Introduction

In this lecture we are returning to the question of wealth inequality (that is, the inequalities arising from capital ownership).

Global wealth today is estimated at approximately $360 trillion. Over 50% of this is estimated to be owned by 1% of the world's population.

Previously, we concluded that the reason why income inequality declined in the 20th century was because the income arising from capital ownership declined.

It is therefore essential that we understand the changing dynamics of who owns wealth, and how it is distributed across the population.
Some cocktail party statistics

26 people own the same amount of wealth as 3.8 billion people in the poorest half of humanity.

Since the global financial crisis, the wealth of the world’s billionaires has increased by almost a trillion.

Average per adult wealth in the US is around 70,000 dollars. But averages can be very deceiving. The top 10% in the US own 70% of the wealth.

If established trends in global wealth inequality continue, the top 0.1% alone will own more wealth than the global middle class by 2050.
<table>
<thead>
<tr>
<th>Share of different groups in total capital</th>
<th>Low inequality (never observed; ideal society?)</th>
<th>Medium inequality (= Scandinavia, 1970s-1980s)</th>
<th>Medium-high inequality (= Europe 2010)</th>
<th>High inequality (= U.S. 2010)</th>
<th>Very high inequality (= Europe 1910)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The top 10% &quot;Upper class&quot;</td>
<td>30%</td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
<td>90%</td>
</tr>
<tr>
<td>including: the top 1% &quot;dominant class&quot;</td>
<td>10%</td>
<td>20%</td>
<td>25%</td>
<td>35%</td>
<td>50%</td>
</tr>
<tr>
<td>including: the next 9% &quot;well-to-do class&quot;</td>
<td>20%</td>
<td>30%</td>
<td>35%</td>
<td>35%</td>
<td>40%</td>
</tr>
<tr>
<td>The middle 40% &quot;Middle class&quot;</td>
<td>45%</td>
<td>40%</td>
<td>35%</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>The bottom 50% &quot;Lower class&quot;</td>
<td>25%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Corresponding Gini coefficient (synthetic inequality index)</td>
<td>0.33</td>
<td>0.58</td>
<td>0.67</td>
<td>0.73</td>
<td>0.85</td>
</tr>
</tbody>
</table>

In societies with "medium" inequality of capital ownership (such as Scandinavian countries in the 1970s-1980s), the top 10% richest in wealth own about 50% of aggregate wealth, the bottom 50% poorest about 10%, and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0.58. See technical appendix.
Table 7.2 shows that in all known societies the poorest half of the population own virtually nothing (generally 5% of wealth).

The world of the 21st century is no different to the world of the 19th century in this sense. The top decile have generally owned between 60-90% of wealth.

The middle classes have generally owned between 5-35%. This emergence of a property owning middle class transformed wealth distribution in the 20th century.

Let's take a look at these empirical trends in rich and emerging countries.
In 2016, in a world represented by China, Europe and the US, the global wealth share of the Top 1% was 33%. Under “Business as usual”, the Top 1% global wealth share would reach 39% by 2050, while the Top 0.1% wealth owners would own nearly as much wealth (26%) as the middle class (27%). The evolution of global wealth groups from 1980 to 2017 is represented by China, Europe and the US. Values are net of inflation.

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


In 2016, 33% of global wealth was owned by the Top 1%. The evolution of global wealth groups from 1980 to 2017 is represented by China, Europe and the US.
Figure 4.2.1
Top 1% personal wealth share in emerging and rich countries, 1913–2015

In 2015, the Top 1% wealth share was 43% in Russia against 22% in 1995.
Figure 4.2.2
Top 10% personal wealth share in emerging and rich countries, 1913–2015

In 2015, the Top 10% wealth share was 6.7% in China.
USA
<table>
<thead>
<tr>
<th>Wealth group</th>
<th>Number of families</th>
<th>Wealth threshold ($)</th>
<th>Average wealth ($)</th>
<th>Wealth share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Top Wealth groups</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Population</td>
<td>160 700 000</td>
<td>-</td>
<td>384 000</td>
<td>100%</td>
</tr>
<tr>
<td>Top 10%</td>
<td>160 700 000</td>
<td>740 000</td>
<td>2 871 000</td>
<td>77.2%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>160 700</td>
<td>4 442 000</td>
<td>155 260 000</td>
<td>41.8%</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>160 700</td>
<td>23 110 000</td>
<td>816 710 000</td>
<td>22.0%</td>
</tr>
<tr>
<td>Top 0.01%</td>
<td>160 700</td>
<td>124 525 000</td>
<td>416 205 000</td>
<td>11.2%</td>
</tr>
<tr>
<td><strong>B. Intermediate Wealth groups</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bottom 90%</td>
<td>144 600 000</td>
<td>-</td>
<td>94 000</td>
<td>22.8%</td>
</tr>
<tr>
<td>Top 10–1%</td>
<td>144 630 000</td>
<td>740 000</td>
<td>1 470 000</td>
<td>35.4%</td>
</tr>
<tr>
<td>Top 1–0.1%</td>
<td>144 630 000</td>
<td>4 442 000</td>
<td>8 178 000</td>
<td>19.8%</td>
</tr>
<tr>
<td>Top 0.1–0.01%</td>
<td>144 600</td>
<td>23 110 000</td>
<td>44 537 000</td>
<td>10.8%</td>
</tr>
<tr>
<td>Top 0.01%</td>
<td>160 700</td>
<td>124 525 000</td>
<td>416 205 000</td>
<td>11.2%</td>
</tr>
</tbody>
</table>


