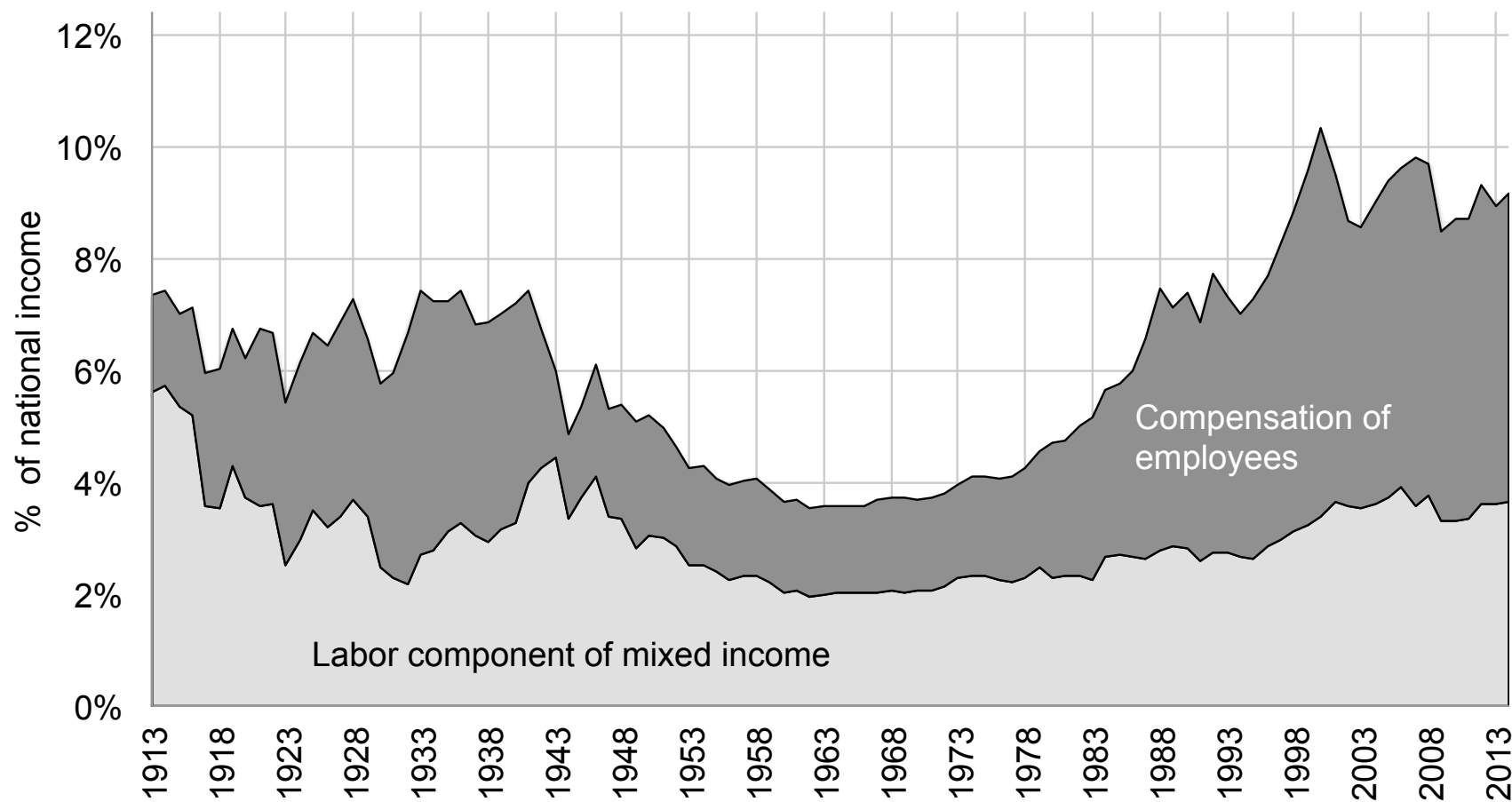
Top 1% pre-tax national income share in the United States



Source: Appendix Tables II-B1 and II-C1

Source: Piketty, Saez and Zucman (2016)

