

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)
- Typologies explain variation in income inequality (Esping-Andersen 1990 ; Hall and Soskice 2001)
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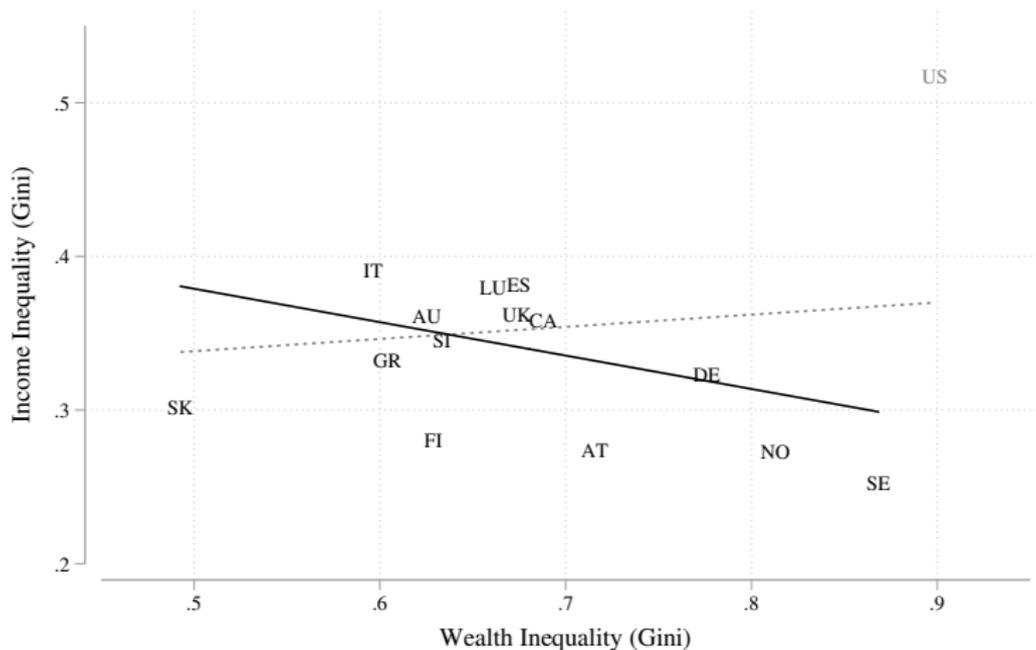
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Wealth and Income Inequality



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 ($1/\sqrt{hhs\text{size}}$), 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
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Fixing Inequality

