WORLD INEQUALITY REPORT 2018

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The report ultimately relies on the data collection, production and harmonization work carried out by more than a hundred WID.world fellows located over five continents and contributing to the World Wealth and Income Database (visit www.wid.world/team for more information). Analyses presented in the report reflect the views of the report's editors and not necessarily those of WID.world fellows.

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In memory of Tony Atkinson (1944–2017)

Codirector of the World Top Incomes Database
(2011-2015) and of WID.world (2015-2017)

2.5

INCOME INEQUALITY IN FRANCE

Information in this chapter is based on "Income Inequality in France, 1900–2014: Evidence from Distributional National Accounts (DINA)," by Bertrand Garbinti, Jonathan Goupille-Lebret and Thomas Piketty, 2017. WID.world Working Paper Series (No. 2017/4).

- ▷ In 2014, the share of total pre-tax income received by the bottom 50% earners was 23%, while the share of the top 10% was 33%. Although income inequality in France was by no means insignificant in 2014, it sharply contrasts with the situation a century ago. In 1900, the top 10% of the income distribution received half of total French national income.

- ▷ Income inequality decreased significantly between the start of the First World War and the end of the Second World War due to the fall of top capital incomes resulting from the destruction of physical capital, the damaging impact of inflation, and the effects of nationalizations and rent-control policies.

- ▷ The struggle between labor and capital to share the fruits of growth between 1945 and 1983 characterized a turbulent period for income inequality, rising until 1968, when civil unrest pressured the government into reducing wage differentials.

- ▷ Austerity measures introduced in 1983, including the end of indexing wages to inflation, started a trend of rising inequality. Wage differentials and returns to capital increased thereafter.

- ▷ While gender pay gaps have consistently fallen since the 1970s, women made up just 30% of the top 10% of French earners in 2012, and if current trends continue, women cannot expect to make up a proportion of the top 10% equal to men until 2102.

In 2014, the top 10% French earners captured 33% of national income

In 2014, the average national income per adult in France was €33 400. This average, however, disguises significant variations among groups within the distribution. The bottom 50% earned around €15 000 on average in 2014, notably less than half the national average, and thus their share of total French income was less than a quarter (22.5%). The middle 40% had an annual average income of almost €37 500, and accordingly held a 45% share of national income, while the top 10% received approximately €109 000, more than three times the national average. These relative differences grow ever larger for the richest, with the top 1% having an 11% share in national income, and the top 0.1% and 0.01% having incomes 37 and 129 times the national average, as shown in **Table 2.5.1**.

Income inequality in France has varied significantly since the start of the twentieth century

While income inequality in France is by no means insignificant today, it has fallen notably since 1900. At the beginning of the twentieth century, the top 10% of the income distribution (which can be thought of as the "upper class") received 50% of total national income, while the middle 40% (the so-called "middle class") had around 35%. Meanwhile, the bottom 50% (the "lower class") had less than 15% of national income. The increased shares for the middle (+10 percentage points) and lower class (+8 percentage points) between 1900 and 2014 have thus come at the expense of the richest in roughly equal amounts. This reduction in inequality has taken place, however, in a haphazard and disorderly manner, undergoing numerous evolutions over the last century that are the result of a complex mix of historical events and political decisions.

To better comprehend recent developments in income inequality in France, it is first important to analyze how average income evolved from 1900 to 2014. Per-adult national income has risen approximately sevenfold over the last century in France, from around €5 500 in the year 1900. However, this growth in national income per adult was far from steady. Between 1900 and 1945, per-adult national income declined on average

