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Ten facts about inequality in advanced economies

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Survey paper « Ten key facts about inequality in advanced economies »

1. Inequality data remains scarce in the digital age
2. Income inequality is on the rise after a historical decline
3. Nations became richer but govts. became poorer
4. Capital is back, for a few
5. No sign of a new normal since the Great Recession

Survey paper « Ten key facts about inequality in advanced economies »

6. Global inequality is now more about class than nationality

7. Higher inequality is associated with less social mobility

8. Gender and racial inequalities remain high, particularly at the top

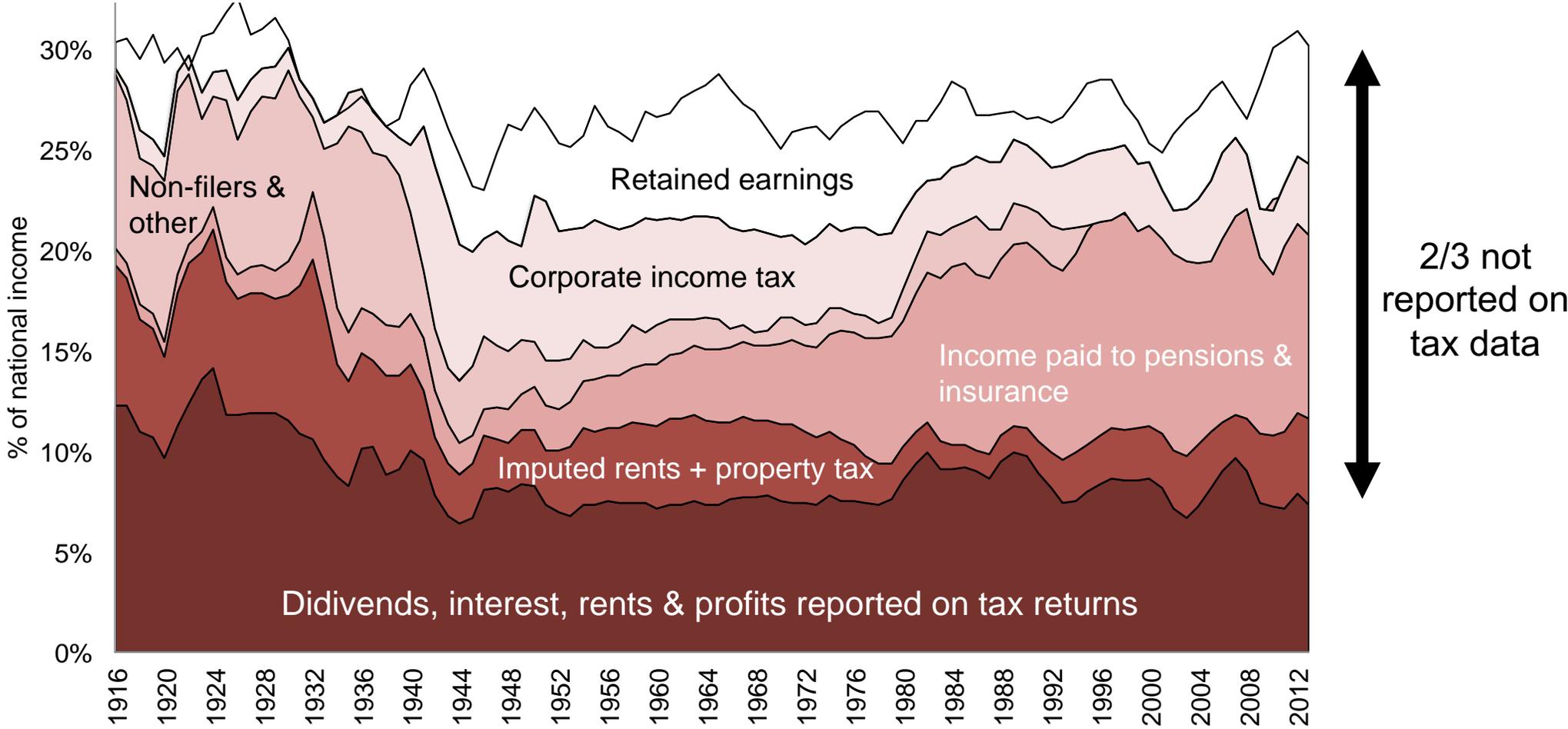
9. Predistribution policies drive US/EU growth differentials at the bottom

10. Progressive taxation is key to curb extreme inequality at the top

Inequality data remains scarce in the digital age

A significant share of capital income is not recorded on tax records

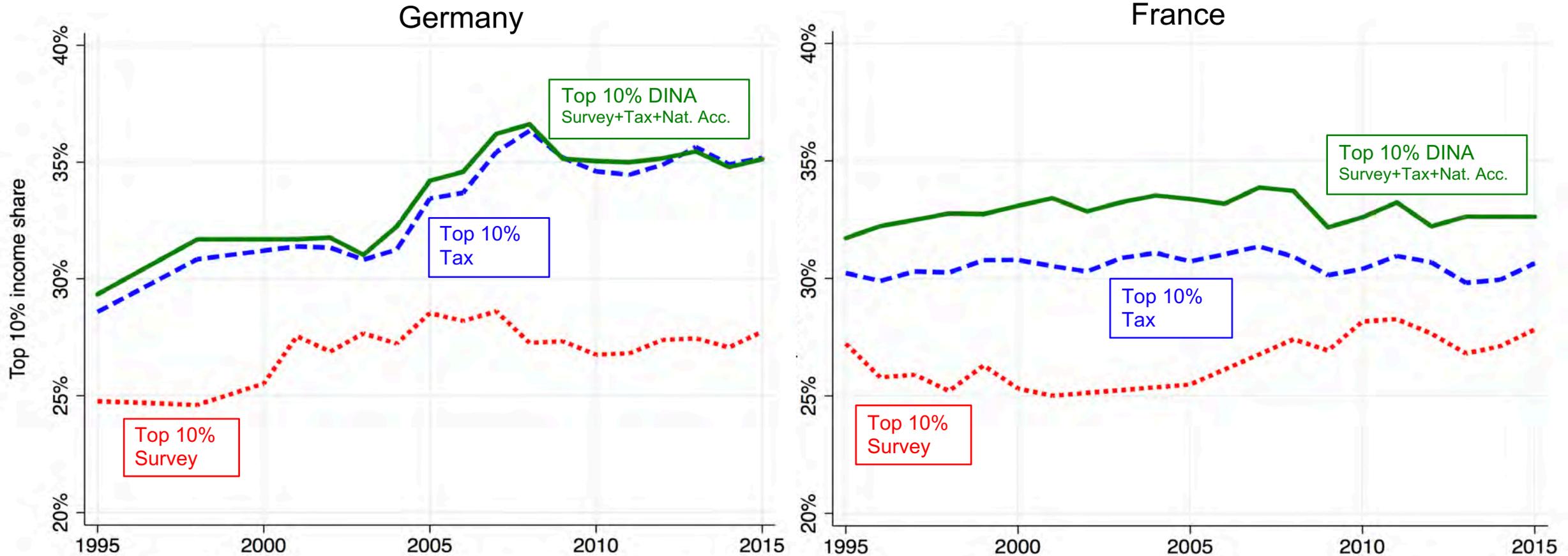
Composition of capital income in the US, 1916-2012



Source: Piketty, Saez, Zucman (2018)

Distributional national accounts: systematic combination of survey, tax and national accounts data to distribute 100% of macroeconomic growth

Top 10% income share in Germany and France, 1995-2015:
Survey vs. tax vs. Distributional National Accounts (DINA)

