



Outliers vs. Consensus: Comparing Leading Measures of U.S. Income and Wealth Inequality

By Caleb Petitt, Phillip W. Magness, and Edward J. López

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1. Executive Summary

Many of today's most sweeping calls for wealth taxes and "billionaire taxes" rest on the work of economists Thomas Piketty, Emmanuel Saez, and Gabriel Zucman. Their inequality estimates have become the go-to evidence for politicians, journalists, and activists arguing that wealth is concentrating at unprecedented levels. But those influential figures tell a deeply misleading story. Their estimates consistently rank at or near the highest in the academic literature because they rely on a series of methodological choices that inflate measured inequality—from counting tax units (which can be either individuals or families) instead of

individuals to relying on assumptions and data sources that push wealth concentrations sharply upward. When other economists correct these distortions, the dramatic rise in income inequality becomes far more modest, and the famous U-shaped surge in wealth inequality largely disappears. This project compares the leading measures of inequality, explains why they produce such different results, and shows why one of the world's most influential inequality datasets has helped fuel an alarmist narrative—and the far-reaching tax proposals built upon it.

2. Background

Economists Thomas Piketty, Emmanuel Saez, and Gabriel Zucman have made careers out of warning the world about rising inequality and issuing accompanying calls for sweeping new "wealth taxes" or "billionaire taxes." They have crafted their arguments about rising inequality using datasets of their own creation, which are currently presented at the World Inequality Database (WID) website and curated by research centers at their academic institutions, the University of California, Berkeley and the Paris School of Economics.

Government officials, journalists, and media commentators frequently cite the Piketty-Saez-Zucman data as an authoritative source for claims about rising inequality and comparative tax burdens on the wealthiest earners. As we document below, the Piketty-Saez-Zucman statistics are unreliable measurements of the trends they claim to depict.

Other economists have scrutinized the World Inequality Database numbers and identified data distortions,

calculation errors, and unsupported assumptions about measuring income, wealth, and tax burdens. Dozens of studies have challenged the Piketty-Saez-Zucman estimates. An unsettling pattern emerges from comparison of these corrections: The Piketty-Saez-Zucman estimates of both income and wealth concentration consistently exceed almost any other estimates, and overstate the rise of inequality in recent decades by substantial margins.

Piketty-Saez-Zucman's basic argument is simple: taxation was light at the beginning of the 20th century, became heavier and more progressive as the century progressed, and then gradually became lighter and less progressive toward the end of the century. Based on this, they assert a U-shaped curve for 20th century measures of inequality. They argue that today's alleged rise in inequality is driven by lower tax rates, and call for the adoption of sweeping wealth tax measures to "correct" or reverse this alleged trend.

Piketty, Saez, and Zucman advance and promote this argument well beyond pure academic interest. They use their findings to promote a variety of tax schemes to take money from the wealthy and direct it towards big government projects. The biggest project they have proposed is the Global Justice Report, which advocates for global wealth and income taxes to fight climate change globally, reduce economic and gender inequality, destroy global plutocracy, improve healthcare

access, increase education, grow per capita GDP, and reduce working hours.

Scrutiny and correction of the Piketty-Saez-Zucman data by other economists are necessary to advance a sound and responsible understanding of inequality, and to protect the world from the extraordinary harm their policy proposals would inflict if adopted.

3. Measuring Income Inequality

Economists often measure income inequality by examining the share of income earned by top earners. Under these measures, patterns for the United States follow a U-shaped pattern between the early 20th century and today. The main empirical question about this pattern is whether the two tails of the U are within historical norms, or, as Piketty-Saez-Zucman claim, instead feature severe breaks from a relatively stable income distribution in the past. As this analysis will show, the Piketty-Saez-Zucman measures systematically overstate levels of income inequality at both ends of the curve, thus making today's inequality appear much more severe than it actually is. Corrected measures of income inequality display a more gentle U-curve that shows that inequality today sits at more moderate and historically normal levels.

