

CAPITAL IN THE TWENTY-FIRST CENTURY



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Inequality and Concentration: Preliminary Bearings

In [Part Two](#) I examined the dynamics of both the capital/income ratio at the country level and the overall split of national income between capital and labor, but I did not look directly at income or wealth inequality at the individual level. In particular, I analyzed the importance of the shocks of 1914–1945 in order to understand changes in the capital/income ratio and the capital-labor split over the course of the twentieth century. The fact that Europe—and to some extent the entire world—have only just gotten over these shocks has given rise to the impression that patrimonial capitalism—which is flourishing in these early years of the twenty-first century—is something new, whereas it is in large part a repetition of the past and characteristic of a low-growth environment like the nineteenth century.

Here begins my examination of inequality and distribution at the individual level. In the next few chapters, I will show that the two world wars, and the public policies that followed from them, played a central role in reducing inequalities in the twentieth century. There was nothing natural or spontaneous about this process, in contrast to the optimistic predictions of Kuznets's theory. I will also show that inequality began to rise sharply again since the 1970s and 1980s, albeit with significant variation between countries, again suggesting that institutional and political differences played a key role. I will also analyze, from both a historical and a theoretical point of view, the evolution of the relative importance of inherited wealth versus income from labor over the very long run. Many people believe that modern growth naturally favors labor over inheritance and competence over birth. What is the source of this widespread belief, and how sure can we be that it is correct? Finally, in [Chapter 12](#), I will consider how the global distribution of wealth might evolve in the decades to come. Will the twenty-first century be even more inegalitarian than the nineteenth, if it is not already so? In what respects is the structure of inequality in the world today really different from that which existed during the Industrial Revolution or in traditional rural societies? [Part Two](#) has already suggested some interesting leads to follow in this regard, but the only way to answer this crucial question is by analyzing the structure of inequality at the individual level.

Before proceeding farther, in this chapter I must first introduce certain ideas and orders of magnitude. I begin by noting that in all societies, income inequality can be decomposed into three terms: inequality in income from labor; inequality in the ownership of capital and the income to which it gives rise; and the interaction between these two terms. Vautrin's famous lesson to Rastignac in Balzac's *Père Goriot* is perhaps the clearest introduction to these issues.

Vautrin's Lesson

Balzac's *Père Goriot*, published in 1835, could not be clearer. Père Goriot, a former spaghetti maker, has made a fortune in pasta and grain during the Revolution and Napoleonic era. A widower, he sacrifices everything he has to find husbands for his daughters Delphine and Anastasie in the best

Parisian society of the 1810s. He keeps just enough to pay his room and board in a shabby boardinghouse, where he meets Eugène de Rastignac, a penniless young noble who has come up from the provinces to study law in Paris. Full of ambition and humiliated by his poverty, Eugène avails himself of the help of a distant cousin to worm his way into the luxurious salons where the aristocracy, *grande bourgeoisie*, and high finance of the Restoration mingle. He quickly falls in love with Delphine, who has been abandoned by her husband, Baron de Nucingen, a banker who has already used his wife's dowry in any number of speculative ventures. Rastignac soon sheds his illusions as he discovers the cynicism of a society entirely corrupted by money. He is appalled to learn how Père Goriot has been abandoned by his daughters, who, preoccupied as they are with social success, are ashamed of their father and have seen little of him since availing themselves of his fortune. The old man dies in sordid poverty and solitude. Only Rastignac attends his burial. But no sooner has he left Père Lachaise cemetery than he is overwhelmed by the sight of Parisian wealth on display along the Seine and decides to set out in conquest of the capital: "It's just you and me now!" he apostrophizes the city. His sentimental and social education is over. From this point on he, too, will be ruthless.

The darkest moment in the novel, when the social and moral dilemmas Rastignac faces are rawest and clearest, comes at the midpoint, when the shady character Vautrin offers him a lesson about his future prospects. Vautrin, who resides in the same shabby boardinghouse as Rastignac and Goriot, is a glib talker and seducer who is concealing a dark past as a convict, much like Edmond Dantès in *Le Comte de Monte-Cristo* or Jean Valjean in *Les Misérables*. In contrast to those two characters, who are on the whole worthy fellows, Vautrin is deeply wicked and cynical. He attempts to lure Rastignac into committing a murder in order to lay hands on a large legacy. Before that, Vautrin offers Rastignac an extremely lurid, detailed lesson about the different fates that might befall a young man in the French society of the day.

In substance, Vautrin explains to Rastignac that it is illusory to think that social success can be achieved through study, talent, and effort. He paints a detailed portrait of the various possible careers that await his young friend if he pursues studies in law or medicine, fields in which professional competence counts more than inherited wealth. In particular, Vautrin explains very clearly to Rastignac what yearly income he can aspire to in each of these professions. The verdict is clear: even if he ranks at the top of his class and quickly achieves a brilliant career in law, which will require many compromises, he will still have to get by on a mediocre income and give up all hope of becoming truly wealthy:

By the age of thirty, you will be a judge making 1,200 francs a year, if you haven't yet tossed away your robes. When you reach forty, you will marry a miller's daughter with an income of around 6,000 livres. Thank you very much. If you're lucky enough to find a patron, you will become a royal prosecutor at thirty, with compensation of a thousand écus [5,000 francs], and you will marry the mayor's daughter. If you're willing to do a little political dirty work, you will be a prosecutor-general by the time you're forty.... It is my privilege to point out to you, however, that there are only twenty prosecutors-general in France, while 20,000 of you aspire to the position, and among them are a few clowns who would sell their families to move up a rung. If this profession disgusts you, consider another. Would Baron de Rastignac like to be a

lawyer? Very well then! You will need to suffer ten years of misery, spend a thousand francs a month, acquire a library and an office, frequent society, kiss the hem of a clerk to get cases, and lick the courthouse floor with your tongue. If the profession led anywhere, I wouldn't advise you against it. But can you name five lawyers in Paris who earn more than 50,000 francs a year at the age of fifty?

By contrast, the strategy for social success that Vautrin proposes to Rastignac is quite a bit more efficient. By marrying Mademoiselle Victorine, a shy young woman who lives in the boardinghouse and has eyes only for the handsome Eugène, he will immediately lay hands on a fortune of a million francs. This will enable him to draw at age twenty an annual income of 50,000 francs (5 percent of the capital) and thus immediately achieve ten times the level of comfort to which he could hope to aspire only years later on a royal prosecutor's salary (and as much as the most prosperous Parisian lawyers of the day earned at age fifty after years of effort and intrigue).

The conclusion is clear: he must lose no time in marrying young Victorine, ignoring the fact that she is neither very pretty nor very appealing. Eugène eagerly heeds Vautrin's lesson right up to the ultimate coup de grâce: if the illegitimate child Victorine is to be recognized by her wealthy father and become the heiress of the million francs Vautrin has mentioned, her brother must first be killed. The ex-convict is ready to take on this task in exchange for a commission. This is too much for Rastignac: although he is quite amenable to Vautrin's arguments concerning the merits of inheritance over study, he is not prepared to commit murder.

The Key Question: Work or Inheritance?

What is most frightening about Vautrin's lecture is that his brisk portrait of Restoration society contains such precise figures. As I will soon show, the structure of the income and wealth hierarchies in nineteenth-century France was such that the standard of living the wealthiest French people could attain greatly exceeded that to which one could aspire on the basis of income from labor alone. Under such conditions, why work? And why behave morally at all? Since social inequality was in itself immoral and unjustified, why not be thoroughly immoral and appropriate capital by whatever means are available?

