

Lecture 2.

Wealth inequalities

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Wealth inequality: a disturbing inequality

- Income / wage inequality → related to “achievements” / outcomes / productivity
 - Could be seen as “fair”.
- Wealth inequality
 - Partly inherited/ “ascription”. As such → arbitrary (“unfair”)
 - Still distinction between “New wealth” / “Old wealth”

The paradox of the wealth dimension in sociology

- Economic wealth at the heart of conceptions of social stratification
- But sociology of wealth inequalities is relatively scarce
- Partly a data-access problem... but not only

Wealth inequalities in social stratification approaches

- Wealth important
 - Marx
 - Weber
 - (Bourdieu)
- Not so important
 - Occupationnist/Stratificationnist

Marx's modes of production

- Modes of production
 - A way of sharing surplus labor [*surtravail*]
 - Modes of production/ both economic and “symbolic”: rests on an ownership structure
- Primitive communism modes of production
 - No property. No overwork
- Asiatic mode of production
 - A despot (Gengis-Khan) owns everything (people and land) who works for her/him
- Slave-owned mode of production
 - Master own the slaves who works for her/him
- Feudal mode of production
 - Lords partial ownership of serves who works for her/him
- Capitalist mode of production
 - Capitalist owns capital
 - Worker own nothing but her/his labor force
 - “Free” contractual exchange
 - “Free fox in the free henhouse”
 - Does violence stop playing a role in capitalist exploitation?
 - Violence in primitive capitalist accumulation
 - Enclosure; colonialism; slavery
 - Military/police monopoly of violence to protect the bourgeois order

Max Weber: class within pluri-dimensional hierarchies

- Descriptive typologies of classes in economic terms
 - Distinction of ownership and production classes
 - Ownership classes: defined by ownership or lack of.
 - Production/activity classes: defined by position in the production process
 - Social classes: as a combination of ownership & production classes
 - Working class/Petty bourgeoisie / Property less intelligentsia & specialists / Privileged class through property and education
- But not so much thematized as a research object

Bourdieu, capital, which capital?

- Two dimensional field theory.
 - Volume & structure of capital.
 - Structure of capital: combination of specific/symbolic/cultural capital versus material/economic capital
 - Distinction Social space: cult+/econ- vs econ+/cult-
 - Economic capital super-important
 - But how is it measured?
 - Occupations' orientation : public/private
 - Income
 - Wealth absent
 - Capital as a metaphor?
- Noblesse d'Etat (Bourdieu, 1989)
- Structure of the Field of economic power
 - Stable nobility (grandes écoles) versus business legitimacy (self made men)
 - Opposition between old and new wealth

Wealth is hard to grasp

- Difficult to estimate wealth (in wealth surveys)
 - Many assets unpriced. Fluctuating prices. Plus lack of monitoring
 - Big measurement error & probable under-declaration
 - Technical problem : Household with negative and 0 wealth.
 - No logs! (:<)
- Extremely concentrated
 - hard to get meaningful rich (capitalists) in surveys
- Income & occupations, comparatively easy

Tools for studying wealth

- Wealth surveys
 - France: Enquête Patrimoine. Europe: SILC. World: LWS
- Fiscal sources
 - France: Impôts sur la Fortune (1981-1986; 1988-2017)
 - Capital income reverse accounting (Saez, Zucman, 2016)
- Register data (Scandinavian countries)
- Rich lists
 - Forbes 400, etc.

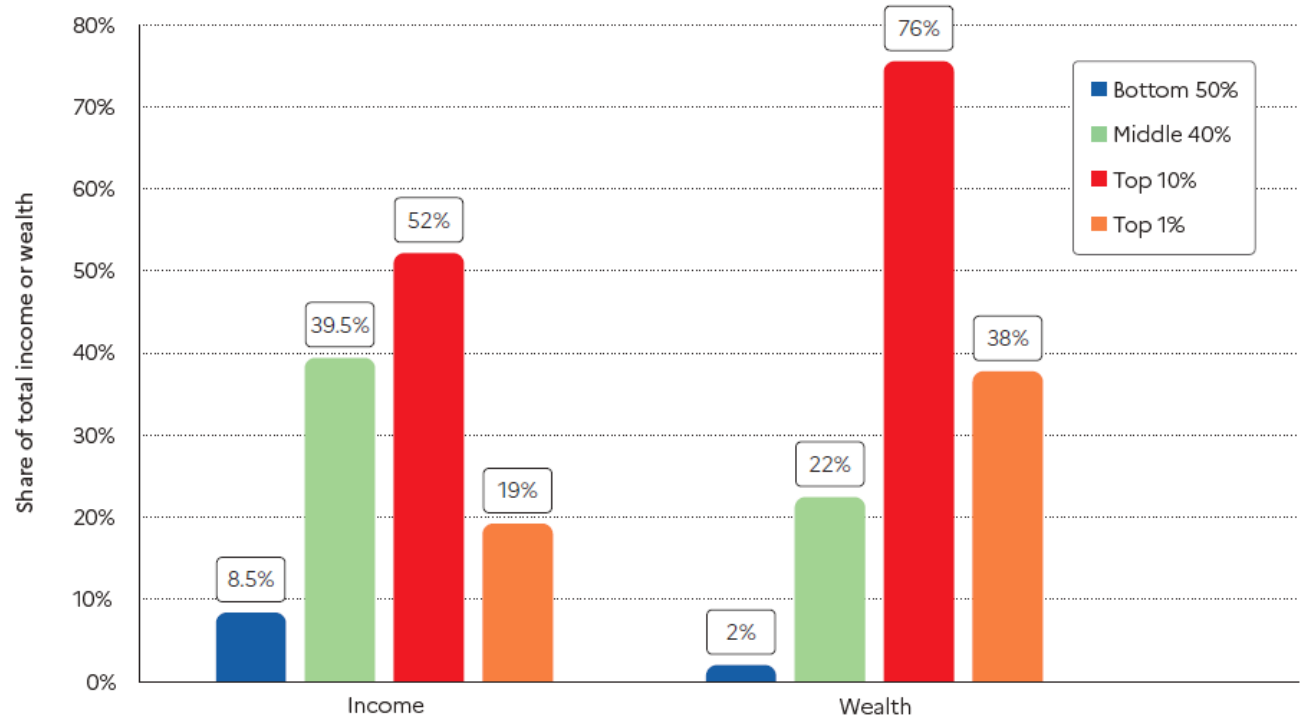
Structure of wealth inequality

- A highly unequal structure

– <https://www.inequalitydynamics.umich.edu/wealth-inequality-and-redistribution/>

