# METHODOLOGY NOTE FOR OXFAM'S 2017 REPORT 'AN ECONOMY FOR THE 99%'

**Oxfam's 2017 report is the most recent in a series of reports that has analysed economic inequality and its drivers. Each of these reports was published to coincide with the annual meeting of the World Economic Forum in Davos. Each year the report has included an analysis of wealth inequality which drew on data from the Credit Suisse Global Wealth Databook and the Forbes list of billionaires.**

**January 2014 'Working for the Few'**

**January 2015 'Wealth having it all and wanting more'**

**January 2016 'An economy for the 1%'**

**January 2017 'An economy for the 99%'**

**This methodology note describes the background and approach Oxfam used to develop this year's report as well as the main wealth distribution statistics that we profile.**

# BACKGROUND AND APPROACH TO 'AN ECONOMY FOR THE 99%'

The last few years have seen a proliferation of data and analysis concerning economic inequality, including those found in Oxfam's previous publications. Oxfam's desk-based research consolidates existing research and evidence on economic inequality and its relationship with poverty, as well as focussing on evidence for how the activities of large multinational corporations and super-rich individuals relate to inequality. Oxfam uses the most up-to-date wealth distribution data in order to calculate headline statistics (see below). Oxfam also works in almost 100 countries around the world, from which evidence is gathered. In 2016, Oxfam's programme work and country offices in Kenya, Brazil and Vietnam contributed relevant and powerful stories and conducted interviews with people, bringing the research and statistics to life. These stories are included as boxes throughout the report 'An Economy for the 99%' and in separate media materials.

Oxfam identified six assumptions that were prevalent in the economic discourse. Each of these assumptions was unpacked to demonstrate that they were in fact, deeply flawed – by drawing on research that demonstrates their limitations and caveats. The final section of the report lays the foundations for an alternative economic narrative, based on eight principles that build on Oxfam's previous work on rethinking the economy and alternative business models. Each principle is described in terms of the underlying values and objectives, and where possible evidence is provided on how these principles could work in practice.

'An Economy for the 99%' seeks to consolidate what Oxfam knows about the problems of extreme inequality and provides a propositional approach to rebooting the global and national economies to a more just path.

# WEALTH DISTRIBUTION DATA

Each year at the World Economic Forum, Oxfam has headlined with statistics that reveal the extreme inequality of global wealth. Oxfam is concerned with the wealth distribution because we understand how important assets are to people living in poverty, particularly land. Net wealth provides financial resilience (or lack thereof) to respond to shocks such as a poor harvest or medical bills, as well as opportunities for investing in the future and for livelihood improvement. Wealth for the very richest is a source of power and influence; as it generates income, it can accumulate rapidly and further extend the gap between the rich and the poor.

In seeking to understand wealth and the wealth distribution, Oxfam originally identified the Credit Suisse Global Wealth Databook as the best and most comprehensive dataset available. This Databook builds on almost a decade of research and analysis from **established academics**. Each year Credit Suisse gathers the most up-to-date national balance sheet data and household surveys that cover total wealth stocks and within-country wealth distribution. For each country, it evaluates the quality of data ranging from 'poor' to 'good'; concluding in general that the quality of data is better for richer countries, where the majority of global wealth is held. It uses these data sources to compile a global wealth distribution and provide national and regional data tables in the Databook, as well as publishing an accompanying report which analyses the data.

Given the extent of the concentration of wealth at the top of the distribution and therefore the global significance of the very richest in terms of wealth, Oxfam uses a more granular data source that measures the net wealth of the very richest individuals. For 30 years, Forbes has compiled an annual list of billionaires and estimates of their net wealth. They use investigative methods to calculate the net wealth of each individual. Forbes describes how ‘Throughout the year our reporters meet with the list candidates and their handlers and interview employees, rivals, attorneys and securities analysts. We keep track of their moves: the deals they negotiate, the land they're selling, the paintings they're buying, the causes they give to. To estimate billionaires' net worth we value individuals' assets, including stakes in public and private companies, real estate, yachts, art and cash – and account for debt.’[1]

In January 2014, Oxfam first compared the findings of these two data sources from Credit Suisse and Forbes. The Global Wealth Databook of 2013 found that the bottom 50% of the global population had just 0.7% of global net wealth, or $1.7 trillion. Using the 2013 Forbes list of billionaires, we only had to add up the wealth of the richest 85 people to get a figure that exceeded $1.7 trillion.[2]

In subsequent years, Oxfam has continued to use these data sources to understand and illustrate the distribution of wealth. Both data sources have been enhanced over this period. The Credit Suisse Databook is dependent on data sources that are made available by different countries. Every year, as more up-to-date data sources become available, they adjust their estimates accordingly. In 2014, the Forbes billionaire list became ‘live’, with the net wealth of billionaires now updated in real time as the value of their assets fluctuates day to day. However, for our calculations we continue to refer to the annual list that is fixed at the end of February each year. Since 2014, Oxfam has published annual statistics on wealth inequality using these revised and updated data sources. As such, these constitute ‘updated statistics’ and are not directly comparable year to year.

