Structuring the analysis of wealth inequality using the functions of wealth: a class based approach

Pirmin Fessler[1] and Martin Schürz[2]

How can we structure the analysis of wealth inequality in a meaningful way? The most popular contemporary form of analysis of wealth inequality is one-dimensional: it separates a group of the rich from the rest, defined by having more wealth than the others. Typically this is the group of the wealthiest top 10%, top 5%, or top 1%. The share of this group in total wealth is estimated and compared across countries and time.

This one-dimensional approach is agnostic with regard to the fact that differences in quantities might imply qualitative changes with regard to the prospects that come with wealth. Further, the approach ignores the fact that the meaning of wealth levels and wealth shares also depend on the context in society at a certain point in time. In particular, pension systems and other institutions of welfare states are different over time and across countries.

Looking at the wealth distribution alone provides an incomplete picture of the social implications of wealth inequality. Additional insight can be gained by classifying households based on functions of their wealth holdings. We look at structured wealth inequality. The social structure concerning wealth can be characterized by roughly three classes which align well with the wealth distribution. First, renters, who mainly have wealth for precautionary reasons. Second, owners, who additionally to precautionary reasons also use their wealth to live in by means of owner occupation, and therefore generate non-cash income (imputed rent) from their wealth. Third, capitalists, who not only own their home, but additionally rent out further real estate and/or have self-employed business wealth.

Data We use the two most comprehensive wealth surveys for the United States and Europe to illustrate our relational approach of analyzing wealth and wealth inequality. The Survey of Consumer Finances (SCF) in its current form surveys United States households every three years since the 1980ies. The Household Finance and Consumption Survey (HFCS) of the European Central Banks (ECB) started in 2010 and gathers information for all Euroarea countries.

Results Bringing our definitions to the data, we find renters in the bottom, owners in the middle, and capitalists at the top of the wealth distribution. The country patterns likely differ due to institutional settings, tax law, history, the welfare state, and many other conditions. As an example, different policies for owner-occupiers target different groups in different countries. The bottom 50 shares of wealth in one country can consist mostly of renters' precautionary wealth while it can comprise mainly of the homes of owners in another country. This alignment of social classes and the wealth distribution holds even if one controls for socioeconomic characteristics used in class analysis such as education and occupation or main determinants of wealth accumulation such as age.

This demonstrates that percentile and top share analyses and comparisons might be misleading, as the functions of wealth and corresponding relations between social groups are different across the wealth distribution in different countries. A class-based approach has advantages with regard to the measurement and analysis of wealth. The main advantage is that implicitly assumed links to power and production relations – which are the foundation of contemporary interpretation of top shares – are made explicit. On top of that, such an approach can be directly linked to questions of justification of wealth inequality and allows us to distinguish between wealth as a means of capitalist production and other forms of wealth such as private wealth as a substitute for public wealth (precautionary wealth) and private wealth as a source for non-cash income (housing wealth used).

[1]Oesterreichische Nationalbank, Otto Wagner Platz 3, 1090 Vienna, Austria, pirmin.fessler@oenb.at, Tel: (+43) (1) 404 20-7414

[2]Oesterreichische Nationalbank, Otto Wagner Platz 3, 1090 Vienna, Austria, martin.schuerz@oenb.at, Tel: (+43) (1) 404 20-7410