

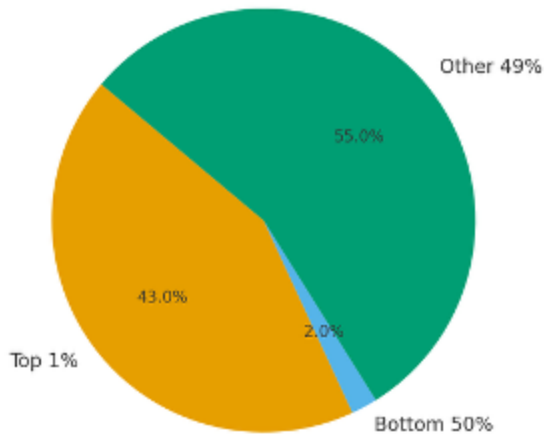
Global inequality and the economics of wealth distribution

In this article, **Hannah Holmes** discusses global and UK inequality – how income and wealth are distributed, what this means for economic growth and fairness, and what policies might help address widening gaps between rich and poor

In 2020, as the Covid-19 pandemic swept across the world, governments scrambled to protect jobs and incomes. Yet while millions of workers faced furlough or unemployment, stock markets rebounded quickly, and the fortunes of billionaires soared. According to Oxfam, the world's richest 1% captured around \$34 trillion in new wealth between 2015 and 2022, nearly equal to the combined gains of the other 99%.

This paradox, prosperity for some alongside insecurity for many, lies at the heart of modern debates about inequality. Economists want to know: how much inequality is too much? Does it harm growth, stability and fairness? Or is it the inevitable by-product of innovation and risk-taking?

Figure 1 highlights the global picture. The richest 1% of people now own almost as much wealth as the bottom 50% combined.



Source: Oxfam; World Inequality Database

Figure 1 Global wealth shares: top 1% versus bottom 50%

Measuring inequality

Inequality takes two main forms: income inequality, the gap between what people earn each year, and wealth inequality, the distribution of assets such as homes, pensions and shares. Wealth inequality is usually larger, because assets accumulate and can be passed across generations.

Economists use two main tools:

- The Lorenz curve, which plots cumulative shares of income or wealth across the population.
- The Gini coefficient, which summarises the curve into a single number between 0 (perfect equality) and 1 (extreme inequality).

The UK's income Gini is around 0.35, while global wealth inequality is estimated above 0.70. Understanding these measures matters for both policy and exams, since they show how inequality changes over time or differs between countries.

Inequality through history

Although today's extremes grab headlines, inequality has always been part of economic life.

During the Industrial Revolution, industrialists and landowners amassed fortunes while workers often lived in overcrowded slums. A factory owner in Manchester might accumulate riches while children as young as ten worked twelve-hour shifts for a pittance. The novelist Charles Dickens turned these disparities into characters, showing how economic change created both dazzling wealth and grinding poverty.

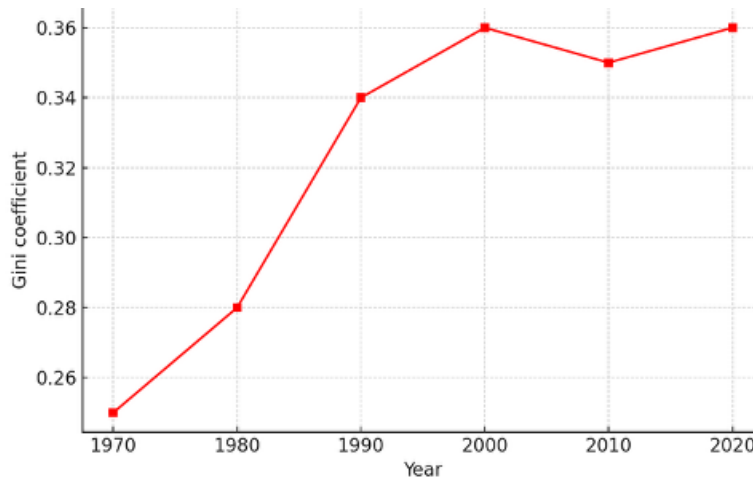
By the early twentieth century, shocks such as the First World War, the Great Depression and the Second World War eroded some of these extremes. High taxation on wealth and income, combined with post-war welfare expansion, narrowed the gap further.