The detailed income figures Vautrin gives are unimportant (although quite realistic): the key fact is that in nineteenth-century France and, for that matter, into the early twentieth century, work and study alone were not enough to achieve the same level of comfort afforded by inherited wealth and the income derived from it. This was so obvious to everyone that Balzac needed no statistics to prove it, no detailed figures concerning the deciles and centiles of the income hierarchy. Conditions were similar, moreover, in eighteenth- and nineteenth-century Britain. For Jane Austen's heroes, the question of work did not arise: all that mattered was the size of one's fortune, whether acquired through inheritance or marriage. Indeed, the same was true almost everywhere before World War I, which marked the suicide of the patrimonial societies of the past. One of the few exceptions to this rule was the United States, or at any rate the various "pioneer" microsocieties in the northern and western states, where inherited capital had little influence in the eighteenth and nineteenth centuries—a situation that did not last long, however. In the southern states, where capital in the form of slaves

and land predominated, inherited wealth mattered as much as it did in old Europe. In *Gone with the Wind*, Scarlett O'Hara's suitors cannot count on their studies or talents to assure their future comfort any more than Rastignac can: the size of one's father's (or father-in-law's) plantation matters far more. Vautrin, to show how little he thinks of morality, merit, or social justice, points out to young Eugène that he would be glad to end his days as a slave owner in the US South, living in opulence on what his Negroes produced. Clearly, the America that appeals to the French ex-convict is not the America that appealed to Tocqueville.

To be sure, income from labor is not always equitably distributed, and it would be unfair to reduce the question of social justice to the importance of income from labor versus income from inherited wealth. Nevertheless, democratic modernity is founded on the belief that inequalities based on individual talent and effort are more justified than other inequalities—or at any rate we hope to be moving in that direction. Indeed, Vautrin's lesson to some extent ceased to be valid in twentieth-century Europe, at least for a time. During the decades that followed World War II, inherited wealth lost much of its importance, and for the first time in history, perhaps, work and study became the surest routes to the top. Today, even though all sorts of inequalities have reemerged, and many beliefs in social and democratic progress have been shaken, most people still believe that the world has changed radically since Vautrin lectured Rastignac. Who today would advise a young law student to abandon his or her studies and adopt the ex-convict's strategy for social advancement? To be sure, there may exist rare cases where a person would be well advised to set his or her sights on inheriting a large fortune. In the vast majority of cases, however, it is not only more moral but also more profitable to rely on study, work, and professional success.

Vautrin's lecture focuses our attention on two questions, which I will try to answer in the next few chapters with the imperfect data at my disposal. First, can we be sure that the relative importance of income from labor versus income from inherited wealth has been transformed since the time of Vautrin, and if so, to what extent? Second, and even more important, if we assume that such a transformation has to some degree occurred, why exactly did it happen, and can it be reversed?

Inequalities with Respect to Labor and Capital

To answer these questions, I must first introduce certain basic ideas and the fundamental patterns of income and wealth inequality in different societies at different times. I showed in [Part One](#) that income can always be expressed as the sum of income from labor and income from capital. Wages are one form of income from labor, and to simplify the exposition I will sometimes speak of wage inequality when I mean inequality of income from labor more generally. To be sure, income from labor also includes income from nonwage labor, which for a long time played a crucial role and still plays a nonnegligible role today. Income from capital can also take different forms: it includes all income derived from the ownership of capital independent of any labor and regardless of its legal classification (rents, dividends, interest, royalties, profits, capital gains, etc.).

By definition, in all societies, income inequality is the result of adding up these two components: inequality of income from labor and inequality of income from capital. The more unequally distributed each of these two components is, the greater the total inequality. In the abstract, it is perfectly possible to imagine a society in which inequality with respect to labor is high and inequality

with respect to capital is low, or vice versa, as well as a society in which both components are highly unequal or highly egalitarian.

The third decisive factor is the relation between these two dimensions of inequality: to what extent do individuals with high income from labor also enjoy high income from capital? Technically speaking, this relation is a statistical correlation, and the greater the correlation, the greater the total inequality, all other things being equal. In practice, the correlation in question is often low or negative in societies in which inequality with respect to capital is so great that the owners of capital do not need to work (for example, Jane Austen's heroes usually eschew any profession). How do things stand today, and how will they stand in the future?

Note, too, that inequality of income from capital may be greater than inequality of capital itself, if individuals with large fortunes somehow manage to obtain a higher return than those with modest to middling fortunes. This mechanism can be a powerful multiplier of inequality, and this is especially true in the century that has just begun. In the simple case where the average rate of return is the same at all levels of the wealth hierarchy, then by definition the two inequalities coincide.

When analyzing the unequal distribution of income, it is essential to carefully distinguish these various aspects and components of inequality, first for normative and moral reasons (the justification of inequality is quite different for income from labor, from inherited wealth, and from differential returns on capital), and second, because the economic, social, and political mechanisms capable of explaining the observed evolutions are totally distinct. In the case of unequal incomes from labor, these mechanisms include the supply of and demand for different skills, the state of the educational system, and the various rules and institutions that affect the operation of the labor market and the determination of wages. In the case of unequal incomes from capital, the most important processes involve savings and investment behavior, laws governing gift-giving and inheritance, and the operation of real estate and financial markets. The statistical measures of income inequality that one finds in the writings of economists as well as in public debate are all too often synthetic indices, such as the Gini coefficient, which mix very different things, such as inequality with respect to labor and capital, so that it is impossible to distinguish clearly among the multiple dimensions of inequality and the various mechanisms at work. By contrast, I will try to distinguish these things as precisely as possible.

Capital: Always More Unequally Distributed Than Labor

The first regularity we observe when we try to measure income inequality in practice is that inequality with respect to capital is always greater than inequality with respect to labor. The distribution of capital ownership (and of income from capital) is always more concentrated than the distribution of income from labor.

Two points need to be clarified at once. First, we find this regularity in all countries in all periods for which data are available, without exception, and the magnitude of the phenomenon is always quite striking. To give a preliminary idea of the order of magnitude in question, the upper 10 percent of the labor income distribution generally receives 25–30 percent of total labor income, whereas the top 10 percent of the capital income distribution always owns more than 50 percent of all wealth (and in some societies as much as 90 percent). Even more strikingly, perhaps, the bottom 50 percent of the

wage distribution always receives a significant share of total labor income (generally between one-quarter and one-third, or approximately as much as the top 10 percent), whereas the bottom 50 percent of the wealth distribution owns nothing at all, or almost nothing (always less than 10 percent and generally less than 5 percent of total wealth, or one-tenth as much as the wealthiest 10 percent). Inequalities with respect to labor usually seem mild, moderate, and almost reasonable (to the extent that inequality can be reasonable—this point should not be overstated). In comparison, inequalities with respect to capital are always extreme.

Second, this regularity is by no means foreordained, and its existence tells us something important about the nature of the economic and social processes that shape the dynamics of capital accumulation and the distribution of wealth.

Indeed, it is not difficult to think of mechanisms that would lead to a distribution of wealth more egalitarian than the distribution of income from labor. For example, suppose that at a given point in time, labor incomes reflect not only permanent wage inequalities among different groups of workers (based on the skill level and hierarchical position of each group) but also short-term shocks (for instance: wages and working hours in different sectors might fluctuate considerably from year to year or over the course of an individual's career). Labor incomes would then be highly unequal in the short run, although this inequality would diminish if measured over a long period (say ten years rather than one, or even over the lifetime of an individual, although this is rarely done because of the lack of long-term data). A longer-term perspective would be ideal for studying the true inequalities of opportunity and status that are the subject of Vautrin's lecture but are unfortunately often quite difficult to measure.

