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Who Are the Global Top 1%?

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Summary. — This paper presents the first in-depth analysis of the changing composition of the global income rich and the rising representation of developing countries at the top of the global distribution. We construct global distributions of income during 1988–2012 based on both household surveys and the new top incomes data derived from tax records, which better capture the rich who are typically excluded from household surveys. We find that the representation of developing countries in the global top 1% declined until about 2002, but that since 2005 it has risen significantly. This coincides with a decline in global inequality since 2005, according to a range of measures. We compare our estimates of the country-composition and income levels of the global rich with a number of other sources—including Credit Suisse's estimates of global wealth, the Forbes World Billionaires List, attendees of the World Economic Forum, and estimates of top executives' salaries. To varying degrees, all show a rise in the representation of the developing world in the ranks of the global elite.

Key words — top incomes, global top 1%, global inequality, extreme wealth

1. INTRODUCTION

The growth of many low- and middle-income countries over the last three decades—among them the so-called "emerging economies"—have transformed both the shape of the global economy and the structures of global power. Growth in the incomes of the poor has implied substantial reductions in poverty, and the composition of the global "middle class" (defined in various ways) has shifted towards developing countries (AfDB, 2011; Cruz, Foster, Quillin, & Schellekens, 2015; Dayton-Johnson, 2015; Jayadev, Lahoti, & Reddy, 2015; Kharas, 2010). Yet while we have information on global poverty and the broader global income distribution, the *top* of the global distribution of income has so far remained unexamined, not least because "it can be very challenging identifying all but the highest profile of the super-rich" (Hay & Muller, 2012, p. 83). This paper aims to remedy that omission using the new top income data along with global household surveys to analyze the composition and progress of the richest 1% globally, and compare them with the global top 10% and top 0.1%.

The wealth, as opposed to the income, of the very rich is tracked by several organizations including Forbes and Credit Suisse. Freund and Oliver (2016) find that Forbes's World Billionaire's list contained no Chinese billionaires in 1996, 2 in 2005 and 64 in 2010. The latest list for 2016 contains 251 Chinese, or 14% of the world's 1,810 billionaires—with 35% from outside the advanced economies more generally.[1] Research by the bank Credit Suisse covering the period 2000–15 finds that the wealthiest 1% in the world owned 49% of global wealth in 2000, dropping to a trough of 44% in 2009, and then rising for the first time to 50% in 2015 (Davies, Lluberas, & Shorrocks, 2015, p. 99; Oxfam, 2015, p. 2). The international NGO Oxfam (2016) refers to this as an "escalating inequality crisis", and also find that "Eight men now own the same amount of wealth as the poorest half of the world" (Oxfam, 2017, p. 2).

Some of the global rich themselves have expressed concern about inequality. At the 2012 World Economic Forum meeting at Davos, "severe income disparity" was judged to be the single most likely global risk, and with one of the highest potential impacts.[2] Again at Davos in 2013, Christine Lagarde, Managing Director of the International Monetary Fund, stated that "[e]xcessive inequality is corrosive to growth; it is corrosive to society. I believe that the economics profession and the policy community have downplayed inequality for too long" (Lagarde, 2013).

This neglect of inequality by most of the economics profession may be undergoing a correction with the rise in research on the incomes of the top 1% within countries (Atkinson & Piketty, 2007, 2010; Piketty, 2014). This literature focuses on estimating income shares of the top 1% within countries on the basis of tax records. Yet research on the *global* income-rich remains sparse. Milanovic (2011, 2016) gives brief sketches of the global top 1% based on household surveys from around the world. But the new research on the top 1% within countries indicates that household surveys are bad at capturing precisely the richest individuals, making such surveys a limited basis for analysis of the top of the income distribution.[3]

The World Top Incomes Database (WTID) contains data on top income shares for countries estimated from income tax records.[4] In our earlier paper (Anand & Segal, 2015) we combined these newly available income tax data with household survey data to provide estimates of global inequality up to 2005. As one would expect, global inequality so estimated is higher than when it is measured using household surveys

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alone. Here we follow a similar procedure as before to construct a global income distribution using both income tax and household survey data. Building on our earlier dataset, we improve our procedure for imputing top 1% shares, we add an additional benchmark year of 2012, use the 2011 PPPs, and for each country-year we smooth the top 10% using a Pareto distribution, where the Pareto coefficient is estimated using both tax and survey data. This allows a much finer grained analysis of the top of the global distribution, at the same time as taking into account the data on the top 1% within countries. In addition to the global distribution at PPP exchange rates, for comparison we also consider the global distribution using market exchange rates.

We use this global income distribution to estimate the progress of the global top 10%, top 1%, and top 0.1%. We focus in detail on the global top 1% to determine its country composition, and its change over time. One reason to study the global top income groups is simply to discover the extent to which citizens of developing countries have succeeded in entering the ranks of the global rich. But the global rich are also worth studying as an international group, because the global top 1%, and even more so the global top 0.1%, share more than simply an income bracket.

