

# Increasing Top Income Shares in Switzerland, Europe and the U.S.

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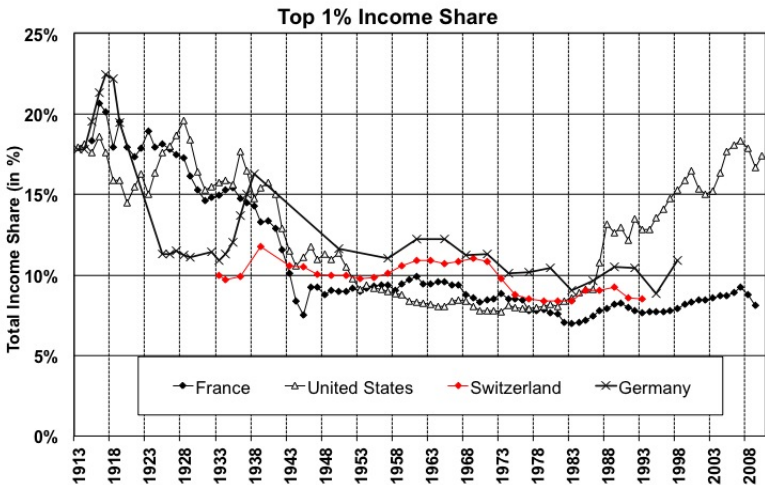
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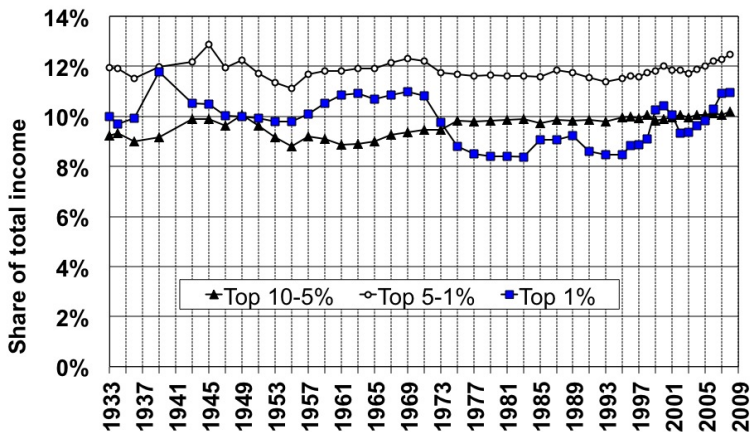
# Introduction

- ▶ Marked revival of interest in the study of the distribution of top incomes using tax data since Piketty (2001)
- ▶ Large influence on overall inequality (Alvaredo, 2010)
- ▶ Since the Great Recession, top incomes and growing inequality at the top also received large attention among policy makers.



Source: World Top Income Database

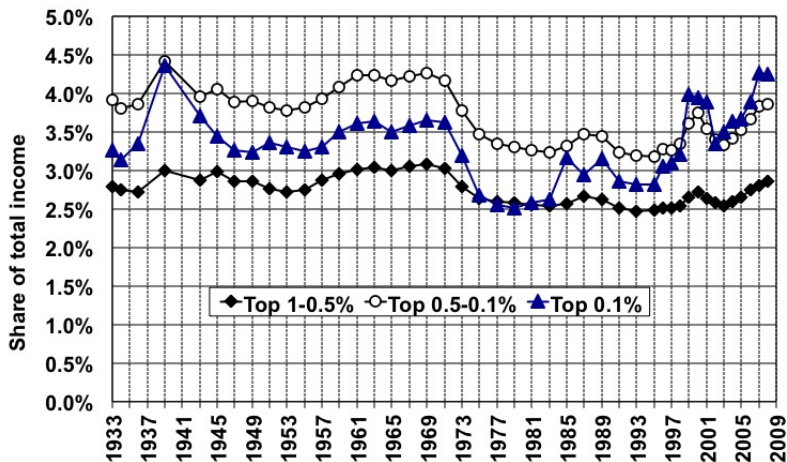
# Swiss Top Income Shares in the Long Run, 1933-2008 (I)



Source: Foellmi and Martínez (2012)

