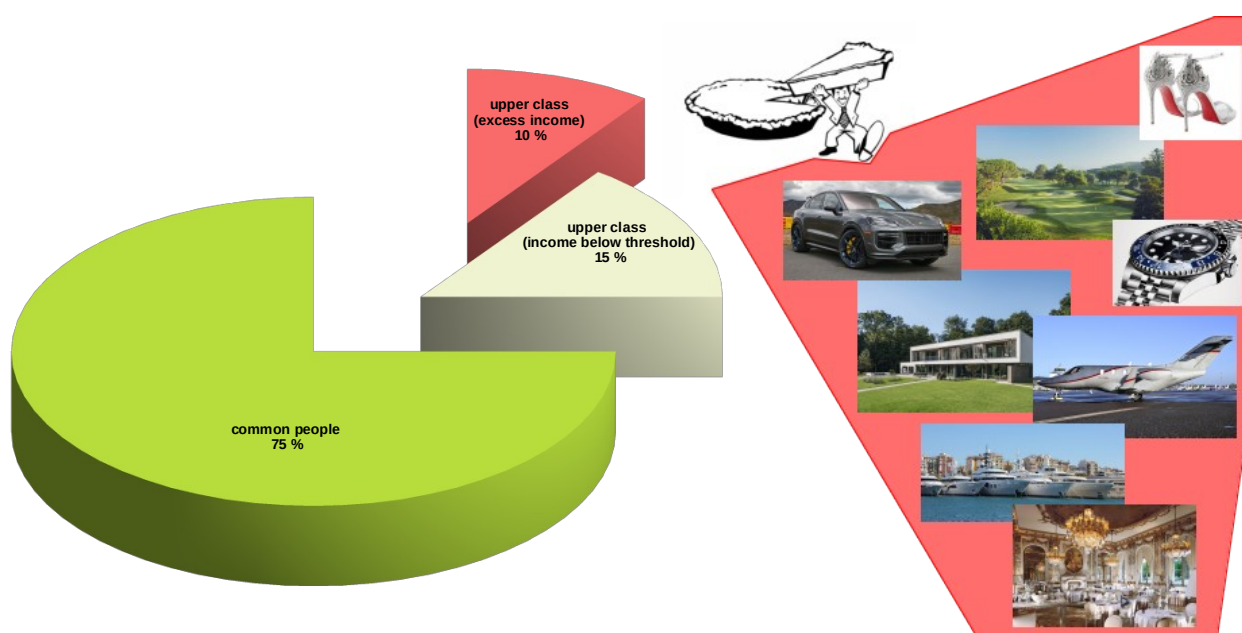


How much is the cost for society to maintain a caste of rich and super-rich ?



The **income distribution and its long-term evolution in the five European countries Czech Republic, Germany, Spain, France and Italy** is analysed based on data from the WID data base. The focus given here is not to illustrate or to criticise the obscenity of incomes of some super-rich individuals, reaching several hundreds of the median income. Here the question is adressed about **how much is the cost for society to maintain a caste of rich and super-rich** in total, or – in other words – **how big is the piece of the cake that could be redistributed**, if a change in the balance of power between social classes would allow for limiting maximum income to some reasonable level.

Beyond this, an **analysis of the historic evolution of inequality since 1960** illustrates clearly, that a highly unequal distribution of income is not something “*natural*”, in the fatalist sense that “*there have been always rich and poor and this will never change*”. In fact **inequality has changed strongly during the last decades**, with the transition to neoliberal capitalism since the 1970ies as a historic turnic point since which inequality has been strongly rising again. Furthermore, **since the end of the 20th century the five countries analysed are going different ways**: while in Germany and Italy inequality continues strongly increasing, in France and the Czech Republic the inequality as measured by the excess income is slightly decreasing. In Spain the decrease is even stronger, but coming from an initially higher level of inequality.

Distribution of income in 2020

The distribution of income within about 90% of population is relatively flat, within a range between 0,5x and 2x the median income (ratio 1:4). Towards the upper end there is a strong concentration of income following a so-called power-law distribution, reaching levels of 250 to 400 times the median income for the upper 0,001%.

