

# Top earners: Why did the 1% get so rich?

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**Top earners are more likely to be salaried executives or company founders, like Facebook's Mark Zuckerberg**

**Across much of the OECD, the share of national income taken by the top 1% of earners has risen, sometimes sharply, in recent decades.**

The rise has been particularly striking in the United States: in 1980, the top 1% of income recipients in the US earned 8% of all pre-tax income; by 2012, their share had risen to over 19%. Other OECD countries also saw big rises, including the UK and Australia.

The rising income share of the 1% has become a hot issue, but some observers believe this focus actually misses much of the story of rising income inequality. As well as looking at the top 1% of earners, they argue, we should also look at an

even smaller segment—the top 0.1% of earners (1 in 1,000), and even the top 0.01% of earners (1 in 10,000). As the Nobel laureate Paul Krugman has noted, data from the US Congressional Budget Office shows that between 1979 and 2005, the after-tax income of Americans in the middle of the income distribution rose by 21%; among the 0.1% it was up 400%.

Understanding these figures is important if we want to develop a better picture of who's benefiting from economic growth. For example, in the decade to 2007, real household income increased by an average of 1.2% a year in the US. But when the top 1% of earners is excluded, that figure falls to 0.6%. In effect, the 1% took 58% of the gain in real incomes. So, what looked to be an overall improvement in the population's economic well-being actually benefited a much smaller group than the broad figures seem to suggest.

### And the winners are...

Some of the top earners are household names—sports stars like Serena Williams and entertainers like Jackie Chan and Taylor Swift—but most are not. In the US in 2010, the largest group, about 41%, was made up of executives in non-financial businesses, like Apple and Walmart. Around 18% were employees—and not necessarily executives—in banks and finance houses. In the UK, the finance crowd accounted for about 21% of top earners and in France about 15%.

The fact that so many of the top earners work for a living is striking. Back in the early 20th century, when income inequality last reached the levels we're seeing today, much of the income of top earners came from rents on land and property as well as income from investments in government bonds. By contrast, today's top earners are more likely to be either a salaried employee, for example an executive like Morgan Stanley chairman James Gorman, or a company founder, like Facebook's Mark Zuckerberg.

Why do the 1% earn so much? There's no single answer to why the 1% earn so much. Multiple factors have contributed to the rise of top incomes, and the significance of each of these is not the same in every country.

### “Superstars” in a global economy:

The labour market for high-skilled workers has gone global, especially in sectors like finance, where firms in financial centres like London and Singapore may be competing to attract the same people. In this competitive labour market, employers seek to attract not just good employees but the very best. That helps explain why there can be a wide pay gap between those seen as being at the very top of their game and those just behind.[...]

## Changes in the way top earners are paid:

The heavy presence of top executives and finance professionals among top earners is significant. In recent decades, and especially in English-speaking countries, a growing slice of their income has come not in the form of a monthly salary payment but as valuable stock options. The idea of paying managers in stock options arose as a response to “the agency problem”—when you hire someone to run your business, how can you ensure they act in your interests and not their own? Most shareholders have a tenuous relationship, at best, with the firms in which they hold shares, so it can be almost impossible for them to oversee management and ensure it’s working in their interest. Giving managers a stake in a rising share price, it’s argued, helps align their interests with those of shareholders. Since the financial crisis, this line of thinking has come under fire. [...]

### “Financialisation”:

[...] The rapid expansion of finance has contributed to income inequality in a number of ways, the most obvious being that financial sector workers tend to be very highly paid. In Europe, they account for 1 in 5 of the top 1% of earners even though, overall, they account for only 1 in 25 of the total workforce. These high salaries might be justified if such workers had very high levels of productivity. However, comparisons with similarly skilled workers in other sectors suggest this is not the case. Financial workers—particularly the highest earners—thus seem to enjoy a wage premium over other comparable workers.

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“Too much finance” fuels income inequality in other ways, too. The wide availability of credit allows high earners to increase their borrowings, allowing them to gain more from investment opportunities than people on lower incomes. In addition, higher earners also benefit from the expansion of stock markets. That’s because they are always more likely to hold shares than lower earners. As markets expand, they benefit more from share dividends and capital market gains.

Changing pay norms: Societies differ in the extent to which they accept large income differentials. Implicit in these social norms is a trade-off: Stick to society’s expectations and you preserve your reputation; breach the expectations and you’ll earn more but hurt your image. But these norms can change over time and their influence can vary markedly. In much of the post-war period, there was an expectation that income differentials would be—by today’s standards—relatively narrow. But in the 1980s these norms began fading, especially in English-speaking countries. By contrast, they still remain relatively strong in much of continental Europe, which has certainly played a role in limiting top incomes there.

## Tax and pay:

The past few decades have also seen substantial falls in top tax rates in many developed countries. Across OECD countries, the average top statutory tax rate fell from 66% in 1981 to 41% in 2008. High earners have benefited from other changes in tax regimes, too. Tax on property and on inheritances has tended to fall, allowing high earners to build up wealth. [...]

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Visit <http://www.oecd.org/inequality.htm>

[Denk, Oliver \(2016\), "Are you in the 1%?" on OECD Insights blog](#)

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