Yet another set of comments on "Capital in the Twenty-First Century"

Wojciech Kopczuk, Columbia University

October 2nd 2014

Quick summary of the book (700 pages in one slide)!

- Impressive amount of work to collect data on capital stock and inequality for the last two centuries
- A framework for understanding the patterns
- Three key claims:
  - Usually $r > g$ (rate of return greater than growth rate)
  - When that happens, one (i.e. Thomas) would expect that wealth inequality will grow
  - Political forces — through wars and policies — are the other key drivers of the distribution of wealth
- A prediction that we are heading toward much more unequal distribution of wealth
- Policy recommendations

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Appreciation

- It may be a bestseller, but it is a book on the frontier of economic research on inequality
- For the last 15 years or so, TP together with Emmanuel Saez, Tony Atkinson and others have spearheaded the effort to measure and understand changing distribution of (primarily) income and (to a limited extent) wealth.
- The focus has been on the top of the distribution. Research on many countries.
- It has been hugely influential.
- Some of the best data and best work is for France.
- I am not French.
- I am not American either, but I know more about US than French data.

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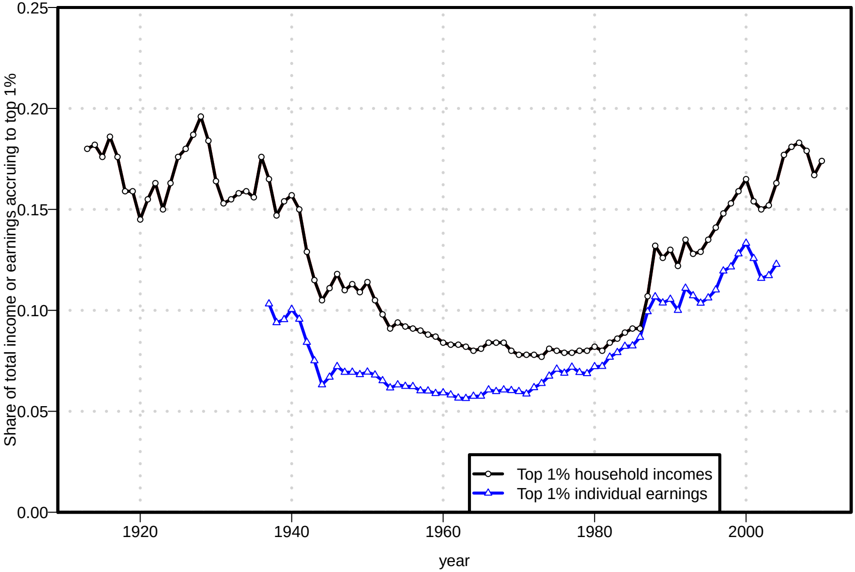
Top 1% income and earnings share



Sources: income — updated series from Piketty and Saez (QJE, 2003); earnings — Kopczuk, Saez and Song (QJE, 2010).

Inequality in the United States

- Income inequality has increased dramatically since the 1970s
- Labor incomes were the most important driver of it (though perhaps not the only one)
- This run up in concentration followed the period of relative stability that started in the 1940s
- Overall, the U-shaped pattern over the course of the century. We are now back to the levels of concentration last seen in the 1930s