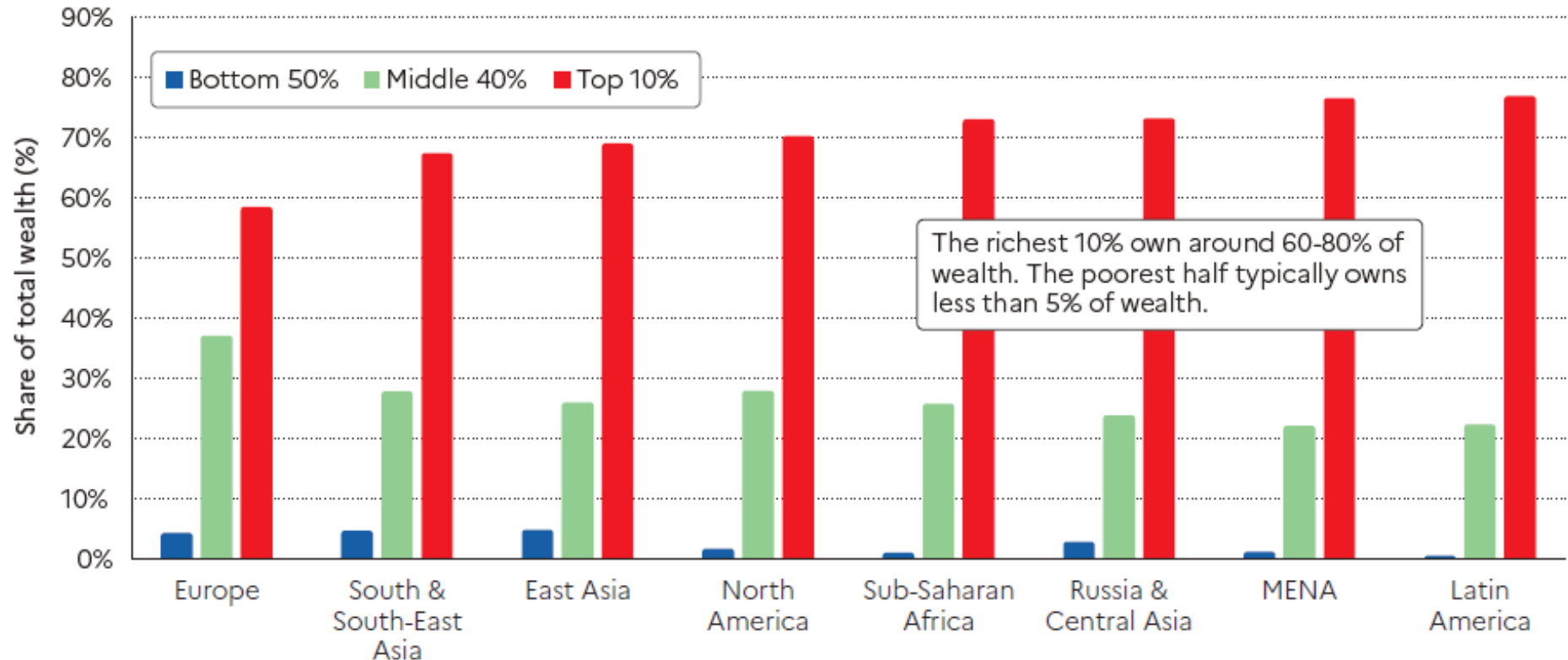
Figure 1.1

Global income and wealth inequality, 2021



Wealth inequality within regions

Figure 1.11 The extreme concentration of capital: wealth inequality across the world, 2021



Evolution of wealth inequality in the US

Saez, Zucman (2016)

Capitalization of capital
payed by tax payers
+
Correction for assets not
generating taxable income

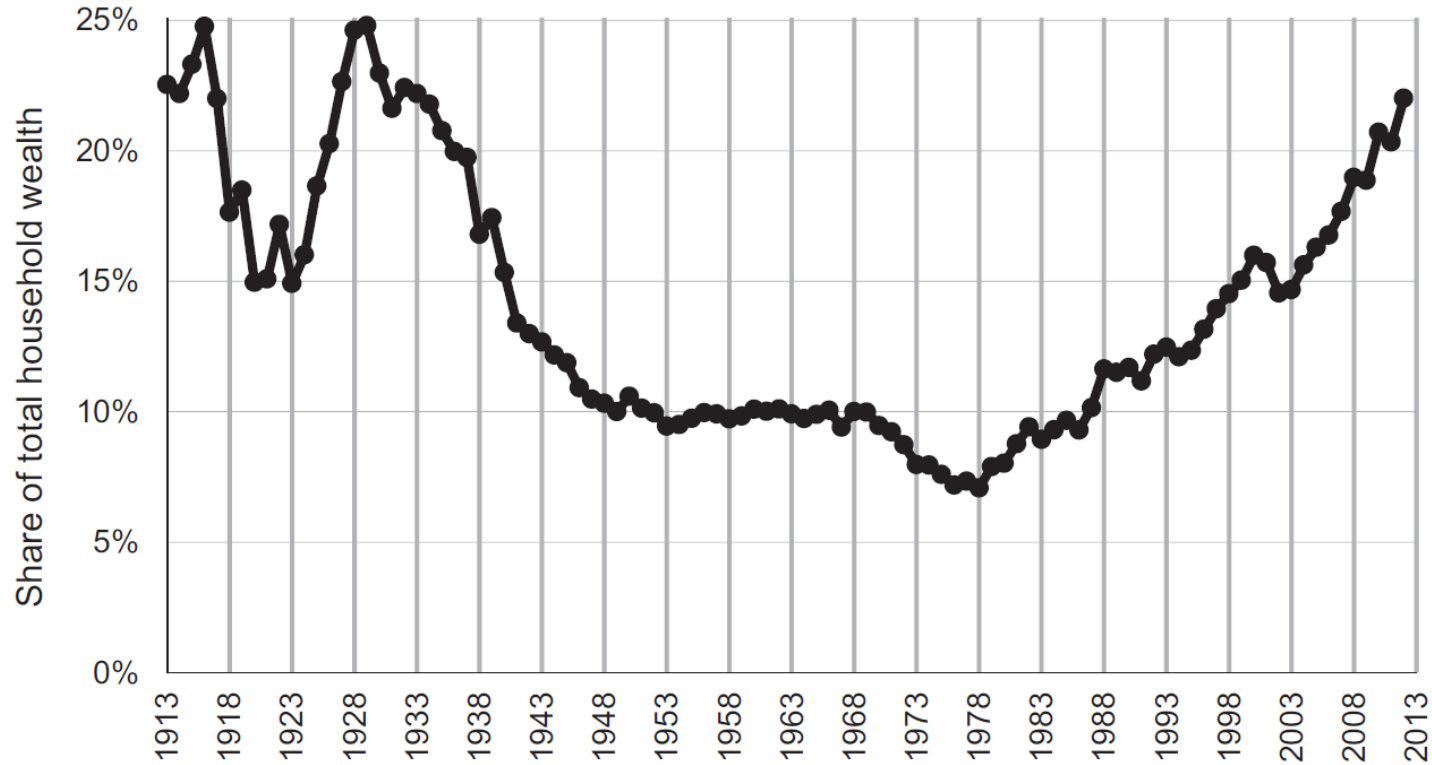
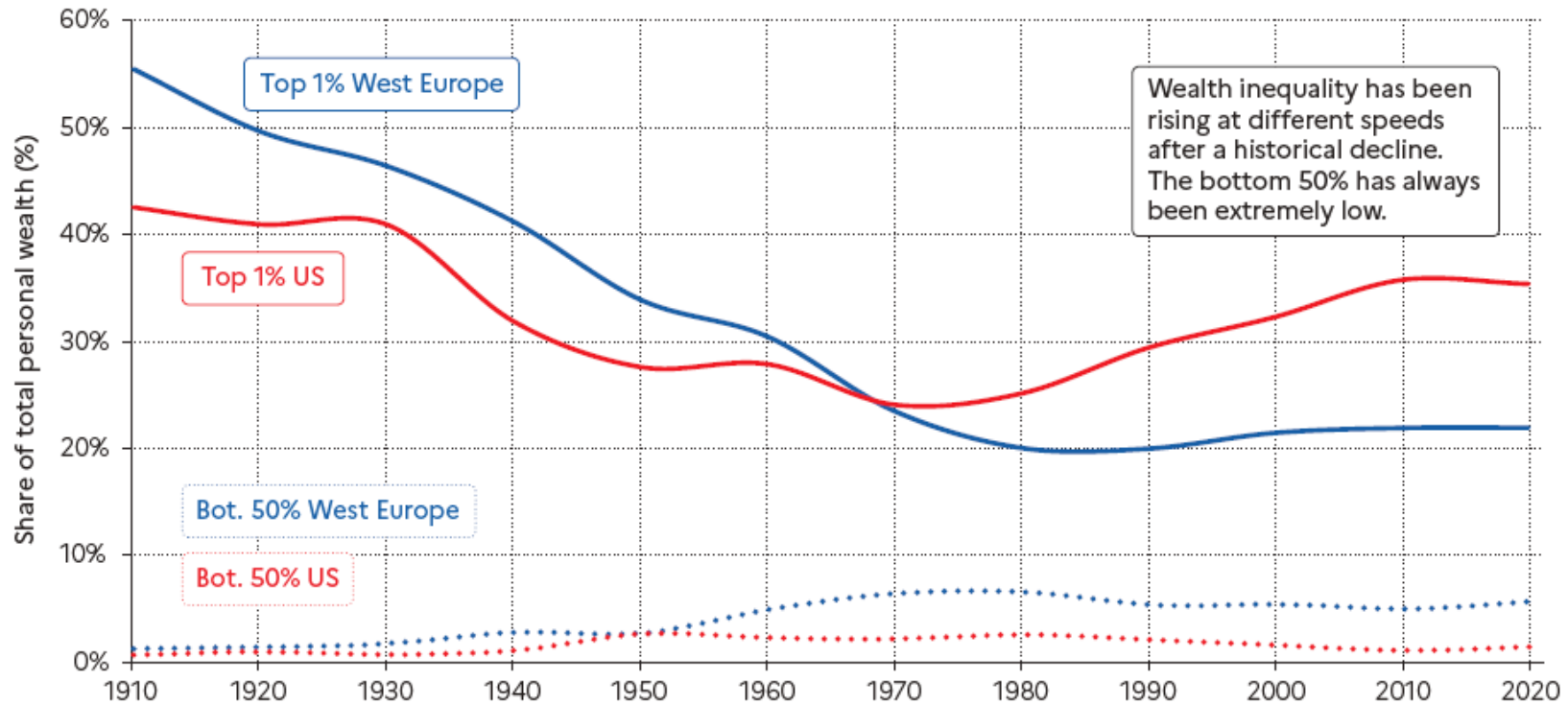