In a world with large short-term wage fluctuations, the main reason for accumulating wealth might be precautionary (as a reserve against a possible negative shock to income), in which case inequality of wealth would be smaller than wage inequality. For example, inequality of wealth might be of the same order of magnitude as the permanent inequality of wage income (measured over the length of an individual career) and therefore significantly lower than the instantaneous wage inequality (measured at a given point in time). All of this is logically possible but clearly not very relevant to the real world, since inequality of wealth is always and everywhere much greater than inequality of income from labor. Although precautionary saving in anticipation of short-term shocks does indeed exist in the real world, it is clearly not the primary explanation for the observed accumulation and distribution of wealth.

We can also imagine mechanisms that would imply an inequality of wealth comparable in magnitude to the inequality of income from labor. Specifically, if wealth is accumulated primarily for life-cycle reasons (saving for retirement, say), as Modigliani reasoned, then everyone would be expected to accumulate a stock of capital more or less proportional to his or her wage level in order to maintain approximately the same standard of living (or the same proportion thereof) after retirement. In that case, inequality of wealth would be a simple translation in time of inequality of income from labor and would as such have only limited importance, since the only real source of social inequality would be inequality with respect to labor.

Once again, such a mechanism is theoretically plausible, and its real-world role is of some significance, especially in aging societies. In quantitative terms, however, it is not the primary

mechanism at work. Life-cycle saving cannot explain the very highly concentrated ownership of capital we observe in practice, any more than precautionary saving can. To be sure, older individuals are certainly richer on average than younger ones. But the concentration of wealth is actually nearly as great within each age cohort as it is for the population as a whole. In other words, and contrary to a widespread belief, intergenerational warfare has not replaced class warfare. The very high concentration of capital is explained mainly by the importance of inherited wealth and its cumulative effects: for example, it is easier to save if you inherit an apartment and do not have to pay rent. The fact that the return on capital often takes on extreme values also plays a significant role in this dynamic process. In the remainder of [Part Three](#), I examine these various mechanisms in greater detail and consider how their relative importance has evolved in time and space. At this stage, I note simply that the magnitude of inequality of wealth, both in absolute terms and relative to inequality of income from labor—points toward certain mechanisms rather than others.

Inequalities and Concentration: Some Orders of Magnitude

Before analyzing the historical evolutions that can be observed in different countries, it will be useful to give a more precise account of the characteristic orders of magnitude of inequality with respect to labor and capital. The goal is to familiarize the reader with numbers and notions such as deciles, centiles, and the like, which may seem somewhat technical and even distasteful to some but are actually quite useful for analyzing and understanding changes in the structure of inequality in different societies—provided we use them correctly.

To that end, I have charted in [Tables 7.1–3](#) the distributions actually observed in various countries at various times. The figures indicated are approximate and deliberately rounded off but at least give us a preliminary idea of what the terms “low,” “medium,” and “high” inequality mean today and have meant in the past, with respect to both income from labor and ownership of capital, and finally with respect to total income (the sum of income from labor and income from capital).

For example, with respect to inequality of income from labor, we find that in the most egalitarian societies, such as the Scandinavian countries in the 1970s and 1980s (inequalities have increased in northern Europe since then, but these countries nevertheless remain the least inequalitarian), the distribution is roughly as follows. Looking at the entire adult population, we see that the 10 percent receiving the highest incomes from labor claim a little more than 20 percent of the total income from labor (and in practice this means essentially wages); the least well paid 50 percent get about 35 percent of the total; and the 40 percent in the middle therefore receive roughly 45 percent of the total (see [Table 7.1](#)). This is not perfect equality, for in that case each group should receive the equivalent of its share of the population (the best paid 10 percent should get exactly 10 percent of the income, and the worst paid 50 percent should get 50 percent). But the inequality we see here is not too extreme, at least in comparison to what we observe in other countries or at other times, and it is not too extreme especially when compared with what we find almost everywhere for the ownership of capital, even in the Scandinavian countries.

TABLE 7.1.
Inequality of labor income across time and space

Share of different groups in total labor income	Low inequality (= Scandinavia, 1970s–1980s)	Medium inequality (= Europe 2010)	High inequality (= US 2010)	Very high inequality (= US 2030?)
The top 10% ("upper class")	20%	25%	35%	45%
Including the top 1% ("dominant class")	5%	7%	12%	17%
Including the next 9% ("well-to-do class")	15%	18%	23%	28%
The middle 40% ("middle class")	45%	45%	40%	35%
The bottom 50% ("lower class")	35%	30%	25%	20%
Corresponding Gini coefficient (synthetic inequality index)	0.19	0.26	0.36	0.46

Note: In societies where labor income inequality is relatively low (such as in Scandinavian countries in the 1970s–1980s), the top 10% most well paid receive about 20% of total labor income; the bottom 50% least well paid about 35%; the middle 40% about 45%. The corresponding Gini index (a synthetic inequality index with values from 0 to 1) is equal to 0.19. See the online technical appendix.

TABLE 7.2.
Inequality of capital ownership across time and space

Share of different groups in total capital	Low inequality (never observed; ideal society?)	Medium inequality (= Scandinavia, 1970s–1980s)	Medium–high inequality (= Europe 2010)	High inequality (= US 2010)	Very high inequality (= Europe 1910)
The top 10% “upper class”	30%	50%	60%	70%	90%
Including the top 1% (“dominant class”)	10%	20%	25%	35%	50%
Including the next 9% (“well-to-do class”)	20%	30%	35%	35%	40%
The middle 40% (“middle class”)	45%	40%	35%	25%	5%
The bottom 50% (“lower class”)	25%	10%	5%	5%	5%
Corresponding Gini coefficient (synthetic inequality index)	0.33	0.58	0.67	0.73	0.85

Note: In societies with “medium” inequality of capital ownership (such as Scandinavian countries in the 1970s–1980s), the top 10% richest in wealth own about 50% of aggregate wealth; the bottom 50% poorest about 10%; and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0.58. See the online technical appendix.

TABLE 7.3.
Inequality of total income (labor and capital) across time and space

Share of different groups in total income (labor + capital)	Low inequality ($\approx$ Scandinavia, 1970s–1980s)	Medium inequality ($\approx$ Europe 2010)	High inequality ($\approx$ US 2010, Europe 1910)	Very high inequality ($\approx$ US 2030?)
The top 10% ("upper class")	25%	35%	50%	60%
Including the top 1% ("dominant class")	7%	10%	20%	25%
Including the next 9% ("well-to-do class")	18%	25%	30%	35%
The middle 40% ("middle class")	45%	40%	30%	25%
The bottom 50% ("lower class")	30%	25%	20%	15%
Corresponding Gini coefficient (synthetic inequality index)	0.26	0.36	0.49	0.58

Note: In societies where the inequality of total income is relatively low (such as Scandinavian countries during the 1970s–1980s), the 10% highest incomes receive about 20% of total income; the 50% lowest incomes receive about 30%. The corresponding Gini coefficient is equal to 0.26. See the online technical appendix.

In order to have a clear idea of what these figures really mean, we need to relate distributions expressed as percentages of total income to the paychecks that flesh-and-blood workers actually receive as well as to the fortunes in real estate and financial assets owned by the people who actually make up these wealth hierarchies.

Concretely, if the best paid 10 percent receive 20 percent of total wages, then it follows mathematically that each person in this group earns on average twice the average pay in the country in question. Similarly, if the least well paid 50 percent receive 35 percent of total wages, it follows that each person in this group earns on average 70 percent of the average wage. And if the middle 40 percent receive 45 percent of the total wage, this means that the average wage of this group is slightly higher than the average pay for society as a whole (45/40 of the average, to be precise).

For example, if the average pay in a country is 2,000 euros per month, then this distribution implies that the top 10 percent earn 4,000 euros a month on average, the bottom 50 percent 1,400 euros a

month, and the middle 40 percent 2,250 a month. This intermediate group may be regarded as a vast “middle class” whose standard of living is determined by the average wage of the society in question.

