

# Merrill-Lynch report: concentration of wealth at the top resumed upward spiral in 2003

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As hundreds of millions around the globe struggle to survive on a dollar or two a day, the ranks of the rich and the ultra-rich continue to grow.

The number of people with over \$1 million of financial assets increased last year to 7.7 million worldwide, an increase of 7.5 percent over 2002. According to a June 15 report issued jointly by Merrill Lynch, the world's largest stock broker, and business consulting firm Capgemini Group, the total wealth of this elite group rose to US\$28.8 trillion, an increase of 7.7 percent over 2002.

The report also measured the wealth of the "ultra-rich," defined as those with over \$30 million of liquid assets. This group of some 70,000 worldwide—or less than 1 percent of those who qualify as merely "rich"—holds US\$2.8 trillion of assets, or nearly ten percent of the total in the hands of the rich.

The report excluded the value of personal homes, although investments in commercial real estate and real estate investment trusts were included. If private home equity were included, the wealth of the elite would be even greater, considering the sharp upturn in home prices in most parts of the world.

The report's authors pointed to a rising stock market in 2003, and the decision of the wealthy early on in the year to significantly increase their stock holdings. On average, high net worth individuals (HNWIs, as the report labels them) increased their investments in stocks to 35 percent of their holdings in 2003 from 20 percent in 2002. World stock indexes obliged them, with the Dow rising 22 percent and the NASDAQ 45 percent in the US, Germany's DAX up 30 percent, and Japan's Nikkei up 25 percent.

Certain "emerging markets" shot up much higher: in India the leading Mumbai exchange rose 110 percent in 2003, and in Brazil, market capitalization on Sao

Paulo's exchange increased 85 percent.

As the report comments, "While the wider populations of most countries are just starting to feel the effects of recovery, [HNWIs] as a group have been enjoying the fruits of recovery for the last 12 months."

The wealthy also expanded their use of sophisticated investments not available to the regular investor, such as hedge funds, private-equity funds, and the purchase of collectibles such as art and wine. Real estate holdings as a share of their assets also edged up by 2 percent.

Not surprisingly, the largest concentrations of wealth are found in North America and Europe. In the US and Canada, 2.5 million people control US\$8.5 trillion in assets. Both the numbers of rich in North America and their assets grew by 13.5 percent in 2003. Europe's millionaires—in a much larger population base—amount to 2.6 million people controlling US\$8.7 trillion. These numbers are growing much more slowly—2.4 percent and 3.7 percent respectively. The report pointed to Europe's generally "restrictive income-tax policies which impede the ability to accumulate personal wealth," with the "notable exceptions" of Spain, Russia and the Czech Republic.

By contrast, in the US "HNWIs were the significant beneficiaries of the Bush Administration's decision early in the year to cut taxes" on both high incomes and on inheritances.

The "red hot" 2003 GDP growth rates in China and India—9.7 percent and 7.4 percent respectively—have spawned a surge in the number of millionaires, rising 12 percent in China and 22 percent in India. China boasted 236,000 millionaires at the end of 2003, while India is home to a mere 61,000. This layer constitutes a minuscule percentage of the overall population, which exceeds one billion in both countries.

The report foresaw no end to the accumulation of wealth by the rich and ultra-rich, forecasting an annual growth rate of 7 percent a year for the next five years. The authors predict that millionaires and multi-millionaires will control US\$40.7 trillion by the year 2008.

In a press release accompanying the report, a vice president of Capgemini commented on the growing demand for tax, estate and philanthropy planning services among the wealthy. Alvi Abuaf explained, “Many ultra-wealthy families are creating ‘100-year plans,’ in which family members are treated as business divisions and emphasis is put on corporate-inspired guidelines such as family mission statements, governance structures and guidelines for communication.”

While the investment advisors who authored the report take heart in having a growing pool of millionaires to whom they can sell their services, the statistics point to an increasing polarization of societies globally, with a tiny segment at the top raking in an ever greater share of the wealth, while the vast majority see their living standards stagnate or decline.



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