FIGURE I

Top 0.1% Wealth Share in the United States, 1913–2012

US Evolution in perspective

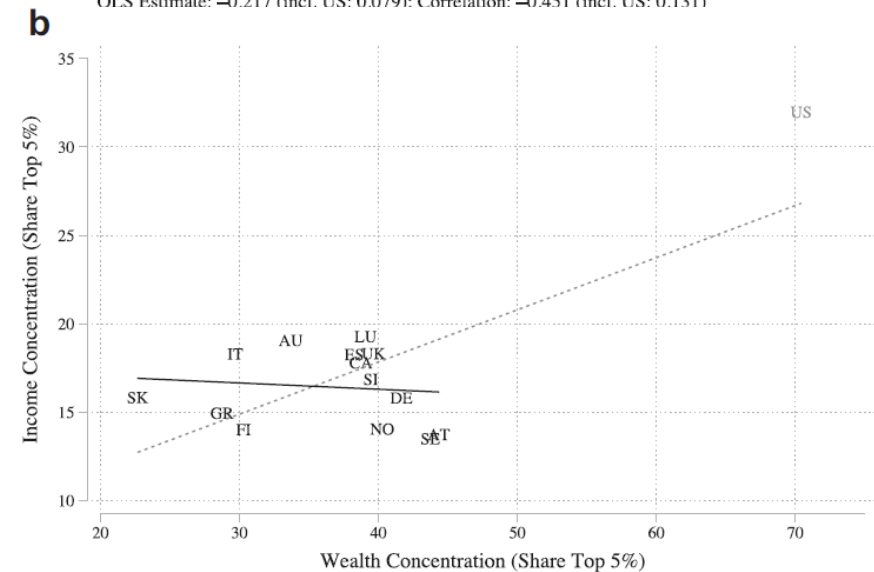
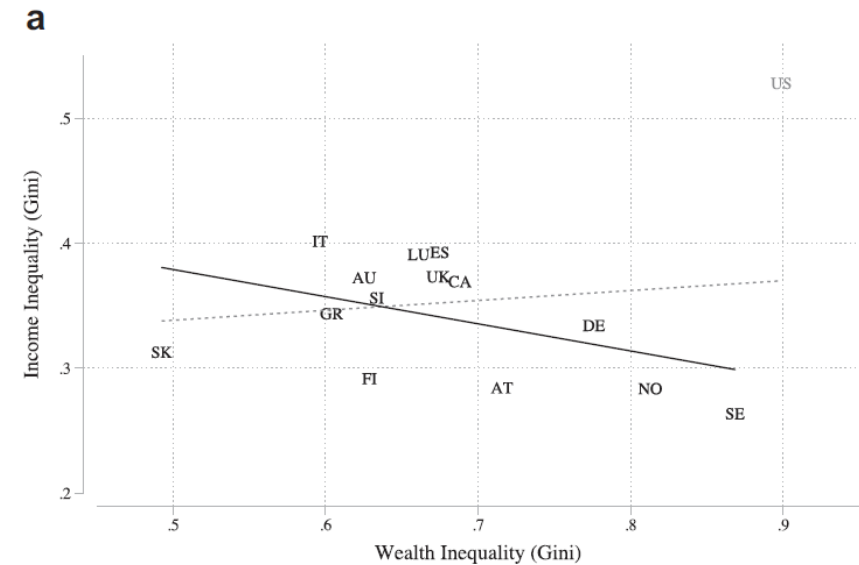
Figure 4.4 Top 1% versus bottom 50% wealth shares in Western Europe and the US, 1910-2020