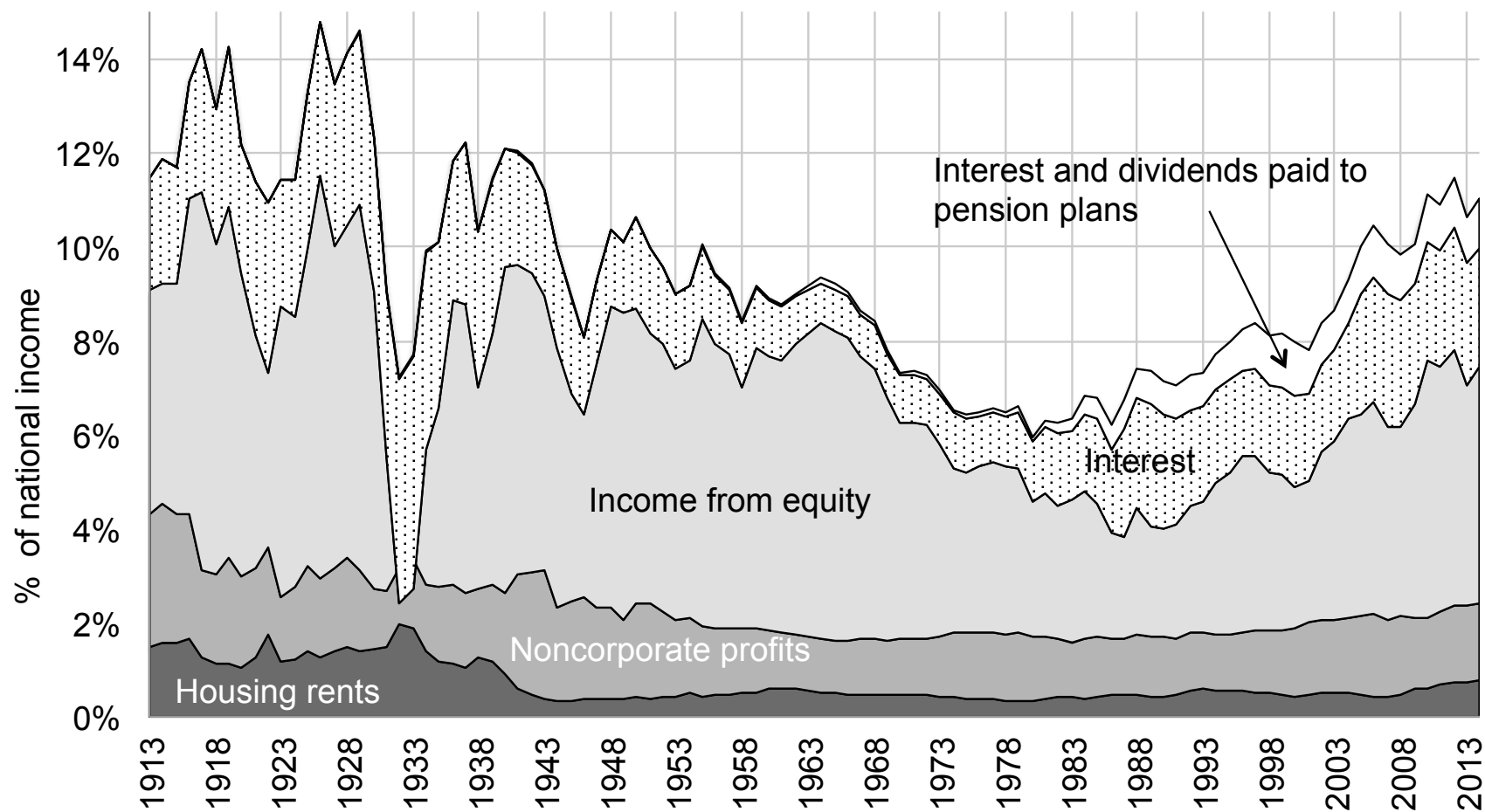
Pre-tax labor income of top 1% adult income earners



Source: Appendix Table II-B2b.