Lower, Middle, and Upper Classes

To be clear, the designations “lower class” (defined as the bottom 50 percent), “middle class” (the middle 40 percent), and “upper class” (top 10 percent) that I use in [Tables 7.1–3](#) are quite obviously arbitrary and open to challenge. I introduce these terms purely for illustrative purposes, to pin down my ideas, but in fact they play virtually no role in the analysis, and I might just as well have called them “Class A,” “Class B,” and “Class C.” In political debate, however, such terminological issues are generally far from innocent. The way the population is divided up usually reflects an implicit or explicit position concerning the justice and legitimacy of the amount of income or wealth claimed by a particular group.

For example, some people use the term “middle class” very broadly to encompass individuals who clearly fall within the upper decile (that is, the top 10 percent) of the social hierarchy and who may even be quite close to the upper centile (the top 1 percent). Generally, the purpose of such a broad definition of the middle class is to insist that even though such individuals dispose of resources considerably above the average for the society in question, they nevertheless retain a certain proximity to the average: in other words, the point is to say that such individuals are not privileged and fully deserve the indulgence of the government, particularly in regard to taxes.

Other commentators reject any notion of “middle class” and prefer to describe the social structure as consisting of just two groups: “the people,” who constitute the vast minority, and a tiny “elite” or “upper class.” Such a description may be accurate for some societies, or it may be applicable to certain political or historical contexts. For example, in France in 1789, it is generally estimated that the aristocracy represented 1–2 percent of the population, the clergy less than 1 percent, and the “Third Estate,” meaning (under the political system of the Ancien Régime) all the rest, from peasantry to bourgeoisie, more than 97 percent.

It is not my purpose to police dictionaries or linguistic usage. When it comes to designating social groups, everyone is right and wrong at the same time. Everyone has good reasons for using certain terms but is wrong to denigrate the terms used by others. My definition of “middle class” (as the “middle” 40 percent) is highly contestable, since the income (or wealth) of everyone in the group is, by construction, above the median for the society in question. One might equally well choose to divide society into three thirds and call the middle third the “middle class.” Still, the definition I have given seems to me to correspond more closely to common usage: the expression “middle class” is generally used to refer to people who are doing distinctly better than the bulk of the population yet still a long way from the true “elite.” Yet all such designations are open to challenge, and there is no need for me to take a position on this delicate issue, which is not just linguistic but also political.

The truth is that any representation of inequality that relies on a small number of categories is doomed to be crudely schematic, since the underlying social reality is always a continuous distribution. At any given level of wealth or income there is always a certain number of flesh-and-blood individuals, and the number of such individuals varies slowly and gradually in accordance with the shape of the distribution in the society in question. There is never a discontinuous break between

social classes or between “people” and “elite.” For that reason, my analysis is based entirely on statistical concepts such as deciles (top 10 percent, middle 40 percent, lower 50 percent, etc.), which are defined in exactly the same way in different societies. This allows me to make rigorous and objective comparisons across time and space without denying the intrinsic complexity of each particular society or the fundamentally continuous structure of social inequality.

Class Struggle or Centile Struggle?

My fundamental goal is to compare the structure of inequality in societies remote from one another in time and space, societies that are very different a priori, and in particular societies that use totally different words and concepts to refer to the social groups that compose them. The concepts of deciles and centiles are rather abstract and undoubtedly lack a certain poetry. It is easier for most people to identify with groups with which they are familiar: peasants or nobles, proletarians or bourgeois, office workers or top managers, waiters or traders. But the beauty of deciles and centiles is precisely that they enable us to compare inequalities that would otherwise be incomparable, using a common language that should in principle be acceptable to everyone.

When necessary, we will break down our groups even more finely, using centiles or even thousandths to register more precisely the continuous character of social inequality. Specifically, in every society, even the most egalitarian, the upper decile is truly a world unto itself. It includes some people whose income is just two or three times greater than the mean and others whose resources are ten or twenty times greater, if not more. To start with, it is always enlightening to break the top decile down into two subgroups: the upper centile (which we might call the “dominant class” for the sake of concreteness, without claiming that this term is better than any other) and the remaining nine centiles (which we might call the “wealthy class” or “well-to-do”).

For example, if we look at the case where inequality of income from labor is relatively low (think Scandinavia), represented in [Table 7.1](#), with 20 percent of wages going to the best paid 10 percent of workers, we find that the share going to the top 1 percent is typically on the order of 5 percent of total wages. This means that the top 1 percent of earners make on average five times the mean wage, or 10,000 euros per month, in a society in which the average wage is 2,000 euros per month. In other words, the best paid 10 percent earn 4,000 euros a month on average, but within that group the top 1 percent earn an average of 10,000 euros a month (and the next 9 percent earn on average 3,330 euros a month). If we break this down even further and looked at the top thousandth (the best paid 0.1 percent) in the top centile, we find individuals earning tens of thousands of euros a month and a few earning hundreds of thousands, even in the Scandinavian countries in the 1970s and 1980s. Of course there would not be many such people, so their weight in the sum total of all wages would be relatively small.

Thus to judge the inequality of a society, it is not enough to observe that some individuals earn very high incomes. For example, to say that the “income scale goes from 1 to 10” or even “1 to 100” does not actually tell us very much. We also need to know how many people earn the incomes at each level. The share of income (or wealth) going to the top decile or centile is a useful index for judging how unequal a society is, because it reflects not just the existence of extremely high incomes or extremely large fortunes but also the number of individuals who enjoy such rewards.

The top centile is a particularly interesting group to study in the context of my historical investigation. Although it constitutes (by definition) a very small minority of the population, it is nevertheless far larger than the superelites of a few dozen or hundred individuals on whom attention is sometimes focused (such as the “200 families” of France, to use the designation widely applied in the interwar years to the 200 largest stockholders of the Banque de France, or the “400 richest Americans” or similar rankings established by magazines like *Forbes*). In a country of almost 65 million people such as France in 2013, of whom some 50 million are adults, the top centile comprises some 500,000 people. In a country of 320 million like the United States, of whom 260 million are adults, the top centile consists of 2.6 million individuals. These are numerically quite large groups who inevitably stand out in society, especially when the individuals included in them tend to live in the same cities and even to congregate in the same neighborhoods. In every country the upper centile occupies a prominent place in the social landscape and not just in the income distribution.

Thus in every society, whether France in 1789 (when 1–2 percent of the population belonged to the aristocracy) or the United States in 2011 (when the Occupy Wall Street movement aimed its criticism at the richest 1 percent of the population), the top centile is a large enough group to exert a significant influence on both the social landscape and the political and economic order.

This shows why deciles and centiles are so interesting to study. How could one hope to compare inequalities in societies as different as France in 1789 and the United States in 2011 other than by carefully examining deciles and centiles and estimating the shares of national wealth and income going to each? To be sure, this procedure will not allow us to eliminate every problem or settle every question, but at least it will allow us to say something—and that is far better than not being able to say anything at all. We can therefore try to determine whether “the 1 percent” had more power under Louis XVI or under George Bush and Barack Obama.

To return for a moment to the Occupy Wall Street movement, what it shows is that the use of a common terminology, and in particular the concept of the “top centile,” though it may at first glance seem somewhat abstract, can be helpful in revealing the spectacular growth of inequality and may therefore serve as a useful tool for social interpretation and criticism. Even mass social movements can avail themselves of such a tool to develop unusual mobilizing themes, such as “We are the 99 percent!” This might seem surprising at first sight, until we remember that the title of the famous pamphlet that Abbé Sieyès published in January 1789 was “What Is the Third Estate?”

