

Econ 133 – Global Inequality and Growth

Trends in inequality within countries

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Roadmap

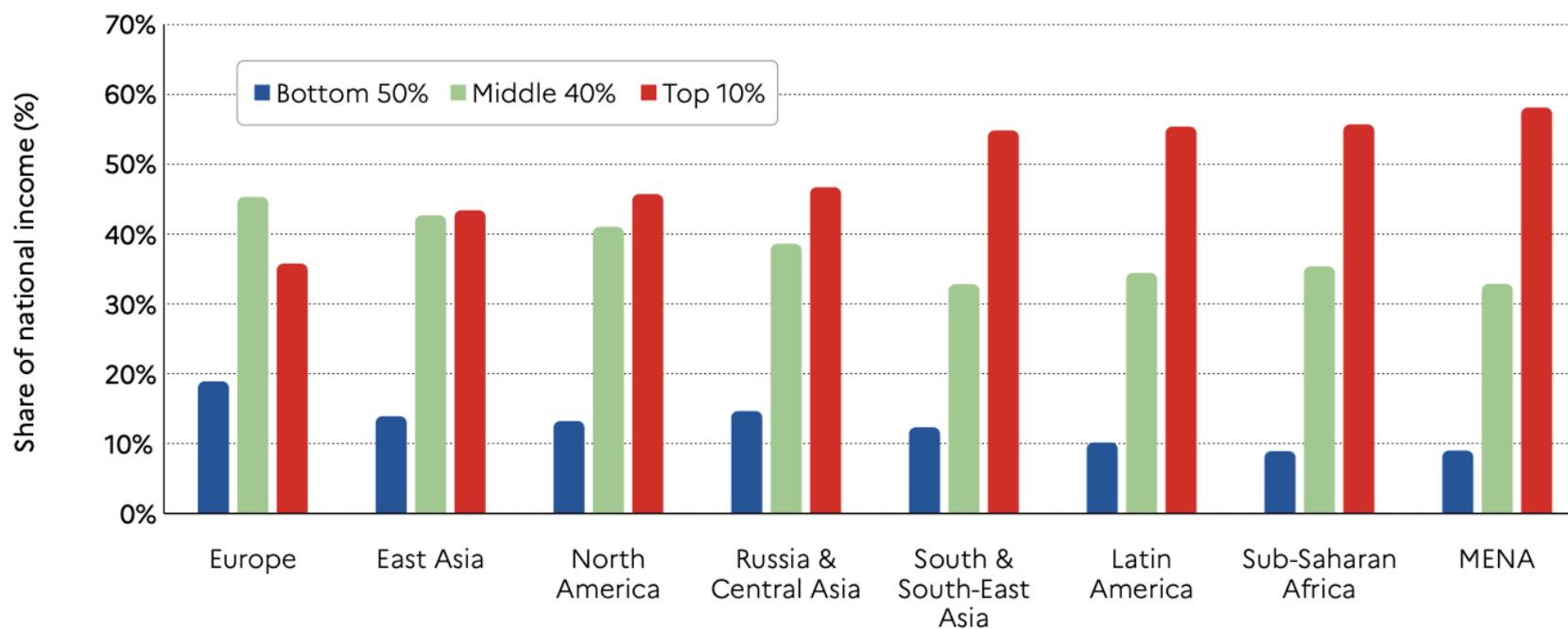
1. Orders of magnitude
2. Trends since 1980s
3. A long-run perspective

1 Orders of magnitude

1.1 Inequality today

- Most unequal countries: Middle-East, sub-Saharan Africa, Brazil, India = top 10% share 55%–60%
- Legacy of status-based inequality systems (slavery, castes, colonial system)
- Less unequal countries: Continental Europe = top 10% \approx 35%

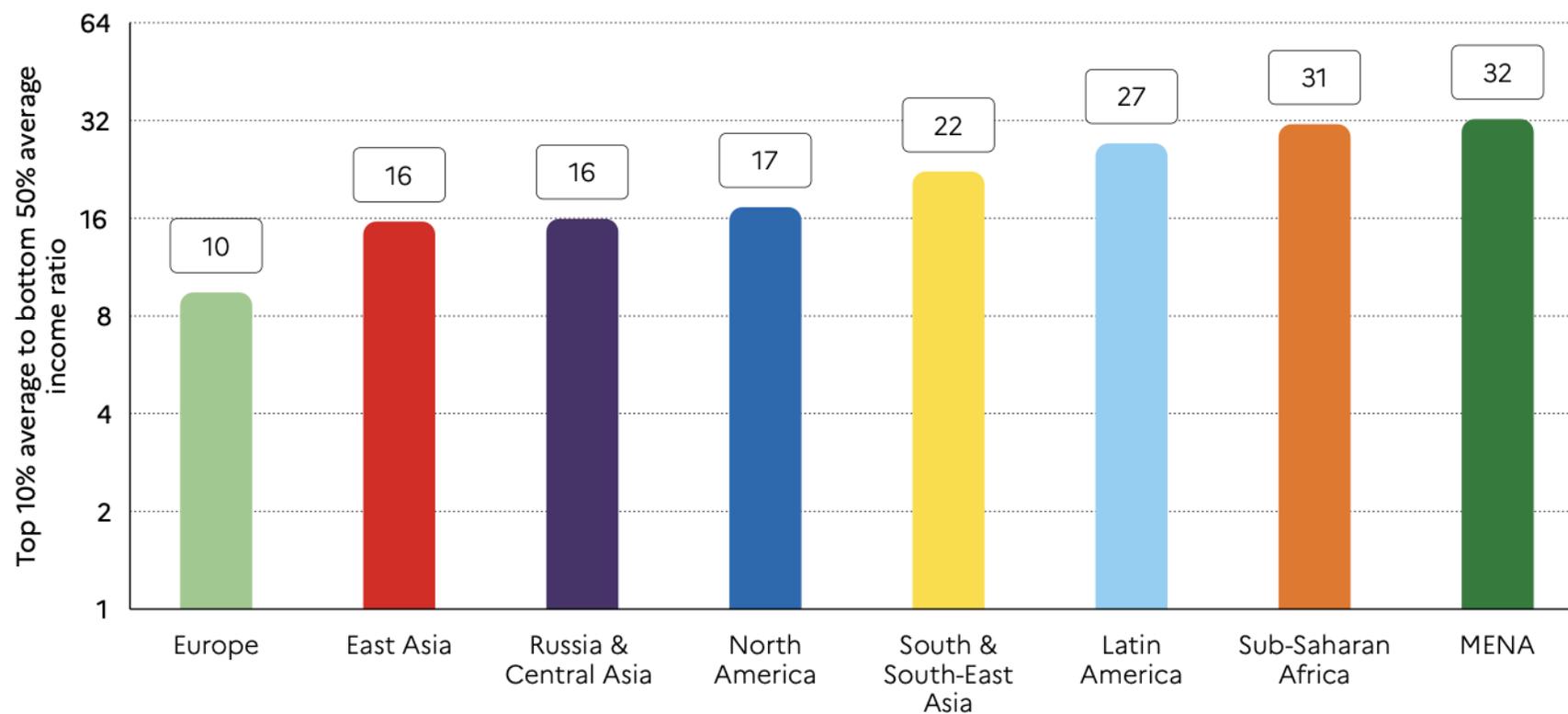
Figure 2 *The poorest half lags behind: Bottom 50%, middle 40% and top 10% income shares across the world in 2021*



Interpretation: In Latin America, the top 10% captures 55% of national income, compared to 36% in Europe. Income is measured after pension and unemployment contributions and benefits paid and received by individuals but before income taxes and other transfers.