- Fixing the parameters (S_{ik} , G_{ik} , R_{ik}) 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?
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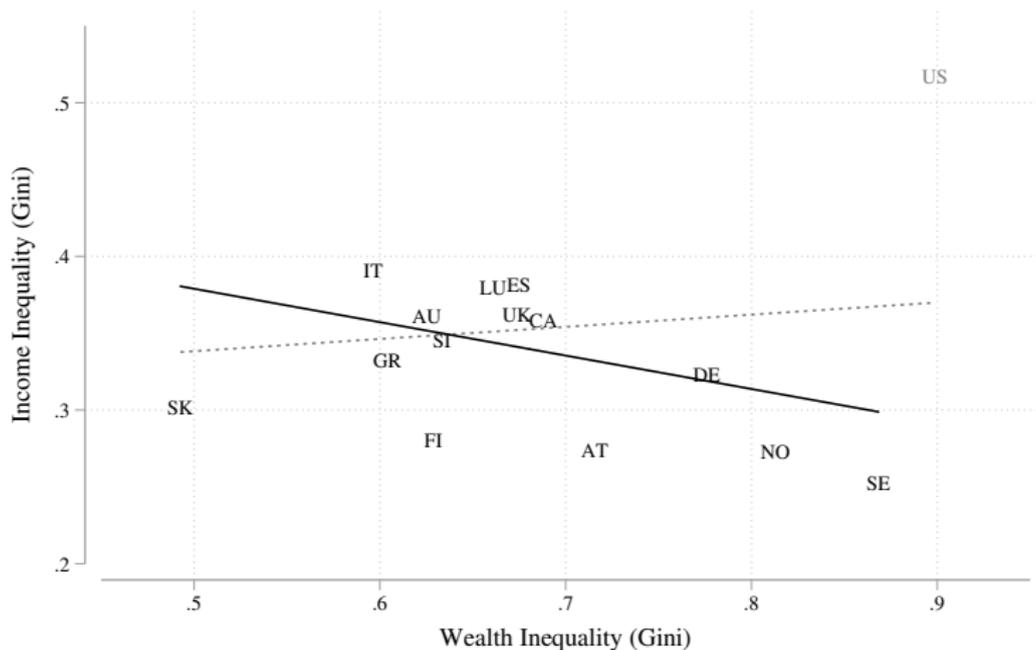
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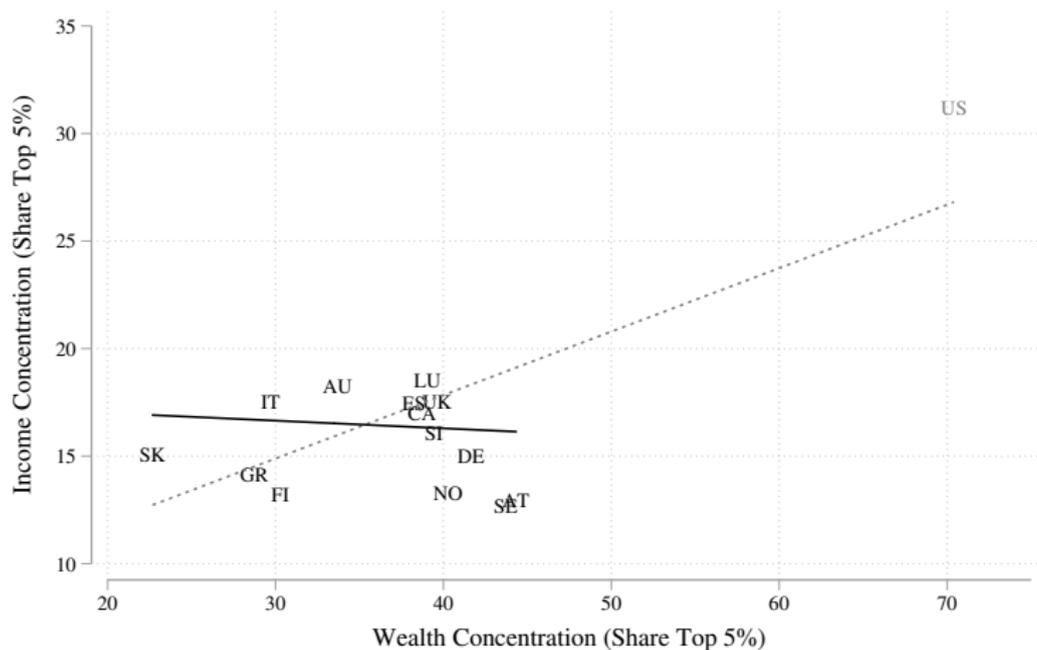
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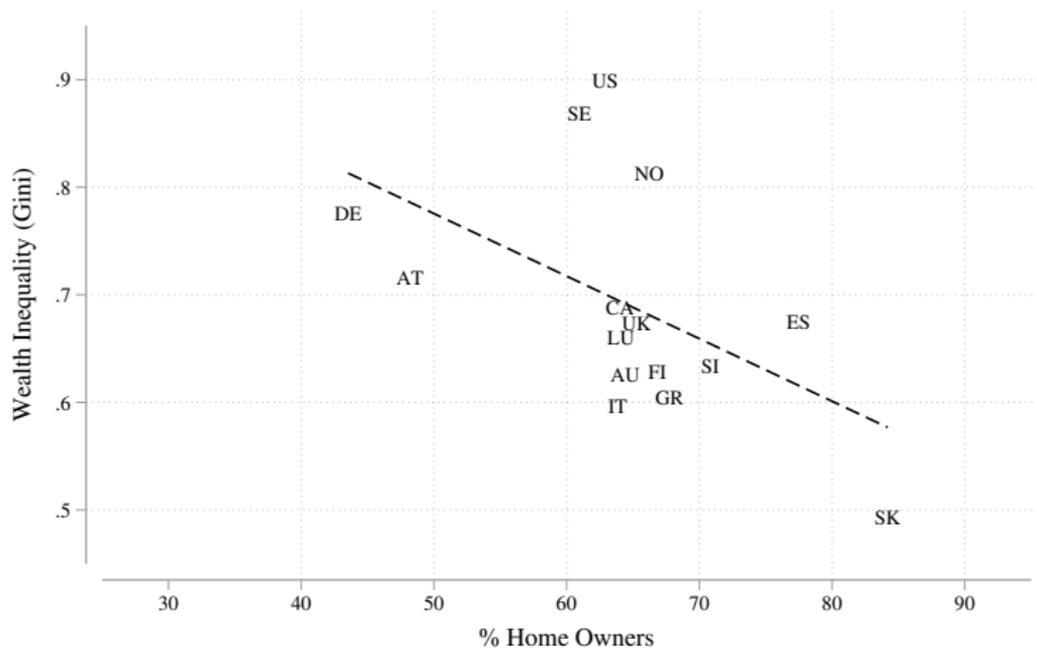
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Wealth and Income Concentration