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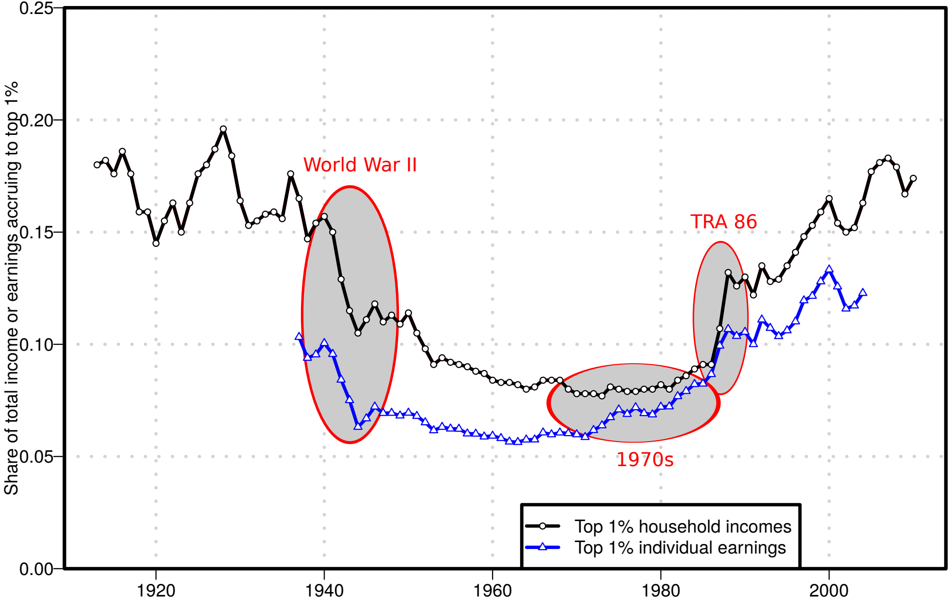
What events/forces were important?

- Let's doodle on the figure
- Interestingly, it is not the Great Depression but rather World War II that appears most important in accounting for the decline. Redistribution, wage controls
- Taxation is important. Tax Reform Act of 1986 corresponds to the largest jump in *measured* inequality. Redistributive taxation may be behind decline/stability after WWII
- *Aside: wars — good, tax cuts — bad?!*
- However, inequality started growing in the 1970s, before large tax reforms of the 1980s
- Oh, and by the way, all of it was about income or earnings and not wealth

What was important



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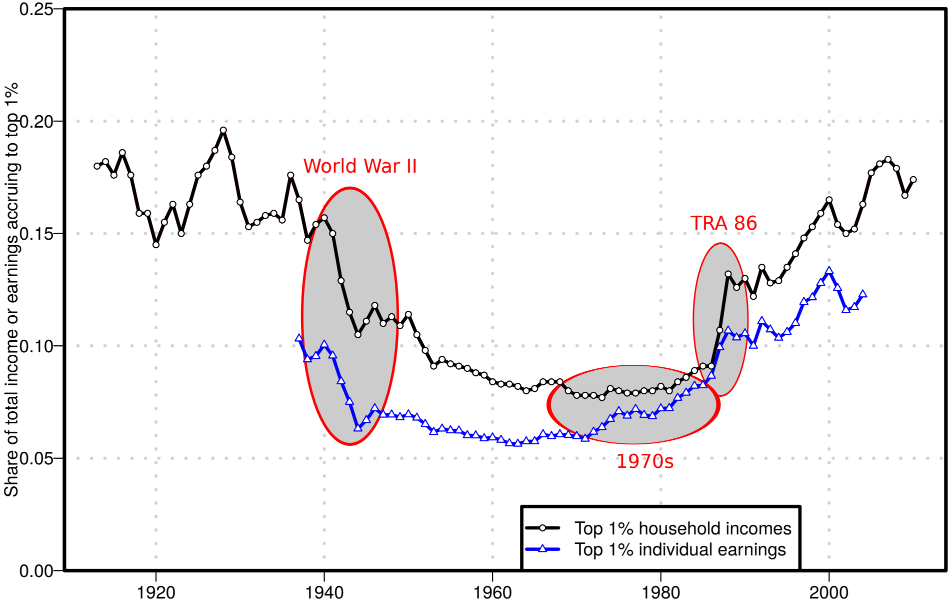

