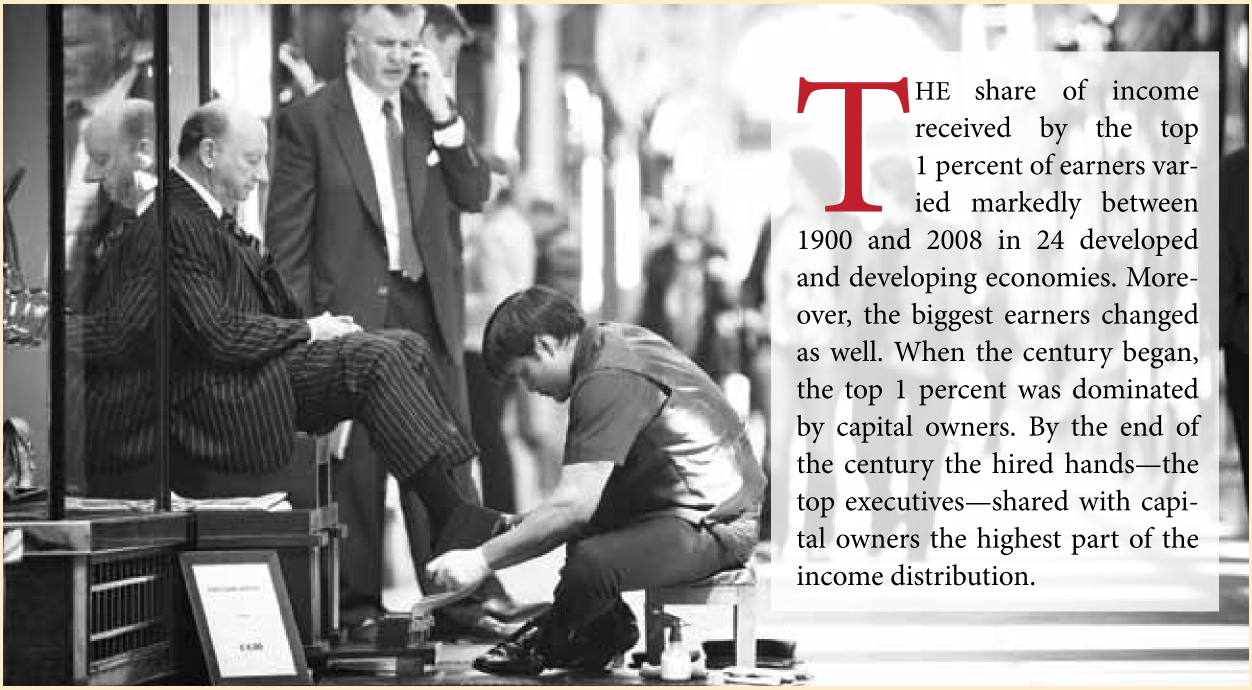
Inequality over the Past Century

After declining in the first half of the 20th century, income inequality makes a comeback



THE share of income received by the top 1 percent of earners varied markedly between 1900 and 2008 in 24 developed and developing economies. Moreover, the biggest earners changed as well. When the century began, the top 1 percent was dominated by capital owners. By the end of the century the hired hands—the top executives—shared with capital owners the highest part of the income distribution.

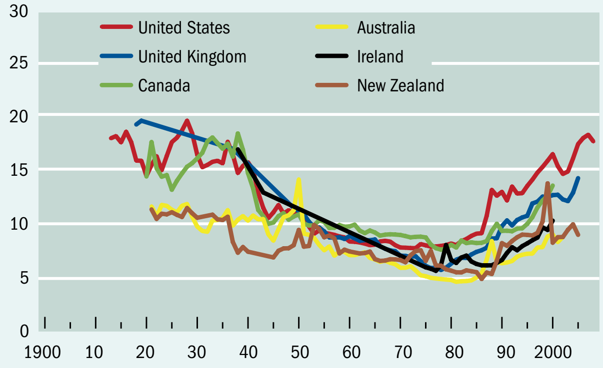
Businessman gets his shoes shined in London, United Kingdom.

Widening income inequality

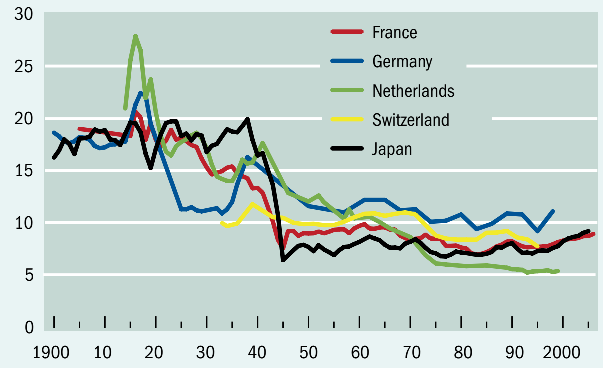
In Western English-speaking countries, inequality declined until about 1980 and then began to grow again. Continental European countries and Japan had a decline until about 1950; since then income distribution has leveled. For Nordic and Southern European countries, the drop in inequality in the early part of the century was much more pronounced than the rebound in the late part of the period. Developing countries show initial declines in inequality followed by a leveling off in some cases and an increase in inequality in others.