Sources and series: www.wir2022.wid.world/methodology.

Figure 1.4 Income gaps across the world: Top 10% vs. Bottom 50%, 2021



Interpretation: In Latin America, the bottom 50% earns 27 times less than the top 10%. The value is 9 in Europe. Income is measured after pension and unemployment benefits are received by individuals, but before other taxes they pay and transfers they receive. **Sources and series:** wir2022.wid.world/methodology

1.2 Labor vs. capital income inequality

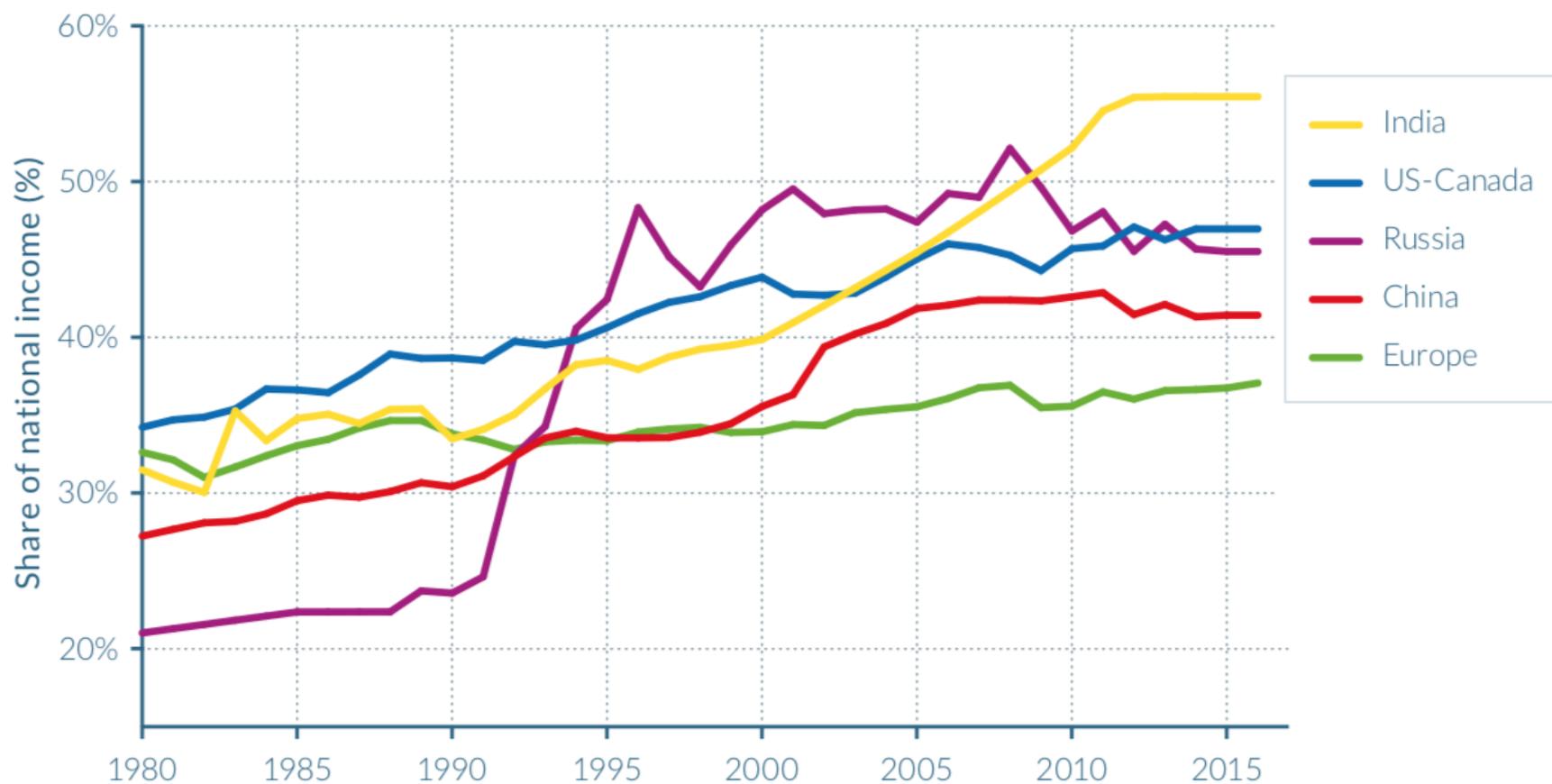
Labor income Y_L always less concentrated than capital income Y_K :