I should also make it clear that the hierarchies (and therefore centiles and deciles) of income are not the same as those of wealth. The top 10 percent or bottom 50 percent of the labor income distribution are not the same people who constitute the top 10 percent or bottom 50 percent of the wealth distribution. The “1 percent” who earn the most are not the same as the “1 percent” who own the most. Deciles and centiles are defined separately for income from labor, ownership of capital, and total income (from both labor and capital), with the third being a synthesis of the first two dimensions and thus defining a composite social hierarchy. It is always essential to be clear about which hierarchy one is referring to. In traditional societies, the correlation between the two dimensions was often negative (because people with large fortunes did not work and were therefore at the bottom of the labor income hierarchy). In modern societies, the correlation is generally positive but never perfect (the coefficient of correlation is always less than one). For example, many people

belong to the upper class in terms of labor income but to the lower class in terms of wealth, and vice versa. Social inequality is multidimensional, just like political conflict.

Note, finally, that the income and wealth distributions described in [Tables 7.1–3](#) and analyzed in this and subsequent chapters are in all cases “primary” distributions, meaning before taxes. Depending on whether the tax system (and the public services and transfer payments it finances) is “progressive” or “regressive” (meaning that it weighs more or less heavily on different groups depending on whether they stand high or low in the income or wealth hierarchy), the after-tax distribution may be more or less egalitarian than the before-tax distribution. I will come back to this in [Part Four](#), along with many other questions related to redistribution. At this stage only the before-tax distribution requires consideration.

Inequalities with Respect to Labor: Moderate Inequality?

To return to the question of orders of magnitude of inequality: To what extent are inequalities of income from labor moderate, reasonable, or even no longer an issue today? It is true that inequalities with respect to labor are always much smaller than inequalities with respect to capital. It would be quite wrong, however, to neglect them, first because income from labor generally accounts for two-thirds to three-quarters of national income, and second because there are quite substantial differences between countries in the distribution of income from labor, which suggests that public policies and national differences can have major consequences for these inequalities and for the living conditions of large numbers of people.

In countries where income from labor is most equally distributed, such as the Scandinavian countries between 1970 and 1990, the top 10 percent of earners receive about 20 percent of total wages and the bottom 50 percent about 35 percent. In countries where wage inequality is average, including most European countries (such as France and Germany) today, the first group claims 25–30 percent of total wages, and the second around 30 percent. And in the most inegalitarian countries, such as the United States in the early 2010s (where, as will emerge later, income from labor is about as unequally distributed as has ever been observed anywhere), the top decile gets 35 percent of the total, whereas the bottom half gets only 25 percent. In other words, the equilibrium between the two groups is almost completely reversed. In the most egalitarian countries, the bottom 50 percent receive nearly twice as much total income as the top 10 percent (which some will say is still too little, since the former group is five times as large as the latter), whereas in the most inegalitarian countries the bottom 50 percent receive one-third less than the top group. If the growing concentration of income from labor that has been observed in the United States over the last few decades were to continue, the bottom 50 percent could earn just half as much in total compensation as the top 10 percent by 2030 (see [Table 7.1](#)). Obviously there is no certainty that this evolution will in fact continue, but the point illustrates the fact that recent changes in the income distribution have by no means been painless.

In concrete terms, if the average wage is 2,000 euros a month, the egalitarian (Scandinavian) distribution corresponds to 4,000 euros a month for the top 10 percent of earners (and 10,000 for the top 1 percent), 2,250 a month for the 40 percent in the middle, and 1,400 a month for the bottom 50 percent, where the more inegalitarian (US) distribution corresponds to a markedly steeper hierarchy: 7,000 euros a month for the top 10 percent (and 24,000 for the top 1 percent), 2,000 for the middle 40

percent, and just 1,000 for the bottom 50 percent.

For the least-favored half of the population, the difference between the two income distributions is therefore far from negligible: if a person earns 1,400 euros a month instead of 1,000—40 percent additional income—even leaving taxes and transfers aside, the consequences for lifestyle choices, housing, vacation opportunities, and money to spend on projects, children, and so on are considerable. In most countries, moreover, women are in fact significantly overrepresented in the bottom 50 percent of earners, so that these large differences between countries reflect in part differences in the male-female wage gap, which is smaller in northern Europe than elsewhere.

The gap between the two distributions is also significant for the top-earning group: a person who all his or her life earns 7,000 euros a month rather than 4,000 (or, even better, 24,000 instead of 10,000), will not spend money on the same things and will have greater power not only over what he or she buys but also over other people: for instance, this person can hire less well paid individuals to serve his or her needs. If the trend observed in the United States were to continue, then by 2030 the top 10 percent of earners will be making 9,000 euros a month (and the top 1 percent, 34,000 euros), the middle 40 percent will earn 1,750, and the bottom 50 percent just 800 a month. The top 10 percent could therefore use a small portion of their incomes to hire many of the bottom 50 percent as domestic servants.

Clearly, then, the same mean wage is compatible with very different distributions of income from labor, which can result in very disparate social and economic realities for different social groups. In some cases, these inequalities may give rise to conflict. It is therefore important to understand the economic, social, and political forces that determine the degree of labor income inequality in different societies.

Inequalities with Respect to Capital: Extreme Inequality

Although inequality with respect to income from labor is sometimes seen—incorrectly—as moderate inequality that no longer gives rise to conflict, this is largely a consequence of comparing it with the distribution of capital ownership, which is extremely inegalitarian everywhere (see [Table 7.2](#)).

In the societies where wealth is most equally distributed (once again, the Scandinavian countries in the 1970s and 1980s), the richest 10 percent own around 50 percent of national wealth or even a bit more, somewhere between 50 and 60 percent, if one properly accounts for the largest fortunes. Currently, in the early 2010s, the richest 10 percent own around 60 percent of national wealth in most European countries, and in particular in France, Germany, Britain, and Italy.

The most striking fact is no doubt that in all these societies, half of the population own virtually nothing: the poorest 50 percent invariably own less than 10 percent of national wealth, and generally less than 5 percent. In France, according to the latest available data (for 2010–2011), the richest 10 percent command 62 percent of total wealth, while the poorest 50 percent own only 4 percent. In the United States, the most recent survey by the Federal Reserve, which covers the same years, indicates that the top decile own 72 percent of America's wealth, while the bottom half claim just 2 percent. Note, however, that this source, like most surveys in which wealth is self-reported, underestimates the largest fortunes. As noted, moreover, it is also important to add that we find the same concentration of wealth within each age cohort.

Ultimately, inequalities of wealth in the countries that are most egalitarian in that regard (such as the Scandinavian countries in the 1970s and 1980s) appear to be considerably greater than wage inequalities in the countries that are most inegalitarian with respect to wages (such as the United States in the early 2010s: see [Tables 7.1](#) and [7.2](#)). To my knowledge, no society has ever existed in which ownership of capital can reasonably be described as “mildly” inegalitarian, by which I mean a distribution in which the poorest half of society would own a significant share (say, one-fifth to one-quarter) of total wealth. Optimism is not forbidden, however, so I have indicated in [Table 7.2](#) a virtual example of a possible distribution of wealth in which inequality would be “low,” or at any rate lower than it is in Scandinavia (where it is “medium”), Europe (“medium-to-high”), or the United States (“high”). Of course, how one might go about establishing such an “ideal society”—assuming that such low inequality of wealth is indeed a desirable goal—remains to be seen (I will return to this central question in [Part Four](#)).

As in the case of wage inequality, it is important to have a good grasp of exactly what these wealth figures mean. Imagine a society in which average net wealth is 200,000 euros per adult, which is roughly the case today in the richest European countries. As noted in [Part Two](#), this private wealth can be divided into two roughly equal parts: real estate on the one hand and financial and business assets on the other (these include bank deposits, savings plans, portfolios of stocks and bonds, life insurance, pension funds, etc., net of debts). Of course these are average figures, and there are large variations between countries and enormous variations between individuals.

