

Global Inequality & Growth:

Review and conclusion

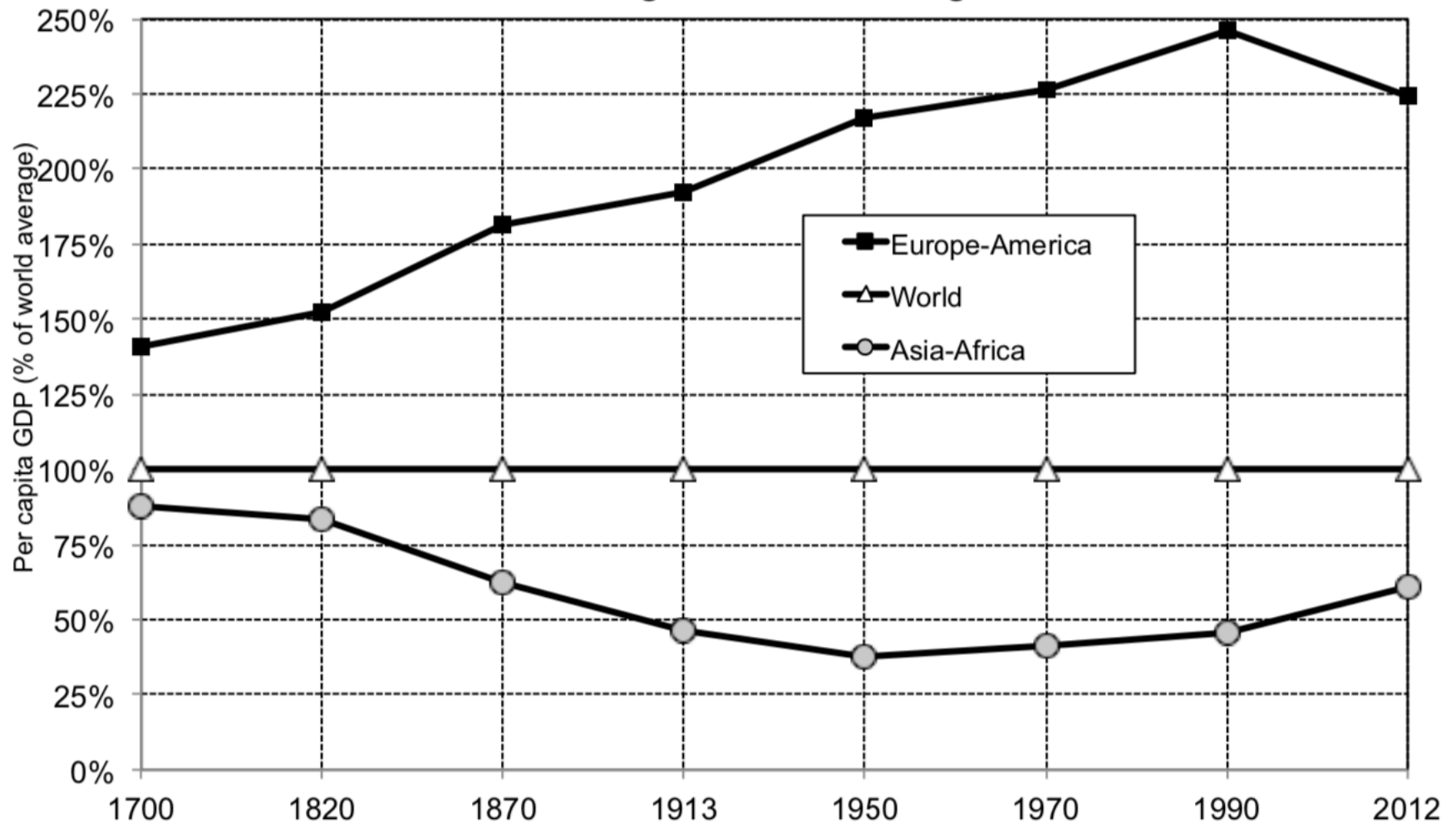
Ludvig Wier



Roadmap:

- There's nothing natural in the evolution of inequality: history and policies are key
- The forces of inequality
- Equity vs growth: A trade-off?
- The policies that can promote equitable growth

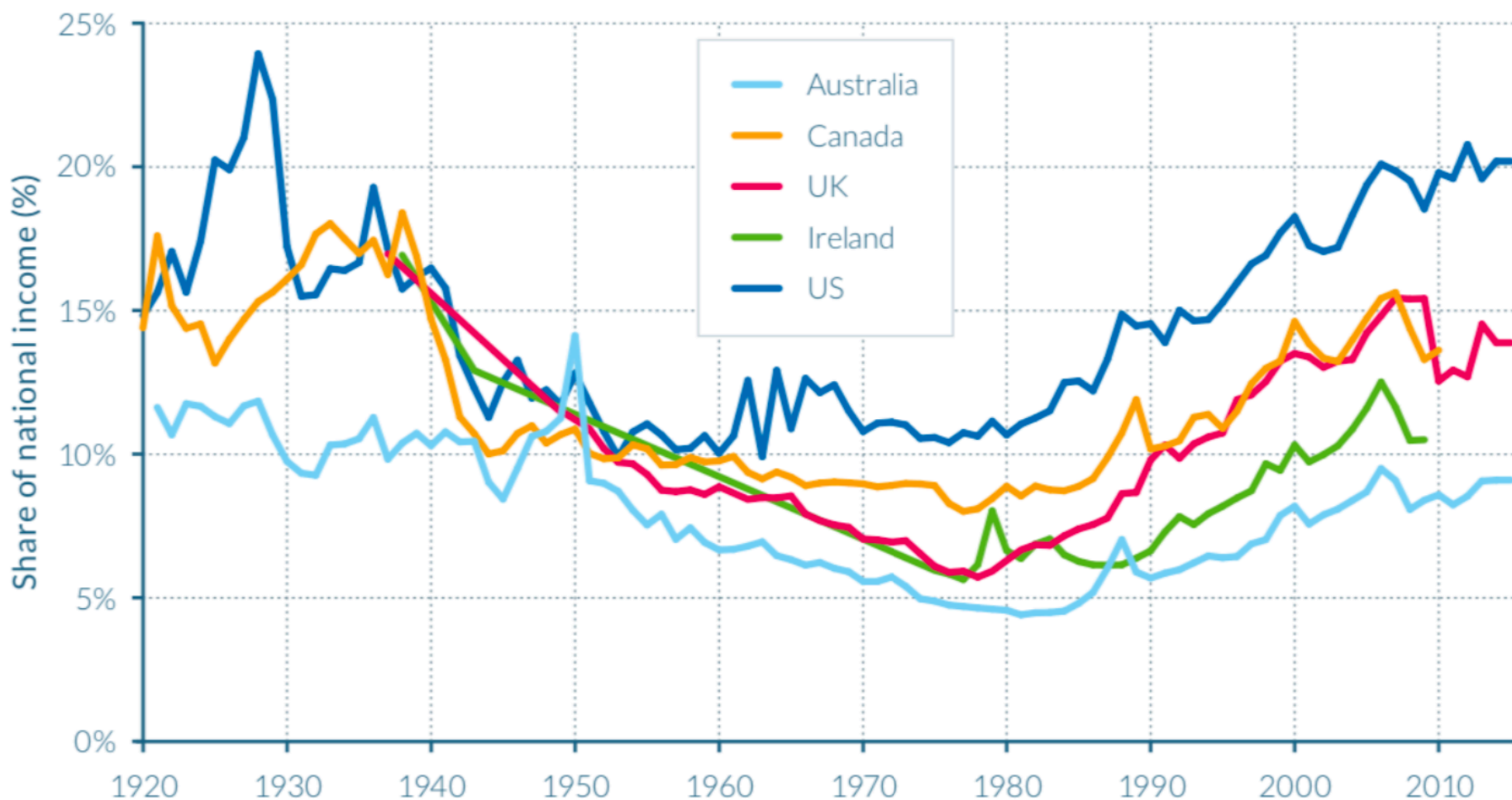
Global inequality 1700-2012: divergence then convergence?