- 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

2 Evolution since the 1980s

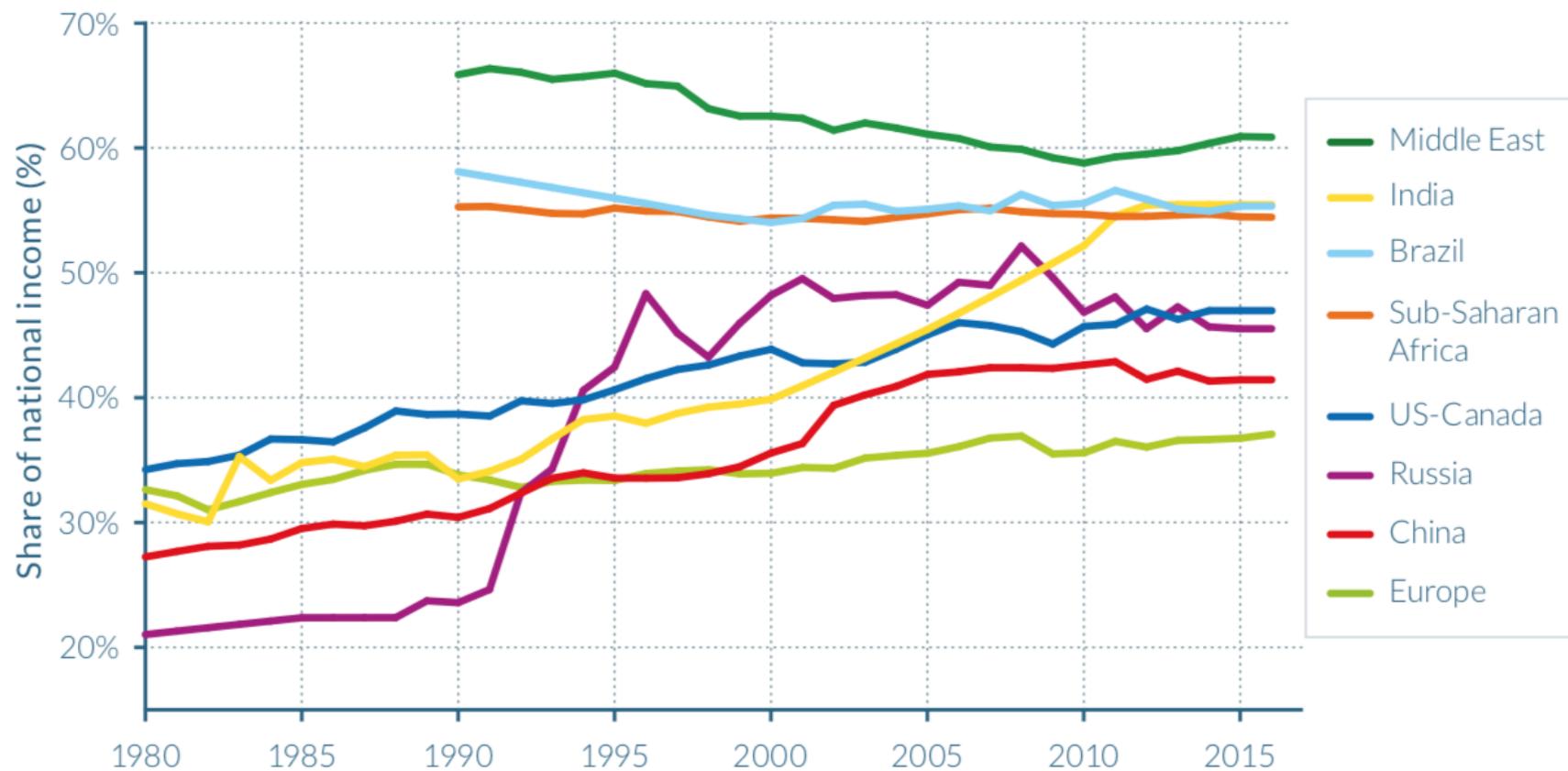
- Rising inequality is a global phenomenon
- But increase at different speeds, reflecting diversity of national institutions and policies
- Among developed countries: faster rise in English-speaking countries
- Among emerging countries: strongest rise in Russia

Top 10% income shares across the world, 1980-2016: Rising inequality almost everywhere, but at different speeds

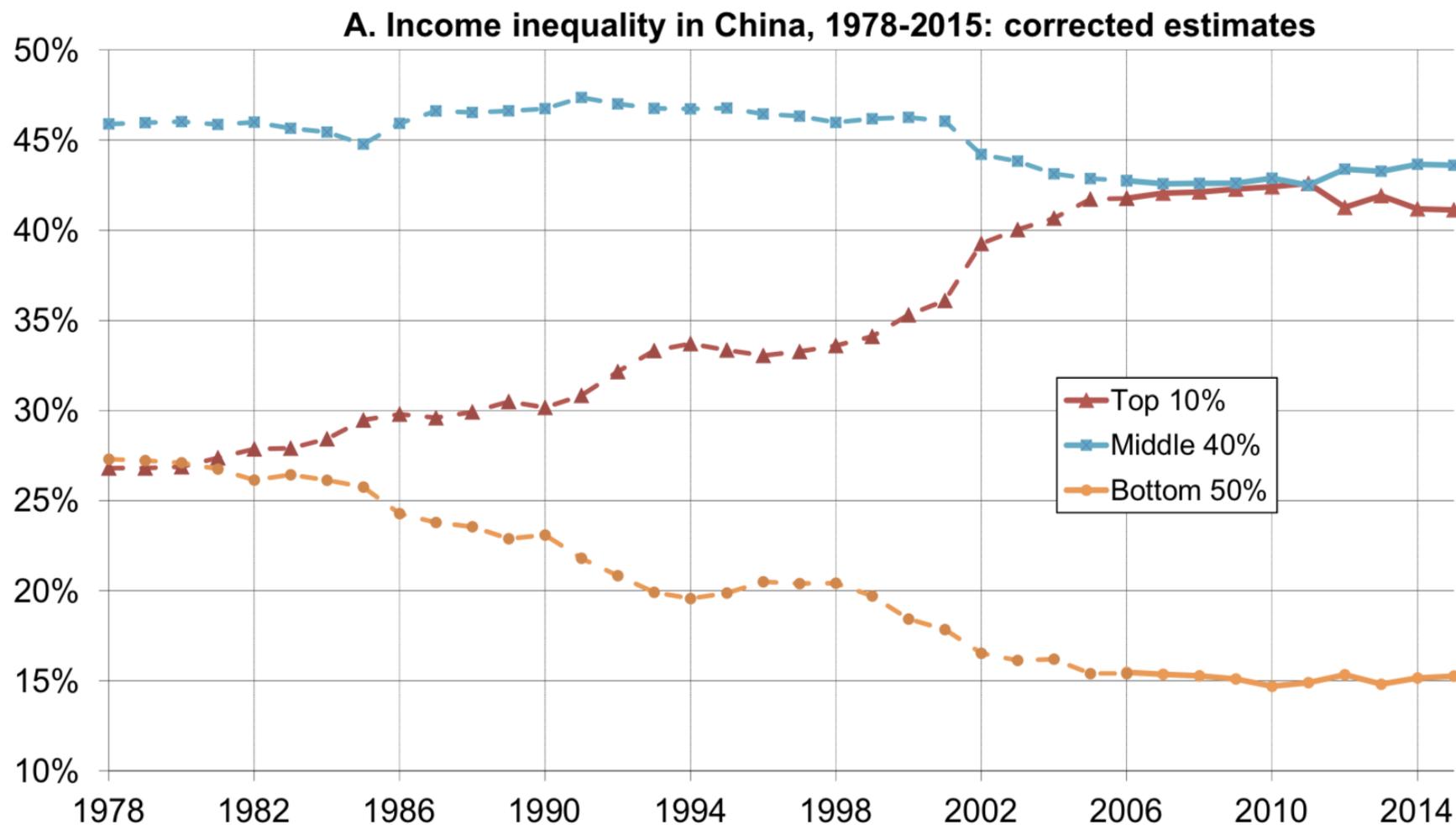


Source: WID.world (2017). See wir2018.wid.world for data series and notes.

