

11. Inequality and capital



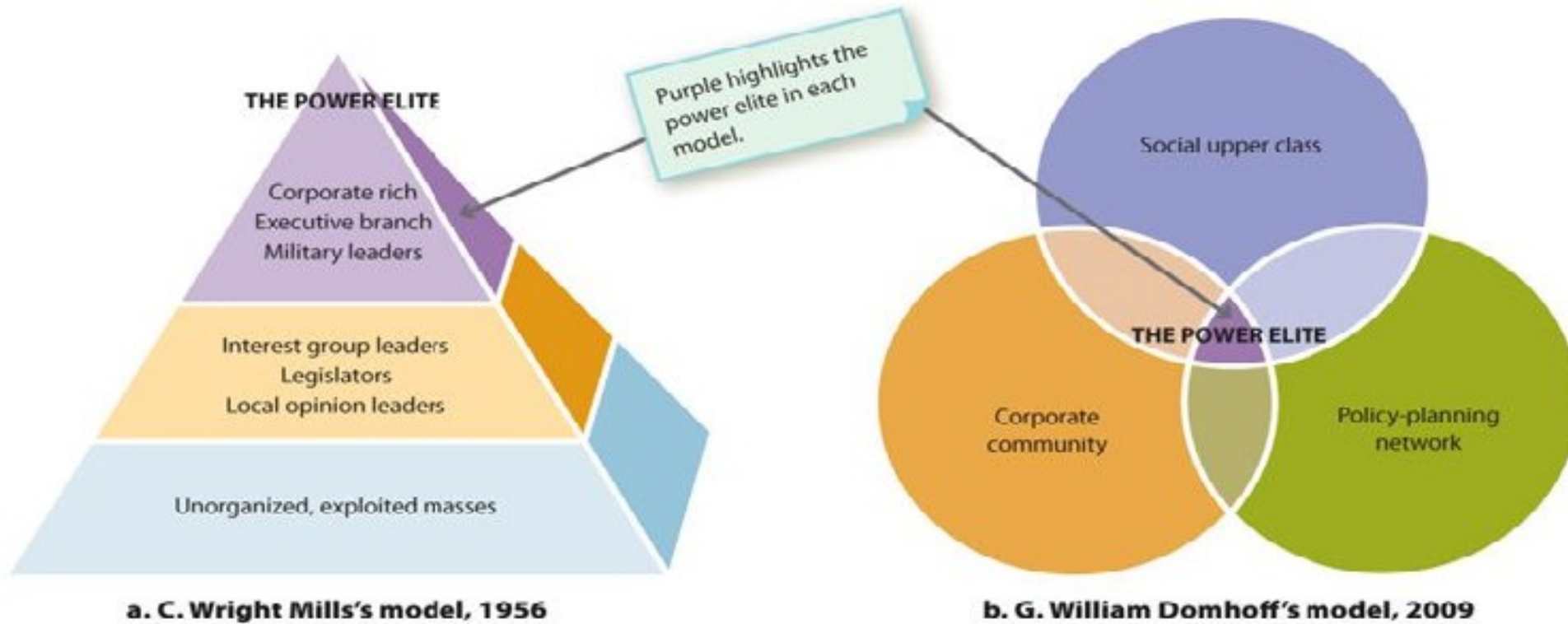
Inequality of income

- Individual level (organizations, states)
- Artificial phenomenon, not „natural“, not moral
- Consists of income from labour + income from capital (+ their interaction)
- Legitimization – personal effort vs. Inheritance, meritocracy vs. Plutocracy
- What is the relative importance of inequality of income from labour vs. of income from capital? How has it changed?

Evolution of inequality

- Inequality of income from capital always bigger
- May be reduced via public policies (two world wars)
- Rise since 1970's and 1980's
- What mechanisms are in play? Inherited wealth – cumulative effects / different effects on wage in different settings
- Which social class is dominant? Which one is lower, middle, upper?
- Top centile – large groups with power

Figure 48-3: Power Elite Models



Which type of inequality?



