Globalization, Growth, and Inequality: Highlights from the World Inequality Report 2018[1]

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1 What is the aim of the World Inequality Report 2018?

- The objective of the World Inequality Report 2018 is to contribute to a more informed global democratic debate on economic inequality by bringing the latest and most complete data to the public discussion.
- Economic inequality is widespread and to some extent inevitable. It is our belief, however, that if rising inequality is not properly monitored and addressed, it can have catastrophic political, economic, and social consequences. We do not seek to bring everyone into agreement regarding inequality; this will never happen, for the simple reason that no single scientific truth exists about the ideal level of inequality, let alone the most socially desirable mix of policies and institutions to achieve such a level. Ultimately, it is a matter for public deliberation, political institutions, and their processes to make these difficult decisions.
- But this deliberative process requires more rigorous and transparent information on income and wealth that reconciles macroeconomic phenomena with microeconomic trends in inequality, which can often contradict each other. Generating this information is not a straightforward exercise, however, given that many countries do not publicly release, or may not even produce, detailed and consistent income and wealth inequality statistics.
- To overcome these limitations, we combine all data sources at our disposal in a systematic and transparent manner: national income and wealth accounts (including, when possible, estimates of offshore wealth); household income and wealth surveys; fiscal data coming from taxes on income; inheritance and wealth data (when they exist); and wealth rankings.
- The series presented in this report rely on the collective efforts of more than a hundred researchers, covering all continents, who contribute to the WID.world database. All the data are available online at wir2018.wid.world and are fully reproducible, allowing anyone to perform their own analysis and make up their own mind about inequality.

2 What are our new findings on global income quality?

- Inequality within world regions varies greatly. In 2016, the share of total national income accounted for by just that nation's top 10 percent of earners (top 10 percent income share) was 37 percent in Europe, 41 percent in China, 46 percent in Russia, 47 percent in US/Canada,

[1] This text is based on the executive summary of the World Inequality Report 2018 co-authored by Facundo Alvaredo, Lucas Chancel, Thomas Piketty, Emmanuel Saez, Gabriel Zucman, (Harvard University Press).

and around 55 percent in sub-Saharan Africa, Brazil, and India. In the Middle East, the world's most unequal region according to our estimates, the top 10 percent capture 61 percent of national income.

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. From a broad historical perspective, this increase in inequality marks the end of the postwar egalitarian regime.
- 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. 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.
- The different trajectories followed by former communist or highly regulated countries, such as China, India, and Russia also indicate that inequality dynamics are shaped by a variety of national, institutional, and political contexts. 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 past decades in these countries.

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 percent richest individuals in the world captured twice as much growth as the bottom 50 percent of individuals since 1980 (see Figure 1). Income growth has been sluggish or even zero for individuals with incomes between the global bottom 50 percent and top 1 percent groups. This includes all North American and European lower- and middle-income groups.

of living between countries. Values are net of inflation.

3 Why does the evolution of private and public capital ownership matter for inequality?

Over recent decades, countries have become richer but governments have become poor.

- The ratio of net private wealth to net national income gives an insight into the total value of wealth commanded by individuals in a country, as compared with the public wealth held by governments. The sum of private and public wealth is equal to national wealth. The balance between private and public wealth is a crucial determinant of the level of inequality.
- There has been a general rise in net private wealth in recent decades, from 200–350 percent of national income in most rich countries in 1970 to 400–700 percent today. This was largely unaffected by the 2008 financial crisis, or by the asset price bubbles seen in some countries such as Japan and Spain. In China and Russia there have been unusually large increases in private wealth; following their transitions from communist- to capitalist-oriented economies, private wealth quadrupled and tripled, respectively. Private wealth/income ratios in these countries are approaching levels observed in France, the United Kingdom, and the United States.
- Conversely, net public wealth (that is, public assets minus public debts) has declined in nearly all countries since the 1980s. In China and Russia, public wealth declined from 60–70 percent of national wealth to 20–30 percent. Net public wealth has even become negative in recent years in the United States and the United Kingdom, and is only slightly positive in Japan, Germany, and France. This arguably limits a government's ability to regulate the economy, redistribute income, and mitigate rising inequality.

4 What are our new findings on global wealth inequality?

Wealth inequality among individuals has increased at different speeds across countries since 1980.