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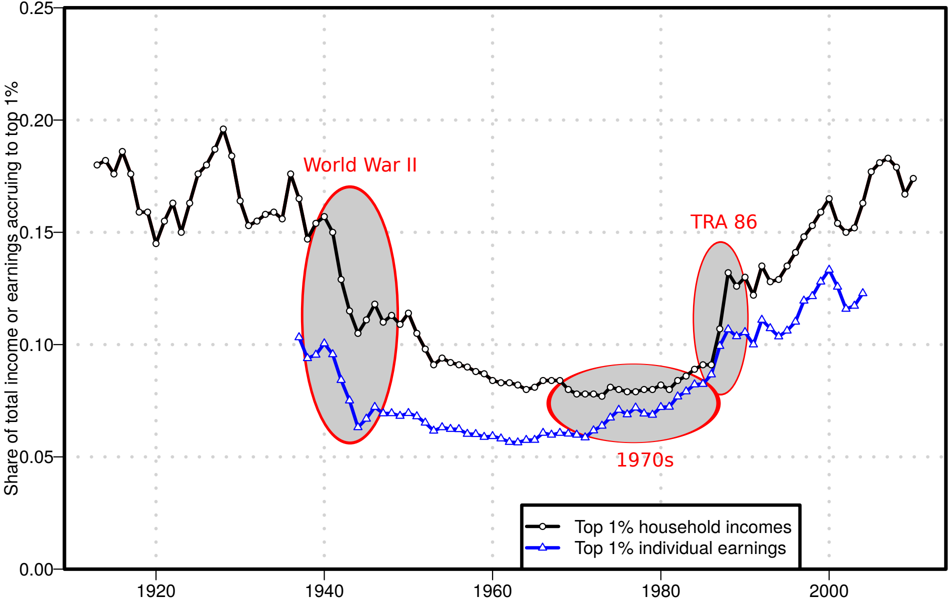

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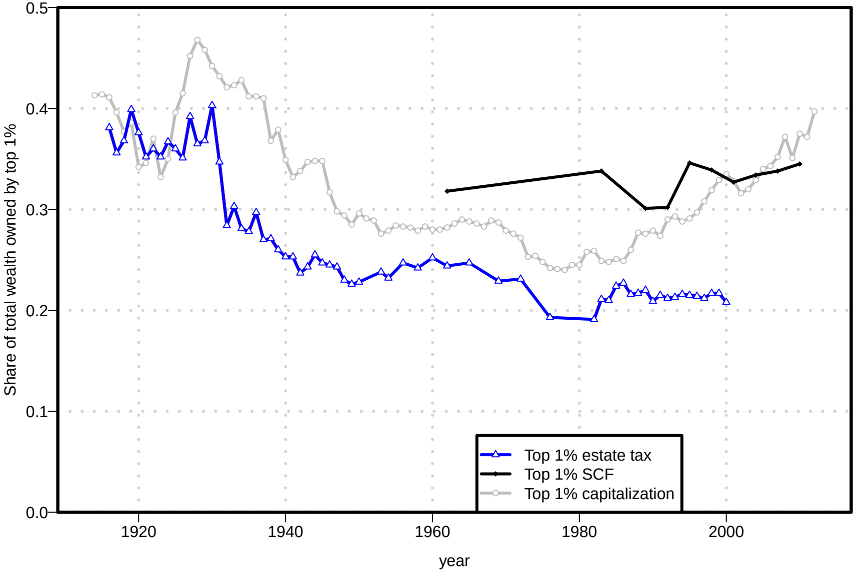
Top 1% wealth share



Sources: SCF — Roine and Waldenström (2014); estates — Kopczuk and Saez (2004); capitalization — Saez and Zucman (2014)

Wealth inequality in the US

- Much less studied, harder to measure, more controversial
- One approach: direct measurement of wealth
  - Survey of Consumer Finances
  - Estate tax data reweighted to represent population
- ...these methods do not show any increase in wealth concentration
- Recent work on concentration of capital incomes — rapid growth of it
- Accordingly, if you assume that capital incomes everywhere represent normal return to wealth (capitalization method), this would indicate a growing concentration of wealth