Training Leaders

Four of the eight presidents and more than one third of the 22 PMs who served under France's current constitution were trained at ENA.



Notes: French presidents and prime ministers serve concurrently. Twenty-three dots are shown because Jacques Chirac served as prime minister under two presidents. Alain Poher was interim president in 1969. Several prime ministers and presidents completed their studies before ENA was created. Source: French government Photos: Zuma Press (2); Agence France-Presse/Getty Images (2); Reuters (1); Getty Images (3)

Income inequalities

TABLE 7.1.
Inequality of labor income across time and space

Share of different groups in total labor income	Low inequality (= Scandinavia, 1970s–1980s)	Medium inequality (= Europe 2010)	High inequality (= US 2010)	Very high inequality (= US 2030?)
The top 10% (“upper class”)	20%	25%	35%	45%
Including the top 1% (“dominant class”)	5%	7%	12%	17%
Including the next 9% (“well-to-do class”)	15%	18%	23%	28%
The middle 40% (“middle class”)	45%	45%	40%	35%
The bottom 50% (“lower class”)	35%	30%	25%	20%
Corresponding Gini coefficient (synthetic inequality index)	0.19	0.26	0.36	0.46

Note: In societies where labor income inequality is relatively low (such as in Scandinavian countries in the 1970s–1980s), the top 10% most well paid receive about 20% of total labor income; the bottom 50% least well paid about 35%; the middle 40% about 45%. The corresponding Gini index (a synthetic inequality index with values from 0 to 1) is equal to 0.19. See the online technical appendix.

TABLE 7.2.
Inequality of capital ownership across time and space

Share of different groups in total capital	Low inequality (never observed; ideal society?)	Medium inequality (= Scandinavia, 1970s–1980s)	Medium–high inequality (= Europe 2010)	High inequality (= US 2010)	Very high inequality (= Europe 1910)
The top 10% “upper class”	30%	50%	60%	70%	90%
Including the top 1% (“dominant class”)	10%	20%	25%	35%	50%
Including the next 9% (“well- to-do class”)	20%	30%	35%	35%	40%
The middle 40% (“middle class”)	45%	40%	35%	25%	5%
The bottom 50% (“lower class”)	25%	10%	5%	5%	5%
Corresponding Gini coefficient (synthetic inequality index)	0.33	0.58	0.67	0.73	0.85

Note: In societies with “medium” inequality of capital ownership (such as Scandinavian countries in the 1970s–1980s), the top 10% richest in wealth own about 50% of aggregate wealth; the bottom 50% poorest about 10%; and the middle 40% about 40%. The corresponding Gini coefficient is equal to 0.58. See the online technical appendix.

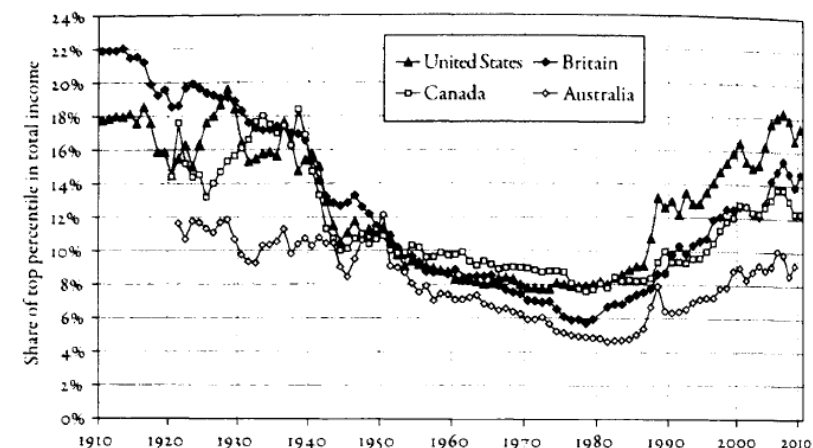


FIGURE 9.2. Income inequality in Anglo-Saxon countries, 1910–2010

The share of top percentile in total income rose since the 1970s in all Anglo-Saxon countries, but with different magnitudes. Sources and series: see piketty.pse.ens.fr/capital21c.

