

# Report documents extreme levels of global wealth inequality

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A report released Tuesday by a United Nations group documents the staggering levels of global inequality in household wealth. The report gives a partial portrait of a world society characterized by extreme concentrations of wealth in the hands of the richest sections of the population, with the position of much of the remainder ranging from general economic insecurity to dire poverty.

According to the report, published by the World Institute for Development Economics Research (WIDER) and based on data from 2000, the top one percent of the world's adult population (about 37 million people) owns 40 percent of the world's wealth, while the top two percent owns over half and the top 10 percent owns 85 percent. Wealth is defined as physical and financial assets minus liabilities.

In contrast, the bottom half of the world's adult population—or about 1.85 billion people—owns collectively only one percent of the world's assets.

This means that the top one percent of the world's adult population owns 40 times more than the bottom 50 percent, and nearly 3 times more than the bottom 90 percent. Put another way, the authors note, “The average member of the top decile [top 10 percent] owns nearly 3,000 times the mean wealth of the bottom decile, and the average member of the top percentile [top one percent] is more than 13,000 times richer.”

The UN report is the first to estimate global distributions of wealth, as opposed to income. The figures for many countries, particularly in poorer regions of the world, were not available, requiring that they be estimated. The report does not take into account individuals under the age of 20, assuming they do not possess any assets on their own and that their wealth is derivative upon the adult population.

Using a common measure of inequality, the Gini

coefficient, the authors note that the global wealth Gini is higher, at 0.892, than the corresponding figure for income. A Gini value of 0.892 “roughly corresponds to the Gini value that would be recorded in a 10-person population if one person had \$1,000 and the remaining 9 people each had \$1,” the report notes.

One drawback of the study, due in part to the lack of extensive data, is the absence of systematic internal examination of the very top layers of the world population. A very large portion of the world's wealth is, in fact, concentrated in the top one tenth of one percent of the population.

In addition to examining general global wealth inequality figures, the report provides data on regional divisions in wealth concentration, along with some figures on internal inequality within particular countries. The bulk of the world's wealth is concentrated in a few countries, however these “wealthy” countries are themselves extremely unequal.

The United States has a mean wealth of \$144,000 per person, the highest in the world, while India has a mean wealth of only \$6,500 (the poorest of those for which data was available). However, in the US, wealth concentration is among the highest of those countries with sufficient data to make these calculations.

According to the report, the top one percent of the population in the US owns 32.7 percent of the wealth, trailing only Switzerland, where the top one percent owns 34.8 percent. However, the US figure excludes the very richest families that are included in the list of *Forbes* billionaires. If these were included, the share owned by the top one percent would rise to 34.7 percent.

The report has data only on the share owned by the top one percent for 12 countries. Other countries with a particularly high share of wealth owned by the top one

percent include Denmark (25 percent), Indonesia (28.7 percent) and the UK (23 percent). The authors note that the share owned by the top one percent may be significantly underestimated in several of the countries due to error introduced by the fact that wealthier families are less likely to respond to household surveys.

The share owned by the top ten percent, a figure that is available for a larger set of countries, ranges from 41.4 percent in China to 69.8 percent in the US.

The WIDER report also looks at the representation of different countries and regions in each of the wealth levels. For example, a significant section of the top 10 percent and the top one percent of the world's adult population live in the United States (25 percent and 37 percent, respectively). According to the authors, this is due to "a large population combining with very high wealth per capita and relatively unequal distribution." On the other hand, the poorest layers of the world's population are most heavily concentrated in China, India, Africa and in the poorer regions of Asia, Latin America and Europe.

However, it would be a mistake to conclude from these disparities that wealth distribution is primarily regional, or that the bulk of the population in the United States and other countries are financially secure.

The UN figures indicate that 45.5 percent of the US adult population (or about 92 million people) is in the top 10 percent of the world's population by wealth. However, to qualify for the top 10 percent requires total assets of only \$61,041. For the bulk of American workers who reach this level, the majority of these assets are tied up in their homes and vehicles. A US census report based on 2000 data found that 67 percent of the population reported ownership of a home, and that the median net worth of this house (that is, the value of the house minus mortgages) amounted to \$59,000.

For large sections of the population in the US and other wealthy countries, net assets are actually much less than this, even with home ownership. A press release put out with the UN report noted, "While many poor people in poor countries are in debt, their debts are relatively small in total. This is mainly due to the absence of financial institutions that allow households to incur large mortgage and consumer debts, as is increasingly the situation in rich countries... Many people in high-income countries have negative net

worth and—somewhat paradoxically—are among the poorest people in the world in terms of household wealth."

Despite being the wealthiest country in the world, the savings rate in the US is zero: most Americans borrow on average more than they earn. As the housing market in the US and other countries begins to slow, and home values decline, there will be a corresponding decline in the relative net wealth.

Therefore, many of those classified in the top ten percent of the world's population by household wealth in fact live from paycheck to paycheck, in a state of constant financial insecurity.

The level of internal inequality in the United States was highlighted in a recent *New York Times* article, based on data collected by the Internal Revenue Service ("04 Income in US was Below 2000 Level," by David Cay Johnston, November 28, 2006).

Looking at income figures, the *Times* noted that the poorest 60 million Americans reported average incomes of less than \$7 a day in 2004. The richest one-tenth of one percent of the population, or about 300,000 Americans, reported significantly higher combined pretax income in 2004 than the poorest 120 million.



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