The average income of the upper 1% of population (“top 1”) is between 7x and 13x the median income depending on the country, while the remaining 9 percentiles of the upper 10% (“upper 9”) receive an average income of 2x to 3x the median (Figure 1). The total share of post-tax income of the top 10% ranges from 23 to 30 % of total income.

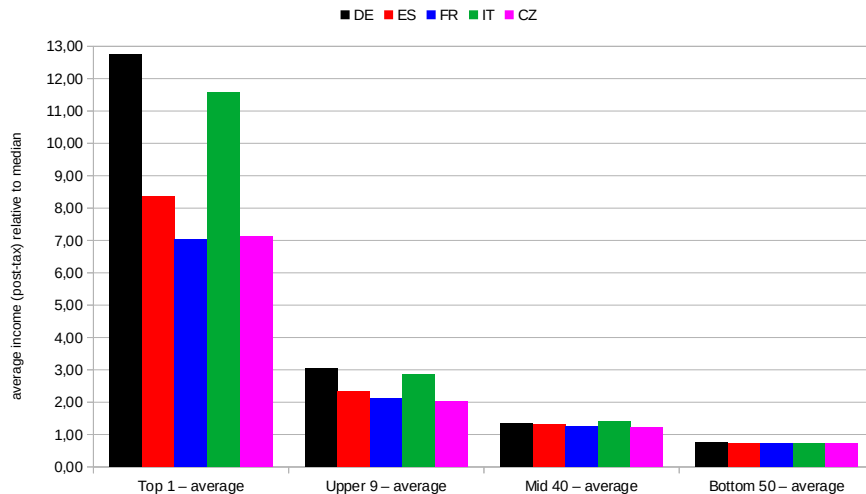


Figure 1. Average relative income (post-tax) with respect to the median by countries and social classes, data for 2020. Source: WID data base [WID 2024].

The excess income of the upper class

Within a hypothetical redistribution scenario, where all income above a certain threshold is considered as “excess income” subject to redistribution, the following amounts would be obtained:

Only between 4,5 % and 12 % of the population, depending on the country, obtain a (post-tax) income higher than 2x the median (corresponding to a post-tax disposable income above a threshold ranging from 28.000 [CZ] to 48.800 [FR] EUR₂₀₂₃ in the year 2020. The excess income of this small group, nevertheless, amounts to between 6,5 % and 15,5 % of total income.

Using a higher threshold of 4x the median income, then affecting negatively only between 0,8% and 2,7% of the population, still an amount from 3 to 8 % of total income could be redistributed (Figures 2 and 3).

There are two countries (Germany and Italy) with a very unequal distribution (excess income above 4x the median of 7,7 and 6,3% of NNI), two countries (France and the Czech Republic) with a comparatively equal distribution (excess income above 4x the median of 2,8 and 2,9%), and Spain being situated in between.

In the group with lower income inequality (CZ, ES, FR) roughly about 5% belong to an upper class of high and top income individuals (the latter forming less than 1% of total population). The share of excess income above 2x the median income is around 7% of total income on the average of this group of countries. In the second group with higher inequality (DE and IT) the upper

WID Data Base and Distributional National Accounts

The data used in this fact sheet are obtained from the world inequality data base [World Inequality Lab, <https://wid.world/data/>]. The “Distributional National Accounts” (DINA) in this data base describe the entire distribution of income and wealth, from bottom to top, using concepts consistent with macroeconomic national accounts.

The DINA concept analyses distribution of income based on the net national income (NNI). The NNI is similar to the gross domestic product (GDP), but consumption of fixed capital (CFC) is subtracted from GDP, as this is not really an income, and the net foreign income of residents (NFI) is added. The NNI forms the “whole of the cake” which is then subject to further analysis regarding income distribution among (adult) individuals.

The DINA methodology uses different basic concepts for analysing the distribution of income after successive steps of (re-)distribution of income: the **pre-tax** income (primary income after redistribution by social security system, but before taxes), and the **post-tax** income (net disposable income of households after taxes, i.e. pre-tax income after applying direct taxes on income and wealth, plus in-kind redistribution by imputing government spending as additional in-kind income to individuals or households).

class is larger (slightly above 10% of high and top income individuals) and excess income of this upper class is more than the double (around 14 % of total income).



