

Econ 133 – Global Inequality and Growth

Private and public capital

Gabriel Zucman

zucman@berkeley.edu

What we've learned so far:

- Income $Y =$ labor income $Y_L +$ capital income Y_K
- We've seen what can explain changes in labor income inequality
- Now we turn to the capital side of inequality: wealth W and capital income $Y_K = r \times W$

Roadmap

- What fraction of total wealth is public vs. private? What explain differences in size of public wealth?
- How is private wealth distributed? (next lecture)

Review of basic definitions:

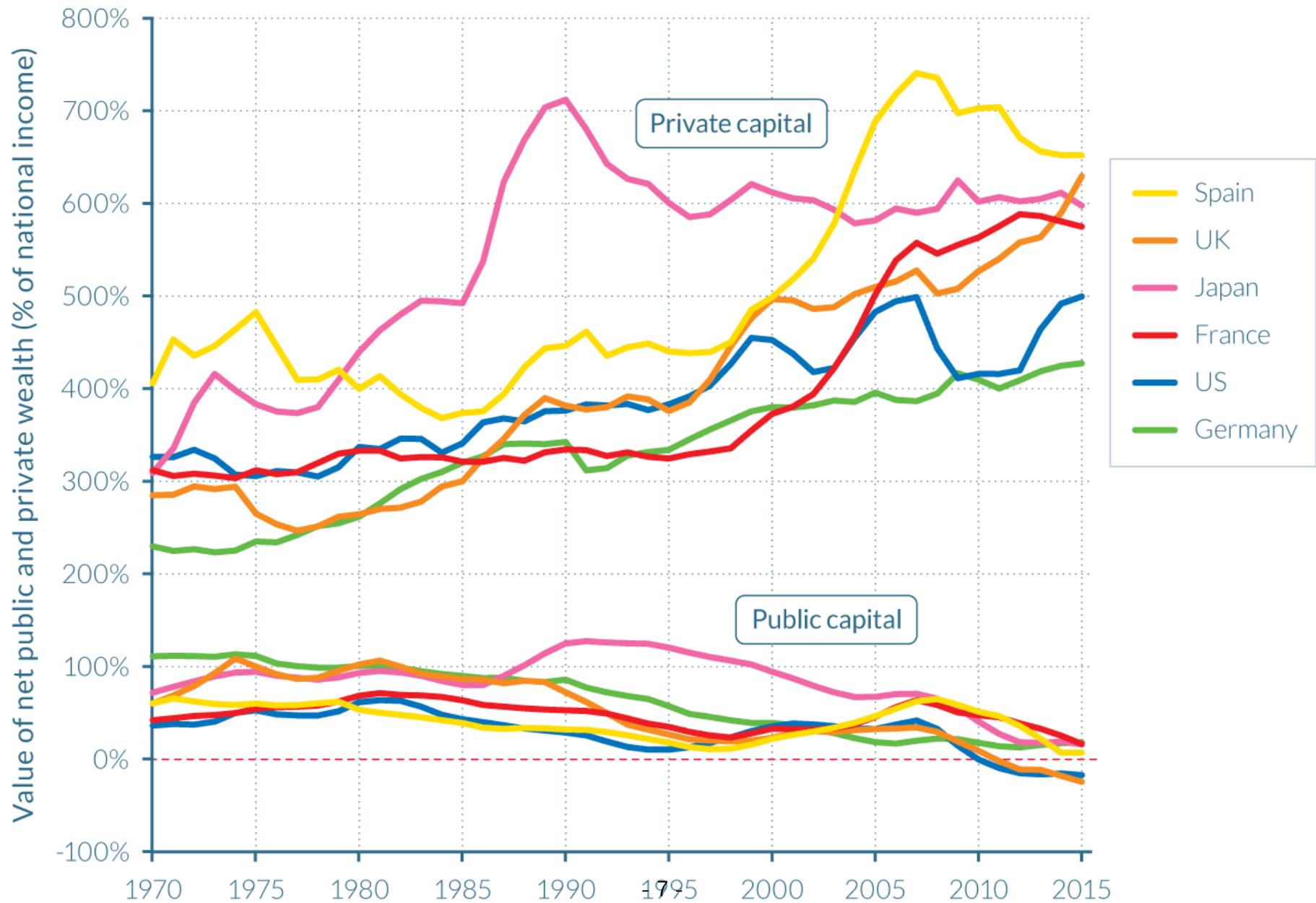
- National wealth = private wealth + public wealth
- Private wealth = private assets - private debts
- Public wealth = public assets - public debts
- Key ratio: public wealth / national wealth (can be negative)

