A Treasure-Trove of Data on Inequality

Author : Theodore P. Seto

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Guido Alfani, Economic Inequality in Preindustrial Times: Europe and Beyond, 59 **J. Econ. Lit.** 3 (2021).

One of the hottest issues in fiscal policy today is how to reduce economic inequality. Louis Kaplow and Steven Shavell have famously asserted (here and here) that redistribution should be limited to the tax system. Edward Kleinbard urged a more expansive consideration of tax and transfer systems, admitting the possibility of regressive taxation to fund progressive spending. Daniel Hemel has raised the possibility of considering distributive consequences in cost-benefit analysis generally, not merely in the tax and transfer context – a move that President Biden authorized on his first day in office. I have argued that we cannot understand inequality without understanding a society's nontax extractive rules – what I call "implicit taxation." A recent Wall Street Journal op-ed claims, by contrast, that: "Not only is income inequality in America not growing, it is lower today than it was 50 years ago." The op-ed reports a current U.S. income Gini index, after federal taxes and transfers, of less than 0.34, lower than the corresponding figure for 1970, when the top marginal income tax rate was 71.75%. (The Gini is a measure of inequality. A Gini of 0 means perfect equality; a Gini of 1 means perfect inequality.)

To date, this debate has been based primarily on data from the 19th and 20th centuries. In *Economic Inequality in Preindustrial Times: Europe and Beyond*, Guido Alfani reviews a new and rapidly expanding literature on wealth and income inequality in earlier eras and explores implications of that literature for existing theories of the causes and sources of inequality.

Alfani reports that Athens in its heyday boasted an income Gini of 0.4 – 0.45. The early Roman empire clocked in at 0.364 – 0.394, becoming more unequal (0.413) at its apogee, and declining to close to complete equality (0.13 – 0.15) by 600 or 700 CE, after its collapse. (Ginis tend to decline as societies approach Malthusian limits.) In its early years, the United States suffered from significantly more income inequality than it does today, 0.441 in 1774 rising to 0.511 in 1860, although the U.S. was more egalitarian than much of Europe at the time of the Revolution. In the late 1700s, the Gini coefficient of England and Wales was 0.52 – 0.53, of Holland 0.63, and of the southern Low Countries 0.57 – all higher than in the United States.

For theorists, however, the core finding that emerges from Alfani's literature review is that European income inequality rose consistently and linearly from about 1450 (upon the recovery from the bubonic plague in the 14th century) to the First and Second World Wars. It did so regardless of whether economies were growing, stagnating, or shrinking, and regardless of what populations were doing. For half a millennium, bracketed by two great catastrophes – the bubonic plague and the two World Wars – income inequality grew consistently.

This presents a tension with the view that wealth and income inequality is a relatively benign side-effect of increasing prosperity. Some who take this view rely on a portion of the argument made by Simon Kuznets and depicted in his famous inverted U curve. But perhaps the Kuznets theory is an artifact of the two World Wars. Alfani argues that "the idea that preindustrial inequality growth was just a side effect of economic growth, and maybe even supported such growth, does not fit well the cumulative evidence of the tendency of preindustrial inequality to grow even in phases of stagnation or decline." (P. 20.)

More recently, Thomas Piketty has argued that income and wealth inequality result from the fact that the rate of return on capital (r) is higher than the growth rate of national income (g), if wealth is highly inheritable. Alfani notes that the emerging literature does not always support Piketty's proposed relationship between inequality and r > g. During the period from 1450 to about 1900, even when the growth rate was greater than the rate of return, inequality still increased.

Alfani's analysis of other economic theories of inequality merits close reading. He concludes, however, that multiple factors have affected the history of economic inequality – among the most important, regressive taxation and changes in inheritance rules. The rise of strong fiscal-military states led to increases in the per capita fiscal burden, concentrated at lower income and wealth strata: "the increase in per capita taxation in the presence of a regressive fiscal system can be taken as a general explanation for the tendency toward inequality growth that characterized the early modern period." (P. 27.) Moreover, "changes in the degree of inheritability of wealth seem to explain much of the variation in inequality levels detected both through prehistory and when analyzing the conditions experienced by different kinds of small-scale societies today." In other words, when it is easier to bequeath wealth, inequality increases.

One need not be persuaded by his analysis to find great value in Alfani's work. I, for one, suspect that there is a political economy story to be told, a story of how those already wealthy shift society's extractive ground-rules in their favor. Regardless, the paper catalogues an extraordinary number of new articles in the field – each of which adds its own insights to our understanding of economic inequality. For tax scholars interested in equality or the history of the relationship between tax and economics, Alfani's article is an invaluable resource.

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