Figure 2. Share of excess income (post-tax) above 2x and 4x median income. By countries, data for 2020. Source: WID data base [WID 2024].

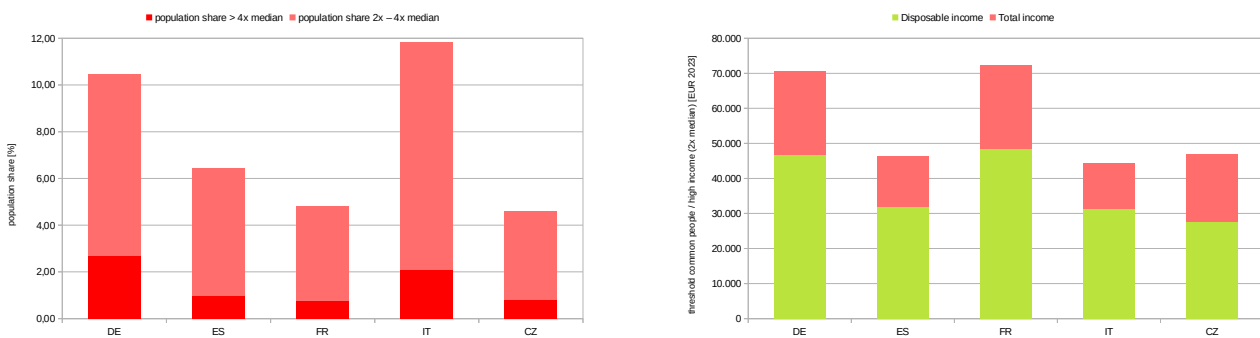


Figure 3. Share of population with an income (post-tax) above 2x and 4x median income (left); threshold between common people and high income (2x median; post-tax total and disposable income in EUR 2023; right). By countries, data for 2020. Source: WID data base [WID 2024].

Historic evolution from 1960 / 1980 to 2020

The evolution of inequality on a long term (since 1960) shows an U-shape with a decrease of inequality in the fordist era (during the 1960ies and 70ies), a turning point and a successive increase since then in the neoliberal era until the mid/end of the 1990ies (except the special cases CZ and ES). In the present 21st century, nevertheless, the evolution in the countries is diverging strongly into two groups of countries. **DE and IT having almost duplicated the level of inequality in terms of excess income from 1995 to 2020.** Current levels of inequality in Germany and Italy are higher than that in 1960. In contrast, in CZ, ES and FR inequality in this period remained constant or is slightly decreasing.

While **median post-tax income from 1980 to 2020 increased in Germany and France** at average yearly growth rates of 0,75% and 0,71% and **a cumulative increase of 35% and 33% respectively**, **in Italy median income in 2020 is 14% lower than 40 years ago.** Divergence of the evolution in Italy with respect to Germany and France started around 1990, while before and since 1960 all those three countries were evolving similarly. **In Spain, the cumulative increase has been even 54%**, but starting from a comparatively low level, catching up with Italy and reaching about 2/3 of the level in Germany and France in 2020. **In Czech Republic there has been a strong decline of median income after transition to capitalism, and a gradual recovery since then catching up with Spain and Italy.** The cumulative increase in the four decades is only about 15%.

