

# Inequality and the Super Rich

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# Some points of departure

- Why care about the rich?
- What do we know about the rich in the distribution?
- Which forces determine their relative position?
- Is there a role for policy?

# Today's three main points

## 1. No single type of "rich" people

- large heterogeneity within top; has implications for policy

## 2. Income and wealth inequality trends not uniform

- but more facts are needed to be certain

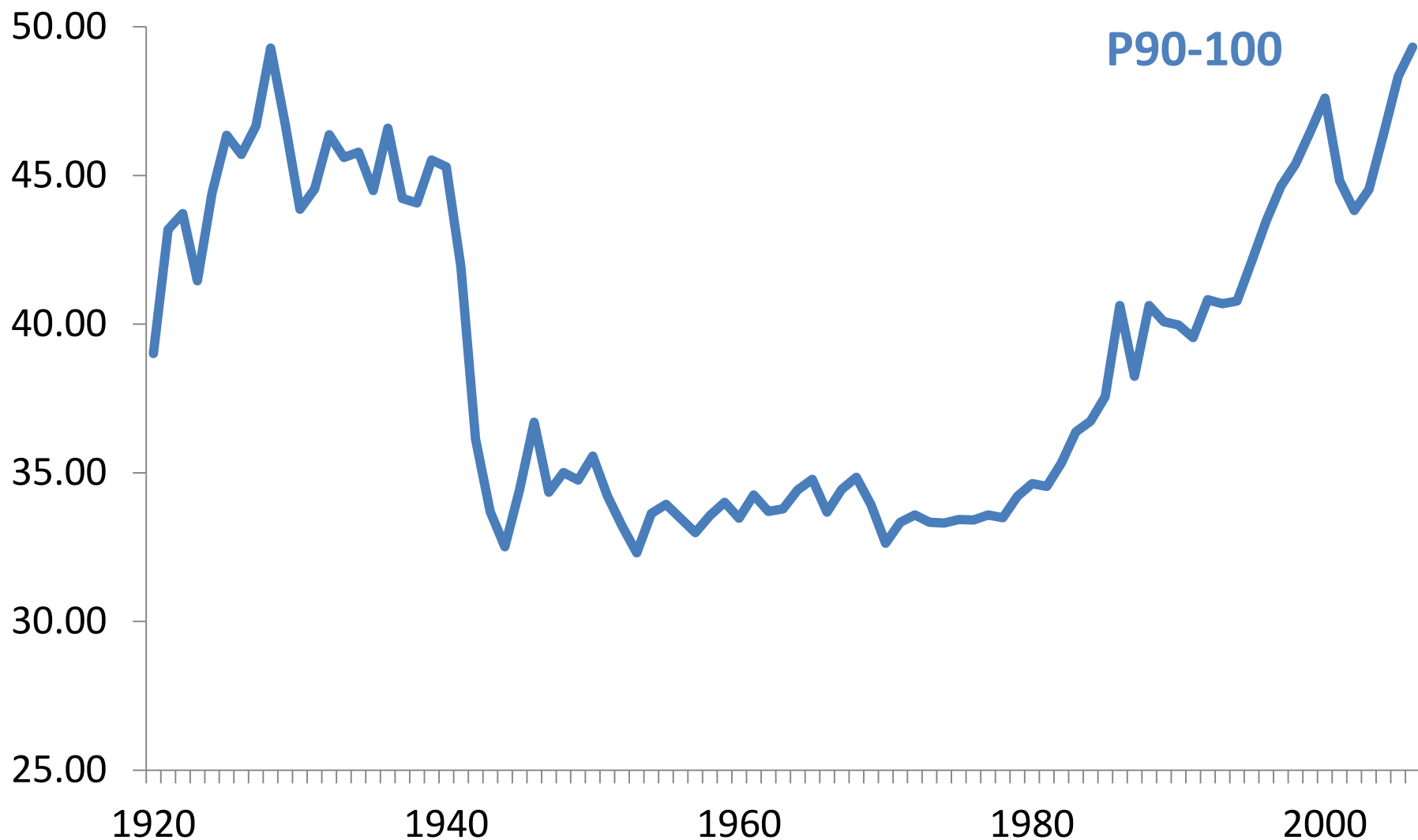
## 3. Political factors at center stage

- most drivers related to institutions rather than "exogenous" market-driven processes

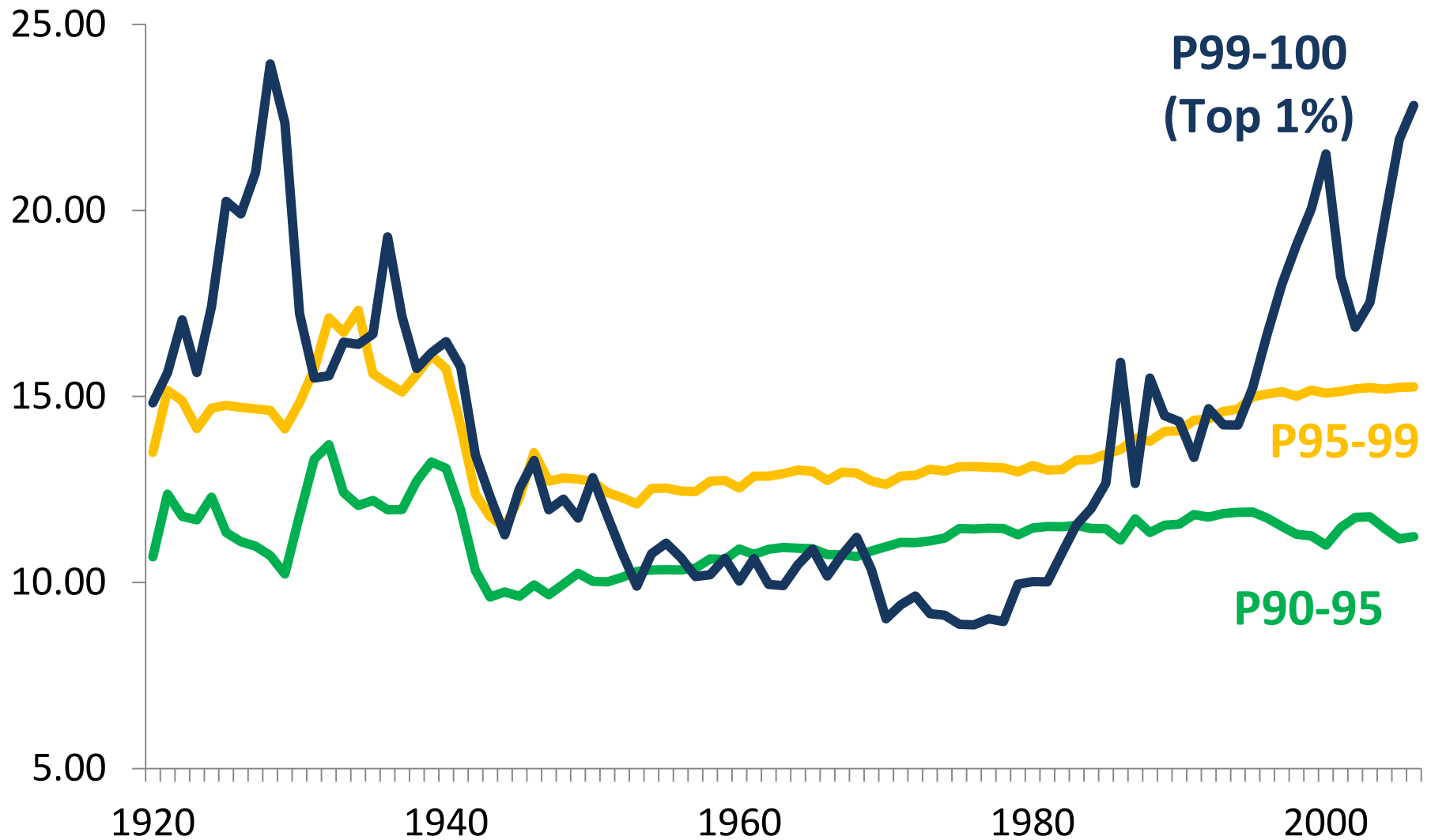
# Quick outline of the talk

1. Main lessons from the research on top incomes
2. New research on wealth concentration
3. What do we know about determinants?

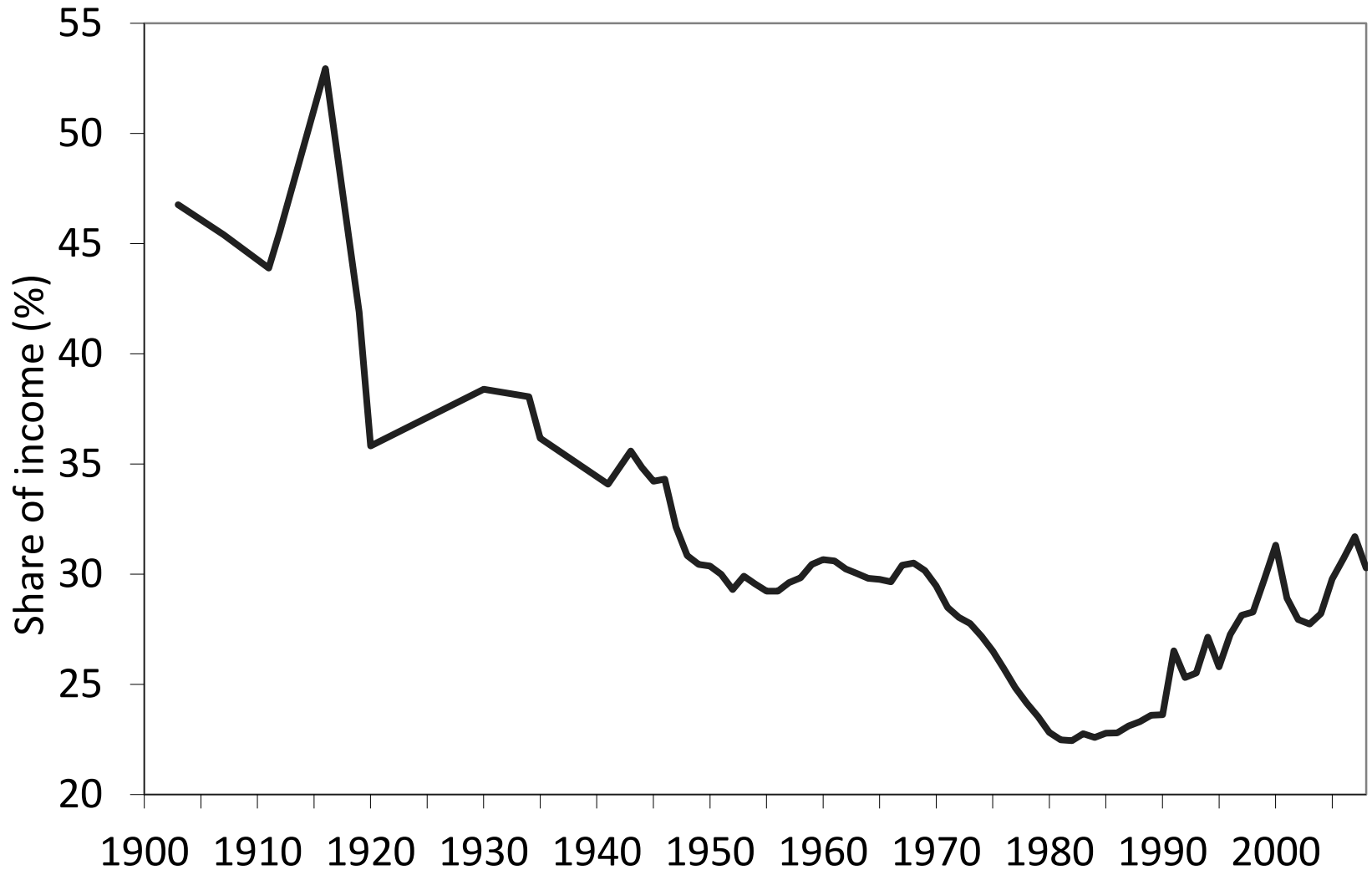
# 1. Top incomes trends: U.S. top decile, 1920-2006