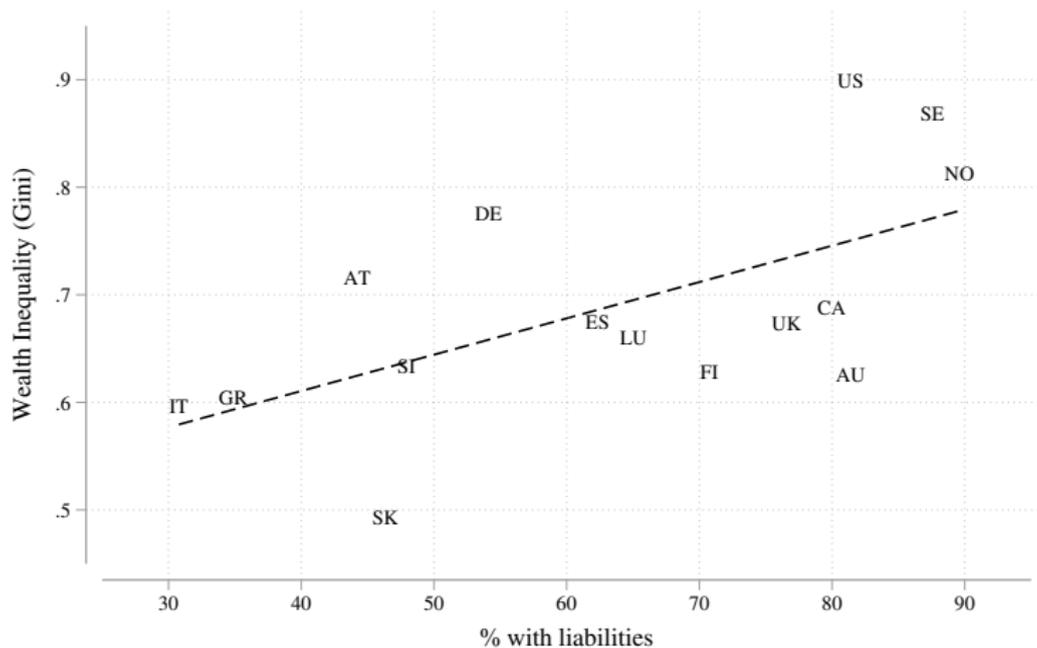
OLS Estimate: -0.036 (incl. US: 0.295); Correlation: -0.108 (incl. US: 0.702)

Wealth Inequality and Home Ownership



OLS Coefficient: -46.768; Correlation: -0.521

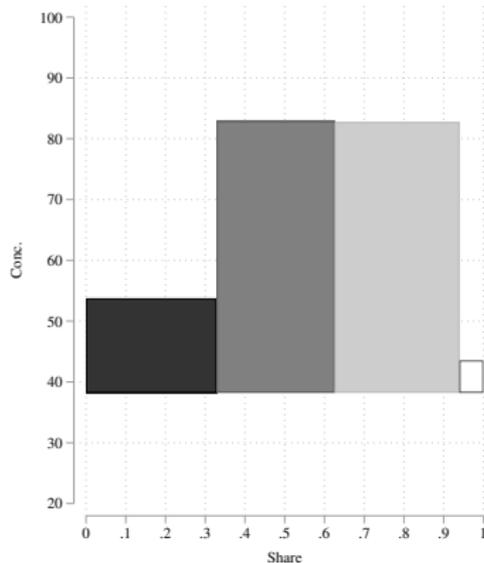
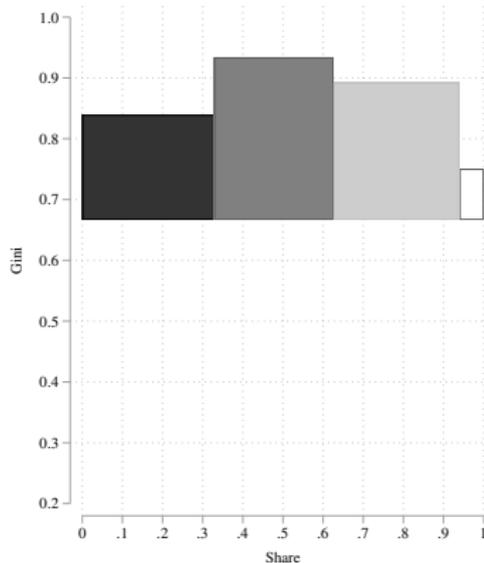
Wealth Inequality and Liabilities



