

# The Wealth Inequality of Nations

*Nora Waitkus & Fabian Pfeffer*

Aleida Hagenars Memorial Award

# Comparative Research on Economic Inequality

- Cross-national differences in income inequality well known and researched (Gottschalk and Smeeding 1997; Kenworthy 2004; Salverda et al. 2009; Smeeding et al. 1990)
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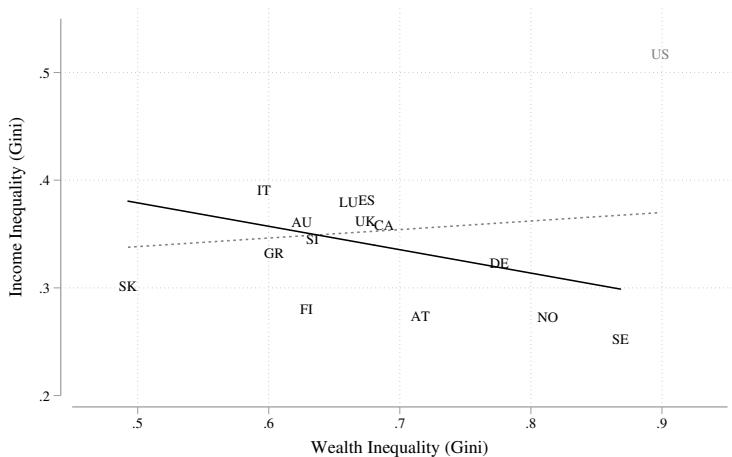
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# Wealth and Income Inequality



OLS Estimate:  $-0.217$  (incl. US:  $0.079$ ); Correlation:  $-0.451$  (incl. US:  $0.131$ )

# If Income and Wealth Inequality are unrelated..

- Wealth = Aggregate of real and financial assets minus liabilities (Keister and Moller 2000 ; Spilerman 2000)
- Contextual influence on national levels of wealth inequality
  - Housing markets
  - Financial markets
  - Access to credit (financialization) ...
- Reflected in national wealth portfolios (e.g. Fligstein/Goldstein 2013)
  - Relative importance of wealth components
  - Inequality of wealth components

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# Theoretical Evidence is scattered

- Economics and Sociology
  - Demography plays minor role (e.g. Christelis et al. 2013; Cowell et al. 2017; Sierminska/Doorley 2017)
  - Financial Assets and Housing depress inequality; business assets and further real estate increase inequality among the elderly (Skopek et al. 2012)
- Comparative Political Economy
  - Housing Typologies resemble WoW (Schwarz and Seabrooke 2009; but see Blackwell and Kohl 2018; 2019) – but do not focus on housing *inequality*.
  - Financialization literature focus on *income* inequality (e.g. Godechot 2016; Karwowskie et al. 2018), rooted in VoC literature (Hall and Soskice 2001; see Beck and Scherrer 2013 for a critique)

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# Data

- Luxembourg Wealth Study 13 (15) countries
  - AU (2014), AT (2014), CA (2012), FI (2013), DE (2012), GR (2014), IT (2014), LU (2014), SK (2014), SI (2014), ES (2014), UK (2013), USA (2013) + SW (2005) & NO (2013)
- Sample : Working-Age (household head is 25-64 years)
- Data are weighted & adjusted to family size ( $1/\sqrt{hhsiz}$ ), 2011 US\$
- Robust across : (1) No household adjustment, (2) No age restriction, (3) household heads > 40 years, (4) household heads < 40 years, (5) pre-recession data, (6) using HFCS data

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# Describing Inequality

- *International Comparison*
- *Intranational Comparison*
  - Gini-Component-Decomposition (Lerman/Yitzhaki 1985, Shorrocks 1982)
  - $G = \sum_{k=1}^K R_k G_k S_k$
  - Share of Wealth Component  $k$  in Total Wealth ;  $G_k$  = Gini of Wealth Component  $k$  ;  $R_k$  = “Gini Correlation” between Wealth Component  $k$  and Total Wealth
  - Total Wealth Decomposition into Housing Equity, Financial Assets, Non-housing Real Assets, Other Debts
  - Mimicking this approach for a Top 5-Share Decomposition (following Atkinson et al. 2011)



