Unsustainable inequalities?
From measurement to policy

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Higher economic inequality is associated with higher levels of « social bads »

Index of “social bads”
(including: Life expectancy, Infant mortality, Homicides, Imprisonment, Teenage births, Obesity, Drug addiction …)

Source: Wilkinson and Picket, 2009
World Inequality Database (WID.world) seeks to address this gap: WID.world is the most extensive database on the historical evolution of income and wealth distribution. Regroups 100+ researchers over 5 continents. 100% transparent, open source, reproducible.

Our findings: 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 & political choices rather than deterministic forces.

Way forward: Much can be done in the coming decades to promote more equitable growth. **UN can play a critical role, via the establishment of standardized measures of growth inequality.**

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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 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.

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.


The global elephant curve of inequality and growth

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

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
- Rise of emerging countries
- Squeezed bottom 90% in the US & Western Europe
- Prosperity of the global 1%

Source: World Inequality Report 2018, Figure 2.1.4. See wir2018.wid.world for data sources and notes.
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, much less growth at the bottom

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

This graph shows the evolution of top 1% and bottom 50% income shares in India and China. It is an example of the additional graphs which can be produced online on wid.world and which are discussed in the various methodological documents referred to in the report.

Source: World Inequality Report 2018, Appendix Figure A4. See wir2018.wid.world for data sources and notes.
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**

![Graph showing the rise of private capital and the fall of public capital in rich countries from 1970 to 2016.](source)

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.

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: Global income share projections of the Bottom 50% and Top 1%, 1980–2050

Intergenerational mobility is lower in areas with larger African-American populations. However, in areas with large African-American populations, both blacks and whites have lower rates of upward income mobility, indicating that social and environmental causes other than race, such as differences in history and institutions, may play a role.

Spatial and social segregation is also negatively associated with upward mobility. In particular, longer commuting time decreases opportunities to climb the social ladder, and spatial segregation of the poorest individuals has a stronger negative impact on mobility. This suggests that the isolation of lower-income families and the difficulties they experience in reaching better sites are important drivers of social immobility.

Income inequality at the local level, school quality, social capital, and family structure are also important factors. Higher income inequality among the poorest individuals is associated with lower mobility. Meanwhile, a larger middle class stimulates upwards mobility.

Higher public school expenditures per student along with lower class sizes significantly increase social mobility. Higher social capital also favors mobility, for example, areas with high involvement in community organizations.

Finally, family structure is also a key determinant. Upward mobility is substantially lower in areas where the fraction of children living in single-parent households, or the share of divorced parents, or the share of non-married adults is higher. What is remarkable is that combining these factors explains very effectively social mobility patterns. When together, five factors—commuting time, income inequality among the poorest individuals, high-school dropout rates, social capital, and the fraction of children with single parents—explain most of the inequalities in upward mobility.


Figure 5.4.1


30% of children whose parents are in the Bottom 10% of the income distribution attend college between age 18 and 21. Almost 90% of children whose parents are in the Top 10% of the income distribution attend college between age 18 and 21.
Progressive taxation is a proven tool to tackle inequality at the top. It was strongly reduced since the late 1970s.

**Figure 5.2.2**
Top income tax rates in rich countries, 1900–2017

Sources: Piketty (2014) and updates. See wir2018.wid.world for data series and notes.

Between 1963 and 2017, the top marginal tax rate of income tax (applying to the highest incomes) in the US fell from 91% to 40%.
As globalization expands, there's a race to the bottom in corporate taxes.

Globalization and tax competition

Notes: This figure charts the unweighted world average corporate tax rate and the share of global corporate profits made by multinational corporations. Multinational profits were around €1.4 trillion in 2015, while global corporate profits were around €7.9 trillion.

Zucman, 2017
As top tax rates decline, countries willing to finance Social State increase taxes on immobile taxpayers

Corporate vs. consumption taxes in the EU

Blanchet, Chancel, Gethin, 2019
The importance of standardized inequality metrics for international comparisons and collective learning

The need for sound economic data to allow civil society, researchers, businesses, and policymakers to debate and develop informed and balanced policy responses to rising economic inequality has been a dominant theme in this report.

