

Global Inequality & Growth:

Public vs Private Wealth

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Last lecture

- Labor institutions crucial in forming wage inequality
- Market power largely determined by political decisions → antitrust laws, laws on revolving door & lobbying, campaign finance laws
- Minimum wage: key local policy issue
- Unions work very differently across countries – some with greater success than others
- Changes in labor law and contract law can empower workers to take action against employers and to assert their interests

This lecture: private vs public wealth



Purpose of today

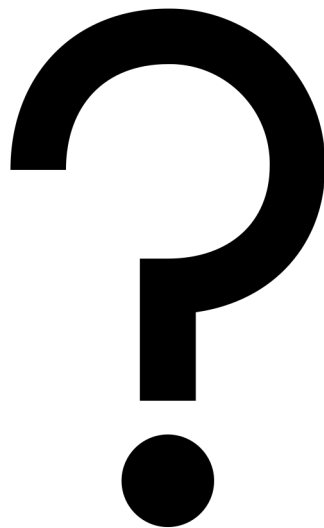
- We've seen what can explain changes in labor income inequality
- Now we turn to the capital side of inequality: wealth W and capital income $Y_K = r \times W \dots$
- ... beginning with wealth!

Roadmap

- What fraction of total wealth is public vs. private? What explain differences in size of public wealth?
- How has public wealth developed?
- How is private wealth distributed? (next lecture)

Before we go on – a question:

- Why is wealth concentration amongst a few individuals interesting to study beyond the implications for income inequality?



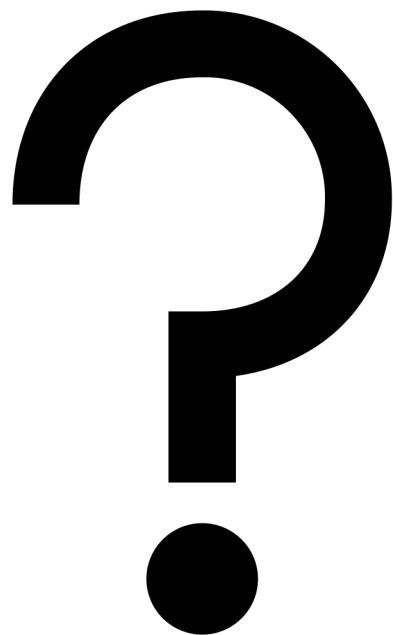
Private vs Public Wealth



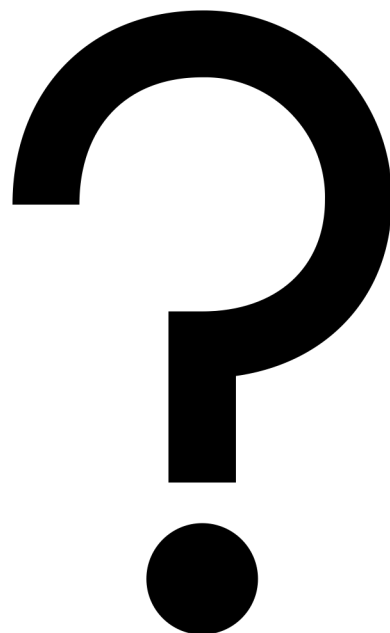
Review of basic definitions:

- National wealth = private wealth + public wealth
- Private wealth = private assets - private debts
- Public wealth = public assets - public debts
- **Key ratio: public wealth / national wealth (can be negative)**

Why do governments take up public debt?



One more question: Why do we care about public wealth?



Key orders of magnitude on public vs. private wealth:

- In rich countries today, public wealth ≈ 0
- That is, public assets \approx public debts ($\approx 100\%$ of national income Y)
- Consequence: Private share of national wealth $\approx 100\%$;
public share $\approx 0\%$
National wealth \approx private wealth ($400\%-600\%$ of Y)
- But not true historically and in many developing countries:
share of public wealth sometimes significantly > 0 or < 0