Per capita GDP in Asia-Africa went from 37% of world average in 1950 to 61% in 2012.

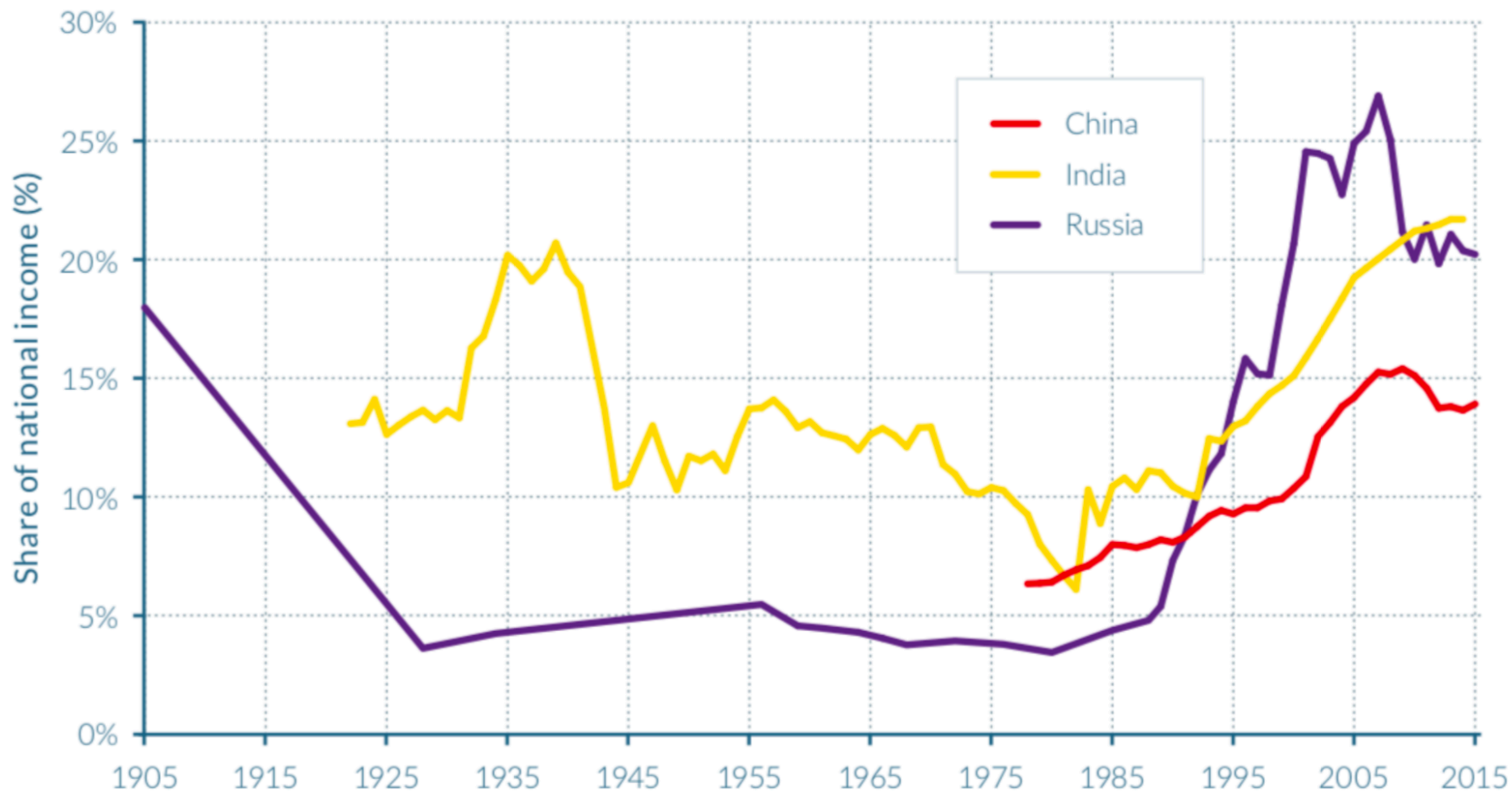
Sources and series: Piketty (2014) see piketty.pse.ens.fr/capital21c.