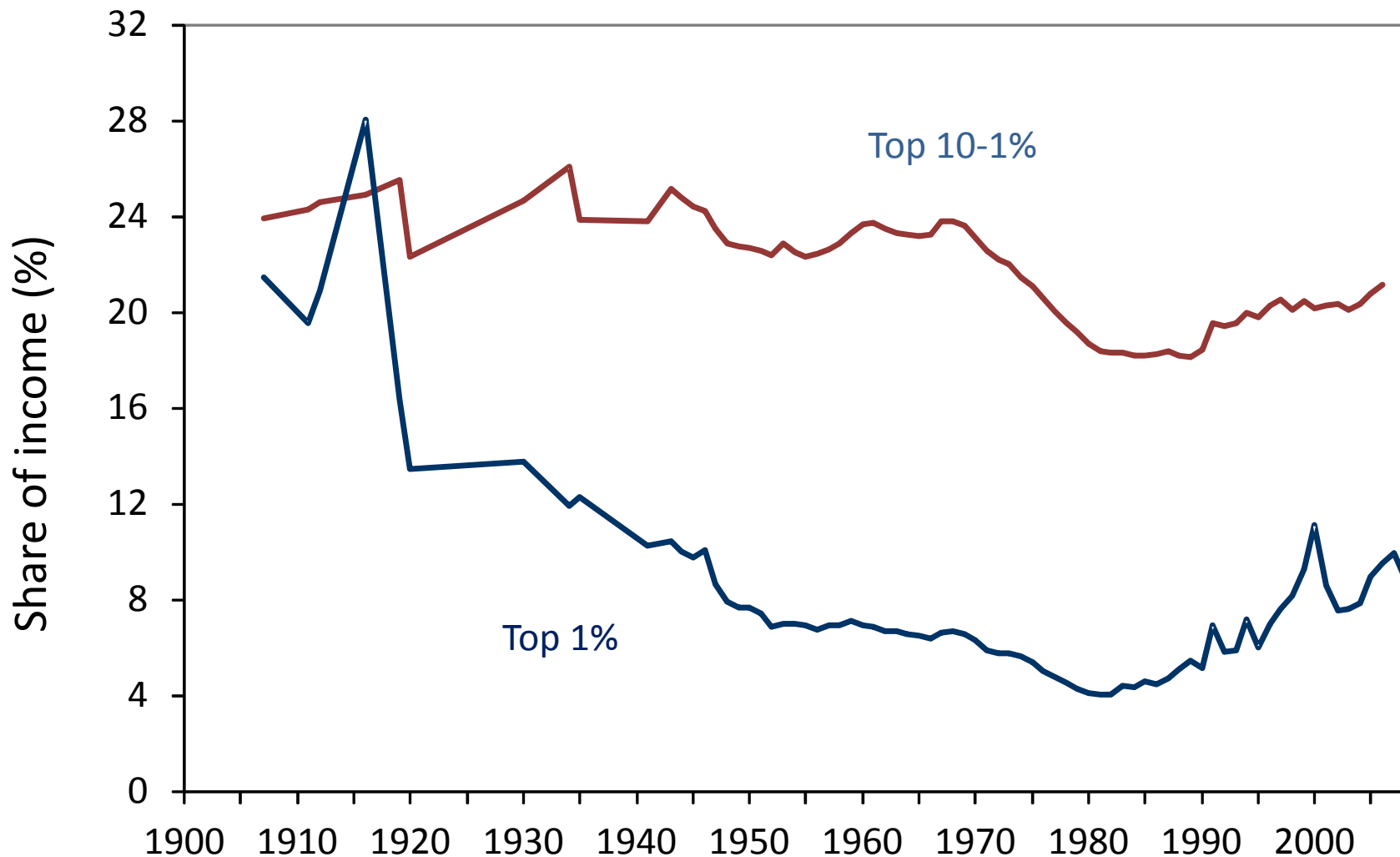
# Differences within the top decile (U.S.)



# Top decile share over time: Sweden



# "Upper Middle Class" (Top10-1%) and "Rich" (Top 1%) in Sweden

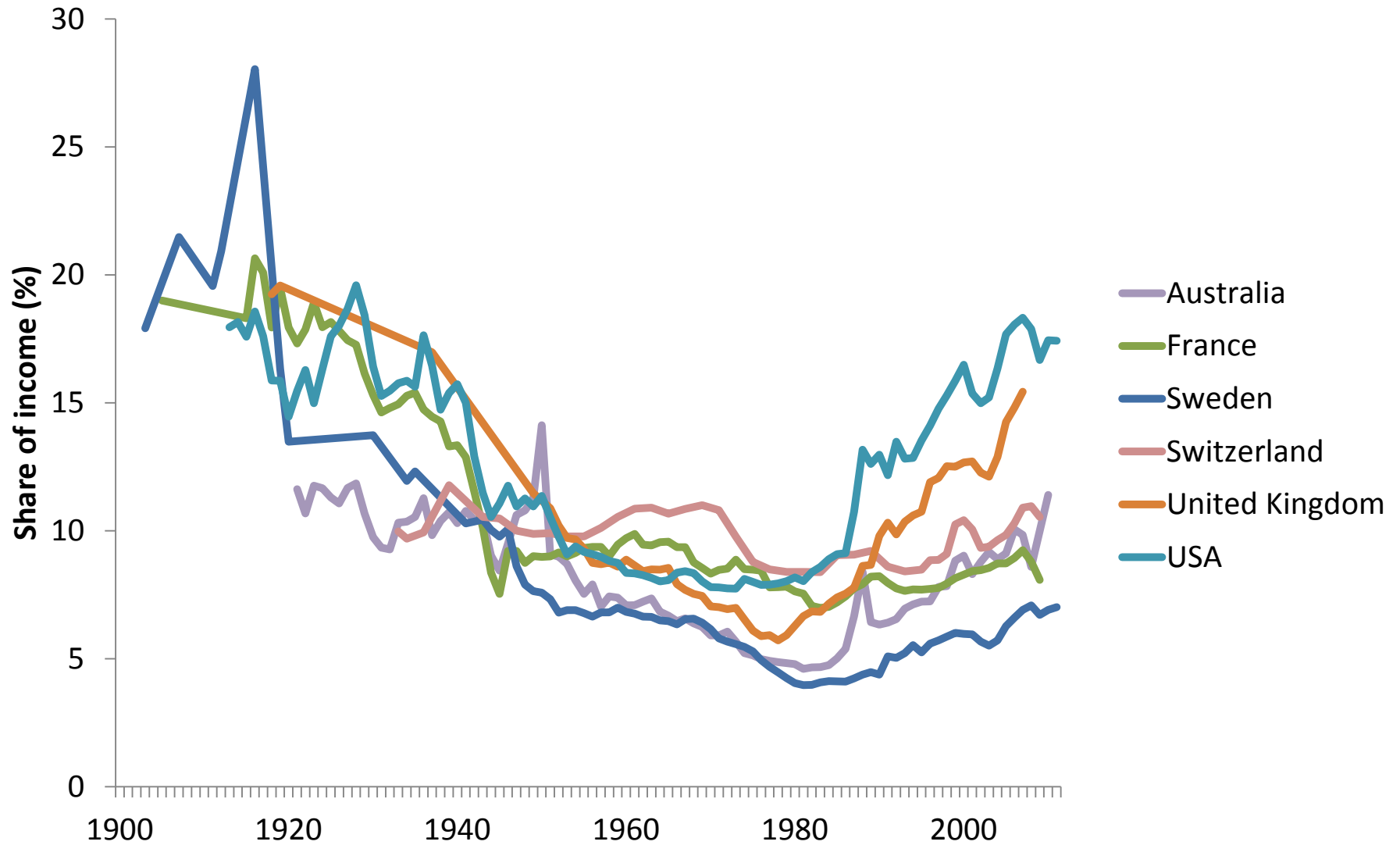


Source: Roine and Waldenström (2008, updates)

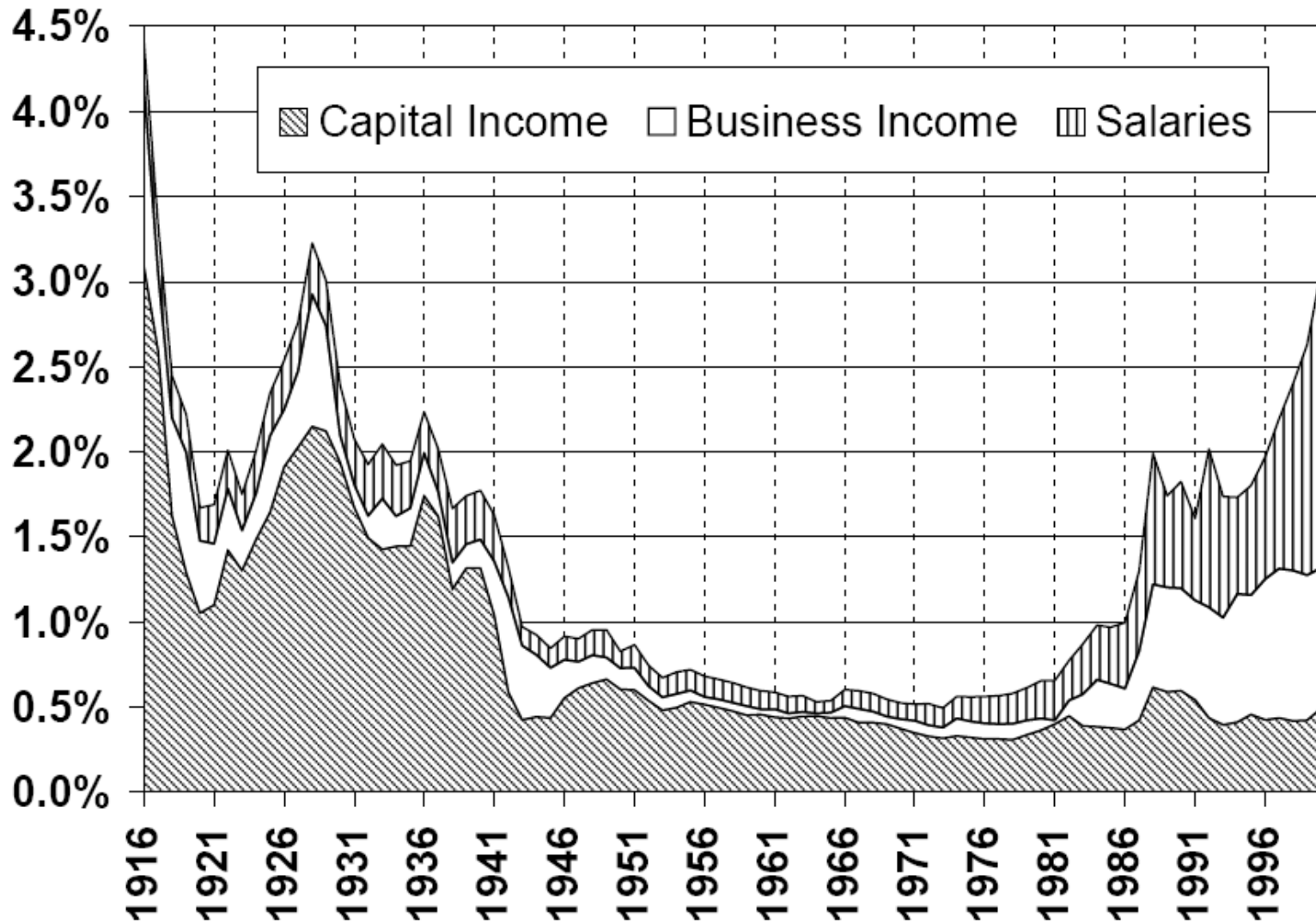
Waldenström: Long-run determinants of inequality



