Presentation of the World Inequality Report 2018

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Report based on WID.world, the most extensive database on the historical evolution of income and wealth distribution. Project regrouping more than 100 researchers over 5 continents. 100% transparent, open source, reproducible.

The first systematic assessment of globalization in terms of economic inequality. Despite high growth in emerging countries, global inequality increased since 1980. The top 1% captured twice as much global income growth as bottom 50%.

Diverging country inequality trajectories highlight the importance of institutional changes and political choices rather than deterministic forces. This suggests much can be done in the coming decades to promote more equitable growth.
1. Introduction: the WID.world project
WID.world combines inequality data sources in a consistent way to fill a democratic gap.

2. Global income inequality dynamics
Global top 1% captured twice as much growth as bottom 50% since 1980. Different national trajectories suggest that the trend was not inevitable. Focus: the Middle East: the world’s most unequal region?

3. Public vs. private capital dynamics
Gradual rise in wealth income ratios since 1980s in the context of large transfers of public to private wealth in emerging and rich countries.

4. Global wealth inequality dynamics
Combination of rising income inequality and fall of public wealth contributed to sharp rise in wealth inequality among individuals. Focus: from aggregate wealth to wealth inequality: illustration with Spain

5. Conclusion: tackling inequality
Rethinking the policy cocktail of globalization
PART I
THE WID.WORLD PROJECT AND THE MEASUREMENT OF ECONOMIC INEQUALITY

- The *World Inequality Report 2018* seeks to fill a democratic gap and to equip various actors of society with the necessary facts to engage in informed public debates on inequality.

- The *World Inequality Report 2018* relies on the most extensive database on the historical evolution of income and wealth inequality. Our methodology is fully transparent, open access and reproducible.
Continuation of pioneering work of Kuznets in the 1950s and Atkinson in the 1970s combining fiscal and national accounts data

Kuznets, 1953 and Atkinson and Harrison, 1978

WID.world started with the publication of historical inequality series based on top income shares series using tax data


In 2011, we released the World Top Incomes Database, gradually extended to over thirty countries and to wealth

Alvaredo et al., 2013, Saez-Zucman , 2016, Alvaredo-Atkinson-Morelli, 2016, etc.
New website **WID.world** launched January 2017: collaborative effort

**Key novelty:** we combine National accounts, tax data and surveys in a systematic manner ➔ Distributional National Accounts (DINA, cf. Alvaredo et al. 2016)

**Three major extensions underway**
1. Emerging countries
2. Entire distribution, from bottom to top
3. Wealth distribution and not only income distribution
- Constantly extending database on the historical evolution of income and wealth
  - Income shares, averages, thresholds: 70 countries
  - Wealth income ratios, wealth distribution: 25 countries
  - Net National Income, CFC, GDP: 180 countries

- Open access, multi-lingual website and visualization tools
  - Chinese, English, French, Spanish: reach more than 3 billion people

- State of the art tools for inequality research
  - GPINTER package: manipulate distributions online
  - Stata and R packages: access our data from Stata directly
PART II
GLOBAL INCOME INEQUALITY DYNAMICS

- The top 1% captured twice as much global income growth as the bottom 50% since 1980
- We observe rising inequality between world individuals, despite growth in the emerging world
- Different national trajectories show rising global inequality is not inevitable
Towards a global distribution of income and wealth

- **Official statistics do not provide an adequate picture of global inequality**
  - Official data mostly based on self-reported survey & underestimates inequality
  - No global distribution based on systematic combination of top and bottom income or wealth data (National accounts, tax, surveys and wealth rankings)

- **WID.world follows a step-by-step approach towards a consistent global distribution of income and wealth**
  - We only aggregate countries for which we have consistent series, in line with Distributional National Accounts
  - We confirm and amplify the « Elephant curve » pattern (Lakner-Milanovic) with more systematic tax data and larger country coverage
Towards a global distribution of income and wealth

Global inequality dynamics
II. What are our new findings on global income inequality?

We show that income inequality has increased in nearly all world regions in recent decades, but at different speeds. The fact that inequality levels are so different among countries, even when countries share similar levels of development, highlights the important roles that national policies and institutions play in shaping inequality.

Income inequality varies greatly across world regions. It is lowest in Europe and highest in the Middle East.