OLS Coefficient: 0.003; Correlation: 0.602

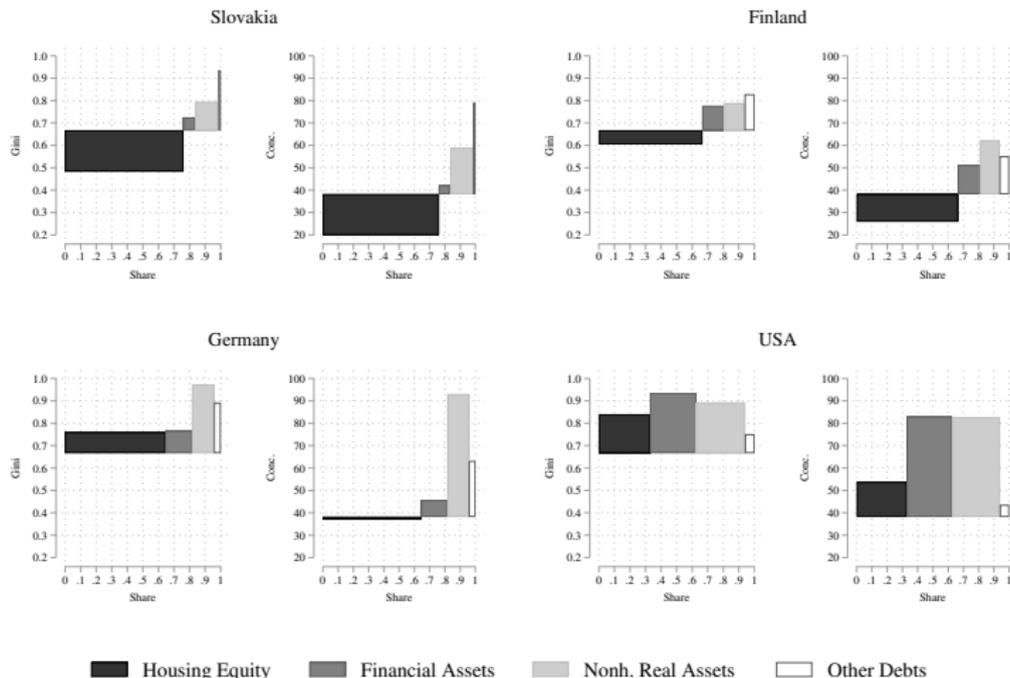
Wealth Portfolio USA

USA

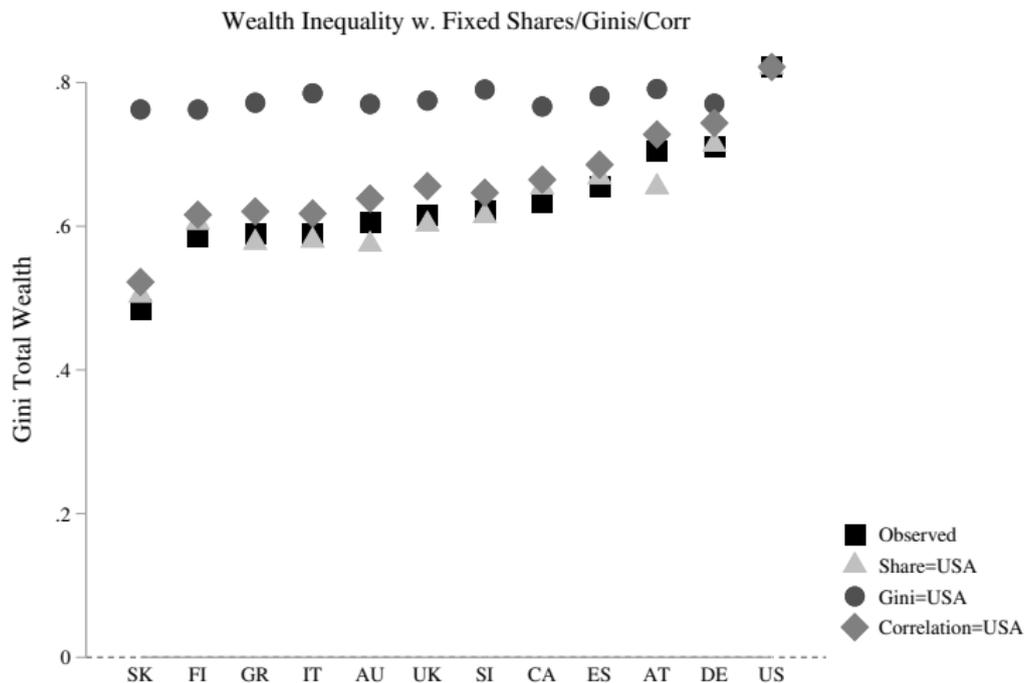


Housing Equity
 Financial Assets
 Nonh. Real Assets
 Other Debts

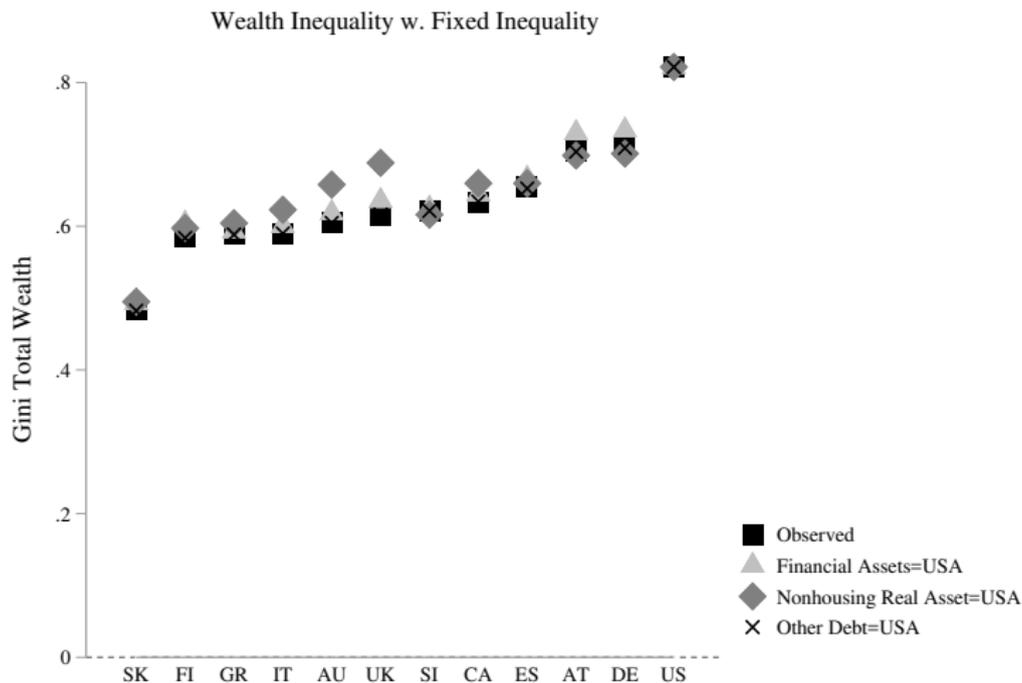
Varieties of Wealth Portfolios



