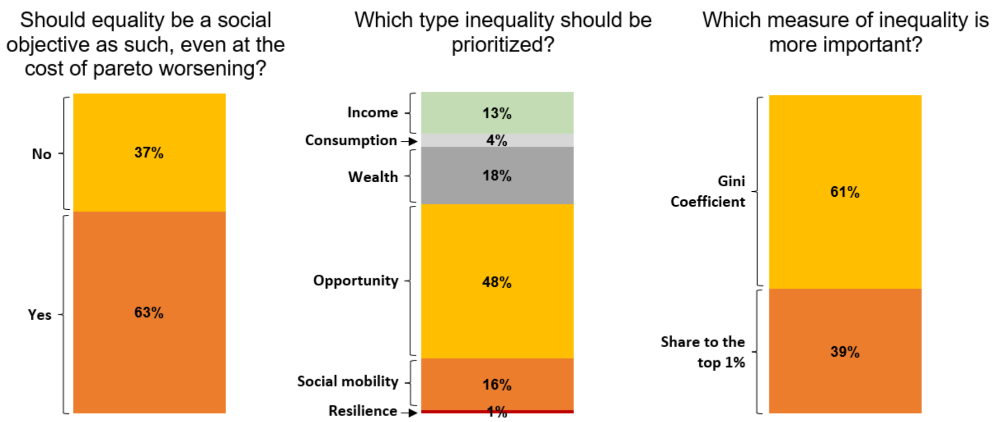
Thomas Piketty

On Thursday, February 8, Thomas Piketty joined Markus' Academy for a conversation on his book, "[A Brief History of Equality](#)." Thomas Piketty is a Professor of Economics and Economic History at EHESS and at the Paris School of Economics as well as co-director of the World Inequality Lab and the World Inequality Database.

A few highlights from the discussion:

- **A summary in four bullets**
    - Recent efforts to improve our data on inequality have yielded two main findings. The first is that income distributions are very different across countries. The second is that these distributions can change over time.
    - The book is a (shorter and clearer) synthesis of previous work. It tries to emphasize that we have already seen huge historical reductions in inequality in the past, and argues that these reductions in inequality secured sustained productivity growth.
    - In Europe the share of income to the top 10% used to be ~50% while now it is ~30%. The new patrimonial middle class (50-90th percentiles) owns 40% of the wealth, so a lot of people are economically secure. In a sense wealth inequality is a measure of inequality of opportunity.
    - The book makes two proposals: a drastic increase in educational investment and a universal inheritance of €120k upon turning 25 years old, to be funded with a wealth tax and higher inheritance taxes.

- **[0:00] Markus' introduction and poll questions**
    - Alfani (2021) documents that the fraction of wealth held by the top 10% constantly grew throughout history, with only two exceptions: the Black Death in the 14th century, and the period between the Great Depression and the 1980s.
    - There is a lot of discussion about how the decline of interest rates has contributed to the rise of inequality. However income and wealth are just one type of inequality. There is also social mobility or inequality in resilience.



- [5:26] **The state of equality today**
  - In the last decade we have made a lot of progress to improve our data on inequality, with the World Inequality Database combining sources like household surveys, tax data, national accounts, wealth rankings…
  - From this work we have two main findings. The first is that the share of income that goes to the top 10% is very different across countries. Measured after taxes and transfers, it ranges from 20-25% in nordic countries to 60-70% in many emerging economies (under full equality, the top 10% should get 10% of income).
  - The second is that these shares change over time. At least in rich countries there has been a lot of progress in reducing inequality. Today the US is relatively equal (when compared to Saudi Arabia, India or South Africa), yet this wasn't always the case. In Europe up until WW1 the top 10% earned above 50% of all the income.
  - Countries became more equal through institutional changes such as the establishment of social security, progressive taxation, and social and educational investment.
  - Measuring inequality through the share of income going to the bottom 50% provides a more concrete view of how individuals are actually living. If the bottom 50% has 25% of the income it means that their average income is half of the average income of the country. If they have 5% their average income will be one tenth of the country's average.
  - In South Africa the bottom 50% only receives ~5% of national income, while in more equal countries they can receive 30% (after in-kind transfers).
  - There has been much less progress in reducing inequalities in wealth, with even Europe remaining very unequal. Despite some improvement for the 50-90th percentiles, the bottom 50% own only 5-4% of the total.
  - While there has been progress in increasing the share of income going to women across all regions (excluding China), we are still far from 50%. This is in spite of the fact that women contribute more than 50% of total labor time, which includes domestic work. Women opting away from market work in favor of domestic work (Bertrand et al. 2010) should not justify unpaid work.
  - There are also drastic inequalities in carbon emissions. The bottom 50% in Europe emit 3.1 tonnes of CO_2 per person per year, which is not out of line with the long-term objectives of 2 tonnes. However the top 10% in Europe emits 38.9 tonnes per capita (79.0 in the US).