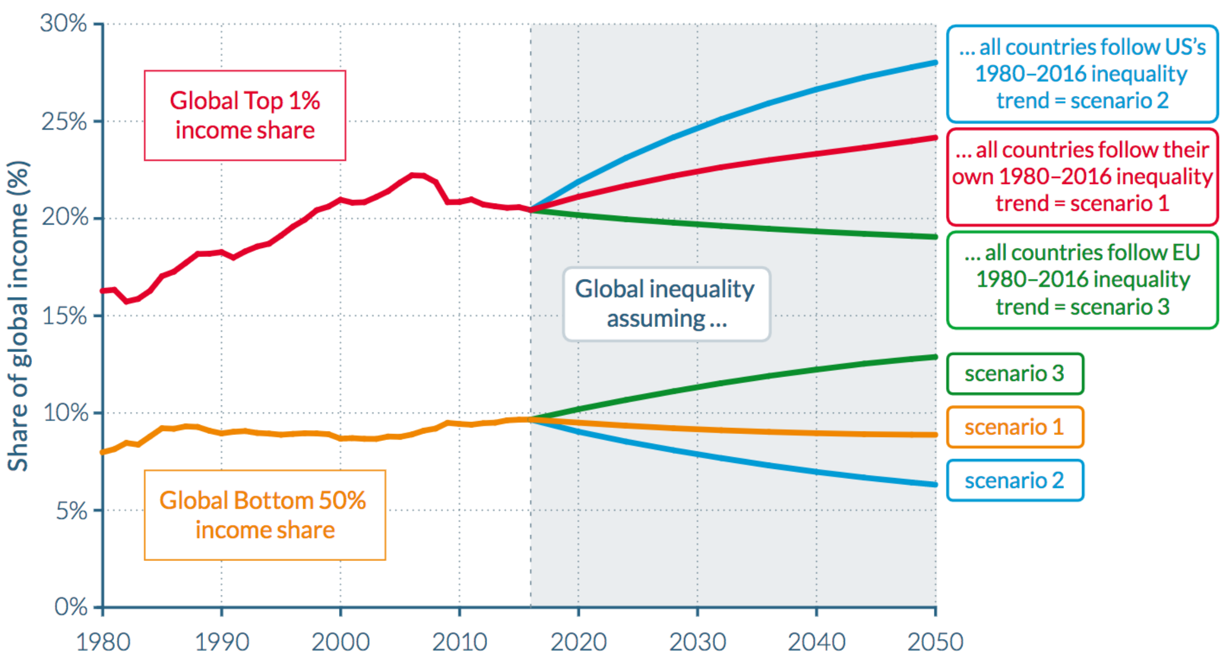
- Increasing income inequality and the large transfers of public to private wealth occurring over the past forty years have yielded rising wealth inequality among individuals. Wealth inequality has not, however, yet reached its early-twentieth-century levels in Europe or in the United States.
- The rise in wealth inequality has nonetheless been very large in the United States, where the top 1 percent wealth share rose from 22 percent in 1980 to 39 percent in 2014. Most of that increase in inequality was due to the rise of the top 0.1 percent wealth owners. The increase in top-wealth shares in France and the United Kingdom has been more moderate over the past forty years, in part due to the dampening effect of the rising housing wealth of the middle class, and a lower level of income inequality than the United States.
- Large rises in top-wealth shares have also been experienced in China and Russia following their transitions from communism to more capitalist economies. The top 1 percent wealth share doubled in both China and Russia between 1995 and 2015, from 15 percent to 30 percent and from 22 percent to 43 percent, respectively.

5 What are our new findings on global wealth inquality?

Global income inequality will increase under a "business as usual" scenario, even with optimistic growth assumptions in emerging countries. This is not inevitable, however.

- Global income inequality will also increase if countries prolong the income inequality path they have been on since 1980 – even with relatively high-income growth predictions in Africa, Latin America, and Asia in the coming three decades. Global income inequality will increase even more if all countries follow the high-inequality trajectory followed by the United States between 1980 and 2016. However, global inequality will decrease moderately if all countries follow the inequality trajectory followed by the EU between 1980 and today (see Figure 2).
- Within-country inequality dynamics have a tremendous impact on the eradication of global poverty. Depending on which inequality trajectory a country follows, the incomes of the bottom half of the world population may vary by a factor of two by 2050, ranging from €4,500 to €9,100 per year, per adult.

Rising global income inequality is not inevitable in the future



Source: WID.world (2017). See wir2018.wid.world for data series and notes.

If all countries follow the inequality trajectory of the US between 1980 and 2016 from 2017 to 2050, the income share of the global Top 1% will reach 28% by 2050. Income share estimates are calculated using Purchasing Power Parity (PPP) euros. PPP accounts for differences in the cost of living between countries. Values are net of inflation.

Tackling global income and wealth inequality requires important shifts in national and global tax policies. Education policies, corporate governance, and wage-setting policies need to be reassessed in many countries. Data transparency is also key.

(1) Tax progressivity is a proven tool to combat rising income and wealth inequality at the top

- Research has demonstrated that tax progressivity is an effective tool to combat inequality. Progressive tax rates not only reduce post-tax inequality, they also diminish pre-tax inequality by giving top earners less incentive to capture higher shares of growth via aggressive bargaining for pay rises and wealth accumulation. Tax progressivity was sharply reduced in rich and some emerging countries from the 1970s to the mid-2000s. Inheritance taxes are also nonexistent or near zero in high-inequality emerging countries, leaving space for tax reforms in these countries.

(2) A global financial register recording the ownership of financial assets would deal a severe blow to tax evasion, money laundering, and rising inequality.

- Although the tax system is a crucial tool for tackling inequality, it also faces potential obstacles. Tax evasion ranks high among them, as recently illustrated by the Paradise Papers revelations. The wealth held in tax havens has increased considerably since the 1970s and currently represents more than 10 percent of global GDP. The rise of tax havens makes it difficult to properly measure and tax wealth and capital income in a globalized world. Several technical options exist for creating a global financial register, which could be used by national tax authorities to effectively combat fraud.

(3) More equal access to education and well-paying jobs is key to addressing the stagnating or sluggish income growth rates of the poorest half of the population.

- Recent research shows that there can be an enormous gap between the public discourse about equal opportunities and the reality of unequal access to education. In both rich and emerging countries, it might be necessary to set transparent and verifiable objectives – while also changing financing and admission systems – to enable equal access to education. However, while democratic access to education can achieve much, without mechanisms to ensure that people at the bottom of the distribution have access to well-paying jobs, education will not prove sufficient to tackle inequality. Better representation of workers in corporate governance bodies and healthy minimum-wage rates are important tools to achieve this.

(4) Governments need to invest in the future to address current income and wealth inequality levels, and to prevent further increases in them.

- Public investment is needed in education, health care, and environmental protection, both to tackle existing inequality and to prevent further increases. This is particularly difficult, however, given that governments in rich countries have become poor and largely indebted. Reducing public debt is by no means an easy task, but several options exist – including wealth taxation, debt relief, and inflation – and have been used throughout history when governments were highly indebted, to empower younger generations.