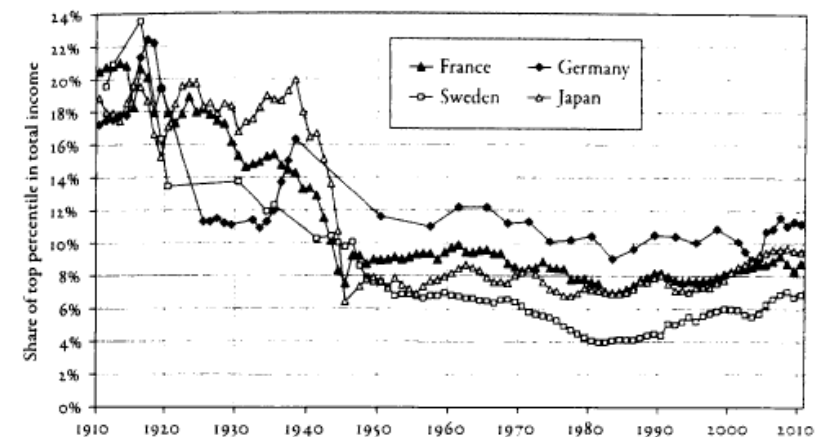


FIGURE 9.3. Income inequality in Continental Europe and Japan, 1910–2010

As compared to Anglo-Saxon countries, the share of top percentile barely increased since the 1970s in Continental Europe and Japan. Sources and series: see piketty.pse.ens.fr/capital21c.

Logic of inequality

- Traditional societies – negative correlation between income from capital and income from labour
- Modern societies - positive correlation between income from capital and income from labour
- Income from labour more important ($\frac{2}{3}$ – $\frac{3}{4}$ of national income)
- Rise of patrimonial middle class/fell of the share of top class – transformation of the distribution conflict (decline of the society based on inheritance of capital)

Aristocracy vs. capital

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By Will Fitzgibbon

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Pilar de Borbón, pictured on the right. J. F. / (EFE)



Château Rothschild (Image: canton of Geneva)

Monday, 19 August 2019 15:52

Edmond de Rothschild Retreats

- ▶ Family Takes Rothschild Private
- ▶ Rothschilds Hash Out Naming Spat
- ▶ Geneva Bank Sells Family Silver



The Rothschild family is quietly taking the Geneva-based wealth manager private – the end of a piece of stock exchange history.

The family behind **Edmond de Rothschild** is delisting the Swiss private bank after clinching nearly 100 percent of its shares and beginning a squeeze-out, it said on Monday. The share will trade on October 22, 2019 for the last time.

The move represents an end to an unlikely listing: at 44,000 Swiss francs (\$45,000) at their peak, Edmond de Rothschild shares were one of Switzerland's priciest. More recently, the stock had traded near 13,000 francs, second in absolute value to chocolate producer Lindt & Spruengli, which costs 80,000 francs.

Investor Perk

The delisting also shuts investors off from an unusual annual perk: a visit to the so-called Château Rothschild, a small castle built in 1858/59 in Pregny-Chambésy outside Geneva, which belongs to the Rothschild family and houses the widow of founder **Edmond de Rothschild**.


Instead, shareholder meetings will now be a family affair overseen by **Benjamin de Rothschild** – son of Edmond – and his wife and CEO of the wealth manager, **Ariane Rothschild**. The castle will reportedly pass to the canton of Geneva when the 56-year-old Swiss banking scion dies. The surrounding gardens will be open to the public and combined with the adjoining Parc de





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China's A-Shares in the Year of the Ox

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Income-based billionaires?