Top 1% national income share in Anglophone countries, 1920–2015



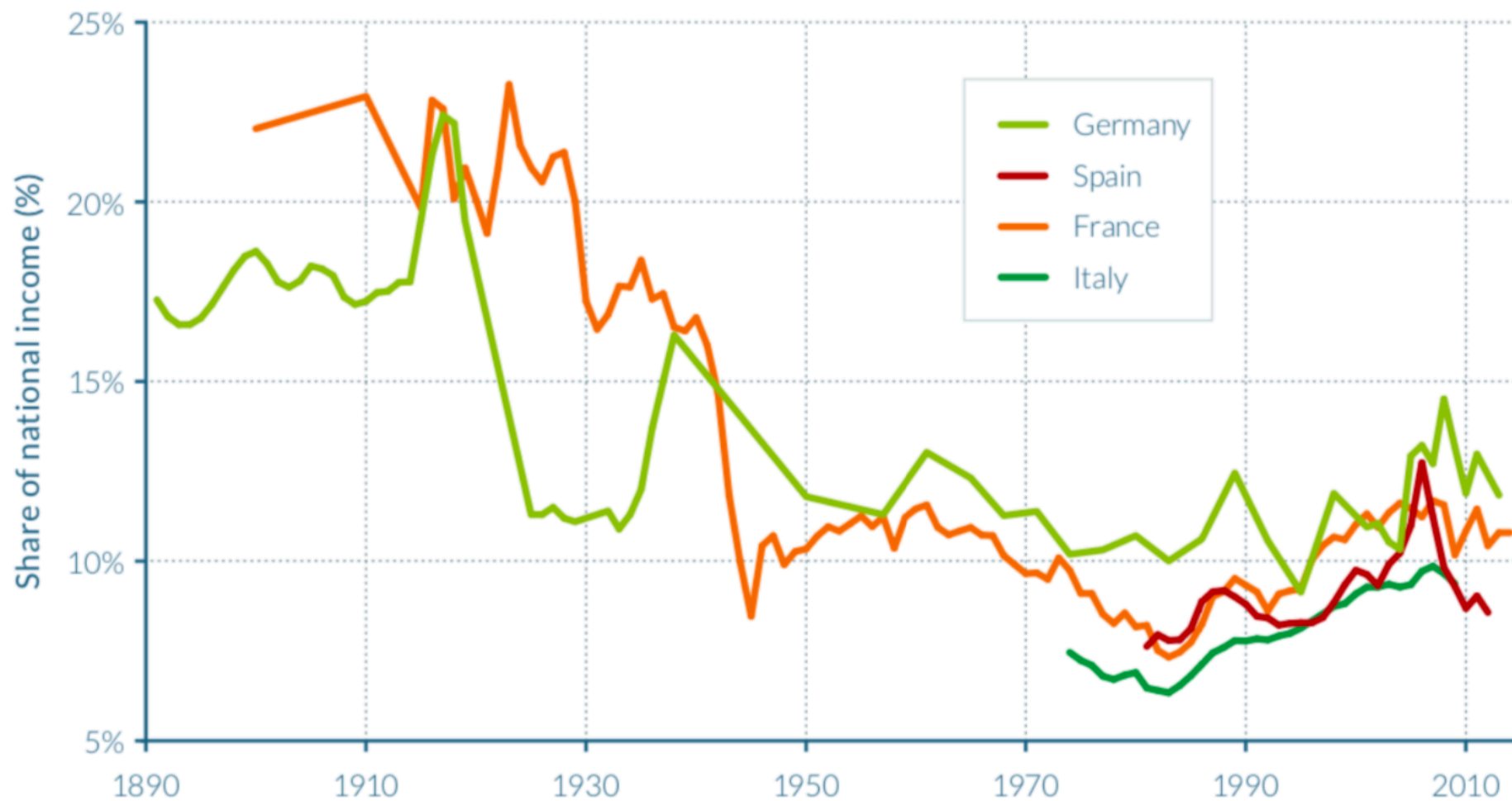
Source: Novokmet, Piketty & Zucman (2017). See [wir2018.wid.world](#) for data series and notes.

Top 1% national income share in emerging countries 1900-2015



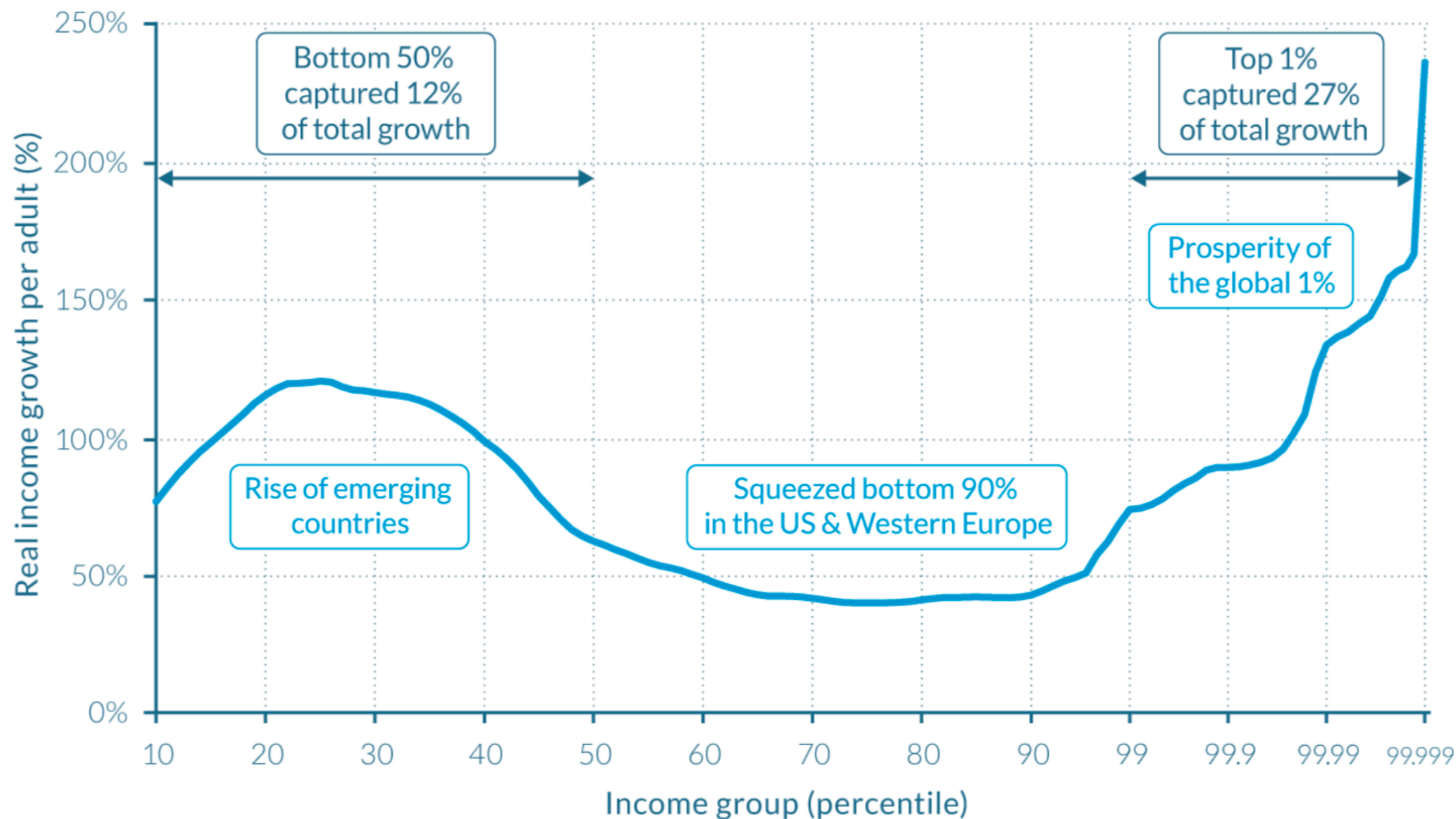
Source: WID.world (2017). See wir2018.wid.world for data series and notes.

Top 1% national income share in European countries, 1890–2014



Source: WID.world (2017). See [wir2018.wid.world](#) for data series and notes.

