

RICHER & MORE EQUAL

A New History
of Wealth in the West

**DANIEL
WALDENSTRÖM**

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Richer and More Equal

A New History of Wealth in the West

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polity

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Preface

Over recent decades, private wealth in the Western world has multiplied, making us richer than ever. However, a hasty glance at the soaring number of billionaires – some of whom double as international celebrities – prompts the question: are we also living in a time of unparalleled inequality?

A widely accepted narrative argues that, yes, we are. This story paints wealth as an instrument of power and inequality. It traces a path from nineteenth-century Europe, where low taxes and minimal market regulation allowed for unchecked capital accumulation, to the two world wars and subsequent progressive taxation policies that diminished the fortunes of the wealthy. Yet, the narrative continues, a wave of market-friendly policies in the late twentieth century reversed this trend, sending wealth inequality back towards historic highs.

This tale, though intriguing, is largely flawed.

My goal in this book is to reframe the conversation around the history of wealth. Leveraging new historical data along with existing research, I contend that the main catalysts for wealth equalization are neither the devastations of war nor progressive tax regimes. While these elements have had their effects, they do not account for the broader and more potent forces shaping wealth. Instead, I will demonstrate that the real game-changer has been the expansion of asset ownership among everyday citizens, driven largely by the rise of homeownership and pension savings.

Another, broader purpose of this book is to contribute to a better understanding of the role that economic policies can play for promoting the growth of wealth in the entire

population, from the economically disadvantaged to the super-rich. As we confront challenges such as technological disruption, climate change, and potential retrenchment in global trade, private wealth takes center stage. It serves as an investment engine, a cushion against financial shocks, and a revenue base for public initiatives. My hope is that, by exploring the economic history of the West, we can identify policies that encourage new wealth creation and avoid those that put it at risk.

In the course of writing this book, I have incurred considerable debts that I wish to acknowledge. Special thanks for valuable discussions and comments on drafts of the book or its earlier related writings go to Anders Björklund, Bertrand Garbinti, Branko Milanović, Charlotte Bartels, Clara Martínez-Toledano, Daron Acemoğlu, David Splinter, David Weil, Enea Baselgia, Enrico Rubolino, Eric Zwick, Erik Bengtsson, Isabel Martínez, Gabriel Zucman, Guido Alfani, Jacob Lundberg, Jakob Madsen, James Davies, James Heckman, James Robinson, Johan Norberg, John Sabelhaus, Lucas Chancel, Jesse Bricker, Mikael Elinder, Neil Cummins, Olle Hammar, Peter Lindert, Rodney Edvinsson, Rolf Aaberge, Salvatore Morelli, Thilo Albers, Thomas Helleday, and Thomas Piketty. I have also received constructive feedback during presentations at workshops and seminars at Bonn University, the Harris School of Public Policy and the Lifecycle Working Group at the University of Chicago, the Norwegian University of Science and Technology, the Federal Reserve Bank of Chicago, Örebro University, the Paris School of Economics, the Research Institute of Industrial Economics (IFN) in Stockholm, Statistics Norway, Stockholm University, and Uppsala University.

In addition, my understanding of wealth inequality and history has benefited greatly from discussions with Andreas Peichl, Anthony Atkinson, Anthony Shorrocks, Ariell Reshef,

Enrico Rubolino, Facundo Alvaredo, Frank Cowell, Ignacio Flores, Henry Ohlsson, Jean-Laurent Rosenthal, Jeffrey G. Williamson, Jesper Roine, Leandro Prados de la Escosura, Luis Bauluz, Magnus Henrekson, Marc Morgan, Moritz Schularick, Roberto Iacono, Spencer Bastani, and Yonatan Berman. I have also appreciated help with data from Bertrand Garbinti, Charlotte Bartels, Clara Martínez-Toledano, Eric Zwick, Facundo Alvaredo, Jakob Madsen, Miguel Artola Blanco, Rodney Edvinsson, and Thilo Albers.

At Polity Press, my editor, Ian Malcolm, has given me support with the project and excellent guidance at every step in the process. I was fortunate to receive advice from two reviewers who helped me anticipate a number of important questions about the argument and the evidence. Of course, the final word, and any errors that may appear, are solely my responsibility.