Personal Income Concentration in Piketty and Saez (PS): Piketty and Saez build their series from IRS individual tax return tabulations from 1913 to the present. They supplement these data with IRS microdata beginning in 1960. PS measures tax units rather than individuals and does not adjust for the fact that tax units have become smaller over time. The difference between households and tax units is especially important among high earners, in part because marriage rates have declined over time at those highest levels. Focusing on tax units thereby adds a larger number of high-income returns to the top 1% or other top percentile, thus inflating the inequality calculations. Tax shifting raises additional issues. Income is a gross

income concept covering all items reported on returns before deductions, computed before individual income and payroll taxes but after employers' payroll taxes and the corporate income tax. They also rely on three ad hoc methods to estimate missing income. These methods do not fully address underreporting; do not adequately adjust for changing filing thresholds, deductions, and exemptions; and do not adequately adjust for the changes introduced by the Tax Reform Act of 1986.

Personal Income Concentration in Geloso, Magness, and Sparks (GMS): Geloso, Magness, and Sparks use the IRS's annual Statistics of Income (SOI) and national accounts (NIPA) to construct a methodologically sound measure of top income shares with a consistent approach to data construction across all time periods. GMS retains the same basic numerator used by PS while correcting several accounting problems in the pre-1943 data. This approach allows for:

- reconciling the IRS's pre-1943 "net income" to the post-1943 adjusted gross income (AGI) standard,
- fixing the missing-filer adjustment,
- and correcting oversights such as pre-statehood Alaska and Hawaii and the pre-1939 exemption of state and local government employees.

The GMS "AGI-reconciled" denominator draws directly from national accounts to bring NIPA personal income into definitional consistency with tax-reported AGI. They also retain PS's treatment of capital gains so that statutory changes remain comparable over time (e.g.,

50 percent of capital gains included until 1978, 40 percent until 1986, 100 percent thereafter). These corrections focus only on accounting consistency and intentionally avoid taking a position on the PS vs. Auten-Splinter imputations for unreported and partially-reported income. Correcting the PS fixed-ratio denominator produces a flatter century-long shape with a more muted post-1986 rise.

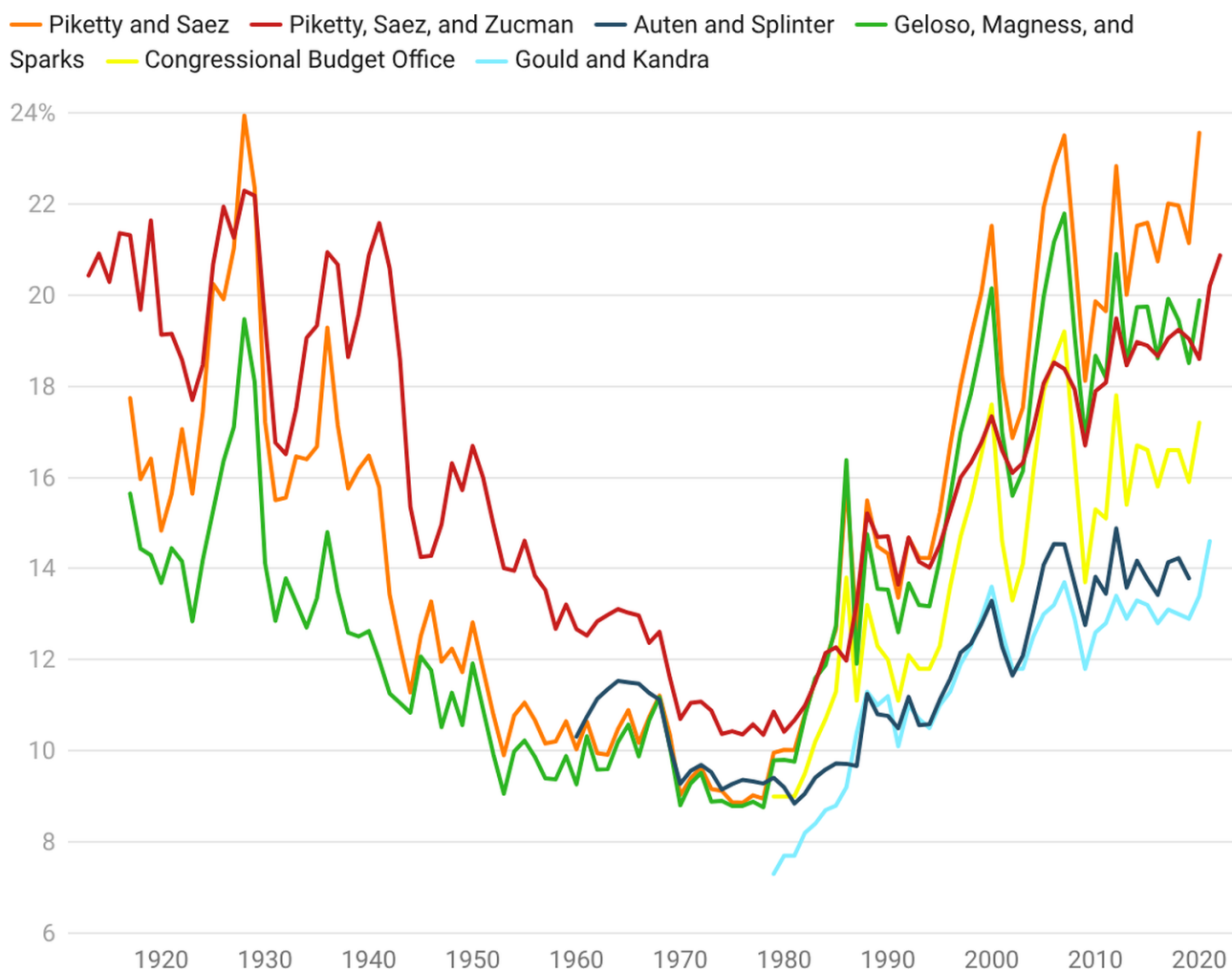
Personal Income Concentration in Congressional Budget Office (CBO): CBO groups by individuals rather than tax units. Each percentile has the same number of people, including dependents. CBO includes Social Security benefits, unemployment and workers' compensation, and Medicare benefits. CBO includes corporate income taxes and contributions to retirement accounts in their measure.