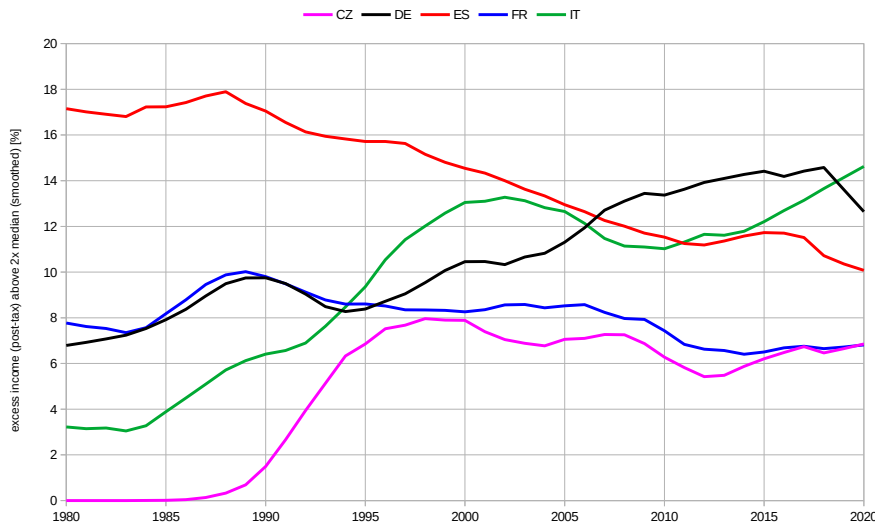


Figure 4. Share of "excess income" (post-tax) above 2x the median in total national income in %. Smoothed curves (5-year averages). Source: WID data base [WID 2024].

Average and Median Income

The median income is the income threshold between the 50% of population with higher and the 50% with lower income, i.e. the income of the individual which stands just in the middle of social (income) hierarchy. The median income is used as a reference for defining relative incomes.

Due to the asymmetry of the distribution the average income is substantially higher than the median, so that a careful distinction between the two quantities is necessary.

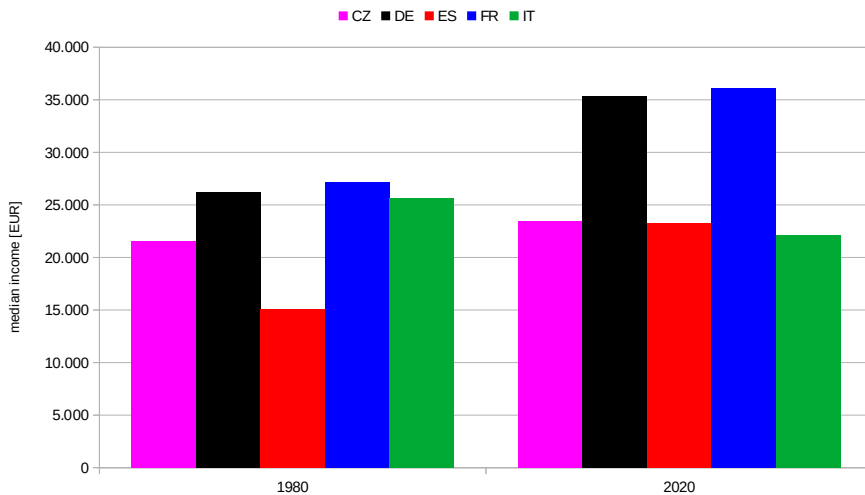


Figure 5. Evolution of the median income (post-tax) 1980 vs. 2020 (in constant prices EUR 2023). Source: WID data base [WID 2024]. Note that the concept of post-tax income in WID is higher than disposable income of the individuals (salaries, capital income, social assistance benefits), as it includes also income received in-kind by distributing public spending on individuals.

Conclusions and Discussion

In the average around 10% of total net national income is excess income of an upper class formed by 5 to 10 % of population, defined here as income above the threshold of two times the median income.

This is a big amount considered in absolute terms: it is of the same order of magnitude as total spendings of society for health care, and about the double of the total budget for education. Using only a fraction of this amount would be sufficient to eliminate poverty of our societies completely.

In relative terms this 10% is still significant: everyone of us is working – in the average - more than one month out of the twelve months of a year for providing luxury consumption, status symbols, etc. to the upper class. Nevertheless, a redistribution of this piece of the cake alone would be too small to lead to a qualitative change of the living conditions of the majority of 90 - 95% of population.

This does not mean that the real benefit of getting rid of inequality and capitalism would be only this 10% of the cake. Distribution is only part of the problem, and changing distribution, therefore can be only part of the solution. Inequality in income is not only a consequence, but also reinforces inequality in wealth and power. The crucial question, in consequence, is not only to get a bigger piece of the cake, but to get democratic control about the bakery as a whole, in order to decide also about the taste, the ingredients and how future ovens should look like.