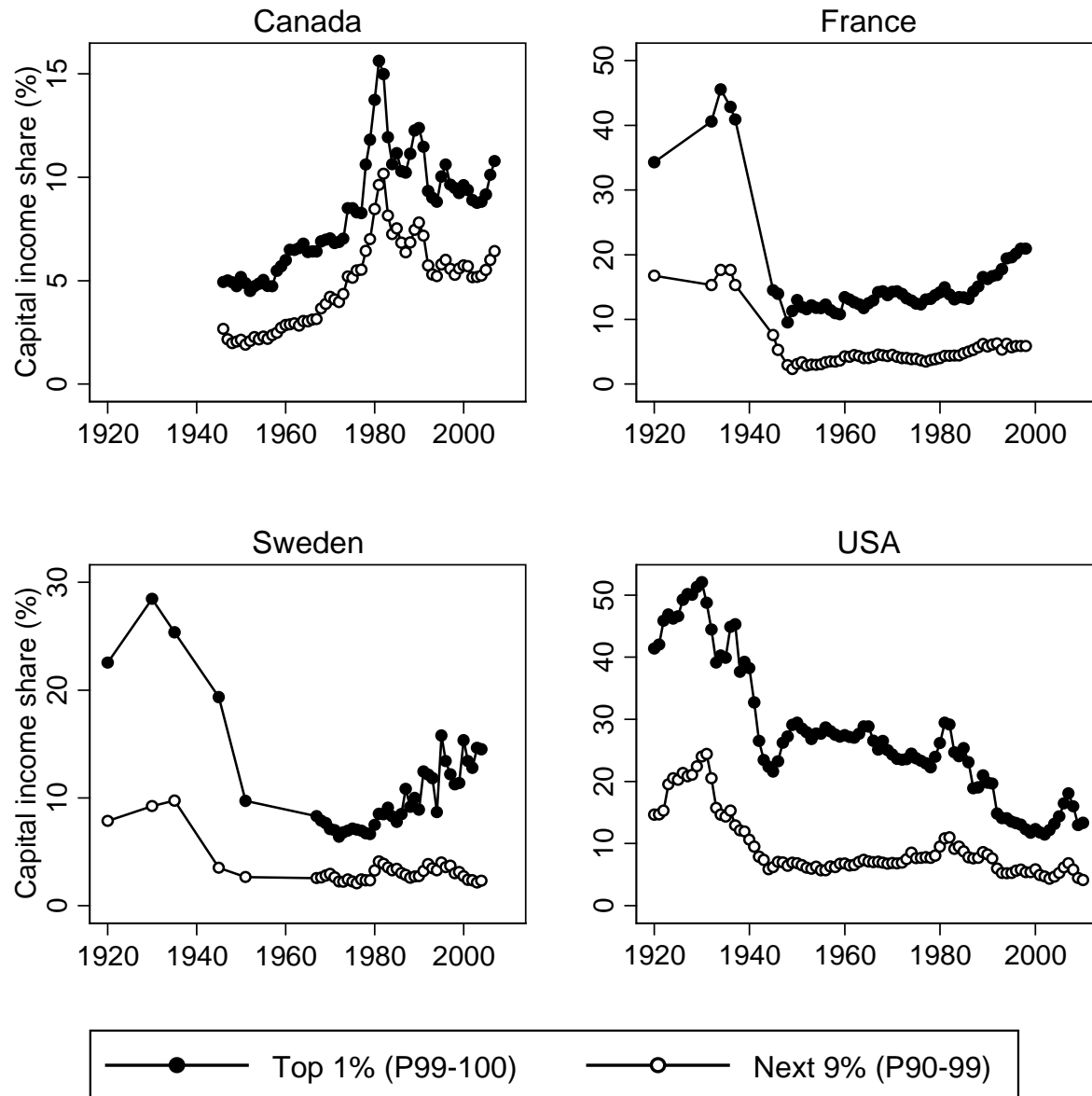
# International evidence on top 1% share



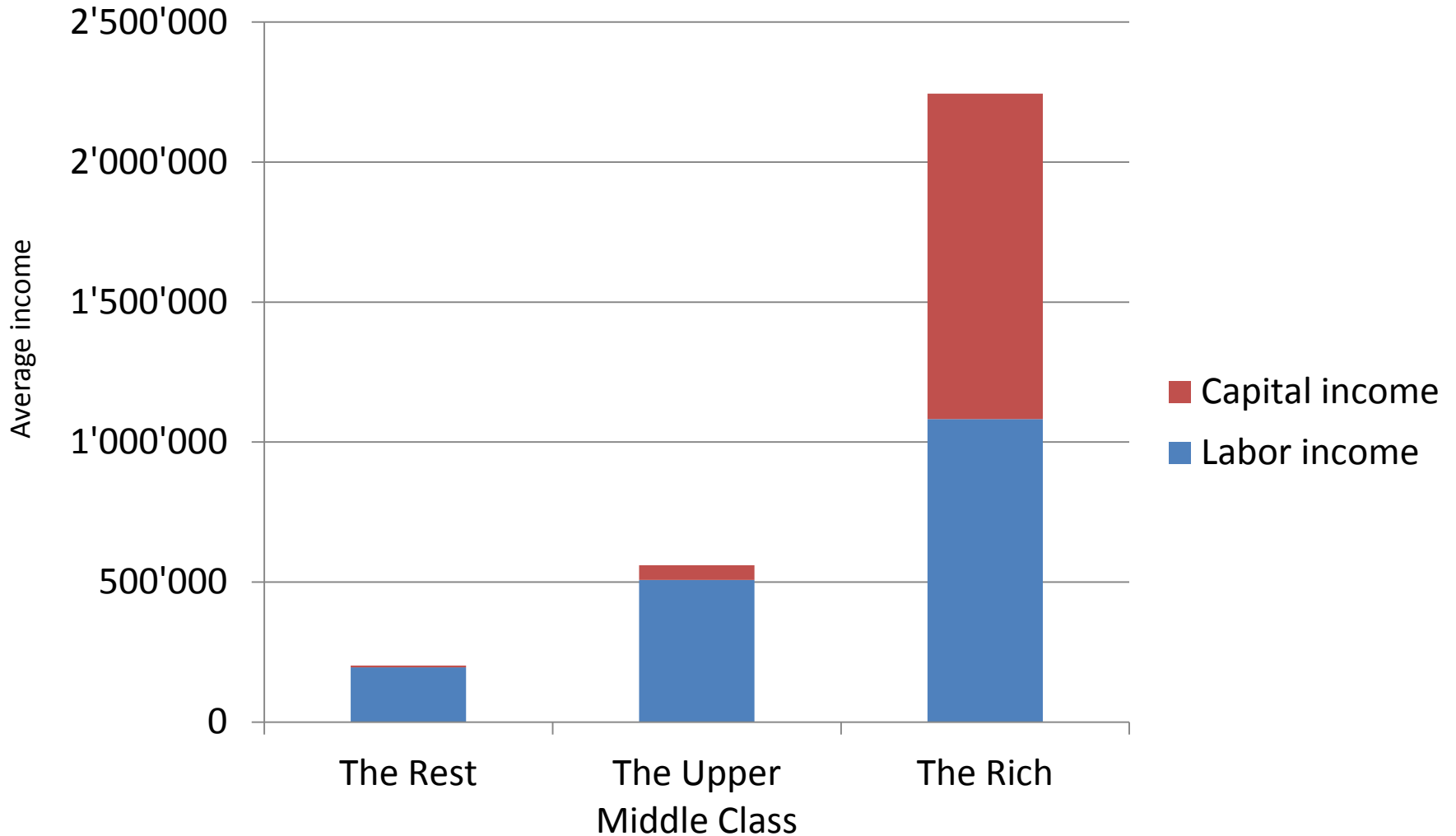
## Composition of US Top 0.01%: From capital to earnings



# Importance of capital income varies



# Differences across groups (Sweden 2008)



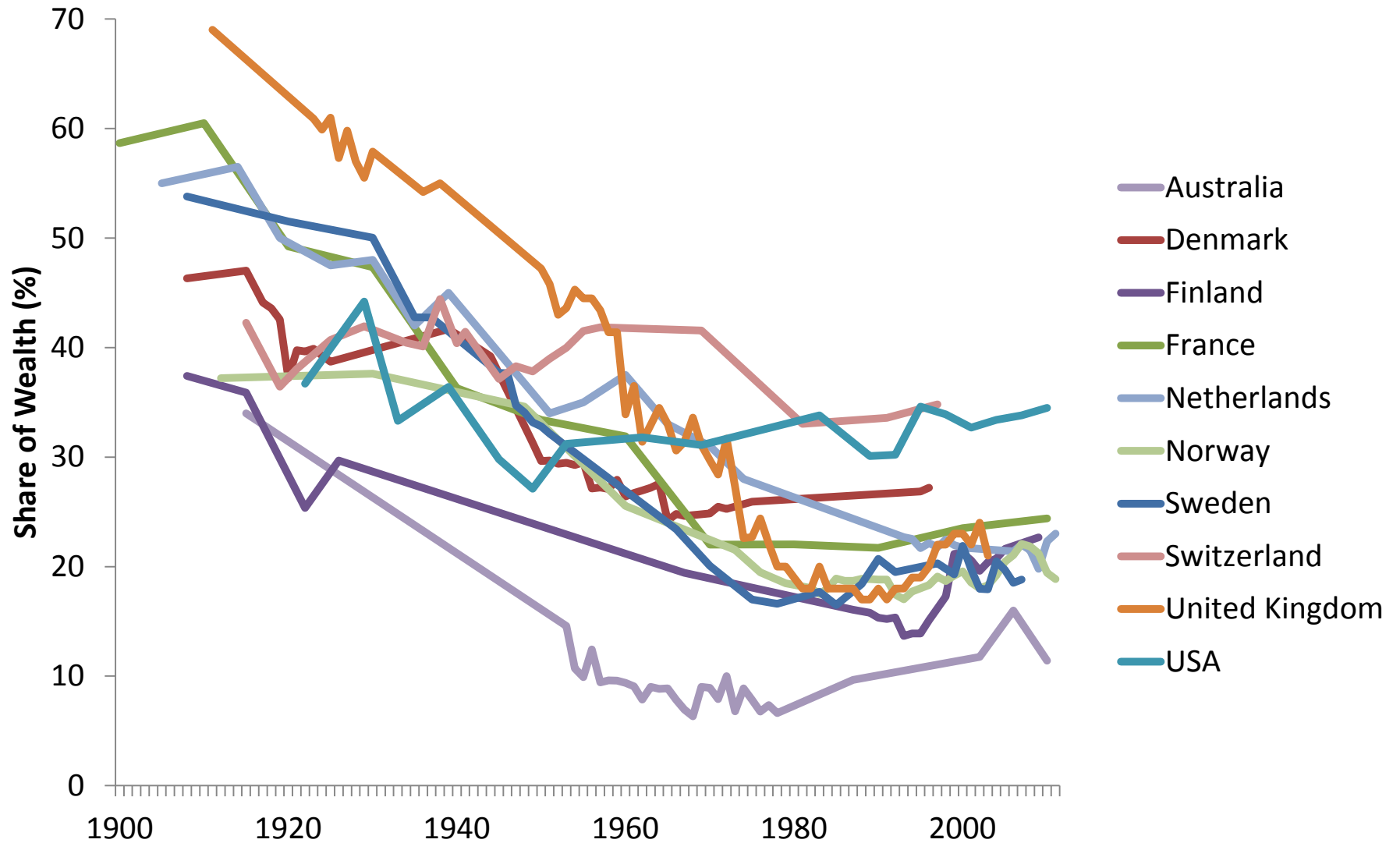
# Summarizing top income

- Increasing inequality since around 1980 in many places, much driven by top incomes (top 1%)
- Large differences within the top
  - In levels, trends and income composition
- In Anglo-Saxon countries mostly reflecting increasing wage inequality.
  - *“Top executives (working rich) have replaced top capital owners (rentiers) at the top of the US income hierarchy... This contrasts with the European patterns where top capital are still predominant in the top...”* (Piketty, 2005)
- But elsewhere, rising capital incomes are more important

