Introduction to Economic History
(Master APE & PPD)
(EHESS & Paris School of Economics)
Thomas Piketty
Academic year 2017-2018

Lecture 4: Inequality in the long run:
labor income vs capital ownership

(check on line for updated versions)
Roadmap of lecture 4

• The measurement of inequality
• Basic orders of magnitudes about inequality
• Basic facts about the evolution of inequality
• Inequality of labor income in the long run
• Inequality of capital ownership in the long run
• r-g and the long-run concentration of wealth
• Inheritance vs work
• The world dynamics of the wealth distribution
• Inequality in poor and emerging countries
• What do we know about preindustrial inequality?
The measurement of inequality

• S. Kuznets, *Shares of upper income groups in income and savings*, 1953; « Economic growth and income inequality », *AER 1955* : first major historical-statistical study on income distribution... but interest in inequality started much before

• Some exemples of pre-statistical work on inequality:
  • T. Malthus 1798, *Essay on principle of population*: main danger is over-population → falling wages, political chaos: inspired by A. Young, *Travel Diaries in France 1787-1789* and by fear of French revolution (not much statistics, but inspiring)
  • D. Ricardo 1817, *Principles of political economy and taxation*: main danger is ever-rising land prices (rising rent in France 18c)
  • K. Marx 1867, *Capital*: stagnating wages & rising profits and k accumulation will lead to revolution (wage stagnation 19c)
  • P. Leroy-Beaulieu 1881, *Essai sur la répartition des richesses et sur la tendance à une moindre inégalité des conditions* : much more optimistic view of the future... but no data
• Late 19th – early 20th: more and more historical work on national income and wealth (see lectures 1-2, e.g. Giffen 1889) and on long-run series on prices and wages = an indirect way to study capital shares and inequality

• E. Labrousse 1933, *Esquisse du mouvement des prix et des revenus en France au 18e siècle*: France 1726-1789: grain prices ↑50-60%, land rent ↑80%, wages ↑20-30% → inequality ↑, social unrest, revolution

• F. Simiand, *Le salaire, l’évolution sociale et la monnaie*, Alcan, 1932: wages ↑ more than prices 1789-1815, a bit less than prices 1815-1850 (stagnation), more than prices 1860-1914


• See lectures 5-6 for more references on long-run series on wages, prices and population (e.g. Allen on Engel’s pause: long wage stagnation 1815-1850)
• Kuznets’ 1953 key novelty: combines macro data (national accounts for US 1913-1948: total income denominator) with micro data (income tax data: top income numerator) in order to compute shares of top incomes (top 10%, top 1%, etc.)

• Atkinson-Harrison 1978: computations of top wealth shares using inheritance tax data (estate multiplier method) and income tax data (income capitalization method)

• Atkinson-Piketty, *Top Incomes Over the 20th Century*, OUP 2007; *Top Incomes: A Global Perspective*, OUP 2010 = extension of Kuznets’ methods to more countries & years


• Updated series: see [World Top Incomes Database](http://worldtopincomesdatabase.org), currently being extended into the [World Wealth and Income Database (WID)](http://worldwealthdatabase.org)
The top decile share in U.S. national income dropped from 45-50% in the 1910s-1920s to less than 35% in the 1950s (this is the fall documented by Kuznets); it then rose from less than 35% in the 1970s to 45-50% in the 2000s-2010s.

Sources and series: see Figure I.1. Income inequality in the United States, 1910-2012
WORLD VIEW
Compare inequality between countries on an interactive world map

COUNTRY GRAPHS
Follow the evolution of inequality within countries with user-friendly graphs

DATA TABLES
Download our open-access datasets

THE SOURCE FOR GLOBAL INEQUALITY DATA
• Current extension of WID.world: Distributional National Accounts (DINA) = coverage of total national income, including tax-exempt capital income, transfers, etc., and not only fiscal income

• See Piketty-Saez-Zucman 2016, *Distributional National Accounts: Methods and Estimates for the United States* (Slides)

• Garbinti-Goupille-Piketty 2016, *Accounting for Wealth Inequality Dynamics: Methods, Estimates and Simulations for France (1800-2014)* (Slides); 2017 *Income Inequality in France 1900-2014: Evidence from Distributional National Accounts (DINA)* (Slides)

• New DINA series on WID.world for UK, China, India, Brasil, Russia, etc.
Notes on historical inequality data sources & Pareto interpolation methods

• In this course, I focus upon the interpretation of the results and I say relatively little about methodological and data issues; for more details on these issues, see WID.world and the gpinter (generalized Pareto interpolation) interface

• In order to have a sense of how raw data sources look like, see for instance income tax tabulations for France 1919

• Of course, it is always better to have micro files rather than tabulations; but tax administrations did not start producing micro files before the 1970s-80s (1990s-2000s in some countries); for earlier periods, and sometime also for the present, we only have tabulations; the point is that we can actually infer the entire distribution from tabulations, using Pareto extrapolation techniques
Reminder: Pareto distributions have a density function \( f(y) = \frac{ac^a}{y^{1+a}} \) and a distribution function \( 1-F(y) = \left(\frac{c}{y}\right)^a \) \((= \text{population fraction above } y)\) with \( c = \text{constant} \) and \( a = \text{Pareto coefficient} \)

- Intuition: higher coefficient \( a \) = faster convergence toward 0 = less fat upper tail = less income concentration at the top

**Key property of Pareto distributions: ratio average/threshold = constant**

- Note \( y^*(y) \) the average income of the population above threshold \( y \). Then \( y^*(y) \) can be expressed as follows: \[ y^*(y) = \frac{\int_{z>y} z f(z) \, dz}{\int_{z>y} f(z) \, dz} \]
  
  i.e. \[ y^*(y) = \frac{\int_{z>y} dz/z^a}{\int_{z>y} dz/z^{(1+a)}} = ay/(a-1) \]

  i.e. \( y^*(y)/y = b = a/(a-1) \)

- If \( b=2 \): average income above 100 000€ = 200 000€, average income above 1 million € = 2 million €, etc.