Finally, I wish to thank my wife Nina for her advice and sufferance throughout the long gestation of this book.

1

Uncovering a Positive Story

Over many decades, the distribution of wealth has been a topic of fascination and contention. It has stirred emotions and sparked debates among scholars, policymakers, and the public alike. The answers to questions such as how wealth is accumulated, distributed, and inherited are important for understanding economic growth, social mobility, and the overall wellbeing of a society. And, as for any other complex subject, our understanding of wealth distribution is evolving whenever new evidence and interpretations come to light.

Calls to reduce the ever-present disparities between rich and poor may be as old as the disparities themselves, and in recent years they have grown louder. The ambition to reduce inequality, however, should not distract us from a positive aspect to the narrative, which is largely untold. Over the past century, people in Western countries have become both richer and more equal. This unseen wealth revolution has profoundly transformed the lives of millions. To understand the origins and implications of this large-scale change is vital in our quest for a more equitable and prosperous future.

The numbers are striking: today, we are more than three times richer in purchasing power than we were in 1980, and we are nearly a staggering tenfold richer than a century ago. Such growth in wealth is extraordinary by historical standards, and it begs the question: what has

driven this remarkable change, and why has wealth become increasingly equally distributed? The answer, as we shall see, lies in the broadening of wealth ownership among ordinary people primarily through homeownership and pension savings.

Old Narrative Challenged by New Data

Wealth is defined as the total value of all assets in housing, land ownership, and financial holdings less the value of debts. For much of human history, wealth has been concentrated in the hands of a few, leaving the vast majority with limited resources and opportunities. The past century, however, has witnessed a dramatic shift, with wealth becoming increasingly accessible to the bottom and middle strata of society. This phenomenon has had a profound impact on wealth inequality, helping to narrow the gap between the richest and the rest.

In this volume, I offer an in-depth exploration of the historical trajectory of wealth in the Western world. Drawing upon the latest discoveries of long-term patterns and determinants of aggregate wealth accumulation as well as wealth inequality, I examine detailed and comparable data for all relevant countries. Some of the data series were produced by me and my research associates, but other researchers have produced many of the series used here. However, this book does not just present a compilation of already known evidence; it also introduces new estimates of aggregate wealth-income ratios and wealth inequality.

The analysis reassesses a previously established narrative on the history of wealth, perhaps most notably associated with the works of the French economist Thomas Piketty,

and offers a comprehensive historical and political account to shed light on the dynamics of equality within the capitalist economy. In the following sections, I elaborate on the intricacies of Piketty's work and explain how my own narrative builds upon but also revises the overarching history of wealth distribution. It should be noted that measuring household wealth and its distribution is difficult, as I will explain in more detail below. Estimating historical trends in wealth inequality puts extraordinary requirements on data quality. However, the newer evidence produced in recent years benefits from a closer examination of the sources and analytical choices, and this gives it a clear advantage over earlier works.

Homes and Pensions, Not Wars

Contrary to the old scholarly narrative, this book will demonstrate that the primary drivers of wealth equalization have not been the destruction wrought by wars or the redistributive effects of capital taxation. While these factors have undoubtedly played a role, they are based on presumptions that building wealth is a zero-sum game, and they therefore fail to account for the broader and more fundamental forces at work. Instead, I will show that the expansion of wealth ownership among ordinary citizens, materialized through widespread homeownership and pension savings, has been the real engine of change.

At the turn of the twentieth century, owning a decent home and saving for retirement were luxuries enjoyed by only a select few – maybe a couple of tens of millions in Western countries. Fast forward to today, and these once elusive dreams have become a reality for several hundreds of millions of people. This massive increase in both homeownership and retirement savings, made possible by expanding educational attainment, elevated labor incomes,

and financial development, has effectively democratized wealth. It has lifted the fortunes of the bottom and middle segments of society and contributed significantly to the reduction of wealth inequality. In addition, owning one's home has historically offered high long-term investment returns at low risk and is generally associated with a lower depreciation of housing capital compared to rented homes.