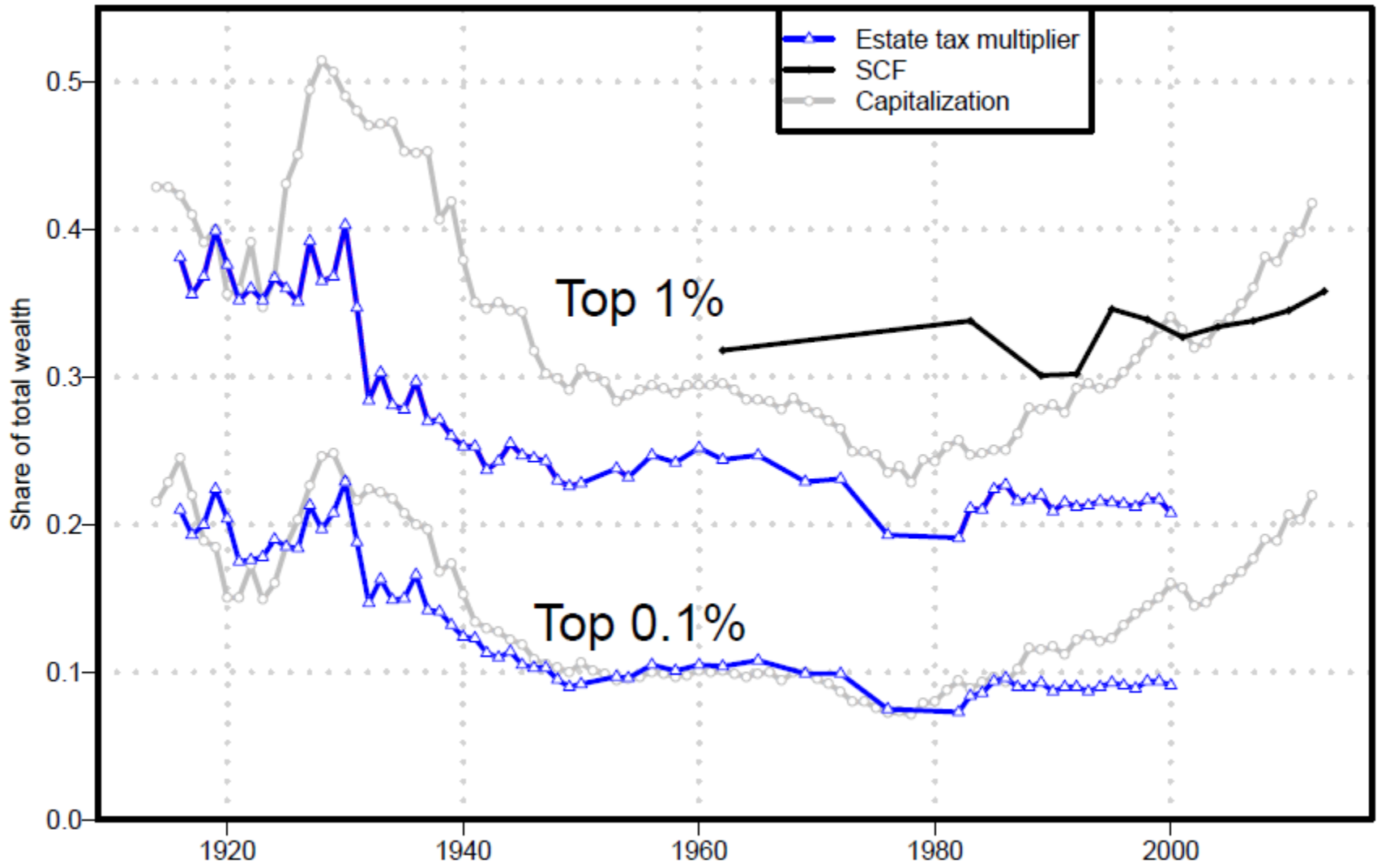
## 2. New research on wealth inequality

- **Wealth inequality is difficult to analyze**
  - Few countries have data
  - Difficult to measure
  - Small-sample problems more important for wealth
- **Missing assets**
  - Pensions
  - Unlisted business equity
  - Offshore wealth
- **Still, wealth very important to understand**
  - Important in itself (insurance, startup capital, power, etc.)
  - Matters for income inequality (capital income)
  - Important for equity (inheritance)

# Trends in wealth inequality



# Has U.S. wealth inequality increased?

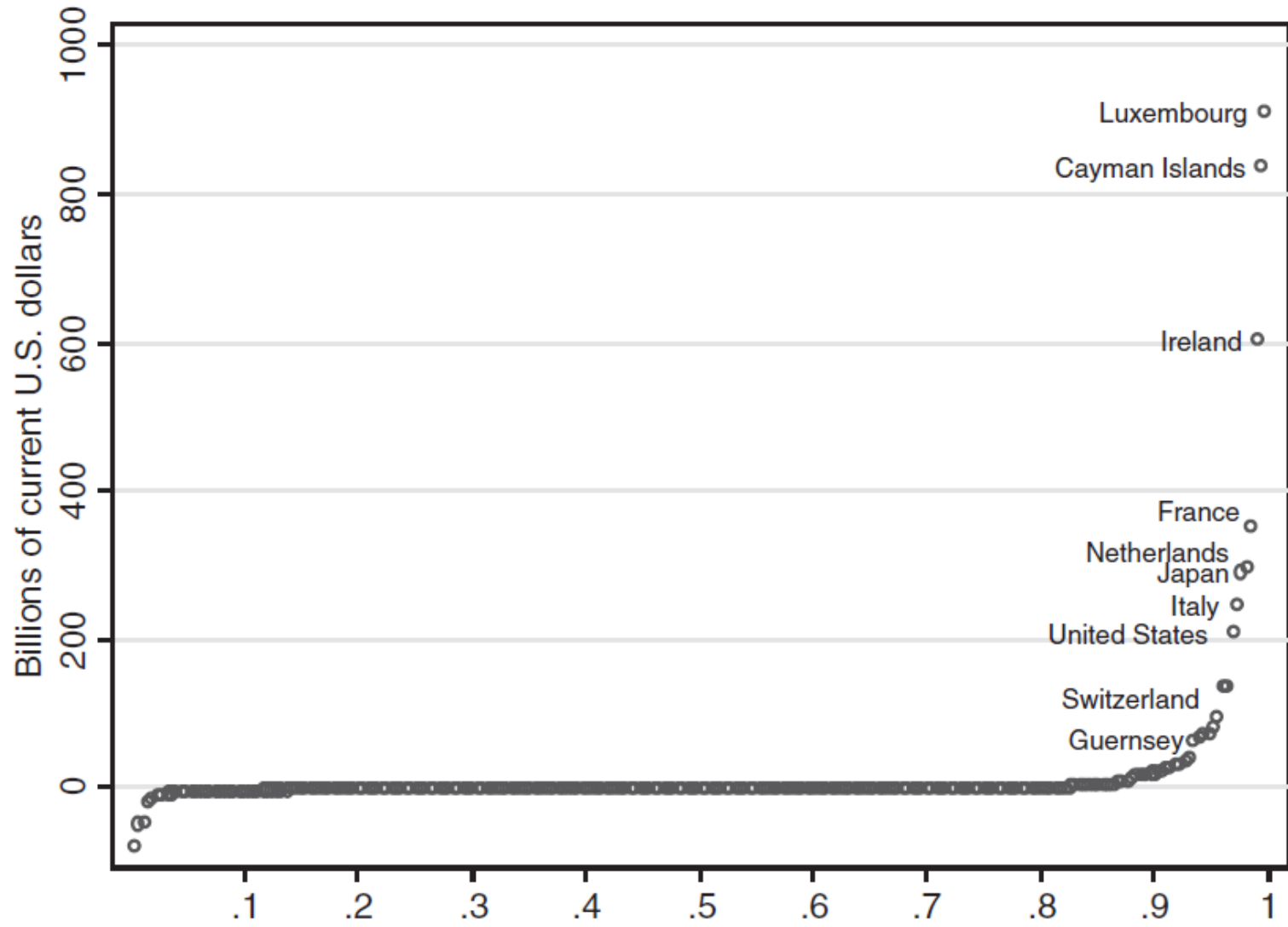




# The role of offshore wealth

- Concern that tax-driven capital flight creates bias
- Difficult to measure
- Increasing evidence on that offshore wealth is sizeable
  - 8% of all financial wealth in tax havens (Zucman, 2013)
- Effect on distributional outcomes?