▶ Inequality within world regions varies greatly. In 2016, the share of total national income accounted for by just that nation’s top 10% earners (top 10% income share) was 37% in Europe, 41% in China, 46% in Russia, 47% in US-Canada, and around 55% in Sub-Saharan Africa, Brazil, and India. In the Middle East, the world’s most unequal region according to our estimates, the top 10% capture 61% of national income (Figure E1).

In recent decades, income inequality has increased in nearly all countries, but at different speeds, suggesting that institutions and policies matter in shaping inequality.

▶ Since 1980, income inequality has increased rapidly in North America, China, India, and Russia. Inequality has grown moderately in Europe (Figure E2a). From a broad historical perspective, this increase in inequality marks the end of a postwar egalitarian regime which took different forms in these regions.

Source: World Inequality Report 2018, Figure 2.1.1. See wir2018.wid.world for data sources and notes.
There are exceptions to the general pattern. In the middle east, sub-Saharan Africa, and Brazil, income inequality has remained relatively stable, at extremely high levels (Figure E2b). Having never gone through the postwar egalitarian regime, these regions set the world “inequality frontier.”

The diversity of trends observed across countries since 1980 shows that income inequality dynamics are shaped by a variety of national, institutional and political contexts. This is illustrated by the different trajectories followed by the former communist or highly regulated countries, China, India, and Russia (Figure E2a and b). The rise in inequality was particularly abrupt in Russia, moderate in China, and relatively gradual in India, reflecting different types of deregulation and opening-up policies pursued over the past decades in these countries.

The divergence in inequality levels has been particularly extreme between Western Europe and the United States, which had similar levels of inequality in 1980 but today are in radically different situations. While the top 1% income share was close to 10% in both regions in 1980, it rose only slightly to 12% in 2016 in Western Europe while it shot up to 20% in the United States. Meanwhile, in the United States, the bottom 50% income share decreased from more than 20% in 1980 to 13% in 2016 (Figure E3).

The income-inequality trajectory observed in the United States is largely due to massive educational inequalities, combined with a tax system that grew less progressive despite a surge in top labor compensation since the 1980s, and in top capital incomes in the 2000s. Continental Europe meanwhile saw a lesser decline in its tax progressivity, while wage inequality was also moderated by educational and wage-setting policies that were relatively more favorable to low- and middle-income groups. In both regions, income inequality between men and women has declined but remains particularly strong at the top of the distribution.

In 2016, 47% of national income was received by the top 10% in US-Canada, compared to 34% in 1980. Source: WID.world (2017). See wir2018.wid.world for data series and notes.
How has inequality evolved in recent decades among global citizens? We provide the first estimates of how the growth in global income since 1980 has been distributed across the totality of the world population. The global top 1% earners has captured twice as much of that growth as the 50% poorest individuals. The bottom 50% has nevertheless enjoyed important growth rates. The global middle class (which contains all of the poorest 90% income groups in the EU and the United States) has been squeezed.

At the global level, inequality has risen sharply since 1980, despite strong growth in China. The poorest half of the global population has seen its income grow significantly thanks to high growth in Asia (particularly in China and India). However, because of high and rising inequality within countries, the top 1% richest individuals in the world captured twice as much growth as the bottom 50% individuals since 1980 (Figure E4). Income growth has been sluggish or even zero for individuals with incomes between the global bottom 50% and top 1% groups. This includes all north American and European lower-and middle-income groups.

The rise of global inequality has not been steady. While the global top 1% income share increased from 16% in 1980 to 22% in 2000, it declined slightly thereafter to 20%. The income share of the global bottom 50% has oscillated around 9% since 1980 (Figure E5). The trend break after 2000 is due to a reduction in between-country average income inequality, as within-country inequality has continued to increase.

In 2016, 55% of national income was received by the Top 10% earners in India, against 31% in 1980. Source: WID.world (2017). See wir2018.wid.world for data series and notes.
This graph is scaled by population size, meaning that the distance between different points on the x-axis is proportional to the size of the population of the corresponding income group. The income group p0p1 (lowest percentile), for instance, occupies 1% of the size of the x-axis. On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group's income level. The Top 1% group is divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size.

The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99p99.1 (the poorest 10% among the richest 1% of global earners), growth was 74% between 1980 and 2016. The Top 1% of income earners captured 27% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation.

Total income growth by percentile across all world regions, 1980–2016: Scaled by share of growth captured

The bottom 50% grew... but the top 1% captured twice more total growth.

