



“Summary of article by Edward N. Wolff: International Comparisons of Wealth Inequality” in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 42-44

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## **“Summary of article by Edward N. Wolff: International Comparisons of Wealth Inequality”**

Many international comparisons of the distribution of income have appeared in the recent economics literature. Such comparisons are often based on the Luxembourg Income Study, which provides data for many countries based on standardized definitions of income. No such international database is available, however, for comparisons of wealth. This article, by an economist known for his extensive studies of the distribution of wealth, assembles wealth data for eight different countries, including relatively long time series for three of them. It summarizes the changes in the U.S. wealth distribution over time, and contrasts it with other countries. The author’s careful discussion of data comparability problems is omitted from this summary; interested readers should consult the original article.

### **TRENDS IN HOUSEHOLD WEALTH INEQUALITY**

Two definitions of household wealth are useful in assessing long-term trends. Marketable wealth, or net worth, is the sum of all financial assets, real estate, consumer durables, and equity in unincorporated businesses, net of mortgage, consumer, and other debts. Augmented wealth is the sum of net worth plus the present value of discounted future pension and social security benefits. Augmented wealth is distributed more equally than net worth, because pensions and especially social security benefits are distributed more broadly than financial assets.

U.S. data are available for the share of household wealth, by both definitions, held by the top one percent of households in 19 different years from 1922 through 1992. The peak year for both series was 1929, when the richest one percent held 44 percent of marketable wealth and 41 percent of augmented wealth. After several sizeable fluctuations up and down, including a particularly rapid drop after 1965, the share of the top one percent reached its low point of 20 percent of marketable wealth and 13 percent of augmented wealth in 1976-79. This low level was due in part to the depressed stock market prices of the late 1970s, which reduced the assets of the wealthiest households more than others. The top group’s share then climbed rapidly until 1989, followed by a slight dip to reach 34 percent of marketable wealth and 20 percent of augmented wealth in 1992, the latest available figures.

Two other countries, the U.K. and Sweden, have data on household wealth beginning in the 1920s. In both countries, the share of the top one percent in net worth declines relatively steadily from the 1920s through the 1970s. In more recent years there is virtually no change in the U.K. data, and a slight increase in the share of Sweden’s top percentile in the 1980s. Based on these

figures, the concentration of wealth was similar in Sweden and the U.S. before about 1950, and again, briefly, in the late 1970s. For the rest of the time since 1950, Sweden has had noticeably less inequality than the U.S. The U.K., initially the most unequal of the three, has moved most rapidly toward equality; its concentration of wealth was comparable to the U.S. from about 1960 to 1980, but is now similar to Sweden.

More limited data on trends in wealth inequality are available for Canada and France. In Canada, there was a small decline in the concentration of wealth from 1970 to 1977, and virtually no change from 1977 to 1984. In France there was virtually no change from 1975 to 1980 to 1986, then a decline in concentration to 1992. Unfortunately, the data in these countries cannot be directly compared to the U.S., Swedish and British figures. However, it is clear that there is no single pattern of changes in the distribution of wealth that is typical of all developed countries; none of the other countries' data shows the sharp rise in inequality in the 1980s that is found in the U.S.

### **DIRECT COMPARISONS OF WEALTH INEQUALITY**

Surveys of the distribution of wealth, for various years in the 1980s, can be found for Germany, Japan, and Australia, in addition to the countries discussed so far. The definitions of wealth used in the surveys, and the measures of distribution that they report, are similar but not strictly comparable. Bearing these qualifications in mind, it is possible to create a rough international comparison of the degree of inequality, with almost all of the data referring to 1983-88.

Several studies report Gini coefficients for wealth distribution, a measure that ranges from 0 for perfect equality to 1 for maximum possible inequality. The Gini coefficient for the U.S. distribution of wealth in the mid-1980s ranged from .76 to .79 in four different surveys, compared to .71 in France, .69 in both Germany and Canada, and .52-.58 in two Japanese surveys.

Some of these studies, and others, also report the share of net worth (with slight variations in definitions) held by the top one percent or five percent. The share of the top five percent was 54-56 percent in U.S. studies, compared to 43 percent in France, 41 percent in Australia, 38-46 percent in Canada, 24-37 percent in Sweden, and 25 percent in Japan.

It is interesting to compare the findings reported here to the better-known international patterns of income distributions. The most striking fact about both income and wealth comparisons among developed countries is that the U.S. is now the most unequal, and experienced the most rapid rise in inequality in the 1980s. In other respects, there is less correspondence between changes in income and wealth distributions. For example, Australia, Canada, France, Sweden, and the U.K. were roughly comparable in terms of wealth distribution in the mid-1980s; yet Australia and Canada had distinctly more income inequality, and Sweden less, than France and Britain. In terms of changes over the course of the 1980s, Sweden experienced a small rise in inequality of both income and wealth; however, the U.K. had rising income inequality with virtually no change in the distribution of wealth.