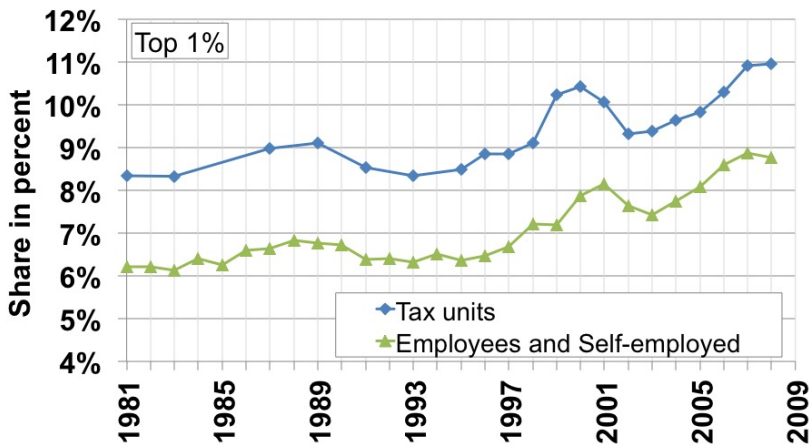


## Swiss Top Income Shares in the Long Run, 1933-2008 (II)



Source: Foellmi and Martínez (2012)

# Top 1% Labor Income in Switzerland, 1981-2008

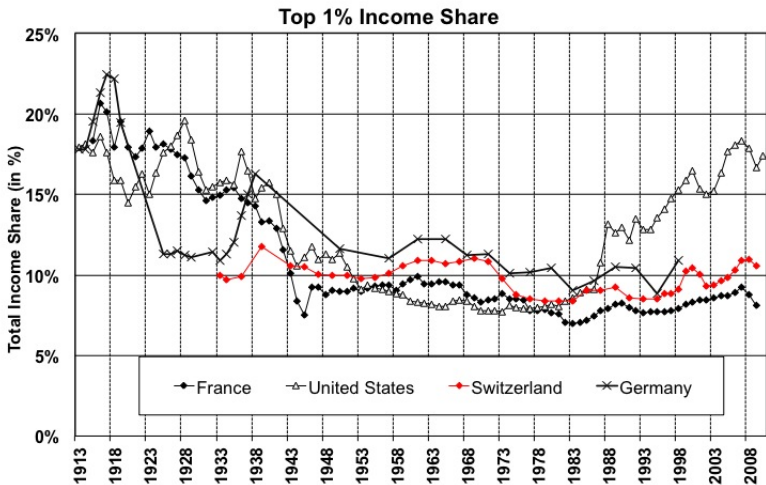


Source: Foellmi and Martínez (2012)

# Explanations for Increased Pay at the Top (I)

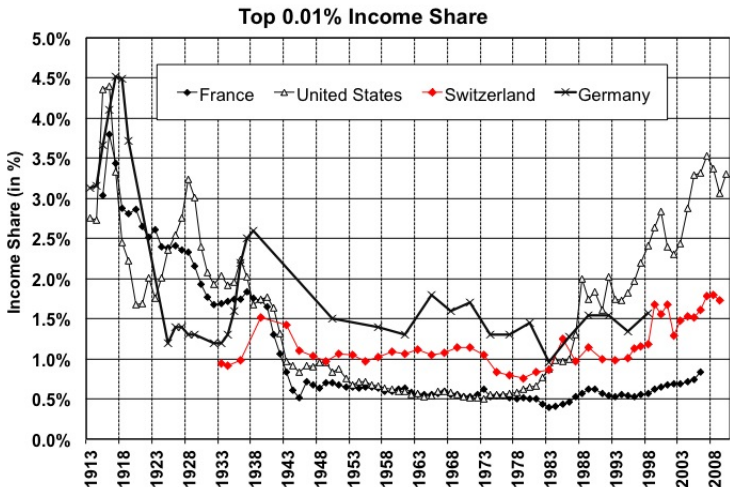
## The Globalization-View

- ▶ Gabaix and Landier (2008): simple equilibrium model of CEO pay. A CEO's pay depends on both the size of his firm and the aggregate firm size. Small differences in skills translate into large pay differences due to differences in firm size.
- ▶ Also: contagion across sectors.
- ▶ Variable pay of top employees has become widespread, leading to increased volatility also among employees.
- ▶ Incentive-based compensation schemes can do both: enhance efficiency or camouflage rent-seeking.



Source: World Top Income Database





Source: World Top Income Database

# Explanations for Increased Pay at the Top (II)

## The Low-Tax and Rent-Seeking View

- ▶ Lower top marginal tax rates since the Reagan/Thatcher era.
- ▶ High pay more attractive, so bargaining and rent-seeking increased (Piketty et al., 2011).
- ▶ Continental Europe: ideological shift followed, but later and less pronounced.
- ▶ But still: lower tax rates, fiercer tax competition, increased acceptance of high pay.

# Conclusions

- ▶ Top income shares have been increasing since the mid 1990s and seem to have become more volatile, especially at the very top; the same is true for top employees' incomes.
- ▶ In the long-run international comparison, Switzerland has followed a relatively flat path, but this might be changing; it depends which top groups we look at.
- ▶ None of the Non-English speaking countries have experienced an increase comparable to the one observed in the U.S.
- ▶ The scientific world has not yet reached a conclusion w.r.t. the explanations to these observations.

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