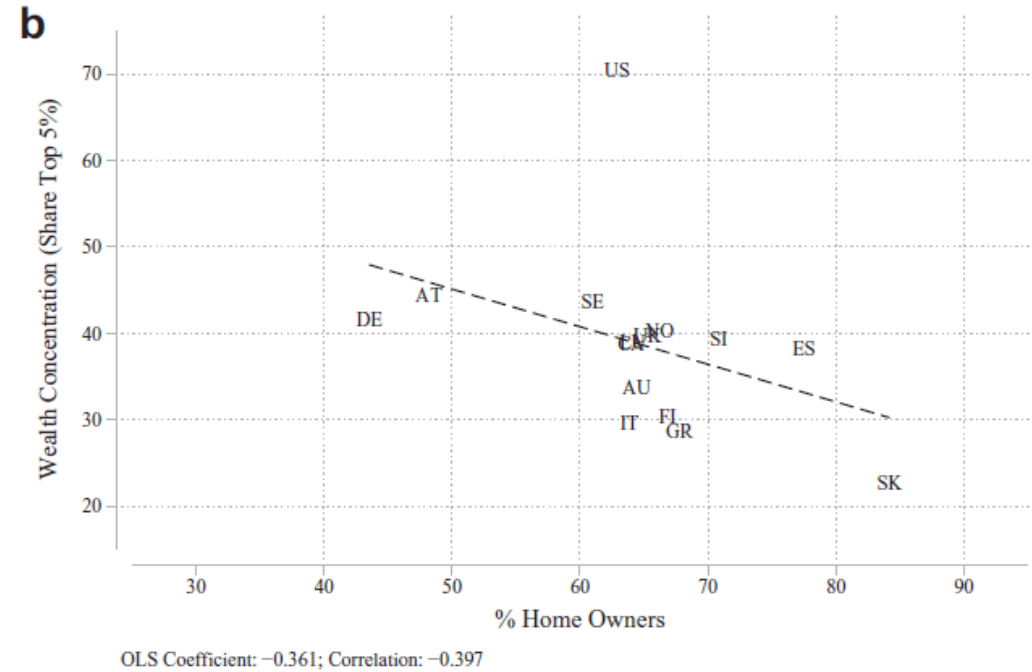
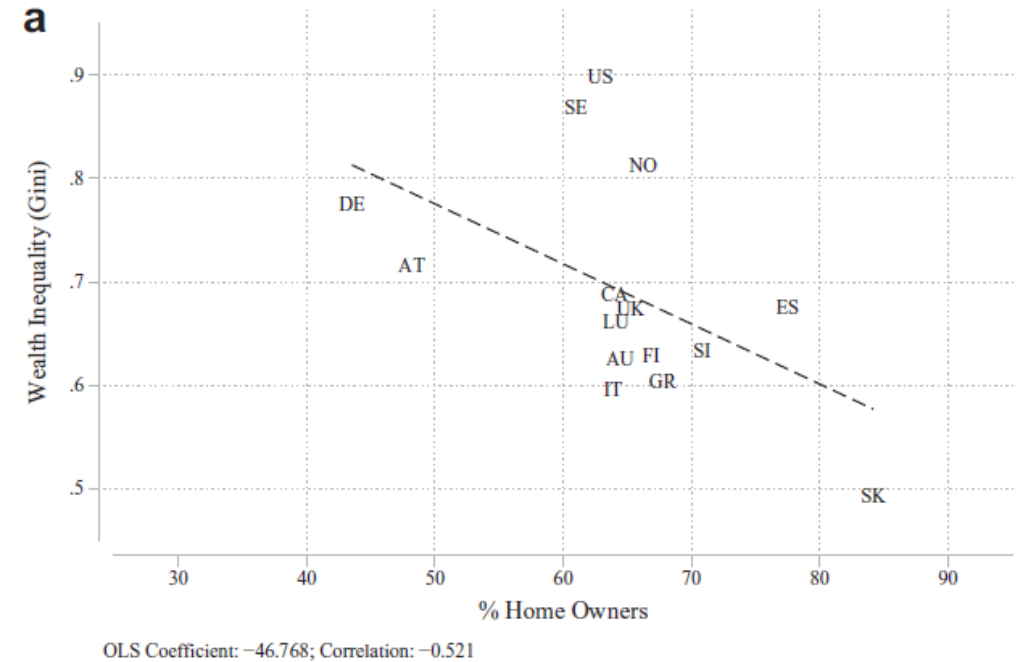
The wealth/income paradox

- >0 Correlation between income & wealth
 - At individual level
 - Within-country inequality evolutions
 - Between country \Rightarrow No correlation
- (Pfeffer, Waitkus, 2021)

Wealth inequalities

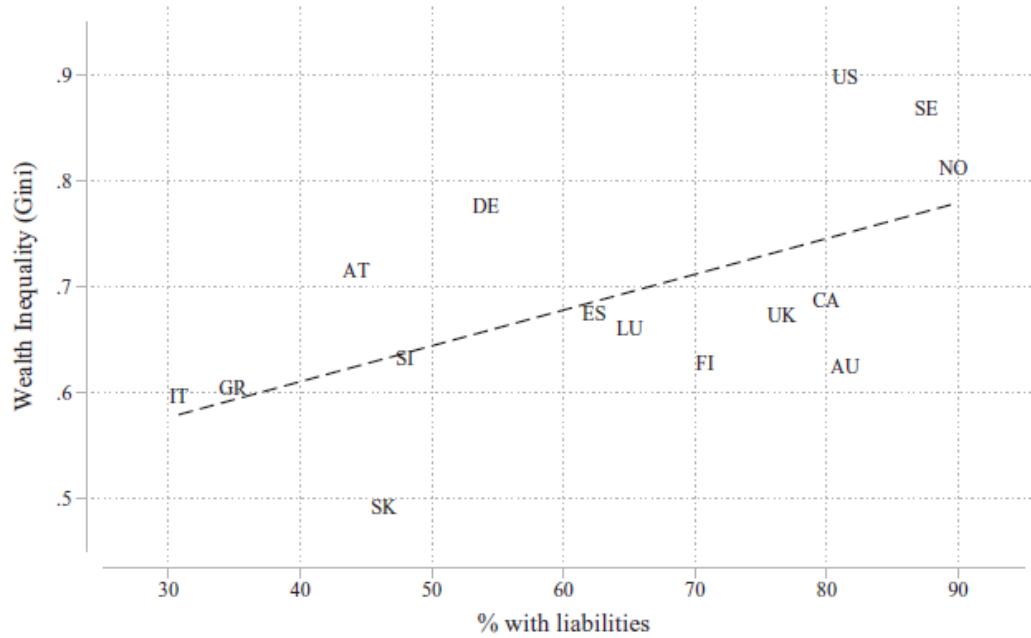


The more house owners the less wealth inequality



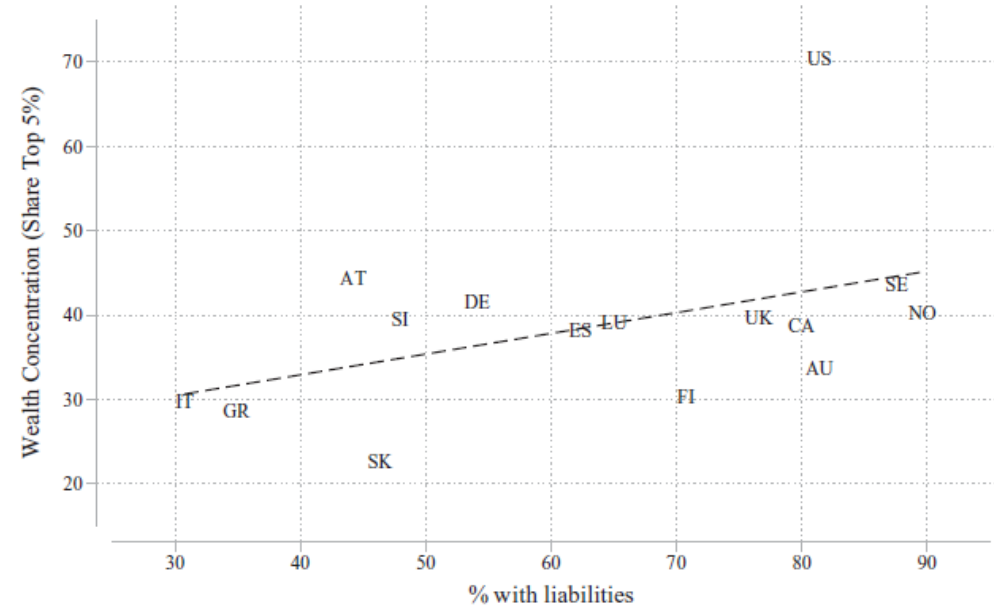
But the more real estate credit the more wealth inequality

c



OLS Coefficient: 0.003; Correlation: 0.602

d



OLS Coefficient: 0.246; Correlation: 0.446

Housing equity inequity level is key

- Fixing the level of inequality at the level of US, has a big impact
- (But housing is the main component of ordinary wealth)
- Other points to dig: access to credit. Inequality between or within cohorts
 - Difference Sweden/Germany
 - Both high wealth inequality
 - Very different housing/credit market, social welfare system (Comelli, 2021)