Wage Income Concentration in Gould and Kandra (GK): Gould and Kandra use social security data, which provides individual data, not family or tax unit data. Their data cover only workers in the commerce and industry sectors and are roughly equivalent to W-2 gross pay. This data series closely tracks the Auten-Splinter series.

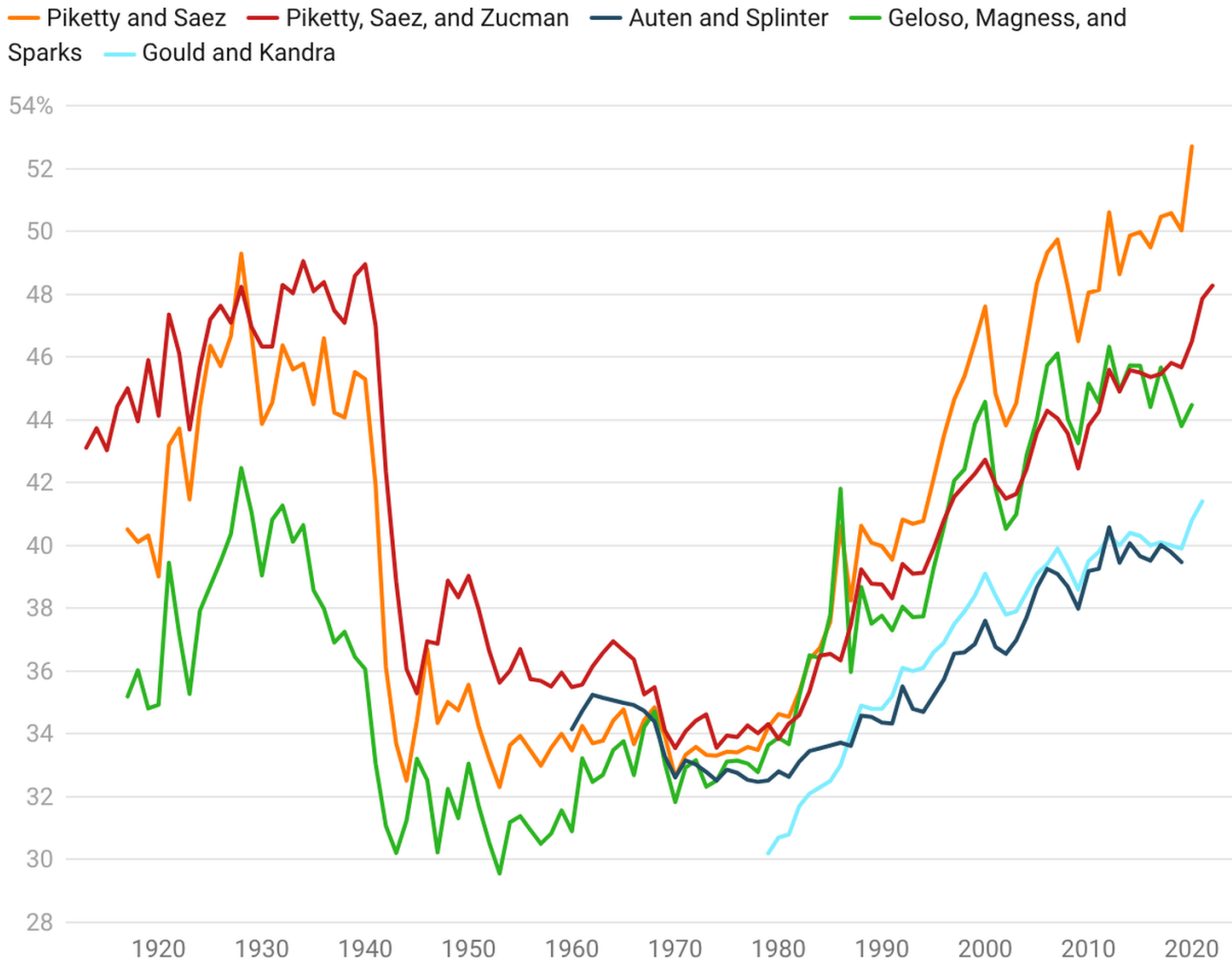
Total Income Concentration in Piketty-Saez-Zucman (PSZ): The distributional national accounts approach allocates all net national income among resident adults using concepts that are consistent with national accounts, so its income measure includes items that fiscal-income series omit, notably the undistributed profits of corporations, indirect taxes, and in-kind