Based on 2016 data from Credit Suisse, the wealth of the bottom 50% of the global population was lower than previously estimated: they share just 0.2% of total global wealth, or $409bn. The calculation from the Forbes list is simple: add up the wealth of 8 billionaires and you get $426bn, more than the total wealth of the bottom 50%.

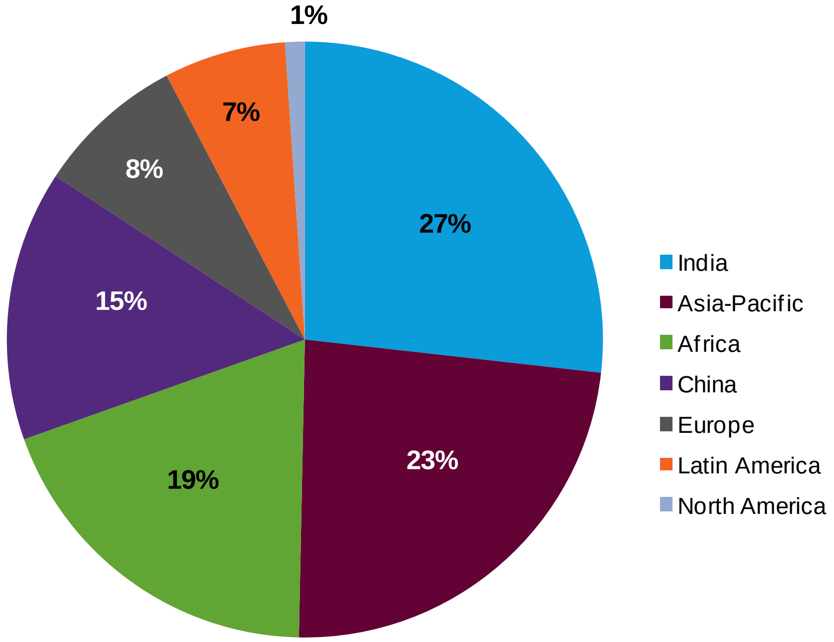
The decline in the share of global wealth held by the bottom 50% has fallen largely due to the availability of new data sources from India and China that show a lower amount of wealth in the lower deciles than had previously been estimated. There is more debt in the very poorest group and fewer assets in the 30–50% percentiles of the global population.

The inequality of wealth that these calculations illustrate has attracted a lot of attention, due to both the obscene level of inequality they expose and to the underlying data and the calculations themselves. Below we address some of the frequently asked questions related to these calculations.

## WHAT ABOUT THE DEBT?

In the global wealth distribution, some people we may not think of as being poor show up among the very poorest, as they are in net debt. These people may be in debt but be income-rich, thanks to well-functioning credit markets (think of the indebted Harvard graduate). A number of such cases will exist. However, in terms of population, this group is insignificant at the aggregate global level. Figure 1 shows that just 1% of people in the bottom 50% are from North America, while 70% live in low-income countries.