- France 2010s, US 1970s: \( b = 1.5-1.8 \); France 1910s, US 2010s: \( b = 2.3-2.8 \)

- For wealth distributions, \( b \) can be larger than 3: \( b = \text{index of concentration} \)

- Pareto coefficients are easy to estimate using tabulations: see for instance [Atkinson-Piketty-Saez 2011](#) for graphs on \( b \) over time & across countries; see Blanchet-Fournier-Piketty 2017 on [Generalized Pareto Curves](#)
Basic orders of magnitude about inequality

- Inequality of labor income is always much less than inequality of capital ownership
- Top 10% share: 20-30% for labor income, 50-90% for wealth & capital income; 30-60% for total income
- Bottom 50% share: 20-30% for labor inc.; <5-10% for wealth
- Gini coefficients: 0,2-0,4 for labor income; 0,6-0,8 for wealth
- Gini coefficient = synthetic index going from 0 (perfect equality) to 1 (complete inequality)
- Pb: Gini coeff is so synthetic (it aggregates info from top decile shares, bottom decile shares, middle decile shares) that it is sometime difficult to understand where it comes from and to pinpoint data inconsistencies
→ it is better to use data on decile and percentile shares
### Table 7.1. Inequality of labor income across time and space

<table>
<thead>
<tr>
<th>Share of different groups in total labor income</th>
<th>Low inequality (≈ Scandinavia, 1970s-80s)</th>
<th>Medium inequality (≈ Europe 2010)</th>
<th>High inequality (≈ U.S. 2010)</th>
<th>Very high inequality (≈ U.S. 2030 ?)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The top 10% &quot;Upper class&quot;</td>
<td>20%</td>
<td>25%</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>including: the top 1% (&quot;dominant class&quot;)</td>
<td>5%</td>
<td>7%</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>including: the next 9% (&quot;well-to-do class&quot;)</td>
<td>15%</td>
<td>18%</td>
<td>23%</td>
<td>28%</td>
</tr>
<tr>
<td>The middle 40% &quot;Middle class&quot;</td>
<td>45%</td>
<td>45%</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>The bottom 50% &quot;Lower class&quot;</td>
<td>35%</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Corresponding Gini coefficient (synthetic inequality index)</td>
<td>0.19</td>
<td>0.26</td>
<td>0.36</td>
<td>0.46</td>
</tr>
</tbody>
</table>

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 going from 0 to 1) is equal to 0.19. See technical appendix.
<table>
<thead>
<tr>
<th>Share of different groups in total capital</th>
<th>Low inequality (never observed; ideal society?)</th>
<th>Medium inequality (≈ Scandinavia, 1970s-1980s)</th>
<th>Medium-high inequality (≈ Europe 2010)</th>
<th>High inequality (≈ U.S. 2010)</th>
<th>Very high inequality (≈ Europe 1910)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The top 10% &quot;Upper class&quot;</td>
<td>30%</td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
<td>90%</td>
</tr>
<tr>
<td>including: the top 1% (&quot;dominant class&quot;)</td>
<td>10%</td>
<td>20%</td>
<td>25%</td>
<td>35%</td>
<td>50%</td>
</tr>
<tr>
<td>including: the next 9% (&quot;well-to-do class&quot;)</td>
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<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>The bottom 50% &quot;Lower class&quot;</td>
<td>25%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Corresponding Gini coefficient (synthetic inequality index)</td>
<td>0.33</td>
<td>0.58</td>
<td>0.67</td>
<td>0.73</td>
<td>0.85</td>
</tr>
</tbody>
</table>

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 technical appendix.
### Table 7.3. Inequality of total income (labor and capital) across time and space

<table>
<thead>
<tr>
<th>Share of different groups in total income (labor + capital)</th>
<th>Low inequality (≈ Scandinavia, 1970s-80s)</th>
<th>Medium inequality (≈ Europe 2010)</th>
<th>High inequality (≈ U.S. 2010, Europe 1910)</th>
<th>Very high inequality (≈ U.S. 2030 ?)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The top 10% &quot;Upper class&quot;</td>
<td>25%</td>
<td>35%</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>including: the top 1% (&quot;dominant class&quot;)</td>
<td>7%</td>
<td>10%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>including: the next 9% (&quot;well-to-do class&quot;)</td>
<td>18%</td>
<td>25%</td>
<td>30%</td>
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<td>The middle 40% &quot;Middle class&quot;</td>
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<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>The bottom 50% &quot;Lower class&quot;</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Corresponding Gini coefficient (synthetic inequality index)</td>
<td>0.26</td>
<td>0.36</td>
<td>0.49</td>
<td>0.58</td>
</tr>
</tbody>
</table>

In societies where the inequality of total income is relatively low (such as Scandinavian countries during the 1970s-1980s), the 10% highest incomes receive about 20% of total income, the 50% lowest income receive about 30%. The corresponding Gini coefficient is equal to 0.26. See technical appendix.
• Reminder about Gini coefficients
• \( G = 2 \times \text{area between first diagonal and Lorenz curve (see graph)} \)
• Exemple with finite number of income or wealth groups (in practice, distributions are better approximated as continuous distributions):
  • \( p_1, \ldots, p_n \) = percentiles
  • \( s_0, s_1, \ldots, s_n \) = corresponding shares in total income or wealth
  • I.e. \( s_0 \) = share owned by individuals below percentile \( p_1 \), \( s_1 \) = share owned by individuals between percentiles \( p_1 \) and \( p_2 \), \ldots, \( s_n \) = share owned by individuals above percentile \( p_n \).
  • By definition, \( \sum_{0 \leq i \leq n} s_i = 1 \).
• \textit{Exemple 1}. Assume \( n=1, \ p_1=0.9, \ s_0=0.5, \ s_1=0.5 \). I.e. the bottom 90% and the top 10% both own 50% of total income (or wealth), and both groups are supposed to be homogenous.
• \textit{Exemple 2}. Assume \( n=2, \ p_1=0.5, \ p_2=0.9, \ s_0=0.2, \ s_1=0.3, \ s_2=0.5 \). I.e. the bottom 50% owns 20% of total, the next 40% own 30%, and the top 10% own 50%. 
Figure S7.1. Gini-Lorenz curves examples

- ○ first bisector (perfect equality)
- ▲ Curve #1: distribution in 2 groups
- ◇ Curve #2: continuous distribution