government transfers. For comparison with pre-tax, pre-transfer series, the relevant concept is pretax factor income: income before any redistribution through social insurance or social assistance. PSZ use equal-split adults as their benchmark unit, with income distributed to adults (age 20 and older) and split equally within couples and households, rather than ranked by tax unit. Estimates combine income tax data (micro or tabulated) with household surveys and national accounts aggregates.

Total Income Concentration in Auten and Splinter (AS): AS use ranked tax units with adjustments for tax unit size as their unit of analysis. AS add the social savings net income that the CBO used and additionally include social insurance benefits of the institutionalized population and employee portion of pretax contributions for insurance. AS allocate a share of the capital income component of the corporate tax burden to retirement account owners. AS also include non-taxable income accrued inside retirement accounts. AS also adjust for issues with tax return data, like adding back deductions for prior year net operating losses that do not affect the current year and by adjusting for under-reporting rates by income class as identified by the IRS. Realized capital gains are replaced by corporate retained earnings, which changes by a similar amount as realized capital gains but is less volatile. AS also adjust for the changes introduced by the Tax Reform Act of 1986.

Figure 1: Top 1% Income Shares

Note: Comparison of various calculations of the share of American income earned by the top 1% of earners. Piketty, Saez, and Zucman consistently overestimate the share earned by the top 1%, especially at the beginning and end of their series.

Figure 2: Top 10% Income Share

Note: Comparison of various calculations of the share of American income earned by the top 10% of earners. Piketty, Saez, and Zucman consistently overestimate the share earned by the top 10%, especially at the beginning and end of their series.

4. Measuring Wealth Inequality

Similar corrections have been made to the Piketty-Saez-Zucman estimates of wealth inequality. When other economists have corrected for these errors in several alternative estimates of wealth inequality, the Piketty-Saez-Zucman U-curve for wealth inequality disappears entirely. Most of these alternative measures of wealth inequality show levels of wealth inequality as either more stable or rising more slowly than the PSZ estimates.

Most data series that show some rise in wealth inequality, including PSZ, show a more gentle rise in inequality for the top 10% than for the top 1% and 0.1%, which suggests that at worst wealth inequality is increasing within the top 10%, which provides less support for claims of a broad-based wealth inequality crisis that demands society's alarm.