Bidding Farewell to the Zero-Sum Game

Yet this critical aspect of our recent history, with ordinary people building personal wealth at an unprecedented pace, has been largely overshadowed by the prevailing focus among some academics and policymakers on the fortunes of the super-rich and on the role of wars and capital taxation in addressing wealth inequality. This book seeks to redress this imbalance, shedding light on the transformative power of wealth creation, challenging the conventional wisdom that views wealth equalization as a zero-sum game.

Wealth accumulation is a positive, welfare-enhancing force in free market economies. It is closely linked to the growth of successful businesses, which leads to new jobs, higher incomes, and more tax revenue for the public sector. Throughout the following chapters, I will explore the historical, social, and economic factors that have contributed to the rise of wealth accumulation in the middle class, homeownership and pension savings, as key drivers of wealth equalization. I will explore how governments, businesses, and individuals have collaborated to create the conditions for this unprecedented democratization of wealth. And I will examine the far-reaching consequences of this transformation, including

the implications for social mobility, economic growth, and the prospects for future generations.

As we embark on this journey, it is important to recognize that the story of wealth equalization is not one of unmitigated success. There are still significant disparities in wealth within and among nations, generating instability and injustice. Over the past years, wealth concentration has increased in some countries, most notably in the US. However, by acknowledging the progress that has been made and understanding the mechanisms that have driven it, we can lay the foundation for further advancements in our quest for a more just and prosperous world.

1.1 THE PREVIOUS NARRATIVE ARGUING THAT WARS AND PROGRESSIVE TAXES SHAPED A CENTURY OF WEALTH INEQUALITY

In his bestselling book *Capital in the Twenty-First Century* (2014), Thomas Piketty described the historical development of capital and wealth inequality in the Western world. His work built on the research by a large international collective of scholars, including several studies by me and my coauthors. The book quickly gained attention from both academics and policymakers. Piketty's unique approach in combining historical data with a simple yet thought-provoking analysis that also has an ideological bent has been appealing to many.

In this book, I will refer to Piketty's narrative as "the previous narrative," although it has not been told for more than a couple of decades.^{[1](#)} However, the aging process of narratives can be quick, as new insights and revisions

continue to emerge from the ever-growing body of research on the history of wealth.²

The narrative that is primarily associated with Piketty describes wealth accumulation and concentration over the past century as following a U-shaped pattern. Wealth levels and concentration peaked in the late nineteenth century and up to World War I. This was the result of an unchecked capitalism that had little regulation, taxation, or democratic influence. Europe's aggregate wealth-income ratios at that time were estimated to be extraordinarily high, with capital values of around 600 to 800 percent of national income. These levels then dropped significantly during the 1920s, and even more after World War II. Wealth-income ratios began to rise again in the 1980s, marking the completion of the U-shaped pattern and leading Piketty to declare: "Capital is back!"

Wealth inequality according to this narrative is also described as following a U-shaped pattern. High levels of inequality in the past dropped sharply during the twentieth century, driven primarily by the shocks to capital during the two world wars and the rise of progressive taxation. Wealth was slashed, particularly among the rich, by wartime capital destruction and through regulations, and postwar redistributive taxation prevented the emergence of new fortunes and thus the rise of wealth concentration. After 1980, this narrative claims, neoliberal policies deregulated markets and lowered taxes. That led to a boosting of capital values, mainly benefiting a small wealth-holding elite, and it elevated wealth inequality towards historical levels.³

In summary, this account views the history of wealth as a story about the consequences of restraining capitalism and the failure of doing so. Wars and redistributive policies tempered the natural tendencies of capitalism to

accumulate and concentrate wealth. The dismantling of the restrictions through the liberalization of Western economies in the 1980s reawakened these forces.⁴

1.2 A NEW HISTORICAL NARRATIVE: RICHER AND MORE EQUAL

The scholarly dialogue that emerged in the wake of Piketty's *Capital* concentrated largely on its theoretical constructs and the paradigms it employed. Although the debate was rigorous in questioning the theoretical underpinnings and proposing alternative models of capital and inequality, there was a conspicuous absence of scrutiny of Piketty's historical data and the empirical conclusions that were drawn from it.⁵ This void in critical appraisal is of course well deserved, but it may also be attributed to a prevalent disinterest in economic history and lack of attention to details in historical data within the mainstream economic community.

