Wealth inequality in Europe: scenarios for the future

Public Hearing on
Wealth Inequality in Europe: the Profit-Labour Split
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World Wealth and Income Database

WID.world

Note: It’s Labour and Capital Income!
### Table 1. Real Income Growth by Groups

<table>
<thead>
<tr>
<th></th>
<th>Average Income Real Growth</th>
<th>Top 1% Incomes Real Growth</th>
<th>Bottom 99% Incomes Real Growth</th>
<th>Fraction of total growth (or loss) captured by top 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full period</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1993-2015</td>
<td>25.7%</td>
<td>94.5%</td>
<td>14.3%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Clinton Expansion</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993-2000</td>
<td>31.5%</td>
<td>98.7%</td>
<td>20.3%</td>
<td>45%</td>
</tr>
<tr>
<td><strong>2001 Recession</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-2002</td>
<td>-11.7%</td>
<td>-30.8%</td>
<td>-6.5%</td>
<td>57%</td>
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<tr>
<td><strong>Bush Expansion</strong></td>
<td></td>
<td></td>
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<tr>
<td>2002-2007</td>
<td>16.1%</td>
<td>61.8%</td>
<td>6.8%</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Great Recession</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-2009</td>
<td>-17.4%</td>
<td>-36.3%</td>
<td>-11.6%</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Recovery</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009-2015</td>
<td>13.0%</td>
<td>37.4%</td>
<td>7.6%</td>
<td>52%</td>
</tr>
</tbody>
</table>

The declining share of labour

Figure 8: Percentage share of labour in value added for the OECD-21*, 1975-2013

Source: OECD National Accounts Database.

Note: *The figure shows statistics for the following 21 OECD countries with available data: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Mexico, the Netherlands, Norway, Portugal, Republic of Korea, Spain, Sweden, the United Kingdom and the United States.

Paunov & Guellec (2016); The Impacts of Innovation and ICT on Market Structures and the Distribution of Income, unpublished.
Labor Shares and Income Inequality

- **Personal** income distribution (by households or individuals)
- **Functional** income distribution (by factors of production; capital and labour)

- How are these two distributions related?
Gross Wealth Distribution, Austria, 2010 (HFCS)

Note: Data are truncated at the Top! (Vermeulen 2014, 2016)
Über die Bedeutung von Kapitaleinkommen für die Einkommensverteilung Österreichs,
In: Wirtschaft und Gesellschaft, 39 (4), S.571-586
# Inequalities in Europe, 2010


<table>
<thead>
<tr>
<th>Percentiles</th>
<th>Labor Income</th>
<th>Labor and Capital Income</th>
<th>Capital Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Decile (91-100)</td>
<td>25%</td>
<td>35%</td>
<td>60%</td>
</tr>
<tr>
<td>100</td>
<td>7%</td>
<td>10%</td>
<td>25%</td>
</tr>
<tr>
<td>91-99</td>
<td>18%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>51-90</td>
<td>45%</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>1-50</td>
<td>30%</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>Gini</td>
<td>0.26</td>
<td>0.36</td>
<td>0.67</td>
</tr>
</tbody>
</table>
Decline in the labour share has been concomitant with increases in income inequality due to:

- within the workforce, lower-skilled workers have borne the brunt of the fall in labour share
- capital ownership is typically concentrated among the top of the income distribution and hence an increase in the share of income accruing to capital tends to raise income inequality
How does Wealth evolve?

Wealth (& Wealth Accumulation)

- Privatisation
- Inheritances and Gifts
- Capital Income
- Savings

- Dividends
- Interests
- Rents
- Labour Income
- Self-employed Income
Functions of Wealth

Economic Power‘ in the Global Economy

- Liberalization, deregulation, and privatization
- Mergers and acquisitions (M&A)
- TC have strong ‘voice’ opportunities (through negotiations, lobbies, think-tanks etc.)
- Additionally, they have obtained a very effective ‘exit’ strategy (including threats of exit); mainly due to ‘globalization’

“the interests of the quickly spreading big and transnational companies, created the explosive mixture of globalization.”