Table 2.5.1
The distribution of national income in France, 2014

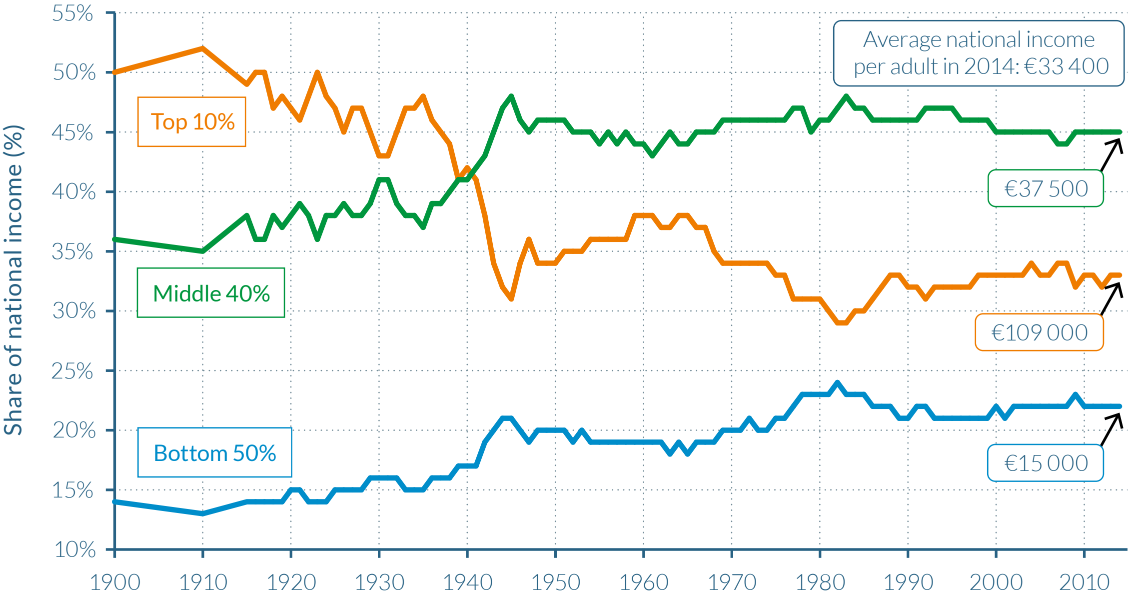
Income group	Number of adults	Income threshold (€)	Average income (€)	Income share
Full Population	51 722 000	–	33 400	100%
Bottom 50%	25 861 000	–	15 000	22.5%
Middle 40%	20 689 000	26 600	37 500	44.9%
Top 10%	5 172 000	56 100	109 000	32.6%
Top 1%	517 000	161 400	360 600	10.8%
Top 0.1%	51 700	544 600	1 234 400	3.7%
Top 0.01%	5 200	2 002 000	4 318 600	1.3%
Top 0.001%	500	6 976 500	13 175 100	0.4%

Source: Garbinti, Goupille-Lebret and Piketty (2017). See wir2018.wid.world for data series and notes.

In 2014, 33% of national income was earned by the Top 10% in France. All values have been converted into 2016 Purchasing Power Parity (PPP) euros at a rate of €1 = $1.3 = ¥4.4. PPP accounts for differences in the cost of living between countries. Values are net of inflation. Numbers may not add up due to rounding.

Figure 2.5.1

Incomes shares in France, 1900–2013: The rise of the lower and middle classes



Source: Garbinti, Goupille-Lebret and Piketty (2017). See wir2018.wid.world for data series and notes.

In 2014, 33% of national income was earned by the Top 10% in France. In the same year, the average income of the Top 10% was €109 000, over three times the national average per adult. All values have been converted into 2016 Purchasing Power Parity (PPP) euros at a rate of €1 = $1.3 = ¥4.4. PPP accounts for differences in the cost of living between countries. Values are net of inflation.

by -0.1% per year, but then increased at an average of 3.7% during the postwar period until 1980; dubbed *les trente glorieuses*. These "thirty glorious years" were followed by a period in which per-adult national incomes grew four times slower than previously, averaging 0.9% per annum from 1980 to 2014. This pattern was not unique to France, however. Similar trends were experienced in most European countries and Japan, and to a lesser extent in the United States and in the UK, where the shocks created by the First and Second World Wars were less damaging than in Continental Europe.

