R > G

In 2013, French economist Thomas Piketty published *Capital in the Twenty-First Century*. In it he coined a famous equation to help explain wealth inequality (why the rich get richer and the poor get poorer): “r > g.” “R” is return on investments (stocks, bonds, real estate, etc.). “G” is growth of the overall economy, which largely determines everybody’s raises each year. The formula tells us that return is greater than growth.

Over the last 100 years, return on stocks has averaged 10% a year. Growth of GDP, on the other hand, has average 2-3% a year (and workers’ raises tend to be 1-2%). It is primarily the wealthy who have excess income to invest (less than 50% of Americans even own stock). So the wealthy gain upwards of 10% a year, while workers gain 2-3% a year.

Over time, r > g (among other factors) has led to enormous wealth inequality. Today global wealth inequality is so drastic that the top 1% owns 50% of all wealth, while the bottom 50% owns 1% of all wealth.[[1]](#footnote-1)

(One of the best things I have ever seen on Netflix is a two-hour documentary called “Capital in the 21st Century.” It’s a brilliant survey of history over the last three centuries, concentrating on how economic forces have shaped world events. I highly recommend it.)

1. “. . . the wealthiest 1% [will] own more than [54%] of the world’s wealth . . . by 2020.” (“Richest 1% to Own More Than Rest of World, Oxfam Says.” *BBC*.*com*. 19 Jan. 2015. 23 Mar. 2015. Web.)

The “world’s poorest 50% control barely 1% of its wealth . . .” (Gibbs, Nancy. “The Choice.” *Time* [23 Dec. 2013] 45. 23 Mar. 2015. Web.) [↑](#footnote-ref-1)