Case: Public wealth and debt in following war



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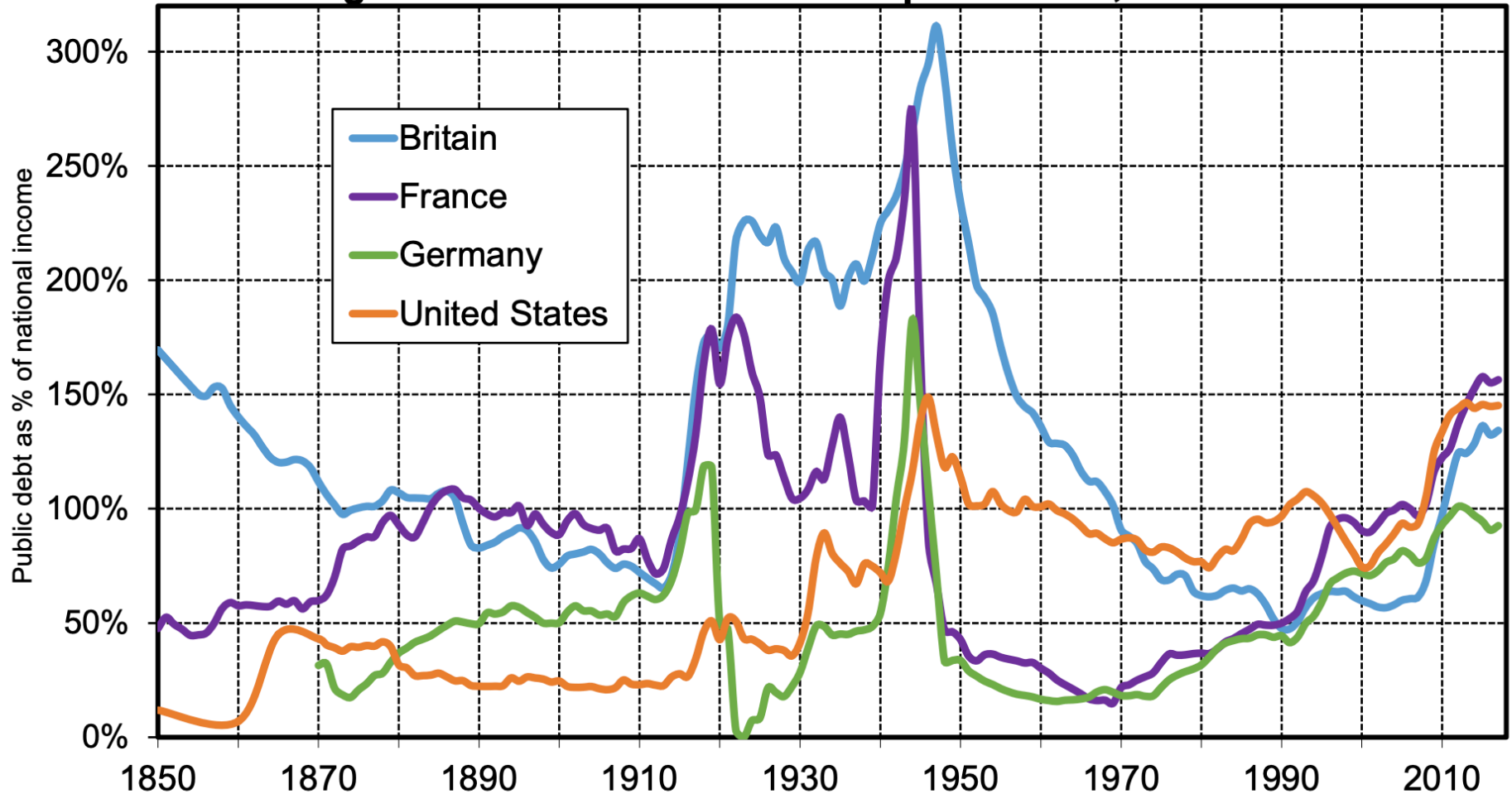
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Figure 10.9. The vicissitudes of public debt, 1850-2020



Interpretation. Public debt rose strongly after each world war and reached between 1500% and 300% of national income in 1945-1950, before falling sharply in Germany and France (debt cancellations, high inflation) and more gradually in Britain and the U.S. (moderate inflation, growth). Public assets (especially real estate and financial assets) have fluctuated less strongly over time and generally represent around 100% of national income. **Sources and series:** see piketty.pse.ens.fr/ideology.

How did countries pay the bill of world wars?