If the poorest 50 percent own 5 percent of total wealth, then by definition each member of that group owns on average the equivalent of 10 percent of the average individual wealth of society as a whole. In the example in the previous paragraph, it follows that each person among the poorest 50 percent possesses on average a net wealth of 20,000 euros. This is not nothing, but it is very little compared with the wealth of the rest of society.

Concretely, in such a society, the poorest half of the population will generally comprise a large number of people—typically a quarter of the population—with no wealth at all or perhaps a few thousand euros at most. Indeed, a nonnegligible number of people—perhaps one-twentieth to one-tenth of the population—will have slightly negative net wealth (their debts exceed their assets). Others will own small amounts of wealth up to about 60,000 or 70,000 euros or perhaps a bit more. This range of situations, including the existence of a large number of people with very close to zero absolute wealth, results in an average wealth of about 20,000 euros for the poorest half of the population. Some of these people may own real estate that remains heavily indebted, while others may possess very small nest eggs. Most, however, are renters whose only wealth consists of a few thousand euros of savings in a checking or savings account. If we included durable goods such as cars, furniture, appliances, and the like in wealth, then the average wealth of the poorest 50 percent would increase to no more than 30,000 or 40,000 euros.

For this half of the population, the very notions of wealth and capital are relatively abstract. For millions of people, “wealth” amounts to little more than a few weeks’ wages in a checking account or low-interest savings account, a car, and a few pieces of furniture. The inescapable reality is this: wealth is so concentrated that a large segment of society is virtually unaware of its existence, so that some people imagine that it belongs to surreal or mysterious entities. That is why it is so essential to

study capital and its distribution in a methodical, systematic way.

At the other end of the scale, the richest 10 percent own 60 percent of total wealth. It therefore follows that each member of this group owns on average 6 times the average wealth of the society in question. In the example, with an average wealth of 200,000 euros per adult, each of the richest 10 percent therefore owns on average the equivalent of 1.2 million euros.

The upper decile of the wealth distribution is itself extremely unequal, even more so than the upper decile of the wage distribution. When the upper decile claims about 60 percent of total wealth, as is the case in most European countries today, the share of the upper centile is generally around 25 percent and that of the next 9 percent of the population is about 35 percent. The members of the first group are therefore on average 25 times as rich as the average member of society, while the members of the second group are barely 4 times richer. Concretely, in the example, the average wealth of the top 10 percent is 1.2 million euros each, with 5 million euros each for the top 1 percent and a little less than 800,000 each for the next 9 percent.

In addition, the composition of wealth varies widely within this group. Nearly everyone in the top decile owns his or her own home, but the importance of real estate decreases sharply as one moves higher in the wealth hierarchy. In the “9 percent” group, at around 1 million euros, real estate accounts for half of total wealth and for some individuals more than three-quarters. In the top centile, by contrast, financial and business assets clearly predominate over real estate. In particular, shares of stock or partnerships constitute nearly the totality of the largest fortunes. Between 2 and 5 million euros, the share of real estate is less than one-third; above 5 million euros, it falls below 20 percent; above 10 million euros, it is less than 10 percent and wealth consists primarily of stock. Housing is the favorite investment of the middle class and moderately well-to-do, but true wealth always consists primarily of financial and business assets.

Between the poorest 50 percent (who own 5 percent of total wealth, or an average of 20,000 euros each in the example) and the richest 10 percent (who own 60 percent of total wealth, or an average of 1.2 million euros each) lies the middle 40 percent: this “middle class of wealth” owns 35 percent of total national wealth, which means that their average net wealth is fairly close to the average for society as a whole—in the example, it comes to exactly 175,000 euros per adult. Within this vast group, where individual wealth ranges from barely 100,000 euros to more than 400,000, a key role is often played by ownership of a primary residence and the way it is acquired and paid for. Sometimes, in addition to a home, there is also a substantial amount of savings. For example, a net capital of 200,000 euros may consist of a house valued at 250,000 euros, from which an outstanding mortgage balance of 100,000 euros must be deducted, together with savings of 50,000 euros invested in a life insurance policy or retirement savings account. When the mortgage is fully paid off, net wealth in this case will rise to 300,000 euros, or even more if the savings account has grown in the meantime. This is a typical trajectory in the middle class of the wealth hierarchy, who are richer than the poorest 50 percent (who own practically nothing) but poorer than the richest 10 percent (who own much more).

A Major Innovation: The Patrimonial Middle Class

Make no mistake: the growth of a true “patrimonial (or propertied) middle class” was the principal structural transformation of the distribution of wealth in the developed countries in the twentieth

century.

To go back a century in time, to the decade 1900–1910: in all the countries of Europe, the concentration of capital was then much more extreme than it is today. It is important to bear in mind the orders of magnitude indicated in [Table 7.2](#). In this period in France, Britain, and Sweden, as well as in all other countries for which we have data, the richest 10 percent owned virtually all of the nation's wealth: the share owned by the upper decile reached 90 percent. The wealthiest 1 percent alone owned more than 50 percent of all wealth. The upper centile exceeded 60 percent in some especially inegalitarian countries, such as Britain. On the other hand, the middle 40 percent owned just over 5 percent of national wealth (between 5 and 10 percent depending on the country), which was scarcely more than the poorest 50 percent, who then as now owned less than 5 percent.

In other words, there was no middle class in the specific sense that the middle 40 percent of the wealth distribution were almost as poor as the bottom 50 percent. The vast majority of people owned virtually nothing, while the lion's share of society's assets belonged to a minority. To be sure, this was not a tiny minority: the upper decile comprised an elite far larger than the upper centile, which even so included a substantial number of people. Nevertheless, it was a minority. Of course, the distribution curve was continuous, as it is in all societies, but its slope was extremely steep in the neighborhood of the top decile and centile, so that there was an abrupt transition from the world of the poorest 90 percent (whose members had at most a few tens of thousands of euros' worth of wealth in today's currency) to that of the richest 10 percent, whose members owned the equivalent of several million euros or even tens of millions of euros.

The emergence of a patrimonial middle class was an important, if fragile, historical innovation, and it would be a serious mistake to underestimate it. To be sure, it is tempting to insist on the fact that wealth is still extremely concentrated today: the upper decile own 60 percent of Europe's wealth and more than 70 percent in the United States. And the poorer half of the population are as poor today as they were in the past, with barely 5 percent of total wealth in 2010, just as in 1910. Basically, all the middle class managed to get its hands on was a few crumbs: scarcely more than a third of Europe's wealth and barely a quarter in the United States. This middle group has four times as many members as the top decile yet only one-half to one-third as much wealth. It is tempting to conclude that nothing has really changed: inequalities in the ownership of capital are still extreme (see [Table 7.2](#)).

None of this is false, and it is essential to be aware of these things: the historical reduction of inequalities of wealth is less substantial than many people believe. Furthermore, there is no guarantee that the limited compression of inequality that we have seen is irreversible. Nevertheless, the crumbs that the middle class has collected are important, and it would be wrong to underestimate the historical significance of the change. A person who has a fortune of 200,000 to 300,000 euros may not be rich but is a long way from being destitute, and most of these people do not like to be treated as poor. Tens of millions of individuals—40 percent of the population represents a large group, intermediate between rich and poor—individually own property worth hundreds of thousands of euros and collectively lay claim to one-quarter to one-third of national wealth: this is a change of some moment. In historical terms, it was a major transformation, which deeply altered the social landscape and the political structure of society and helped to redefine the terms of distributive conflict. It is therefore essential to understand why it occurred.