Table 2. Decomposition: Within-Component Inequality/Concentration

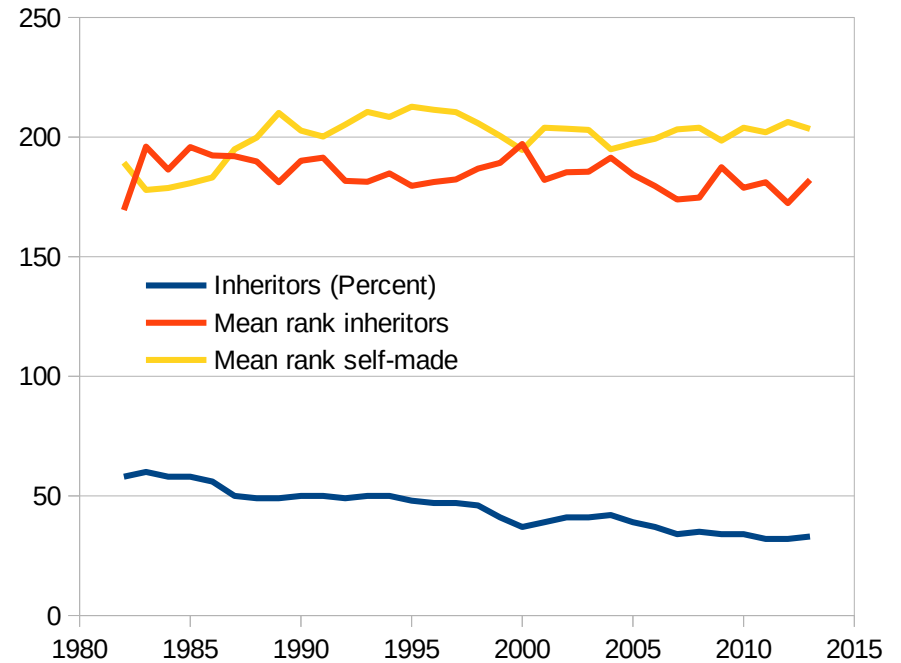
	Gini Coefficient				
	Observed	(1)	(2)	(3)	(4)
		Housing Equity	Financial Assets	Non-housing Assets	Other Debts
		Simulated (change)	Simulated (change)	Simulated (change)	Simulated (change)
USA	.822				
Australia	.605	.704 (16.4%)	.618 (2.2%)	.658 (8.8%)	.605 (-.1%)
Austria	.704	.772 (9.7%)	.730 (3.6%)	.698 (-.8%)	.704 (-.1%)
Canada	.633	.726 (14.8%)	.645 (1.9%)	.660 (4.3%)	.634 (.2%)
Finland	.586	.736 (25.6%)	.604 (3.0%)	.597 (1.9%)	.584 (-.4%)
Germany	.711	.761 (7.0%)	.733 (3.1%)	.701 (-1.5%)	.709 (-.3%)
Greece	.590	.755 (28.1%)	.593 (.6%)	.604 (2.5%)	.588 (-.2%)
Italy	.590	.742 (25.7%)	.600 (1.8%)	.623 (5.6%)	.590 (-.0%)
Luxembourg	.649	.780 (20.2%)	.661 (1.9%)	.657 (1.2%)	.648 (-.2%)
Slovakia	.483	.742 (53.6%)	.493 (2.0%)	.495 (2.4%)	.482 (-.2%)
Slovenia	.622	.793 (27.6%)	.625 (.5%)	.616 (-.9%)	.621 (-.0%)
Spain	.654	.765 (16.9%)	.666 (1.9%)	.660 (.9%)	.652 (-.2%)
United Kingdom	.648	.722 (11.4%)	.664 (2.4%)	.710 (9.5%)	.648 (-.0%)

Factors and mechanisms of increase in wealth inequality (Piketty, 2014)

- Economic $r > g$ explanation
 - Rare periods where $g < r$
 - Increase in the K/Y ratio:
- Why does this lead to increase in inequality?
 - K very unevenly distributed. A big share of population with 0 K .
 - (Savings capacity unequal by level of income/wealth)
 - Return on capital increases with the volume of capital
- Other historical factors for variation in wealth inequality
 - Expropriation
 - Abolition of slavery ;
 - Wars
 - Destruction & taxation
 - Taxation:
 - US high marginal income taxes ($>80\%$) after WW2. Reagan marginal income rate drops to 30%

New wealth and old wealth

- Opposition of social & meritocratic status
 - New wealth: social status lower, meritocratic lower
 - Forbes 400 (Korom, Lutter, Beckert, 2017)
- Is new wealth meritocratic?
 - Inventors, helping humanity?
 - Strong increase of (new) wealth in Finance/Technology(computer/medical) & Retail/restaurant
 - Finance: financial rents
 - Technology: patent (monopolies) and platform (monopolies)



Rents & coups behind new wealth (Villette & Vuillermot, 2005 / 2009)

- Study and coding of 33 biography of business *men* [*hommes d'affaires*].
- Mystery of them going from rags to riches
 - How possible if exchange of equivalents against equivalent?
 - Superhuman talent? No
- Generally one “good deal” (*bonne affaire*) in the career. Exploitation of market imperfection
 - Fiscal privilege/ fraud
 - Undervalued assets
- Art of maintaining business contacts in dependency (False promise),

Wealth transmission through generations

- Classical tool : Rank-rank regression

$$- wrk_{son} = b.wr k_{father} + u$$

- Eventual control variables (notably: age/cohort)
- Ex. (Pfeffer, Killewald, 2018)

Table 3. Multigenerational Correlations in Net Worth and Home Values (Rank slopes, with Controls for Age and Squared Age in Each Generation)

	Two-gen. sample	Three-generational sample		
	(1)	(2)	(3)	(4)
A: Net worth				
Parental	0.390*** (0.020)	0.320*** (0.032)		0.247*** (0.036)
Grandparental (in 1984/1989)			0.230*** (0.027)	0.121*** (0.028)
R ²		0.147	0.121	0.164
N	4,608	2,180	2,180	2,180
B: Home value				
Parental	0.371*** (0.024)	0.348*** (0.034)		0.304*** (0.037)
Grandparental (in 1968/69)			0.209*** (0.031)	0.107*** (0.031)
R ²		0.146	0.097	0.160
N	4,608	2,532	2,532	2,532

Scandinavian estimates (Adermon et al. 2018)

Table 3
Wealth Regressions

	2nd generation		3rd generation	
	(1)	(2)	(3)	(4)
Panel (a): rank regressions				
Parents	0.296*** (0.033)	0.391*** (0.024)		0.382*** (0.027)
Grandparents			0.166*** (0.032)	0.041 (0.030)
R ²	0.077	0.174	0.044	0.181
N	1,147	2,100	2,100	2,100
Panel (b): top decile regressions				
Parents	0.178*** (0.041)	0.340*** (0.045)		0.323*** (0.046)
Grandparents			0.153*** (0.036)	0.061* (0.034)
R ²	0.052	0.135	0.044	0.145
N	1,147	2,100	2,100	2,100

Factors behind inter-generational transmission of inequalities

- Financial transfers: Bequests [*legs*]
 - Inheritance
 - Intervivo gifts [*donations entre vifs*]
- Non financial transfers
 - Human capital
 - Social capital (jobs, etc.)
 - Dispositions (risk aversion, profit orientation, etc.)

Inheritance.