The global rich, unlike the global "middle class" or the global poor, have some claim to constituting a "class" in a substantive sense. They meet and interact with each other across national boundaries. As a prerequisite of modern globalization, officials and business people travel and meet regularly to make deals, to trade, and to work. For instance, Beaverstock (2002, p. 525) argues that "expatriates are major agents in the accumulation and transfer of financial knowledge in the IFC [international financial centres], and that such processes are undertaken through expatriate global–local knowledge networks and other social practices". The international business meeting *par excellence* is the above-mentioned World Economic Forum at Davos, and we show that the composition of nationalities of those attending this meeting indicates an increase in the internationalization of the global elite, with a rising share coming from outside the advanced economies.

Moreover, increasingly the elites from non-rich countries buy property abroad—Chinese buyers alone spent more than US$52bn on foreign property in 2015 [5]—and study in rich countries, acquiring qualifications, a shared language (typically English) and, it seems likely, some degree of a shared culture and attitudes. The British Council (2012, p. 15–17) reports that 3.5 million students studied abroad in 2009, up from 800,000 in the mid-1970s, and that the countries with the highest net outflows of students were China, India, South Korea, Kazakhstan, Turkey, Morocco, and Vietnam. China and India alone contributed 21% to the total number of outbound students. To the extent that doing business together, sharing networks, and a foreign education foster common understanding and values, the global rich may more closely resemble a "class" than do either a "global middle class" or the global poor. [6]

Below we show that the threshold for an individual to enter the global top 1% in 2012 is an annual income of about PPP $50,600 per capita household income, or PPP$202,000 for a family of four. We find that for many developed countries it includes the top 4–8% of their national income distribution. These income groups are likely to include senior professionals and some middle managers as well as business owners and "supermanagers" (Piketty, 2014, p. 291–303). Among developing countries, Brazil has the largest share of its own population in the global top 1%, where 1.5% of its national distribution is in that group. For most developing countries the share is much smaller than 1%. We show that in emerging economies this group includes senior executives in large firms. Thus the global top 1% may be thought of as approximating the professional and technocratic elite—a global professional class—rather than just the super-rich. [7]

An individual in the global top 0.1%, on the other hand, has a minimum of PPP$181,000 per capita household income, or about PPP$725,000 for a family of four. This comprises the top 1% in the US, and the top 0.3%—0.5% in Japan, Germany, France and the UK, the developed countries with the largest memberships of the club comprising the global top 0.1%. Even if less wealthy than the billionaires in the Forbes list, they are likely to wield significant power and influence.

The threshold for an individual to enter the global top 10% in 2012 was about PPP$15,300 per capita household income, or PPP$61,000 for a family of four. This income level would not count as "rich" within a developed country: for most developed countries this group includes more than *half* their populations. For the US the top 60.4% of its population is in the global top 10%, and for Switzerland the corresponding figure is 71.2%. Of course, the global top 10% cannot include more than 10% of the population of every country, and for most developing countries the number will be much smaller than 10%.

We find that the advanced economies' share of the global rich has declined in the last decade, with a corresponding rise in that of the emerging economies. We also find a concurrent decline in global inequality. However, it is important to realize that these two outcomes need not go together. For instance, if an emerging economy that has some representation in the global top 1% were suddenly to become wholly egalitarian, that would reduce its share of the global rich and also unambiguously reduce global inequality. Relatedly, a country's membership of the global rich may expand if incomes grow throughout the national distribution while inequality remains constant, or if inequality increases with a rich minority (including those just below the threshold for the global top 1%) gaining more than the non-rich majority. Moreover, there is little reason to believe that previously under-represented groups will benefit from some of their number reaching the elite. Zweigenhaft (2001, p. 279) notes that despite observing a dramatic increase in the diversity of the US elite in terms of the participation of women and minorities since the 1950s, there is "no evidence of a kinder, gentler power elite in how it functions . . . and in terms of wealth and income they are now further removed from the bulk of Americans 'below them'." The interests of a female executive, for instance, are more closely aligned with those of her firm's shareholders than with those of any female workers she may employ. Similarly, citizens of developing countries who reach the global elite may simply find themselves further removed from their own compatriots.

2. DATA AND METHODOLOGY

As in Anand and Segal (2015), this paper combines two sets of data: national household surveys covering most of the global population and economy, and data on the income share of the top 1% in 28 countries from the World Top Incomes Database. Here we update in five respects the global income distribution estimated in Anand and Segal (2015). First, in Anand and Segal (2015) we estimated the global distribution only up to 2005, whereas here we extend it to 2012. Second, we improve our imputation of top 1% shares, as described below. Third, we use the PPP conversion rates from the 2011