# Countries ranked by importance of hidden wealth

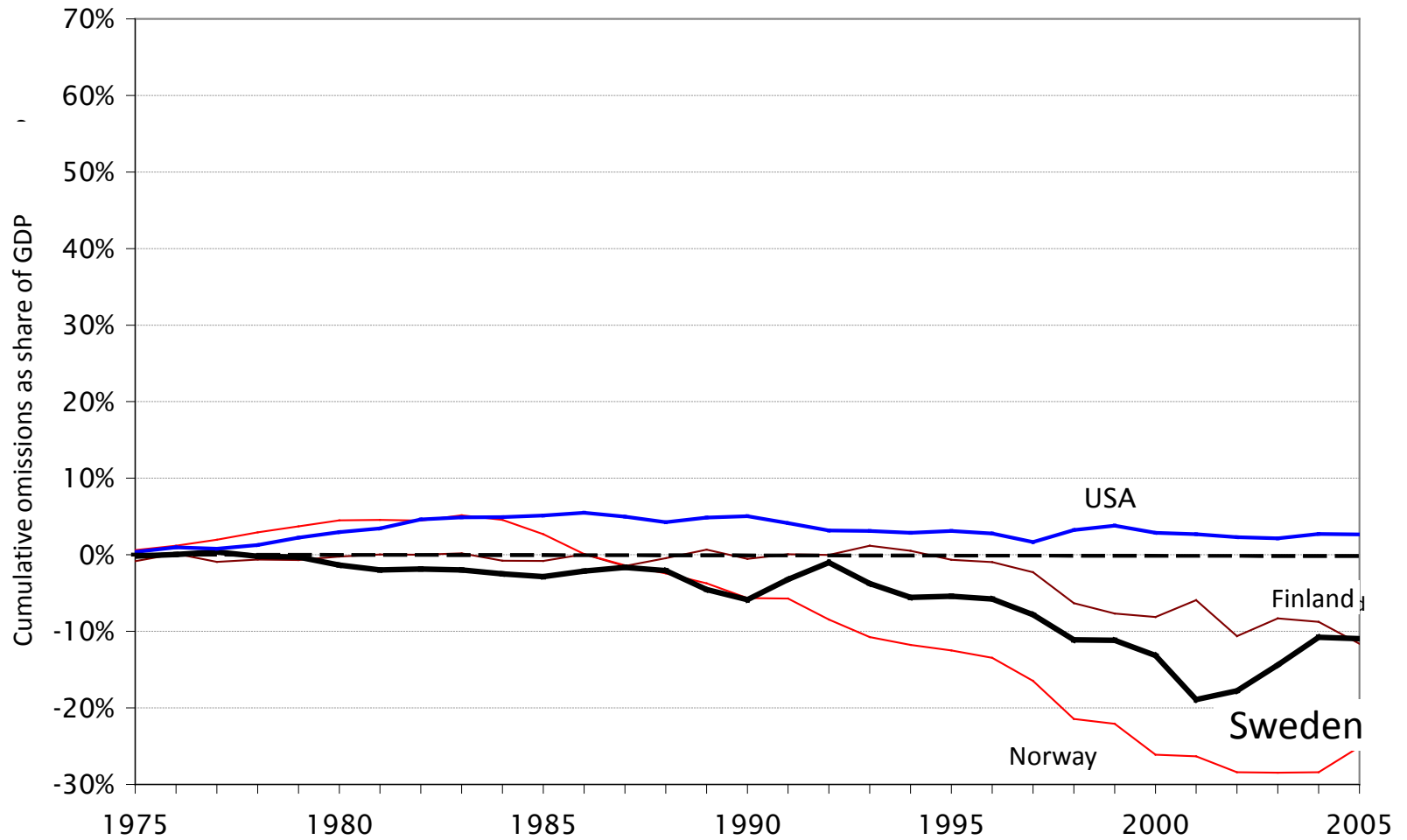


Source: Zucman (2013)

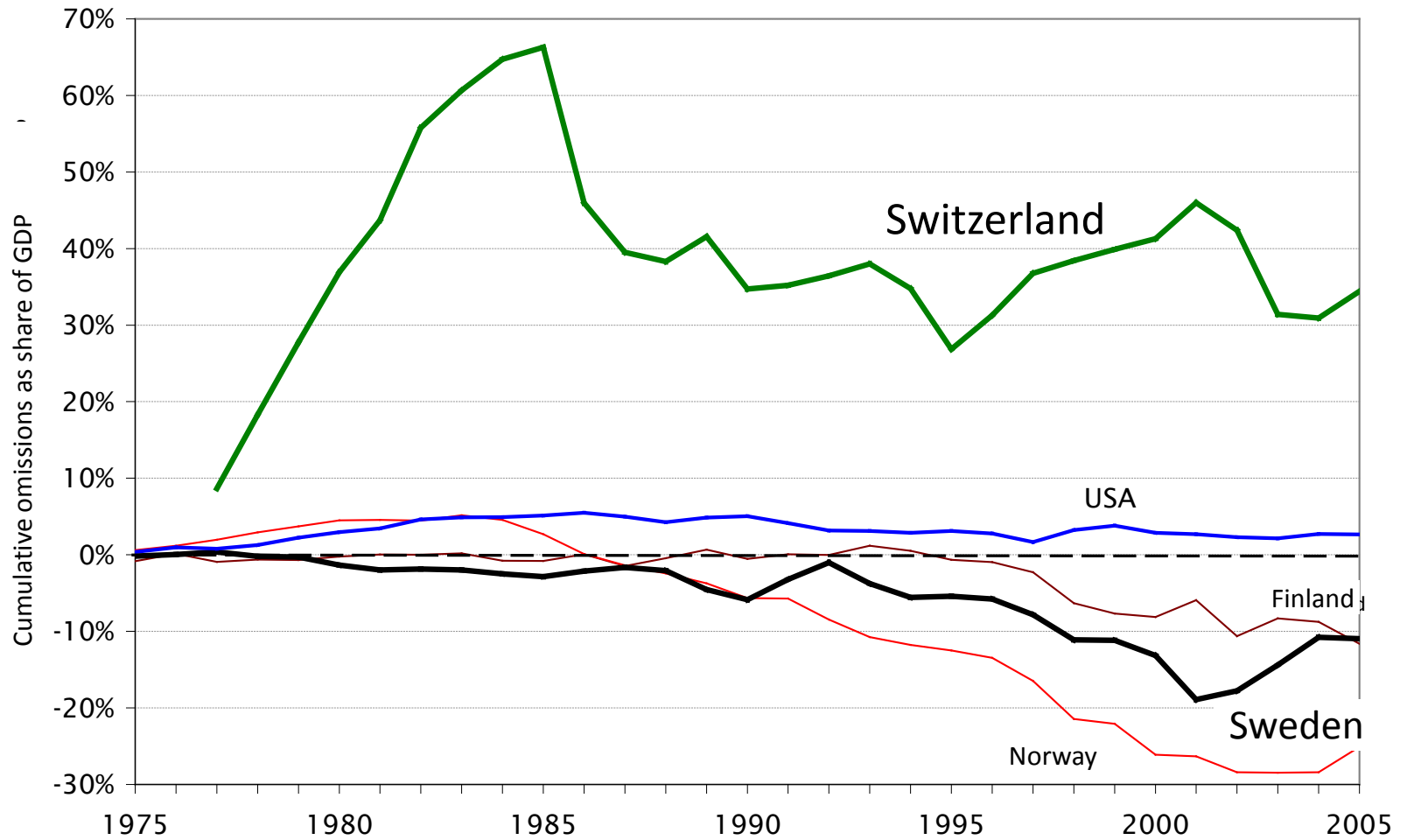
# Offshore capital and wealth inequality

- Does wealth inequality respond to adding offshore wealth?
- The case of Sweden:
  - We add wealth to the top wealth percentile.
- Three additions:
  - 1. Household capital abroad**
    - Cumulated net errors and omissions in the Balance of Payments
  - 2. Super-rich Swedes living in Sweden**
    - Journalistic rich lists since 1983
  - 3. Super-rich Swedes living in other countries**
    - Journalistic rich lists since 1983

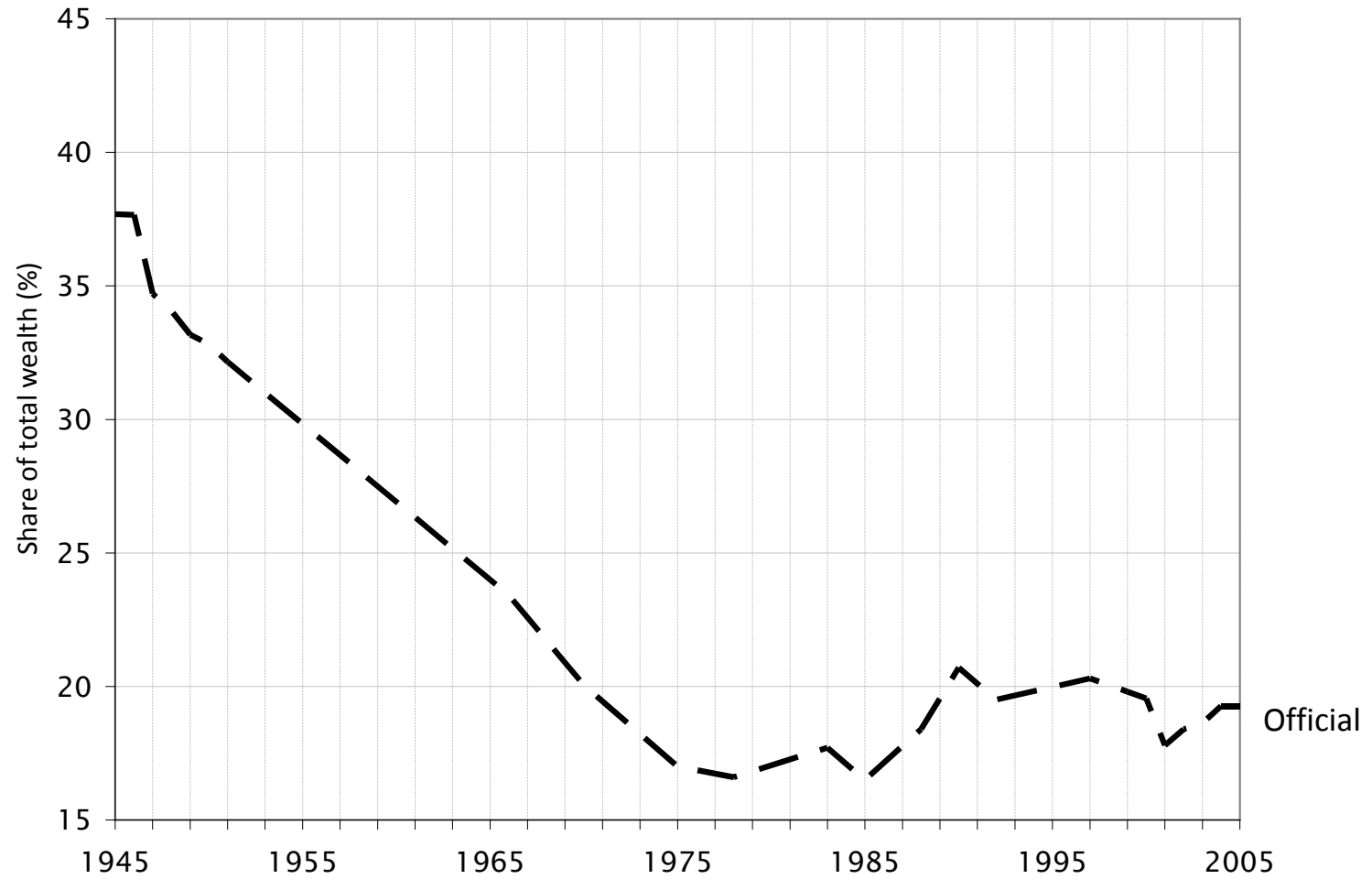
# BoP errors and omissions in different countries