The Beveridge Report of 1942 and the creation of the NHS in 1948 marked a turning point in the UK. Welfare systems aimed to tackle 'want, disease, ignorance, squalor and idleness', giving poorer households greater security and narrowing inequality.

The postwar decades (1950s–1970s) were an era of relatively equal growth. Trade unions were strong, welfare states expanded, and top tax rates remained high. Many countries saw rising wages across the income spectrum.

Since the 1980s, however, inequality has widened again in countries like the UK and USA. Leaders such as Margaret Thatcher and Ronald Reagan championed deregulation and lower taxes, while globalisation and new technologies disproportionately rewarded top earners. Meanwhile, Scandinavian nations such as Sweden maintained more equal distributions through higher taxation and stronger welfare systems.

Figure 2 shows how the UK's Gini coefficient rose sharply in the 1980s, stabilising at a higher plateau.



Source: ONS

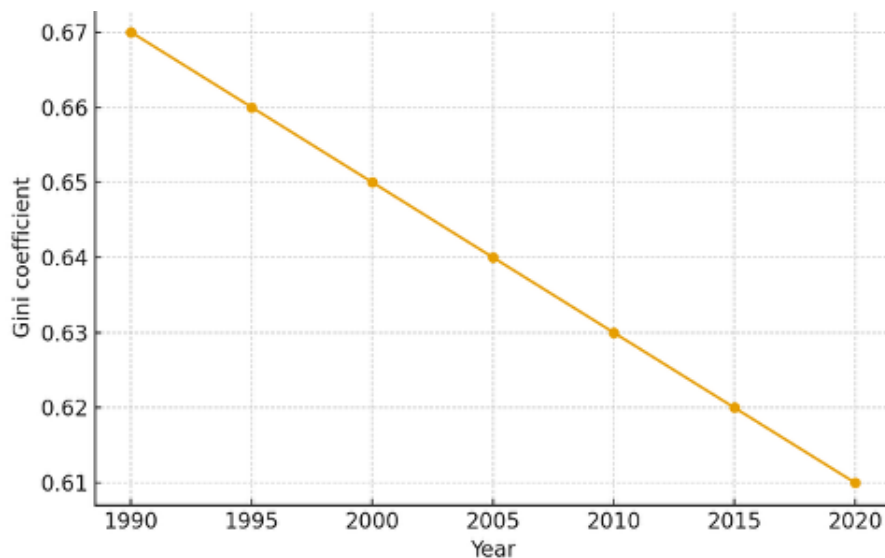
Figure 2 UK income inequality (Gini coefficient), 1970–2020

The global story: progress and polarisation

Globally, inequality presents a mixed picture. On one hand, poverty has fallen dramatically. In 1981, more than 40% of the world's population lived on less than \$2.15 per day. By 2019, this had dropped below 10%. China and India, in particular, lifted hundreds of millions out of extreme poverty.

On the other hand, within-country inequality has risen in many places. In China, the Gini coefficient increased from around 0.30 in the 1980s to above 0.45, as booming coastal cities outpaced rural provinces. In Latin America, inequality fell during the 2000s thanks to targeted welfare and commodity booms, but the region still ranks among the most unequal. In South Africa, the legacy of apartheid means the Gini remains above 0.60, one of the highest in the world.

Figure 3 shows the global Gini coefficient since 1990. Between-country inequality has declined as emerging economies caught up, but within-country inequality remains persistently high.