**Figure 1: Regional breakdown of the population of the global bottom 50%**

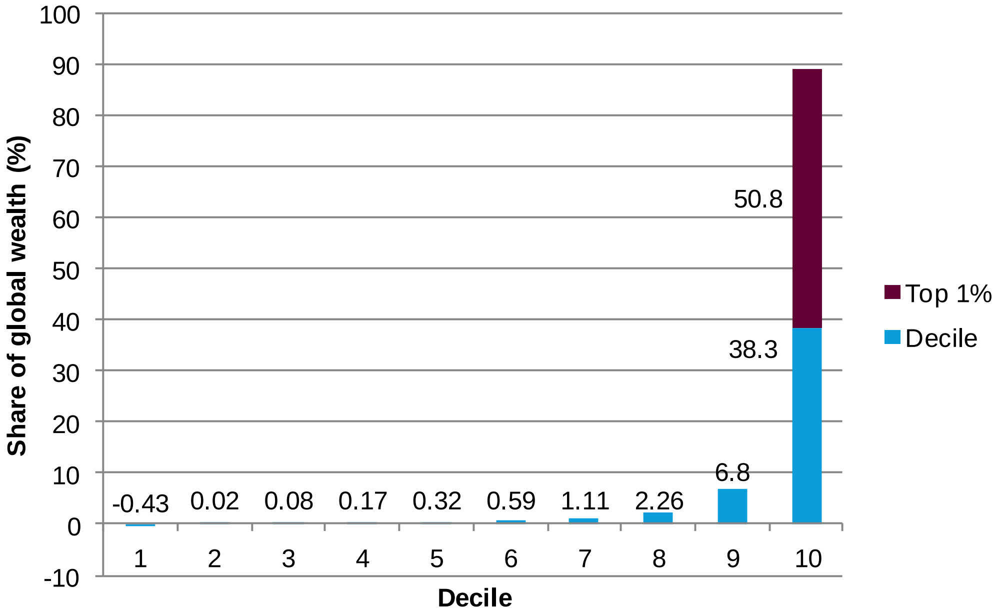



The only decile that has net debt – that is, more debt than assets – is the bottom 10%. The total net debt of the bottom 10% of the global population is also just 0.4% of overall global wealth, or $1.1 trillion. It is true that most of this debt comes from indebted people in North America ($371bn) and Europe ($612bn). However, it would be incorrect to conclude that these are all high income earners with student debt or other similar productive investments. The Credit Suisse Global Wealth Report analyses this group in detail and finds that 'The results show that the "risk factors" most associated with the bottom wealth quintile are being young, single, or poorly educated. Secondary factors are having three or more children, or being in the "other not working" category (i.e. unemployed or disabled, rather than retired)'. This is borne out by Oxfam's experience of working with some of the poorest people in the US and the UK. 'In most places, the biggest "risk" is being aged below 35, which raises the probability by 15% on average. This is not unexpected, and reflects the fact that those younger than 35 are at the beginning of their life-cycle of saving and wealth accumulation. In recent years however, the young have faced particular difficulties, including a disproportionate rise in unemployment in the wake of the global financial crisis. The greater frequency and size of student loans are also likely to have increased the probability that the young will be in the bottom tail of the wealth distribution'.[3] In rich countries, some of those in debt are also the poorest in society, borrowing to survive.

The data finds that people living in net debt are not limited to richer countries, but approximately 10% of people in all regions, including China, India and Africa have net debt. It is not possible to tell from the data what the circumstances are for people in developing countries with net debt; whether this is due to productive microfinance loans, stronger credit markets or accumulating debt required for consumption. Unlike with housing, where it is straightforward to offset mortgage debt against the value of a property, there are many challenges with respect to appropriately quantifying assets and associated liabilities in different contexts. However, the apparent absence of household assets and the existence of debt in countries, particularly those where there is limited welfare insurance for pensions or healthcare for example, is a concern and warrants further research.

Across the world, the vast majority of people living in debt really are very poor; but regardless of the nature and consequences of net debt at the bottom of the global distribution, it is clear that this does not distort the overall picture of extreme wealth concentration in the global economy (see Figure 2). Even if all the net debt of this group is ignored (in effect, the negative wealth held by the bottom 10%), the positive wealth of the rest of the bottom 50% is still only $1.5 trillion. It still takes just 56 of the wealthiest individuals to equal the wealth of this group.

**Figure 2: Global distribution of wealth by decile**




## WHAT ABOUT EXCHANGE RATES?

As Credit Suisse reports in US$, wealth held in other currencies must be converted to US$. The question arises as to how appropriate this is, as changes over time of net wealth in any given country or region can be due to exchange rate fluctuations, which matter little to people who want to use their wealth domestically. Indeed, wealth in the UK declined by $1.5 trillion over the past year due to the decline in the value of Sterling. However, exchange rate fluctuations cannot explain the long-run persistent wealth inequality which Credit Suisse shows. The bottom 50% have never had more than 1.5% of total wealth since 2000, and the richest 1% have never had less than 46%. During this time the value of the dollar has changed significantly, falling in the 2000's, and gaining strength since 2011.[4] Given the importance of globally traded capital in total wealth stocks, exchange rates remain an appropriate way to convert between currencies.

## WHY DOES THIS MATTER WHEN INCOME POVERTY IS FALLING?

In 1990, 35% of the global population lived below the extreme poverty line. After three decades of poverty reduction, it is estimated that in 2015 less than 10% of the world lived below this line, calibrated at $1.90 a day.[5] While it is important to celebrate this progress, we can't be complacent. For the world to reach the Sustainable Development Goal target to have eradicated extreme poverty by 2030, the World Bank has made it clear that we must see a more equal distribution of growth, with an associated reduction in inequality.[6] In Oxfam's 2016 analysis of the income distribution, which used data from the World Income Distribution Database,[7] we find that while the incomes of the poorest 10% grew in recent decades, they grew by just $3 extra dollars a year. At the same time the incomes of the richest 1% increased by $11,800, 182 times as much.[8] It is well recognized that this income data underestimates the income of the very richest; these results present a particularly conservative view of the gap between the very richest and the poor and the extent to which the very richest receive the biggest share of economic growth. For most countries where data is available for the richest, the data shows that the richest 1% continue to pull away from the rest.[9] To end the injustice of extreme poverty, it is clear that economic inequality must be addressed.