A social institution

- Beckert, 2007. Comparison of the “longue-duree” of inheritance laws
- Cultural sociology tradition, country comparison
 - Tocqueville, Lamont, Dobbin, Fourcade
- USA → Freedom and taxation
- Germany → Family
- France → Equality within families
 - (PS: entail → fr: *substitution héréditaire/majorat*. Inheritance you can't sell)

	Dominant discursive framing	Institutional characteristics		
Country		Testamentary freedom	Abolition of entails	Inheritance taxation
USA	Defence of unlimited property rights. Equality of opportunity (input oriented). Prevention of dynastic wealth concentration to protect democracy. Concern about the endangerment of the work-oriented (Protestant) values of children.	Emphasis on testamentary freedom. Possibility to disinherit children.	Abolition of entails after the revolution. Few conflicts. Almost unanimous rejection.	Federal estate tax introduced in 1916. Estate tax implies that there is no differentiation in progression rates according to kinship relation. By far the highest progression rate of all three countries until early 1980s.
Germany	Primacy of family over individual property rights. Position that defends individual property rights strongly contested. Normative orientation toward social justice (outcome oriented).	Principle of testamentary freedom. But forced share provided for direct descendents and spouse (50% from share according to intestacy law).	Abolition only after the revolution in 1918. Very controversial issue throughout nineteenth century. Parts of bourgeoisie defended entails.	Federal inheritance tax since 1906. Low progression rates. No redistributive intentions. Close family members (spouse and children) not taxed for long periods. Today still taxed at low rate and with high exemptions.
France	Notion of equality as expression of fight against privileges. State can interfere in family relations but must do so by maintaining strict neutrality with regard to particularistic interests. Endangerment of individual freedom and family through equality. Demographic concerns.	Strong limitation of testamentary freedom. Estate is transferred in equal parts to children of deceased. Testator has possibility to distribute <i>quotité disponible</i> by will. If the deceased has children this part is 50% or less.	Abolition in 1792. Re-installment under Napoleon (1806) and Charles X (1826), final abolition after Revolution of 1848. Conflict between Republicans and Restoration forces.	Progressive inheritance tax since 1901. Still strong elements of proportionality. Low maximum progression rate but during time of intense crisis in 1920s. Originally no exemption for spouse. Demographic element until 1950s.

Role of inheritance in total wealth (Adermon et al. 2018)

Highly dependent on hypotheses.

Do heirs capitalize or not ?

Do they consume wealth or not ?

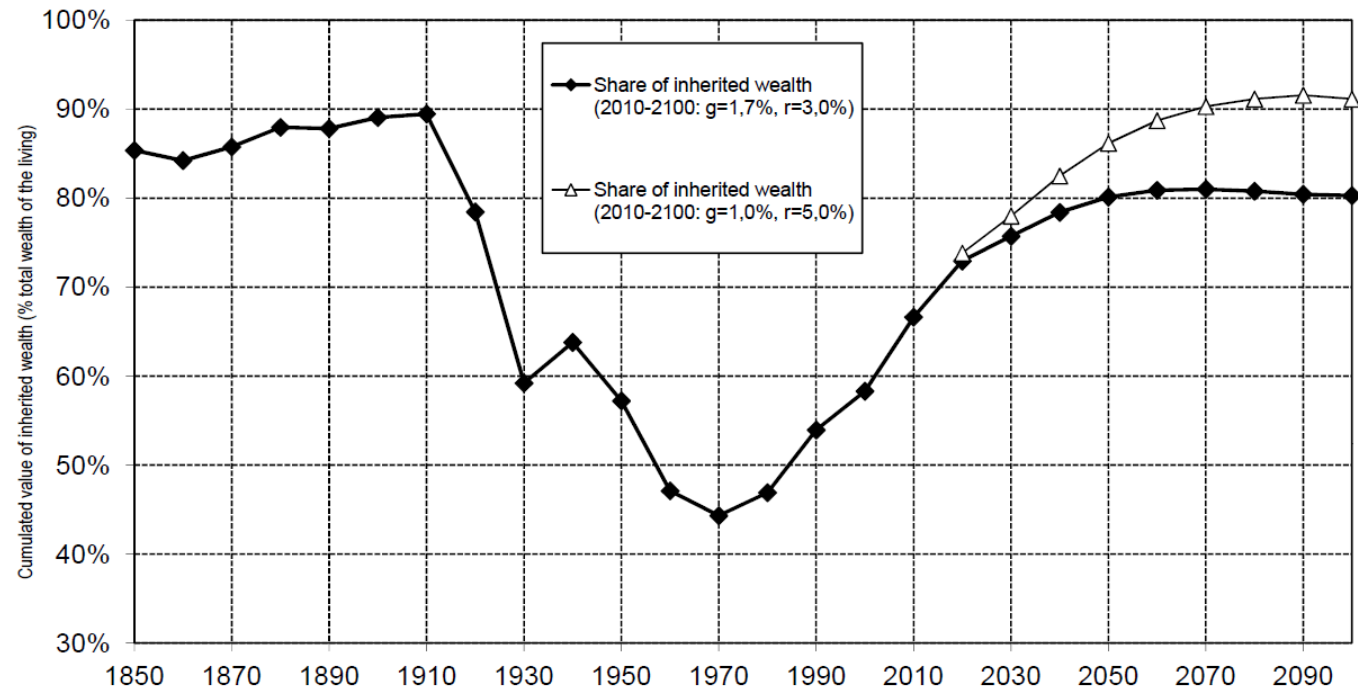
Inheritance Share of Total Wealth

	<u>Modigliani</u>	<u>Kotlikoff-Summers</u>	<u>PPVR</u>
Capitalisation rate	(1)	(2)	(3)
3%	0.460	0.891	0.489
0%	0.460	0.460	0.334
-3%	0.460	0.270	0.225
<i>N</i>	386	386	386

Notes. Table shows estimates of the share of total wealth in 1991 that is from inheritances. Sample is restricted to individuals that have received bequests from both parents. Column (1) assumes that inheritances have grown only with the rate of inflation, as in Modigliani (1986, 1988). Column (2) capitalises inheritances by a yearly rate of return, as in Kotlikoff and Summers (1981). Column (3) capitalises inheritances, adjusts for 'rentiers' consuming part of their inheritance (see text for details), and calculates inherited wealth as the sum of the wealth of rentier-heirs and the inherited wealth of savers, following Piketty *et al.* (2014).

The role of inheritance in French wealth (Piketty, 2014)