The elephant curve of development: 1980-2016

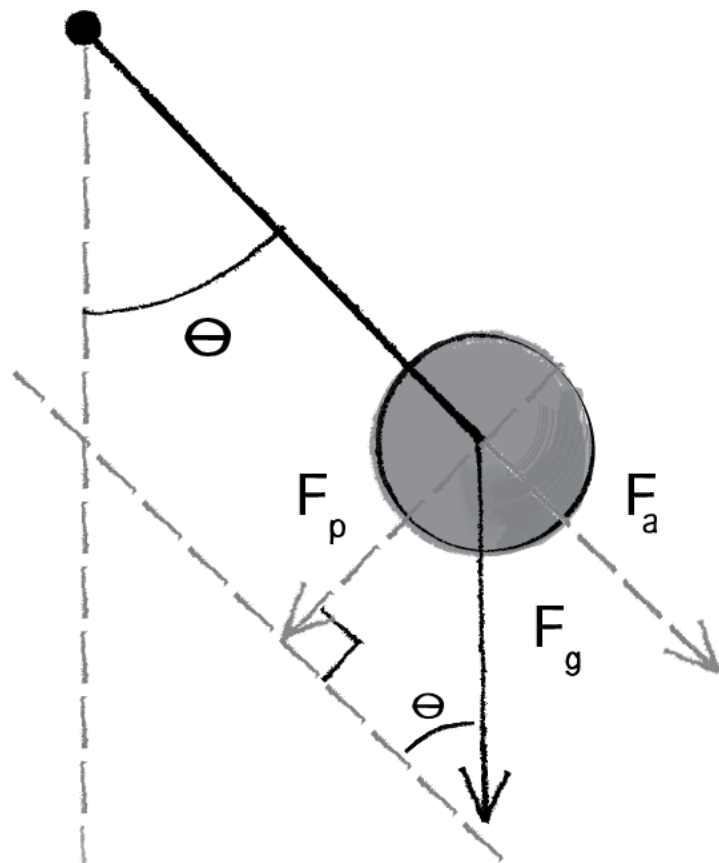


History and policies matter

Diversity of national trajectories:

- US used to be more equal than Europe, now much more unequal

The forces of inequality

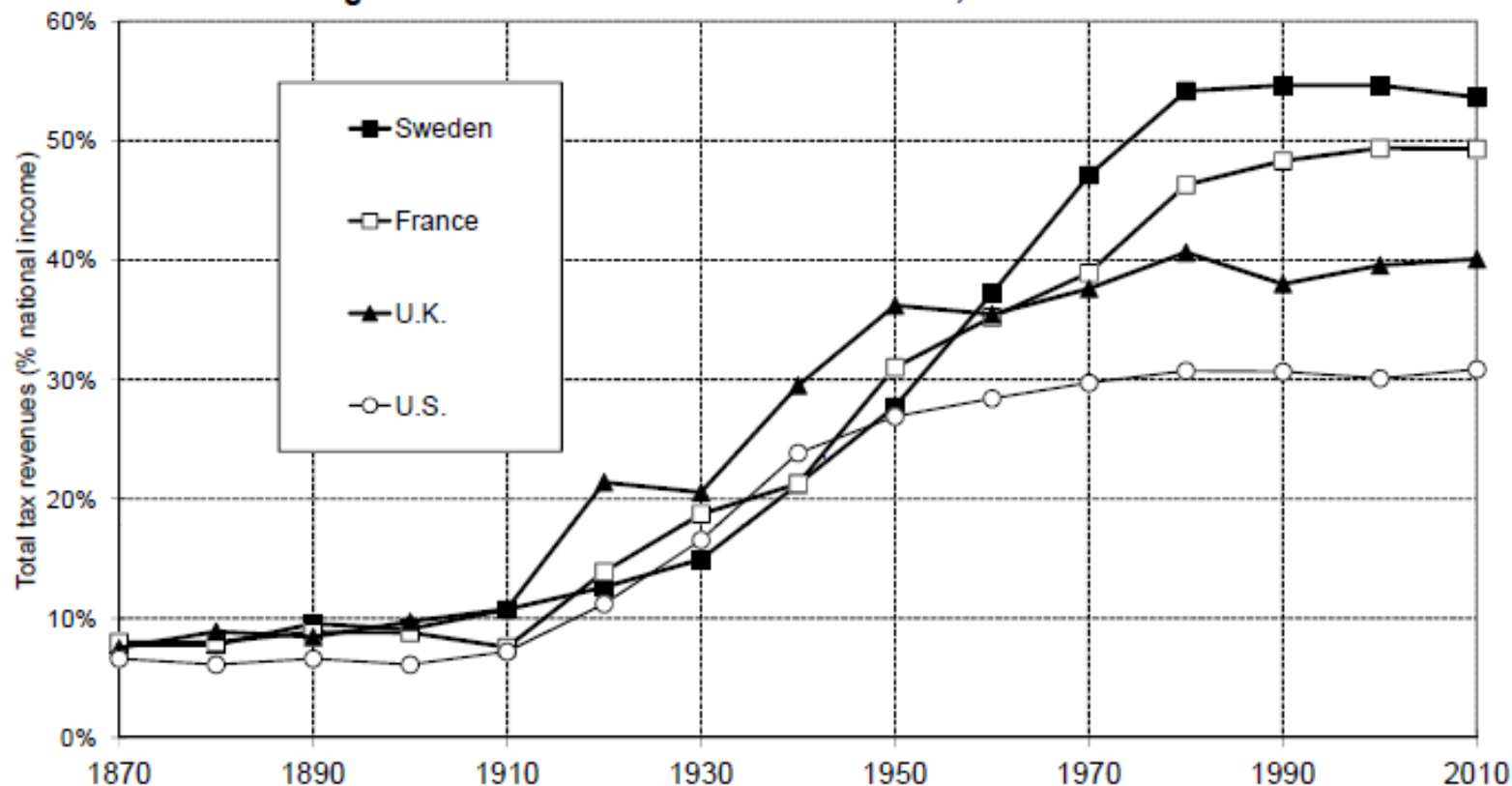


Forces of equality in EU and US (1910-1970)

1. The decline of wealth concentration during the 20th century: The result of wars, destructions, depressions but also very high capital taxation
2. Labor market policies: changes in bargaining power, minimum wages, unions, share of capital publicly owned, anti-discrimination policies,...
3. Highly progressive taxation from 1940s to 1970s
4. The construction of the welfare state and the increased support of public education that followed