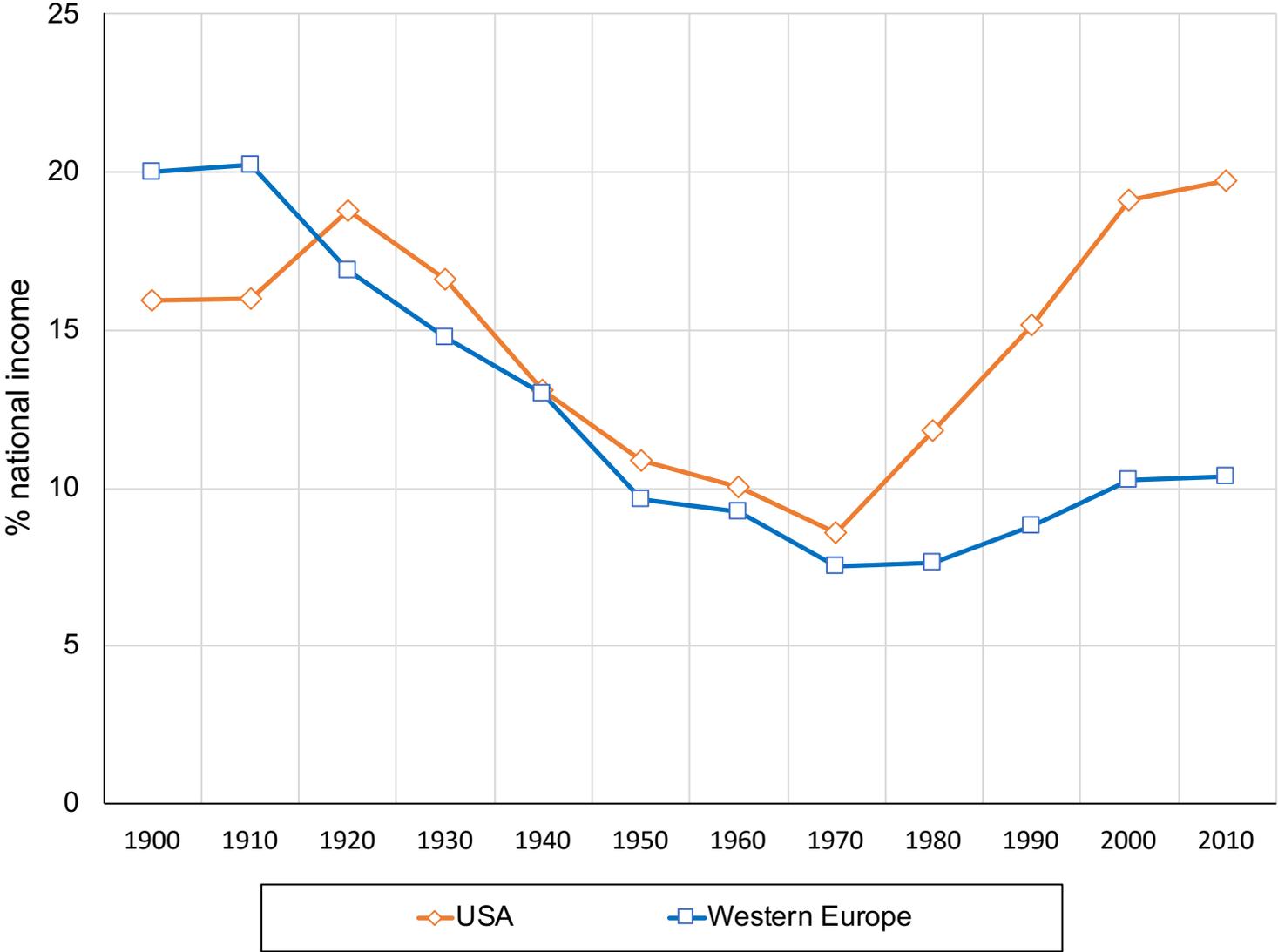


Source: Author based on Blanchet, Chancel and Gethin (2019)

**Income inequality is on the rise
after a historical decline**

After a historical decline, income inequality rose at different speeds

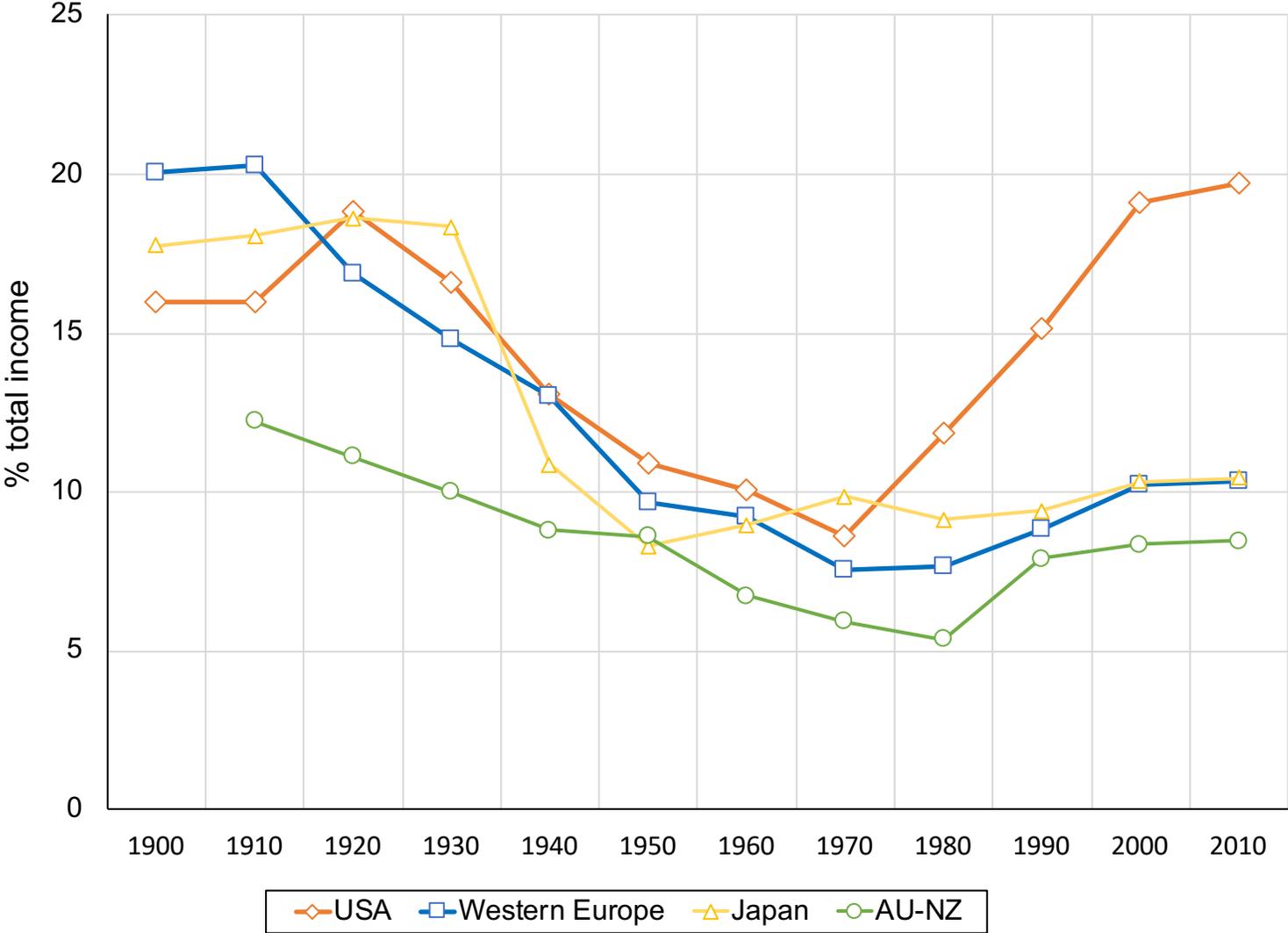
Top 1% income share across the world, 1900-2018
(decennial averages)



Source: Author based on WID.world (2019)