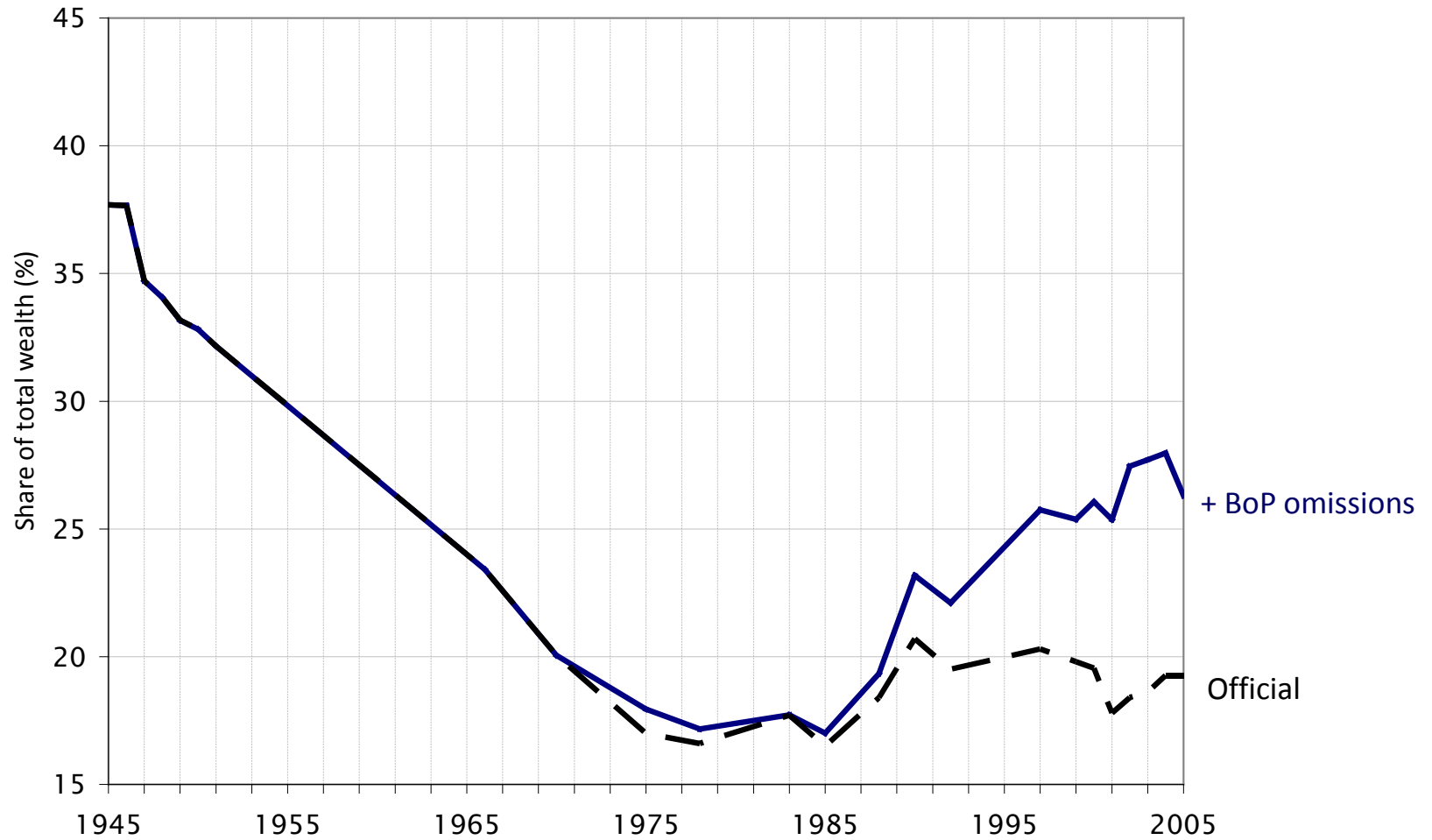
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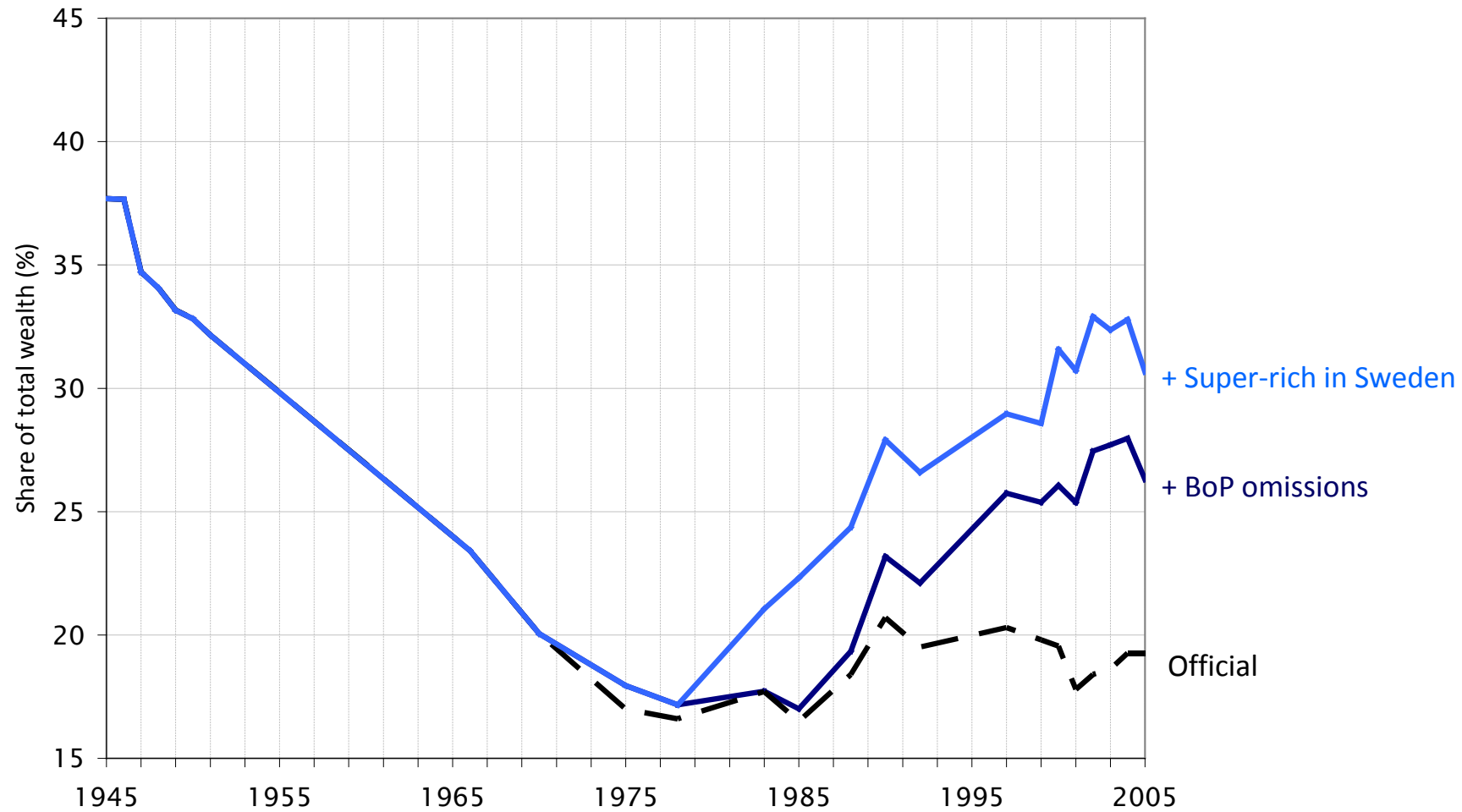
# Top 1% - Officiel series at Statistics Sweden