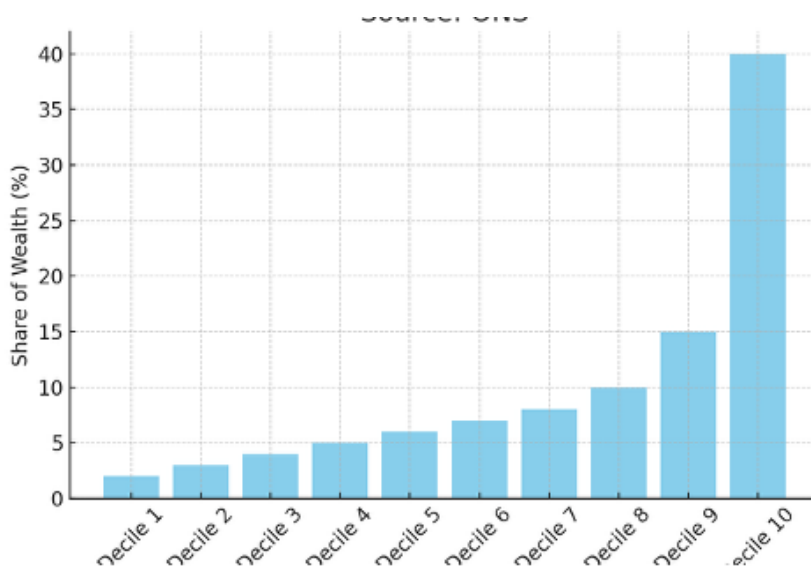
Source: World Bank; World Inequality Database

Figure 3 Global Gini coefficient trends, 1990–2020

The UK: wealth divides and regional gaps

In the UK, income inequality has been relatively stable since the 1990s, but at historically high levels. Wealth inequality is far greater. The top 10% of households own nearly half of all wealth, while the bottom 50% own less than 10%. Housing and pensions explain much of the gap.

Figure 4 illustrates this distribution: the richest decile holds almost as much wealth as all other groups combined.



Source: ONS

Figure 4 UK wealth distribution by decile

Generational divides deepen the problem. Older households, who bought homes decades ago, have seen their wealth swell as property values rose. Younger people face soaring prices, insecure jobs and student debt, leaving them far less able to accumulate assets.

ONS data show that in 1991, two-thirds of 25–34 year-olds owned a home. By 2019, the figure had fallen to just 41%. For 55–64 year-olds, ownership remained over 75%. This widening gap is a striking example of intergenerational inequality.

Regional inequality adds another dimension. London and the southeast far outpace the northeast, Wales and Northern Ireland in productivity and earnings. This fuels political debates about ‘levelling up’ and investment in infrastructure and skills outside the capital.

Why inequality matters

Why should economists care about inequality?

1. Demand and growth: Poorer households spend more of their income, so if income shifts to the rich, aggregate demand may weaken. This can hold back growth. IMF research shows countries with lower inequality often enjoy longer, more stable growth.
2. Human capital: High inequality reduces opportunities for poorer households to invest in education and health. This wastes potential talent and lowers productivity.
3. Stability: Inequality can fuel social discontent and erode trust in institutions. Movements from the ‘yellow vests’ in France to recent UK strikes show how economic frustration can spill into politics.

Some inequality may encourage innovation by rewarding risk-taking, but extreme inequality risks undermining both fairness and efficiency.

Case study: Germany versus the UK

A comparison between Germany and the UK highlights different outcomes. Germany has maintained higher productivity per hour and more equal wage structures. Analysts point to its strong vocational training system, the role of Mittels and firms (medium-sized companies rooted in regions), and better infrastructure investment.

The UK, by contrast, has relied heavily on financial services, seen weaker investment in skills and infrastructure, and struggled with productivity growth. The result is both slower long-term growth and higher inequality.