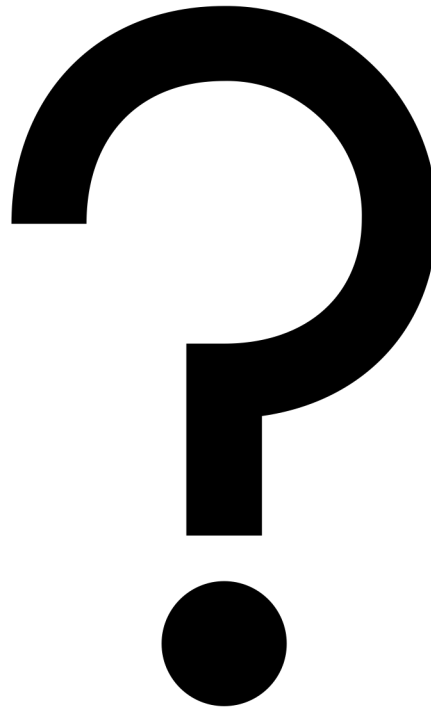
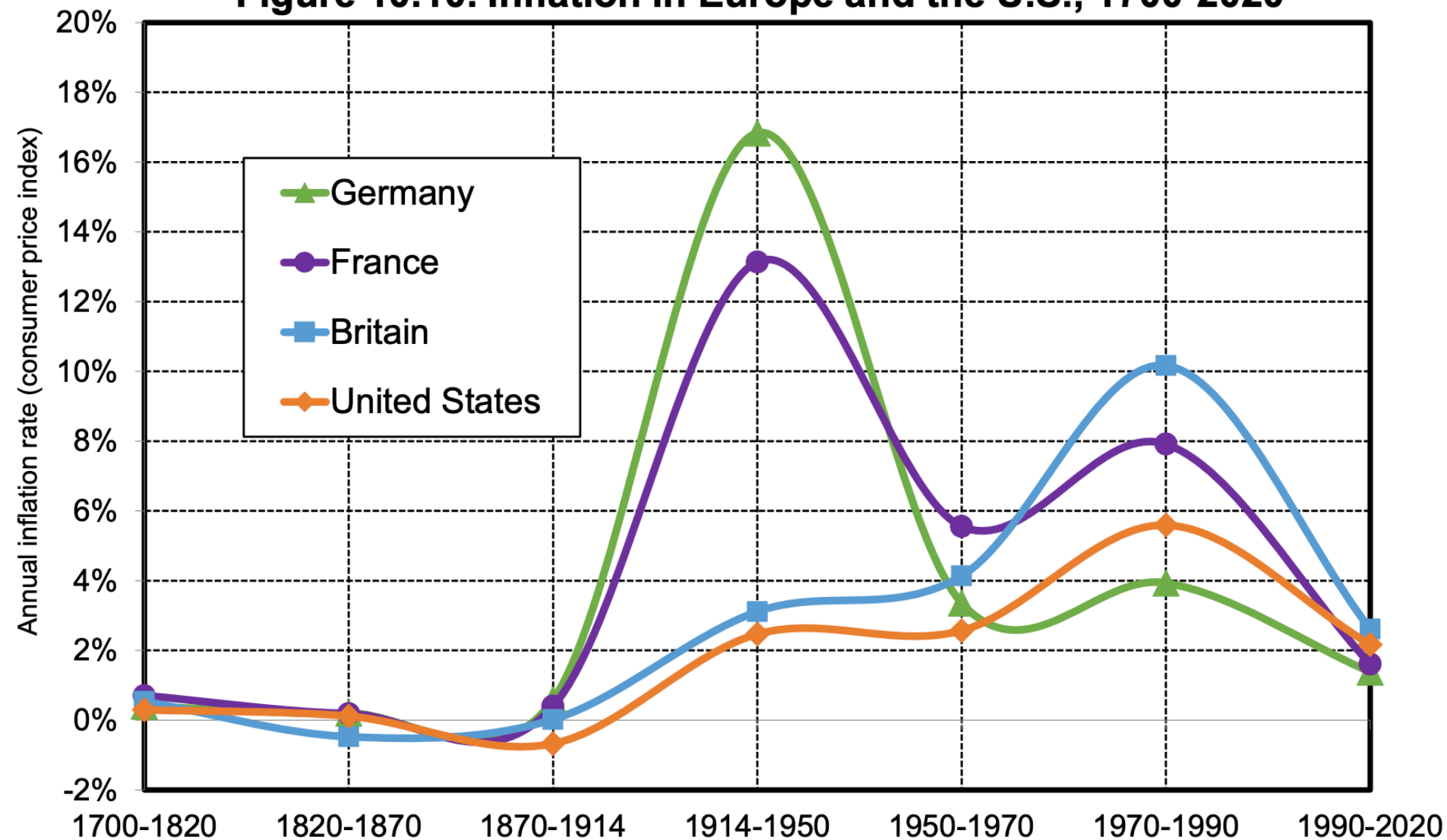