Piketty, Saez, and Zucman World Inequality Database (PSZ): The World Inequality Database uses distributional national accounts to allocate all net national

income among resident adults. Their series includes income that fiscal-income measures omit such as undistributed profits of corporations, indirect taxes, and in-kind government transfers. PSZ use equal-split adults as their benchmark unit, with income distributed to adults (age 20 and older) and split equally within couples and households. They distribute household wealth using an income capitalization method that assumes fixed rates of return for each asset class. Because some assets (e.g., owner-occupied housing) generate no taxable income flow, the capitalization method is supplemented with survey-based imputations. Corporations are valued at market value. They supplement their data with the Forbes 400 list, which is known to overstate estimates of wealth. Because the Forbes 400 data tends to overstate wealth, this approach generally produces higher estimates of wealth inequality.

Kopczuk and Saez (KS): Kopczuk and Saez use the estate multiplier method on IRS federal estate tax data with micro data that allows them to decompose various sources of wealth. KS found a dramatic reduction in wealth concentration over the 20th century, leveling off in the 1980s and 1990s. They measure the broadest group their data allows them to examine (up to the top 2% of wealth holders depending on the time period). Their definition of wealth is total cash surrender value of assets minus total liabilities as they appear on estate tax returns (this excludes defined pension plans and annuitized wealth with no cash surrender value). Their definition of wealth is a relatively narrow one but has clear value as an object of study.

Federal Reserve's Survey of Consumer Finances (SCF): Instead of using tax data, the Survey of Consumer Finances is a triennial survey that gathers data such as families' balance sheets, pensions, income, and demographic characteristics. The SCF uses the reported assets and liabilities of survey participants to estimate the wealth of the participants and estimate the distribution of wealth throughout the population. The survey deliberately over-samples the wealthy for two reasons: "First, it provides more precise estimates of wealth in general and of narrowly held assets than

would be possible with a less-structured sample of larger size. Second, the structure of the over-sample provides a means of correcting for nonresponse, which is differentially higher among the wealthy." The SCF is the only wealth measure shown that is based on survey data and should be seen as less reliable than other measures.

Federal Reserve Distributional Financial Accounts (DFA): The DFAs provide estimates of the distribution of U.S. household wealth beginning in the third quarter of 1989 and are the Federal Reserve's preferred measure of wealth distribution. The DFAs use information from the Survey of Consumer Finances (SCF) to allocate the aggregate assets and liabilities reported in the Federal Reserve's Financial Accounts across different wealth, income, and socioeconomic groups. Because the SCF and Financial Accounts define wealth differently, the DFAs reconcile the two datasets through a three-step process:

- **Reconcile the data.** The concepts and measures used in the SCF and Financial Accounts are aligned so that household balance sheets can be compared directly.
- **Create quarterly estimates.** Because the SCF is conducted only every three years, its balance sheet data are updated quarter by quarter by interpolating between surveys and forecasting beyond the most recent survey.
- **Allocate wealth across groups.** The estimated quarterly shares of assets and liabilities held by each group are then used to distribute the Financial Accounts totals across the population.

Smith, Zidar, and Zwick (SZZ): SZZ use administrative tax data and link people to their sources of capital income, allowing them to estimate heterogeneous rates of return for various asset classes. They also use "the covariance structure of interest rates, assets, and returns to estimate fixed income returns by group." Their results typically lie between upper estimates like PSZ and lower estimates like Fed DFA and KS.

