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PIKETTY'S INEQUALITY STORY IN SIX CHARTS

By John Cassidy March 26, 2014

In this week's magazine, I've got a lengthy piece about "Capital in the Twenty-first Century," a new book about rising inequality by Thomas Piketty, a French economist, that is sparking a lot of comment and debate. (Brad DeLong has a useful summary of some early reviews.) I'll go further into that discussion in future posts, but first I thought it might be useful to portray the gist of Piketty's story in a series of charts.

The charts aren't merely illustrative: they are an essential part of Piketty's contribution. Fifteen or twenty years ago, debates about inequality tended to be cast in terms of clever but complicated statistics, such as the Gini coefficient and the Theil entropy index, which attempted to reduce the entire income distribution to a single number. One thing that Piketty and his colleagues Emmanuel Saez and Anthony Atkinson have done is to popularize the use of simple charts that are easier to understand. In particular, they present pictures showing the shares of over-all income and wealth taken by various groups over time, including the top decile of the income distribution and the top percentile (respectively, the top ten per cent and those we call "the one per cent").

The Piketty group didn't invent this way of looking at things. Other economists, such as Ed Wolff, of New York University, and Jared Bernstein and Larry Mishel, the creators of the invaluable State of Working America series, have long used similar charts and tables in their publications. But partly by using new sources of data, such as individual tax records, and partly by expanding the research to other countries, Piketty and his colleagues have deployed their charts to reshape the entire inequality debate.

For a long time, that debate was almost entirely focussed on what was happening to median incomes. That inevitably led to discussions of globalization, skill-biased technical change, and policies focussed on education and retraining. Now, thanks to Piketty et al., the remarkable gains of those at the very top can't be avoided. And this means that the issues of politics and redistribution can't be avoided either.

The first chart is a simple one, and it concerns the United States alone. It tracks the share of over-all income taken by the top ten per cent of households from 1910 to 2010. Broadly speaking, it's centered on a U shape. Inequality climbed steeply in the Roaring Twenties, and then fell sharply in the decade and a half following the Great Crash of October, 1929. From the mid-forties to the mid-seventies, it stayed pretty stable, and then it took off, eventually topping the 1928 level in 2007. (The chart shows the share of the top decile falling back a bit after the financial crisis of 2007 to 2008. New figures for 2012 from Saez, which came out too late to be included in Piketty's book, show the line hitting another new high, of more than fifty per cent.)

The second chart shows the share of income taken by the one per cent over the same period, and the teal line, which includes income of all kinds, has the same U shape. (Once again, the 2012 figures, which aren't included, show another step up.) The top percentile hasn't taken such a large share of over-all income since 1928. Interestingly, the recent rise in its share is a bit less dramatic when the analysis is confined to wage income. The difference between the bottom line (wage income) and the top line (total income) is accounted for by income from capital—dividends, interest payments, and capital gains. Because they own a lot of wealth, the one-per-centers receive a lot of their income in this form.

Chart Three expands the analysis to what Piketty calls other "Anglo-Saxon countries"— Australia, Canada, and the United Kingdom—and it confirms that rising inequality is a global phenomenon. Since 1980, the share of over-all income going to the one per cent has risen sharply in those three nations, too. However, the United States still comes out as the winner of the inequality race. That's perhaps not too surprising: we tend to think of the United States as a very unequal country, but it's worth noting that this perception wasn't always accurate. The chart shows that, ninety years ago, the United States and Canada had roughly the same amount of inequality, according to this measure, while the United Kingdom was a markedly less equitable place. Today, though, the U.S. has few challengers. Even in terms of income generated by work, Piketty notes, the level of inequality in the United States is "probably higher than in any other society at any time in the past, anywhere in the world."

Chart Four shows what's been happening in six developing countries: Argentina, China, Colombia, India, Indonesia, and South Africa. Once again, we see the familiar U shape: during the past few decades, more and more income has been accumulating at the top. In most of these countries, however, the share taken by the one per cent is quite a bit lower than it is in the United States. The one exception is Colombia, where the figures are broadly comparable. (Compare Chart Four to Chart Two.) It barely needs noting that Argentina, Indonesia, and South Africa are highly stratified and grossly inequitable nations. But, according to this measure, anyway, they have less inequality than the United States does. Despite the recent growth of a big-spending nouveau-riche class, the same is true of China.

The fifth chart switches the attention from income to wealth, and it takes a long-term perspective. For much of the nineteenth and twentieth centuries, the class-bound societies of Western Europe were dominated by a landed and monied elite that owned much of the land and the wealth. The United States had rich and poor, too, but the wealth was still spread around a bit more widely. In 1910, for example, the one per cent in Europe owned about sixty-five per cent of all wealth; in the United States, the figure was forty-five per cent.

In recent decades, the roles have been reversed. The U.S. monied elite has outstripped its counterpart on the other side of the Atlantic, and wealth has become even more concentrated in the United States than it is in Europe. In 2010, the American one per cent owned about a third of all the wealth: the European one per cent owned about a quarter. Citing figures like these, Piketty warns that "the New World may be on the verge of becoming the Old Europe of the twenty-first century's globalized economy."

The last chart is a bit different. It concerns Piketty's theory that capitalism has a "central contradiction": when the rate of return on capital exceeds the rate of economic growth, inequality tends to rise. (That's because profits and other types of income from capital tend to grow faster than wage income, which is what most people rely on.) The purple line shows Piketty's estimate of the rate of return on capital at the world level going back to antiquity and forward to 2100. The yellow line shows his estimate of the global growth rate over the same period.

The important point to note is this: setting aside the period from the late nineteenth century to the early twenty-first century, which is roughly what we would call modernity, the growth rate has been below the rate of return, implying steadily rising inequality. The twentieth century, far from representing normality, was a historic exception that is unlikely to be repeated, Piketty argues. In the coming decades, he says, the growth rate will most likely fall back below the rate of return, and the "consequences for the long-term dynamics of the wealth distribution are potentially terrifying."

Piketty's projection is only guesswork, of course. (In my magazine piece, I suggest a couple of ways it could be turn out to be wrong.) But it's based on some serious arguments, and it's got a lot of people talking. Just like the rest of the book.

Charts adapted from the originals in Thomas Piketty's "Capital in the Twenty-first Century."

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