Broadly, a score of 1 to 5 means an individual inherited their wealth, while 6 to 10 indicates they built their own company or established their fortune on their own.

A score of 1, for example, means that someone inherited their fortune and hasn't actively worked to increase it. This includes super-rich heirs such as Alice Walton and Lukas Walton, the daughter and a grandson of Walmart founder Sam Walton, respectively. Only 26 people on The Forbes 400 scored a 1 this year, accounting for 6.5% of the list.

Conversely, a score of 10 indicates that someone was born into poverty or the lower middle class, and faced substantial adversity or discrimination. Newcomer Noubar Afeyan, chairman and cofounder of Covid vaccine-maker Moderna, is an example of this. Born in Beirut, Lebanon, to Armenian parents, he and his family fled the Lebanese Civil War in 1975.

This year, only 118 people on The Forbes 400 scored a 1 through 5, which means that 70.5% of the list is self-made. It's a significant shift from 1984, when less than half of the list was self-made. Still, much of the list—160 people—comprises people who scored an 8, indicating they are self-made, but came from a middle-class or upper-middle-class background. In other words, even many of the self-made members of The Forbes 400 grew up with at least some advantages in life. The four richest people in the U.S.—Amazon founder Jeff Bezos, Tesla CEO Elon Musk, Facebook CEO Mark Zuckerberg and Microsoft cofounder Bill Gates—all have 8s.

SELF-MADE SCORES ON THE 2021 FORBES 400

Here is how many members of The Forbes 400 got each self-made score.

SELF-MADE SCORE	NUMBER OF FORBES 400 MEMBERS
1	26
2	21
3	17
4	27
5	27
6	13
7	31
8	160
9	50
10	28

Source: Forbes reporting

Forbes



Elon Musk @elonmusk · 15. 4.

Goldman Sachs | Equity Research | 10 February 2022 | 5:02PM EST

Twitter Inc. (TWTR)
Q4'21 Review: Investments Continue To Fuel Multi-Year Transition

12m Price Target: **\$30.00** | Price: **\$37.83** | Downside: **20.7%**

Eric Sheridan | Alexandra Steiger | Alex Vegliante, CFA

In analyzing Twitter's Q4 '21 earnings report (& forward operating commentary), a few key themes (many of them reiteration of the past year) were front and center. First, Twitter mgmt expressed optimism on their ability to grow users (by YE '23) at an accelerated pace vs prior periods – however, we remain below that forecast. Second, Twitter remains in investment mode (as evidenced by mgmt 2022 opex / capex / SBC guidance) against goals aimed at user growth, product innovation, advertising diversification &

19,4 tis. | 24,8 tis. | 247,8 tis.

PROFILE #246 - Billionaires (2022)