In 2012, the average wealth of the Top 10% in the US was $2,871,000. All values have been converted to 2016 constant US dollars (accounting for inflation). For comparison, $1 = 60.9 = ¥6.6 at market exchange rates. Numbers may not add up due to rounding.
Figure 4.3.1a
Wealth shares of the Top 10%, Top 10-1% and Top 1% in the US, 1913–2012

In 2012, the share of household wealth owned by the Top 10% in the US was 77%.
Figure 4.3.1b
Wealth shares of the Top 1-0.1% and Top 0.1% in the US, 1913–2012

In 2012, the share of household wealth owned by the Top 0.1% in the US was 22%.
Figure 4.3.2
Composition of the wealth share of the Bottom 90% in the US, 1917–2012


In 2012, the share of household wealth held by the Bottom 90% in the US was 23%. Pensions made up 16 percentage points of the group’s household wealth share.
Figure 4.3.3
Average wealth of the Bottom 90% and Top 1% in the US, 1946–2012


In 2012, the average real wealth of the Bottom 90% households was $92,100, while the average real wealth of the Top 1% was $15,237,000. All values have been converted to 2016 constant US dollars (accounting for inflation). For comparison, $1 = ¥60.9 = ¥6.6 at market exchange rates.
France
### Table 4.4.1
The distribution of personal wealth in France, 2014

<table>
<thead>
<tr>
<th>Wealth group</th>
<th>Number of families</th>
<th>Wealth threshold (€)</th>
<th>Average wealth (€)</th>
<th>Wealth share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Population</td>
<td>51,720,000</td>
<td>–</td>
<td>201,000</td>
<td>100%</td>
</tr>
<tr>
<td>Bottom 50%</td>
<td>25,860,000</td>
<td>–</td>
<td>25,500</td>
<td>6.3%</td>
</tr>
<tr>
<td>Middle 40%</td>
<td>20,690,000</td>
<td>99,000</td>
<td>193,000</td>
<td>38.4%</td>
</tr>
<tr>
<td>Top 10%</td>
<td>5,172,000</td>
<td>402,000</td>
<td>1,097,000</td>
<td>54.5%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>517,000</td>
<td>2,024,000</td>
<td>4,703,000</td>
<td>23.4%</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>51,700</td>
<td>7,612,000</td>
<td>16,506,000</td>
<td>8.2%</td>
</tr>
<tr>
<td>Top 0.01%</td>
<td>5,170</td>
<td>26,668,000</td>
<td>55,724,000</td>
<td>2.8%</td>
</tr>
<tr>
<td>Top 0.001%</td>
<td>517</td>
<td>88,916,000</td>
<td>183,819,000</td>
<td>0.9%</td>
</tr>
</tbody>
</table>


In 2014, the average wealth of the Top 10% in France was €1,097,000. All values have been converted to 2016 constant euros (accounting for inflation). For comparison, €1 = $1.1 = ¥7.3 at market exchange rates. Numbers may not add up due to rounding.
Figure 4.4.1
Wealth shares in France, 1800–2014


In 2014, the share of personal wealth held by the Top 10% in France was 55%. All values have been converted to 2016 constant euros (accounting for inflation). For comparison, €1 = $1.1 = ¥7.3 at market exchange rates.
Figure 4.4.2
Top wealth shares in France, 1800–2014


In 2014, the share of personal wealth held by the Top 1% was 24%. All values have been converted to 2016 constant euros (accounting for inflation). For comparison, €1 = $1.1 = ¥7.3 at market exchange rates.
Figure 4.4.4
Asset composition by wealth group in France, 2012


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.
Figure 4.4.5b
Composition of the wealth share of the Middle 40% in France, 1970-2014

Middle 40% personal wealth per adult (2014): €193,000


In 2014, the Middle 40% owned 27% of personal wealth in housing (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.
UK
Figure 4.6.1
Top wealth shares in the UK, 1895–2013

In 2013, the Top 10% owned 47% of personal wealth.
Figure 4.6.2
Wealth shares of the Top 10% and Bottom 90% in the UK, 1895–2012

In 2012, the Top 0.5% owned 15% of personal wealth.
The mechanism

What explains the hyper-concentration of wealth up until WW1? Its decline, and rise again?

For Piketty, the fundamental macro-social driving force was R>G. These were low-growth societies (G) in which the rate of return on capital (R) was markedly stronger.

If G=1% and R=5% then fortunes grow faster than the economy. This is an ideal condition for an 'inheritance society'.

Most wealth during the 18th and 19th century came from inheritance.
The politics

But the R>G inequality is dependent upon and shaped by the political context within which markets operate, and which are impossible to predict.

To reverse the R>G inequality, economic growth (G) would need to persistently exceed 2 percent over the coming decades and/or taxes on capital (R) would need to reduce the net return to below 3 percent.

Left to its own devices the market will ensure that the inequality in capital ownership and wealth will grow indefinitely.

The freer the capital-market the greater the inequality of wealth.
Conclusion

Wealth inequalities grew throughout the 19th century because of the inequality R>G and the absence of a democratic social state.

Wealth inequalities declined in the 20th century because of the shocks of two wars and the creation of democratic social rights.

Piketty suggests wealth inequality will increase to 19th century levels again because of the return of the inequality R>G (slower growth), and increased tax competition among nation-states in a global financial market (lower taxes).

On this basis he considers a global wealth tax the only option to defend democracy against economic inequalities.