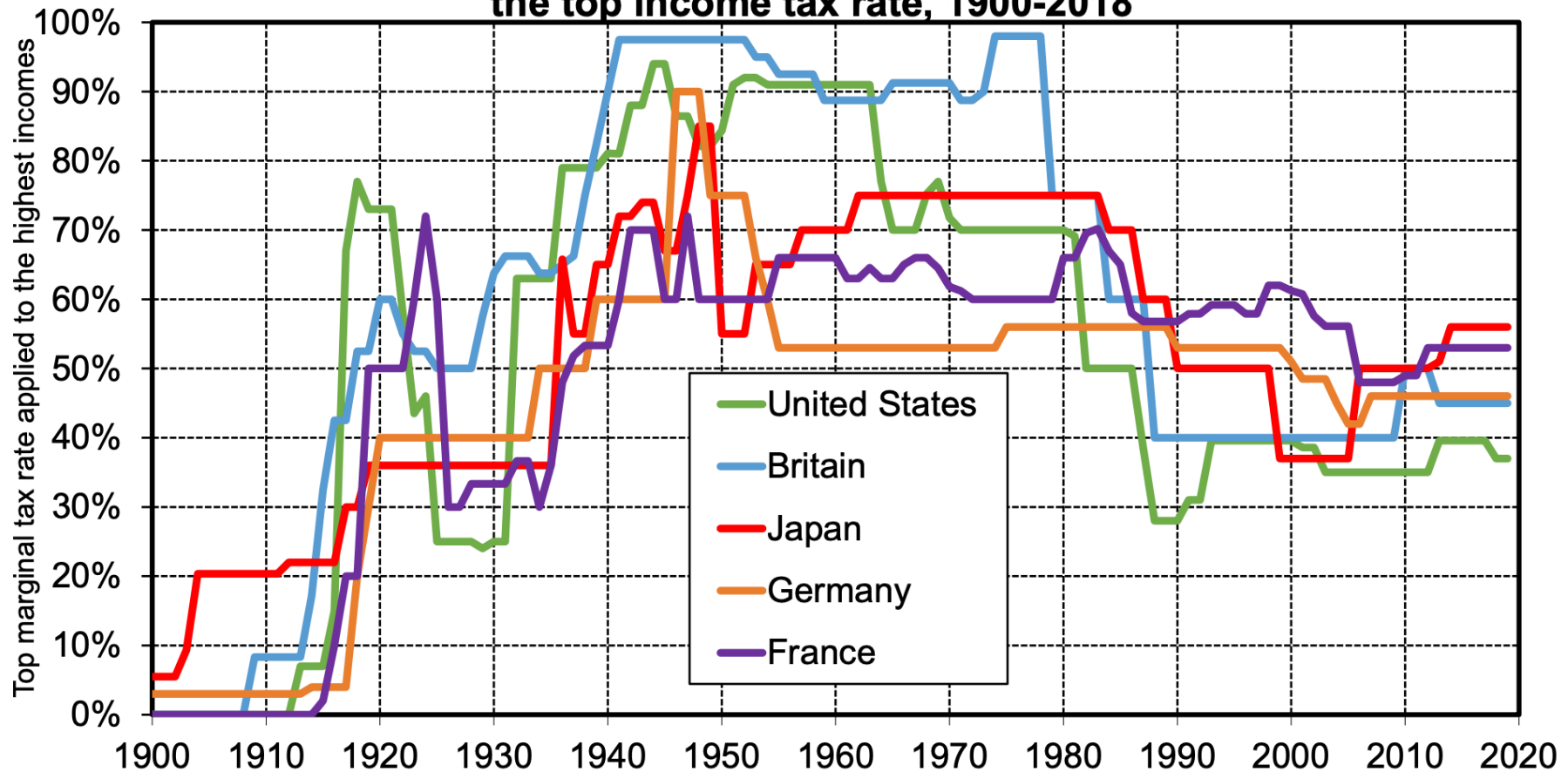


Figure 10.10. Inflation in Europe and the U.S., 1700-2020



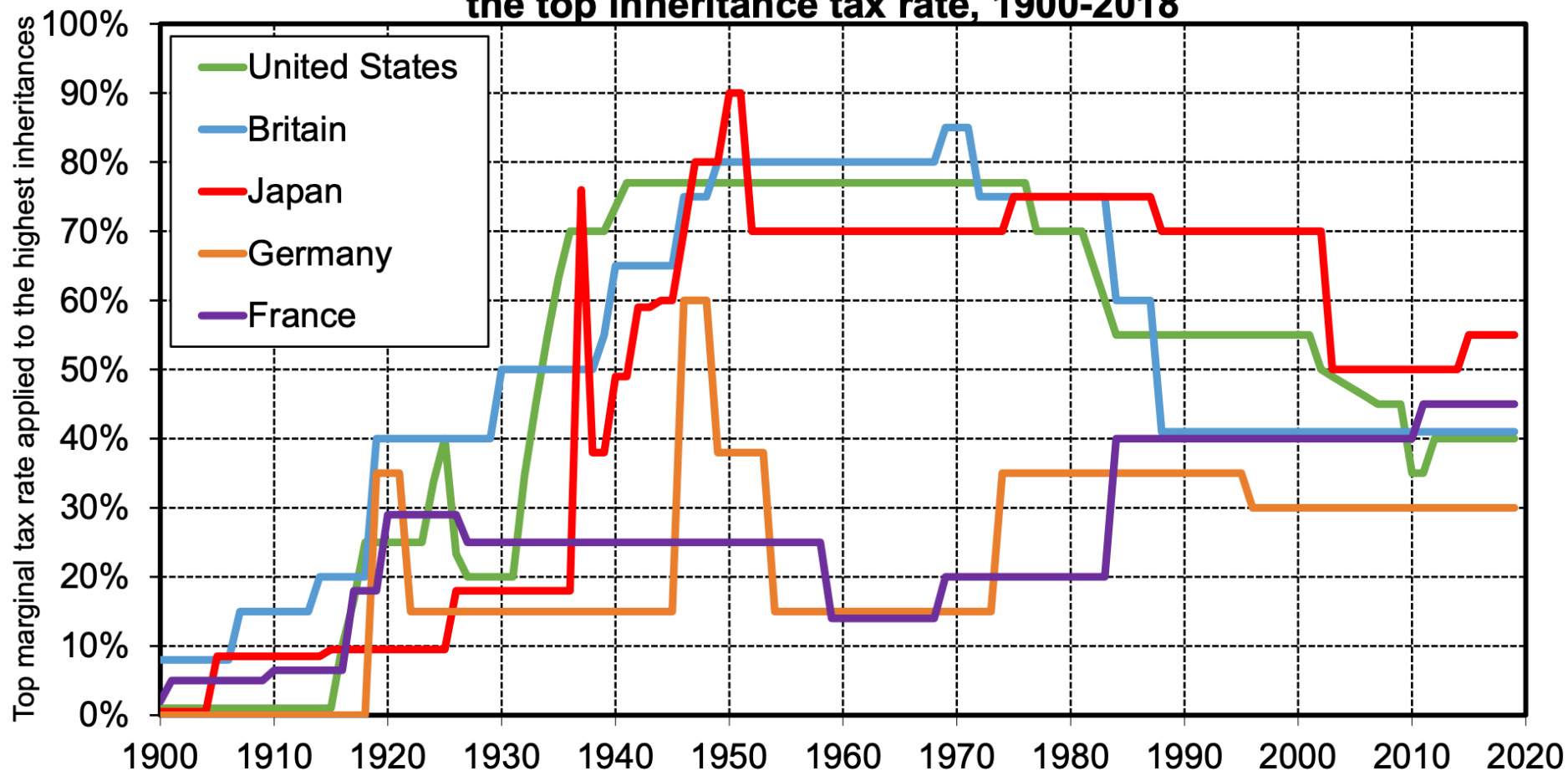
Interpretation. Inflation was quasi-null in the 18th-19th centuries, before rising in the 20th century. It is about 2% per year since 1990. Inflation was particularly high in Germany and France between 1914 and 1950, and to a lesser extent in Britain, France and the U.S. during the 1970s. **Note.** German inflation reached 17% per year between 1914 and 1950 without taking into account the hyper-inflation of 1923. **Sources and series:** see piketty.pse.ens.fr/ideology.