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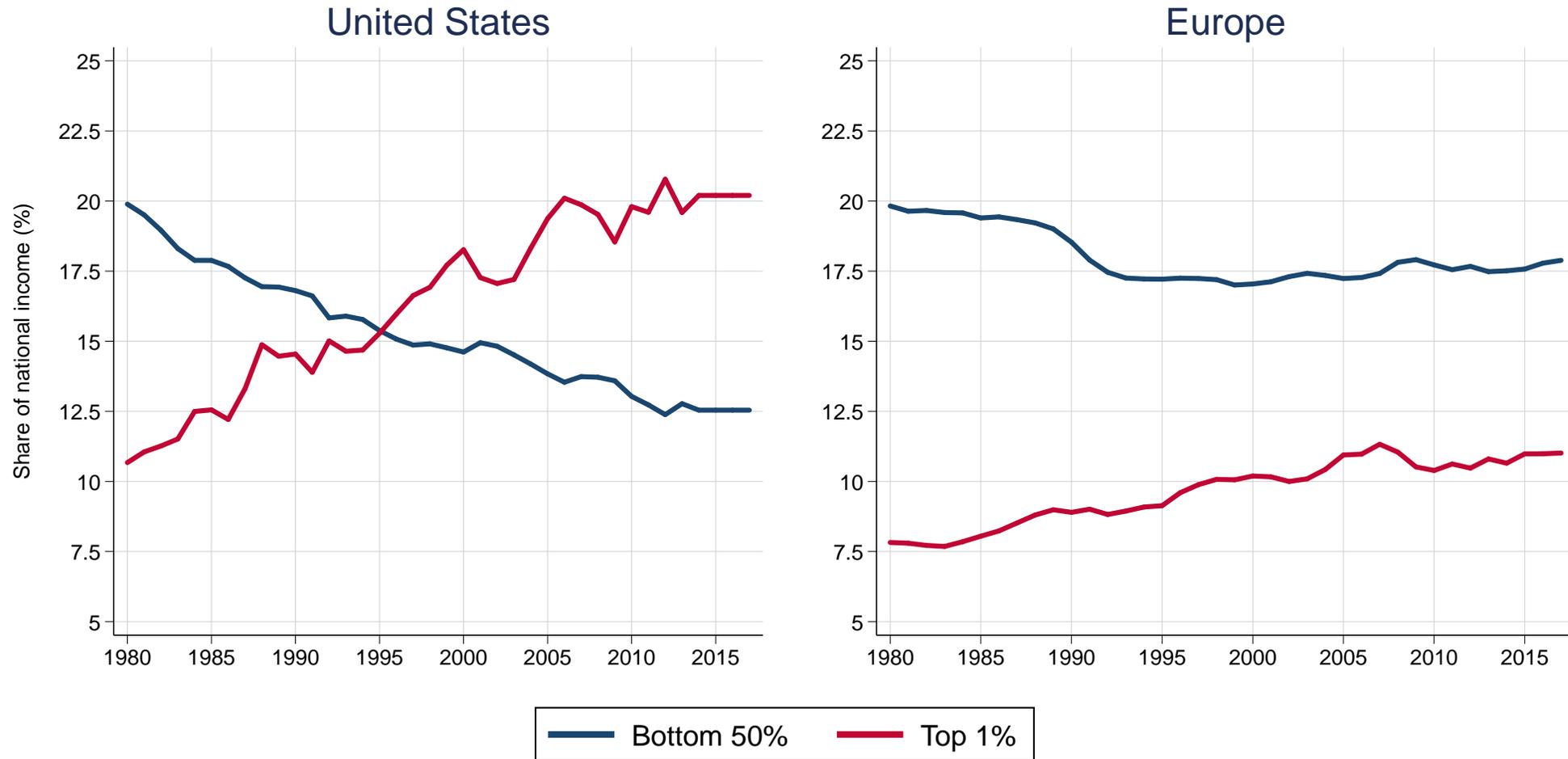
Top 1% income share across the world, 1900-2018
(decennial averages)



Source: Author based on WID.world (2019)

In the US, the bottom 50% income share collapsed. The fall was much more contained in Europe.

Top 1% and bottom 50% pretax income shares in Europe and the EU, 1980-2017

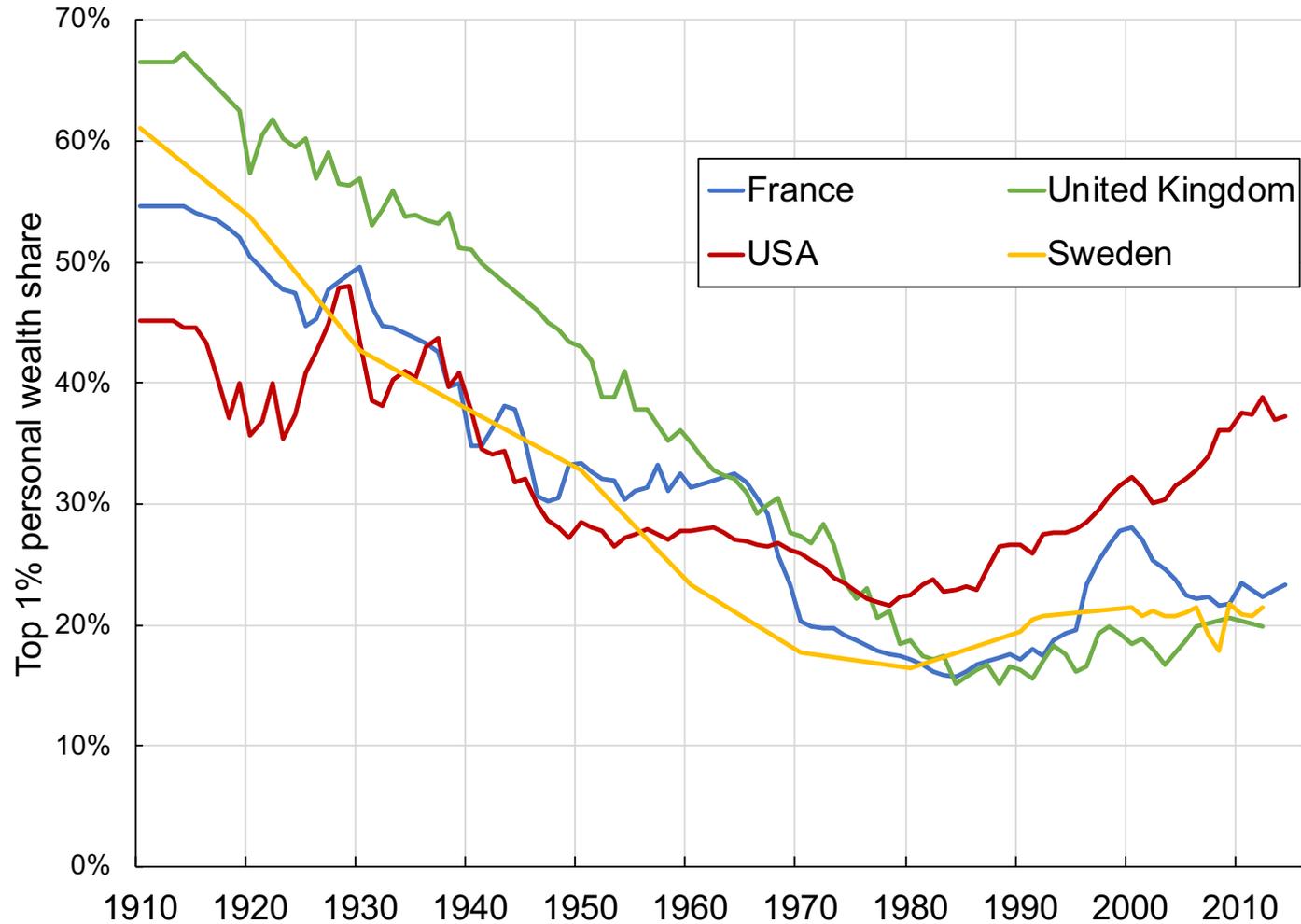


Source: Author based Blanchet, Chancel and Gethin (2019) and Piketty, Saez and Zucman (2018)