In that regard, it is interesting to note that the United Nations agreed in 2015 to seventeen sustainable development goals (SDGs), as part of a global agenda to transform society in rich and poor countries alike. Recognizing that rising income and wealth inequality has become a universal issue, SDG Target 10 commits countries to “reduce inequalities within and among countries.” To that end, the SDG framework calls on states to articulate nationally specific implementation strategies and to put in place monitoring and review processes to meet the UN goals.

This development is particularly remarkable since international organizations have until recently paid limited attention to within-country inequality issues, considering the reduction of inequalities to be a sovereign issue for each country, or positing inequalities as a necessary evil towards global improvement of wellbeing. Concerns about domestic income inequalities were politically confined in the shadow of absolute poverty considerations, until the UN’s Sustainable Development Goals replaced its former Millennium Development Goals. In addition, global development goals have so far only focused on poor and emerging countries—leaving rich countries aside. We have seen, however, that both rich and poor countries face rising inequality. In this context, the unanimous endorsement of SDG Target 10.1 by the UN member states marks an important shift. Target 10.1 aspires to “by 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average.” This target was subject to harshly contested debates among country representatives. While China argued that within-country inequality reduction was a national prerogative, the United States contended that a standalone goal on inequality would better be achieved through economic growth. At some point, the inequality target was even removed from the SDG list. A group of countries led by Denmark, Norway, and Brazil supported its reinsertion, arguing that a specific metric should be used to precisely ensure that growth reduces inequality.

If anything, such debates suggest that countries are taking this new indicator seriously.

Table 5.5.1
Real income growth in emerging and rich countries, 1980–2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Bottom 40%</th>
<th>Full Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015–2016</td>
<td>Brazil</td>
<td>-7.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>6.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>1.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>4.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td></td>
<td>Russia</td>
<td>-1.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td>2000–2016</td>
<td>Brazil</td>
<td>12%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>200%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>10%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>50%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>Russia</td>
<td>119%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>USA</td>
<td>-7%</td>
<td>0.6%</td>
</tr>
<tr>
<td>1980–2016</td>
<td>Brazil</td>
<td>-</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>359%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>31%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>107%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>Russia</td>
<td>-21%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>USA</td>
<td>-3.9%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>


Between 1980 and 2016, the average pre-tax income of the Bottom 40% in China grew by 359%. In comparison, the average pre-tax income of the full adult population grew by 833%.

: meets the SDG Target 10.1 (bottom 40%>full population)
Way forward: no more GDP publication without publications on growth distribution

- SDG inequality target 10.1 is a clear progress. But crucial need for more transparency on income and wealth statistics to enable sound evaluations of gvt. action. Did you hear about SDG 10.1 in the news when latest GDP stats were published in your country?

- GDP became the most powerful economic indicator after its inclusion in UN System of National Accounts (1953). Today, we need to operate the same evolution with inequality measures of growth.

- **UN to take leadership on inequality tracking standards:** Future revision of National Accounts in the coming 5 years --> need to distribute growth in a fully coherent, transparent framework, taking into account all incomes.
- The wealth currently held in tax havens is equivalent to more than 10% of global GDP and has increased considerably since the 1970s.

- Reducing financial opacity is critical to foster a more informed public debate about redistribution, fight tax evasion, money laundering, and the financing of terrorism.

- Countries have had land registries for centuries. As wealth became increasingly financialized, registries were privatized. Information exists but is not available to authorities.

⇒ Towards a global public service to track wealth and income dynamics
- Our objective is not to make everybody agree on inequality

- It is to allow transparent and sound data on growth & inequality to be shared and used by all (civil society, research, policy, business)

- The UN has a critical role to play to make this happen

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- Additional slides
1. Inequality is on the rise globally, despite high growth in emerging countries. In BAU, this will continue.

2. Huge growth at the top was not necessary to lift boats at the bottom. With more equitable growth, global poverty could have been reduced much faster.

3. The rise in inequality is the result of policy choices, it is not a inevitable consequence of technological change and openness.