The evolution of income inequality over the last century can be broken down into three broad periods. The first of these periods was from the start of the First World War to the end of the Second World War. As visualized in **Figure 2.5.1**, the share of income of the top 10% of earners fell abruptly during the 1914–1945 period, from more than 50% of total income on the eve of the First World War to slightly above 30% of total income in 1945. This decline was mainly due to the collapse of capital income, which was hit by a number of negative shocks. Capital income generally makes up a significantly higher proportion of income for the richest 10% of the population, and particularly the top 1%, than it does for other groups. Both wars involved the destruction of capital stocks, and bankruptcies were not infrequent. They led to a collapse in gross domestic product (GDP), which lost 50% of its value between 1929 and 1945. Inflation reached record levels (the price index was multiplied by more than a hundred between 1914 and 1950), severely penalizing individuals with bond holdings and, more broadly, with fixed income assets. The control of rents during the period of inflationism led to a tenfold fall in their real value, and additionally, nationalization and the high level of taxation of certain assets in 1945 contributed to a sharp fall in capital income. The result for the top 1%—that is, those earning the most income from capital—was to see their share of national income halved in around thirty years.

The second period, between 1945 and 1983, was characterized by a struggle between labor and capital to share the fruits of growth, which reached very high levels (+3.3% per year on average). From 1945 to 1968, the inequality in wages that had existed before the world wars was rebuilt and the share of capital in the French economy also rose, leading to a period of rising income inequality. As illustrated by **Figure 2.5.1**, the income share of the top 10% had risen from around 30% to 38% during this twenty-three-year period, while the share of the bottom 50% fell from approximately 23% to 17%. Following the events of May 1968, however, this trajectory of rising inequality abruptly stopped.

May 1968 was a volatile period of civil unrest in France, punctuated by demonstrations, general strikes, and protester occupations of universities and factories across the country. The French government, under Charles De Gaulle's presidency, introduced a number of conciliatory policies in the following month in an attempt at appeasement, including a boost in the real minimum wage of approximately 20%. This marked the beginning of a period of steady increases in the minimum wage and of the purchasing power of the poor between 1968 and 1983. The purchasing power of those with lower wages rose substantially more than did GDP, which itself grew by a noteworthy 30%. These factors led to a compression in the distribution of wages and reduced income inequality more generally. In the early 1980s, the top 10% had their lowest share of pre-tax national income recorded, at 30%, while the middle 40% had an historic high of approximately 48%, and the bottom 50% accounted for 23%. However, the rise in unemployment that started during the mid-1970s also marked the beginning of a new period.

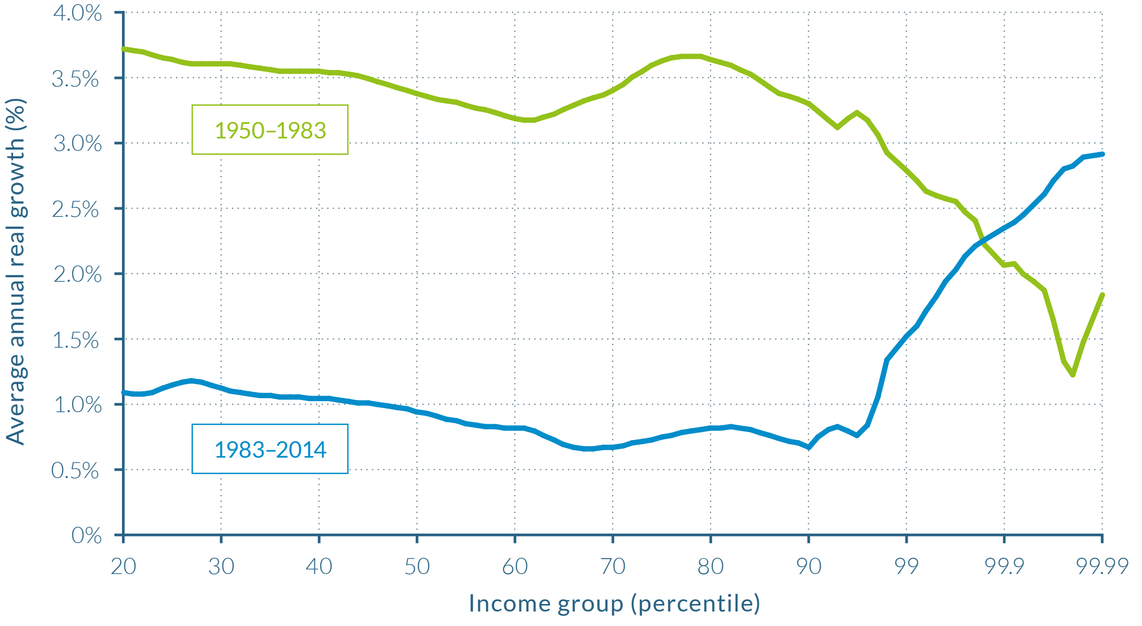
The third period, marked by a substantial reduction in income growth rates (1% per year on average), began in 1982–1983 when successive governments decided to end the policy of indexing wages to prices and therefore reduced the rate of wage increases for the low-paid.[17] This was initially part of an austerity program known as the *tournant de la rigueur* (austerity turn), introduced by President Mitterrand's then newly elected left-wing government. The program was an attempt to combat high inflation rates and rapid deteriorations in the budget and trade deficits between 1981 and 1983 that could have seen France leave the European Monetary System. Taxes were also increased, subsidies to state-owned enterprises were reduced, and social security and unemployment insurance payments were restrained.[18] The overall effect of these policy choices was an increase in the pay gaps between those who earned the lowest wages and others. During this period, inequality was relatively stable except at the top of the distribution. Very top incomes increased substantially.