Capital is back, for a few

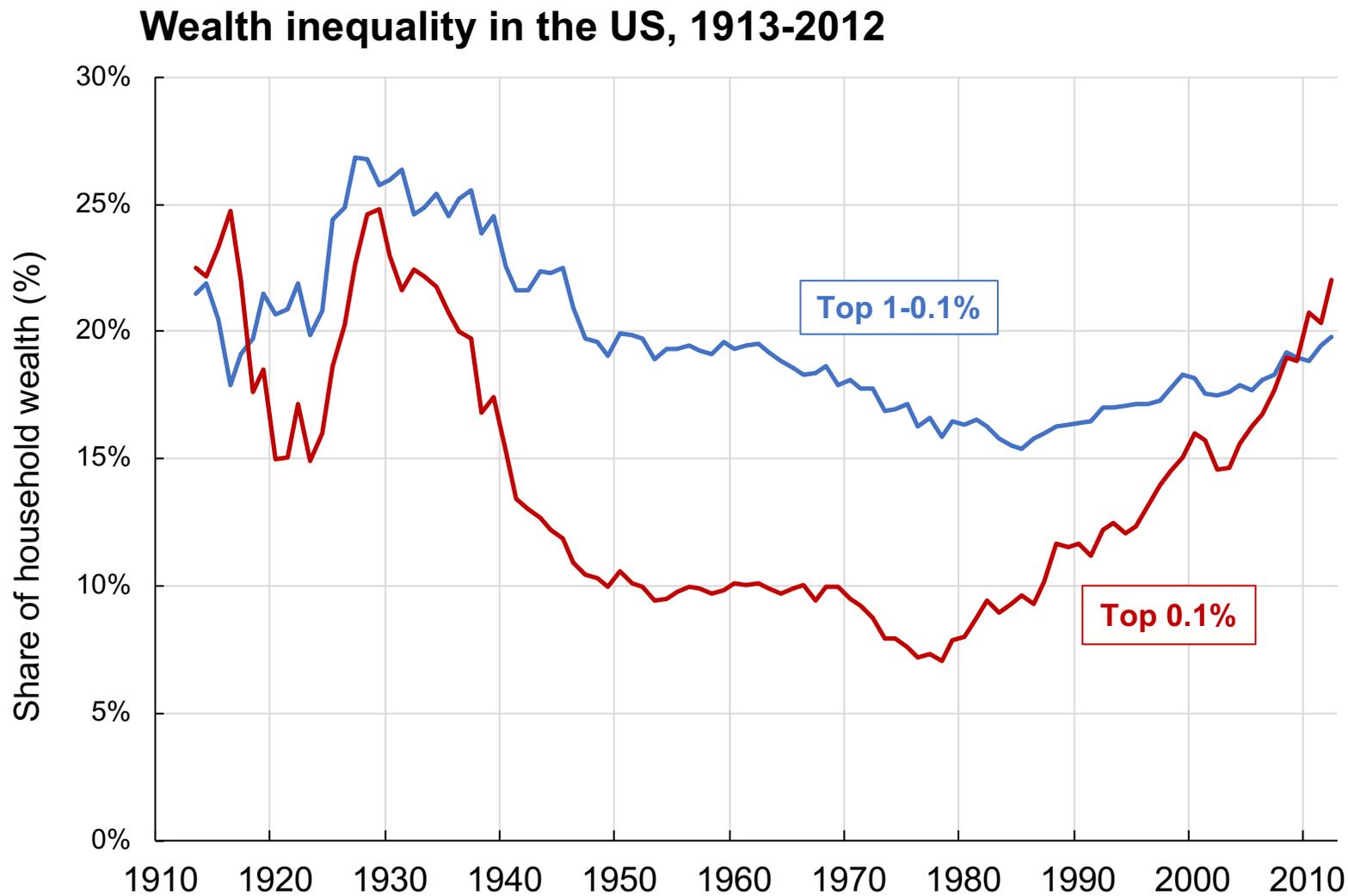
Wealth inequality has been rising at different speeds since the 1980s

Top 1% wealth share in the US and Europe, 1910-2014



Source: Author using WID.world data. Distribution of per adult personal wealth.

The return of wealth inequality in the US is mainly driven by the very top of the distribution. Dynamic of savings rate played a huge role in driving these trends.



Source: Saez and Zucman (2016)

Wealth at the top grew 3x faster than avg. wealth, 9x faster than avg. income

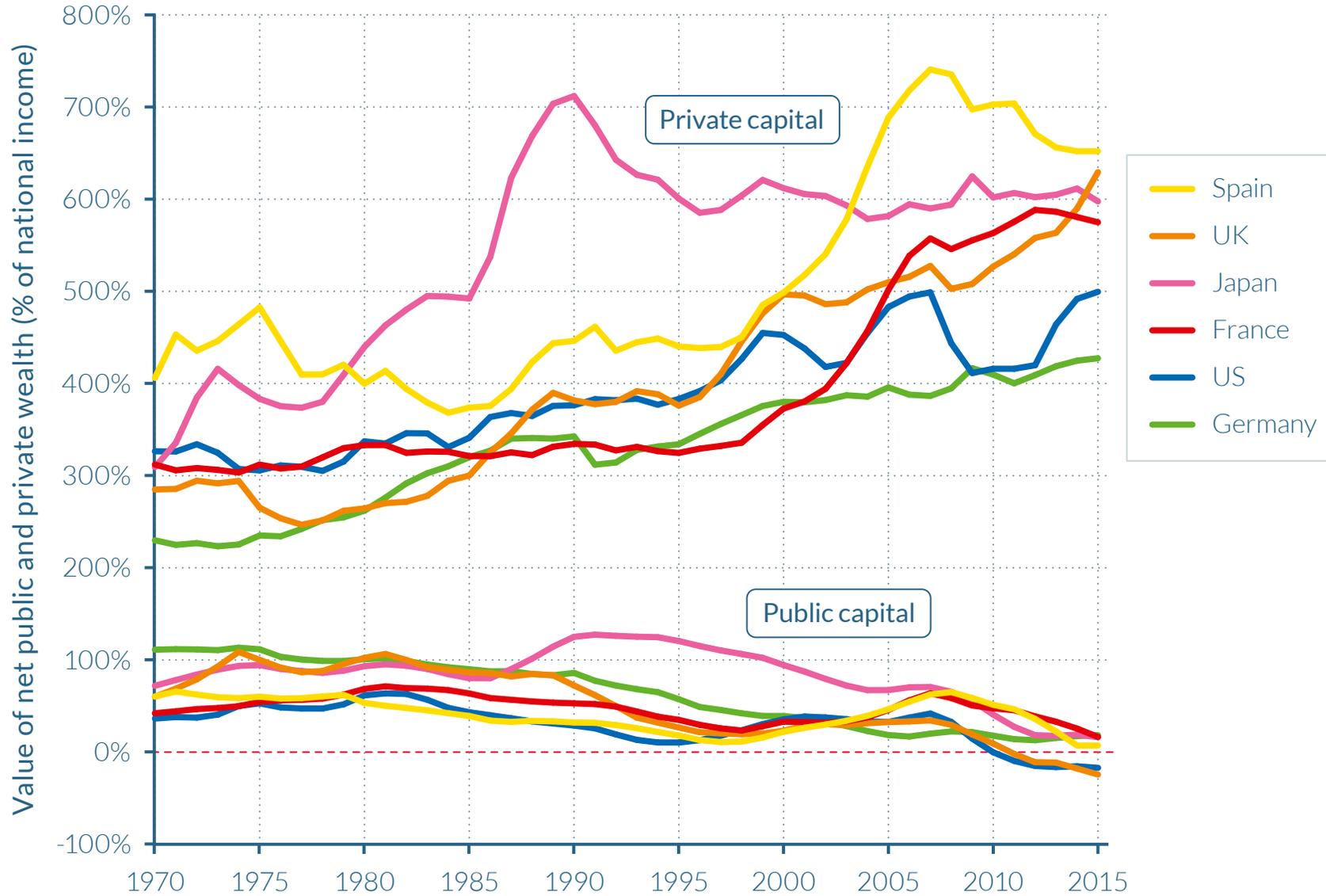
Annual real wealth growth per adult, 1987-2017	
Wealth group	US + EU
Top 1/100 million (Forbes)	8.9%
Top 1/20 million (Forbes)	8.8%
Top 0.01% (WID.world)	6.1%
Top 0.1% (WID.world)	4.9%
Top 1% (WID.world)	4.0%
<i>Average wealth</i>	<i>2.7%</i>
<i>Average income</i>	<i>1.0%</i>

Source: Author based on WID.world (2019) and Blanchet (2018)