Moreover, the extreme poverty line remains a painfully low threshold, which simply indicates whether a family has sufficient means for survival. For most countries the national poverty line is far higher than $1.90 a day and we know that billions of people around the world fall below national poverty lines and other multi-dimensional poverty indicators. In Oxfam's analysis of the wealth distribution, we focus on an important aspect of economic power, as assets provide resilience to shocks and opportunities for future investments. We know that it is possible to increase consumption in order to meet basic needs, by accessing predatory lending, but this is neither sustainable nor just.[10] We also know that unexpected medical bills can force people into poverty.[11] Oxfam's analysis of the wealth distribution helps to highlight broader economic injustices, beyond extreme poverty measures.

## LOOKING TO THE FUTURE

Oxfam will continue to work with Credit Suisse, Forbes and other data sources to show the scale of economic inequality in the world. No data source is perfect, and Oxfam is calling for a rapid and radical increase the quality of data, especially in the poorest countries. Oxfam is also calling for income data in particular to better reflect the scale of income and wealth at the top of the distribution. Overall, there is very little disagreement from across the political spectrum that we are facing levels of inequality not seen for a century, and that this is a serious cause for concern. Oxfam hopes that its reports for the World Economic Forum at Davos, as well at its other reports on inequality and poverty, can continue to make a small contribution to a serious and important debate about the scale of the inequality crisis, and what can be done to fix it.

# NOTES

All web links were accessed 30 December 2016 unless otherwise stated.

1 K. A. Dolan. (2012). 'Methodology: How we crunched the numbers'. http://www.forbes.com/sites/kerryadolan/2012/03/07/methodology-how-we-crunch-the-numbers/#cef58c715113

2 R. Fuentes-Nieva. (2014). 'Anatomy of a killer fact: The world's 85 richest people own as much as the poorest 3.5 billion'. From Poverty to Power blog. http://oxfamblogs.org/fp2p/anatomy-of-a-killer-fact-the-worlds-85-richest-people-own-as-much-as-poorest-3-5-billion/

3 Credit Suisse. (2016). 'Global Wealth Report 2016'. http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=AD783798-ED07-E8C2-4405996B5B02A32E

4 See Chart 4 from Vice Chairman Stanley Fischer. (2015, August). 'US Inflation Developments'. https://www.federalreserve.gov/newsevents/speech/fischer20150829a.htm

5 World Bank. (2015, 4 October). 'World Bank Forecasts Global Poverty to Fall Below 10% for First Time; Major Hurdles Remain in Goal to End Poverty by 2030'. Press release. http://www.worldbank.org/en/news/press-release/2015/10/04/world-bank-forecasts-global-poverty-to-fall-below-10-for-first-time-major-hurdles-remain-in-goal-to-end-poverty-by-2030

6 World Bank. (2016). 'Poverty and Shared Prosperity 2016: Taking on Inequality'. DOI: 10.1596/978-1-4648-0958-3 http://www.worldbank.org/en/publication/poverty-and-shared-prosperity

7 Data from C. Lakner and B. Milanovic (2013). 'World Panel Income Distribution'. World Bank. All incomes are 2005 PPP dollars, which represent real incomes at 2005. http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:23690796~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html

8 D. Hardoon and S. Ayele. (2016). 'Methodology note to accompany 'An Economy for the 1%: How privilege and power in the economy drive extreme inequality and how this can be stopped'. Oxfam. http://policy-practice.oxfam.org.uk/publications/an-economy-for-the-1-how-privilege-and-power-in-the-economy-drive-extreme-inequ-592643

9 World Bank. (2016). 'Taking on Inequality'. Op. cit.

10 A forthcoming Oxfam report on Indonesia includes an interview with 'EP', whose story is typical of many workers who are forced into deep debt just to cover their basic needs. According to EP, almost 90% of workers in the factory where he works have to service debt with an interest rate of 20%.

11 E. Seery. (2014). 'Working for the Many: Public services fight inequality'. https://www.oxfam.org/sites/www.oxfam.org/files/bp182-public-services-fight-inequality-030414-en.pdf

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# OXFAM

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