Total income growth by percentile across all world regions, 1980–2016

- Bottom 50% captured 12% of total growth
- Top 1% captured 27% of total growth
- Prosperity of the global 1%
- Rise of emerging countries
- Squeezed bottom 90% in the US & Western Europe

Source: World Inequality Report 2018, Figure 2.1.4. See wir2018.wid.world for data sources and notes.
We start with the distribution of growth in a region regrouping Europe and North America (Figure 2.1.2). These two regions have a total of 880 million individuals in 2016 (520 million in Europe and 360 million in North America) and represent most of the population of high-income countries. In Europe, cumulative per-adult income growth over the 1980–2016 period was +28%, which is relatively low as compared to the global average (+66%). While the bottom 10% income group saw their income decrease over the period, all individuals between percentile 20 and percentile 80 had a growth rate close to the average growth rate. At the very top of the distribution, incomes grew very rapidly; individuals in the top 1% group saw their incomes rise by more than 100% over the time period and those in the top 0.01% and above grew at more than 200%.

How did this translate into shares of growth captured by different groups? The top 1% of earners captured 28% of total growth—that is, as much growth as the bottom 81% of the population. The bottom 50% earners captured 9% of growth, which is less than the top 0.1%, which captured 14% of total growth over the 1980–2016 period. These values, however, hide large differences in the inequality trajectories followed by Europe and North America. In the former, the top 1% captured as much growth as the bottom 51% of the population, whereas in the latter, the top 1% captured as much growth as the bottom 88% of the population. (See chapter 2.3 for more details.)

The next step is to add the population of India and China to the distribution of Europe and North America. The global region now considered represents 3.5 billion individuals in total (including 1.4 billion individuals from China and 1.3 billion from India). Adding India and China remarkably modifies the shape of the global growth curve (Figure 2.1.3). On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group’s income level. The Top 1% group is divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99.1 (the poorest 10% among the world’s richest 1%) growth was 104% between 1980 and 2016. The Top 1% captured 28% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation.

Source: World Inequality Report 2018, Figure 2.1.2. See wir2018.wid.world for data sources and notes.
Constructing the elephant: the « cobra curve » of growth in India and China

Total income growth by percentile in India and China, 1980-2016

Source: World Inequality Report 2018, Figure 2.9.4. See wir2018.wid.world for data sources and notes.
The first half of the distribution is now marked by a “rising tide” as total income growth rates increase substantially from the bottom of the distribution to the middle. The bottom half of the population records growth rates which go as high as 260%, largely above the global average income growth of 146%. This is due to the fact that Chinese and Indians, who make up the bulk of the bottom half of this global distribution, enjoyed much higher growth rates than their European and North American counterparts. In addition, growth was also very unequally distributed in India and China, as revealed by Table 2.1.1.

Between percentiles 70 and 99 (individuals above the poorest 70% of the population but below the richest 1%), income growth was substantially lower than the global average, reaching only 40–50%. This corresponds to the lower- and middle-income groups in rich countries which grew at a very low rate. The extreme case of these is the bottom half of the population in the United States, which grew at only 3% over the period considered. (See Chapter 2.4.)

Earlier versions of this graph have been termed “the elephant curve,” as the shape of the curve resembles the silhouette of the animal. These new findings confirm and amplify earlier results. In particular they confirm the share of income growth captured at the top of the global income distribution—a figure which couldn’t be properly measured before.

At the top of the global distribution, incomes grew extremely rapidly—around 200% for the top 0.01% and above 360% for the top 0.001%. Not only were these growth rates important from the perspective of individuals, they also matter a lot in terms of global inequality.

On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group’s income level. The Top 1% group is divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99.1 (the poorest 10% among the world’s richest 1%), growth was 77% between 1980 and 2016. The Top 1% captured 23% of total growth over this period. Income estimates account for differences in the cost of living between countries. Values are net of inflation.

Source: World Inequality Report 2018, Figure 2.1.2. See wir2018.wid.world for data sources and notes.
The top 1% captured 23% of total growth over the period—that is, as much as the bottom 61% of the population. Such figures help make sense of the very high growth rates enjoyed by Indians and Chinese sitting at the bottom of the distribution. Whereas growth rates were substantial among the global bottom 50%, this group captured only 14% of total growth, just slightly more than the global top 0.1%—which captured 12% of total growth. Such a small share of total growth captured by the bottom half of the population is partly due to the fact that when individuals are very poor, their incomes can double or triple but still remain relatively small—so that the total increase in their incomes does not necessarily add up at the global level. But this is not the only explanation. Incomes at the very top must also be extraordinarily high to dwarf the growth captured by the bottom half of the world population.