**Nations have become richer
but governments have become poor**

Net private wealth has risen since the 1970s while public wealth collapsed

Private and public capital in rich countries, 1970-2015



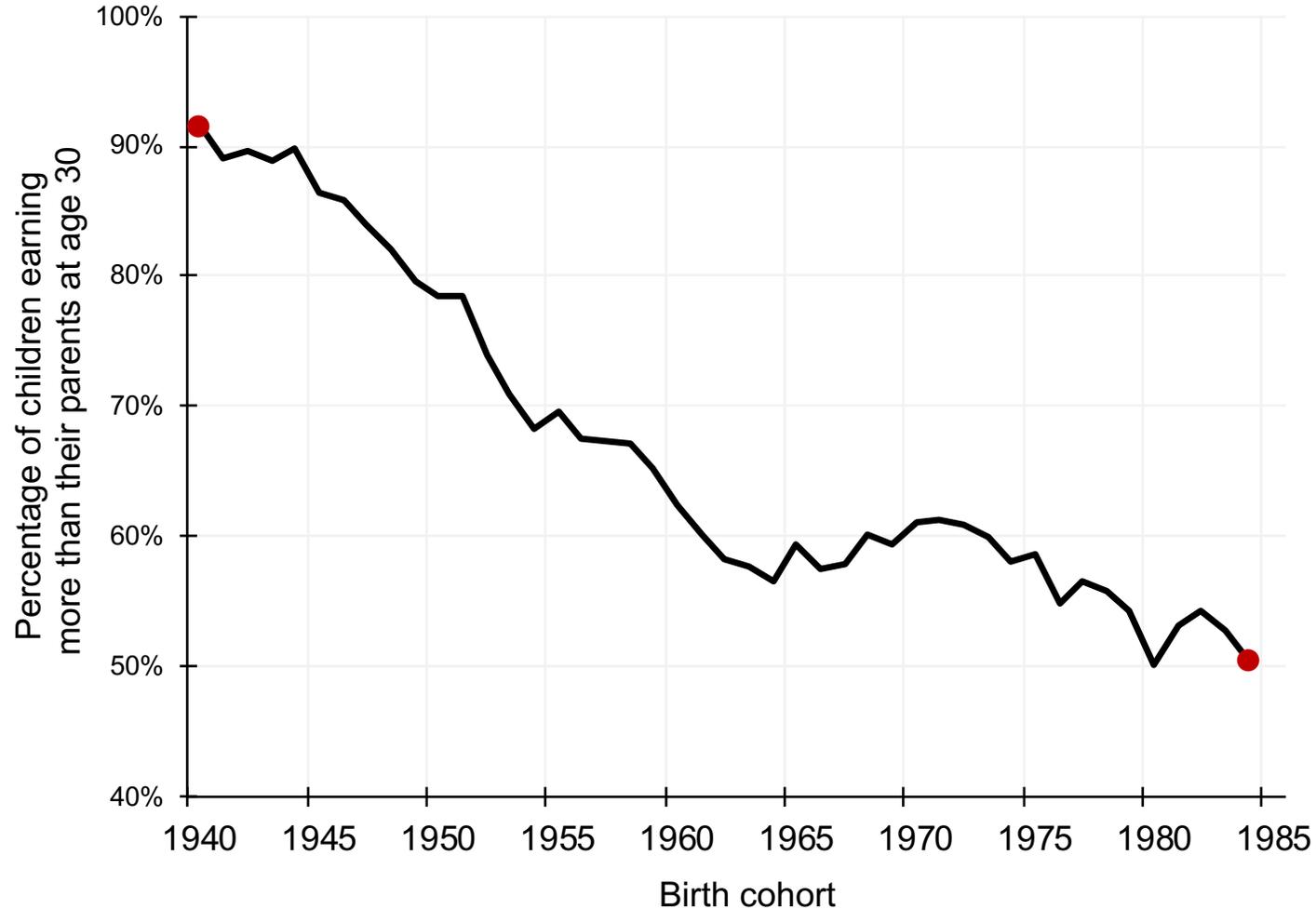
Source: Alvaredo, Chancel, Piketty, Saez and Zucman (2018)

**Higher inequality is associated
with lower social mobility**

Absolute mobility (% children earning more than their parents) declined in the US since the 1970s while relative mobility (% low income individuals making it to the top) was broadly stable.

Absolute income mobility in the US, 1970-2014

In 1970, 92% of Americans aged 30 earned more than their parents.



In 2014, 50% of Americans aged 30 earned more than their parents.

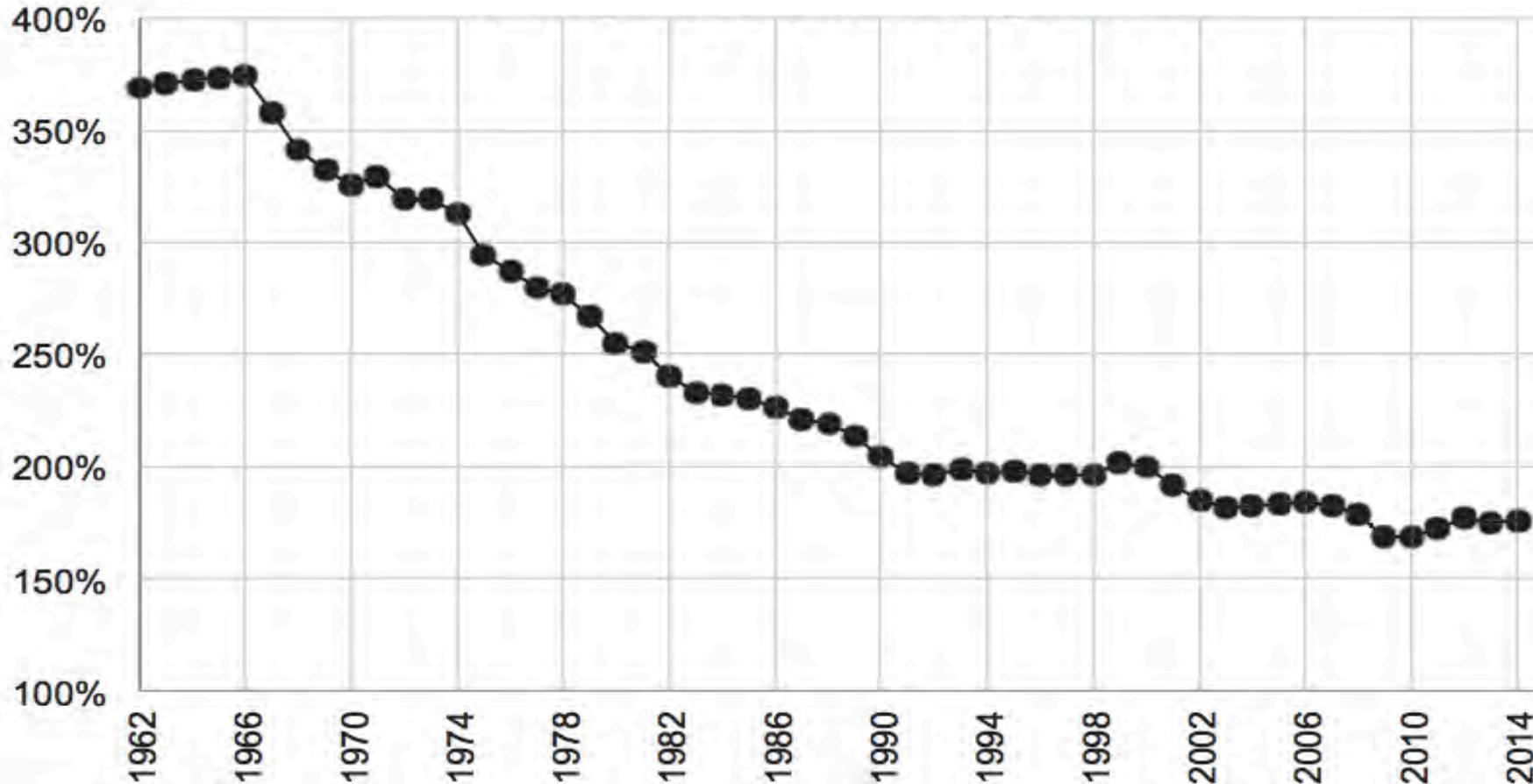
Source: based on data from Chetty et al., 2017.

**Gender and racial inequalities
remain high after a historical decline**

Gender inequality declined since the 1960s thanks to the rise of female participation & reduction of gender pay gap, but the gap remains high.

Gender inequality in the US, 1962-2014

(average pretax labor income of men aged 20-64 / of women aged 20-64)



In 2014, men earned 75% more than women

Source: Piketty, Saez and Zucman, 2018. Men and women aged 20-64.

