Wealth concentration increases in US and globally

By Nick Beams
15 February 2019

The latest research on wealth inequality by University of California economics professor Gabriel Zucman underscores one of the key social and economic trends since the global financial crisis of 2008. Those at the very top of society, who benefited directly from the orgy of speculation that led to the crash, have seen their wealth accumulate at an even faster rate, while the mass of the population has suffered a major decline.

This trend is most apparent in the United States but is revealed in the data for other countries included in research published by Zucman last month. According to his analysis, the top 1 percent in the US now owns about 40 percent of total household wealth, increasing its share by at least 10 percentage points since 1989. Over the same period "the share of wealth owned by the bottom 90 percent has collapsed in similar proportions."

The acceleration is even more marked in the highest income levels. The share of wealth owned by the top 0.00025 percent (roughly the 400 richest Americans, according to *Forbes Magazine* data), rose from 1 percent in the early 1980s to over 3 percent in recent years. A similar tripling of wealth is seen in the top 0.01 percent.

The trend is reflected globally. The proportion of wealth held by the top 1 percent in China, Europe and the US combined has increased from 28 percent in 1980 to around 33 percent today.

As documented in previous studies by Zucman, Thomas Piketty and Emmanuel Saez, wealth concentration in the US has followed a U-shape during the past century. The share of the top 0.1 percent peaked at close to 25 percent in 1929, fell sharply with the onset of the Great Depression in the 1930s and continued to decline into the late 1940s, then stabilised in the 1950s and 1960s. It reached its lowest point in the 1970s, before rising to close to 20 percent in recent years to "levels last seen in the Roaring Twenties."

This pattern follows the broad curve of economic developments and the class struggle. The 1930s fall in wealth concentration was the outcome of both the financial crisis and the impact of the New Deal measures introduced by President Franklin Roosevelt in order, as he acknowledged, to avert social revolution in the US.

During the 1950s and 1960s and the development of the post-war economic boom, when it was said that a "rising tide lifts all boats," wealth concentration remained relatively stable. The ongoing increase in wealth concentration since the 1980s is the outcome of two interconnected factors: the rise of financialisation in the US economy, and consequent changes in the accumulation of profit, coupled with the decades-long organised suppression of the class struggle by the trade union bureaucracy.

One of the indicators of the role of finance in boosting the wealth of the ultra-wealthy is that in 1980 the top 0.01 of interest earners had 2.6 percent of all taxable interest, whereas by 2012 this had increased ten-fold to 27.3 percent.

Zucman's paper details the increase in global wealth inequality. In the US, China and Europe combined, the top 10 percent owns more than 70 percent of the total wealth, the bottom 50 percent less than 2 percent and the middle 40 percent less than 30 percent.

The higher up the income scale, the faster the rate of wealth accumulation. In the US, Europe and China, from 1987 to 2017 the average wealth of the top 1 percent rose by 3.5 percent per year, the top 0.1 percent by 4.4 percent per year, and the top 0.01 percent by 5.6 percent per year.

The trend has been most marked in Russia, following the privatisation of state assets as a result of the dissolution of the Soviet Union by the Stalinist regime. “In Russia, wealth concentration boomed after the transition to capitalism, and inequality appears to be extremely high, on a par or even higher than in the United States,” the report notes.

A parallel development can be seen in the restoration of capitalism in China. In both countries “the available evidence suggests a high increase in wealth inequality over the last two decades.” The top 1 percent wealth share has almost doubled, rising in China from just over 15 percent in 1995 to 30 percent in 2015 and in Russia from below 22 percent to around 43 percent.

Zucman notes that as wealth inequality increases, it is becoming more difficult to measure, because of the development of a “large offshore wealth management industry” that makes some forms of wealth, particularly financial portfolios, harder to track.

The problem is revealed in the widely varying estimates of how much wealth is held offshore. Zucman has calculated that 8 percent of the world’s individual wealth—the equivalent of 10 percent of global gross domestic product or $5.6 trillion—was held offshore on the eve of the global financial crisis in 2007. He cites other analyses that put the figure much higher. According to one study, the global rich held around $12 trillion of the wealth in tax havens in 2007, with another putting the figure at between $21 and $32 trillion.

This means that the existing studies on wealth concentration, which Zucman and others have carried out using self-reported survey and tax return data, are inadequate to grasp its real extent.

“Because the wealthy have access to many opportunities for tax avoidance and tax evasion— and because the available evidence suggests that the tax planning industry has grown since the 1980s as it became globalized—traditional data sources may underestimate inequality,” Zucman states.

Zucman is well aware of the political consequences of the rise in social inequality that he and others have documented. He notes that “for the rich, wealth begets power” and wealth concentration “may help explain the lack of redistributive responses to the rise of inequality observed since the 1980s.”

Zucman’s latest findings will no doubt be used by Democratic presidential hopefuls such as Elizabeth Warren and the newly-elected Democratic Socialists of America Congress member Alexandria Ocasio-Cortez as they seek to give the Democratic Party a “left” face by calling for increased taxes on the wealthy.

But the data produced by Zucman and others refute the assertion that social inequality can or will be rectified by legislative changes. This is because the concentration of wealth—though aided and abetted by successive administrations, both Democrat and Republican—in the final analysis is rooted in vast changes in the very structure of American and global capitalism, arising from its deepening historical crisis.

In other words, it is the outcome of a process of capital accumulation, based on financialisation, that has institutionalised the siphoning of wealth up the income scale.

This cannot be overcome through appeals to the financial oligarchy to change course but only by a frontal assault against its rule, that is, the development of a mass struggle for socialism by the American and international working class. The conditions for this fight are emerging as a result of the resurgence of the class struggle being driven forward by the consequences of deepening social inequality. The aim of Warren, Ocasio-Cortez et al, is try to divert this movement and bring it under the wing of the Democratic Party.