Curve 1 assumes that the poorest 90% and the richest 10% own 50% of total income or capital each, and that both groups are homogenous (hence a linear curve); curve 2 assumes a continuous distribution.
• With two groups, one can show that $G = s_1 + p_1 - 1$
  (simple triangle area computation)
• I.e. if the top 10% owns 20% of the total, then $G=0,2+0,9-1=0,1$.
• If the top 10% owns 50% of the total, then $G=0,5+0,9-1=0,4$.
• If the top 10% owns 90% of the total, then $G=0,9+0,9-1=0,8$.
• If $s_1 = 1 - p_1$ (the top group owns exactly as much as its share in population), then by definition we have complete equality: $G = 0$.
• If $p_1 \to 1$ and $s_1 \to 1$ (the top group is infinitely small and owns almost everything), then $G \to 1$.
• With $n+1$ groups, one can show that: $G = 1 - p_1s_0 - [ \Sigma_{1 \leq i \leq n-1} (p_{i+1} - p_i)(2s_0 + 2s_1 +...+2s_{i-1}+s_i) ] - (1-p_n)(1+s_0+...+s_{n-1})$
  (see this [excel file](#) for exemples of computations of Gini coeff.)
• With imperfect survey data at the top, one can also use the following formula: $G = G^* (1-S) + S$ with $S = \text{share owned by very top group}$ and $G^* = \text{Gini coefficient for the rest of the population}$
• See [Alvareto, A note on the relationship btw top income shares and Gini coefficients, Economics letters 2011](#)
Basic facts about the historical evolution of income inequality

• France (& Europe, Japan): inequality of labor income has been relatively flat in the long-run; 20\textsuperscript{c} decline in total inequality comes mostly from compression of inequality in capital ownership

• US: inequality in capital ownership has never been as large as in 19\textsuperscript{c} Europe; but inequality of labor income has grown to unprecedented levels in recent decades (explosion of top incomes, collapse of bottom incomes); why?
Figure 8.1. Income inequality in France, 1910-2010

Inequality of total income (labor and capital) has dropped in France during the 20th century, while wage inequality has remained the same. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 8.2. The fall of rentiers in France, 1910-2010

The fall in the top percentile share (the top 1% highest incomes) in France between 1914 and 1945 is due to the fall of top capital incomes. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 8.5. Income inequality in the United States, 1910-2010

The top decile income share rose from less than 35% of total income in the 1970s to almost 50% in the 2000s-2010s. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 8.7. High incomes and high wages in the U.S. 1910-2010

The rise of income inequality since the 1970s is largely due to the rise of wage inequality.

Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 8.8. The transformation of the top 1% in the United States

The rise in the top 1% highest incomes since the 1970s is largely due to the rise in the top 1% highest wages.

Sources and series: see piketty.pse.ens.fr/capital21c.
1980: Top 1% = 27 x bottom 50% income
2014: Top 1% = 81 x bottom 50% income

Real average pre-tax income of bottom 50% and top 1% adults

1980: Top 1% = $428,000
1980: Bottom 50% = $16,000
2014: Bottom 50% = $16,200
2014: Top 1% = $1,305,000
The determinants of labor income inequality

• The main story: the race between education (skill supply) and technology (skill demand)

• Assume \( Y = F(L_s, L_u) \) (or \( Y = F(K, L_s, L_u) \) )
  with \( L_s = \) high-skill labor, \( L_u = \) low-skill labor

• Assume technical change is skill-biased, i.e. high skills are more and more useful over time, so that the demand for high-skill labor \( L_s \) \( \uparrow \) over time
  \( \text{(say, } F(L_s, L_u) = L_s^\alpha L_u^{1-\alpha}, \text{ with } \alpha \uparrow \text{ over time)} \)

• If the skill supply \( L_s \) is fixed, then the relative wage of high-skill labor \( w_s/w_u \) (skill premium) will \( \uparrow \) over time

• The only way to counteract rising wage inequality is the rise of skill supply \( L_s \) through increased education investment: the race between education and technology
• They compare for each decade the growth rate of skills (college educated workers) and the change in skill premium, and they find a systematic negative correlation
• Starting in the 1980s-90s, the growth rate of skills has been reduced (still >0, but less than in previous decades), thereby leading to rising kill premium and rising wage inequality
→ the right way to reduce US wage inequality is massive investment in skills and increased access to higher education (big debate on university tuitions in the US)
<table>
<thead>
<tr>
<th></th>
<th>Relative Wage</th>
<th>Relative Supply</th>
<th>Relative Demand ($\sigma_{SU} = 1.4$)</th>
<th>Relative Demand ($\sigma_{SU} = 1.64$)</th>
<th>Relative Demand ($\sigma_{SU} = 1.84$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1915-40</td>
<td>-0.56</td>
<td>3.19</td>
<td>2.41</td>
<td>2.27</td>
<td>2.16</td>
</tr>
<tr>
<td>1940-50</td>
<td>-1.86</td>
<td>2.35</td>
<td>-0.25</td>
<td>-0.69</td>
<td>-1.06</td>
</tr>
<tr>
<td>1950-60</td>
<td>0.83</td>
<td>2.91</td>
<td>4.08</td>
<td>4.28</td>
<td>4.45</td>
</tr>
<tr>
<td>1960-70</td>
<td>0.69</td>
<td>2.55</td>
<td>3.52</td>
<td>3.69</td>
<td>3.83</td>
</tr>
<tr>
<td>1970-80</td>
<td>-0.74</td>
<td>4.99</td>
<td>3.95</td>
<td>3.77</td>
<td>3.62</td>
</tr>
<tr>
<td>1980-90</td>
<td>1.51</td>
<td>2.53</td>
<td>4.65</td>
<td>5.01</td>
<td>5.32</td>
</tr>
<tr>
<td>1990-2000</td>
<td>0.58</td>
<td>2.03</td>
<td>2.84</td>
<td>2.98</td>
<td>3.09</td>
</tr>
<tr>
<td>1990-2005</td>
<td>0.50</td>
<td>1.65</td>
<td>2.34</td>
<td>2.46</td>
<td>2.56</td>
</tr>
<tr>
<td>1940-60</td>
<td>-0.51</td>
<td>2.63</td>
<td>1.92</td>
<td>1.79</td>
<td>1.69</td>
</tr>
<tr>
<td>1960-80</td>
<td>-0.02</td>
<td>3.77</td>
<td>3.74</td>
<td>3.73</td>
<td>3.73</td>
</tr>
<tr>
<td>1980-2005</td>
<td>0.90</td>
<td>2.00</td>
<td>3.27</td>
<td>3.48</td>
<td>3.66</td>
</tr>
<tr>
<td>1915-2005</td>
<td>-0.02</td>
<td>2.87</td>
<td>2.83</td>
<td>2.83</td>
<td>2.82</td>
</tr>
</tbody>
</table>
• Other implication of the « race btw education and technology » story: in France, wage inequality has remained stable in the long run because the all skill levels have increased roughly at the same rate as that required by technical change; the right policy to reduce inequality is again education

• According to this theory, the explanation for higher wage inequality in the US is higher skill inequality; is that right?

• According to recent PISA report, inequality in educational achievement among 15-yr-old (math tests) is as large in France as in the US...