- [21:45] **Brief history of equality**
  - The book is a (shorter and clearer) synthesis of previous findings, and highlights that in the past we have already seen huge historical successes to reduce inequality
  - In Europe the top 10% used to earn above 50% of all income, while now it is ~30%. The top 10% used to own 80-90% of all wealth, while now they own 50-60%. The bottom 50% has gone from owning 1-2% of wealth to 6%.
  - We are far from equality, but this progress is important to acknowledge. The trends are similar if we look at the distribution within age groups, or the distribution of inherited wealth.

    - Now we have a patrimonial middle class owning homes or small businesses which did not exist before (50-90th percentiles). This 40% of the population owns 40% of the wealth, so a lot of people are at the average level of wealth and are economically secure. In a sense wealth inequality is a measure of inequality of opportunity.
    - The rebound in wealth inequality we have seen since the 1980s is driven by growth in income inequality. Declining interest rates are only part of the story.

- [34:21] **How did the transformation happen?**
    - The social state, especially education and taxation.
    - Educational spending has gone from 0.5% to 5% of GNI. In the 50s the US had 90% of children in high-school while Europe only attained this in the 90s.
    - The stagnation of educational investment in recent decades is in a sense paradoxical, as the fraction of college graduates has continued to grow.
    - However it also seems like the most obvious explanation for the stagnation in productivity. It of course depends on how we write our endogenous growth models, but flat educational spending surely will not help.
    - Progressive taxation has been a huge historical success. The US had top effective marginal tax rates above 70% between 1940 and 1980 and this did not destroy American capitalism: productivity boomed. High taxes on the wealthy validated the social contract and made the middle class more willing to pay for the welfare state.
    - Reagan believed halving top tax rates would boost the economy, but saw per capita output growth halved instead. The disappointment this led to is a big part of the explanation for republican populism.

- [42:52] **Looking to the future**
    - Focusing again on education and taxation, the book makes two proposals.
    - The first is a universal basic inheritance, where everyone would receive €120k upon turning 25. This would be 60% of the avg. wealth in Europe, and would be financed with a wealth tax (primarily) and higher inheritance taxes.
    - In a sense universal basic income is already in place throughout the west. Universal inheritance is the main tool we should add to the 20th century welfare state. It is about being serious about inequalities of opportunity.
    - The proposal would be far from full equality. Today a person in the top 10% on average inherits €1 million; now they would receive €600k.
    - It is reasonable to argue that the proposal could distort incentives or prevent saving. Yet we saw the same argument 100 years ago on the redistribution of wealth from the top 10% to the “middle” 40%, and it was mistaken.
    - The second proposal is an increase in educational investment. As Chetty et al (2020) show, your parent’s percentile in the distribution heavily determines your chance of attending college. 25% of the bottom of the distribution attends, while 95% of the top does.
    - Despite a drastic improvement since the early 20th century, we still see large divergences in how the public educational spending is distributed across groups. The poorest students receive ~€50k per student in public educational investment throughout their lifetimes, the wealthiest receive more than €250k.

Timestamps:
[0:00] Markus' introduction and poll questions
[5:26] The state of equality today
[21:45] Brief history of equality
[34:21] How did the transformation happen?
[42:52] Looking to the future

Video snippets

- 8:28 ("what i want to stress") - 11:38 ("long run movement to equality")
- 12:02 ("rich countries have become more equal") - 12:23 ("what i argue in this book")
- 12:37 ("markus in your presentation") - 13:06 ("don't see what it means for concrete individuals")
- 13:28 ("it varies quite a lot") - 14:38 ("the distribution matters a lot")
- 16:37 ("when it comes to the distribution of wealth") - 18:05 ("has been more limited than for income")
    - Cut the segment where he cites the report
- 17:26 ("here is a simple indicator") - 17:55 ("very far from gender parity")
- 20:05 ("last dimension of inequality") - 21:38 ("uts going to be difficult to reduce emissions")
- 22:11 ("if you have limited time") - 22:50 ("important to start from there")
- 23:10 ("this is data from france") 23:51 ("long run reduction of inequality")
- 24:31 ("in the long run there has been a compression") - 25:43 ("within each age group")
- 26:05 ("now we have a patrimonial middle class") - 28:03 ("vis a vis the rest of society")
- 32:50 ("to conclude historical perspective") - 33:36 ("high concentration of wealth")
- 34:31 ("how did it happen") - 36:07 more prosperity")
    - combine with: 36:09 ("you can see the stagnation") - 36:51 ("most obvious explanation you can think of")
- 37:24 ("progressive taxation success") - 38:00 ("rest of the world")
- 40:52 ("what we should agree upon is that") - 41:52 ("i'm gonna take it back for you")
- 42:58 ("i want to make two points") - 45:47 ("what we should look at")
    - This one is tough. Cut the section in the middle about rich children spending their money poorly
- 48:30 ("another story would be") - 48:49 ("bottom 50% share")
- 50:03 ("the other view") - 20:57 ("continue to go in this direction")
- 52:02 ("the transmission of education") - 53:17 ("reality of society in which we live")
- 53:50 ("to conclude") - 56:05 ("family origins")
- 56:45 ("one thing you didn't mention") - 57:06 ("universal inheritance")