Source: Piketty, Saez and Zucman (2016)

Pre-tax capital income of top 1% adult income earners



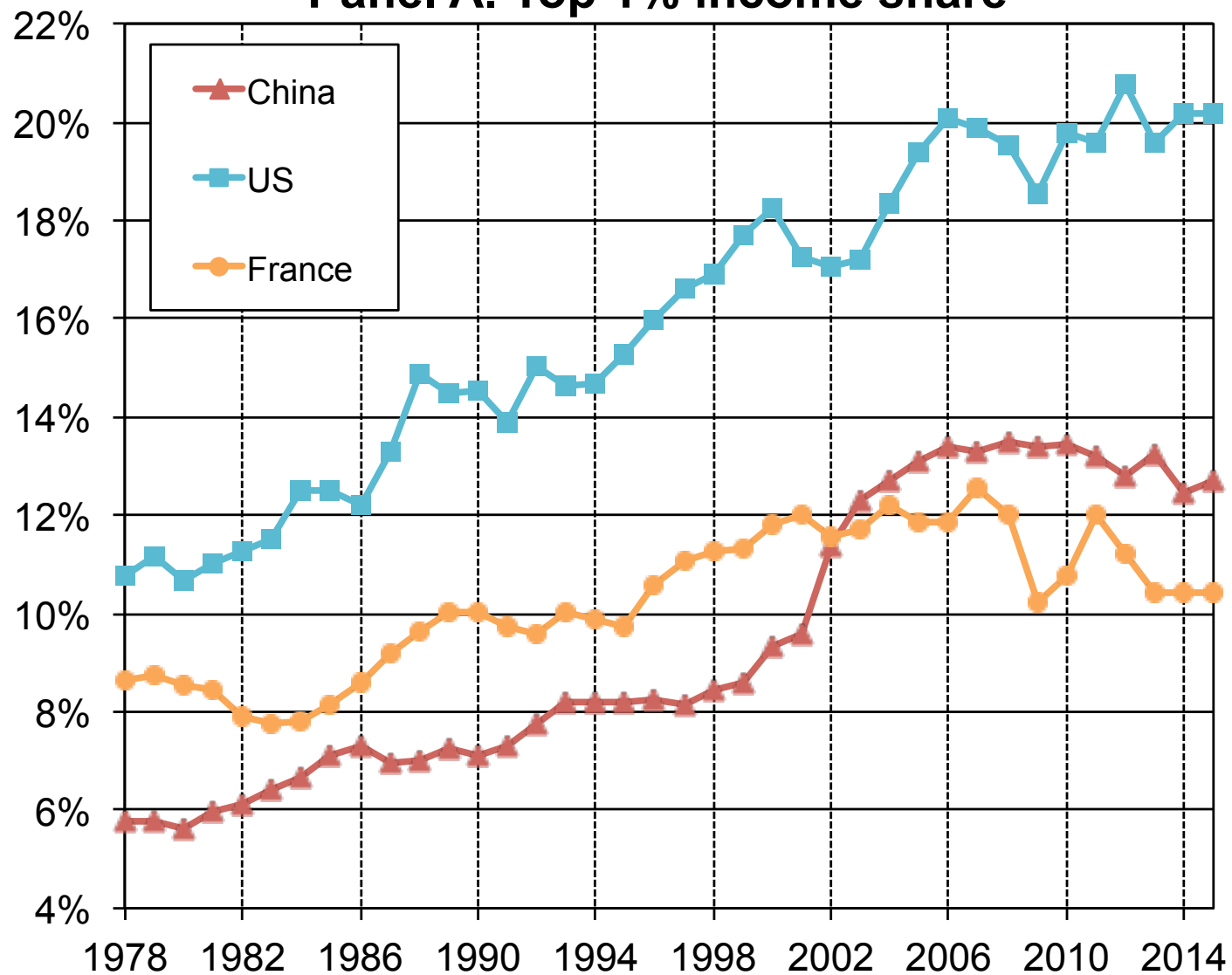
Source: Appendix Table II-B2b

Source: Piketty, Saez and Zucman (2016)

2.2 Top income shares in Europe & China since the 1970s

- Rising inequality is a global phenomenon
- But large differences across countries: inequality increases much more in anglo-saxon countries than continental Europe and Japan
- Also large rise in inequality in China: used to be very equal and is now approaching US inequality levels