**Figure 10.11. The invention of progressive taxation:
the top income tax rate, 1900-2018**



Interpretation. The marginal income tax rate applied to the highest incomes was on average 23% in the U.S. from 1900 to 1932, 81% from 1932 to 1980 and 39% from 1980 to 2018. Over these same periods, the top rate was equal to 30%, 89% and 46% in Britain, 26%, 68% and 53% in Japan, 18%, 58% and 50% in Germany, and 23%, 60% and 57% in France. Progressive taxation peaked in mid-century, especially in the U.S. and in Britain. **Sources and series:** see piketty.pse.ens.fr/ideology.

**Figure 10.12. The invention of progressive taxation:
the top inheritance tax rate, 1900-2018**

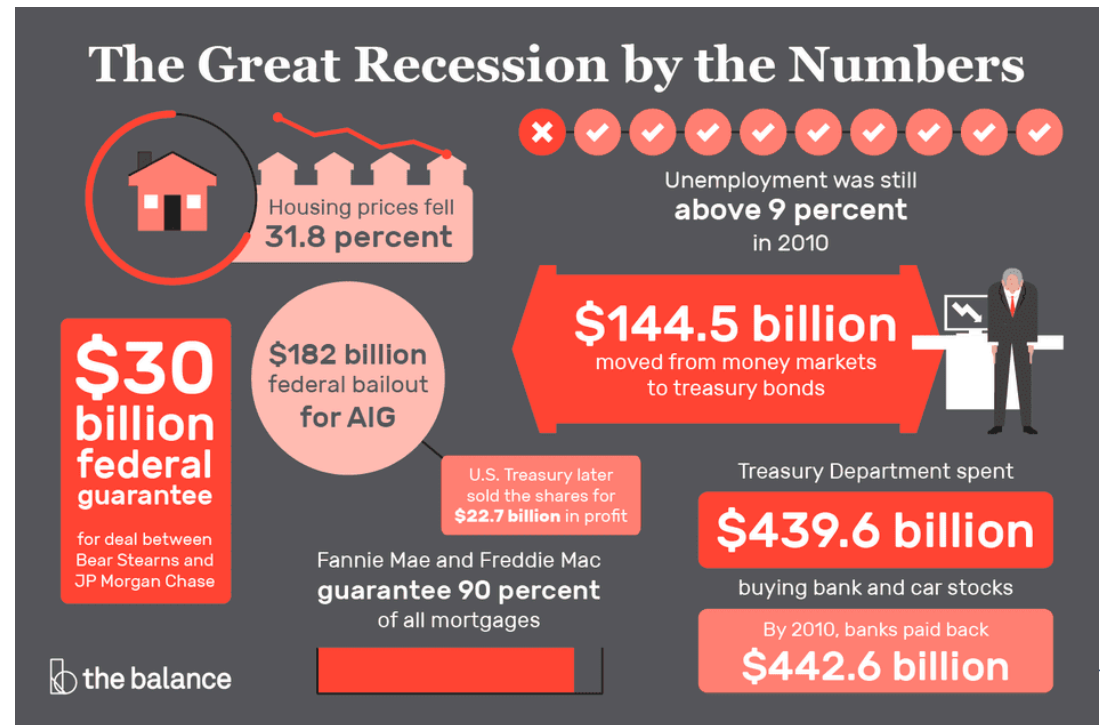


Interpretation. The marginal inheritance tax rate applied to the highest inheritances was on average 12% in the U.S. from 1900 to 1932, 75% from 1932 to 1980 and 50% from 1980 to 2018. Over these same periods, the top rate was equal to 25%, 72% and 46% in Britain, 9%, 64% and 63% in Japan, 8%, 23% and 32% in Germany, and 15%, 22% and 39% in France. Progressivity was maximal in mid-century, especially in the U.S. and in Britain. **Sources and series:** see piketty.pse.ens.fr/ideology.