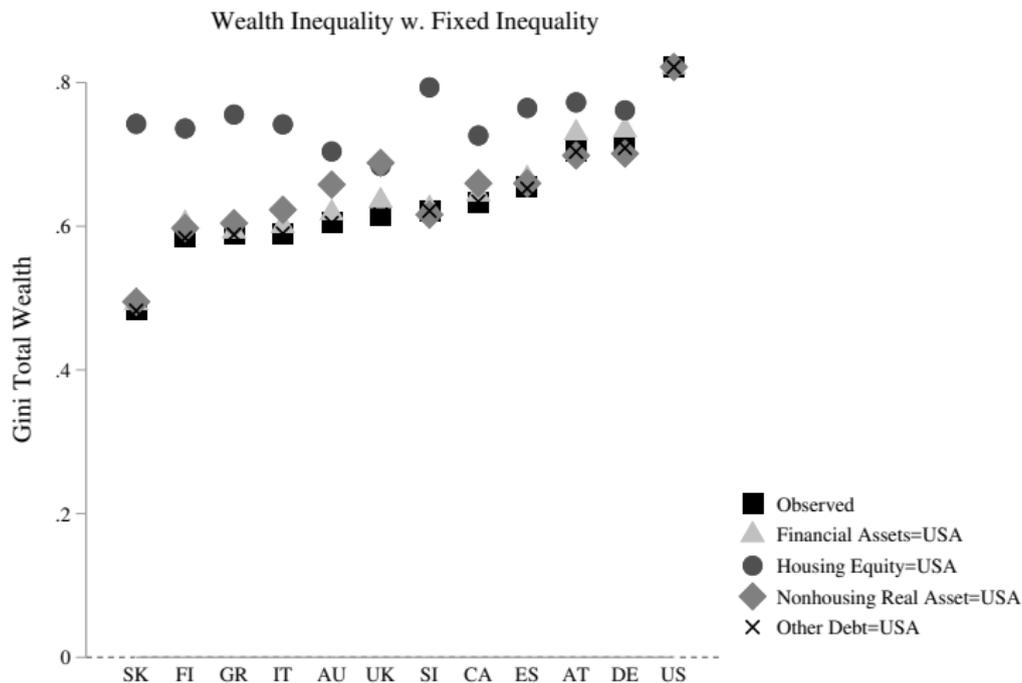
Wealth Inequality Fixed I



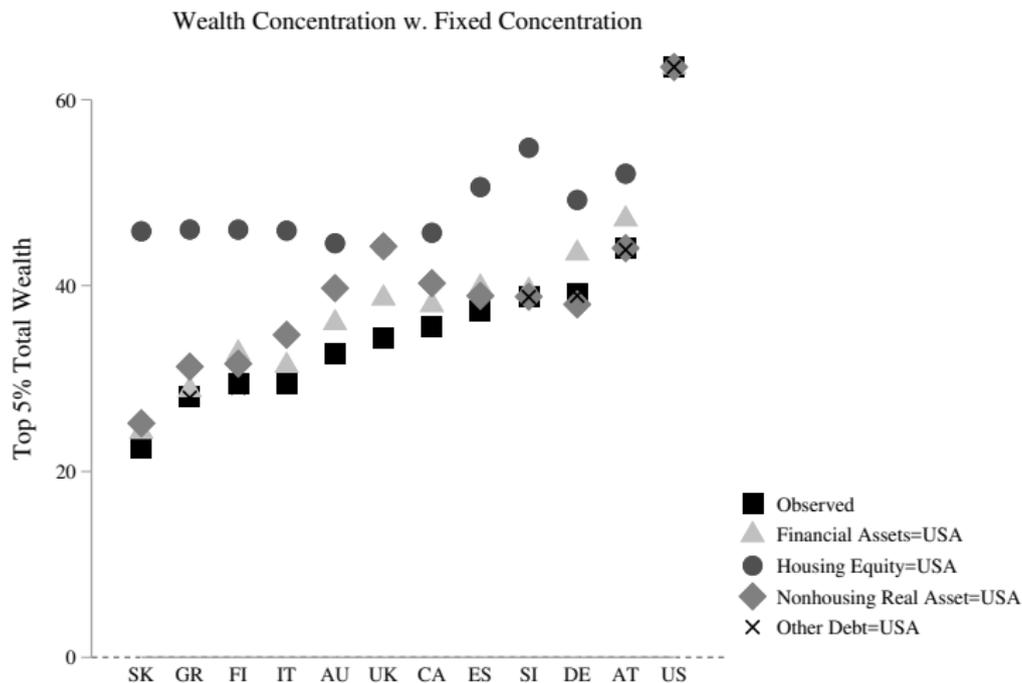
Wealth Inequality Fixed II



Wealth Inequality Fixed III



Wealth Concentration Fixed I



Conclusion

- Wealth and income inequality are not correlated
 - Central role of *housing inequality* in wealth inequality
 - How do housing inequality and income inequality relate?
 - 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 ?
 - Development over time
 - The historical development of industrial capitalism
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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