Key orders of magnitude on public vs. private wealth:

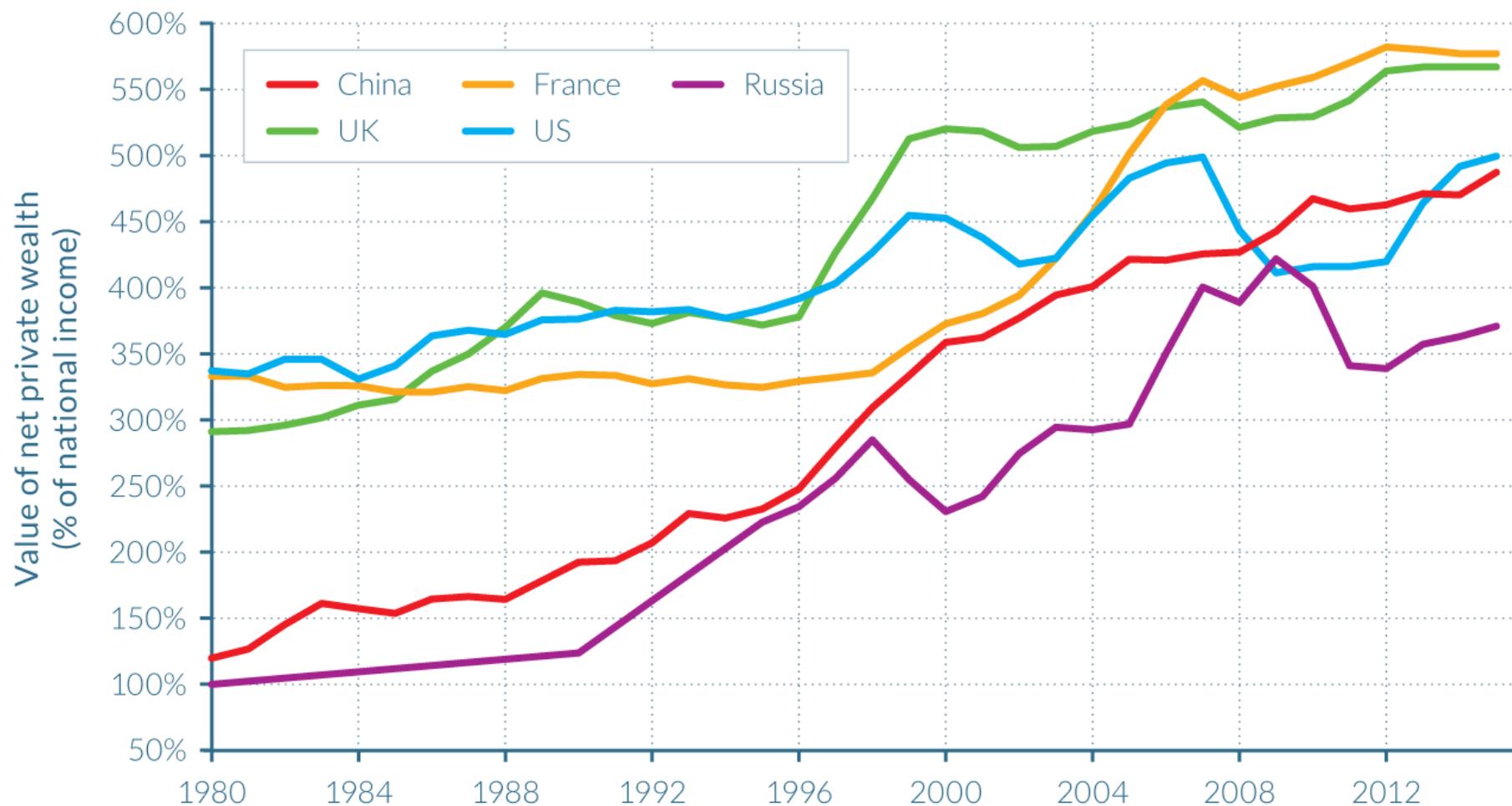
- In rich countries today, public wealth ≈ 0 . That is, public assets \approx public debts ($\approx 100\%$ of national income Y). Consequence:
 - Private share of national wealth $\approx 100\%$; public share $\approx 0\%$
 - National wealth \approx private wealth (400%-600% of Y)
- But not true historically and in many developing countries: share of public wealth sometimes significantly > 0 or < 0