How is the bill for modern crises paid?

The US has blown past \$6 trillion in 'war on terror' spending since 2001 — and its cost to taxpayers will keep climbing for decades, study says

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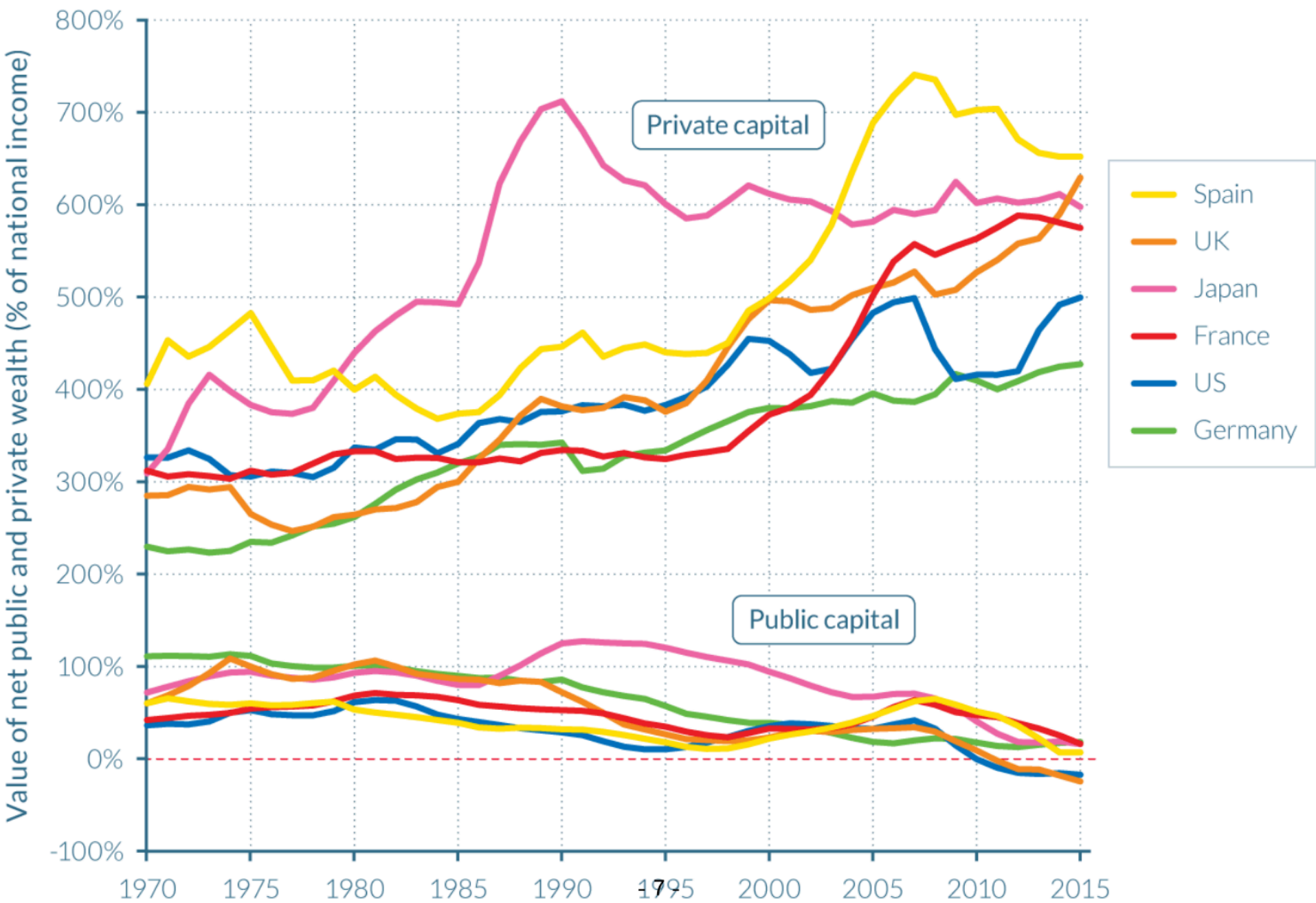
The New York Times