“Free markets have the potential to provide great improvements in living standards, channelling resources to productive uses and providing consumers with quality and choices. Sometimes, though, abuses of market power by firms can undermine many of these potential benefits. As this issue brief demonstrates, competition between firms can generate many benefits to consumers, workers, and small businesses. Yet, as this brief also discusses, some indicators suggest there is • more market concentration, • higher profits for a few firms, • and declining entry, all of which could result from less competition.” (CEA, 2016, 15)
Council of Economic Advisers (CEA, 2016)

Benefits of Competition and Indicators of Market Power

Figure 1: Return on Invested Capital Excluding Goodwill, U.S. Publicly-Traded Nonfinancial Firms, 1965–2014

=> Detrimental consequences for small- and medium-sized enterprises
The Rise of the Superstars (Sep 17th 2016)

• As a proportion of GDP, American corporate profits are higher than they have been at any time since 1929.

• The quest for size is producing a global bull market in mergers and acquisitions.

• Profit margins have increased in direct proportion to the concentration of the market.

• The superstar effect is particularly marked in the knowledge economy. In Silicon Valley a handful of giants are enjoying market shares and profit margins not seen since the robber barons in the late 19th century.
“Extreme inequalities in the ownership of property are in my view undesirable quite apart from any inequalities of income they may imply. A man with much property has great bargaining strength and a great sense of security, independence and freedom; he enjoys these things not only vis-à-vis his propertyless fellow citizens but also vis-à-vis the public authorities.”

James E. Meade (1964, 38); Efficiency, Equality and the Ownership of Property.
“We worry most about the possibility that changes in the distribution of income lead to changes in the distribution of political power both because such a change can undermine the legitimacy of the political system and because it can make the increase in economic inequality irreversible.”

Burtless/Jencks 2003, 100
What can be done?

- **General:** More (EU-)coordination to avoid ‘prisoner dilemmas’

- Transparent mechanism must be put in place to systematically monitor data on all income and wealth (pre-condition for any serious analysis) (draft ECO/410)

- **Growth did not lift all boats** => stronger emphasis on distribution issues (pre- and post-market distribution)

- to strengthen competition policy

- to tackle tax evasion and tax avoidance (OECD)
  - Increasing transparency and international cooperation on tax rules to minimise “treaty shopping”
  - Developing policies to improve transparency and tax compliance
  - Ensure the automatic exchange of information between tax authorities

- Laura Tyson (2014): Who owns the robots?
  - If a kind of ‘robotisation’ starts to replace labour without any appropriate adjustment of the profit/wage-ratio one “may need to look at a situation where the state acquires beneficial ownership (not control) of productive capital and uses the profits to share the benefits among all citizens”. (Atkinson 2015; Freemann 2015; IMF 2016)
What can be taxed?

Wealth (& Wealth Accumulation)

- Privatisation
- Inheritances and Gifts
- Capital Income
- Savings

Stock:
- Dividends
- Interests
- Rents

Revenue:
- Labour Income
- Self-employed Income
Options for taxing high incomes and wealth

- Taxes on high income and wealth
  - Top incomes
    - Capital income
    - Earned income
  - Wealth
    - Stocks
    - Transfers
    - Capital gains
  - Luxury consumption
    - Increased VAT
    - Excise taxes
  - Net wealth tax
  - Real estate tax
  - One-off capital levy
  - Banking levy
  - Inheritance and gift tax
  - Wealth transfer taxes
  - Income tax
  - Capital gains tax
  - Real estate acquisition tax
  - Capital transfer taxes
  - General financial transaction tax
  - Stock exchange transfertax
  - Stamp duty on securities
  - Capital duty

Source: A. Krenek and M. Schratzenstaller (2017); Sustainability-oriented Future EU Funding: A European Net Wealth Tax. FairTax WP-Series NO.10
What can be done?

General Principle:

Any policy option must be evaluated by its:

• ecological consequence(s)
• gender dimension
• allocative and distributional impact(s)
What can be done?

„It is my belief that the rise in inequality can in many cases be traced directly or indirectly to changes in the balance of power. If that is correct, then measures to reduce inequality can be successful only if countervailing power is brought to bear.”

Atkinson 2015, 82
References

- Bach, St. (2012); Vermögensabgaben – ein Beitrag zur Sanierung der Staatsfinanzen in Europa. DIW Wochenbericht Nr. 28.2012, S. 3-11.
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- Piketty, Th. (2014); Capital in the 21th Century.
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