The next step of the exercise consists of adding the populations and incomes of Russia (140 million), Brazil (210 million), and the Middle East (410 million) to the analysis. These additional groups bring the total population now considered to more than 4.3 billion individuals—that is, close to 60% of the world total population and two thirds of the world adult population. The global growth curve presented in Appendix Figure A2.3 is similar to the previous one except that the "body of the elephant" is now shorter. This can be explained by the fact that Russia, the Middle East, and Brazil are three regions which recorded low growth rates over the period considered. Adding the population of the three regions also slightly shifts the "body of the elephant" to the left, since a large share of the population of the countries incorporated in the analysis is neither very poor nor very rich from a global point of view and thus falls in the middle of the distribution.

Source: World Inequality Report 2018, Figure 2.1.4. See wir2018.wid.world for data sources and notes.
Key question: are we sure that the enormous rise of the global 1% was necessary for the growth of the bottom 50%?

Answer: No.

A careful analysis of country-level growth and inequality trajectories suggest that it is possible to combine higher growth and lower inequality.

- US vs Europe: huge rise of inequality in US, but stagnation of bottom 50% average income
- India vs China: higher rise in inequality in India, but less growth
In 2016, 12% of national income was received by the top 1% in Western Europe, compared to 20% in the United States. In 1980, 10% of national income was received by the top 1% in Western Europe, compared to 11% in the United States.


In 2016, 22% of national income was received by the Bottom 50% in Western Europe.


**Top 1% vs. bottom 50% in the US and Western Europe, 1980-2016**

Source: World Inequality Report 2018, Figure 2.1.3. See wir2018.wid.world for data sources and notes.
India vs. China: higher rise in inequality in India, but less growth

Top 1% vs. bottom 50% in China vs. India, 1980-2016

Source: World Inequality Report 2018, Appendix Figure A4. See wir2018.wid.world for data sources and notes.
US vs. EU: similar levels of development, size, exposure to globalization and to new technologies in 1980. Radically diverging inequality trajectories due to different institutional and policy choices (less progressive taxation, unequal education, falling minimum wage, etc.).

• US-Canada: average income grew by 63% btw 1980 and 2016, and bottom 50% by 5%; Europe: average income grew by 40%, and bottom 50% by 26%.
China vs. India: rise in inequality in both countries but was extreme in India, moderate in China. More investments in education, health, infrastructure for the bottom 50% in China.

- China: average income grew by 831%, and bottom 50% by 417%;
  India: average income grew by 223%, and bottom 50% by 107%.

- NB: none of the above countries meets new SDG targets (bottom 40% is supposed to grow faster than the average)
The geographical breakdown of global income groups changed significantly (1990)

The geographical breakdown of global income groups changed significantly (1990)

Part II

Trends in Global Income Inequality

Figure 2.1.5

Geographic breakdown of global income groups in 1990

Source: World Inequality Report 2018, Figure 2.1.5. See wir2018.wid.world for data sources and notes.
The geographical breakdown of global income groups changed significantly (2016)

Geographic breakdown of global income groups in 2016

Source: World Inequality Report 2018, Figure 2.1.6. See wir2018.wid.world for data sources and notes.
Regional Focus

THE MIDDLE EAST, THE WORLD’S MOST UNEQUAL REGION?

- Richest individuals of the Middle East barely visible in official statistics on inequality

- Changing the scope of analysis (from the nation to the region) may be useful to better reveal perceived levels of inequality
In official data, the Middle East is barely visible in the global top 1%.

Geographic breakdown of global income groups in 2016

- Source: World Inequality Report 2018, Figure 2.1.6. See wir2018.wid.world for data sources and notes.
An Arab inequality puzzle?

- Is the regional political turmoil related to the specific structure and level of socio-economic inequality?

- Following the Arab Spring, there was a renewed interest in the measurement of income inequality in the region, as greater social justice was among the main demands of demonstrators.