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# Fixing Inequality

- Fixing the parameters ( $Sik$ ,  $Gik$ ,  $Rik$ ) to the parameters we derived for the United States
- Based on constrained parameters we generate « fixed » Gini coefficients for each country
- How high is wealth inequality in country X, if the wealth portfolio matched that of U.S. households but no other aspects of the wealth distribution were changed?
- The same procedure is applied to the Top-Share Decomposition

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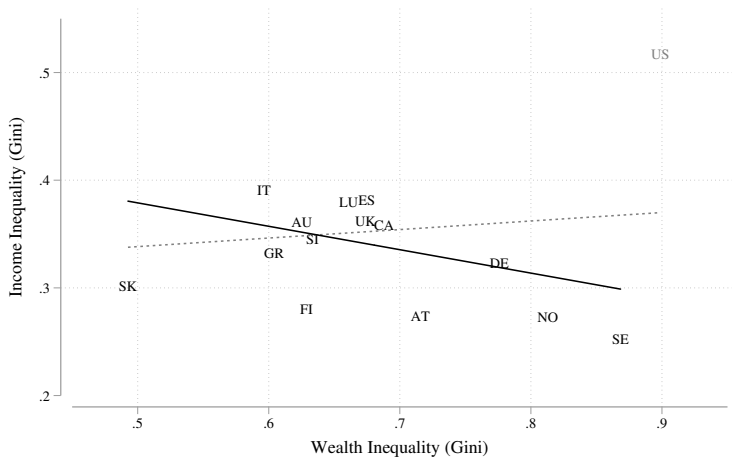
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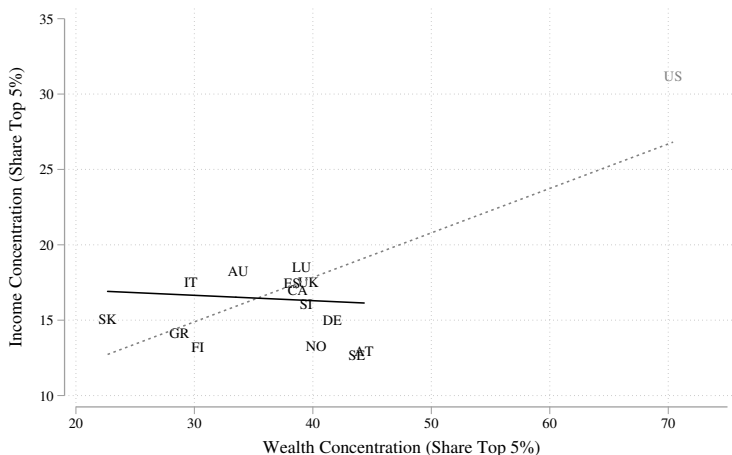
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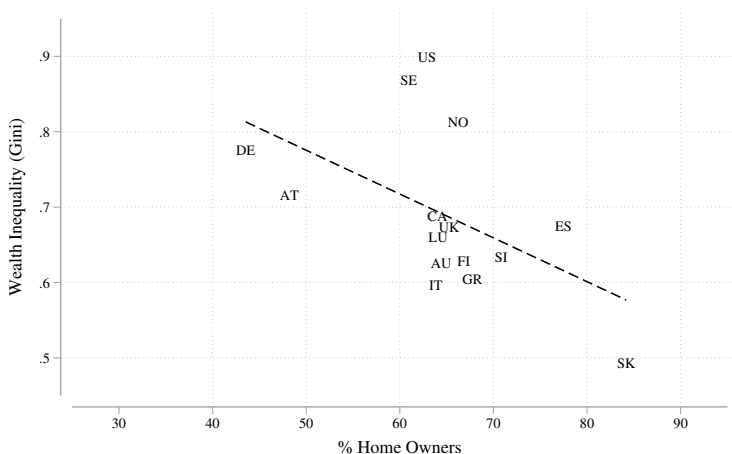
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# Wealth and Income Concentration



OLS Estimate:  $-0.036$  (incl. US:  $0.295$ ); Correlation:  $-0.108$  (incl. US:  $0.702$ )

