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Review of: *Top Incomes Over the 20<sup>th</sup> Century: A Contrast Between Continental European and English-Speaking Countries* by A.B. Atkinson and T. Piketty Oxford University Press, 2007, xvii +585 pp.

Sometimes, a book really does change the way events are perceived and the type and direction of future research. This is such a book. For specialists, it will be an invaluable reference and source of data for years to come.

The book begins with a summary of main results by Piketty and a survey of methodological issues by Atkinson – who also set the book's tone with chapters on France 1901-98 and the UK 1908-2000. In France, Piketty shows how between 1920 and 1945 the top 1% saw their rentier incomes decimated by inflation, the Depression, and wartime destruction – and how progressive taxation has prevented a rebuilding of elite income concentration. In the UK, Atkinson documents the decline in concentration of capital income over the first three-quarters of the century and the rise in top earnings in the last two decades. Like all the other contributions to this volume, both chapters are compulsively documented and accompanied by massive tables of detailed data.

There is a common template to the chapters which follow on the United States 1913-2002 (Piketty and Saez), Canada 1920-2000 (Saez and Veall), Australia 1921-2002 (Atkinson and Leigh), New Zealand 1921-2002 (Atkinson and Leigh), Germany 1891-1998 (Dell), the Netherlands 1914-99 (Salverda and Atkinson), Switzerland 1901-2002 (Dell, Piketty and Saez) and Ireland 1922-2000 (Nolan). Each chapter details the idiosyncratic peculiarities of their income tax data, estimates a control total for total income, uses interpolation techniques on grouped data to estimate the shape of the top end of the income distribution, derives the income share of the top 90<sup>th</sup> to 95<sup>th</sup>, 95<sup>th</sup> to

99<sup>th</sup>, top 1% and top 0.1%, plots income shares over time, attempts to decompose top incomes into labour and capital components and speculates (briefly) on possible causes.

Atkinson and Piketty then compare the underlying data and draw together the results – emphasizing a roughly common trend of sharply decreasing inequality until about 1950, followed by slower declines or rough constancy for about thirty years. However, since the 1980s the share of the top 10% in English speaking countries has increased – driven entirely by sharply higher incomes for the top 1%, with even greater gains for the top 0.1% and 0.01%. This is a striking contrast with Continental Europe, where the income share of the top 1% has not risen.

To understand the importance of this book, one must realize that labour economists have authored most of the voluminous recent research on inequality trends. Historically, discussion of economic inequality had often focused on Ricardo's 'principal problem of political economy' – the division of national income between factors of production – and the associated issue of economic elites and the concentration of ownership of wealth. However, labour economists have tended to focus on the distribution of income among individuals, and particularly on earnings differentials in the work force as a whole – and labour economics has been a booming field. In the same way as the development of more powerful microscopes in the 19<sup>th</sup> century enabled new debates on biological processes (because these processes could suddenly be observed), the wide availability of computer technology and survey-based micro-data in the late 20<sup>th</sup> century enabled an explosion of empirical research on the role of individual characteristics in income determination.

Much has been learned as a result, but survey-based micro data, which has only been around since the 1970s, cannot possibly provide a really long-run perspective on income determination processes. Such data may give a reliable picture of the middle 90%

or so of the income distribution, but both the homeless at the bottom and the super-rich at the top are often not there – and when the total sample is a few thousand large, sampling variability in the incomes of the top 1% or 0.1% of reported incomes precludes any reliable characterization of the upper tail. As a result, the labour literature is replete with large statements on ‘inequality’ relying on measures (such as the 90/10 ratio) which omit elite outcomes altogether.

Atkinson and Piketty demonstrate convincingly that the upper tail – specifically, the top 1% – is precisely where the real action in income distribution has been for the last twenty years, in English-speaking countries at least. Their book brings together a unified data base with the millions of observations necessary to make firm statements about the top 1%, 0.1% and 0.01% of the income distribution which will doubtless be the basis for many future papers. They pose an intriguing research question for those economists who look to technological changes and factor scarcities to explain distributional changes – just why is it that there was such a fundamental divergence in trends between Continental Europe and the English-speaking nations? And their work redirects the focus of economic research to an old and unresolved issue – the long term stability of societies where the gains from growth are increasingly concentrated in elite incomes.

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