- The low levels of inequality found suggest that the source of dissatisfaction must be found elsewhere.
The extreme level of inequality comes from:

1. Enormous inequality between countries (particularly between oil-rich and population-rich countries)
2. Large inequality within countries

The concept of nation-state may not be the unique or most meaningful level of analysis

- Perceptions about inequality are not only determined by within-country inequality
- Changing the geographical level of analysis affects the measurement of inequality
The Middle East appears to be the most unequal region in the world.

Source: World Inequality Report 2018, Figure 2.10.2. See wir2018.wid.world for data sources and notes.
Focus on inequality at the level of regions can change the picture... or not:

Western + Eastern Europe (pop: 510 million) is still much less unequal than the US (320m).

In 2016, 38% of national income was received by the Top 10% in Eastern and Western Europe.


In 2016, 13% of national income was received by the Bottom 50% in the US.

Enormous between-country inequality

### Population and income in the Middle-East, 2016

<table>
<thead>
<tr>
<th></th>
<th>Population (million)</th>
<th>Adult Population (million)</th>
<th>Adult population (% of ME total)</th>
<th>National Income (Billion 2016 € PPP)</th>
<th>% ME Total Income (PPP)</th>
<th>National Income (Billion 2016 € MER)</th>
<th>% ME Total Income (MER)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>80</td>
<td>53</td>
<td>21%</td>
<td>1073</td>
<td>19%</td>
<td>548</td>
<td>22%</td>
</tr>
<tr>
<td>Iran</td>
<td>80</td>
<td>56</td>
<td>22%</td>
<td>896</td>
<td>16%</td>
<td>330</td>
<td>13%</td>
</tr>
<tr>
<td>Egypt</td>
<td>93</td>
<td>54</td>
<td>22%</td>
<td>800</td>
<td>14%</td>
<td>234</td>
<td>9%</td>
</tr>
<tr>
<td>Iraq-Syria-Other (non-Gulf)</td>
<td>102</td>
<td>52</td>
<td>21%</td>
<td>570</td>
<td>10%</td>
<td>243</td>
<td>10%</td>
</tr>
<tr>
<td>Gulf Countries</td>
<td>54</td>
<td>37</td>
<td>15%</td>
<td>2394</td>
<td>42%</td>
<td>1179</td>
<td>47%</td>
</tr>
<tr>
<td>Total Middle East</td>
<td>409</td>
<td>252</td>
<td>100%</td>
<td>5733</td>
<td>100%</td>
<td>2534</td>
<td>100%</td>
</tr>
</tbody>
</table>


In 2016, Gulf countries earned €2.4 billion in Purchasing Power Parity. All values have been converted into 2016 Purchasing Power Parity (PPP) euros at a rate of €1 = $1.3, and into 2016 Market Exchange Rate (MER) euros at a rate of €1 = $1.1. PPP accounts for differences in the cost of living between countries. Values are net of inflation. Numbers may not add up due to rounding.
Large inequality within countries

Source: World Inequality Report 2018, Figure 2.10.4. See wir2018.wid.world for data sources and notes.
Determinants of extreme inequality

• There are different determinants to extreme inequality

• In many of the most unequal regions in the world (Brazil, South Africa), extreme inequality comes from a legacy of slavery, colonial or racial cleavage

• In the Middle East, the origins of inequality are more “modern” : they are directly linked to the functioning of contemporary capitalism and to the geography of oil ownership and the transformation of oil revenues into permanent financial endowments.

• Indeed, the dynamics of private and public capital ownership are critical determinants of inequality.
Part III
PUBLIC VERSUS PRIVATE CAPITAL DYNAMICS

- Economic inequality is largely driven by the unequal ownership of capital, which can be either privately or public owned.

- We show that since 1980, very large transfers of public to private wealth occurred in nearly all countries, whether rich or emerging.

- While national wealth has substantially increased, public wealth is now negative or close to zero in rich countries. Arguably this limits the ability of governments to tackle inequality; certainly, it has important implications for wealth inequality among individuals.
Countries have become richer, but governments have become poor.

The rise of private capital and the fall of public capital in rich countries, 1970–2016

Economic inequality is largely driven by the unequal ownership of capital, which can be either privately or public owned. We show that since 1980, very large transfers of public to private wealth occurred in nearly all countries, whether rich or emerging. While national wealth has substantially increased, public wealth is now negative or close to zero in rich countries. Arguably this limits the ability of governments to tackle inequality; certainly, it has important implications for wealth inequality among individuals.
Private capital also rose sharply in emerging countries...