Figure 11.7. The share of inherited wealth in total wealth, France 1850-2100



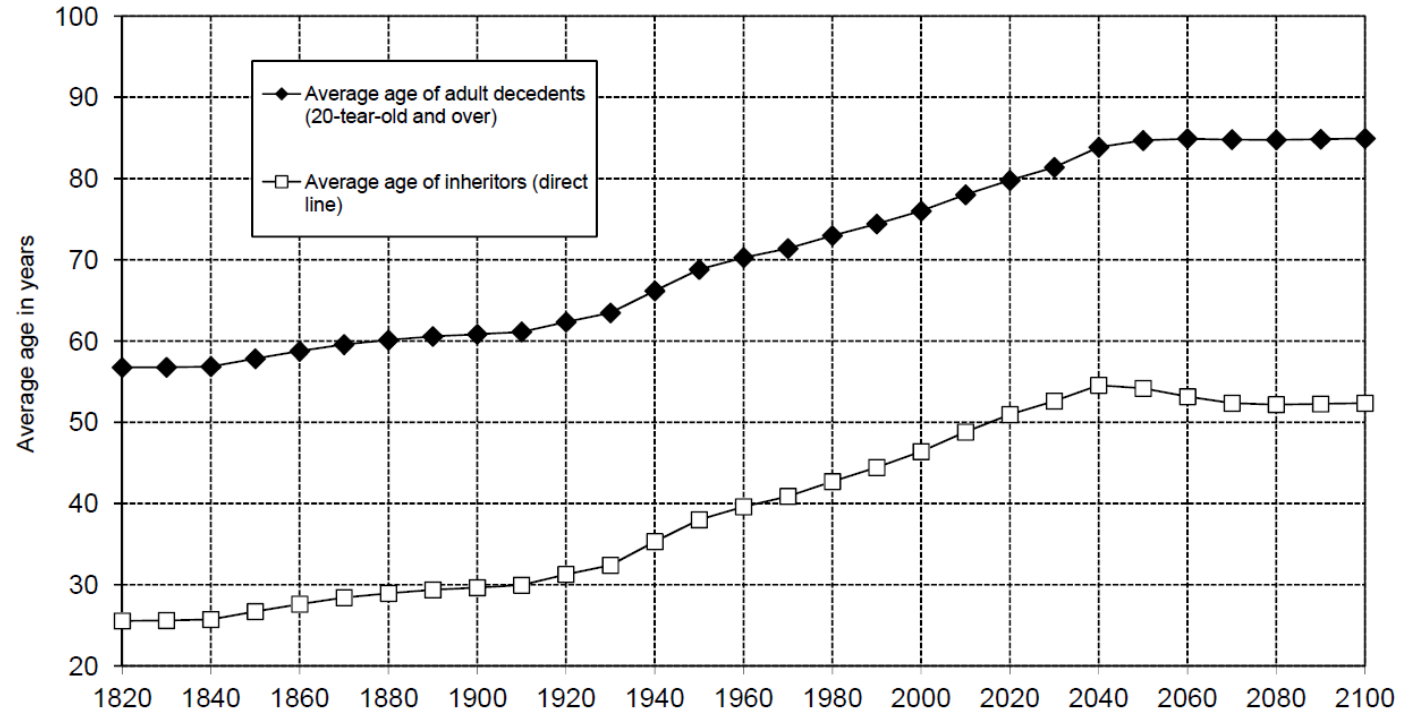
Inherited wealth represents 80-90% of total wealth in France in the 19th century; this share fell to 40%-50% during the 20th century, and might return to 80%-90% during the 21st century. Sources and series: see piketty.pse.ens.fr/capital21c

Demographic paradoxes of inheritance

- Depend on the number of children
 - Size of family decreases: inequality increases
- Depend on death age
 - Death & inheritance/age increases → concentration of wealth among old age
 - Death age difference between male & female
- On birth order
 - Traditional privilege of first born (male). But in equal heritage, latest born benefit longer
- On family structure (married parents vs separated)

Aging heirs [*héritiers*] (Piketty, 2014)

Figure 11.3. Average age of decedents and inheritors, France 1820-2100



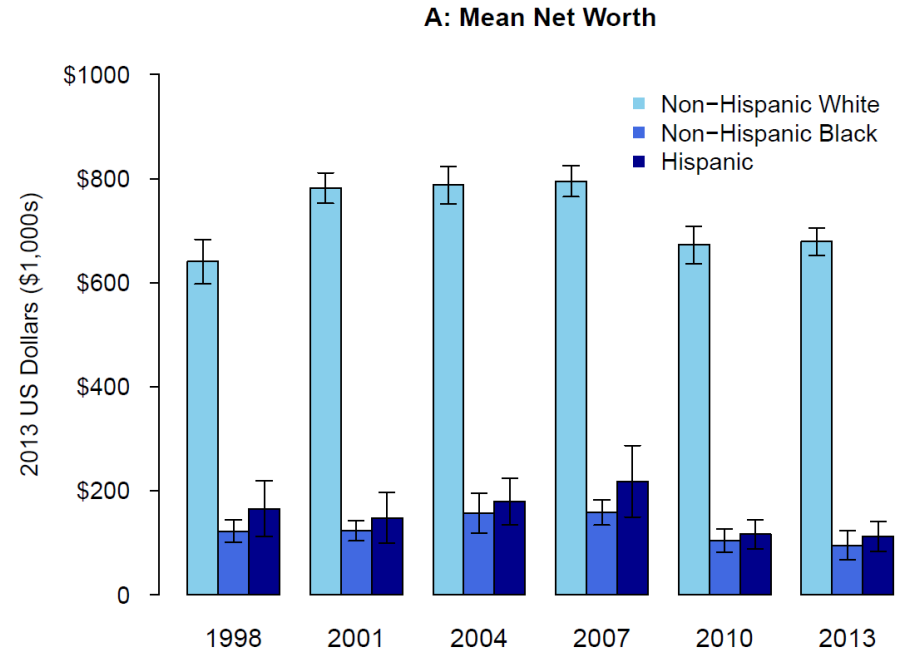
The average of (adult) decedents rose from less than 60 years to almost 80 years during the 20th century, and the average age at the time of inheritance rose from 30 years to 50 years. Sources and series: see piketty.pse.ens.fr/capital21c.

Intersectional approach of wealth inequality: Race

- Maroto, 2016
 - US: Black wealth substantially lower than white wealth
 - Combination of initial conditions (slavery) & perpetuated disadvantage

<https://viz.theinequalitylab.com/Animations/1-mobility-rates.html>

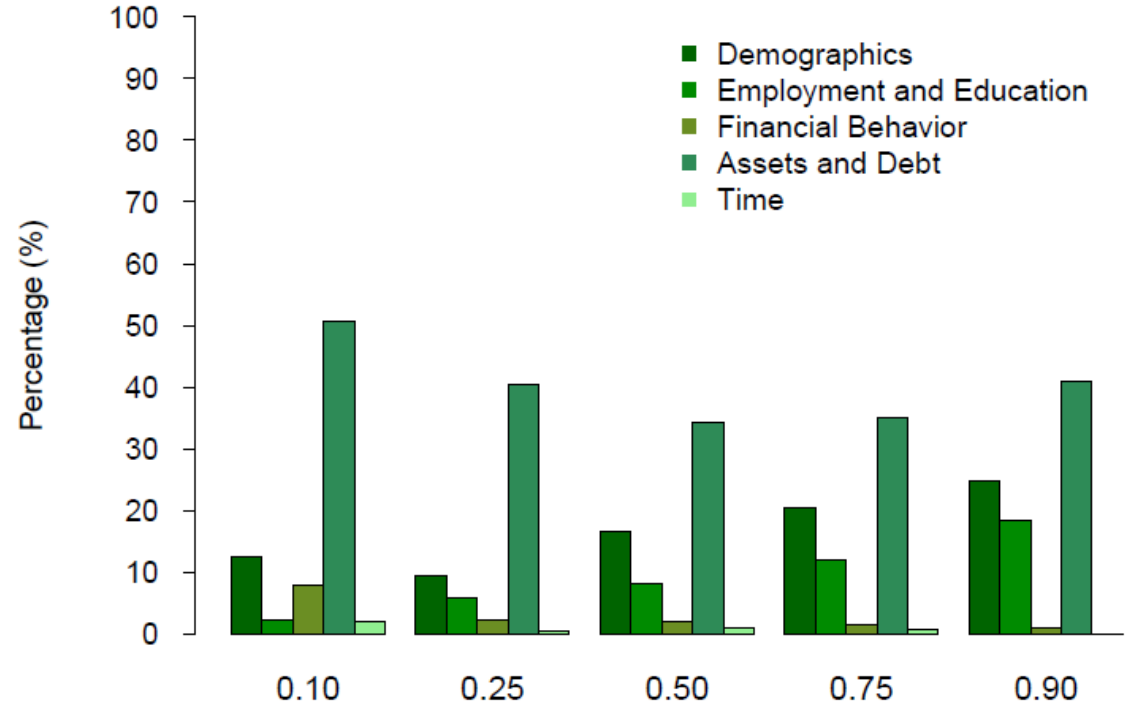
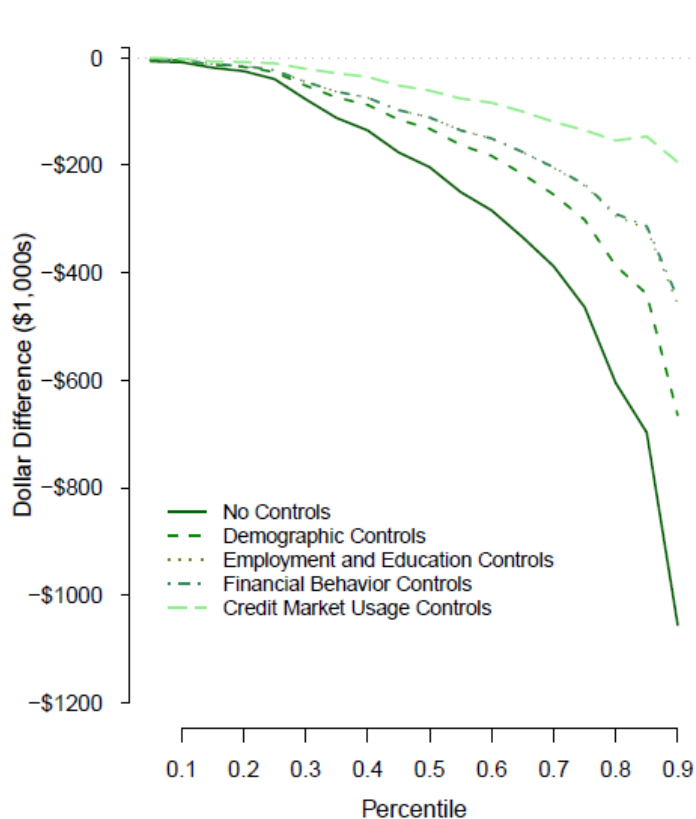
- Reparation political issue