Top 10% income shares across the world, 1980–2016: Is world inequality moving towards the high-inequality frontier?

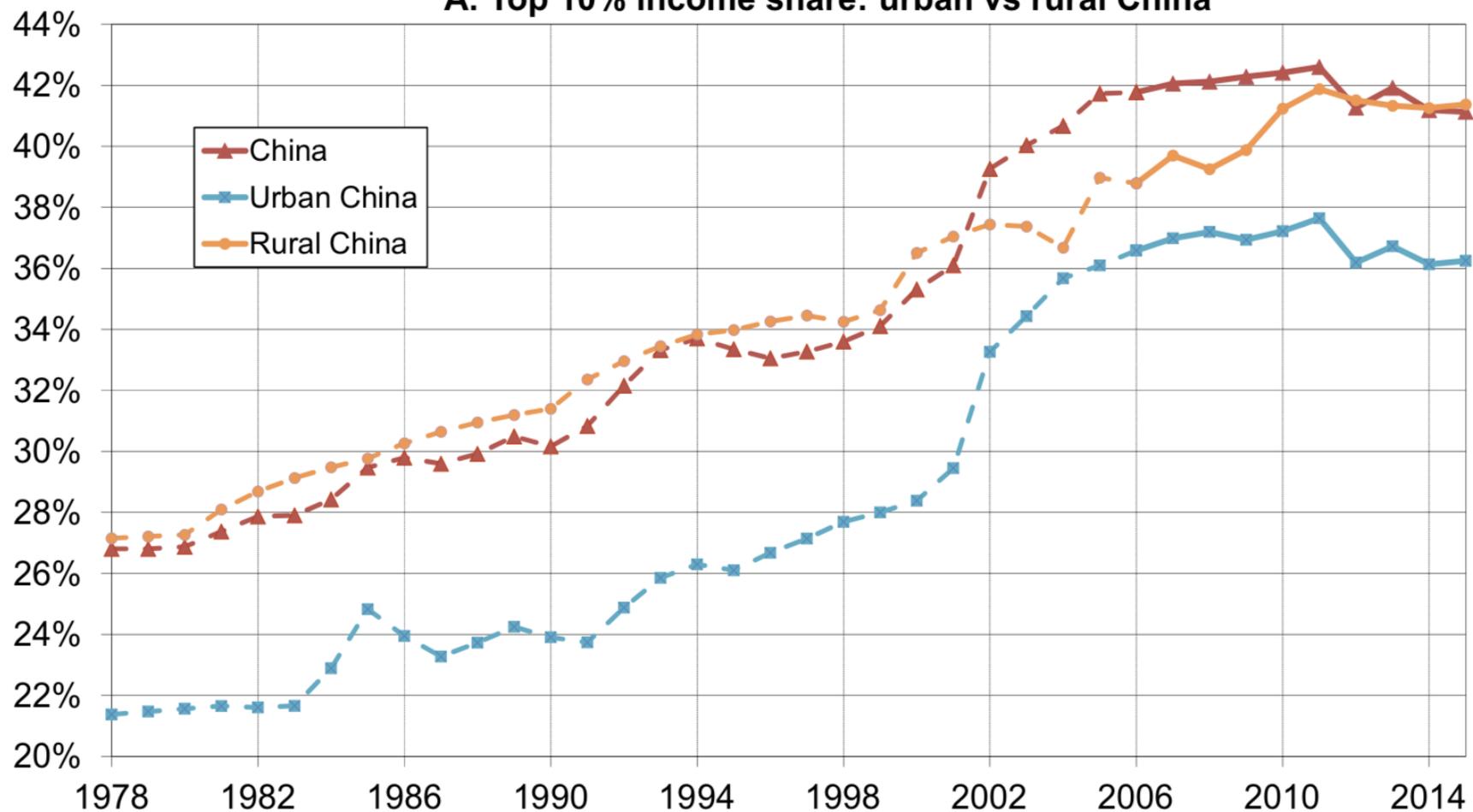


Source: WID.world (2017). See wir2018.wid.world for data series and notes.