Net private wealth to net national income ratios in China, Russia and rich countries, 1980–2015: The rise of private wealth

Source: World Inequality Report 2018, Figure 3.1.1. See wir2018.wid.world for data sources and notes.
... in China the share of public capital in national capital is now comparable to rich countries during the mixed-economy period (1950-1980).

The decline of public capital, 1970-2016

![Graph showing the decline of public capital from 1970 to 2016 for various countries including China, France, Germany, Japan, UK, and US. The y-axis represents the value of net public wealth as a percentage of national wealth, ranging from -10% to 70%. The x-axis represents the years from 1978 to 2013. The graph indicates a general decline in public capital with notable exceptions for oil-rich countries like Norway.

Source: World Inequality Report 2018, Figure E7. See wir2018.wid.world for data sources and notes.
There are some exceptions to the decline of public capital: Norway (sovereign funds without Russian leaks...)

The share of public wealth in national wealth in rich countries, 1978–2015

Source: World Inequality Report 2018, Figure 3.1.5. See wir2018.wid.world for data sources and notes.
The combination of rising income inequality and large transfers of public to private wealth contributed to the steep rise in wealth inequality. Wealth data however remains particularly opaque.

We observe a rise in global wealth inequality over the past decades. At the global level (China, Europe, and the US) the top 1% share of wealth increased from 28% in 1980 to 33% today, while the bottom 75% share hovered around 10%.
Rise in wealth inequality since the 1980s in most countries after a historical decline.

Top 1% personal wealth share in emerging and rich countries, 1913–2015

Source: World Inequality Report 2018, Figure 4.2.1. See wir2018.wid.world for data sources and notes.
At the global level (China, EU, US), wealth inequality is on the rise. Available data show that global wealth inequality is extreme and on the rise. At the global level (represented by China, Europe, and the United States), wealth is substantially more concentrated than income: the top 10% owns more than 70% of the total wealth. The top 1% wealthiest individuals alone own 33% of total wealth in 2017. This figure is up from 28% in 1980. The bottom 50% of the population, on the other hand, owns almost no wealth over the entire period (less than 2%). Focusing on a somewhat larger group, we see that the bottom 75% saw its share oscillate around 10%. Wealth concentration levels would probably be even higher if Latin America, Africa, and the rest of Asia were included in the analysis, as most people in these regions would be in the poorer parts of the distribution. We leave this to future editions of the World Inequality Report.

We compare in Table 4.1.1 the growth rates of the different wealth groups between 1980 and 2017 (all growth rates are expressed in real terms—that is, after deduction of inflation). A number of striking findings emerge. First, one can see that average wealth has grown faster since the 1980s than average income, reflecting the general tendency of wealth/income ratios to rise in most countries, as documented in Part II of this report. Between 1987 and 2017, per-adult average income has increased at 1.3% per year at the world level, while per-adult wealth has increased at 1.9% per year. Next, if we now look at the top of world wealth distribution—as measured by the Forbes billionaire rankings—we find that the top wealth holders’ share has increased a lot faster than average wealth holders: 5.3% since 1987 for the top 1/20 million, and 6.4% for the top 1/100 million (see Table 4.1.1). By definition, this is an evolution that cannot continue forever: if top wealth holders were to grow on a permanent basis at a speed that is three to four times faster than average wealth in the world, then billionaires would ultimately come to own 100% of the world’s wealth.

### Figure 4.1.1
Top 1% and Bottom 75% shares of global wealth, 1980–2017: China, Europe and the US

1987-2017

- Annual wealth growth of top 100 adults: 7.8%
- Annual wealth growth of full population: 2.8%
- Annual income growth of full population: 1.4%

FOCUS
FROM AGGREGATE WEALTH AND HOUSING BUBBLES TO WEALTH INEQUALITY: ILLUSTRATION WITH SPAIN

• Complex interactions between the rise of total private wealth & the evolution of wealth inequality between individuals. Need for detailed, country-by-country analysis.