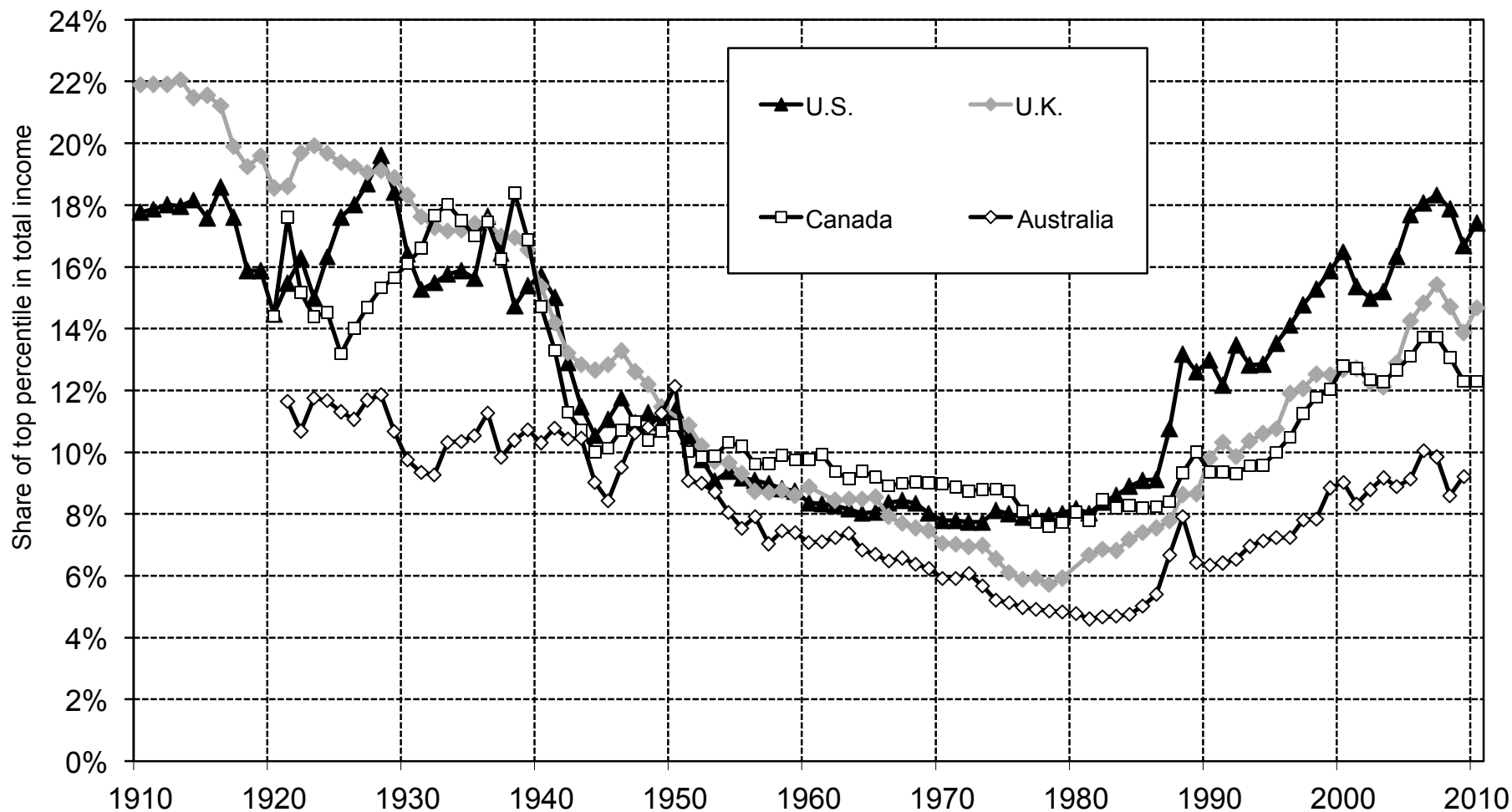
Panel A. Top 1% income share



2.3 The decline of income inequality 1913-1950

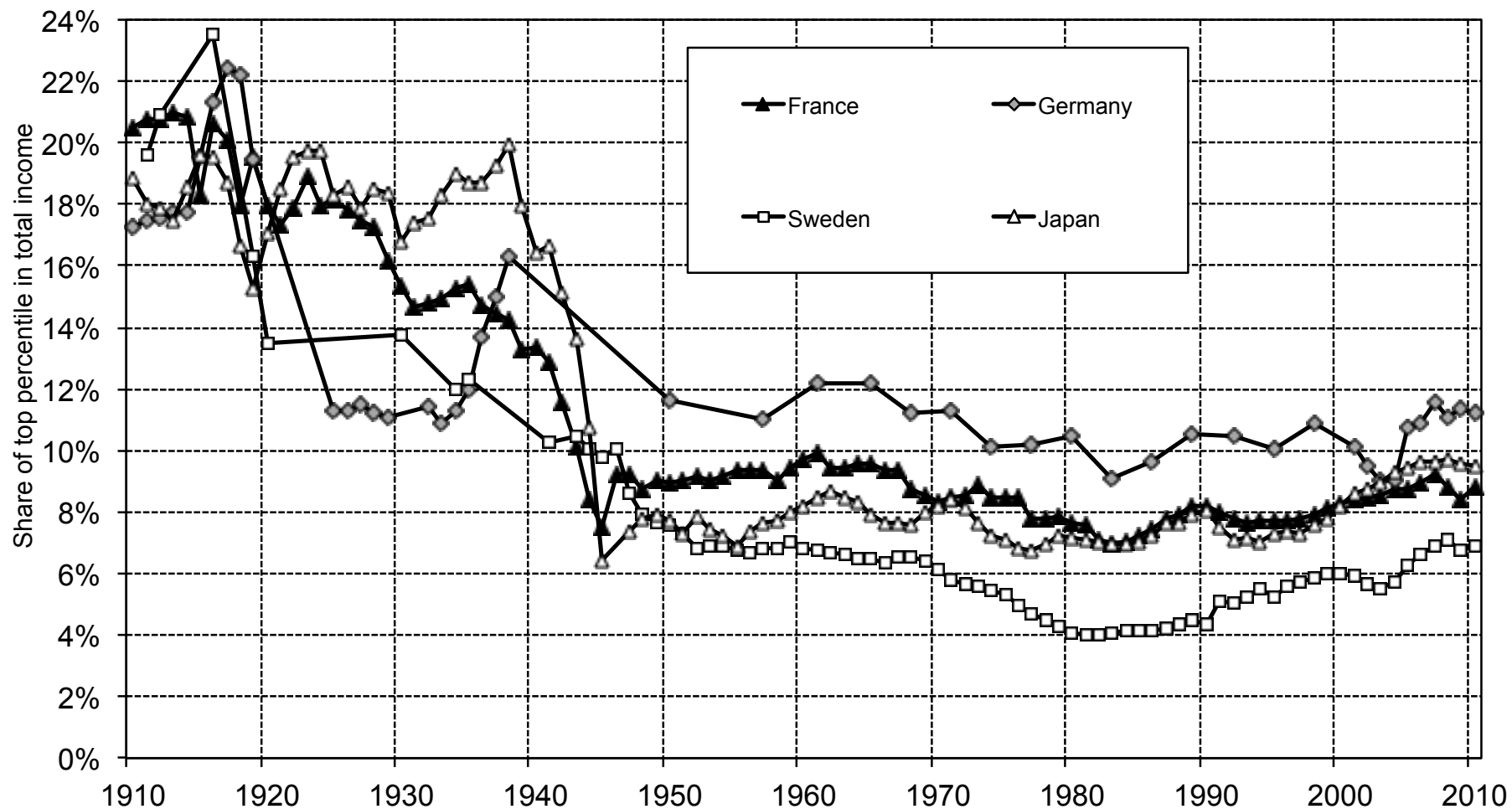
- Rise in inequality since 1970s contrast sharply with general \searrow in inequality over 1913-1950
- Largely a capital phenomenon
 - Large shocks to top fortunes 1913-1945
 - Rise of patrimonial middle-class

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.