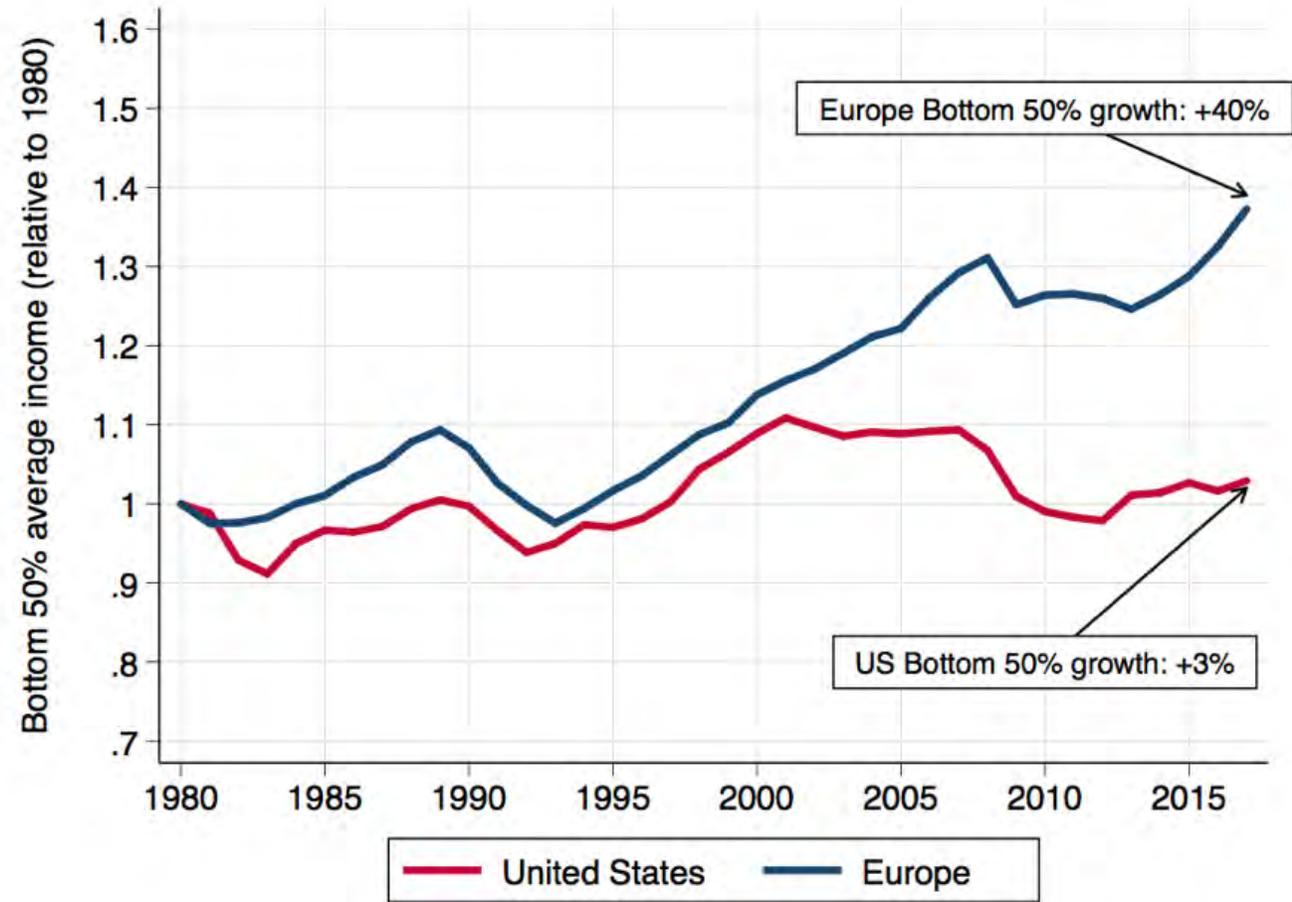
Gender inequality remains particularly high at the top of the distribution in rich countries



Source: Garbinti, Goupille and Piketty, 2018

Equal access to education, health and well-paid jobs are key to lift pretax income at the bottom of the distribution

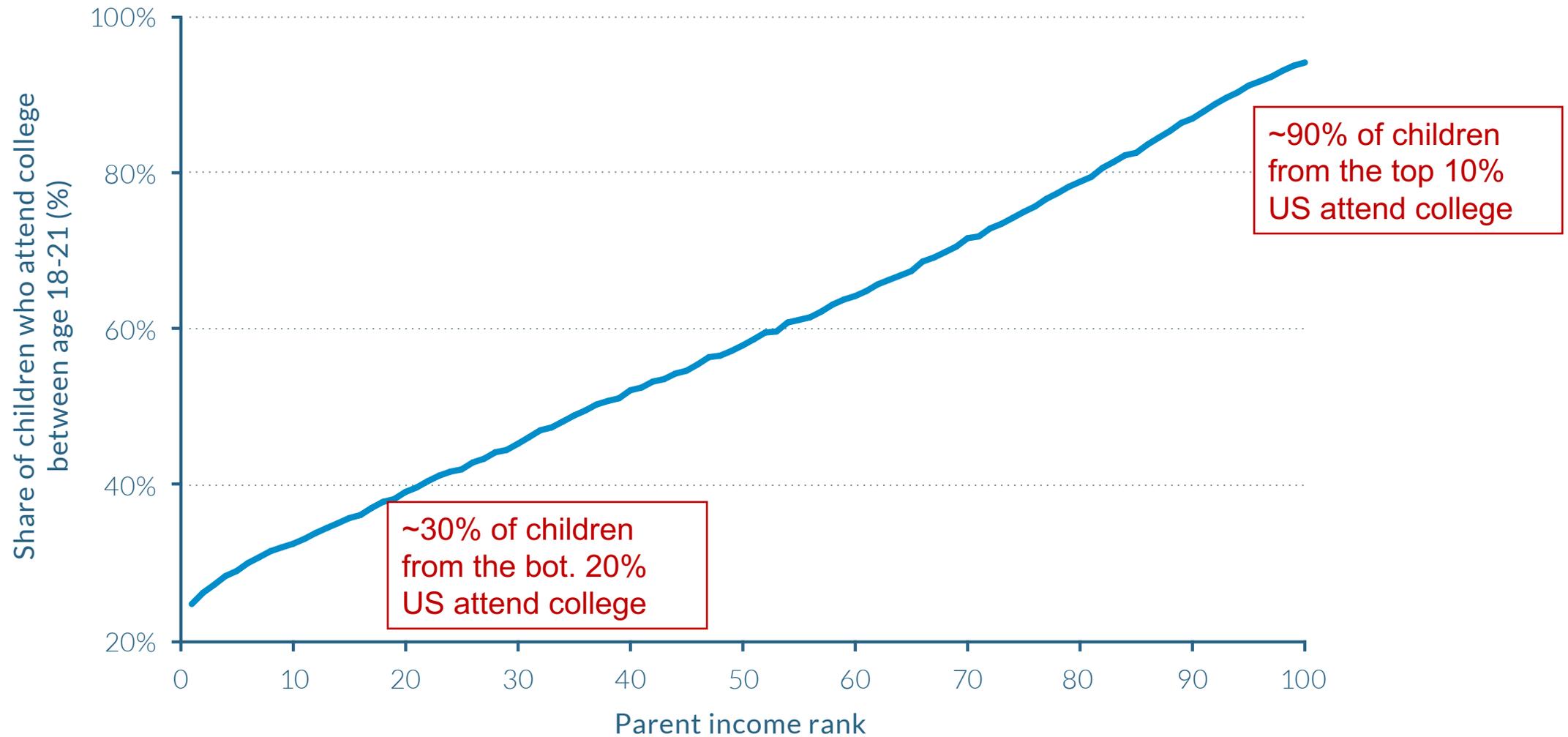
Bottom 50% pretax income growth in Europe and the EU, 1980-2017



Source: Blanchet, Chancel and Gethin (2019). US data from Piketty et al. (2018).