# Effekt av hushållens utlandskapital

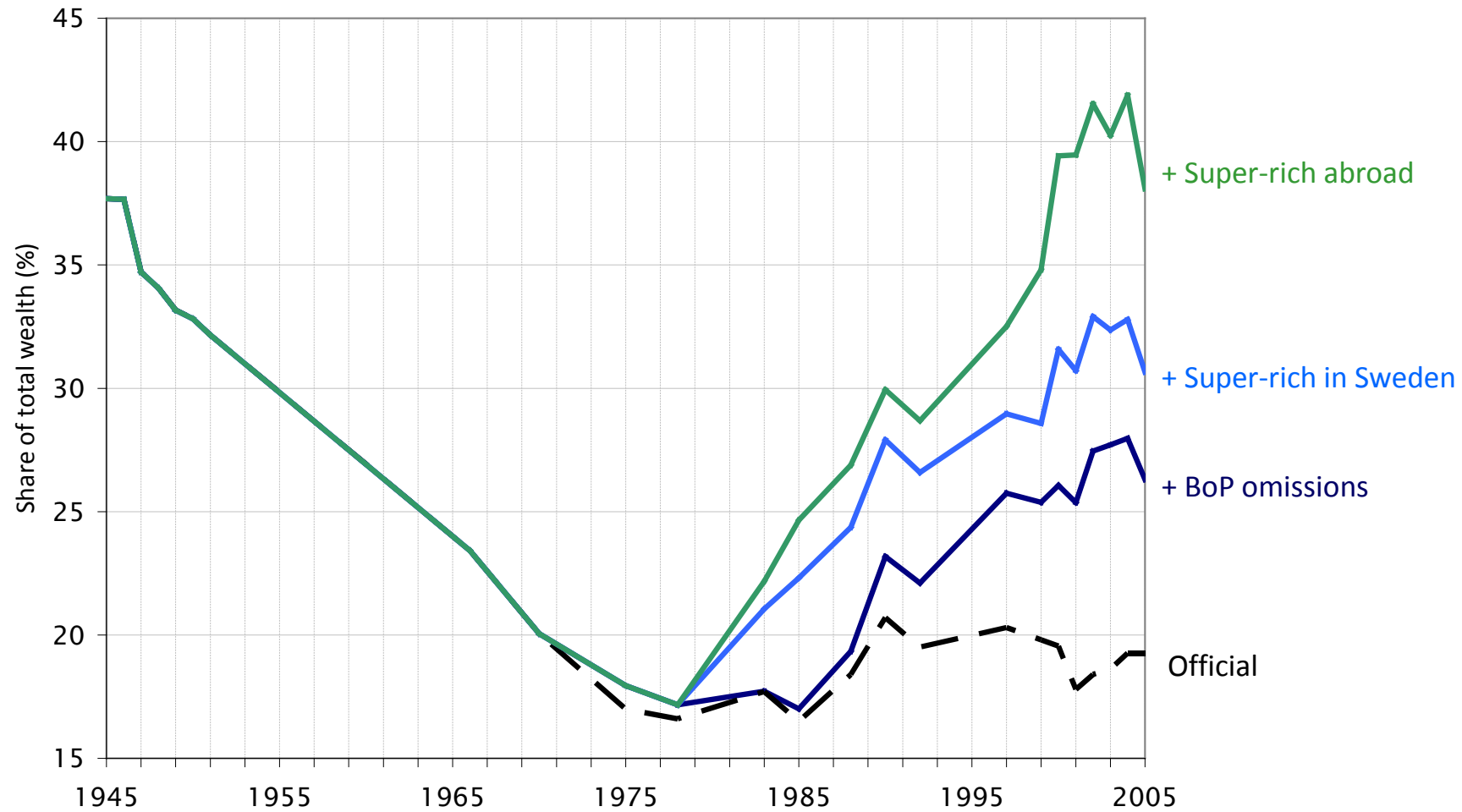


# Effect of adding super-rich Swedes in Sweden

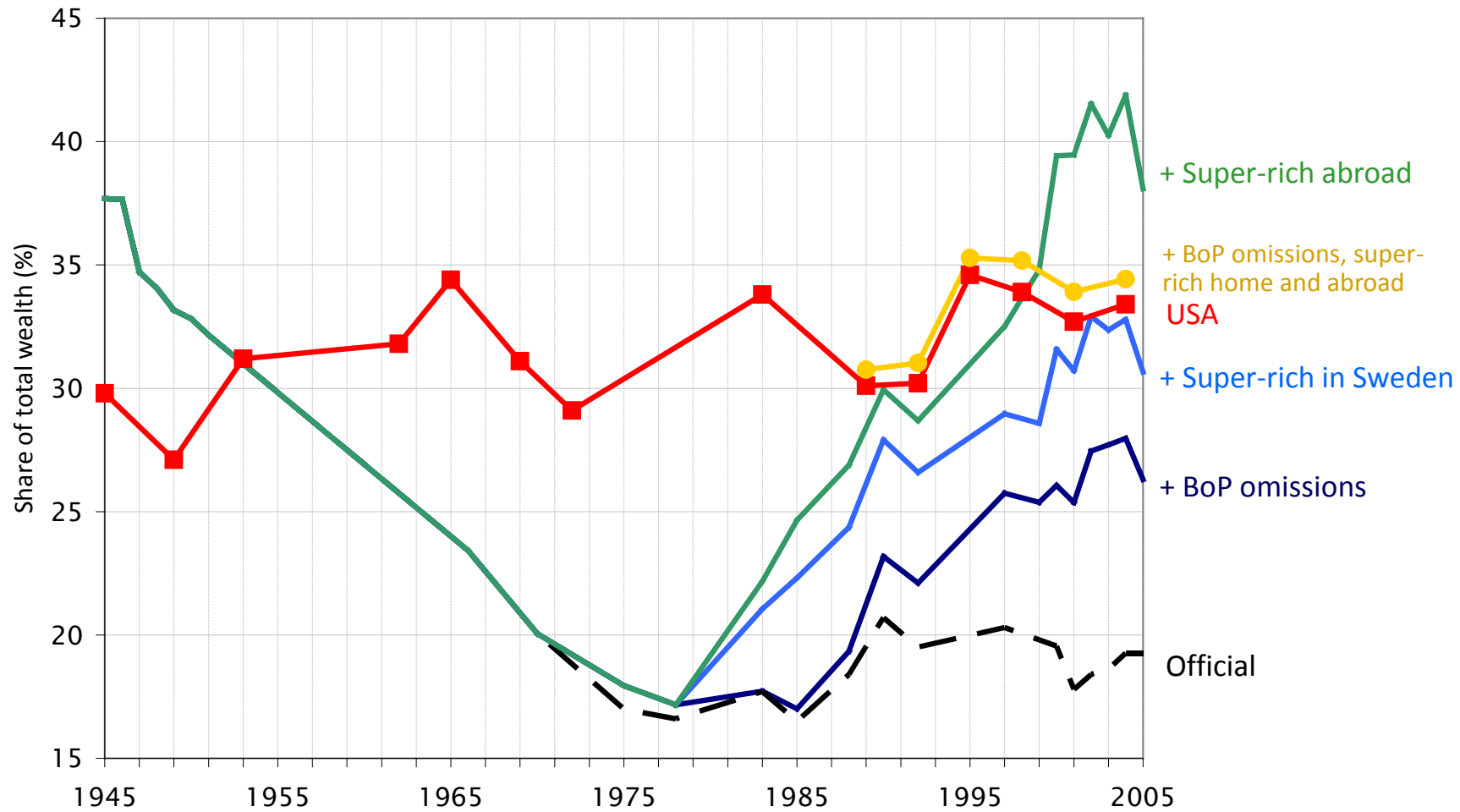




# Effect of adding super-rich Swedes abroad



# Comparing Sweden and USA

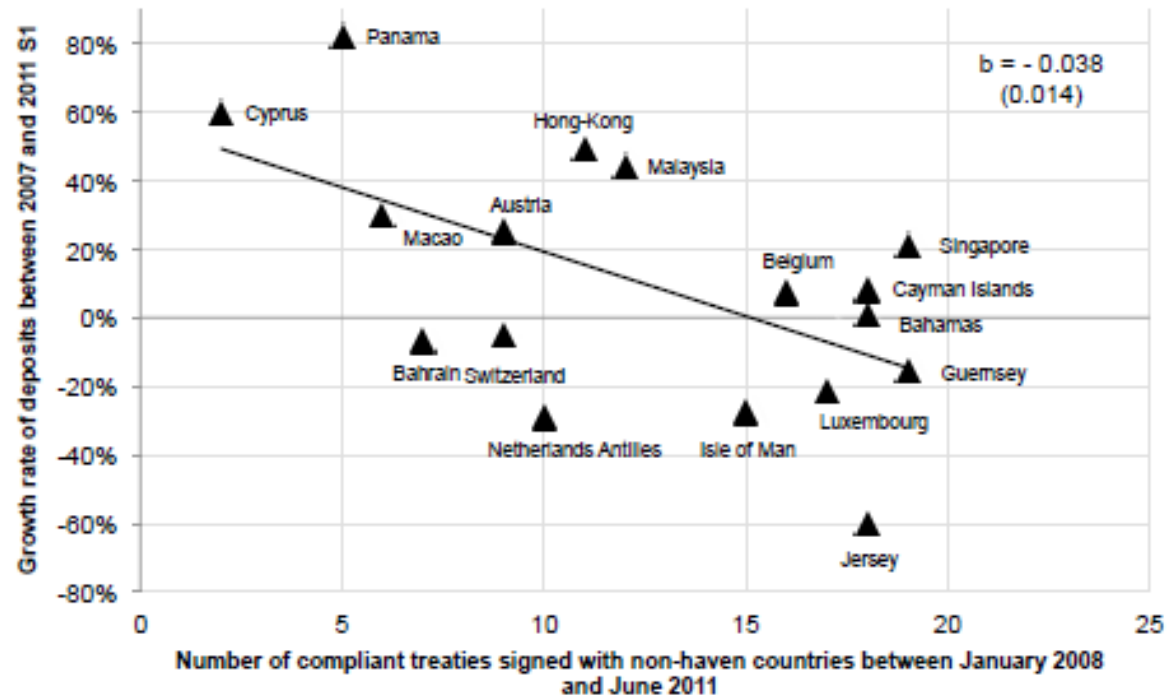


Source: Roine and Waldenström (2009)

# Can policy mitigate the capital flight?

- Difficult for governments to track down offshore wealth
- Information treaties due in 2017-2018 may change matters
- Some evidence on effects by past treaties:

Figure 5: Deposit Growth and Treaty Signature Activity of Tax Havens, 2007-2011

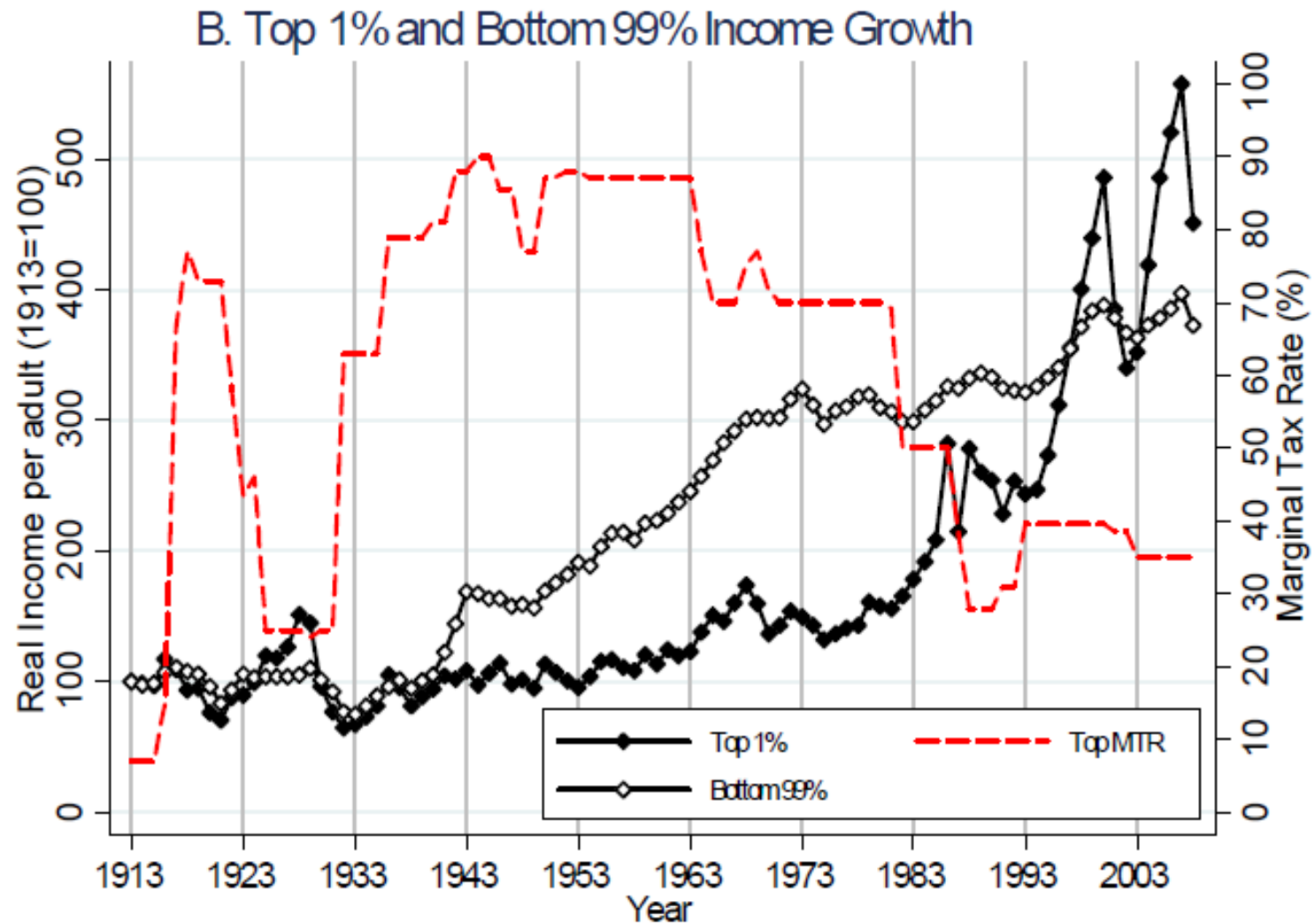


Source: Johannesen and Zucman (2013)