George Soros

Founder, Soros Fund Management LLC

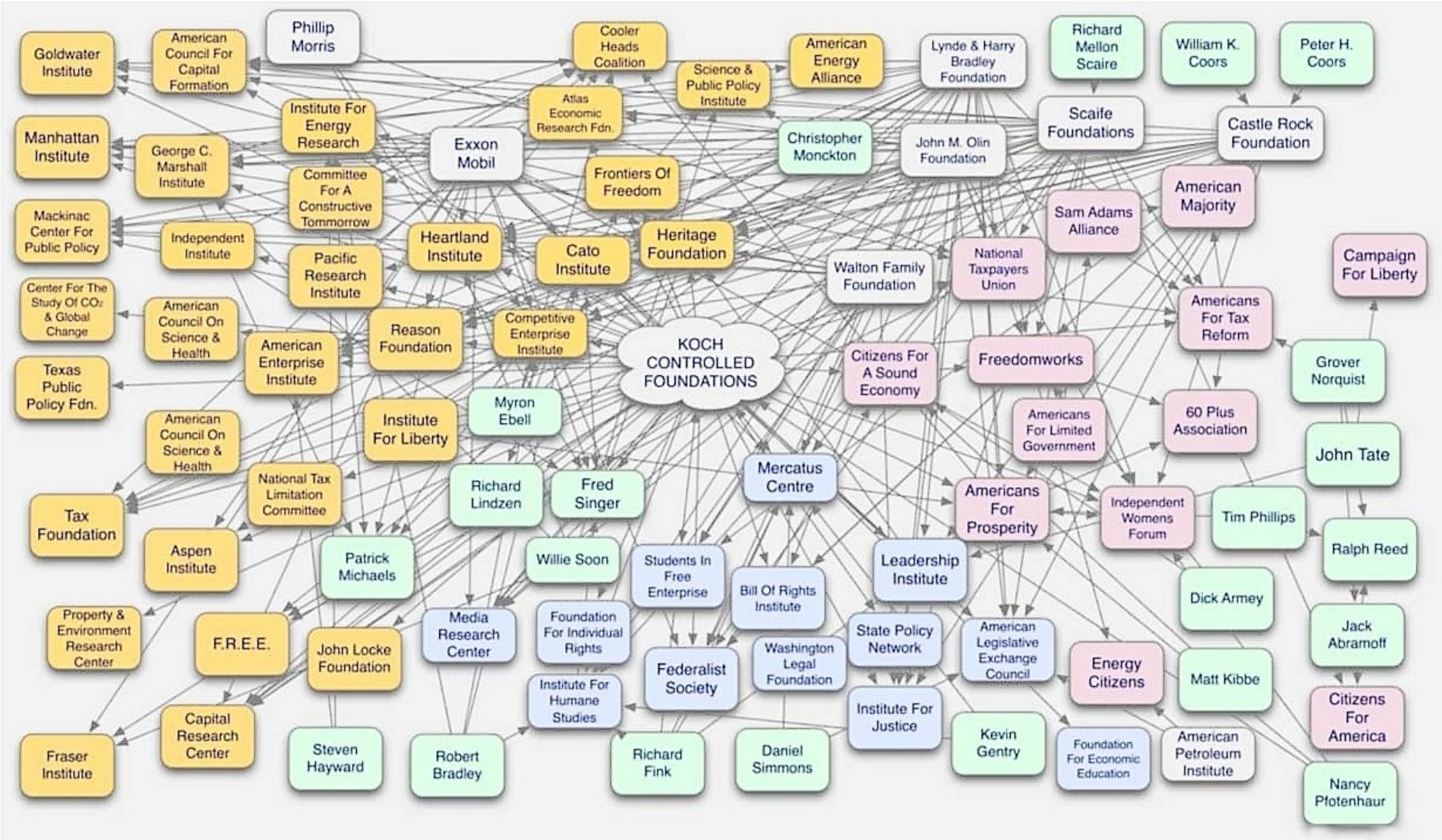
\$8.6B Real Time Net Worth as of 6/3/22

#240 in the world today



PHOTO BY SIMON DAWSON/BLOOMBERG

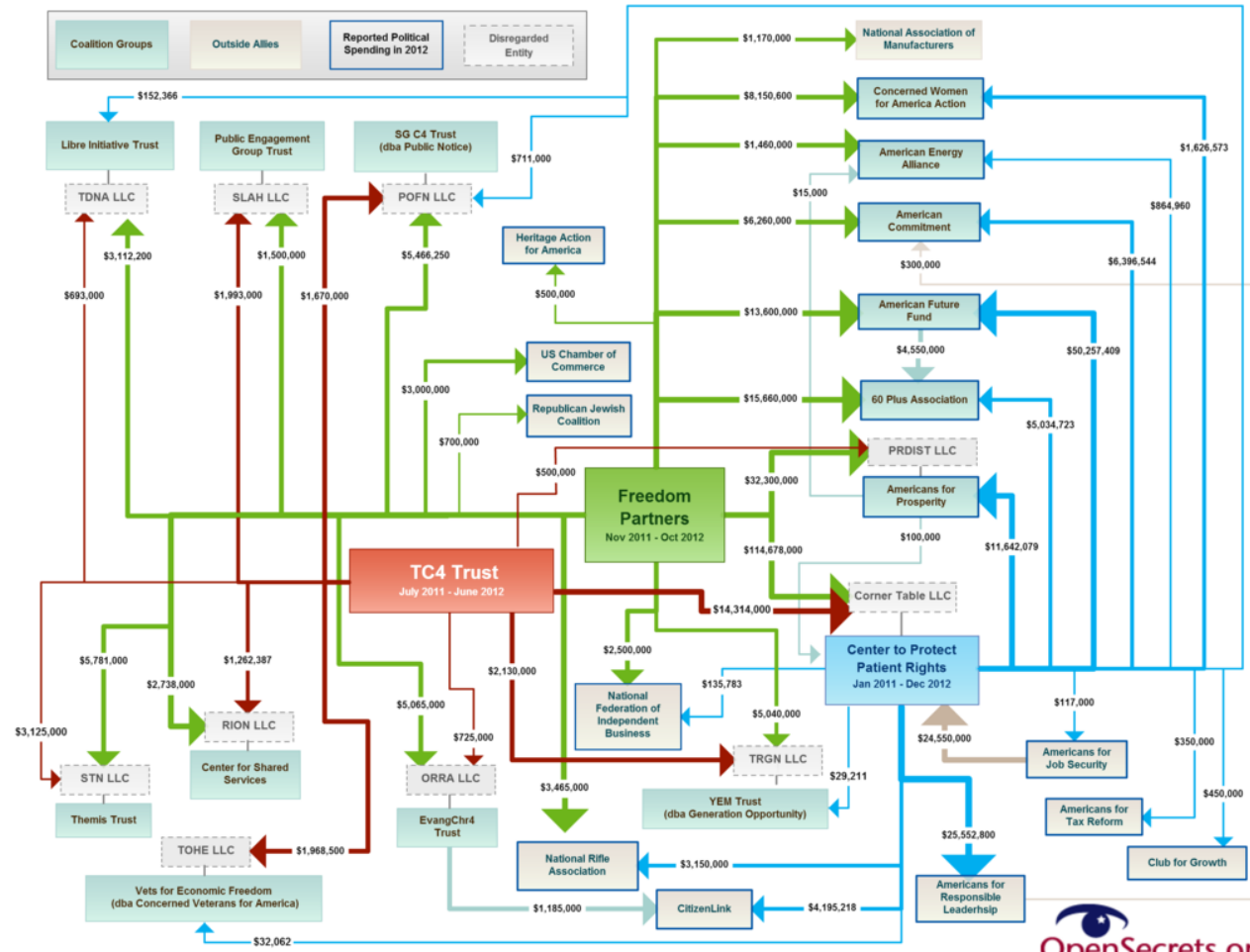
Capital and politics



U.S. presidential elections 2012

A Maze of Money

One of the biggest political operations in 2012 took place outside the campaign finance system, involving a network of politically active nonprofits backed by the billionaire industrialists Charles and David Koch and other conservative donors. Seventeen allied groups in the coalition raised at least \$407 million, much of which was spent on get-out-the-vote efforts and ads attacking President Obama and congressional Democrats, according to tax filings and campaign finance reports. Many of the funds were transferred to LLC subsidiaries, known as disregarded entities, that are wholly owned by the recipient groups. The network also gave millions to other outside groups allied with the GOP.



Graphic by Robert Maguire (@RobertMaguire_)

Inequality and its discontents

- Very high inequality closer to that of labour income inequality
- Too high wealth concentration – revolution
- Depends on the legitimation of the system + repression
- Two ways to unequal society (may coexist): Society of rentiers vs. Society of superheroes
- Globalization cleavage (winners x losers of globalization), Great Recession protests, OWS...