Inequality in access to higher education is particularly strong in the US

College attendance rate and parent income rank in the US for children born in 1980-1982

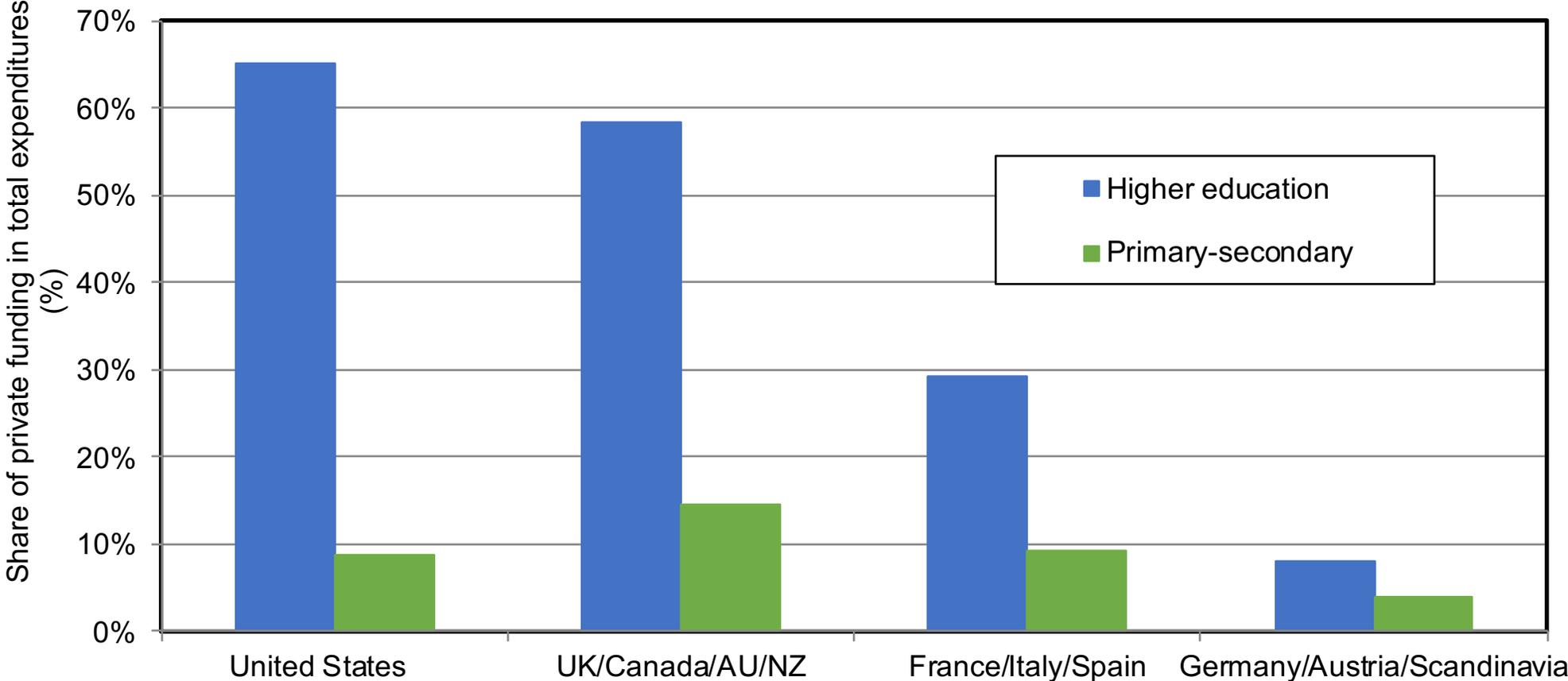


Source: Chetty, Hendren, Kline and Saez (2014). See [wir2018.wid.world](#) for data series and notes.

30% of children whose parents are in the Bottom 10% of the income distribution attend college between age 18 and 21. Almost 90% of children whose parents are in the Top 10% of the income distribution attend college between age 18 and 21.

Anglo-Saxon countries largely rely on private higher education funding. Central EU + Scandinavian countries essentially rely on public.

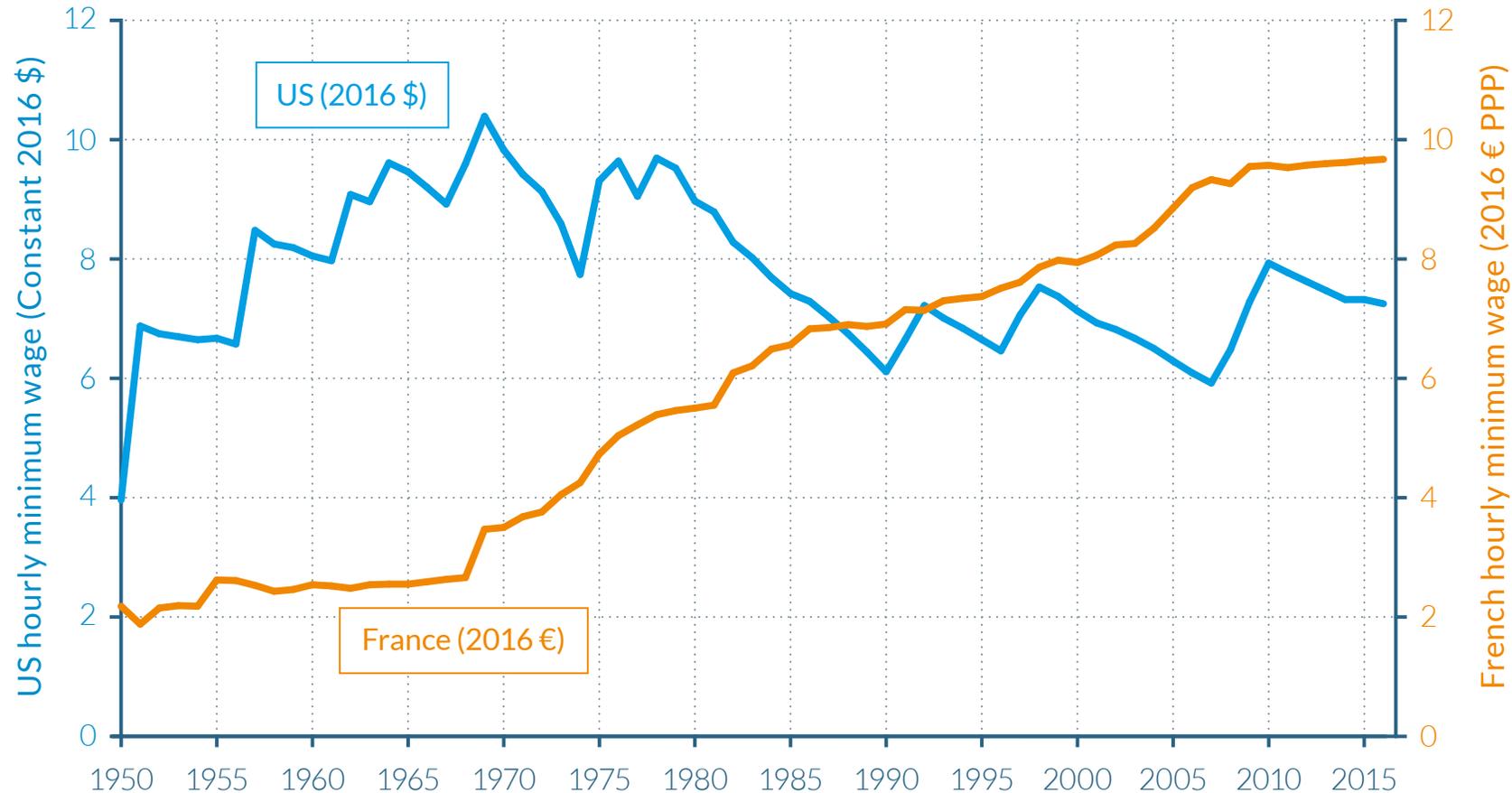
Share of private funding in higher education, 2014



Source: Piketty, 2019 based on OECD (2014)

Minimum wage reduced by 30% in the US since the 1970s, multiplied by x3 in France, introduced in Germany, UK. Scandinavian countries: branch agreements + high union density.