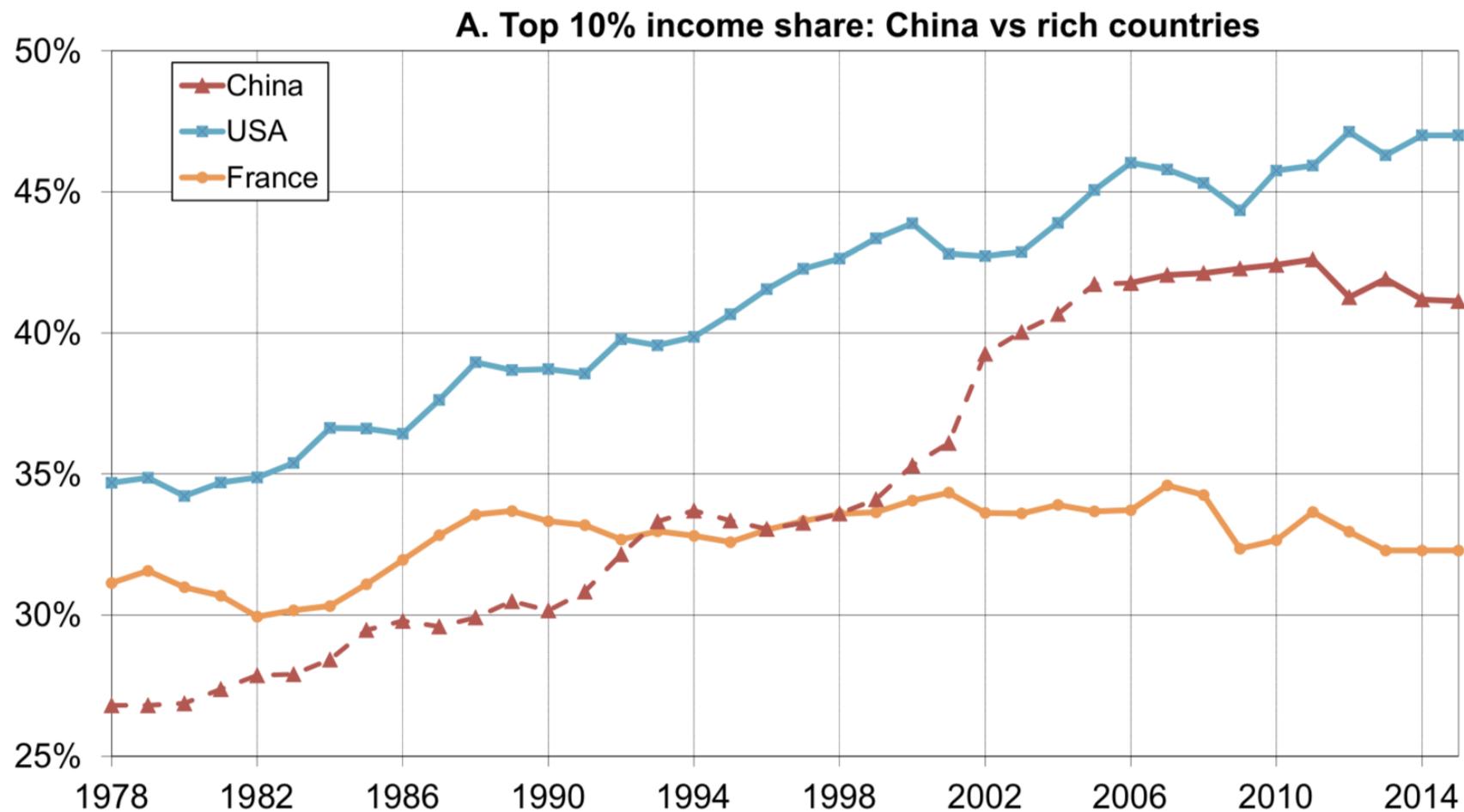


Distribution of pretax national income (before taxes and transfers, except pensions and unempl. insurance) among adults. Corrected estimates (combining survey, fiscal, wealth and national accounts data). Equal-split-adults series (income of married couples divided by two). Pre-2006 series assume that the tax/survey upgrade factor is the same as the one observed on average over the 2006-2010 period when national-level tax data exist.