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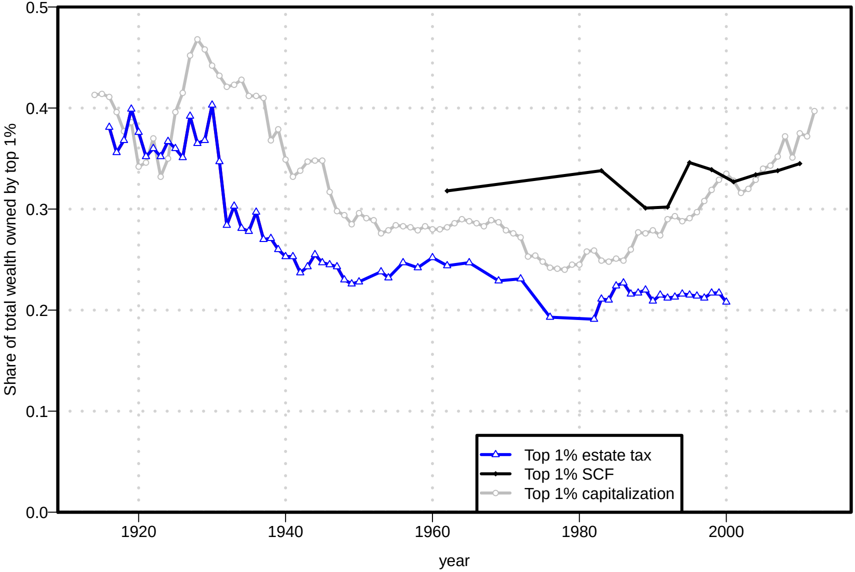

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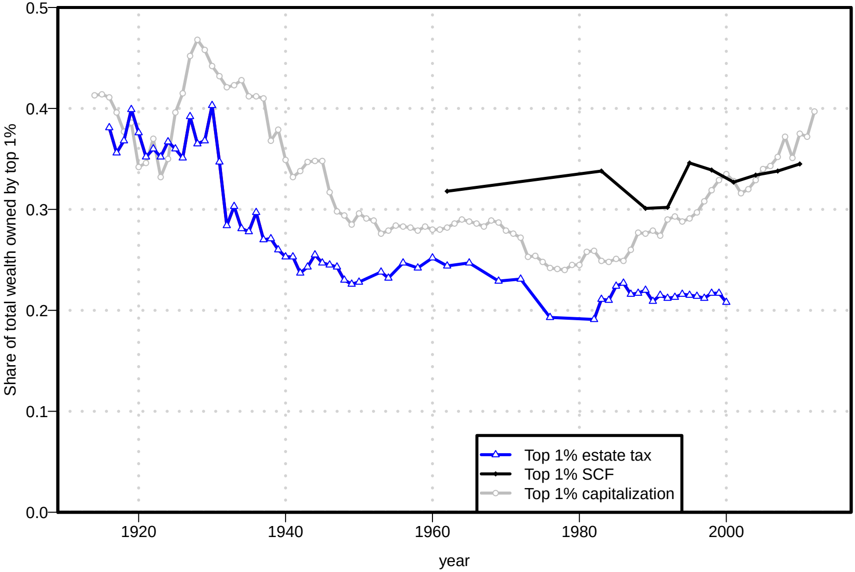

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What has happened since the 1970s?

- Piketty: policy (tax changes, financial deregulation, labor unions decline) *"(...) the reduction of inequality that took place in most developed countries between 1910 and 1950 was above all a consequence of war and of polices adopted to cope with the shocks of war. Similarly, the resurgence of inequality after 1980 is due largely to the political shifts of the past several decadeds especially in regard to taxation and finance."*("Capital...", page 20)
- Literature: technology, demographics, education
- To be fair, this is what the literature says about inequality more broadly, not specifically the top 1%.
- Growth in inequality away from the top has been dramatic too
- It is possible that explanations for the top of the distribution and the rest are different. I like the Occam's razor principle though.
- Reverse causality: policies responded to changing technology and growing inequality.