The rise of a propertied middle class was accompanied by a very sharp decrease in the wealth share of the upper centile, which fell by more than half, going from more than 50 percent in Europe at the turn of the twentieth century to around 20–25 percent at the end of that century and beginning of the next. As we will see, this partly invalidated Vautrin's lesson, in that the number of fortunes large enough to allow a person to live comfortably on annual rents decreased dramatically: an ambitious young Rastignac could no longer live better by marrying Mademoiselle Victorine than by studying law. This was historically important, because the extreme concentration of wealth in Europe around 1900 was in fact characteristic of the entire nineteenth century. All available sources agree that these orders of magnitude—90 percent of wealth for the top decile and at least 50 percent for the top centile—were also characteristic of traditional rural societies, whether in Ancien Régime France or eighteenth-century England. Such concentration of capital is in fact a necessary condition for societies based on accumulated and inherited wealth, such as those described in the novels of Austen and Balzac, to exist and prosper. Hence one of the main goals of this book is to understand the conditions under which such concentrated wealth can emerge, persist, vanish, and perhaps reappear.

Inequality of Total Income: Two Worlds

Finally, let us turn now to inequality of total income, that is, of income from both labor and capital (see [Table 7.3](#)). Unsurprisingly, the level of inequality of total income falls between inequality of income from labor and inequality of ownership of capital. Note, too, that inequality of total income is closer to inequality of income from labor than to inequality of capital, which comes as no surprise, since income from labor generally accounts for two-thirds to three-quarters of total national income. Concretely, the top decile of the income hierarchy received about 25 percent of national income in the egalitarian societies of Scandinavia in the 1970s and 1980s (it was 30 percent in Germany and France at that time and is more than 35 percent now). In more inegalitarian societies, the top decile claimed as much as 50 percent of national income (with about 20 percent going to the top centile). This was true in France and Britain during the Ancien Régime as well as the Belle Époque and is true in the United States today.

Is it possible to imagine societies in which the concentration of income is much greater? Probably not. If, for example, the top decile appropriates 90 percent of each year's output (and the top centile took 50 percent just for itself, as in the case of wealth), a revolution will likely occur, unless some peculiarly effective repressive apparatus exists to keep it from happening. When it comes to the ownership of capital, such a high degree of concentration is already a source of powerful political tensions, which are often difficult to reconcile with universal suffrage. Yet such capital concentration might be tenable if the income from capital accounts for only a small part of national income: perhaps one-fourth to one-third, or sometimes a bit more, as in the Ancien Régime (which made the extreme concentration of wealth at that time particularly oppressive). But if the same level of inequality applies to the totality of national income, it is hard to imagine that those at the bottom will accept the situation permanently.

That said, there are no grounds for asserting that the upper decile can never claim more than 50 percent of national income or that a country's economy would collapse if this symbolic threshold were crossed. In fact, the available historical data are far from perfect, and it is not out of the

question that this symbolic limit has already been exceeded. In particular, it is possible that under the Ancien Régime, right up to the eve of the French Revolution, the top decile did take more than 50 percent and even as much as 60 percent or perhaps slightly more of national income. More generally, this may have been the case in other traditional rural societies. Indeed, whether such extreme inequality is or is not sustainable depends not only on the effectiveness of the repressive apparatus but also, and perhaps primarily, on the effectiveness of the apparatus of justification. If inequalities are seen as justified, say because they seem to be a consequence of a choice by the rich to work harder or more efficiently than the poor, or because preventing the rich from earning more would inevitably harm the worst-off members of society, then it is perfectly possible for the concentration of income to set new historical records. That is why I indicate in [Table 7.3](#) that the United States may set a new record around 2030 if inequality of income from labor—and to a lesser extent inequality of ownership of capital—continue to increase as they have done in recent decades. The top decile would then claim about 60 percent of national income, while the bottom half would get barely 15 percent.

I want to insist on this point: the key issue is the justification of inequalities rather than their magnitude as such. That is why it is essential to analyze the structure of inequality. In this respect, the principal message of [Tables 7.1–3](#) is surely that there are two different ways for a society to achieve a very unequal distribution of total income (around 50 percent for the top decile and 20 percent for the top centile).

The first of these two ways of achieving such high inequality is through a “hyperpatrimonial society” (or “society of rentiers”): a society in which inherited wealth is very important and where the concentration of wealth attains extreme levels (with the upper decile owning typically 90 percent of all wealth, with 50 percent belonging to the upper centile alone). The total income hierarchy is then dominated by very high incomes from capital, especially inherited capital. This is the pattern we see in Ancien Régime France and in Europe during the Belle Époque, with on the whole minor variations. We need to understand how such structures of ownership and inequality emerged and persisted and to what extent they belong to the past—unless of course they are also pertinent to the future.

The second way of achieving such high inequality is relatively new. It was largely created by the United States over the past few decades. Here we see that a very high level of total income inequality can be the result of a “hypermeritocratic society” (or at any rate a society that the people at the top like to describe as hypermeritocratic). One might also call this a “society of superstars” (or perhaps “supermanagers,” a somewhat different characterization). In other words, this is a very inegalitarian society, but one in which the peak of the income hierarchy is dominated by very high incomes from labor rather than by inherited wealth. I want to be clear that at this stage I am not making a judgment about whether a society of this kind really deserves to be characterized as “hypermeritocratic.” It is hardly surprising that the winners in such a society would wish to describe the social hierarchy in this way, and sometimes they succeed in convincing some of the losers. For present purposes, however, hypermeritocracy is not a hypothesis but one possible conclusion of the analysis—bearing in mind that the opposite conclusion is equally possible. I will analyze in what follows how far the rise of labor income inequality in the United States has obeyed a “meritocratic” logic (insofar as it is possible to answer such a complex normative question).

At this point it will suffice to note that the stark contrast I have drawn here between two types of hyperinegalitarian society—a society of rentiers and a society of supermanagers—is naïve and overdrawn. The two types of inequality can coexist: there is no reason why a person can't be both a supermanager and a rentier—and the fact that the concentration of wealth is currently much higher in the United States than in Europe suggests that this may well be the case in the United States today. And of course there is nothing to prevent the children of supermanagers from becoming rentiers. In practice, we find both logics at work in every society. Nevertheless, there is more than one way of achieving the same level of inequality, and what primarily characterizes the United States at the moment is a record level of inequality of income from labor (probably higher than in any other society at any time in the past, anywhere in the world, including societies in which skill disparities were extremely large) together with a level of inequality of wealth less extreme than the levels observed in traditional societies or in Europe in the period 1900–1910. It is therefore essential to understand the conditions under which each of these two logics could develop, while keeping in mind that they may complement each other in the century ahead and combine their effects. If this happens, the future could hold in store a new world of inequality more extreme than any that preceded it.

Problems of Synthetic Indices

Before turning to a country-by-country examination of the historical evolution of inequality in order to answer the questions posed above, several methodological issues remain to be discussed. In particular, [Tables 7.1–3](#) include indications of the Gini coefficients of the various distributions considered. The Gini coefficient—named for the Italian statistician Corrado Gini (1884–1965)—is one of the more commonly used synthetic indices of inequality, frequently found in official reports and public debate. By construction, it ranges from 0 to 1: it is equal to 0 in case of complete equality and to 1 when inequality is absolute, that is, when a very tiny group owns all available resources.

In practice, the Gini coefficient varies from roughly 0.2 to 0.4 in the distributions of labor income observed in actual societies, from 0.6 to 0.9 for observed distributions of capital ownership, and from 0.3 to 0.5 for total income inequality. In Scandinavia in the 1970s and 1980s, the Gini coefficient of the labor income distribution was 0.19, not far from absolute equality. Conversely, the wealth distribution in Belle Époque Europe exhibited a Gini coefficient of 0.85, not far from absolute inequality.