• But it is possible that inequality in access to higher education is even larger in the US than in France: average parental income of Harvard students = top 2% of US distribution; average parental income of Sciences Po students = top 10% FR

• See works by Grenet on improving access to high schools and universities in France, or by Chetty-Saez on local segregation and social mobility in the US (Equality of Opportunity project), or Kirsch-Braun, The Dynamics of Opportunity in America, 2016
College Attendance Rates vs. Parent Income Rank in the U.S.

Percent Attending College at Ages 18-21 vs. Parent Income Rank

Slope = 0.675 (0.0005)
The limitations of the basic story

- Education vs technology = the main determinant of labor income inequality in the long run
- However other forces also play a role: labor market institutions (in particular salary scales and minimum/maximum wages)
- Basic justification for rigid (or quasi rigid) salary scales: the « wage = marginal product » story is a bit too naive; in practice it is difficult to measure exactly individual productivities; so one may want to reduce arbitrariness in wage setting
- Also, hold-up problem in presence of firm-specific skill investment: in terms of incentives for skill acquisition, it can be better for both employers and employees (via unions) to commit in advance to salary scales and long run labor contracts
- Extreme case of hold-up problem: local monopsony power by employers to hire certain skill groups in certain areas; then the efficient policy response is to raise the minimum wage
- See Card-Krueger debate: when the minimum wage is very low (such as US in early 1990s... or in 2010s), raising it can actually raise employment by raising labor supply
• Minimum wages have a rich and chaotic history: see graphs on US vs France 1950-2013
• A national minimum wage was introduced in the US in 1933; it is now equal to 7.2$/h, and Obama would like to raise it to 9$ in 2015-16 (very rare adjustments in the US)
• In France, MW introduced in 1950; now equal to 9.5€/h
• Introduced in UK in 1999 (6.2£/h, i.e. 8.1€)
• No national MW in Germany (but new Merkel-SPD coalition plans to introduce MW at 8.5€/h in 2014-15) or in Nordic countries, but binding salary scales negotiated by unions and employers
• Minimum wages are useful, but it’s all a matter of degree; and the right level also depends on the tax system and the education system
• If high low-wage payroll tax & poor training system for low-skill workers, then the employment cost of high minimum wages can be very large
Figure 9.1. Minimum wage in France and the U.S., 1950-2013

Expressed in 2013 purchasing power, the hourly minimum wage rose from 3.8$ to 7.3$ between 1950 and 2013 in the U.S., and from 2.1€ to 9.4€ in France. Sources and series: see piketty.pse.ens.fr/capital21c.
• Top wages = other key limitation of the perfect-competition model: with a pure “education vs technology” story, it is difficult to understand why the recent rise in inequality is so much concentrated within very top incomes, and why it occurred in some countries and not in others (globalization and technical change occurred everywhere: Japan, Germany, Sweden, France..., not only in US-UK!)

• Model with imperfect competition and CEO bargaining power (CEOs sometime extract some than their marginal product & do so more intensively when top tax rates are lower) = more promising

• In particular, this can explain why top income shares increased more in countries with the largest decline in top tax rates since the 1970s-80s (i.e. US-UK rather than Japan-Germany-France/etc.)

• For a theoretical model and empirical test based upon this intuition, see Piketty-Saez-Stantcheva, **AEJ 2014** (see also **Slides**)
• More generally, differences in legal systems, particularly in labor law & company law (stakeholder rights: “codetermination”) can contribute to explain different levels of wage inequality.

• See McGaughey 2015 on corporate law & inequality; see also McGaughey 2015 & Schuster 2015 on codetermination in Germany, Sweden and other European countries (see Lecture 3): more codetermination → more equal salary scales.


• To summarize: higher US wage inequality is both a matter of unequal skills and of institutions → large cross-country differences.
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.
As compared to Anglo-Saxon countries, the top percentile income share barely increased in Northern and Southern Europe since the 1970s. Sources and series: piketty.pse.ens.fr/capital21c
Figure 9.5. The top 0.1% income share in Anglo-saxon countries, 1910-2010

The share of the top 0.1% highest incomes in total income rose sharply since the 1970s in all Anglo-saxon countries, but with varying magnitudes. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 9.6. The top 0.1% income share: Continental Europe and Japan, 1910-2010

As compared to Anglo-saxon countries, the top 0.1% income share barely increased in Continental Europe and Japan. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 9.7. The top decile income share: Europe and the U.S., 1900-2010

In the 1950s-1970s, the top decile income share was about 30-35% of total income in Europe as in the U.S.

Sources and series: see piketty.pse.ens.fr/capital21c.
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.
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.
Why do perceptions of inequality differ?

- In order to explain different institutional trajectories, one needs to explain different perceptions & belief systems about inequality
- Why more tolerance for inequality in the US?
- In Europe, extreme inequality is associated to the past (19c and Belle Epoque, or even to 18c and Ancien Regime), and nobody wants to return there: strong attachement to post-WW2 high-growth egalitarian ideal... but intense tax competition
- In the US, there is no historical experience with extreme inequality (except slavery..), so « extremist meritocratic » discourses by the elite (« the rich are job creators, the poor are lazy ») do fly more easily than in Europe
- China, Russia: given the catastrophic egalitarian experience with communism, maybe public opinion is ready to accept levels of inequality that are even more extreme; « Russian oligarchs », and soon « Chinese oligarchs »?
Basic facts about the long-run evolution of wealth concentration

• Europe: extreme wealth concentration during 19c, up until WW1: ≈90% for top 10% (incl. ≈60-70% for top 1%)
• No « natural » decline: if anything, upward trend until WW1; then sharp decline following WW shocks and until 1950s-60s
• Then wealth inequality ↑ since 1970s-80s. But it is still much lower in the 2010s (≈60-70% for top 10%, incl. 20-30% for top 1%) than in the 1910s
• US: wealth inequality was less extreme than in Europe in 19c (there’s always been a white middle class), but declined less strongly and therefore become larger than in Europe during 20c
• How can we explain these facts?
Figure 10.1. Wealth inequality in France, 1810-2010

The top decile (the top 10% highest wealth holders) owns 80-90% of total wealth in 1810-1910, and 60-65% today.

Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 10.2. Wealth inequality: Paris vs. France, 1810-2010

The top percentile (the top 1% wealth holders) owns 70% of aggregate wealth in Paris at the eve of World War I.