A. Top 10% income share: urban vs rural China

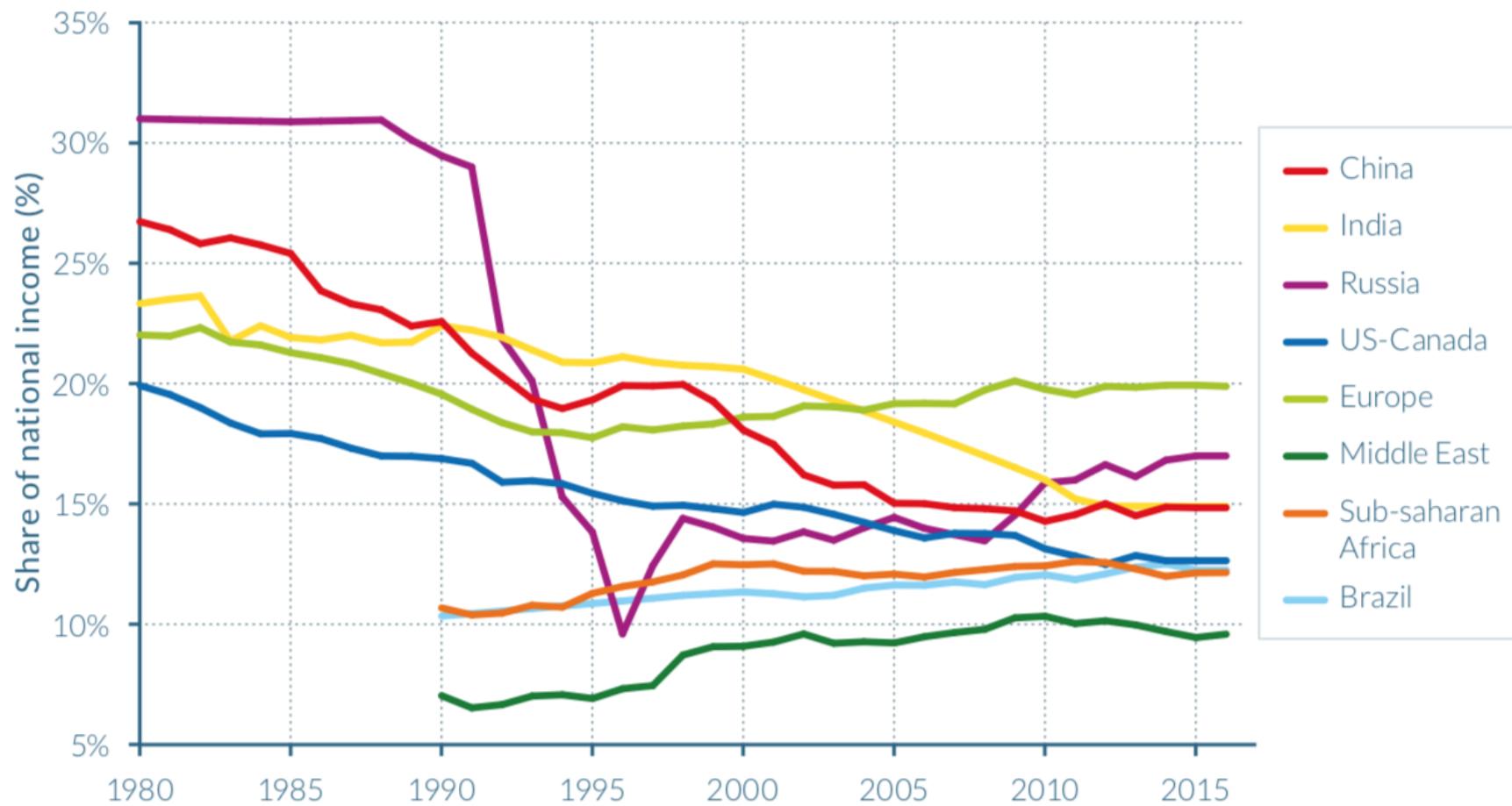


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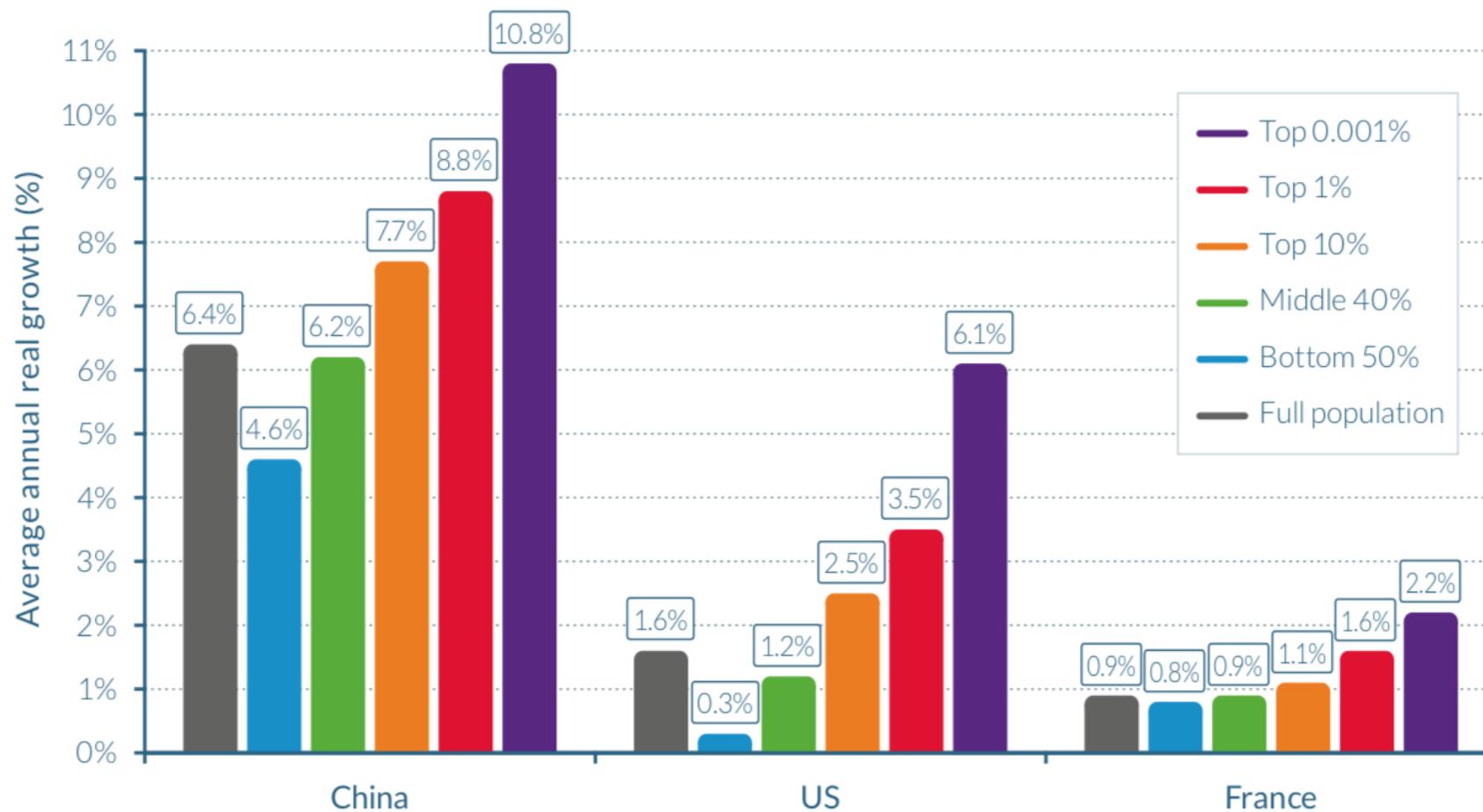
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Bottom 50% income shares across the world, 1980-2016



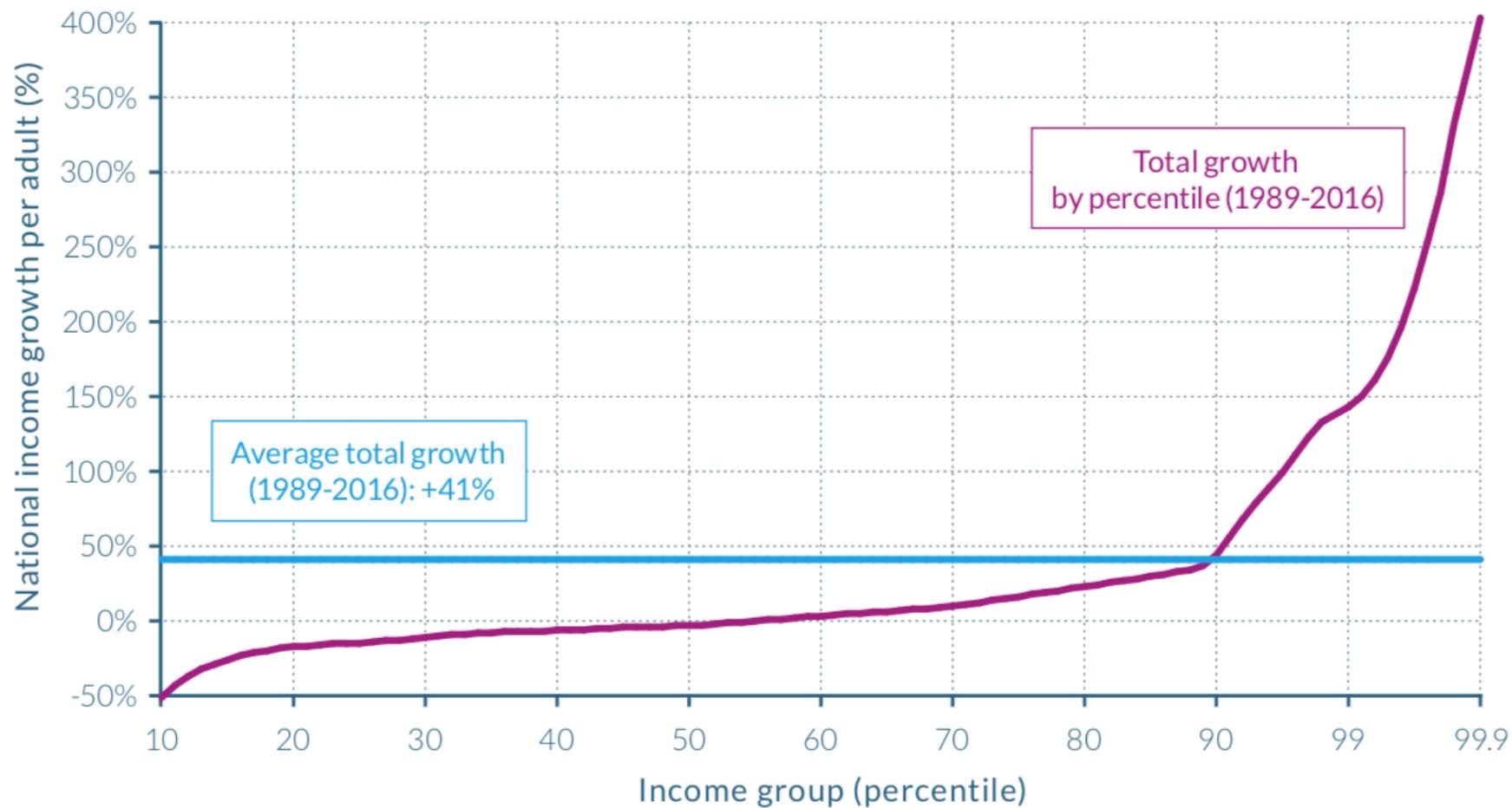
Source: WID.world (2017). See wir2018.wid.world for data series and notes.