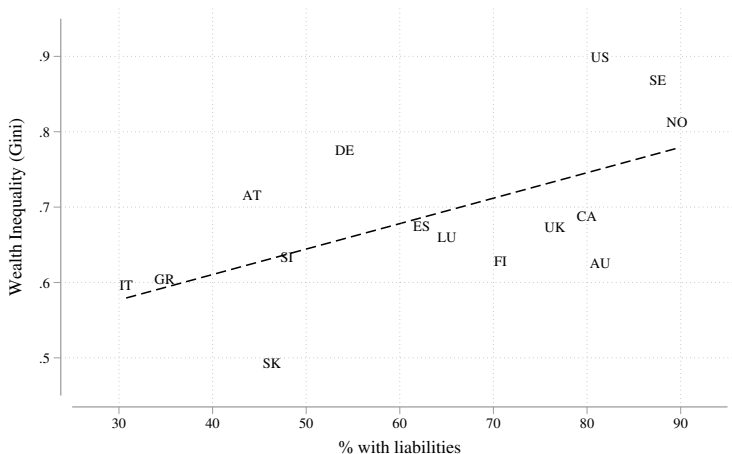
# Wealth Inequality and Home Ownership



OLS Coefficient: -46.768; Correlation: -0.521



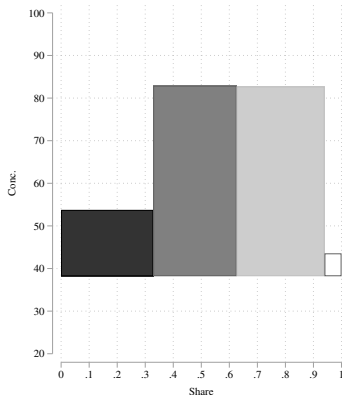
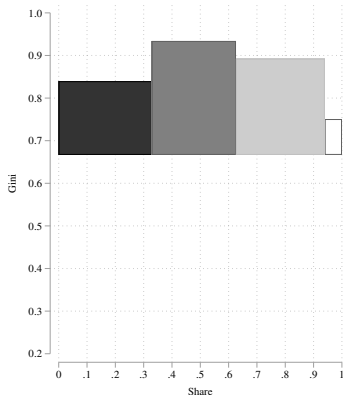
# Wealth Inequality and Liabilities



OLS Coefficient: 0.003; Correlation: 0.602

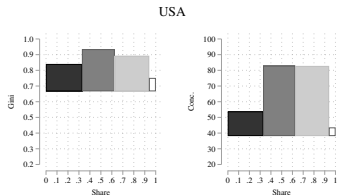
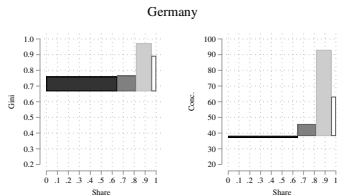
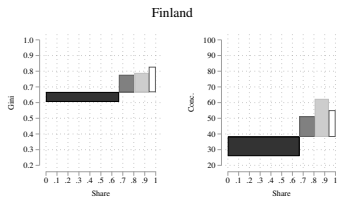
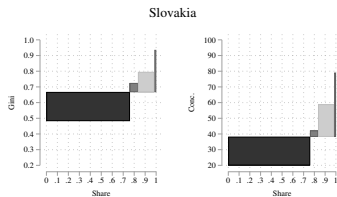
# Wealth Portfolio USA

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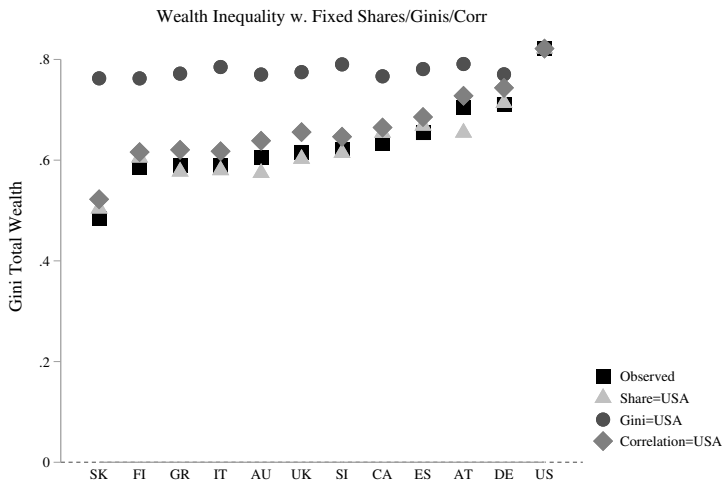
Housing Equity
  Financial Assets
  Nonh. Real Assets
  Other Debts