Sources and series: see piketty.pse.ens.fr/capital21c
Wealth inequality in France 1789-1914: the failure of the French Revolution

• The fact that wealth concentration was so extreme in France & Paris around 1900-1910, and probably even higher than in 1780-1790 under Ancien Regime (or at least as large), is very striking

• The French Revolution, with end of aristocracy, equal formal rights (in particular property rights), and equal sharing between siblings, was supposed to lead to an equal society

• See Condorcet 1794, *Esquisse d’un tableau historique des progrès de l’esprit humain*, Leroy-Beaulieu 1881 *Essai sur la répartition des richesses et sur la tendance à une moindre inégalité des conditions* = very optimistic (& self-serving) view

• French Republican elites in late 19c & early 20c: « thanks to French Revolution, we are a country of equals, so we do not need progressive taxation, unlike aristocratic Britain »

→ France was the last Western country to introduce the progressive income tax, in july 1914, partly because of the beliefs that the French Revolution had already made a society of equals
• Except that French inheritance archives show extreme wealth inequality up until 1914, almost as large as in Britain.


• See J. Bourdieu, L. Kestelsbaum, G. Postel-Vinay, L ’enquête TRA. Histoire d’un outil, outil pour l’histoire, INED 2014

• See Delbos 2016 (using electoral lists); Dherbecourt 2016 (differential fertility); data could be used to look at marriage patterns, etc.

• The French Revolution did not create a just society, but at least it created the best data sources on inherited wealth in the world... largely because of a very universal system of inheritance taxation and property registration (meant to protect property, with very low tax rates, not to redistribute property)
Figure 10.3. Wealth inequality in the United Kingdom, 1810-2010

The top decile owns 80-90% of total wealth in 1810-1910, and 70% today.

Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 10.4. Wealth inequality in Sweden, 1810-2010

The top 10% holds 80-90% of total wealth in 1810-1910, and 55-60% today.
Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 10.5. Wealth inequality in the U.S., 1810-2010

The top 10% wealth holders own about 80% of total wealth in 1910, and 75% today.
Sources and series: see piketty.pse.ens.fr/capital21c.
Until the mid 20th century, wealth inequality was higher in Europe than in the United States.

Sources and series: see piketty.pse.ens.fr/capital21c.
Which models of wealth accumulation and distribution can explain the facts?

- The fact that wealth inequality is always a lot larger than labor income inequality is hard to explain with a pure precautionary-saving model (wealth less unequal than labor income) or a pure life-cycle model (wealth as unequal as labor income).
- One needs dynamic models with cumulative shocks over long horizon – random shocks, inheritance – in order to account for the high wealth concentration that we observe in the real world.
- Infinite-horizon dynastic model: any inequality is self-sustaining.
- **Dynamic random shocks model**: inequality $\uparrow$ as $r - g \uparrow$

$\Rightarrow$ This can explain both the historical evolution and the cross-country variations: see Course notes on wealth models & Piketty-Zucman, « Wealth & inheritance in the long run », HID 2015 (section 5.4)

**Key additional ingredient**: large differences in portfolio composition $\Rightarrow$ large differences in returns btw low and high wealth groups.
Asset composition by wealth level, France 2012

- Deposits
- Financial assets (excl. deposits)
- Business assets
- Housing (net of debt)

Wealth percentiles and associated asset values:
- P0-10: 2450 €
- P10-20: 23000 €
- P20-30: 111000 €
- P30-40: 198000 €
- P40-50: 497000 €
- P50-60: 2368000 €
- P60-70: 15650000 €
- P70-80: 8330000 €
- P80-90: 30000000 €
- P90-95: 100000000 €
- P95-99: 1500000000 €
- P99-99.5: 20000000000 €
- P99.5-99.9: 300000000000 €
- P99.9-100: 4000000000000 €
<table>
<thead>
<tr>
<th></th>
<th>Real estate assets (buildings, houses, land, etc.)</th>
<th>incl. Real estate Paris</th>
<th>incl. Real estate Province (outside Paris)</th>
<th>Financial assets</th>
<th>incl. Equity</th>
<th>incl. Private bonds</th>
<th>incl. Public bonds</th>
<th>incl. Other financial assets (cash, deposits, etc.)</th>
<th>Furnitures, jewels, etc.</th>
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<tbody>
<tr>
<td><strong>Composition of total wealth</strong></td>
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<td>1872</td>
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<td>29%</td>
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<td>1912</td>
<td>36%</td>
<td>25%</td>
<td>11%</td>
<td>62%</td>
<td>20%</td>
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<td><strong>Composition of top 1% wealth holders portfolios</strong></td>
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<td>1912</td>
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<td>22%</td>
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<td>19%</td>
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<td><strong>Composition of next 9%</strong></td>
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<td>1912</td>
<td>41%</td>
<td>30%</td>
<td>12%</td>
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<td><strong>Composition of next 40%</strong></td>
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<td>1872</td>
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<td>26%</td>
<td>62%</td>
<td>13%</td>
<td>25%</td>
<td>16%</td>
<td>9%</td>
<td>11%</td>
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<tr>
<td>1912</td>
<td>31%</td>
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<td>12%</td>
<td>14%</td>
<td>14%</td>
<td>18%</td>
<td>10%</td>
</tr>
</tbody>
</table>

In 1912, real estate assets made up 36% of total wealth in Paris, financial assets made up 62%, and furnitures, jewels, etc. 3%. Sources: see piketty.pse.ens.fr/capital21c.
Figure 10.7. Return to capital and growth: France 1820-1913

The rate of return on capital is a lot higher than the growth rate in France between 1820 and 1913. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 10.8. Capital share and saving rate: France 1820-1913

The share of capital income in national income is much larger than the saving rate in France between 1820 and 1913.

Sources and series: see piketty.pse.ens.fr/capital21c.
• Key finding: with multiplicative random shocks, one can generate very high levels of wealth inequality; the exact level of steady-state wealth inequality depends a lot on the differential $r - g$

• This can **contribute** to explain:
  - extreme wealth concentration in Europe in 19c and during most of human history (high $r-g$)
  - lower wealth inequality in the US in 19c (high $g$)
  - the long-lasting decline of wealth concentration in 20c (low $r$ due to shocks, high $g$)
  - and the return of high wealth concentration since late 20c/early 21c (lowering of $g$, and rise of $r$, in particular due to tax competition)
Figure 10.9. Rate of return vs. growth rate at the world level, from Antiquity until 2100

The rate of return to capital (pre-tax) has always been higher than the world growth rate, but the gap was reduced during the 20th century, and might widen again in the 21st century.