These coefficients—and there are others, such as the Theil index—are sometimes useful, but they raise many problems. They claim to summarize in a single numerical index all that a distribution can tell us about inequality—the inequality between the bottom and the middle of the hierarchy as well as between the middle and the top or between the top and the very top. This is very simple and appealing at first glance but inevitably somewhat misleading. Indeed, it is impossible to summarize a multidimensional reality with a unidimensional index without unduly simplifying matters and mixing up things that should not be treated together. The social reality and economic and political significance of inequality are very different at different levels of the distribution, and it is important to analyze these separately. In addition, Gini coefficients and other synthetic indices tend to confuse inequality in regard to labor with inequality in regard to capital, even though the economic mechanisms at work, as well as the normative justifications of inequality, are very different in the two

cases. For all these reasons, it seemed to me far better to analyze inequalities in terms of distribution tables indicating the shares of various deciles and centiles in total income and total wealth rather than using synthetic indices such as the Gini coefficient.

Distribution tables are also valuable because they force everyone to take note of the income and wealth levels of the various social groups that make up the existing hierarchy. These levels are expressed in cash terms (or as a percentage of average income and wealth levels in the country concerned) rather than by way of artificial statistical measures that can be difficult to interpret. Distribution tables allow us to have a more concrete and visceral understanding of social inequality, as well as an appreciation of the data available to study these issues and the limits of those data. By contrast, statistical indices such as the Gini coefficient give an abstract and sterile view of inequality, which makes it difficult for people to grasp their position in the contemporary hierarchy (always a useful exercise, particularly when one belongs to the upper centiles of the distribution and tends to forget it, as is often the case with economists). Indices often obscure the fact that there are anomalies or inconsistencies in the underlying data, or that data from other countries or other periods are not directly comparable (because, for example, the tops of the distribution have been truncated or because income from capital is omitted for some countries but not others). Working with distribution tables forces us to be more consistent and transparent.

The Chaste Veil of Official Publications

For similar reasons, caution is in order when using indices such as the interdecile ratios often cited in official reports on inequality from the OECD or national statistical agencies. The most frequently used interdecile ratio is the P90/P10, that is, the ratio between the ninetieth percentile of the income distribution and the tenth percentile. For example, if one needs to earn more than 5,000 euros a month to belong to the top 10 percent of the income distribution and less than 1,000 euros a month to belong to the bottom 10 percent, then the P90/P10 ratio is 5.

Such indices can be useful. It is always valuable to have more information about the complete shape of the distribution in question. One should bear in mind, however, that by construction these ratios totally ignore the evolution of the distribution beyond the ninetieth percentile. Concretely, no matter what the P90/P10 ratio may be, the top decile of the income or wealth distribution may have 20 percent of the total (as in the case of Scandinavian incomes in the 1970s and 1980s) or 50 percent (as in the case of US incomes in the 2010s) or 90 percent (as in the case of European wealth in the Belle Époque). We will not learn any of this by consulting the publications of the international organizations or national statistical agencies who compile these statistics, however, because they usually focus on indices that deliberately ignore the top end of the distribution and give no indication of income or wealth beyond the ninetieth percentile.

This practice is generally justified on the grounds that the available data are “imperfect.” This is true, but the difficulties can be overcome by using adequate sources, as the historical data collected (with limited means) in the World Top Incomes Database (WTID) show. This work has begun, slowly, to change the way things are done. Indeed, the methodological decision to ignore the top end is hardly neutral: the official reports of national and international agencies are supposed to inform public debate about the distribution of income and wealth, but in practice they often give an

artificially rosy picture of inequality. It is as if an official government report on inequalities in France in 1789 deliberately ignored everything above the ninetieth percentile—a group 5 to 10 times larger than the entire aristocracy of the day—on the grounds that it was too complex to say anything about. Such a chaste approach is all the more regrettable in that it inevitably feeds the wildest fantasies and tends to discredit official statistics and statisticians rather than calm social tensions.

Conversely, interdecile ratios are sometimes quite high for largely artificial reasons. Take the distribution of capital ownership, for example: the bottom 50 percent of the distribution generally own next to nothing. Depending on how small fortunes are measured—for example, whether or not durable goods and debts are counted—one can come up with apparently quite different evaluations of exactly where the tenth percentile of the wealth hierarchy lies: for the same underlying social reality, one might put it at 100 euros, 1,000 euros, or even 10,000 euros, which in the end isn't all that different but can lead to very different interdecile ratios, depending on the country and the period, even though the bottom half of the wealth distribution owns less than 5 percent of total wealth. The same is only slightly less true of the labor income distribution: depending on how one chooses to treat replacement incomes and pay for short periods of work (for example, depending on whether one uses the average weekly, monthly, annual, or decadal income) one can come up with highly variable P10 thresholds (and therefore interdecile ratios), even though the bottom 50 percent of the labor income distribution actually draws a fairly stable share of the total income from labor.

This is perhaps one of the main reasons why it is preferable to study distributions as I have presented them in [Tables 7.1–3](#), that is, by emphasizing the shares of income and wealth claimed by different groups, particularly the bottom half and the top decile in each society, rather than the threshold levels defining given percentiles. The shares give a much more stable picture of reality than the interdecile ratios.

Back to “Social Tables” and Political Arithmetic

These, then, are my reasons for believing that the distribution tables I have been examining in this chapter are the best tool for studying the distribution of wealth, far better than synthetic indices and interdecile ratios.

In addition, I believe that my approach is more consistent with national accounting methods. Now that national accounts for most countries enable us to measure national income and wealth every year (and therefore average income and wealth, since demographic sources provide easy access to population figures), the next step is naturally to break down these total income and wealth figures by decile and centile. Many reports have recommended that national accounts be improved and “humanized” in this way, but little progress has been made to date. A useful step in this direction would be a breakdown indicating the poorest 50 percent, the middle 40 percent, and the richest 10 percent. In particular, such an approach would allow any observer to see just how much the growth of domestic output and national income is or is not reflected in the income actually received by these different social groups. For instance, only by knowing the share going to the top decile can we determine the extent to which a disproportionate share of growth has been captured by the top end of the distribution. Neither a Gini coefficient nor an interdecile ratio permits such a clear and precise response to this question.

I will add, finally, that the distribution tables whose use I am recommending are in some ways fairly similar to the “social tables” that were in vogue in the eighteenth and early nineteenth centuries. First developed in Britain and France in the late seventeenth century, these social tables were widely used, improved, and commented on in France during the Enlightenment: for example, in the celebrated article on “political arithmetic” in Diderot’s *Encyclopedia*. From the earliest versions established by Gregory King in 1688 to the more elaborate examples compiled by Expilly and Isnard on the eve of the French Revolution or by Peuchet, Colqhoun, and Blodget during the Napoleonic era, social tables always aimed to provide a comprehensive vision of the social structure: they indicated the number of nobles, bourgeois, gentlemen, artisans, farmers, and so on along with their estimated income (and sometimes wealth); the same authors also compiled the earliest estimates of national income and wealth. There is, however, one essential difference between these tables and mine: the old social tables used the social categories of their time and did not seek to ascertain the distribution of wealth or income by deciles and centiles.

Nevertheless, social tables sought to portray the flesh-and-blood aspects of inequality by emphasizing the shares of national wealth held by different social groups (and, in particular, the various strata of the elite), and in this respect there are clear affinities with the approach I have taken here. At the same time, social tables are remote in spirit from the sterile, atemporal statistical measures of inequality such as those employed by Gini and Pareto, which were all too commonly used in the twentieth century and tend to naturalize the distribution of wealth. The way one tries to measure inequality is never neutral.