International contrasts: USA versus Scandinavia

The USA is home to some of the world's richest individuals, from Silicon Valley tech giants to Wall Street financiers. Its top income shares have risen sharply since the 1980s, making it one of the most unequal advanced economies. In contrast, Scandinavian countries such as Sweden and Denmark combine competitive, high-tech economies with much lower inequality. They achieve this through higher taxes, generous welfare, and strong labour market institutions.

This contrast shows that inequality is not an inevitable by-product of growth, policy choices matter.

Policy debates

How to address inequality is contested.

- **Taxation:** Progressive taxes on income or wealth can redistribute resources. France's wealth tax was one example, though it faced avoidance. In the UK, debates continue over inheritance tax and council tax reform.
- **Public services:** Investment in education, health and childcare reduces inequality of opportunity. Scandinavian countries combine strong welfare states with high productivity.
- **Minimum wages and welfare:** These directly lift incomes at the bottom. The UK's minimum wage has risen significantly, though some argue it is still inadequate.
- **Universal Basic Income (UBI):** Advocates see it as a safety net in an era of automation. Critics question its cost and effectiveness. Trials in Finland and Canada show mixed results.
- **Global reforms:** At the international level, proposals include debt relief for poorer nations, climate finance and fairer trade rules.

Each option involves trade-offs between efficiency and equity. The right balance depends on political choices as well as economics.

Technology, AI and the new inequality

Technology and globalisation have reshaped inequality in complex ways. Automation and outsourcing hollowed out middle-income jobs in rich countries, while “superstar” firms and digital platforms concentrated wealth.

Artificial intelligence may intensify this. In the USA, for example, Amazon warehouse workers earn modest wages under strict surveillance, while the firm's executives and

investors have gained immense wealth. If AI replaces routine jobs but complements high-skilled ones, the gaps could widen further.

At the same time, the digital divide excludes those without internet access or digital literacy. During Covid-19 lockdowns, children without laptops or stable broadband struggled with remote schooling, falling further behind peers, a reminder that technology can amplify existing inequalities.

Worked example: the Lorenz curve

Suppose the poorest 20% of households earn just 5% of national income, while the richest 20% earn 50%. The Lorenz curve bows sharply away from the equality line, producing a Gini coefficient of about 0.45.

This simplified example illustrates how economists turn data into measures of inequality. In exams, students may be asked to sketch such a curve or interpret data like that shown in Figures 2 and 4.

Looking ahead: climate and intergenerational divides

Two forces are likely to shape inequality in the coming decades.

- Climate change: Poorer households and countries are less able to adapt to floods, heatwaves or crop failures. Without deliberate policy, climate change could widen global divides. For example, in 2022 floods in Pakistan displaced millions, causing damages equivalent to nearly 10% of GDP. Richer countries, by contrast, can insure against and recover more quickly from climate shocks.

- Intergenerational inequality: Younger people face higher housing costs, insecure work and strained public finances. In contrast, many older households benefit from property booms and generous pensions. This generational divide risks fuelling political conflict as younger voters demand reforms to housing and taxation.

Conclusion

Inequality is not just about fairness, it affects growth, stability and opportunity. Globally, poverty has fallen, but wealth is more concentrated than ever. In the UK, income inequality has stabilised, but wealth, regional and generational gaps remain wide.

The pandemic illustrated this vividly: billionaires added trillions while many workers relied on food banks. For A-level students, inequality offers a vivid case study of how theory meets reality. Lorenz curves and Gini coefficients are more than exam content, they are tools to understand one of the central challenges of our age.

Hannah Holmes is Dean of the Business School at Manchester Metropolitan University and a member of the Economic Review Editorial Board.

Key points

- The richest 1% of the world's population hold nearly as much wealth as the poorest 50%.
- Global inequality between countries has narrowed, but within-country gaps remain high.
- In the UK, wealth inequality is much greater than income inequality, compounded by regional and generational divides.
- High inequality undermines demand, growth, and social cohesion.
- Policies to address inequality range from taxation and welfare to public services, UBI and global reforms.

Specification links

Income distribution and welfare; growth and development.