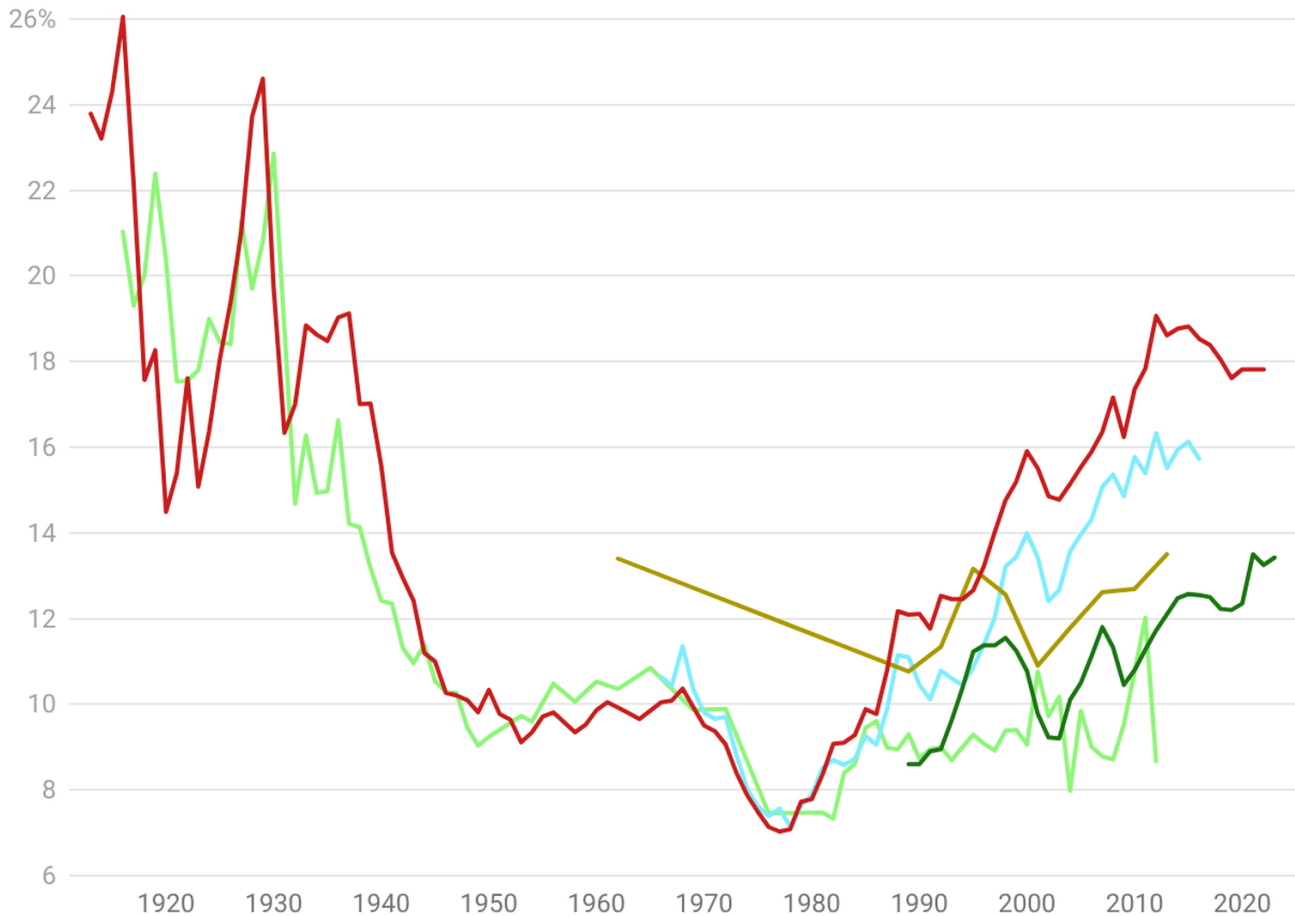
Kuhn, Schularick, and Steins (KSS): Kuhn, Schularick, and Steins use archival data from the Survey of Consumer Finances at the household level. They

include liquid assets, housing, bonds, stocks, business equity, mutual funds, cash value of life insurance, other real estate, and cars in their definition of assets, and they divide debt into housing and non-housing debt.

Their definition of wealth is broad compared to other measures.