# Varities of Wealth Portfolios

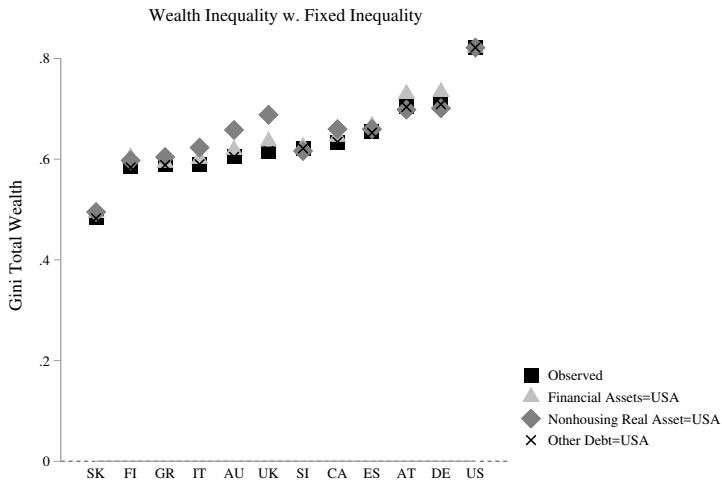


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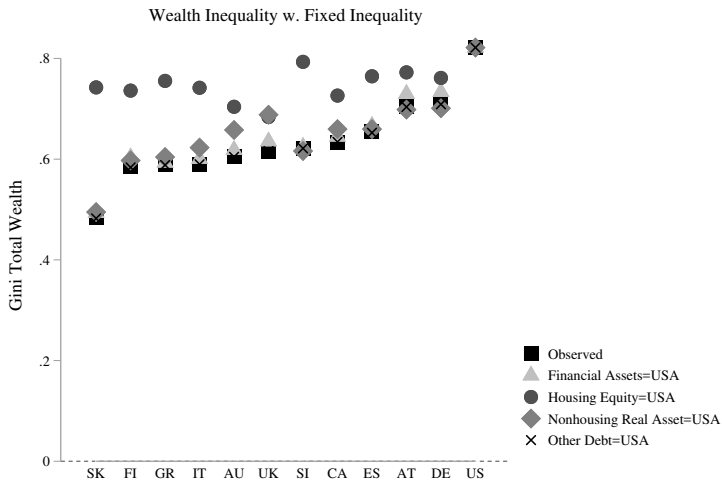
# Wealth Inequality Fixed I



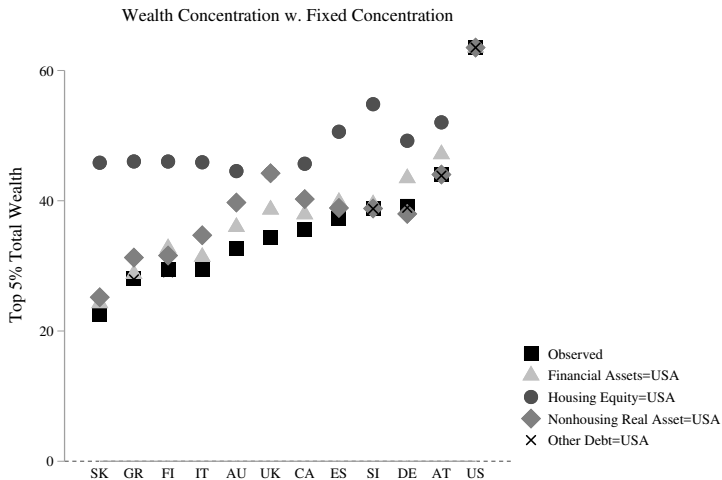
# Wealth Inequality Fixed II



# Wealth Inequality Fixed III



# Wealth Concentration Fixed I



# Conclusion

- Wealth and income inequality are not correlated
  - Central role of *housing inequality* in wealth inequality
    - Not home ownership
    - Unequal distribution of housing → housing values?
  - Nonhousing real assets and financial assets concentration important at the top of the distribution



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# Outlook : Varieties of Wealth Inequality

- Typology based housing inequality and financialization (Schwartz/Seabrooke 2008)
  - Price effect of housing (Fuller et al. 2019)
  - Mortgaging and labour market inequalities (Johnston et al. 2020)
- Towards a more encompassing understanding of cross-national differences in economic inequality :
  - What is the function of wealth ?
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# THANK YOU

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- n.m.waitkus@lse.ac.uk & fpfeffer@umich.edu
- Pfeffer, Fabian & Nora Waitkus (2020) : The Wealth Inequality of Nations. LWS Working Paper Series, 33.
- Forthcoming in American Sociological Review

# Distributional Summaries