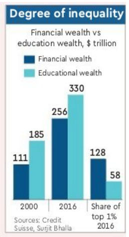
Traditional definitions of inequality, whether by Piketty or Credit Suisse ignore the impact of education, hugely

Even among free-market types, most feel embarrassed by the seemingly massive hike in inequality that liberalisation has spawned. Hardly surprising then, at the popular level, most instinctively accept French economist Thomas Piketty's analysis as the gospel truth. And why not since, for several years now, Credit Suisse regularly puts out data on the world's wealth and points out that, for instance, more than half the world's wealth is owned by the top 1%. Hence Occupy Wall Street, and other such movements. Given the massive decline in global poverty, essentially in China and India over the past few decades, however, this narrative hasn't quite sounded right. If billions can be brought out of poverty, can the accompanying increase in inequality necessarily be a bad thing? As this column pointed out (goo.gl/nHkmgn), in 1980-2014, incomes of the top 1% in India grew 750%, 1,534% in China, 198% in the US and 88% in France—that's the bad part, going by Piketty—but incomes for the bottom half rose 89%, 312%, 4% and 25% respectively; it would appear, at least for developing countries, inequality is a by-product of growing fast in the initial stages. Picketty's database, too, was riddled with inconsistencies.

In even the caste system, traditionally seen as the source of India's greatest inequality, data from all-India income surveys by NCAER and PRICE clearly showed education, more than even caste, was the greatest explanator for income differences across various groups (goo.gl/vHkGDj) over a period of time. This is where Surjit Bhalla's latest, The New Wealth of Nations, does an amazing job of explaining economic growth across nations, changing levels of inequality and even the great fall in inflation using education as the explanatory variable. While Credit Suisse tracks financial wealth, Bhalla discounts incomes of the educated to arrive at education wealth since it this education that is the source of future wealth. He finds the world's education wealth is far greater than financial wealth and, not surprisingly, education inequality is a small fraction of financial wealth inequality (see graphic). Even way back in 1870, Bhalla notes, with the US and Europe accounting for 70% of the world's educated, it is not surprising they accounted for 64% of the world's income.


Degree of inequality
Financial wealth vs education wealth, $ trillion
Financial wealth
Educational wealth
111
185
256
330
128
58
2000
2016
Share of top 1% 2016
Sources: Credit Suisse, Surjit Bhalla