Sources and series: see piketty.pse.ens.fr/capital21c
Figure 10.10. After tax rate of return vs. growth rate at the world level, from Antiquity until 2100

The rate of return to capital (after tax and capital losses) fell below the growth rate during the 20th century, and may again surpass it in the 21st century. Sources and series: see piketty.pse.ens.fr/capital21c
Figure 10.11. After tax rate of return vs. growth rate at the world level, from Antiquity until 2200

The rate of return to capital (after tax and capital losses) fell below the growth rate during the 20th century, and might again surpass it in the 21st century. Sources and series: see piketty.pse.ens.fr/capital21c
• Steady-state wealth inequality is also largely determined by the inequality of saving rates.

• See simulations in Garbinti et al 2016
  Accounting for Wealth Inequality Dynamics: Methods, Estimates and Simulations for France (1800-2014) (see also Slides)

• Simple steady-state equation relating inequality of wealth to inequality of labor incomes, saving rates and rates of return (and $r-g =$ simple amplification effect)
From the equation of wealth accumulation, with the same notations as above:

\[ W_{t+1}^p = (1 + q_t^p)[W_t^p + s_t^p(Y_{lt}^p + r_t^pW_t^p)] \]

and assuming \( q_t \) has to be equal to 0 at steady state, we directly derive:

\[ sh_W^p = (1 + \frac{s^p r^p - s r}{g - s^p r^p}) \frac{s^p}{s} sh_{Y_L}^p \]

- If \( s^p = s \) and \( r^p = r \), then \( sh_W^p = sh_{Y_L}^p \): wealth inequality = labor income inequality
- but if \( s^p > s \) and \( r^p > r \), then this can generate large multiplicative effects, and lead to very high steady-state wealth concentration
Steady-state top 10% wealth share, 1800-2150 (% total wealth)

Steady-state with 1984-2014 saving rates: 24.5% for top 10%, 2.5% for bottom 90%

Steady-state with 1970-1984 saving rates: 22% for top 10%, 9.5% for bottom 90%
Inheritance vs work

• If we put all findings together (wealth-income ratios, labor income inequality, wealth inequality), we can compute for each generation the relative importance of inheritance & work in their life opportunities.

• In 19c, inheritance was key to success if you want to reach very high living standards: see comparison between top 1% inheritance vs top 1% labor income (Balzac, Rastignac, Vautrin) (→ patrimonial society).

• In 20c, wealth-income ratios fell, together with wealth concentration: for the first time maybe in history, work was more important than inheritance in order to reach the highest possible living standards in society (→ the accidental rise of meritocracy).

• In 21c, return of aggregate inheritance to 19c levels, but with less extreme wealth concentration: fewer very large inheritors (sufficiently large to stop working entirely), but more moderately large inheritors (larger than bottom 50% lifetime labor earnings) (for more details, see « On the long run evolution of inheritance: France 1820-2050 », QJE 2011 & Course Notes on Wealth Models).
Figure 11.10. The dilemma of Rastignac for cohorts born in years 1790-2030

In the 19th century, the living standards that could be attained by the top 1% inheritors were a lot higher than those that could be attained by the top 1% labor earners. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 11.11. Which fraction of a cohort receives in inheritance the equivalent of a lifetime labor income?

Within the cohorts born around 1970-1980, 12-14% of individuals receive in inheritance the equivalent of the lifetime labor income received by the bottom 50% less well paid workers. Sources and series: see piketty.pse.ens.fr/capital21c
The world dynamics of the wealth distribution

• It is more and more difficult to study wealth inequality at the national level: one needs to take a global perspective.

• In the long run, in case $r - g \uparrow$ at the global level, then world wealth inequality will $\uparrow$.

• **Other important force**: in today’s global capital markets, $r$ might well vary with wealth level $w$, i.e. $r = r(w)$ (scale economies in portfolio management and/or risk taking).

(≠ perfect k market: everybody receives $r = \text{world } F_K$)

• See data from Forbes rankings and university endowments on varying $r = r(w)$.
Figure 12.1. The world billionaires according to Forbes, 1987-2013

Between 1987 and 2013, the number of $ billionaires rose according to Forbes from 140 to 1400, and their total wealth rose from 300 to 5400 billions of dollars. Sources and series: piketty.pse.ens.fr/capital21c.
Between 1987 and 2013, the number of billionaires per 100 million adults rose from 5 to 30, and their share in aggregate private wealth rose from 0.4% to 1.5%. Sources and series: see piketty.pse.ens.fr/capital21c.
Between 1987 and 2013, the share of the top 1/20 million fractile rose from 0.3% to 0.9% of world wealth, and the share of the top 1/100 million fractile rose from 0.1% to 0.4%. Sources and series: see piketty.pse.ens.fr/capital21c.
<table>
<thead>
<tr>
<th>Average real growth rate per year (after deduction of inflation)</th>
<th>1987-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>The top 1/(100 million) highest wealth holders (about 30 adults out of 3 billions in 1980s, and 45 adults out of 4,5 billions in 2010s)</td>
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</tr>
<tr>
<td>Average world wealth per adult</td>
<td>2.1%</td>
</tr>
<tr>
<td>Average world income per adult</td>
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</tr>
<tr>
<td>World adult population</td>
<td>1.9%</td>
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<tr>
<td>World GDP</td>
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</table>

Between 1987 and 2013, the highest global wealth fractiles have grown at 6%-7% per year, vs. 2.1% for average world wealth and 1.4% for average world income. All growth rates are net of inflation (2.3% per year between 1987 and 2013). Sources: see piketty.pse.ens.fr/capital21c.
Table S12.1. The growth rate of top wealth portfolios in the world, 1987-2013

<table>
<thead>
<tr>
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<th>1987-2013</th>
<th>1990-2010</th>
</tr>
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• Data on university endowments: much higher quality than Forbes data on individual wealth

• ≈ 800 universities in the US, with average endowment ≈ 500 millions $: aggregate endowment ≈ 400 billions $ in 2013

• This is << than global wealth billionaires (≈ 5500 billions $, i.e. 5,5 trillions $ = about 1,5% of world wealth ≈ 350-400 trillions $)

• But at least universities provide very detailed data on their portfolio strategy and observed rates of return
Table 12.2. The return on the capital endowments of U.S. universities, 1980-2010

<table>
<thead>
<tr>
<th>Average real annual rate of return (after deduction of inflation and all administrative costs and financial fees)</th>
<th>Période 1980-2010</th>
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<tbody>
<tr>
<td>All universities (850)</td>
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</tr>
<tr>
<td>incl.: Harvard-Yale-Princeton</td>
<td>10,2%</td>
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<tr>
<td>incl.: Endowments higher than 1 billion $ (60)</td>
<td>8,8%</td>
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<tr>
<td>incl. Endowments between 500 millions and 1 billion $ (66)</td>
<td>7,8%</td>
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<td>incl. Endowments between 100 and 500 millions $ (226)</td>
<td>7,1%</td>
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<tr>
<td>dont: Endowments less than 100 millions $ (498)</td>
<td>6,2%</td>
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</table>

Between 1980 and 2010, U.S. universities earned an average real return of 8.2% on their capital endowments, and all the more so for higher endowments. All returns reported here are net of inflation (2.4% per year between 1980 and 2010) and of all administrative costs and financial fees.