Average annual national income growth by income group in China, France and the US, 1980–2015



Source: Piketty, Yang and Zucman (2017). See [wir2018.wid.world](https://www.wid.world) for data series and notes.

Total income growth by percentile in Russia, 1989-2016



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

3 The decline of income inequality 1920s–1970s

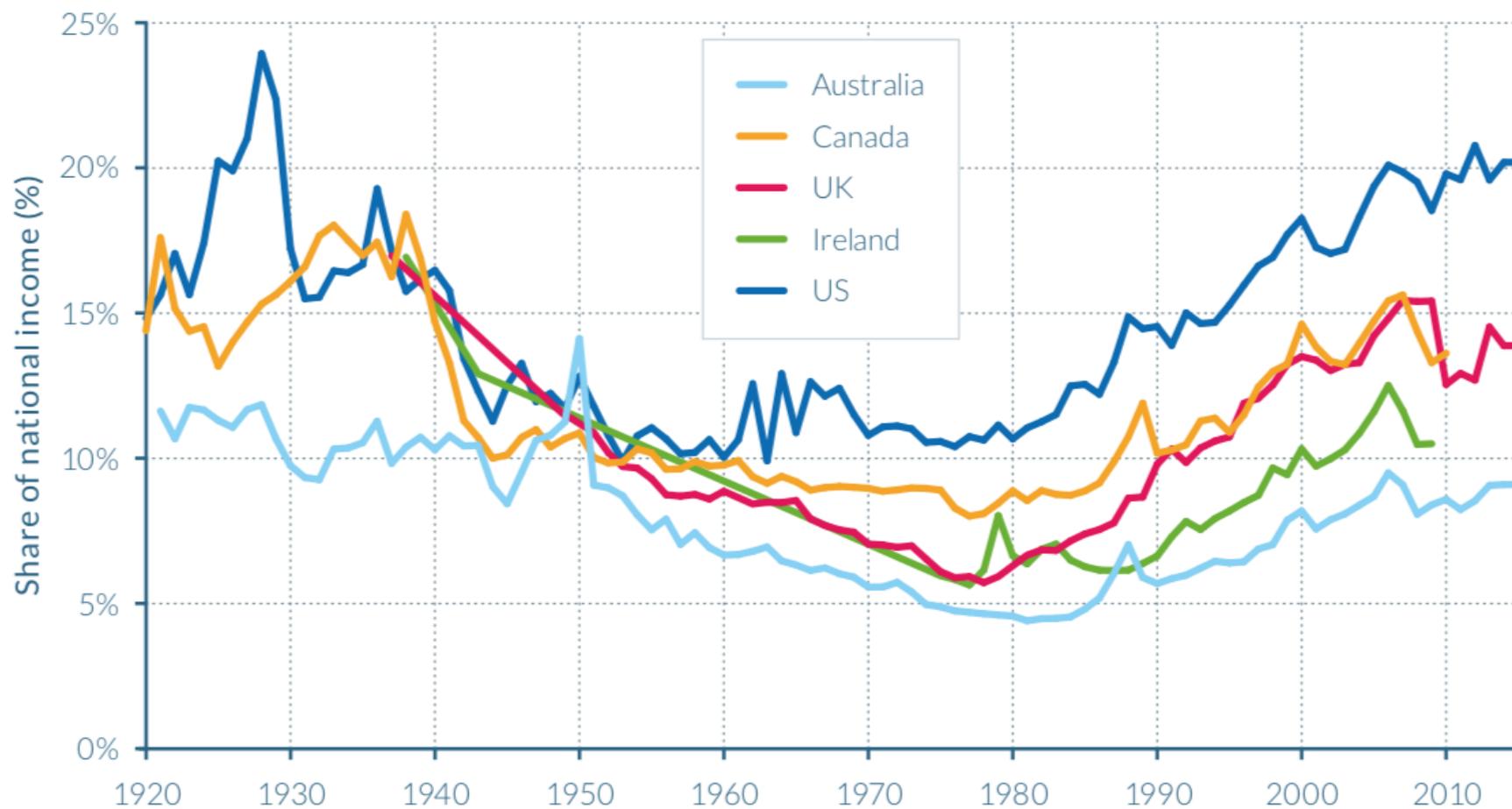
Rise in inequality since 1980 contrast sharply with general  in inequality between 1920s and 1970s

3.1 In developed countries

- 1920s-1970s combination of political, social, and economic shocks
- Followed by egalitarian policies: Social Security, public education, pro-labor policies, progressive taxation

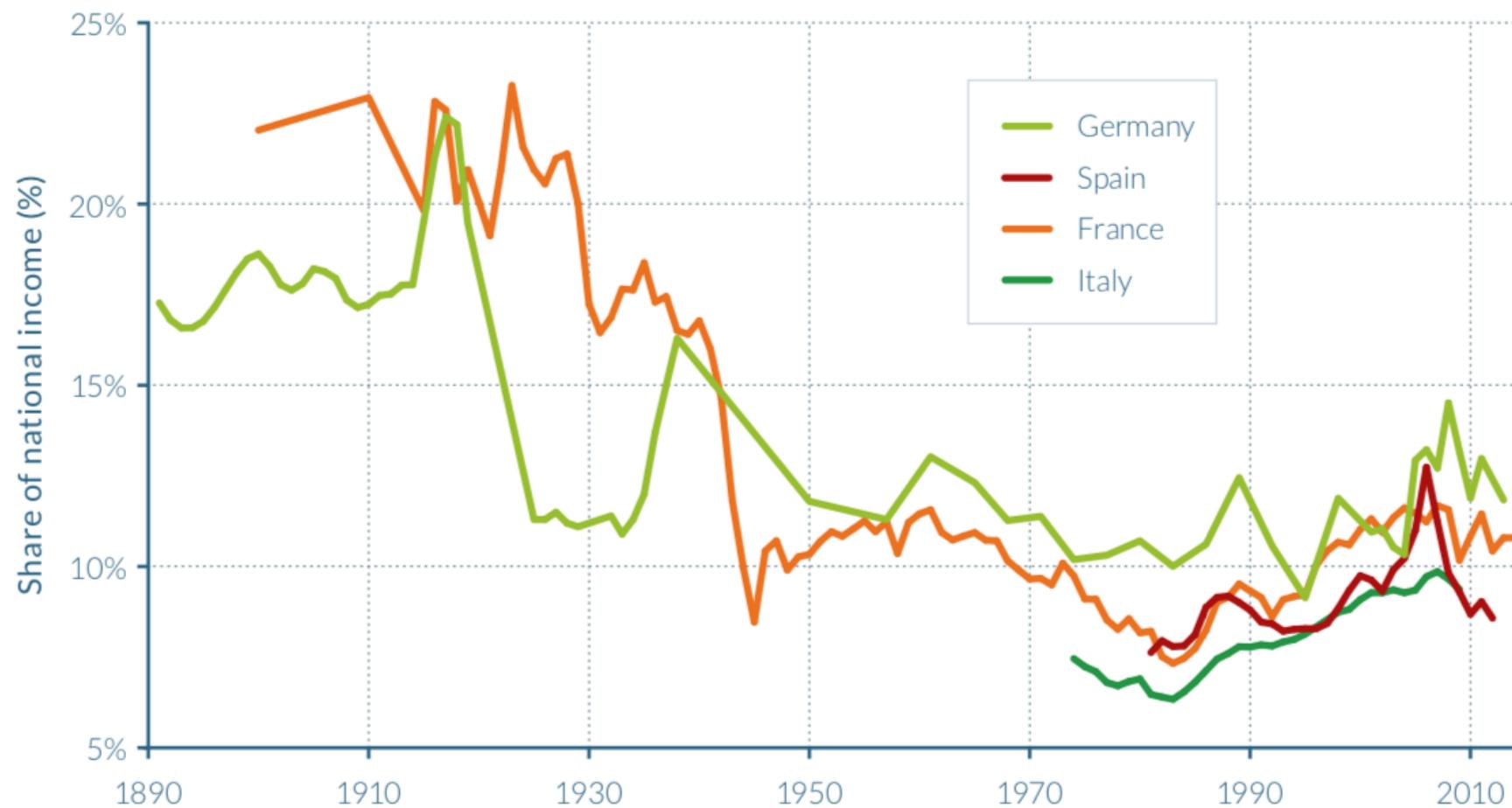
- Decline in inequality largely a capital phenomenon
 - Large shocks to top fortunes 1913-1945
 - Rise of patrimonial middle-class