• Spain has experienced an unprecedented rise in the personal wealth to national income ratio in the last two decades due mainly to the housing bubble

• However, little movements in wealth inequality: high housing prices benefit middle class more than the top and mitigates the general trend in rising inequality; but this complicates access to housing for the young generation with no family wealth...
Spain as an extreme case of rising private wealth-income ratios

Economic inequality is largely driven by the unequal ownership of capital, which can be either privately or public owned. We show that since 1980, very large transfers of public to private wealth occurred in nearly all countries, whether rich or emerging. While national wealth has substantially increased, public wealth is now negative or close to zero in rich countries. Arguably this limits the ability of governments to tackle inequality; certainly, it has important implications for wealth inequality among individuals.

Over the past decades, countries have become richer but governments have become poor.

*The ratio of net private wealth to net national income gives insight into the total value of wealth commanded by individuals.*

In 2015, the value of net public wealth (or public capital) in the US was negative (-17% of net national income) while the value of net private wealth (or private capital) was 500% of national income. In 1970, net public wealth amounted to 36% of national income while the figure was 326% for net private wealth. Net private wealth is equal to new private assets minus net private debt. Net public wealth is equal to public assets minus public debt.


Huge rise in personal wealth to national income ratio

Composition of household wealth in Spain, 1984–2014

Source: World Inequality Report 2018, Figure 4.5.1. See wir2018.wid.world for data sources and notes.
Wealth concentration high but nearly stable. Why?

Source: World Inequality Report 2018, Figure 4.5.2. See wir2018.wid.world for data sources and notes.
The rich own a large share of their portfolio in housing

Source: World Inequality Report 2018, Figure 4.5.4. See wir2018.wid.world for data sources and notes.
...even the very very rich own a large share of their portfolio in housing

Source: World Inequality Report 2018, Figure 4.5.3. See wir2018.wid.world for data sources and notes.
Comparison with France: top wealth holders prefer financial/business assets in France

These contradictory movements in relative asset prices have an important impact on the evolution of wealth inequality in France, as different wealth groups own very different asset portfolios. As depicted by Figure 4.4.4, the bottom 30% of the distribution own mostly deposits in 2012, while housing assets are the main form of wealth for the middle of the distribution. However, as one moves towards the top 10% and the top 1% of the distribution, financial assets—other than deposits—gradually become the dominant form of wealth, largely because of their large equity portfolios. These general patterns of asset portfolio construction remain relatively constant throughout the 1970–2014 period, except that business assets played a more important role during the 1970s and early 1980s, particularly among middle-high-wealth holders.

If one now decomposes the evolution of wealth shares going to the bottom 50%, middle 40%, top 10%, and top 1% by asset categories, the impact of asset price movements on inequality is significant. In particular, Figure 4.4.5 indicates the significant impact the stock market boom of the 2000s and its slide thereafter had on top wealth shares in particular. It also shows the effect of the general increase in housing prices on the wealth shares of the middle 40% during the 2000s, further discussed below.

Rising housing prices moderated wealth concentration since the 1980s. Changes to house prices played a notable role in reducing wealth inequality in France between 1970 and 2014. Similar to trends in a number of other rich nations, house prices in France increased at a faster pace than consumer price inflation (2.4% faster per year) and thus the total return to French adults owning property was significant, growing at an annual rate of over 6% during the 2000s.

In 2012, 67% of the personal wealth of the 5th decile (p50-p60) was composed of housing assets (net of debt). All values have been converted to 2016 constant euros (accounting for inflation). For comparison, €1 = $1.1 = ¥7.3 at market exchange rates.
In Spain, the middle and the top have saved more than the bottom after the bubble.

Source: World Inequality Report 2018, Figure 4.5.7a. See wir2018.wid.world for data sources and notes.
The rich managed to reallocate their portfolios toward financial assets at the right time.

The rise of offshore wealth in Spain: a lower bound estimate

Total unreported offshore assets in Spain, 1984–2015

In 2015, unreported offshore wealth amounted to €147 000 million, the equivalent of 8.6% of personal financial wealth.

Source: World Inequality Report 2018, Figure 4.5.8. See wir2018.wid.world for data sources and notes.
Part IV
TACKLING GLOBAL INEQUALITY

• The future of global inequality depends on convergence forces (rapid growth in emerging countries) and divergence forces (rising inequality within countries). No one knows which of these forces will dominate and whether current trends are sustainable.