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

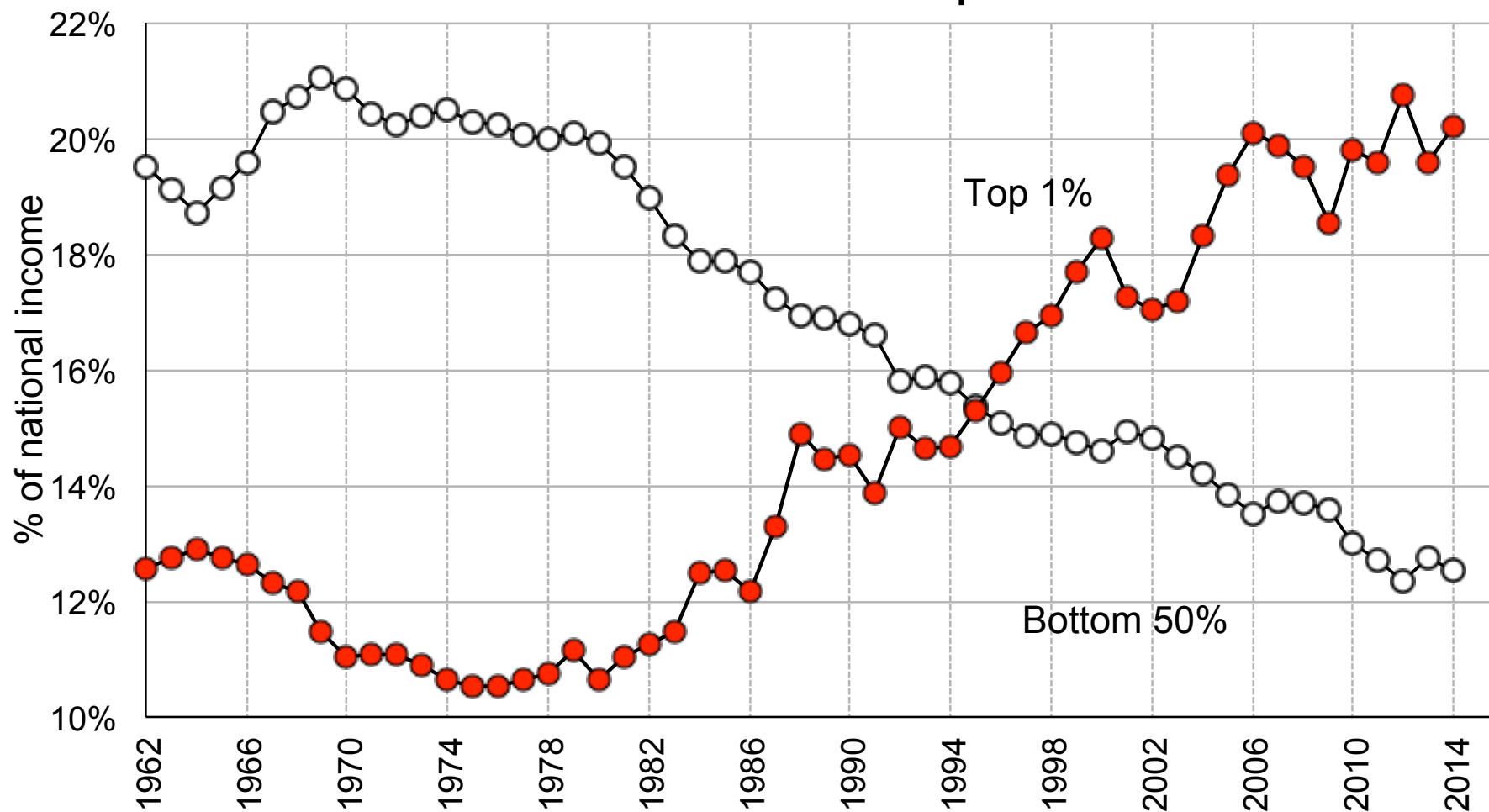


As compared to Anglo-saxon countries, the share of top percentile barely increased since the 1970s in Continental Europe and Japan. Sources and series: see piketty.pse.ens.fr/capital21c.