The role of government

Figure 13.1. Tax revenues in rich countries, 1870-2010

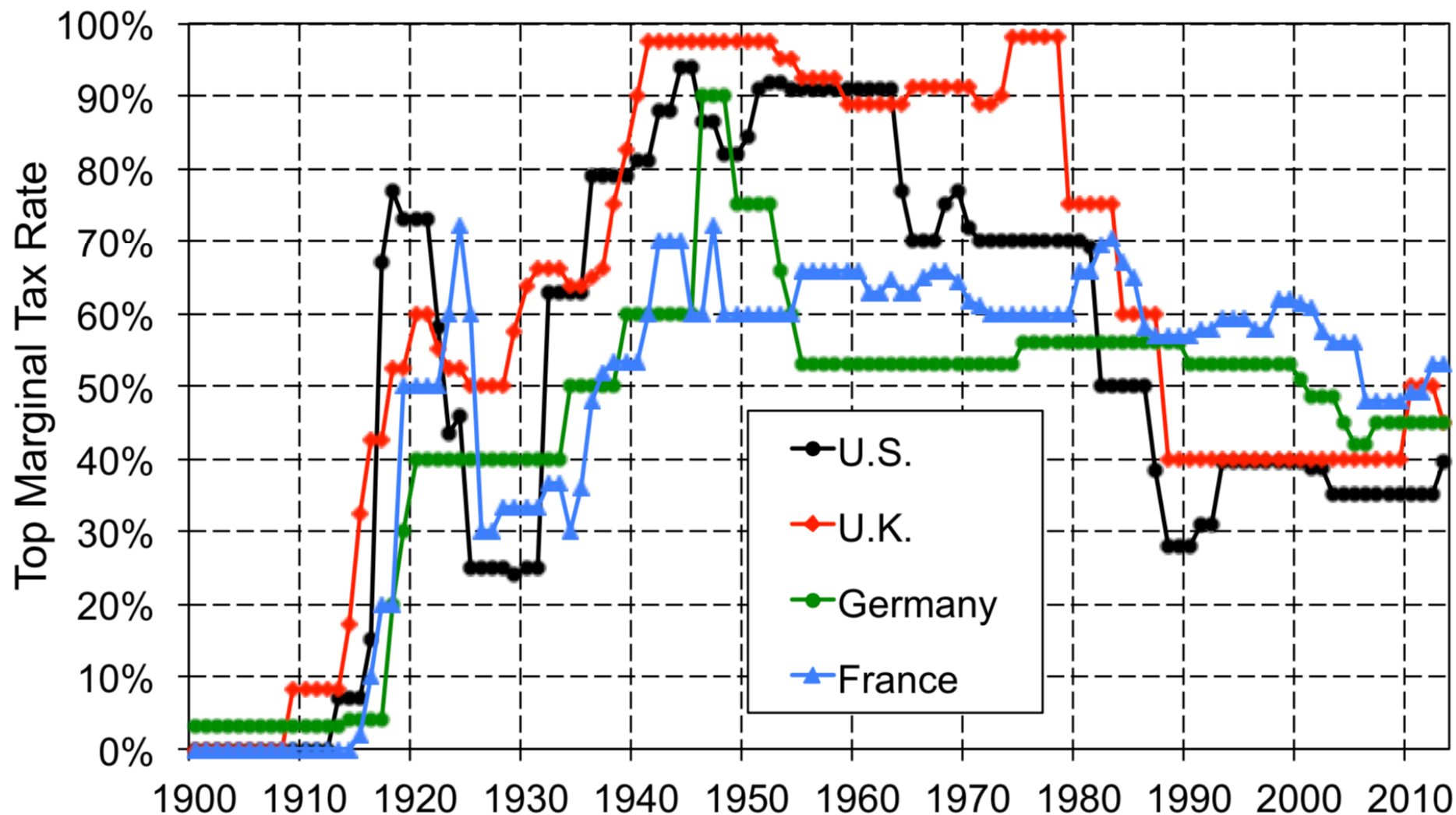


Total tax revenues were less than 10% of national income in rich countries until 1900-1910; they represent between 30% and 55% of national income in 2000-2010. Sources and series: see piketty.pse.ens.fr/capital21c.

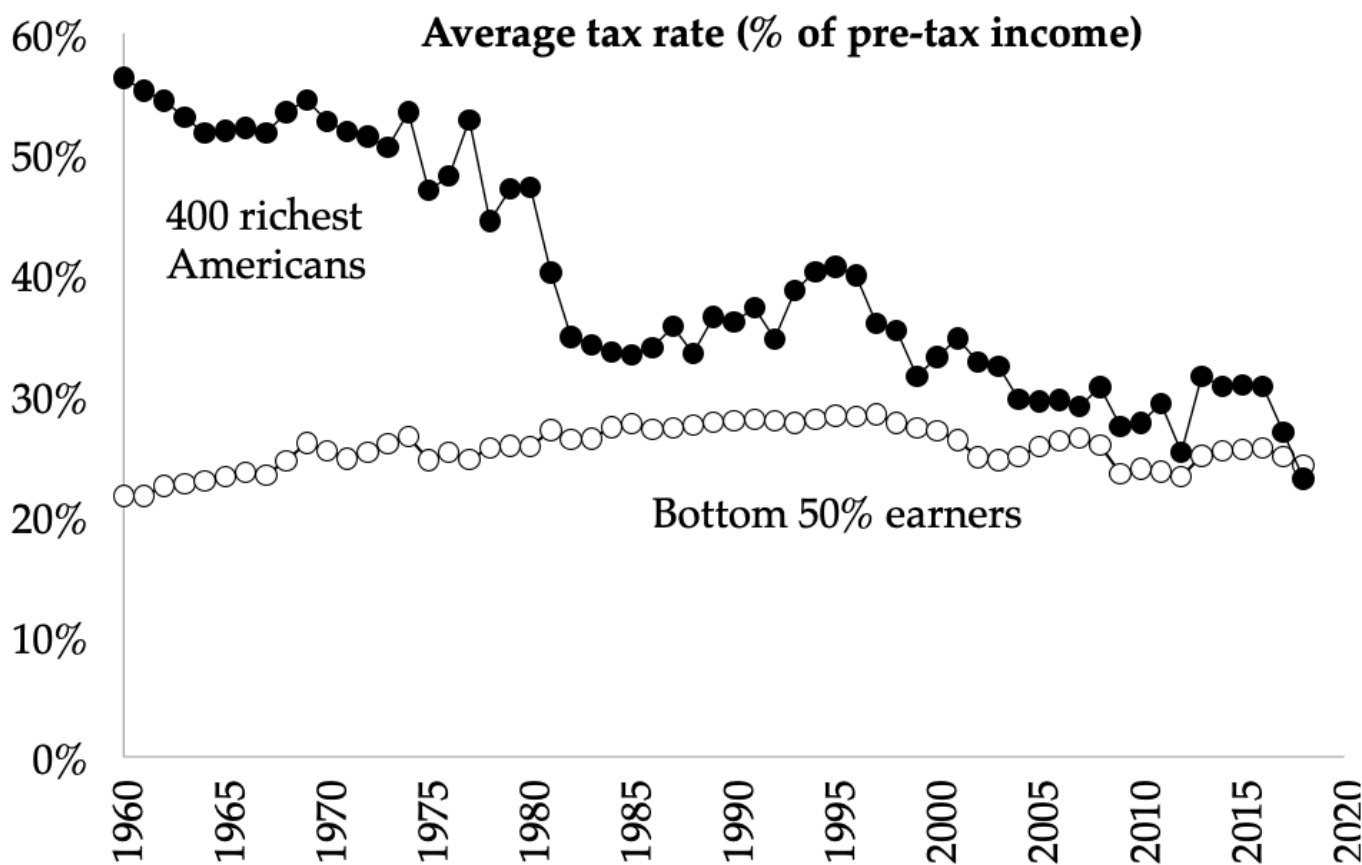
Forces of inequality in EU and US (1980-today)

- Increasing wealth inequality - partly as a result of low capital taxation, privatization and inheritance
- Decline in progressive taxation since the 1980s contributed to rising inequality
- Booming top labor income (mostly a U.S. phenomenon)