The end of the "thirty glorious years" for the bottom 95%, but not for those at the top

One way to better understand the magnitude of the turning point that occurred in the 1980s is to look at the total growth curve by income group. That is, we can ask: What was the change in the average income of each group over the different time periods? Between 1983 and 2014, average national income per adult rose by 35% (1% per annum) in real terms in France. However, actual total growth was not the same for all income groups, as illustrated by the impressive upward slope on the right hand of the 1983–2014 growth curve in **Figure 2.5.2**. Total growth between 1983 and 2014 was 31% on average (0.9% per annum) for the bottom 50% of the distribution, 27% for next 40% (0.8% per annum), and 49% for the top 10% (1.3% per annum). Moreover, total growth remained below the economy-wide average until the ninety-ninth percentile, and then rose steeply, up to as much as 98% growth over the thirty-one-year period (2.2% per annum) for the top 0.1% and 144% for the top 0.001% (2.9% per annum).

Figure 2.5.2

Average annual real growth by income group in France, 1950–2014



Source: Garbinti, Goupille-Lebret and Piketty (2017). See wir2018.wid.world for data series and notes.

Between 1950 and 1983, the 50th percentile of the population experienced a 3.4% average annual increase in their real income, while between 1983 and 2014 their real income increased by 0.9% on average per year.

The contrast between 1950–1983 and 1983–2014 in terms of the total growth rates of income groups is particularly stark. As **Table 2.5.2** and **Figure 2.5.2** show, growth rates were very high for the bottom 99% of the population during the "thirty glorious years" between 1950 and 1983, at around 200%, while growth for the top 1% was markedly lower at 109% (2.3% per annum). Growth rates were even lower at the very top, at around 80% (1.8% per annum) for the top 0.1 and 0.01%.

Another way to measure these diverging evolutions is to compare the shares of total economic growth going to the different income groups. Between 1950 and 1983, 25% of total growth went to the bottom 50% of the population, versus only 6% to the top 1%. Between 1983 and 2014, 21% of total growth went to the bottom 50%, as much as the share of growth which went to the top 1%.

Summing up, although the rise of inequality was less pronounced in France (and to a large extent in Europe) than in the United States, the break between the 1950–1983 period, when bottom groups enjoyed larger growth than the top, and the 1983–2014 period, when the exact opposite pattern prevailed, is very visible.