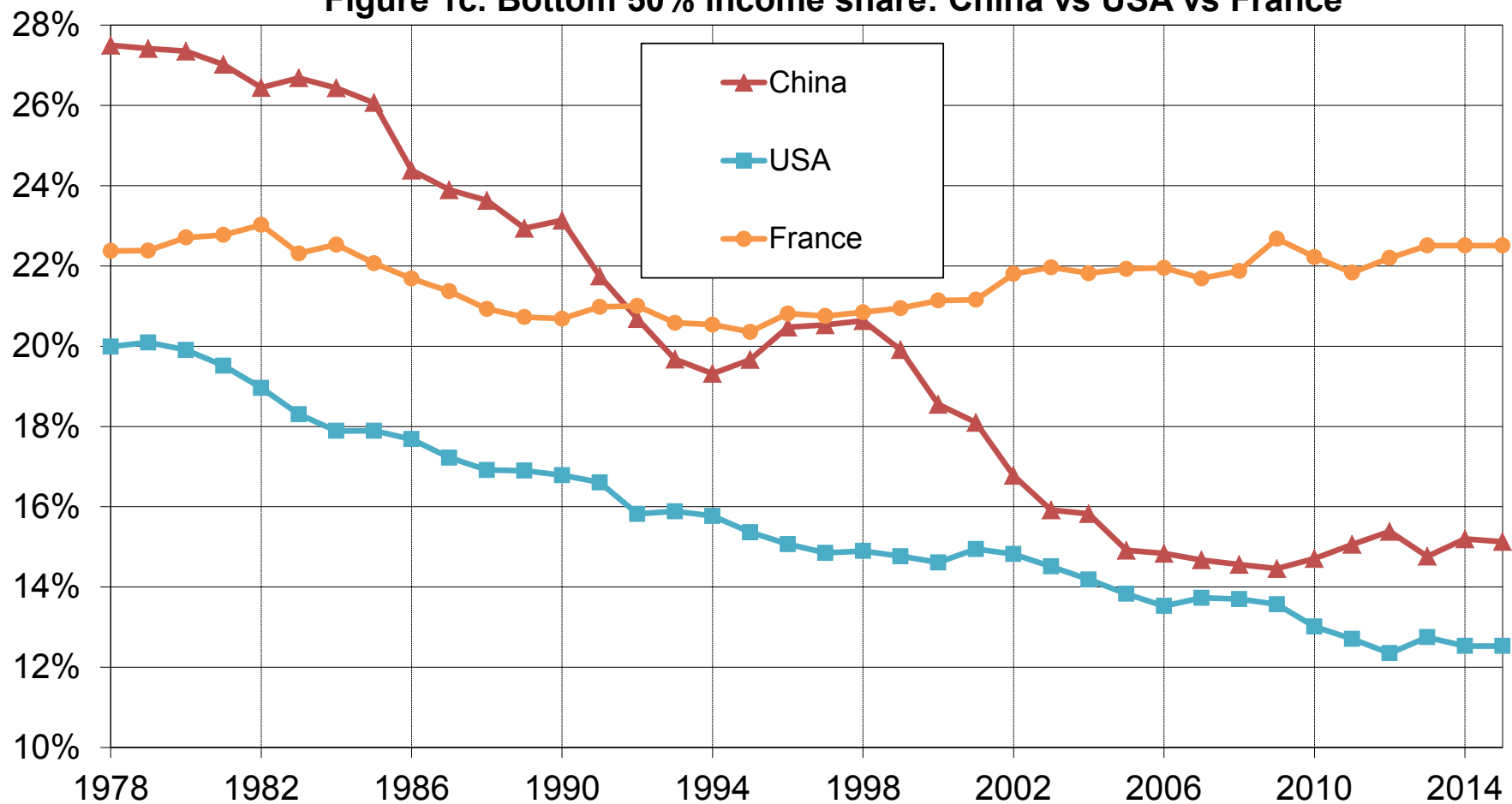
3 Trends in bottom 50% pre-tax income

- Bottom 50% fall mirrors rise of top 1% in the US
- Elsewhere: variety of national trajectories
- Key role of domestic policies