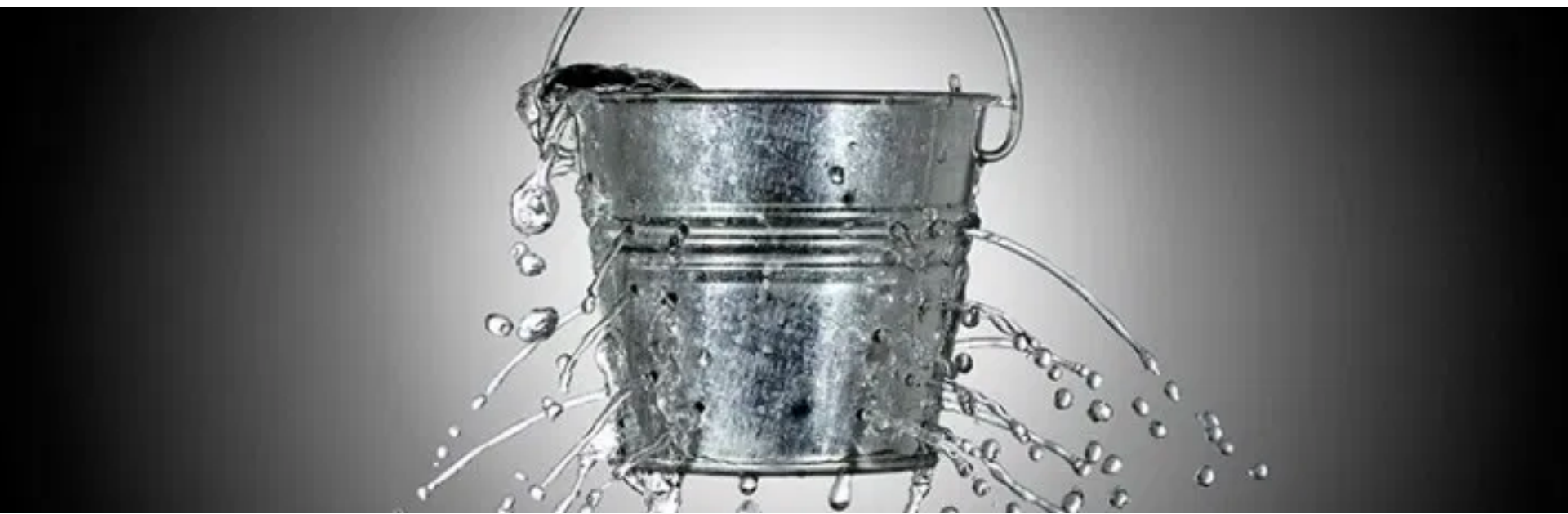
Top marginal income tax rates, 1900-2013



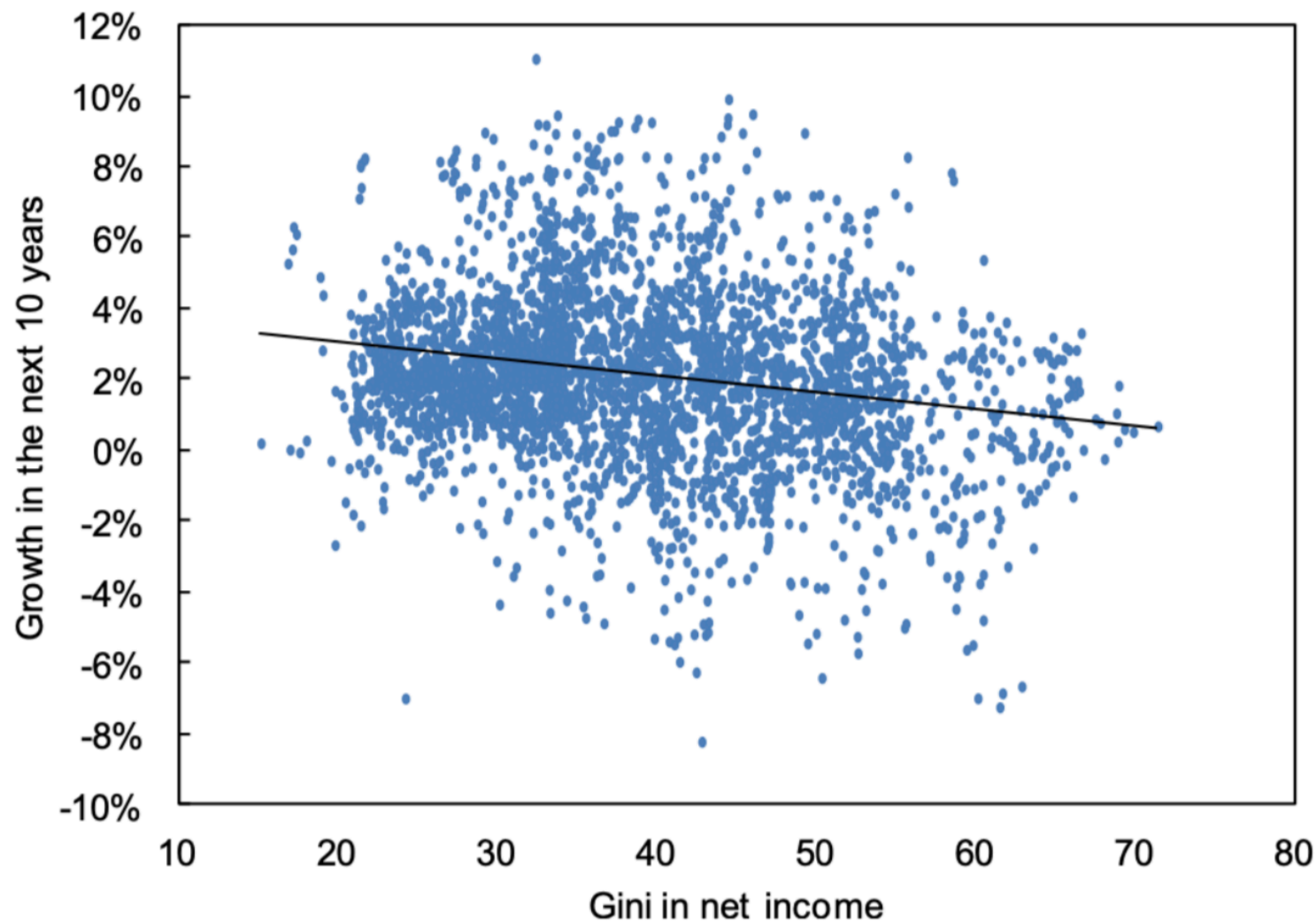
The demise of progressive taxation in the US