Importance of assets and debt (51% for P10 , 41% for P90)

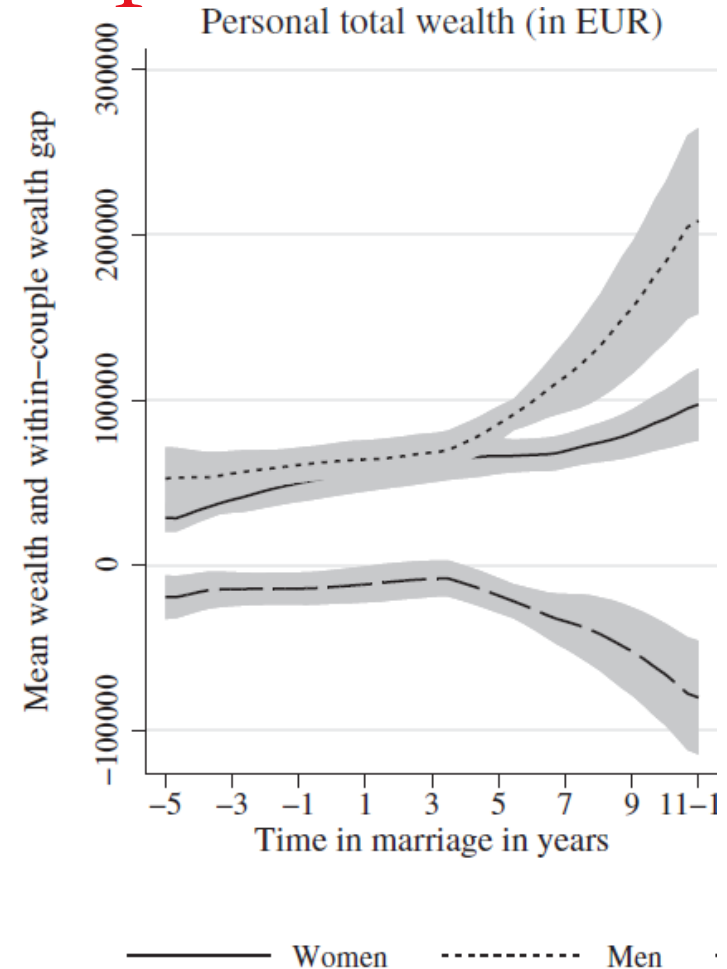
A: Non-Hispanic Black Households

Assets & debt = owned a home, received an inheritance, carried a credit card balance, or owned any stocks



Gender: a difficult decomposition

- Problem: How to split household wealth?
- Kapelle & Lersch, 2020
 - German Socio-economic panel study



Wealth accumulation & transfers are mediated: the role of professionals

- Harrington, 2016. Wealth managers exploit loopholes & conflict in jurisdiction. Create the law
 - Massive use of the Trust as a protection against Business partners, Family & States.
 - Building trust & intimacy with clients
- Describes well tax avoidance, but not tax evasion
 - 90% of Danish & Norway leaked in HSBC leaked did not properly declared their taxes (Alstadsæter et al., 2019)
 - Top 0.01% evade about 25 percent of their taxes (Alstadsæter et al., 2019)

Consequences of wealth

- Wealth & Education
- Economic clout in the business field (Arndt, forthcoming)
- Wealth & political clout
 - Party contribution (Arndt, forthcoming)

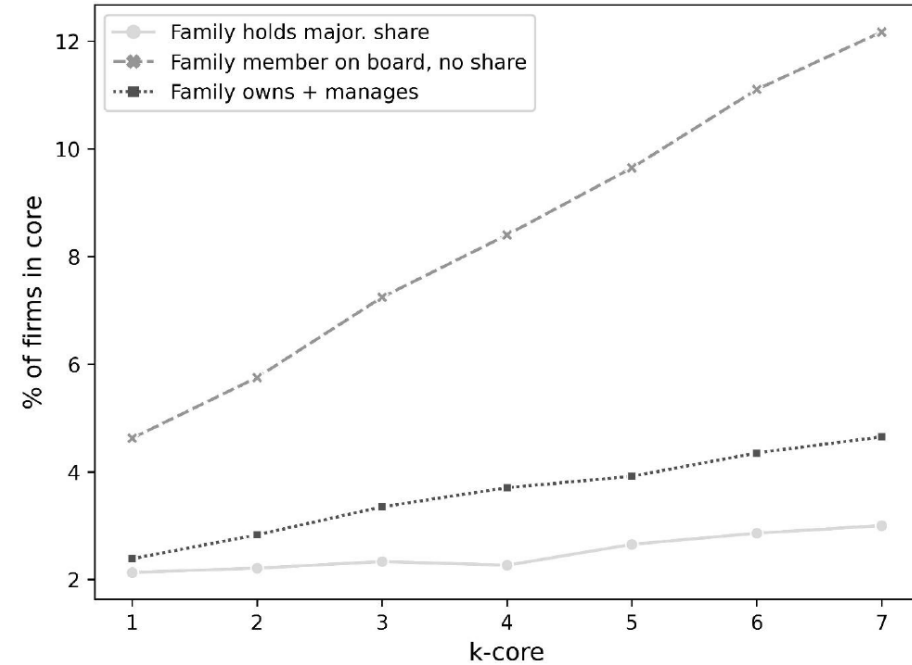


Figure 3: Types of super-rich involvement in firms in different k-cores of the largest global component of the network of firms.

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