Sources: see piketty.pse.ens.fr/capital21c.
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• Returns on sovereign wealth funds (SWF) seem to very from very high (Abu Dhabi: ≈ 700 billions € = twice as large as all US universities endowments combined) to relatively low (Norway, Saudi Arabia: less risk, huge US public debt component: economics or politics?)
• But data is relatively low quality: very little transparency
• All SWFs: about 5,5 trillions (≈ global billionaires), including 3,5tr for oil countries and 2tr for non-oil countries (1tr for China)
• Other reason for divergence: different saving rates, e.g. because of different pension strategies, can lead to huge net foreign asset positions ($\beta_1 = s_1/g > \beta_2 = s_2/g$), quite independantly from $r > g$; but of course low $g$ and $r > g$ can amplify initial NFAs
According to the simulations (central scenario), the world capital/income ratio might be near 700% by the end of the 21st century. Sources and series: see piketty.pse.ens.fr/capital21c.
Figure 12.5. The distribution of world capital 1870-2100

According to the central scenario, Asian countries should own about half of world capital by the end of the 21st century. Sources and series: piketty.pse.ens.fr/capital21c.
• Is « oligarchic divergence » (rise of global billionaire wealth: billionaires own a rising share of global wealth) or « international divergence » (rise of foreign wealth: countries own other countries) more likely?

• Both can happen. But international divergence is relatively easier to deal with (capital controls). Oligarchic divergence = harder to deal with, because it requires detailed information on individual wealth levels and strong international coordination.

• As of today, offshore wealth is enough to turn rich countries’ NFA from <0 into >0; could rise in the future

• See Zucman QJE 2013, « The missing wealth of nations: are Europe and the US net debtors or net creditors? »; « Taxing across borders: Tracking personal wealth and corporate profits », JEP 2014
Figure 12.6. The net foreign asset position of rich countries

Unregistered financial assets held in tax havens (lower bound)

Rich countries (Japan + Europe + U.S.)

Japan

Europe

U.S.

Unregistered financial assets held in tax havens are higher than the official net foreign debt of rich countries.

Sources and series: see piketty.pse.ens.fr/capital21c.
### Table 1
The World’s Offshore Financial Wealth

<table>
<thead>
<tr>
<th>Region</th>
<th>Offshore wealth ($ billions)</th>
<th>Share of financial wealth held offshore</th>
<th>Tax revenue loss ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>2,600</td>
<td>10%</td>
<td>75</td>
</tr>
<tr>
<td>United States</td>
<td>1,200</td>
<td>4%</td>
<td>36</td>
</tr>
<tr>
<td>Asia</td>
<td>1,300</td>
<td>4%</td>
<td>35</td>
</tr>
<tr>
<td>Latin America</td>
<td>700</td>
<td>22%</td>
<td>21</td>
</tr>
<tr>
<td>Africa</td>
<td>500</td>
<td>30%</td>
<td>15</td>
</tr>
<tr>
<td>Canada</td>
<td>300</td>
<td>9%</td>
<td>6</td>
</tr>
<tr>
<td>Russia</td>
<td>200</td>
<td>50%</td>
<td>1</td>
</tr>
<tr>
<td>Gulf countries</td>
<td>800</td>
<td>57%</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,600</strong></td>
<td><strong>8.0%</strong></td>
<td><strong>190</strong></td>
</tr>
</tbody>
</table>

*Source:* Author’s computations (see Zucman 2013a, b) and online Appendix.

*Notes:* Offshore wealth includes financial assets only (equities, bonds, mutual fund shares, and bank deposits). Tax revenue losses only include the evasion of personal income taxes on investment income earned offshore as well as evasion of wealth, inheritance, and estate taxes.
Inequality in poor and emerging countries

- Much less historical research than for rich countries; highly imperfect data sources; but a lot of progress has been made recently: new series on China, India, Brasil, etc.
- Rising inequality within emerging countries (China, India, etc.): not consistent with standard model of globalization
- Standard model with two skill groups: inequality ↑ in North but ↓ in South
- One needs models with more than two skill groups (so that bottom skill groups in the South do not benefit from economic openness, & globalized very high skill group)
- Most importantly, one needs to introduce the fact that post-1980 globalization came with specific institutions and policies: financial deregulation, end of progressive taxation, etc.; unclear whether these policies were of any use for bottom 90% income growth
### Table 1: Income growth and inequality 1978-2015

<table>
<thead>
<tr>
<th>Income group</th>
<th>China</th>
<th>Europe (France)</th>
<th>India</th>
<th>US</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full population</strong></td>
<td>811 %</td>
<td>40 %</td>
<td>298 %</td>
<td>64 %</td>
<td>85 %</td>
</tr>
<tr>
<td>Bottom 50%</td>
<td>401 %</td>
<td>32 %</td>
<td>162 %</td>
<td>3 %</td>
<td>233 %</td>
</tr>
<tr>
<td>Middle 40%</td>
<td>768 %</td>
<td>35 %</td>
<td>177 %</td>
<td>46 %</td>
<td>87 %</td>
</tr>
<tr>
<td>Top 10%</td>
<td>1104 %</td>
<td>35 %</td>
<td>446 %</td>
<td>83 %</td>
<td>46 %</td>
</tr>
<tr>
<td>incl. Top 1%</td>
<td>1897 %</td>
<td>102 %</td>
<td>944 %</td>
<td>211 %</td>
<td>126 %</td>
</tr>
<tr>
<td>incl. Top 0.1%</td>
<td>2405 %</td>
<td>193 %</td>
<td>1467 %</td>
<td>348 %</td>
<td>235 %</td>
</tr>
<tr>
<td>incl. Top 0.01%</td>
<td>3113 %</td>
<td>274 %</td>
<td>2763 %</td>
<td>510 %</td>
<td>376 %</td>
</tr>
<tr>
<td>incl. Top 0.001%</td>
<td>3819 %</td>
<td>315 %</td>
<td>5127 %</td>
<td>711 %</td>
<td>538 %</td>
</tr>
</tbody>
</table>

Distribution of pre-tax 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).