Top 1% national income share in Anglophone countries, 1920-2015



Source: Novokmet, Piketty & Zucman (2017). See [wir2018.wid.world](#) for data series and notes.

Top 1% national income share in European countries, 1890-2014



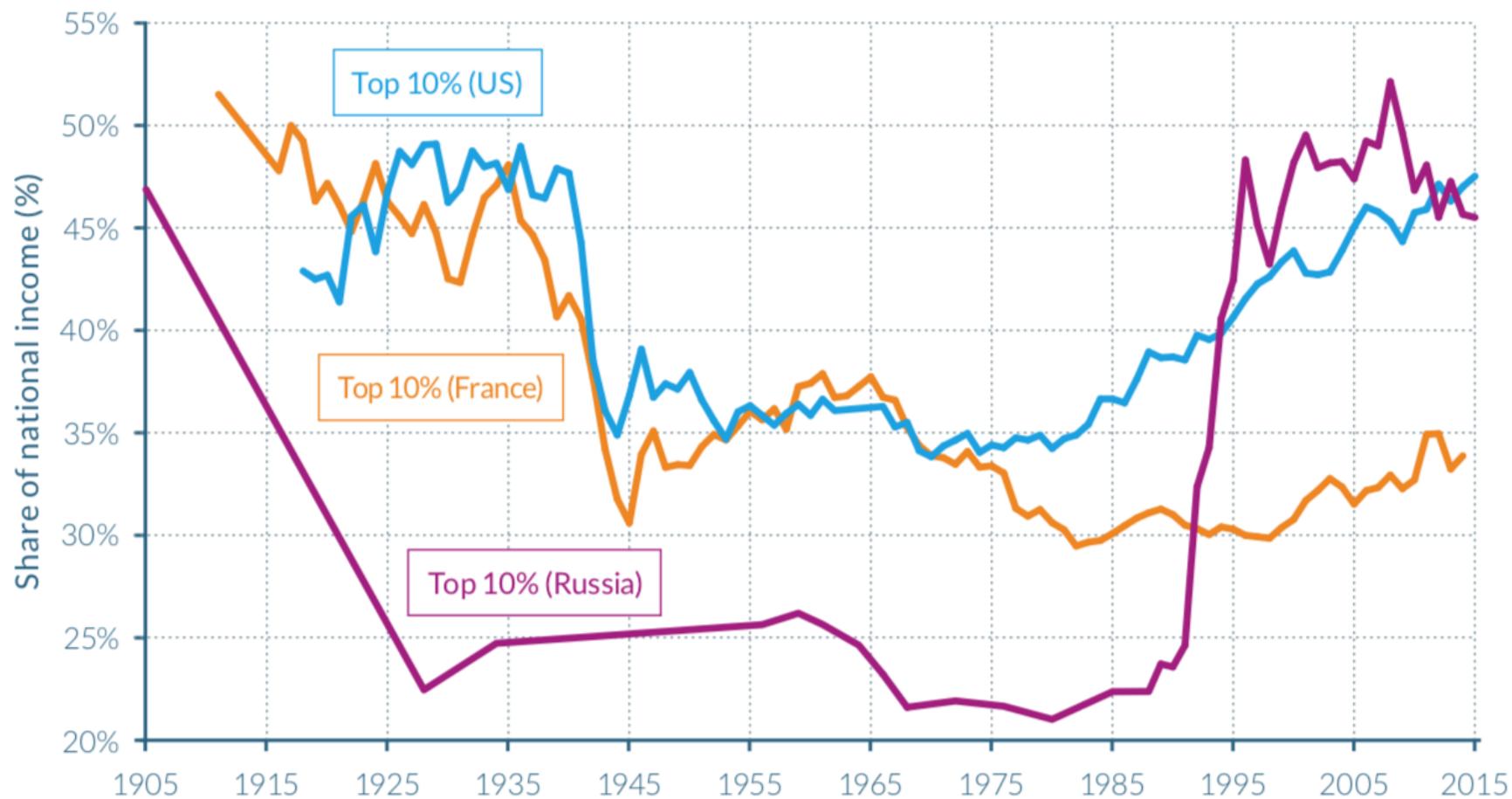
Source: WID.world (2017). See [wir2018.wid.world](#) for data series and notes.

3.2 In emerging countries

Political and social shocks led to even more radical reduction of inequality:

- Abolition of private property in Russia, plans, education, land redistribution
- Socialist policies in India post-independence

Top 10% income share in France, Russia and the US, 1905–2015



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

4 Summary

- After historical decline in most parts of the world from 1920s to 1970s, income inequality is on the rise in nearly all countries.
- But variety of national pathways, highlighting key role of political and institutional factors
- Among rich countries, English-speaking countries have experienced a sharp rise in inequality since the 1980s.

- In China, India, and Russia, three formerly communist or highly regulated economies, inequality surged with opening and liberalization policies.
- Steepest rise occurred in Russia, where the transition to a market economy was particularly abrupt.
- Too little is known of long-run dynamics of income inequality in many low-income countries.

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