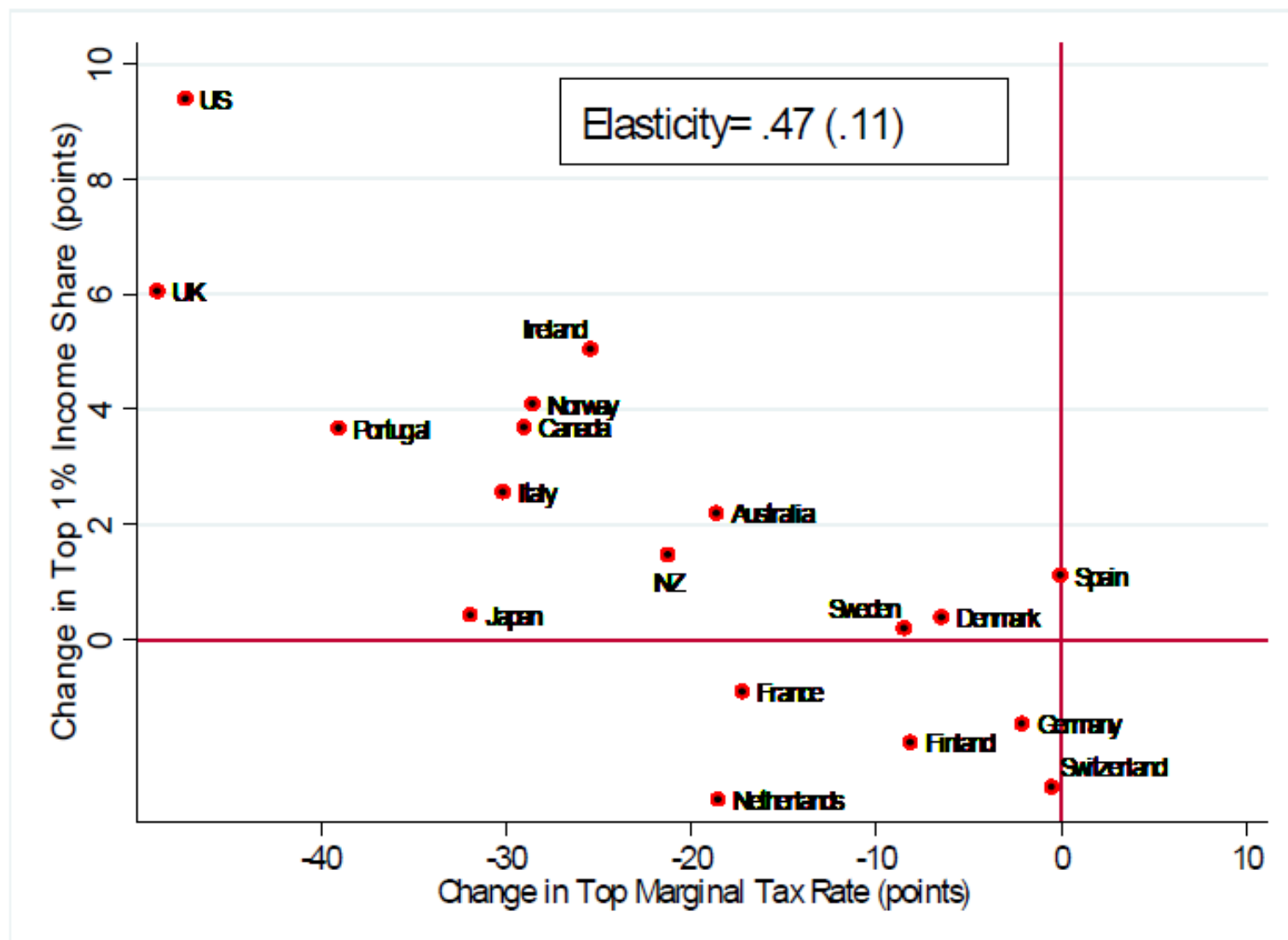
### 3. Determinants of top inequality

- **Market-driven or institutional forces?**
  - technical change
  - globalization
  - financial reform
  - taxation
  - norms
  - more...
- **Difficult to establish causal effects**
- **Two cases:**
  - Top taxes
  - Financial deregulation

# Income growth and top marginal tax rate (U.S.)



# Top 1% income share and top tax rates, 1960-2009



Source: Piketty, Saez and Stantcheva (2014)

# Do top income earners respond to taxation?

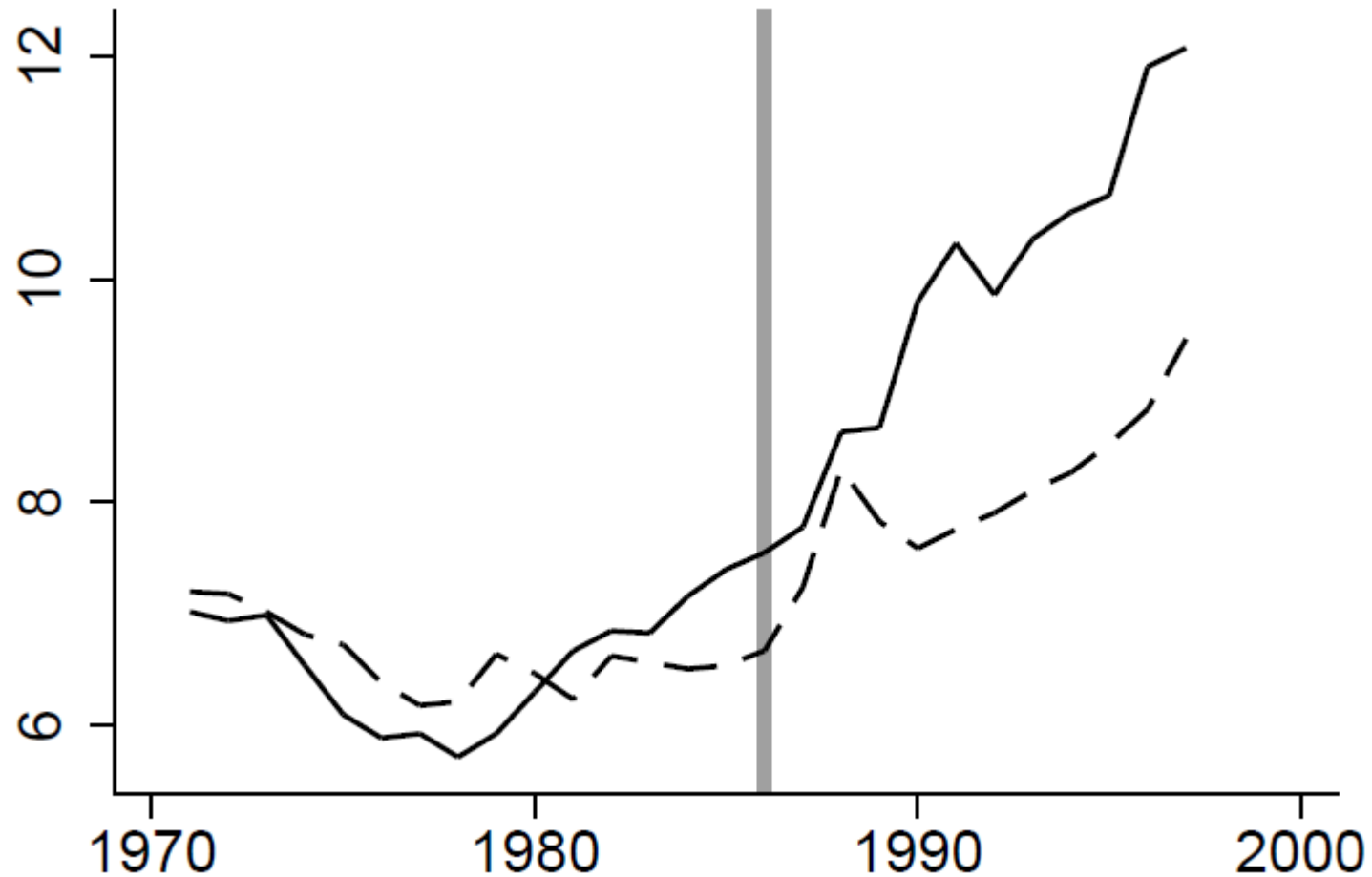
- Results indicate that taxes matter for the very rich
- But not only efficiency-related response
- Three possible responses:
  - Standard labor supply
  - Avoidance and income shifting
  - Compensation bargaining

## **Case 2: Does financial deregulation boost top incomes?**

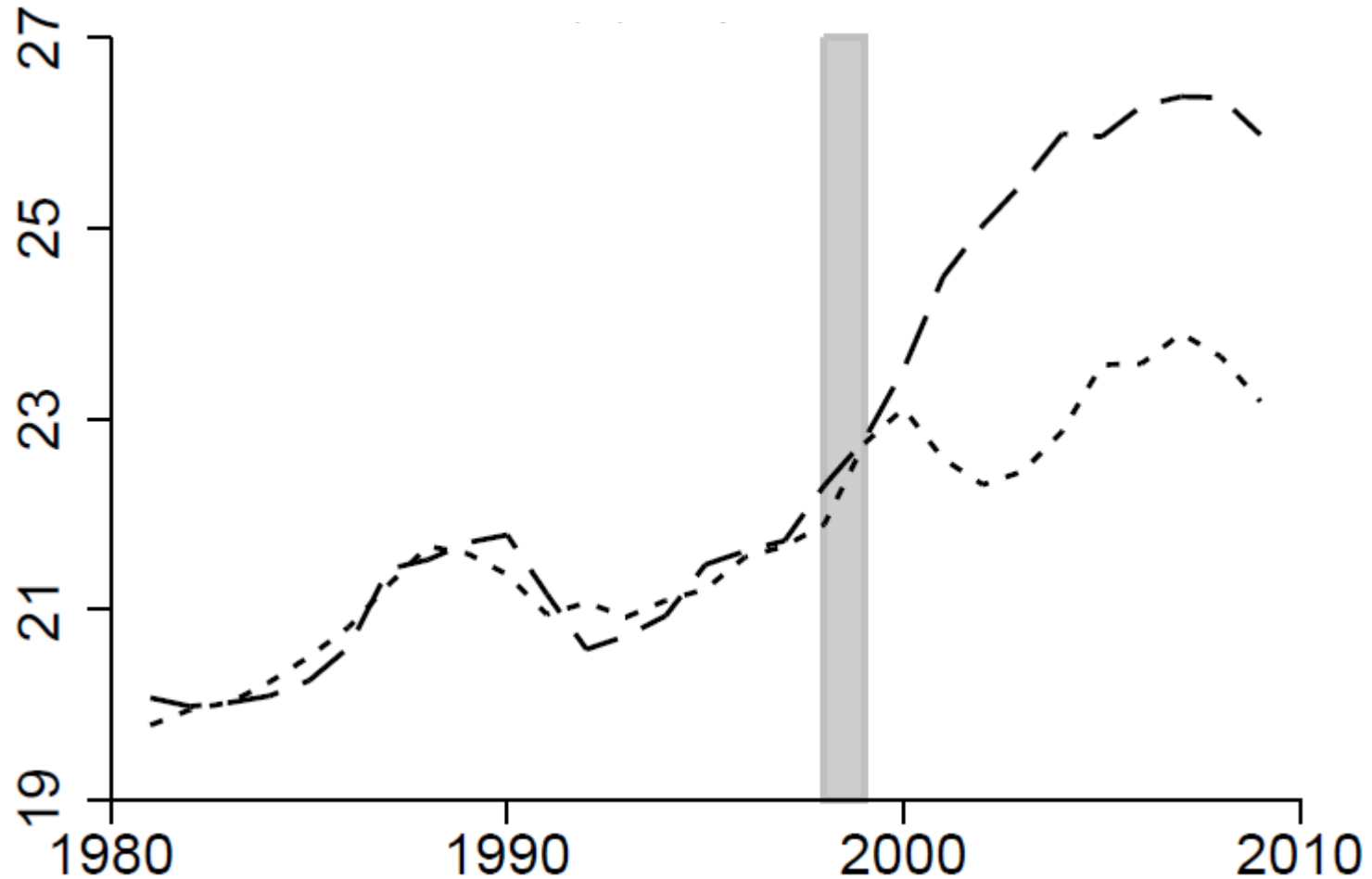
- **New literature on finance and wage dispersion**
  - esp emphasizing the role of institutional change
- **Two major financial deregulations -- Big Bangs**
  - UK/London, 1986
  - Japan, 1997-1999
- **Compare top income shares in these countries with other countries (weighted together, synthetic control group)**
- **Main finding: Deregulations increased top income shares by 20% in the UK and 10% in Japan**



## UK Big Bang 1986 and top income shares



# Japanese Big Bang and top income shares



# 5. Conclusions

## 1. "The rich" are very heterogeneous

- High-paid employees, wealthy "rentiers", self-made entrepreneurs, inheritors
- Variation across countries and over time
- Different implications for policy

## 2. Inequality trends differ for income and wealth

- Income inequality has increased significantly over past decades (from "global low" around 1980)
- Wealth inequality has been more stable (or?)

## 3. Political factors are key

- Taxes: lower rates (esp. on capital), less progressivity
- Market deregulation, liberalization