Recent growth at the top is due to higher salaries and returns on capital assets

As a result of the unequal distribution of growth, the share of income attributed to the top 1% has seen a notable increase between 1983 and 2007, rising from less than 8% of total income to over 12% over this period—that is, rising by over 50%. Between 2008 and 2013, the income share of the top 1% fluctuated between 10% and 12%, remaining significantly larger than when income inequality was at its lowest point in the early eighties (see **Figure 2.5.1**). As stated above, this trend of rising inequality among the highest earners is even more pronounced for

Table 2.5.2
Income growth and inequality in France, 1900–2014

	1900–1950			1950–1983			1983–2014		
Income group	Average annual growth rate	Total cumulated growth	Share of total cumulated growth	Average annual growth rate	Total cumulated growth	Share of total cumulated growth	Average annual growth rate	Total cumulated growth	Share of total cumulated growth
Full Population	**1.0%**	64%	100%	**3.3%**	194%	100%	**1.0%**	35%	100%
Bottom 50%	**1.8%**	144%	30%	**3.7%**	236%	25%	**0.9%**	31%	21%
Middle 40%	**1.5%**	108%	61%	**3.4%**	204%	48%	**0.8%**	27%	37%
Top 10%	**0.2%**	11%	8%	**2.9%**	157%	27%	**1.3%**	49%	42%
Top 1%	0.6%	37%	16%	3.1%	178%	21%	0.9%	33%	21%
Top 0.1%	-0.5%	-23%	-8%	2.3%	109%	6%	2.2%	98%	21%
Top 0.01%	-1.1%	-44%	-7%	1.7%	75%	1%	2.8%	133%	8%
Top 0.001%	-2.0%	-63%	-5%	1.8%	83%	0%	2.9%	144%	3%

Source: Garbinti, Goupille-Lebret and Piketty (2017). See wir2018.wid.world for data series and notes.
Between 1900 and 1950, the share of national income growth captured by the Top 10% was 8%.

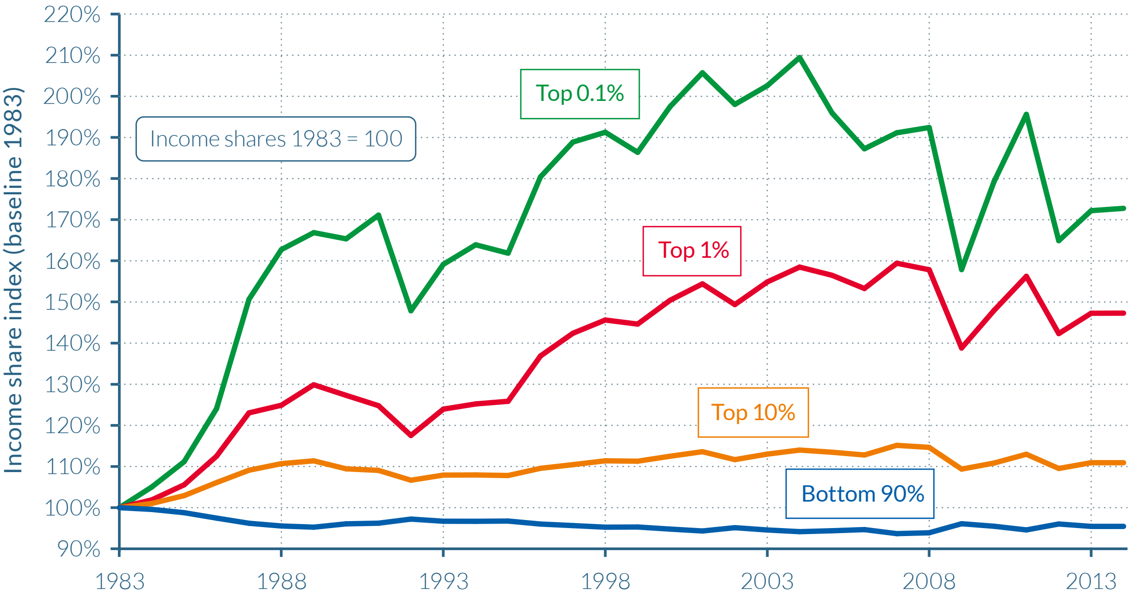
the top 0.1% and the top 0.01% (see **Figure 2.5.3**). The difference between the average national income before tax and those of top earners has almost doubled over the preceding thirty years. The top 0.1% average income increased from 21 times above average in 1983 to 37 times in 2014, while the figure increased from 71 times average to 129 times for the top 0.01%.