Income inequality has increased in most countries over the past 30 years.

English-speaking countries
(share of top 1 percent in income distribution, percent)



Continental European countries and Japan
(share of top 1 percent in income distribution, percent)



Unemployed men wait in line for bread during the Depression in the United States.

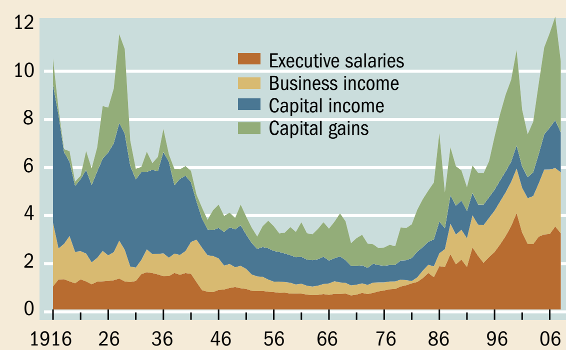
Source of inequality

Before 1945, the decrease in the share of income garnered by the top 1 percent in the developed world was caused mostly by a fall in income from investment (capital income). That decline took place during wartime and the Great Depression, suggesting that income inequality dropped because capital owners were hurt by major shocks to their holdings.

The dramatic increase in recent decades in the share of income going to the top 1 percent in many countries is due to a partial restoration of capital incomes and, more significantly, to very large increases in compensation for top executives. In the United States, as a result, the working rich have joined capital owners at the top of the income hierarchy.

In the United States, rising executive pay and a partial restoration of capital income is behind increasing income inequality.

(share of top 1 percent in income distribution, percent)



The United States

In the United States, average real incomes grew at a 1.3 percent annual rate between 1993 and 2008. But if the top 1 percent is excluded, average real income growth is almost halved, to about 0.75 percent a year. Incomes of the top 1 percent grew 3.9 percent a year, capturing more than half of the overall economic growth experienced between 1993 and 2008.

During the expansions of 1993–2000 and 2001–07, the income of the top 1 percent grew far more quickly—at an annual rate of more than 10.3 percent and 10.1 percent, respectively—than that of the bottom 99 percent, whose incomes grew at a 2.7 percent annual rate in the earlier expansion and 1.3 percent in the later one.

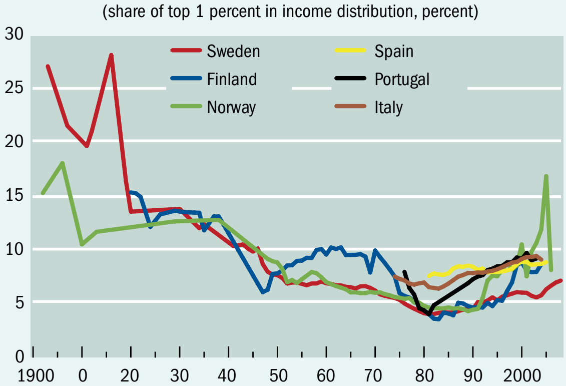
Growth and inequality

The new data call into question the standard relationship between economic development and income distribution—that growth and inequality reduction go hand in hand. But that relationship, postulated by economist Simon Kuznets, appears to be less certain—especially in English-speaking countries, which had a period of falling inequality during the first half of the 20th century followed by a reversal of the trend since the 1970s. Still, Kuznets's hypothesis may be relevant for many poor and developing countries that have not yet passed the initial industrialization stage (see "More or Less" in this issue of *F&D*).

Beggars soliciting alms on road in Shanghai, China.

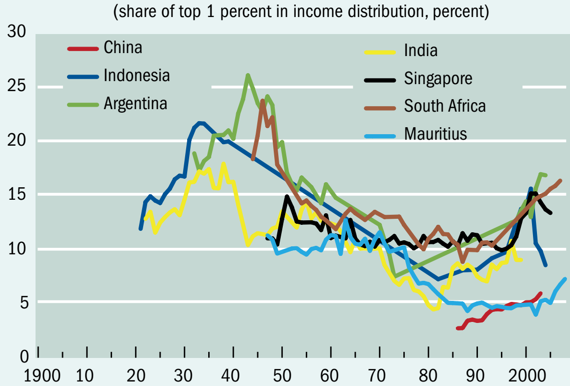
Nordic and Southern European countries

(share of top 1 percent in income distribution, percent)



Developing countries

(share of top 1 percent in income distribution, percent)



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