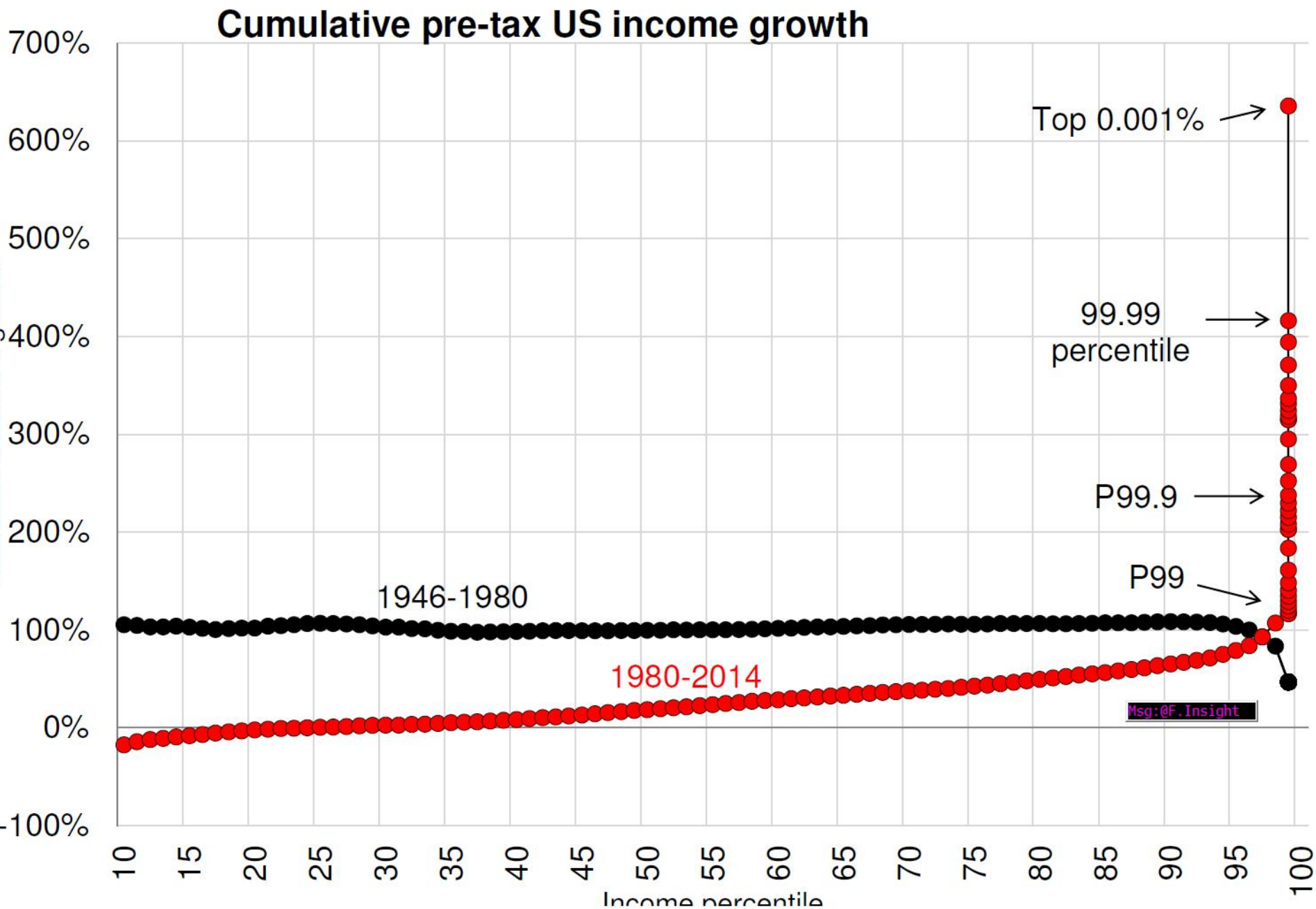


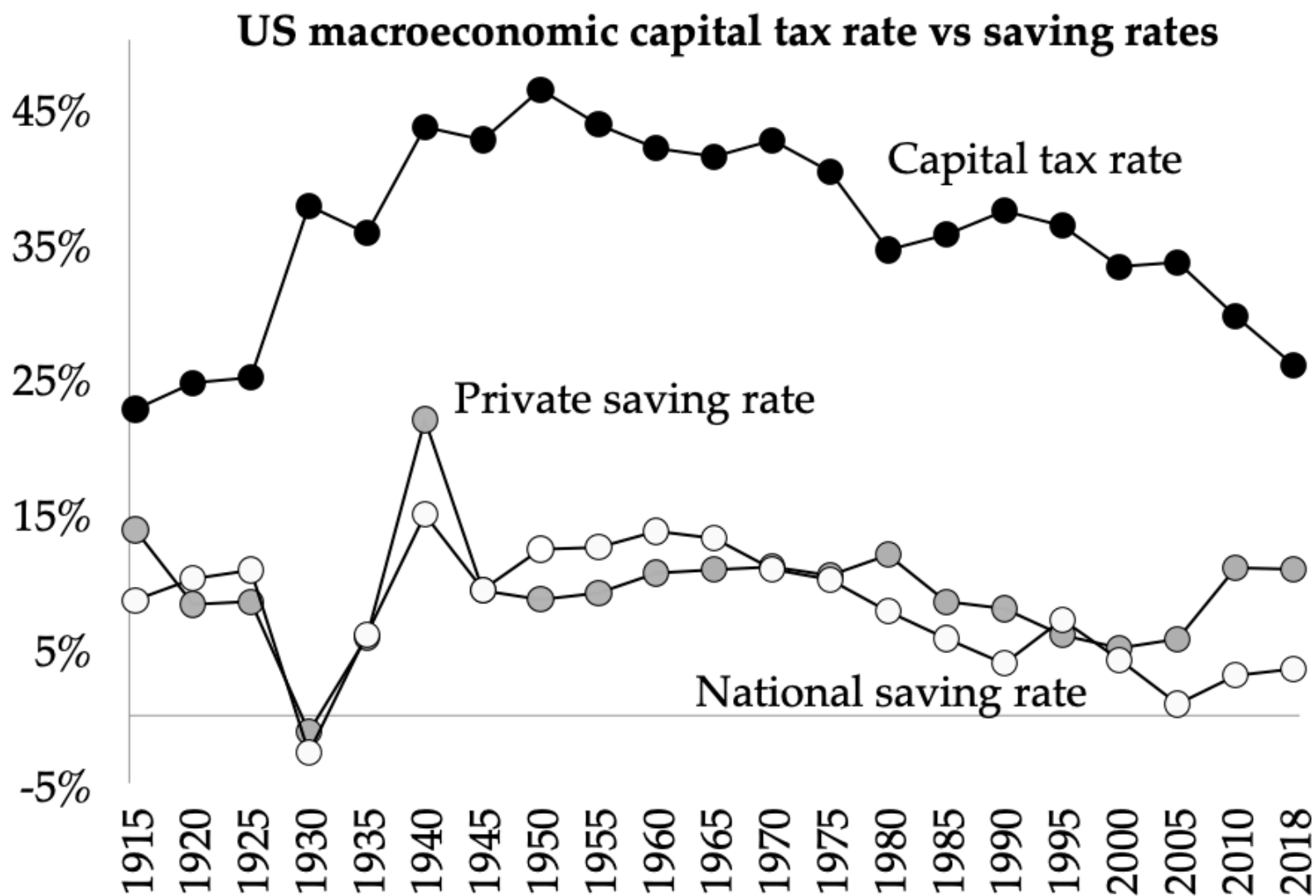
Equity vs Growth: A trade-off?