Figure 3: Top 0.1% Wealth Share

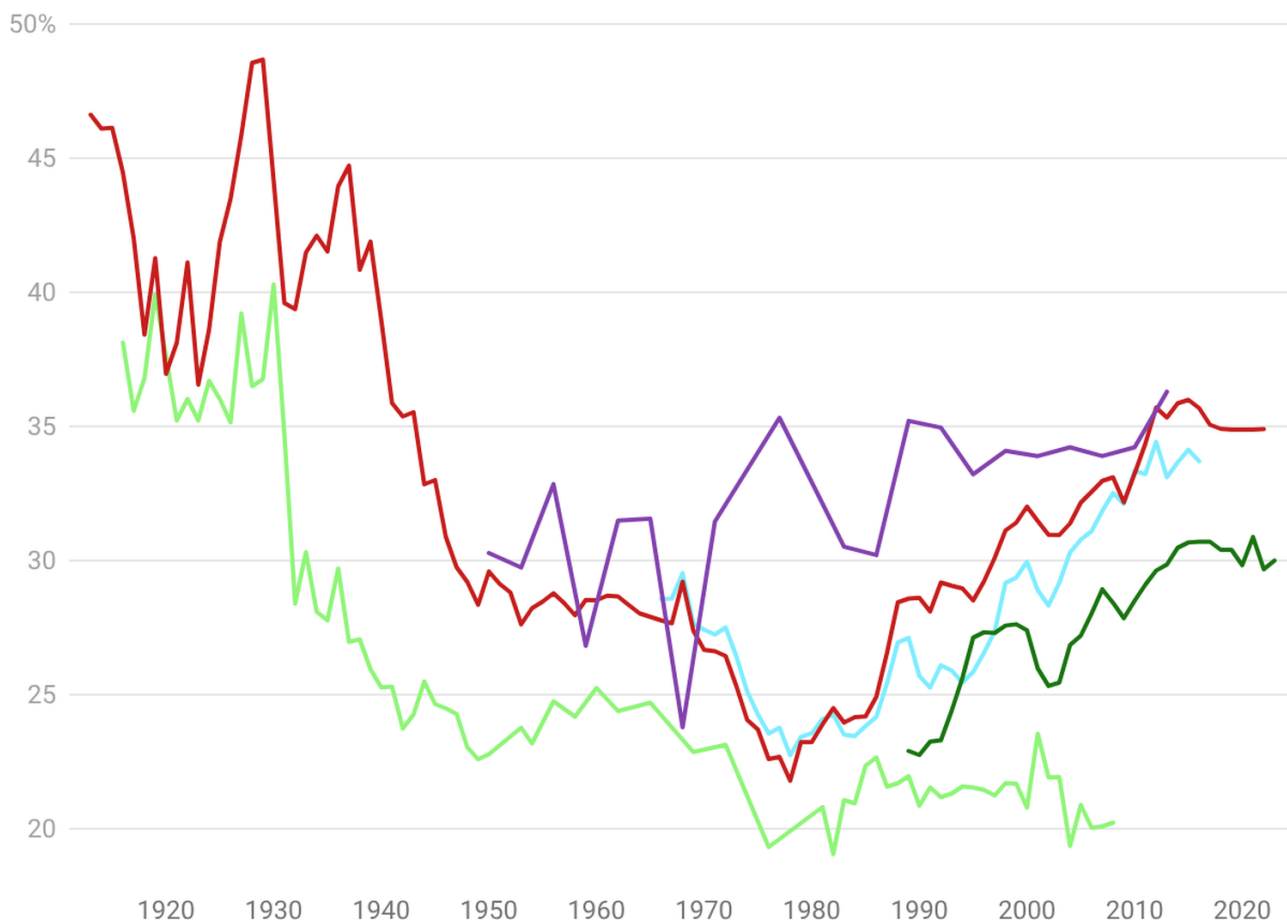
— Piketty, Saez, and Zucman — Kopczuk and Saez — Survey of Consumer Finances — Distributional Financial Accounts — Smith, Zidar, and Zwick