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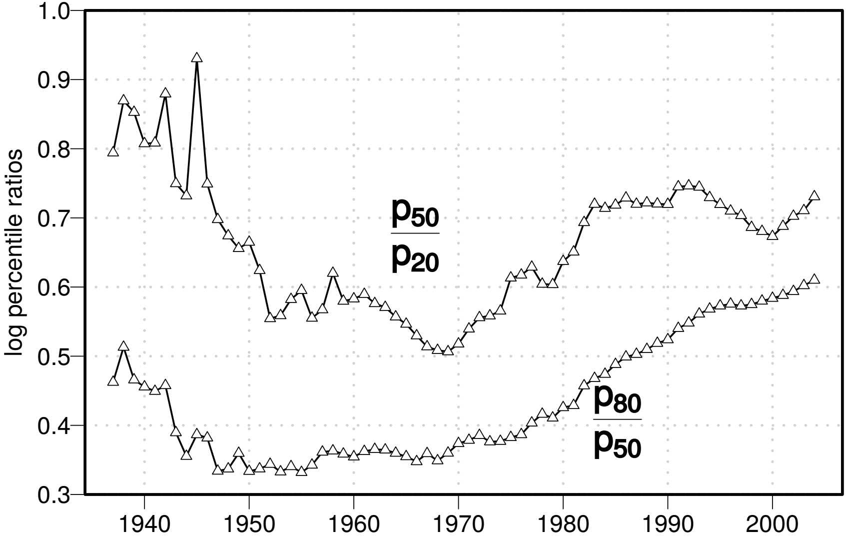
Relative earnings at 20th, 50th and 80th percentiles



Source: Kopczuk, Saez and Song (QJE, 2010).

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Technological change

- General purpose technologies — electricity, mass transportation, IT
- Skill-biased technological progress
- Disruptive. Opportunities for new fortunes in many sectors
  - Microsoft, Apple, Google etc.
  - Wal-Mart, finance
  - Globalization
- A challenge to this line of thinking: income inequality trends are different in the US (and UK and some other countries) than in continental Europe
- Inequality may be geographically concentrated. Silicon Valley, Hollywood, Wall Street are all in the US.
- Is policy the reason that they are not in France?
- Perhaps, but that is a very different channel than stressed in the book
- Has France exported its inequality to the US and the UK?

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- Perhaps, but that is a very different channel than stressed in the book
- Has France exported its inequality to the US and the UK?

Technological change

- General purpose technologies — electricity, mass transportation, IT
- Skill-biased technological progress
- Disruptive. Opportunities for new fortunes in many sectors
  - Microsoft, Apple, Google etc.
  - Wal-Mart, finance
  - Globalization
- A challenge to this line of thinking: income inequality trends are different in the US (and UK and some other countries) than in continental Europe
- Inequality may be geographically concentrated. Silicon Valley, Hollywood, Wall Street are all in the US.
- Is policy the reason that they are not in France?
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- Has France exported its inequality to the US and the UK?

Changing source of top wealth

- Since the 1970s, the source of wealth at the very top of the distribution has shifted from originating in inheritances toward self-made wealth.
- Evidence:
  - ...indirectly using # of women in estate tax data as a proxy for importance of inheritances
  - ...and based on Forbes 400
- Aside 1: CEOs are rich but not that rich, few non-founder CEOs in Forbes 400
- Aside 2: changing nature of top wealth and incomes may explain why measuring wealth concentration is hard
  - surveying new wealthy is difficult
  - capital incomes are part of compensation
  - people with large active capital incomes are healthy; people with large wealth may be average — mortality assumptions key to discrepancies between capitalization and estate tax data