Key trends on public vs. private wealth:

- Rise in private wealth throughout most of the world (growth slowdown, asset price increase)
- Decline in public wealth (exceptions: oil-rich countries)
- Consequence: fall of public share in most countries
- Why does this matter? Private wealth tends to concentrate; low public wealth limits gov ability to regulate the economy



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

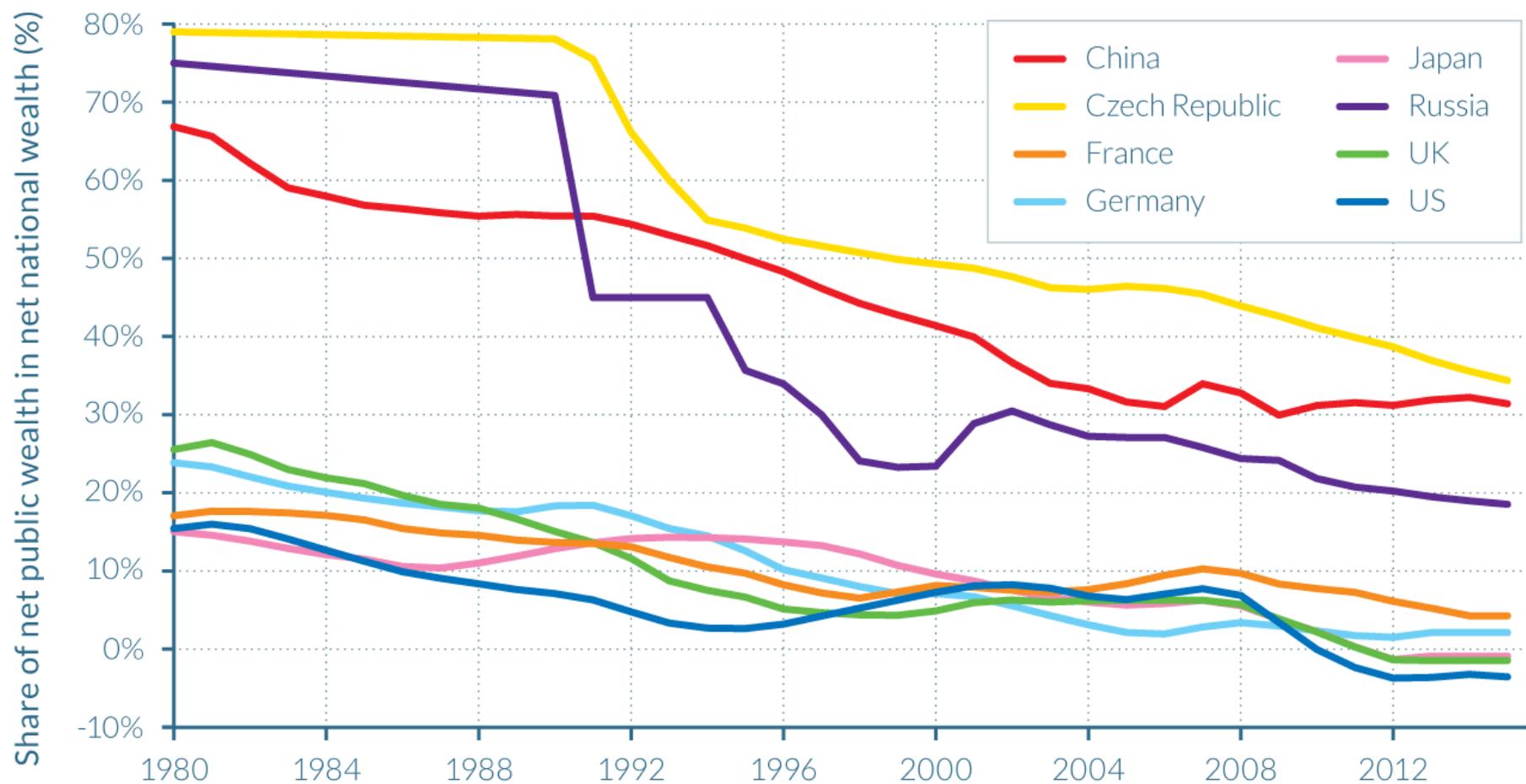


Source: Novokmet, Piketty & Zucman (2017). See wir2018.wid.world/methodology.html for data series and notes.

In 2015, the value of private wealth in the US was 500% of national income, i.e. it was worth 5 years of national income. Net private wealth is equal to net private assets minus net private debt.

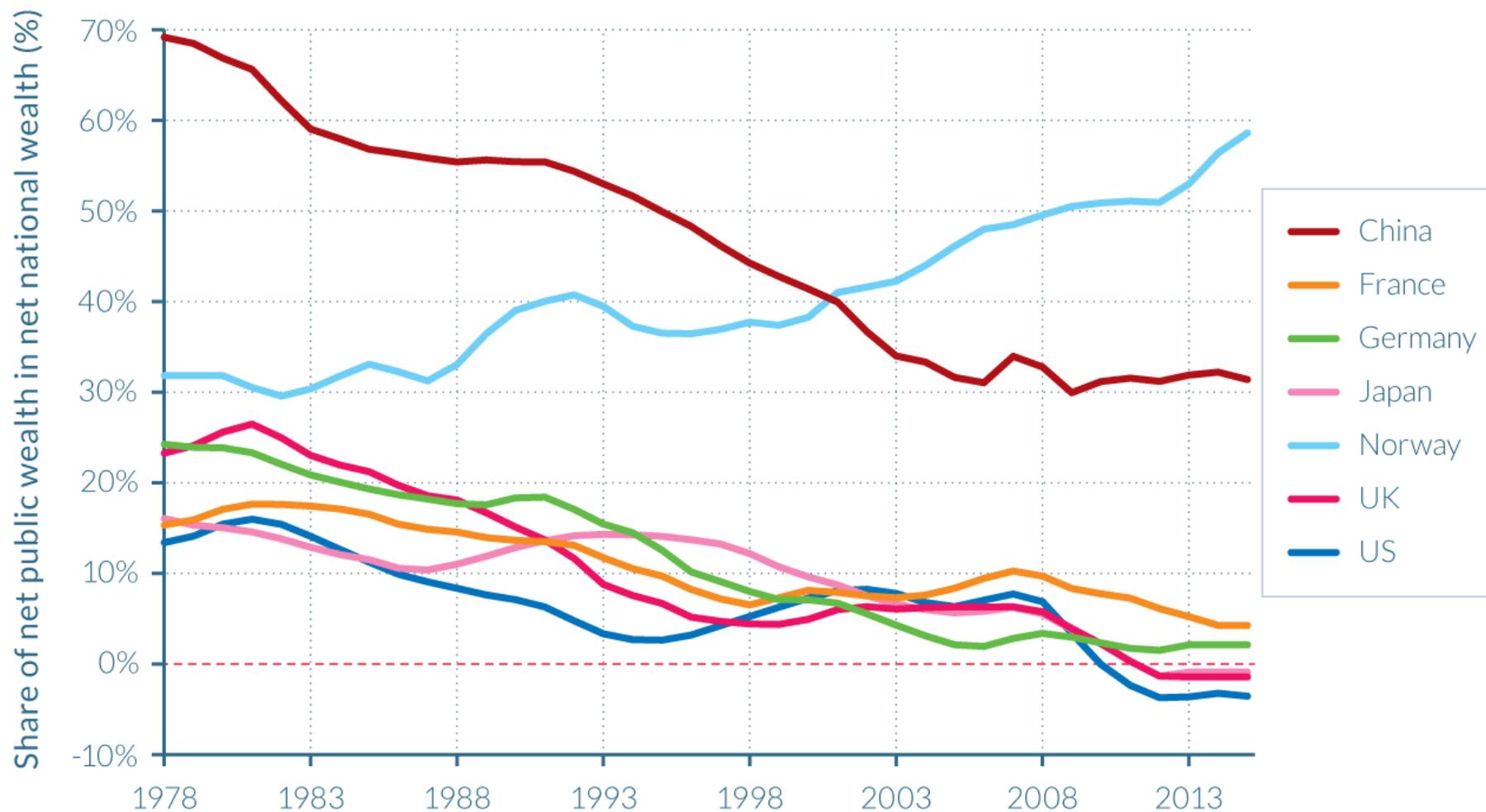
Causes and magnitude of decline in public wealth differ:

- Causes: Privatization (ex-communist countries) vs. \uparrow public debt (US, Europe)
- Magnitude: still significant public wealth in China (\approx post-WW2 mixed economy in Europe) \neq US, today's Europe
- Timing of decline differs across ex-communist countries (shock therapy vs. more gradual privatization)



Source: Novokmet, Piketty & Zucman (2017). See wir2018.wid.world/methodology.html for data series and notes.

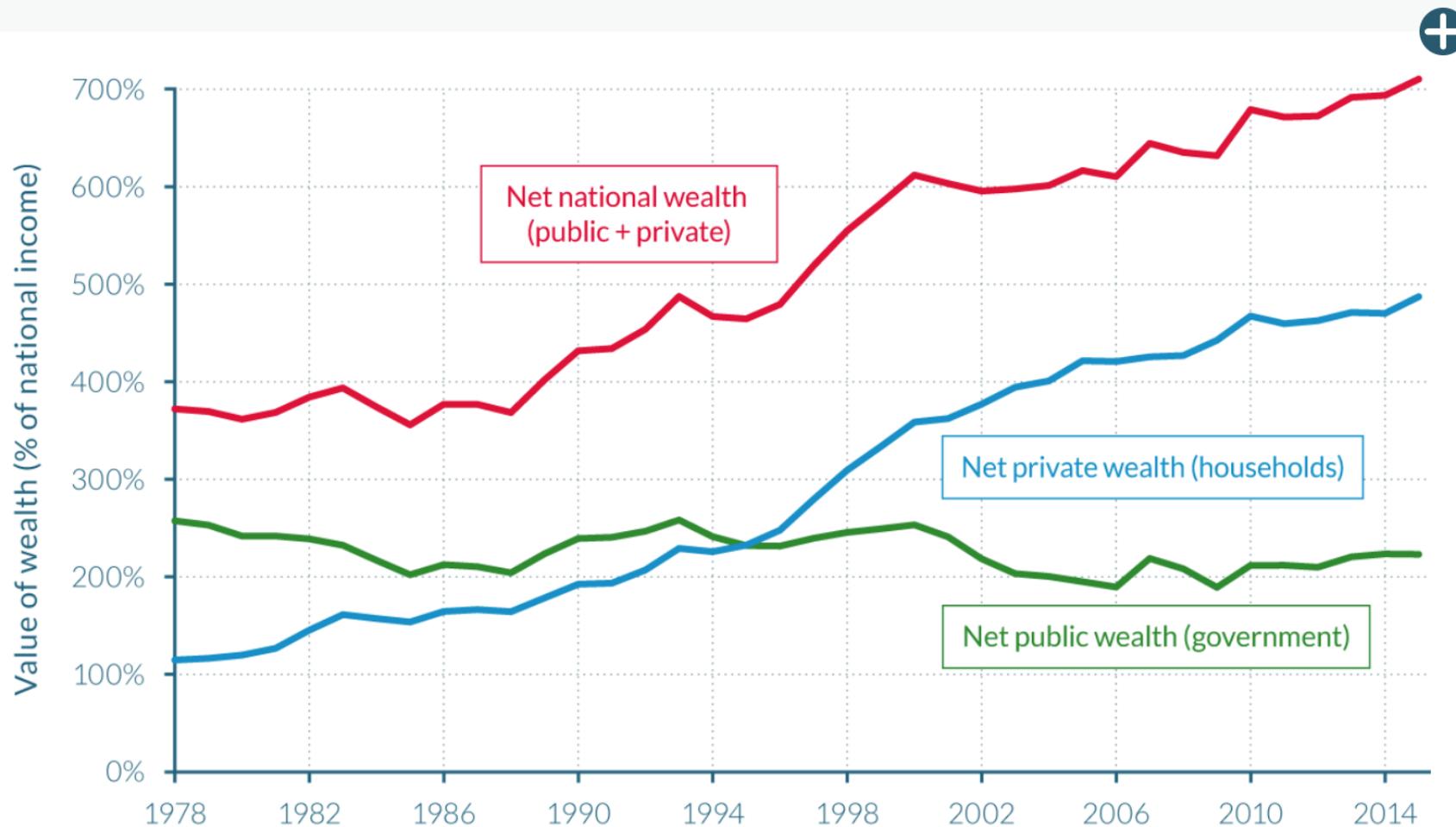
In 2015, the share of public wealth in national wealth in Russia was 19%. Net public wealth is equal to public assets minus net public debt. Net national wealth is equal to net private wealth plus net public wealth.



Source: Piketty, Yang and Zucman (2017). See wir2018.wid.world/methodology.html for data series and notes.