Pre-tax national income share: top 1% vs. bottom 50%



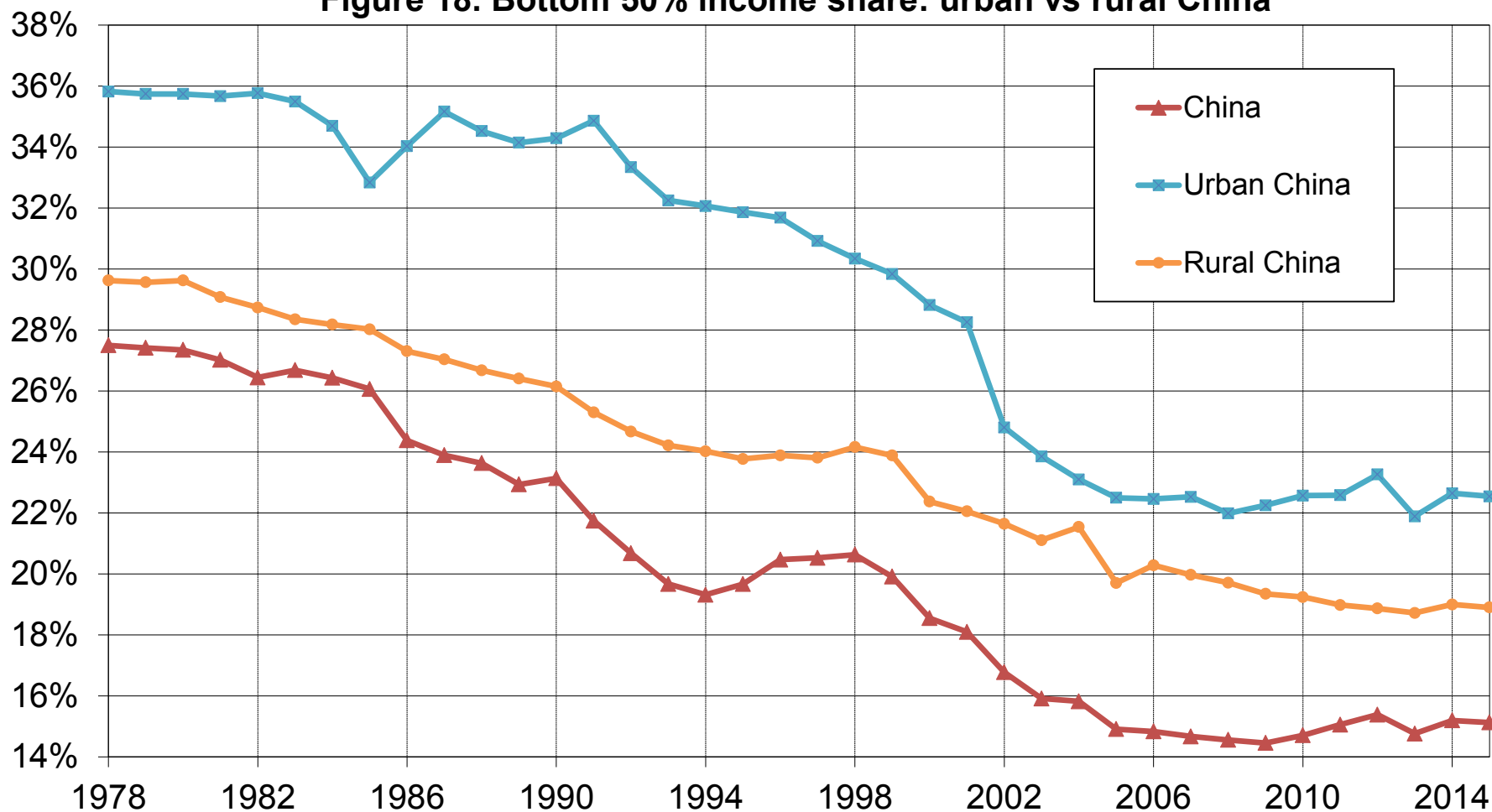
Source: Appendix Table II-B1

Figure 1c. Bottom 50% income share: China vs USA vs France

Distribution of pretax national income (before taxes and transfers, except pensions and UI) among adults. Corrected estimates combining survey, fiscal, wealth and national accounts data. Equal-split-adults series (income of married couples divided by two).

USA: Piketty, Saez and Zucman (2016). France: Garbinti, Goupille and Piketty (2016). China: Piketty, Yang and Zucman (2016).

Figure 18. Bottom 50% income share: urban vs rural China



Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two).

4 Summary

- Rising income inequality since the 1970s, esp. large in the US
- 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 the US, not elsewhere
- Over the long run, change in capital concentration usually main driver of changes in income concentration

References

Alvaredo, Facundo, Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman, “World Inequality Dynamics: New Findings from WID.world”, *American Economic Review P&P* May 2017 (web)

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)

Atkinson, Anthony, and Thomas Piketty (2010), *Top incomes: a global perspective*, Oxford : Oxford university press, 2007 (web)

Atkinson, Anthony, Thomas Piketty, and Emmanuel Saez “Top Incomes in the Long-Run of History”, *Journal of Economic Literature*, 2011 (web)

Piketty, Thomas, Li Yang and Gabriel Zucman “Capital Accumulation, Private Property and Rising Inequality in China, 1978-2015”, working paper 2016 (web)

Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, “Distributional National Accounts: Methods and Estimates for the United States”, working paper, 2016 (web)