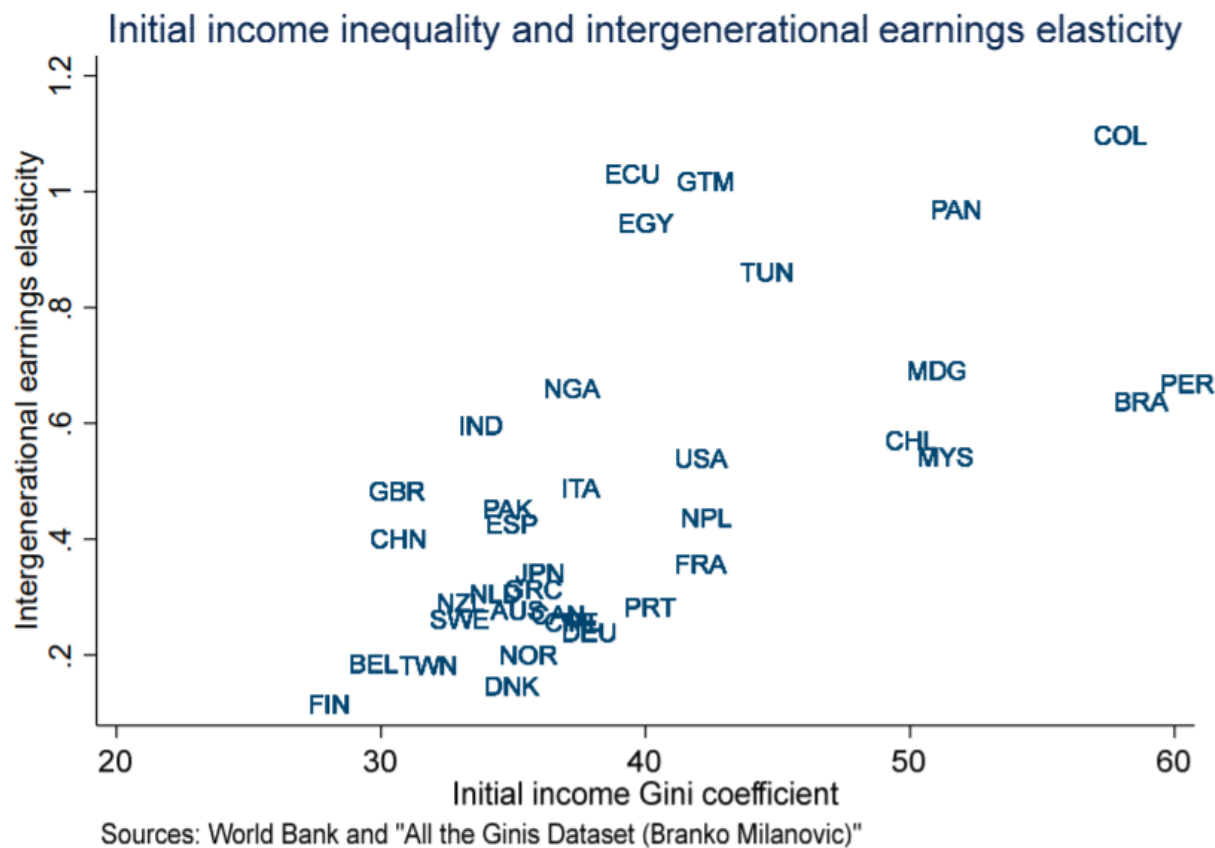
Equity vs Growth: A trade-off?







Inequality seem to have little to do with current generations



Policies that can promote equitable growth



Policies that worked in the past

- Progressive income and wealth taxation
- Investment in access to education: reduces skill premium and makes it possible to increase minimum wage
- Strong social safety net and transfers to make it possible for poor & middle class to accumulate wealth

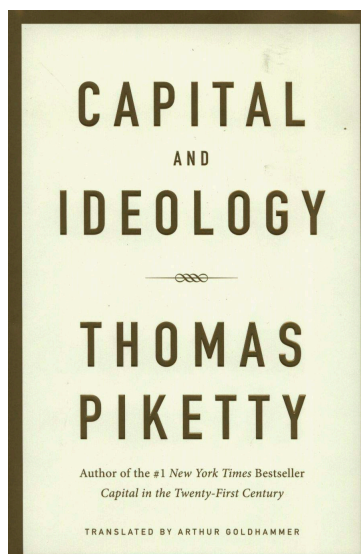
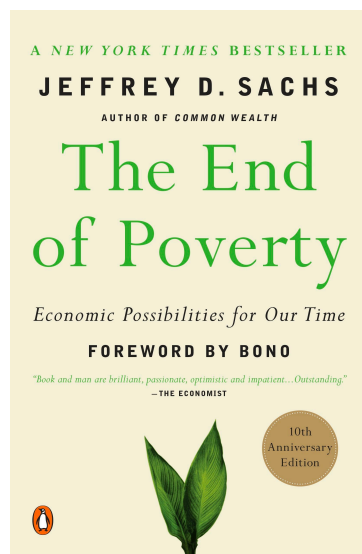
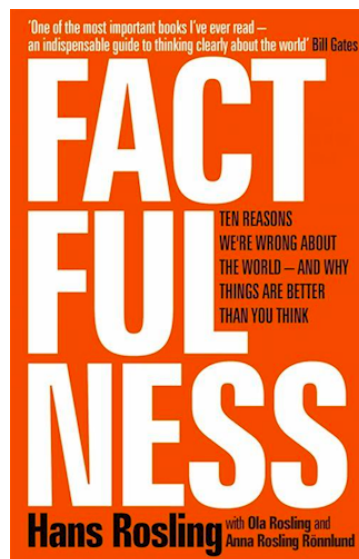
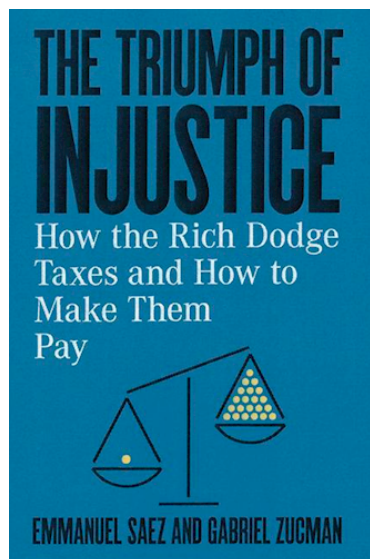
Institutions and policies always need to be reinvented

- Fighting climate change must be put front and center
- World is more globalized → international cooperation is key
- Rise of algorithms, patents, etc. → need to find new ways to regulate capital (patents, time limits to private ownership...)

Cause for optimism



Plenty of brilliant people with bold ideas!



“The Triumph of Injustice” tax plan

Summary of our reform: Taxing the rich		
	Type of tax	Revenue (% of national income)
Wealth tax	2% rate above \$50 million	1.2%
	3.5% rate above \$1 billion	
	60% top marginal income tax rate	
Income tax	Full taxation of dividends & K gains	1.7%
	Integration with corporate tax	
Corporate tax	30% effective US corporate tax rate	1.2%
	25% country-by-country minimum tax	
Total		4.1%

“The Triumph of Injustice” tax plan

Summary of our reform: A fairer social state		
	Type of tax / spending	Revenue (% of national income)
Abolish health care poll tax	\$8,000 for currently-covered workers	-6.0%
	\$8,000 for the currently uninsured	
Education for all	Public child care and early education	-1.0%
	Free tuition for public universities	-0.5%
Abolish sales taxes	Eliminate sales taxes and Trump tariffs	-2.3%
National income tax	Flat 6% rate	5.6%
Total		-4.1%