• Under « Business as usual » scenario, even with high growth in the emerging world, within-country divergence will prevail. Other pathways are possible however: if all countries adopt a European inequality pathway, global inequality would decrease by 2050. This would have enormous impacts on global poverty eradication.
What is the future of global inequality and how should it be tackled? We project income and wealth inequality up to 2050 under different scenarios. In a future in which “business as usual” continues, global inequality will further increase. Alternatively, if in the coming decades all countries follow the moderate inequality trajectory of Europe over the past decades, global income inequality can be reduced—in which case there can also be substantial progress in eradicating global poverty.

The global wealth middle class will be squeezed under “business as usual.”

Rising wealth inequality within countries has helped to spur increases in global wealth inequality. If we assume the world trend to be captured by the combined experience of China, Europe and the United States, the wealth share of the world’s top 1% wealthiest people increased from 28% to 33% while the share commanded by the bottom 75% oscillated around 10% between 1980 and 2016.

The continuation of past wealth-inequality trends will see the wealth share of the top 0.1% global wealth owners (in a world represented by China, the EU, and the United States) catch up with the share of the global wealth middle class by 2050 (Figure E9).

Business as usual: global income inequality will continue to rise, despite high growth in emerging world. Between country convergence not enough to counter within-country trend.

Figure 5.1.1 shows the evolution of the income shares of the global top 1% and the global bottom 50% for the three scenarios.

- Under the business-as-usual scenario (scenario 1), the income share held by the bottom 50% of the population slightly decreases from approximately 10% today to less than 9% in 2050. At the top of the global income distribution, the top 1% income share rises from less than 21% today to more than 24% of world income. Global inequality thus rises steeply in this scenario, despite strong growth in emerging countries.

- In Africa, for instance, we assume that average per-adult income grows at sustained 3% per year throughout the entire period (leading to a total growth of 173% between 2017 and 2050).

These projections show that the progressive catching-up of low-income countries is not sufficient to counter the continuation of worsening of within-country inequality. The results also suggest that the reduction (or stabilization) of global income inequality.

Different inequality trajectories at the national level matter enormously for global poverty eradication.

Within-country inequality trends are critical for global poverty eradication. What do these different scenarios mean in terms of actual income levels, and particularly for bottom groups? It is informative to focus on the dynamics of income shares held by different groups, and how they converge or diverge over time. But ultimately, it can be argued that what matters for individuals—and in particular those at the bottom of the social ladder—is their absolute income level. We stress again here that our projections do not pretend to predict how the future will be, but rather aim to inform on how it could be, under a set of simple assumptions.

Figure 5.1.2 depicts the evolution of average global income levels and the average income of the bottom half of the global population in the three scenarios described above. The evolution of global average income does not depend on the three scenarios. This is straightforward to understand: in each of the scenarios, countries (and hence the world as a whole) experience the same total income and demographic growth. It is only the matter of how this growth is distributed within countries that changes across scenarios. Let us reiterate that our assumptions are quite optimistic for low-income countries, so it is indeed possible that global average income would actually be slightly lower in the future than in the figures presented. In particular, the global bottom 50% average income would be even lower.

In 2016, the average per-adult annual income of the poorest half of the world population was €3,100, in contrast to the €16,000 global average—a ratio of 5.2 between the overall average and the bottom-half average. In 2050, global average income will be €35,500 according to our projections. In the business-as-usual scenario, the gap between average income and the bottom would widen (from a ratio of 5.2 to a ratio of 5.6) as the bottom half would have an income of €6,300. In the US Annual income per adult (€)

If all countries follow the inequality trajectory of Europe between 1980 and 2016, the average income of the Bottom 50% of the world population will be €9,100 by 2050.

Tackling global inequality: more in the report. Aim is to open the discussion, not to close it!

- Progressive taxation
- Global financial registry
- Equal access to education and well-paying jobs
- Investing in the future
CONCLUSION

• The WID.world project: more than 100 researchers over the five continents. All the data is entirely open source + transparent to feed public debates.

• This report: first systematic assessment of globalization in terms of inequality. Global top 1% captured twice as much growth as bottom 50% since 1980. Under Business as usual, even with optimistic growth assumptions in the emerging world, global inequality will continue to rise.

• Rising inequality is not inevitable: different types of policies can be implemented to promote equitable growth pathways in the coming decades.
Additional slides
In 2017, the top marginal tax rate of inheritance tax (applying to the highest inheritances) was 55% in Japan, compared to 4% in Brazil. Europe is represented by France, Germany and the UK.