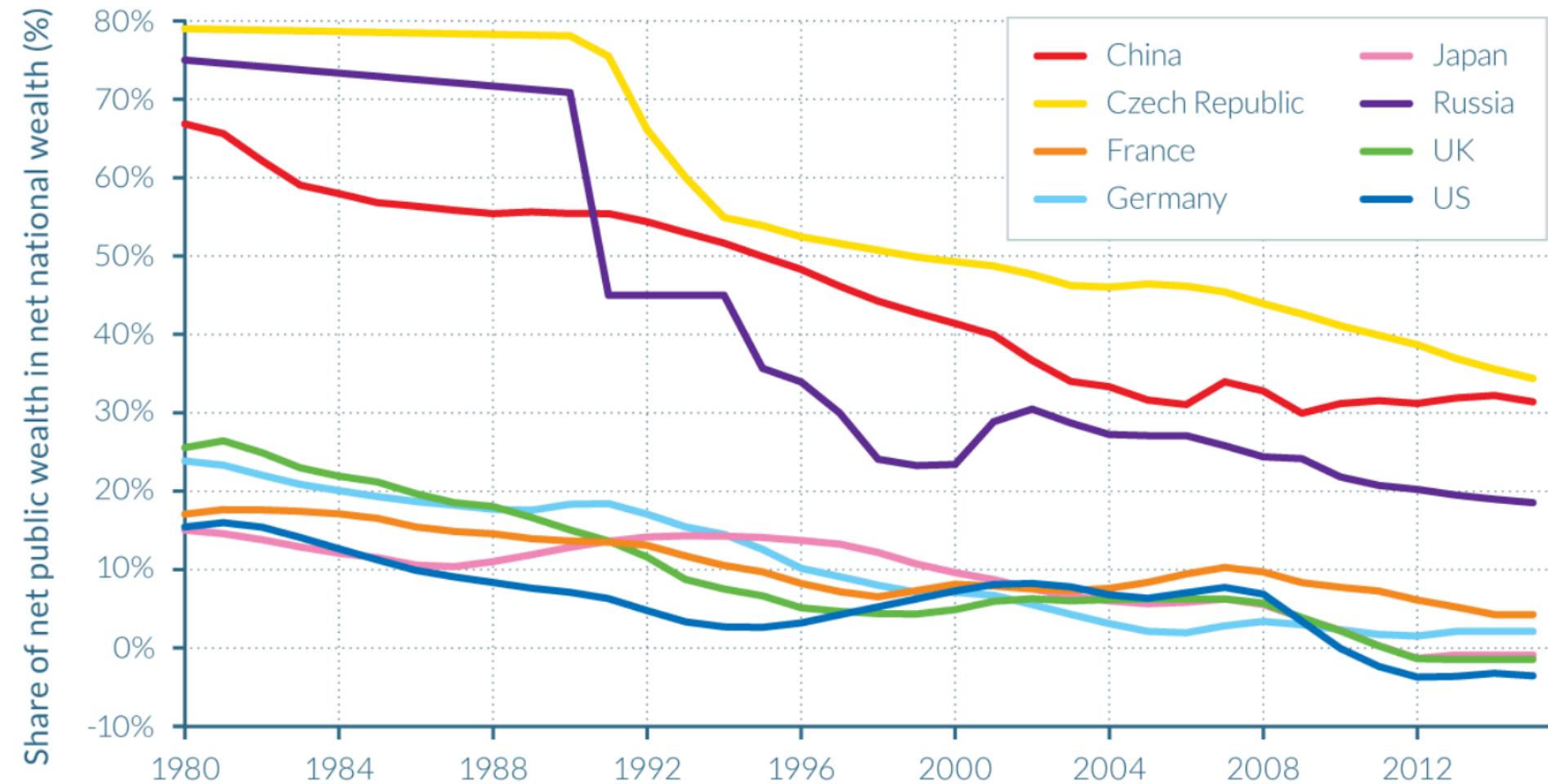
NEWS ANALYSIS

How the Trump Tax Cut Is Helping to Push the Federal Deficit to \$1 Trillion

Key trends on public vs. private wealth since 80's:

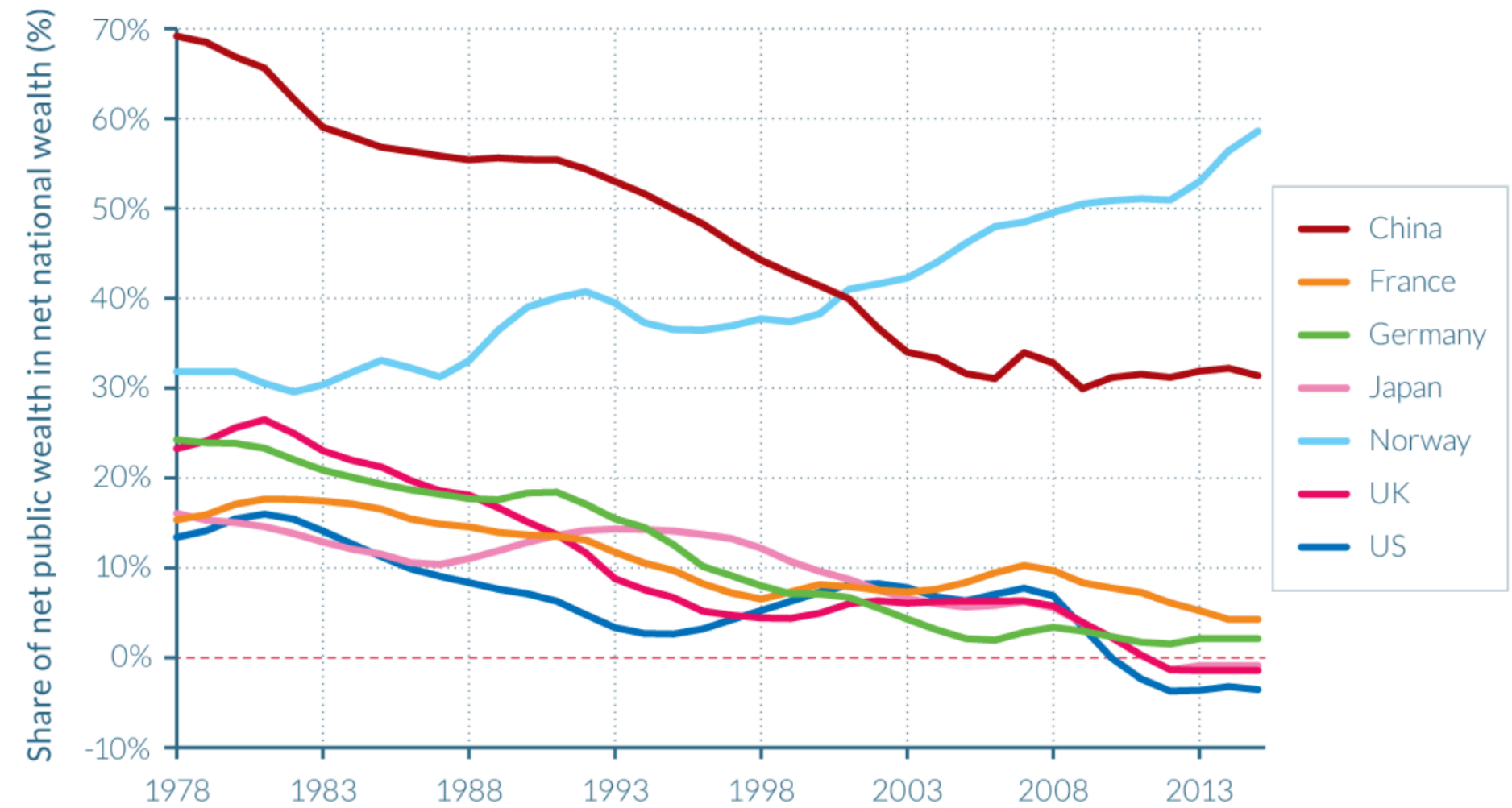
- Rise in private wealth throughout most of the world (growth slowdown, asset price increase)
- Decline in public wealth (exceptions: oil-rich countries)
- Consequence: fall of public share in most countries
- **Why does this matter?**





Source: Novokmet, Piketty & Zucman (2017). See wir2018.wid.world/methodology.html for data series and notes.

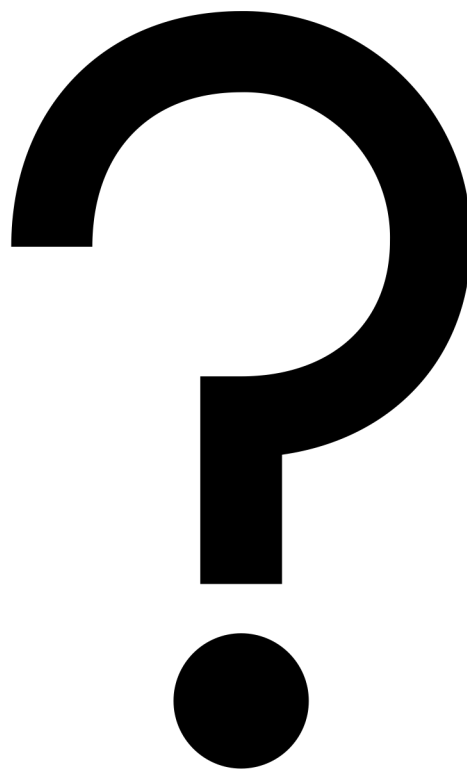
In 2015, the share of public wealth in national wealth in Russia was 19%. Net public wealth is equal to public assets minus net public debt. Net national wealth is equal to net private wealth plus net public wealth.



Why has public wealth fallen?

- Causes: Privatization (ex-communist countries) vs. \uparrow public debt (US, Europe)
- Magnitude: still significant public wealth in China (\approx post-WW2 mixed economy in Europe) \neq US, today's Europe
- Timing of decline differs across ex-communist countries (shock therapy vs. more gradual privatization)

Why are countries choosing debt over taxes?



How will we pay for the COVID-19 aftermath?



Coronavirus spending will come amid huge deficits

BY NIV ELIS - 03/15/20 08:23 PM EDT

EU struggles to contain corona economic fallout

Summary

- General rise in private wealth / national income in nearly all countries in recent decades (esp. strong in China, Russia)
- Public wealth declined in most countries since the 1980s. Net public wealth now negative in US, UK.
- Policy makers are postponing tough decisions on who pays the bill

References

Piketty, Thomas, *Capital in the 21st Century*, Cambridge: Harvard University Press, 2014

Piketty, Thomas, and Gabriel Zucman, “Capital is back: wealth-income ratios in rich countries 1700-2010”, *Quarterly Journal of Economics*, 2014 (web)

World Inequality Report 2018, part III