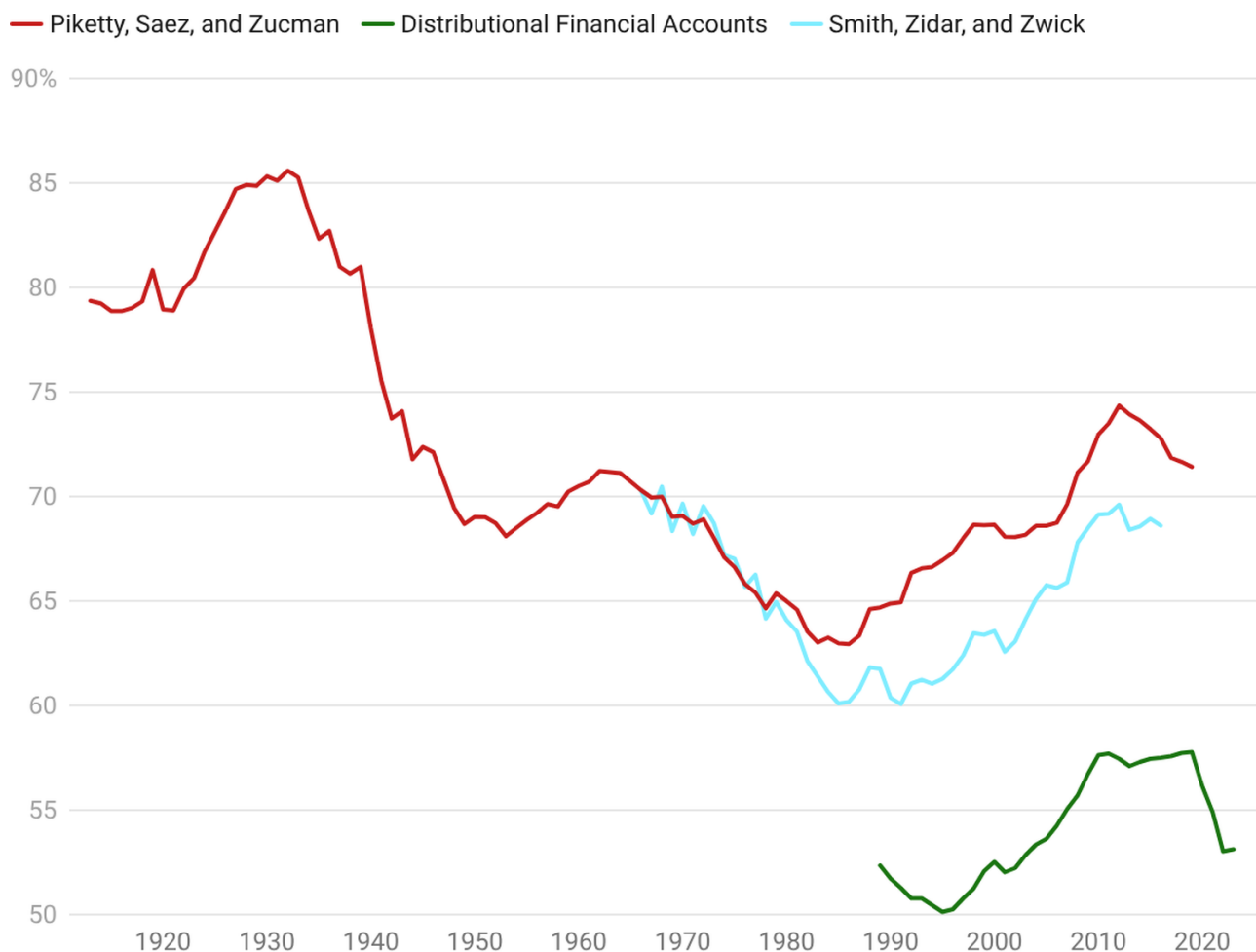
Note: Comparison of various calculations of the share of American wealth owned by the top 0.1% of owners. Piketty, Saez, and Zucman consistently overestimate the share owned by the top 0.1%.

Figure 4: Top 1% Wealth Share

— Piketty, Saez, and Zucman — Kopczuk and Saez — Distributional Financial Accounts — Smith, Zidar, and Zwick — Kuhn, Schularick, and Steins



Note: Comparison of various calculations of the share of American wealth owned by the top 1% of owners. Piketty, Saez, and Zucman consistently overestimate the share owned by the top 1%.

Figure 5: Top 10% Wealth Share

Note: Comparison of various calculations of the share of American wealth owned by the top 10% of owners. Piketty, Saez, and Zucman consistently overestimate the share owned by the top 10%.

About the Authors

Caleb Pettit is a Research Fellow at Independent Institute.

Phillip W. Magness is Research Director and David J. Theroux Chair at Independent Institute.

Edward J. López is a Senior Fellow and Director of the Center on Innovation and Entrepreneurship at Independent Institute.



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Independent Institute, 100 Swan Way, Oakland, CA 94621-1428
T: 510-632-1366 · F: 510-568-6040 · info@independent.org · www.independent.org