Why has there been a rise in top incomes over the recent period? In the case of France, top earners have experienced significant increases in their incomes from both labor and capital. Between 1983 and 2013, the labor income of the top 0.01% rose 53%, while their capital income increased by 48%. It is difficult for standard explanations based on technical change and the changing supply and demand of skills to explain rising income concentration at the very top, whether around the world or in France specifically.[19] The rise of labor incomes at the top is more likely to be the result of evolutions in institutional factors governing pay-setting processes for top managerial compensation, including changes in corporate governance and the decline of unions and collective bargaining processes. Evolutions in top marginal tax rates have also likely had an impact on labor income inequality. Reduced top income tax rates can affect wage-setting at the top; as top earners expect less taxes, they may be more inclined to ask for increases in wages.[20] Top income tax rates were above 60% during the *trente glorieuses* and rose to 70% in the early 1980s. They fell to about 50% in the late 2000s. Effective tax rates (total taxes paid on total income) are actually inferior for very top income groups than for the middle class.[21] Recent tax legislation supported by the current government are about to further reduce tax rates at the top, in particular due to reduction in tax rates on capital.

Increases in top labor income inequality have in certain cases been correlated with increases in top capital income inequality. Top managers, for example, have benefitted first from very high labor incomes through

Figure 2.5.3

Rising top inequality in France, 1983–2013



Source: Garbinti, Goupille-Lebret and Piketty (2017). See wir2018.wid.world for data series and notes.

The share of income going to the Top 1% in 2013 grew by 34% relative to its 1983 value, while the share going to the Top 0.1% in 2013 grew by 60%.

large bonuses or stock options (some of which have been largely mediatized) and then from very high capital incomes derived from improvements in the price of the stocks that they have come to own. Top capital incomes have also been rising due to the rising share of macroeconomic capital in a context of declining labor bargaining power and privatization policies.

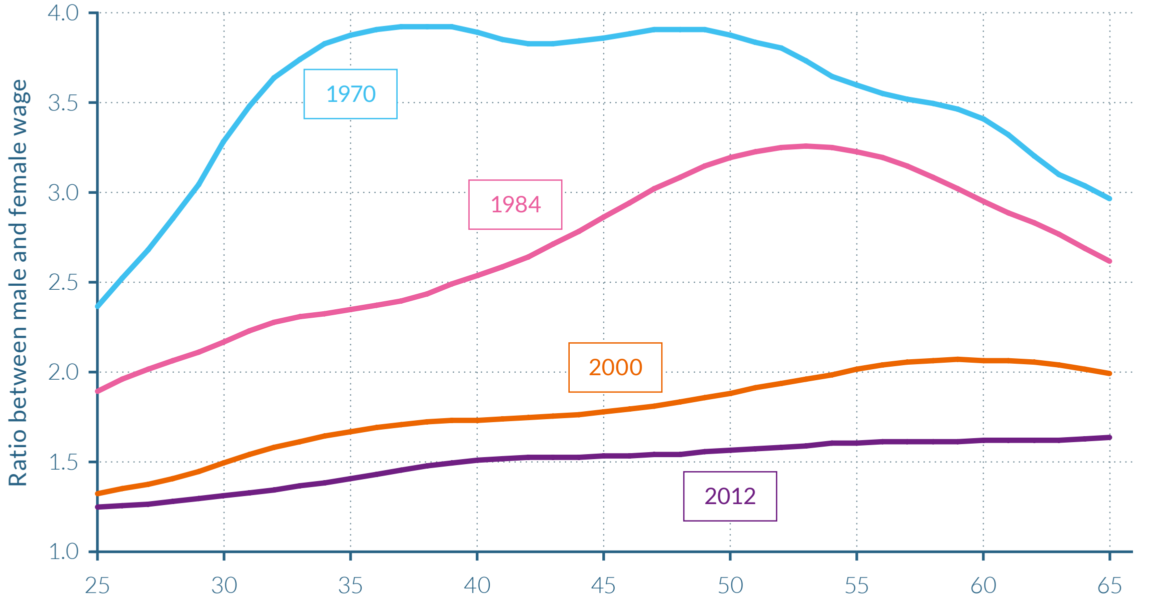
Gender pay gaps may be falling, but men are still paid approximately 50% more than women