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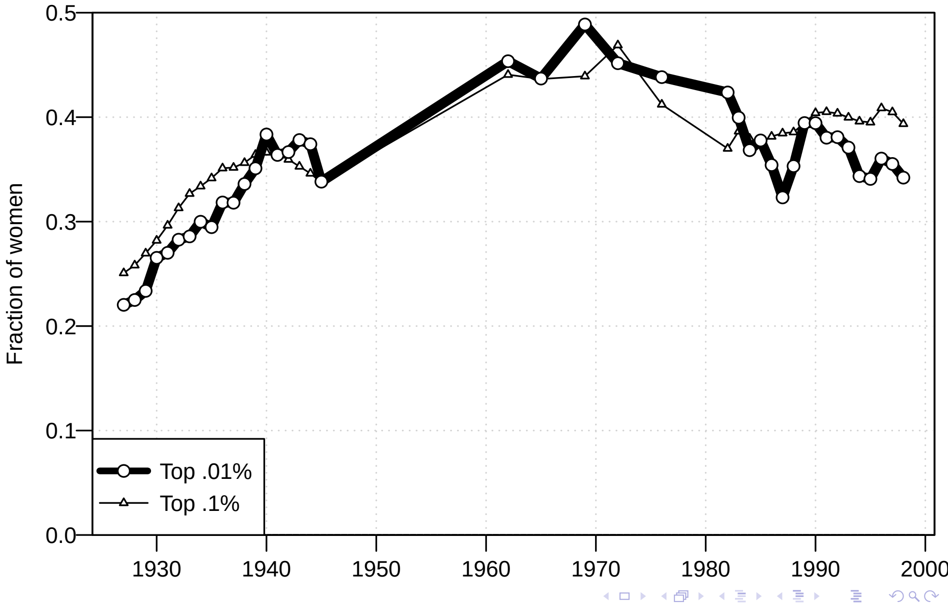
Share of women at the very top of wealth distribution



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Inheritances in Forbes 400 (1982-2003)

			# with inheritance			% with inheritance		
Year	#Women	%Women	Total	Women	Men	Total	Women	Men
1982	73	0.18	143	65	78	0.36	0.89	0.24
1983	75	0.19	142	68	74	0.36	0.91	0.23
1984	68	0.17	135	61	74	0.34	0.90	0.22
1985	84	0.18	159	76	83	0.34	0.90	0.22
1986	89	0.19	150	77	73	0.32	0.87	0.19
1987	88	0.18	143	74	69	0.29	0.84	0.17
1988	66	0.14	107	52	55	0.23	0.79	0.14
1989	67	0.14	114	51	63	0.24	0.76	0.16
1990	70	0.16	109	51	58	0.24	0.73	0.15
1991	74	0.16	110	51	59	0.24	0.69	0.16
1992	70	0.16	107	49	58	0.24	0.70	0.15
1993	73	0.16	104	49	55	0.23	0.67	0.15
1994	76	0.17	105	50	55	0.23	0.66	0.15
1995	75	0.17	96	46	50	0.21	0.61	0.13
1996	76	0.17	99	47	52	0.22	0.62	0.14
1997	73	0.16	91	42	49	0.20	0.58	0.13
1998	69	0.15	87	40	47	0.19	0.58	0.12
1999	67	0.14	84	37	47	0.18	0.55	0.12
2000	49	0.12	58	24	34	0.14	0.49	0.10
2001	47	0.12	60	25	35	0.15	0.53	0.10
2002	49	0.12	58	26	32	0.14	0.53	0.09
2003	52	0.13	66	30	36	0.16	0.58	0.10

Source: The Forbes 400 Richest American, Forbes Magazine, various issues 1982-2003, reported in Edlund and Kopczuk (2009)

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Does it all matter?

- Has wealth inequality in the US increased? The jury is still out.
- Will it increase? Probably.
- If technology and not policies or institutions are the driving force behind inequality, then policy prescriptions in the book are not the right direction
- Last 50 years were exceptions to the patterns of the last 200 years. Last 200 years were an exception to longer term historical patterns.
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