Source: WID.world
Global inequality 1978-2015: Top 1% captures as much growth as bottom 59%
Inequality in the USA, 1978-2015: Top 1% captures as much growth as bottom 89%

Total growth rate by percentile - USA, 1978-2015

Scaled by share in population

Scaled by share in total growth

Top 1% captures as much growth as bottom 89%

Cumulative growth rate between 1978 and 2015 of pre-tax national income measured in 2015 PPP euros.
All data from WDI.world.

Cumulative growth rate between 1978 and 2015 of pre-tax national income measured in 2015 PPP euros.
Key incomes within percentile: 1% (bottom 10% of the top 1% of global earners) grew at 115% between 1978 and 2015.
The top 1% captured 55% of total growth (per cent). All data from WDI.world.
Inequality in Europe, 1978-2015: Top 1% captures as much growth as bottom 53%
Total growth rate by percentile - China, 1978-2015

Scaled by share in population

Scaled by share in total growth

Top 1% captures as much growth as bottom 51%

Cumulative growth rate between 1978 and 2015 of pre-tax national income measured in 2015 PPP euros.
All data from WDI.world.

Key: incomes within percentile p99p99.1 (bottom 1% of the top 1% of global earners) grew at 14.58% between 1978 and 2015.
The top 1% captured 15% of total growth (x-axis). All data from WDI.world.
Inequality in India, 1978-2015: Top 1% captures as much growth as bottom 75%

Scaled by share in population

Scaled by share in total growth

Top 1% captures as much growth as bottom 75%

Cumulative growth rate between 1978 and 2015 of pre-tax national income measured in 2015 PPP euros. All data from WDI.world.

Cumulative growth rates between 1978 and 2015 of pre-tax national income measured in 2015 PPP euros. Key incomes within percentile p9999.1 (bottom 1% of the top 1% of global earners) grew at 654% between 1978 and 2015. The top 1% captured 28% of total growth (x-axis). All data from WDI.world.
Summing up: what have we learned about global inequality dynamics since 1800?

• History shows that inequality often goes too far (Europe’s 19c extreme wealth concentration, colonial inequality, etc.): we need more transparency about wealth and income dynamics & appropriate policy intervention (progressive taxation etc.) if we want to avoid this

• World inequality dynamics involve complex & contradictory trends: convergence between countries, but rising inequality within countries, & rising inequality at the top (for top labor incomes and top wealth)

• One way to summarize these contradictory trends: Lakner-Milanovic 2013 « global growth incidence curve » 1988-2008

• Other work on global distribution: see Anand-Segal 2015, Davies-Shorrocks 2014 Global wealth report (Credit Suisse)

• However we still know far too little about global inequality dynamics; in particular, major uncertainties for most BRIC countries (Brasil-Russia-India-China: low-quality household surveys + limited access to income and wealth tax data) → major challenges for WID.world
Figure 1(a): Global growth incidence curve, 1988-2008

Y-axis displays the growth rate of the fractile average income (in 2005 PPP USD). Weighted by population.
Growth incidence evaluated at ventile groups (e.g. bottom 5%); top ventile is split into top 1% and 4% between P95 and P99.
What do we know about preindustrial inequality?

• Using wealth registers from North Italy and the Low Countries, work by Analfi and others suggest a gradual rise of wealth concentration over 1300-1800 period (e.g. from 50-60% to 70-80% for top 10% wealth share). See Analfi, « Economic Inequality in Preindustrial Europe 1300-1800 », 2016, Slides, JEH 2015; Analfi-Ryckbosch « Growing apart in early modern Europe? A comparison of inequality trends in Italy and the Low Countries, 1500–1800 », EEH 2016; « Inequality in Florentine state, 1300-1800 », EHR 2017 (on mobility see also Barone-Mocetti 2016; and G. Clark)

• Possible explanations: long steady-state adjustment process given r, g and other shocks? Or changing parameters?

• **Or structural rise in exctraction ratio, i.e. inequality possibility frontier, as average income goes up?** I.e. one can extract more from the poor in a more productive society, so that in effect richer societies can be more unequal.
• I.e. consider a low-productivity society where per capita output is very low, say 2 times subsistence level. Then bottom 50% individuals need to have at their disposal at least half of average income, so that their income share cannot be < 25% of total income (even in a slave society).

• In contrast, in very rich societies such as the USA today, it is possible to have extreme inequality (bottom 50% income share around 10%), at least from a subsistence viewpoint. Trivial argument, but important.

• However this argument holds for income (and consumption), not for wealth: in terms of wealth, the bottom 50% or 90% can have a zero share (or negative share: debt, slavery).

• Pb with Analfi registers: only wealth holders are covered; this needs to be combined with other sources for the poor (demographic). Same general pb with inequality measurement: one viewpoint is not enough.

• With better coverage of the poor, all inequality levels will go up; maybe the 1300-1800 rise would be from 70-80% to 80-90% for top 10% wealth share, i.e. always very high. More research is needed.
• Inequality in ancient societies: see e.g. M. Borgerhof, S. Bowles, et al., « Intergenerational Wealth Transmission and the Dynamics of Inequality in Small Scale Societies », *Science 2009*

• See also *Bowles-Fochesato 2017*, « Technology, Institutions and Wealth Inequality over Eleven Milennia » (archeological data)

• = « apart from stateless societies, which have limited inequality, and slave societies, which have extreme inequality, the main determinants of inequality are the importance of accumulated material wealth (as opposed to human labor) and the politics/ideology of equality »

• = very reasonable conclusion. Unclear however whether the different data points are really comparable (maybe it is better to less and do it better?). Read it and make your own mind!

(see also Lindert-Milanovic-Williamson on « *Pre-industrial inequality* » EJ 2011 (*wp 2007*) using « social tables »)
• Maybe it is more promising to study pre-industrial inequality via careful case studies and by opening the blackbox of inequality and property relations (e.g. slavery, forced labor, etc.)

• See e.g. W. Scheidel, ”Human Mobility in Roman Italy: The Slave Population”, JRS 2005; “The Size of the Economy and the Distribution of Income in the Roman Empire”, JRS 2009

• See also G. Bransbourg, « Capital in the 6th Century: The Dynamics of Tax and Estate in Roman Egypt », JLA 2016

• See next lecture on slavery and forced labour: critical aspect of inequality in pre-industrial societies (and also of the Industrial Revolution itself...)