Minimum wage in France and the US, 1950-2016



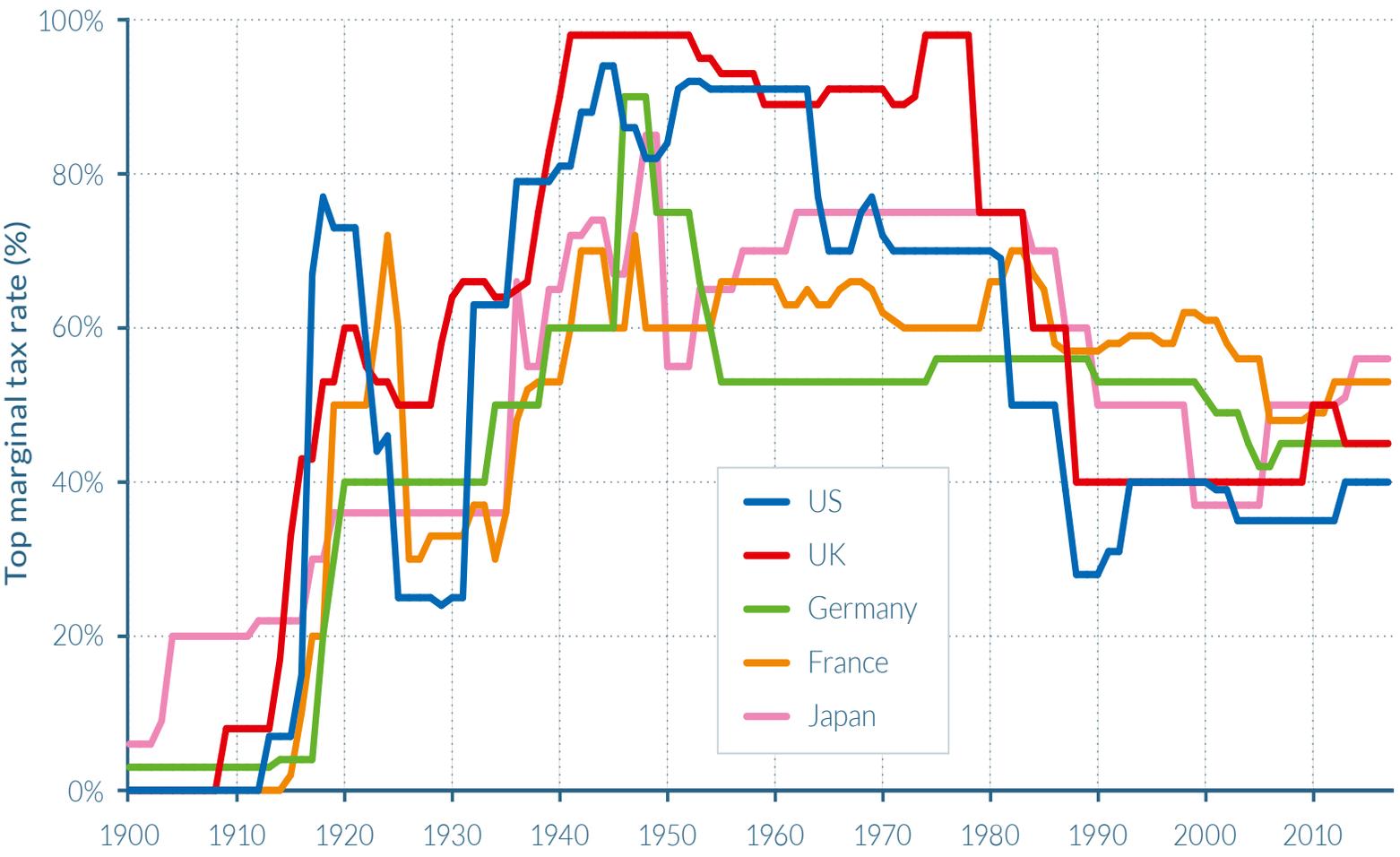
Source: Piketty (2014) and updates. See wir2018.wid.world for data series and notes.

Between 2000 and 2016, the hourly minimum wage rose from €7.9 to €9.7 in France, while it rose from \$7.13 to \$7.25 in the US. Income estimates are calculated using Purchasing Power Parity (PPP) euros for France and dollars for the US. For comparison, €1 = \$1.3 = ¥4.4 at PPP. PPP accounts for differences in the cost of living between countries. Values are net of inflation.

**Shifts in progressive taxation fueled
inequality at the top**

Progressive taxation was reduced since the 1980s, different patterns across countries.

Top income tax rates in rich countries, 1900-2017

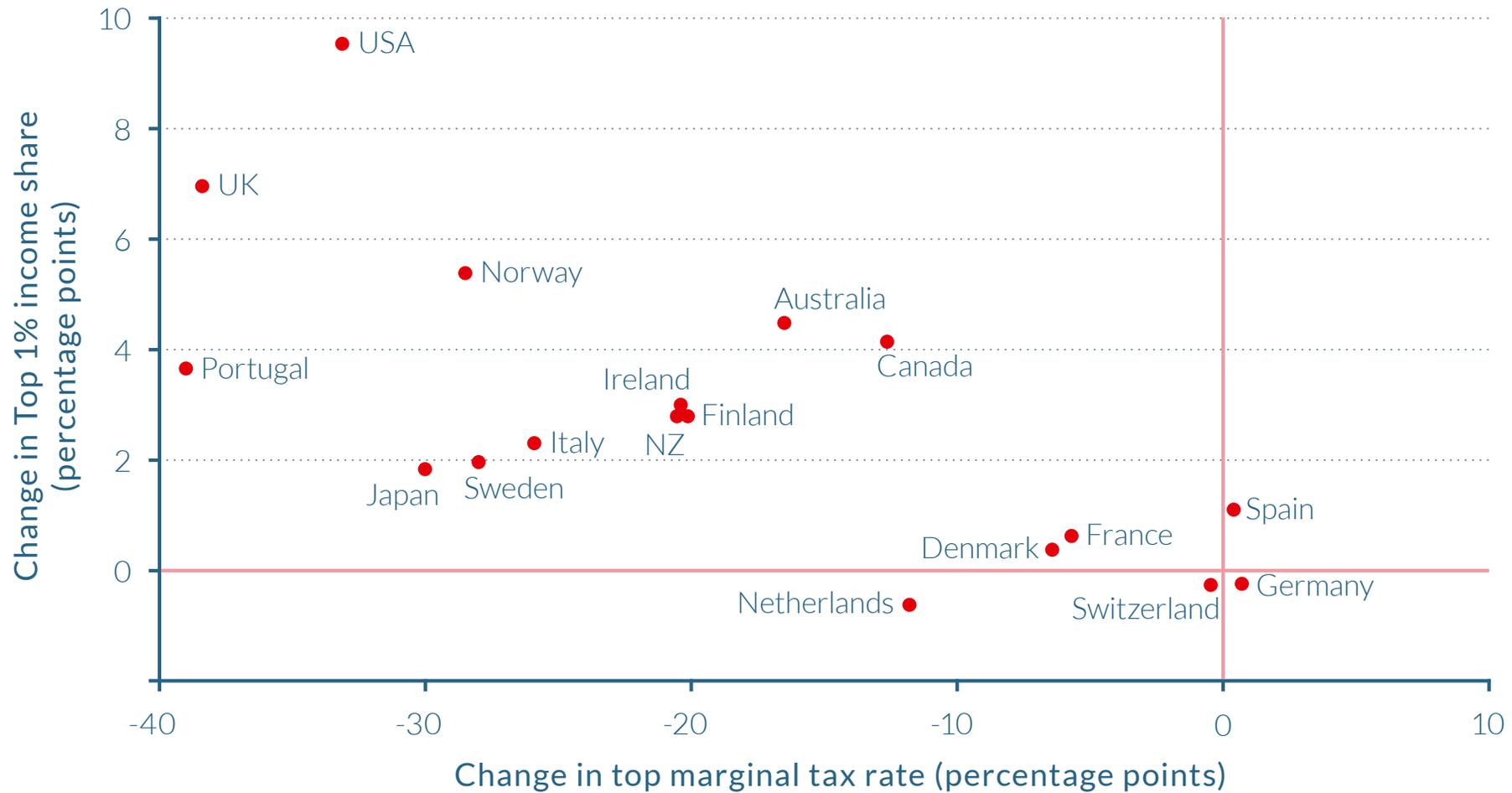


Sources: Piketty (2014) and updates. See wir2018.wid.world for data series and notes.

Between 1963 and 2017, the top marginal tax rate of income tax (applying to the highest incomes) in the US fell from 91% to 40%.

Changes in top tax rates relatively associated to changes in top income shares.

Changes in top marginal tax rates and top income shares in rich countries since the 1970s



Source: Piketty, Saez and Stantcheva (2014). See [wir2018.wid.world](#) for data series and notes.

In the US, the top marginal income tax rate was reduced by 33 percentage points between the early 1970s and the early 2010s. During the same period of time, the Top 1% income share increased by 9.5 percentage points.

Concluding remarks

- Return of inequality since the 1980s, no clear trend inversion after 2008 crisis
- Large divergence across countries: policies matter a lot beyond trade and tech
- US/Europe growth differentials at the bottom: importance of « predistribution » policies (e.g. education, health, high-paid jobs)
- Growth at the top: role of progressive taxation
- Education, health need to be financed: need to reconsider role of « pre » and « re » distribution as complementary tools, not substitutes