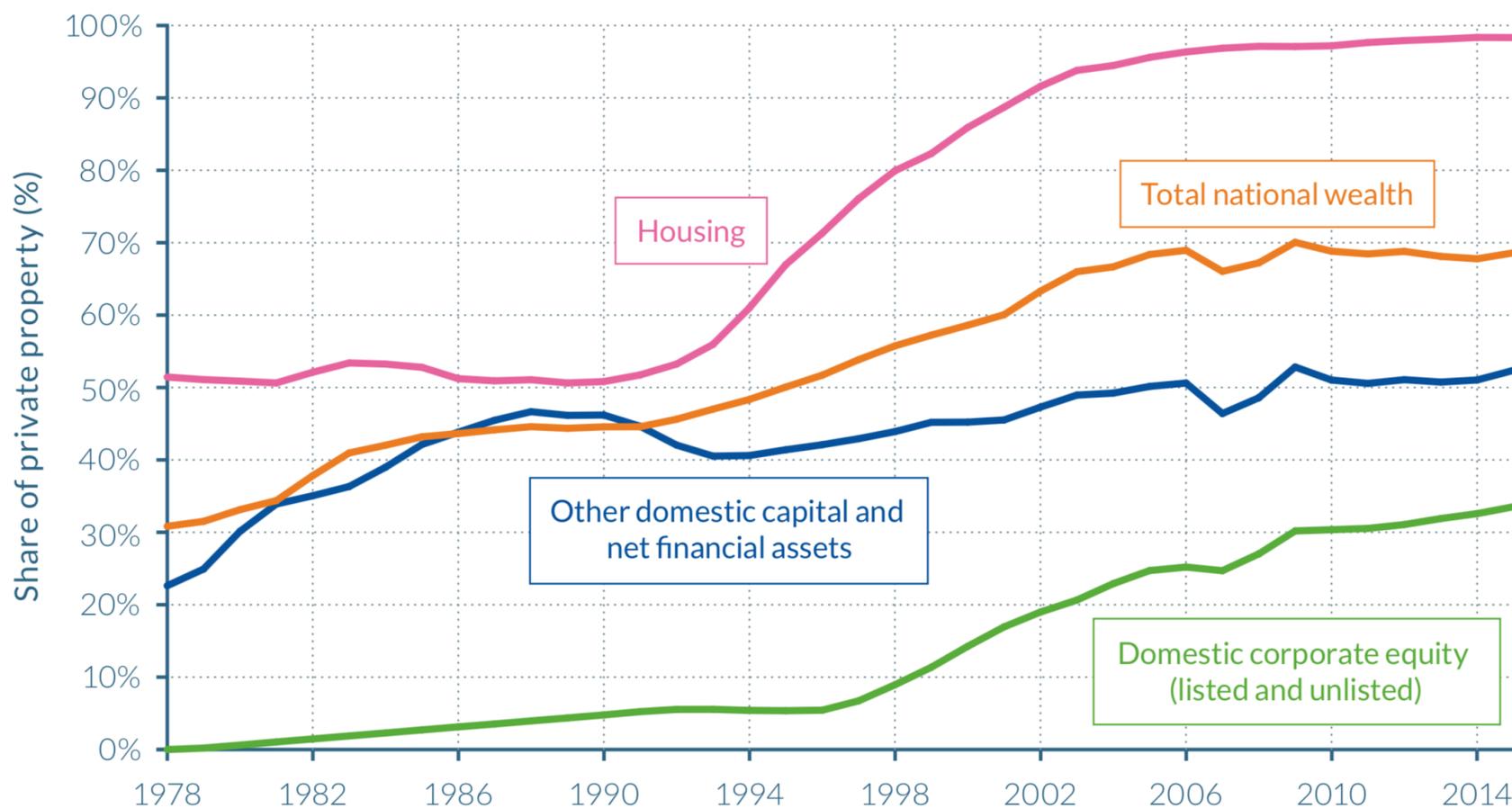
In 2015, the share of public wealth in national wealth in France was 3% against 17% in 1980. Net public wealth is equal to public assets minus net public debt. Net national wealth is equal to net private wealth plus net public wealth.

The share of private property by type of asset in China, 1978–2015: The rise of private property



Source: Piketty, Yang and Zucman (2017). See wir2018.wid.world for data series and notes.

In 2015, the value of net private wealth was equivalent to 487% of net national income, i.e. it was worth 4.5 years of national income. Chinese public wealth was equal to 223% of national income. Net national wealth is equal to net private wealth plus net public wealth. Net private wealth is equal to private assets minus private debts. Net public wealth is equal to public assets minus public debts.

Figure 3.4.3**The share of private property by type of asset in China, 1978–2015: The rise of private property**

Source: Piketty, Yang and Zucman (2017). See wir2018.wid.world for data series and notes.

In 2015, the share of private property in total national wealth was 69%. The share of private property in housing was 98%.

Summary:

- General rise in private wealth / national income in nearly all countries in recent decades (esp. strong in China, Russia).
- Public wealth declined in most countries since the 1980s. Net public wealth now negative in US, UK.
- In China, public property fell but remains high: public share about 30% of national wealth since 2008 (vs. 15%–25% in the West during the mixed-economy 1950–1980 period).

References

Piketty, Thomas, *Capital in the 21st Century*, Cambridge: Harvard University Press, 2014

Piketty, Thomas, and Gabriel Zucman, "Capital is back: wealth-income ratios in rich countries 1700-2010", *Quarterly Journal of Economics*, 2014 (web)

World Inequality Report 2018, part III