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Piketty response to FT data concerns

Chris Giles Author alerts May 23 19:00 58 comments

Dear Chris,

I am happy to see that FT journalists are using the excel files that I have put on line! I would very much appreciate if you could publish this response along with your piece.

Let me first say that the reason why I put all excel files on line, including all the detailed excel formulas about data constructions and adjustments, is precisely because I want to promote an open and transparent debate about these important and sensitive measurement issues (if there was anything to hide, any “fat finger problem”, why would I put everything on line?).

Let me also say that I certainly agree that available data sources on wealth are much less systematic than for income. In fact, one of the main reasons why I am in favor of wealth taxation and automatic exchange of bank information is that this would be a way to develop more financial transparency and more reliable sources of information on wealth dynamics (even if the tax was charged at very low rates, which you might agree with).

For the time being, we have to do with what we have, that is, a very diverse and heterogeneous set of data sources on wealth: historical inheritance declarations and estate tax statistics, scarce property and wealth tax data, and household surveys with self-reported data on wealth (with typically a lot of under-reporting at the top). As I make clear in the book, in the on-line appendix, and in the many technical papers I have published on this topic, one needs to make a number of adjustments to the raw data sources so as to make them more homogenous over time and across countries. I have tried in the context of this book to make the most justified choices and arbitrages about data sources and adjustments. I have no doubt that my historical data series can be improved and will be improved in the future (this is why I put everything on line). In fact, the “World Top Incomes Database” (WTID) is set to become a “World Wealth and Income Database” in the coming years, and we will put on-line updated estimates covering more countries. But I would be very surprised if any of the substantive conclusion about the long run evolution of wealth distributions was much affected by these improvements.

For instance, my US series have already been extended and improved by an important new research paper by Emmanuel Saez (Berkeley) and Gabriel Zucman (LSE). This work was done after my book was written, so unfortunately I could not use it for my book. Saez and Zucman use much more systematic data than I used in my book, especially for the recent period. Also their series are constructed using a completely different data source and methodology (namely, the capitalisation method using capital income flows and income statements by asset class). The main results are available here: <http://gabriel-zucman.eu/files/SaezZucman2014Slides.pdf>.

As you can see by yourself, their results confirm and reinforce my own findings: the rise in top wealth shares in the US in recent decades has been even larger than what I show in my book.

In the attached graph, I compare their series with the approximate series that I provide in the book. As you can see by yourself, the general historical profiles are very similar. This is exactly what I expect as we collect more data in other countries as well: we will certainly improve upon my series and adjustments (some of which can certainly be discussed), but I don't think this will have much of an impact on the general findings.

(see also this paper pp. 91-92 of pdf: <http://gabriel-zucman.eu/files/PikettyZucman2014HID.pdf>)

Finally, let me say that my estimates on wealth concentration do not fully take into account offshore wealth, and are likely to err on the low side. I am certainly not trying to make the picture look darker than it is. As I make clear in chapter 12 of my book (see in particular table 12.1-12.2), top wealth holders have apparently been rising a lot faster average wealth in recent decades, at least according to the wealth rankings published in magazines such as Forbes. This is true not only in the US, but also in Britain and at the global level (see attached table). This is not well taken into account by wealth surveys and official statistics, including the recent statistics that were published for Britain. Of course, as I make clear in my book, wealth rankings published by magazines are far from being a perfectly reliable data source. But for the time being, this is what we have, and what we have suggests that the concentration of wealth at the top is rising pretty much everywhere. Of course, if the FT produces statistics and wealth rankings showing the opposite, I would be very interested to see these statistics, and I would be happy to change my conclusion! Please keep me posted.

Best, Thomas

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