While income inequality has increased since the 1980s, gender gaps have been declining since the 1970s. Still, gender gaps remain very high in France today. In the 1970s (the "age of patriarchy") men earned 3.5 to 5 times the labor income of women, and women's labor force participation rate was around 45%. The share of working women rose dramatically to 80% in 2012 and the women-to-men pay ratio decreased to 1:1.5 on average. There are, however, strong variations in gender income gaps over age groups. As can be seen in **Figure 2.5.4a**, in 2012, men earned 1.25 times more on average than women at the age of 25, and 1.64 times more at age 65.

Gender inequalities are also particularly high among higher paying jobs. Despite moderate improvements since 1994, women still do not have equal access to them. In 2012, the female share of the top 50% of earners was 42%, while women made up just 30% and 12% of the top 10% and top 0.1% earners, respectively. If current trends continue, women can expect to make up the same proportion as men of the top 10% and top 0.1% shares by 2102 and 2144, respectively. (See **Figure 2.5.4b**)

Figure 2.5.4a

Gender gap by age in France, 1970–2012

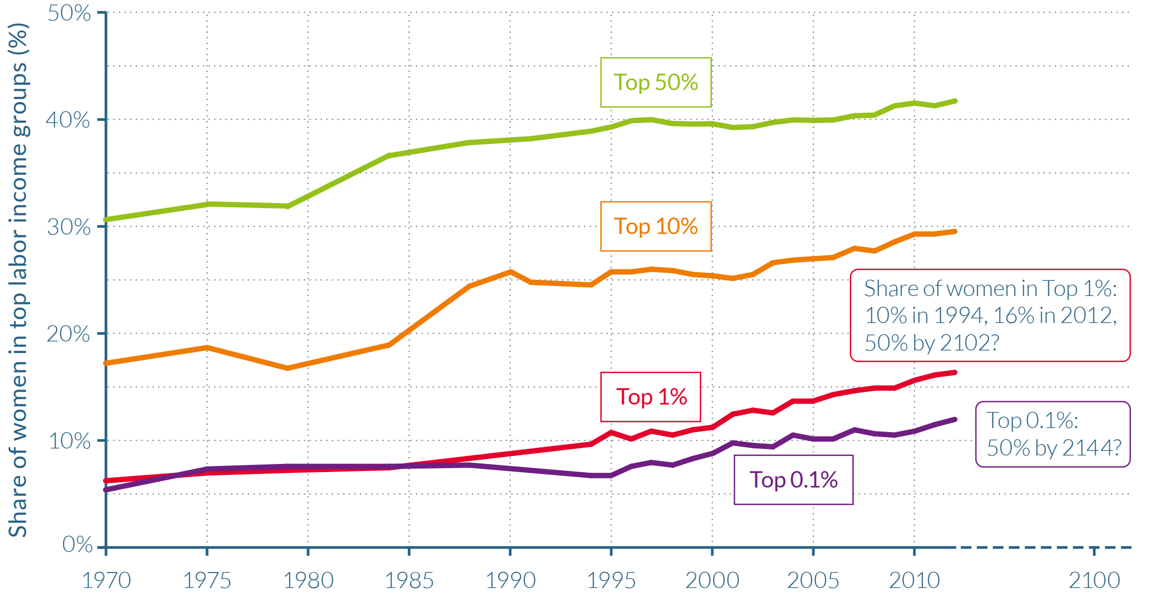


Source: Garbinti, Goupille-Lebret and Piketty (2017). See wir2018.wid.world for data series and notes.

In 2012, the average labor income of 40-year-old men was 1.5 times higher than for 40-year-old women.

Figure 2.5.4b

Share of women in top labor income groups in France, 1970–2012



Source: Garbinti, Goupille-Lebret and Piketty (2017). See wir2018.wid.world for data series and notes.

In 2012, the share of women in the total working population of the Top 1% was 16%.