While it may be partially understandable that many economists are concerned principally with contemporary phenomena, this focus undermines a nuanced understanding of historical trends and their contemporary implications. This relative neglect not only impedes a critical evaluation of historical research but also, inadvertently, cedes an almost monopolistic influence to those researchers who do engage deeply with historical data.

Therefore, the emergence of new research initiatives in recent years that interrogate the historical dimensions is particularly encouraging. Notably, these new contributions not only corroborate or challenge earlier data but also extend the empirical base by incorporating previously unexplored countries. Some studies have revisited the

historical datasets of countries such as Germany and the United Kingdom to offer revisions, while others have unveiled new empirical evidence for countries hitherto lacking in this type of data.

In this book, I collect the updated data series and pieces of evidence presented in the recent research literature to build a new analysis of the history of wealth and wealth inequality in the West. The data show that we are both richer and more equal today than in the past, and the accumulation of housing wealth and pension savings among the middle classes emerge as the main factor behind this development. At its core, the new narrative thus hinges on the interdependence of wealth accumulation among average citizens and the equalization of wealth.⁶ Wealth creation is here regarded as inherently positive for a country's economic development, reflecting the successful outcomes of business ventures and other private and public investments, and providing the means to advance new structures and set up buffers against unexpected future shocks.

To present the main empirical results of the book, this storyline can be distilled into three overarching facts.

The New Wealth Narrative in Three Facts

Fact #1: We Are Richer Today

To gauge a country's affluence, the wealth in the population serves as a comprehensive metric. Higher average wealth permits greater consumption of goods and services, more savings and investment for future prosperity, and an insurance against unforeseen events. [Figure 1.1](#) illustrates a marked growth in the average real per capita wealth in

the Western world over the last 130 years. Particularly since the end of World War II, the average wealth in the population has risen substantially, amplifying sevenfold from 1950 to 2020.

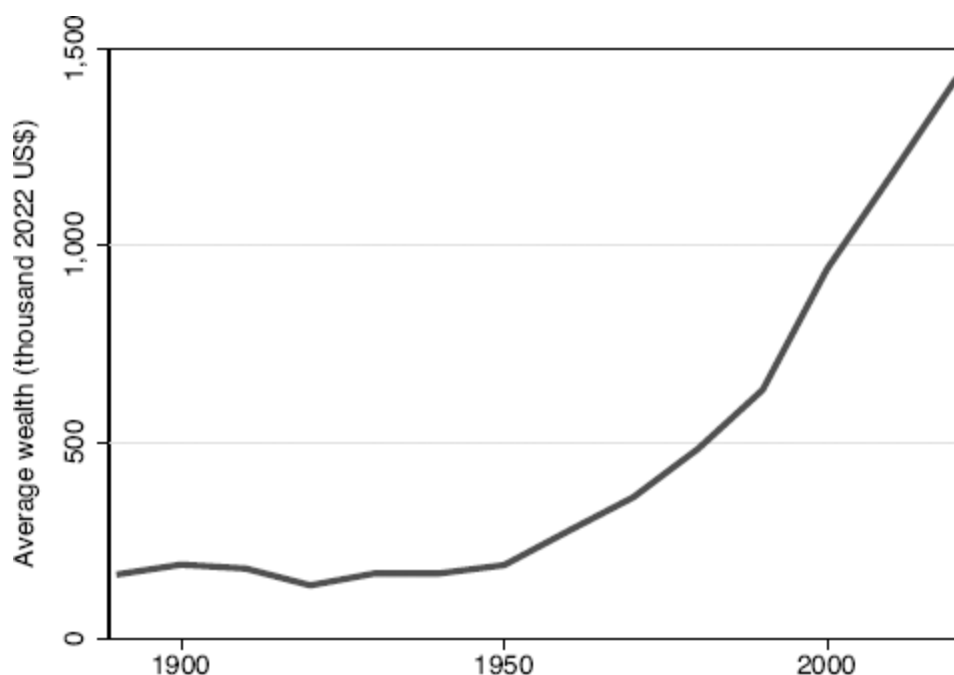


Figure 1.1 Rising Real Average Wealth in the Western World

Note: Wealth is expressed in real terms, meaning that it is adjusted for the rise in consumer prices and thus expresses change in purchasing power. The line is an unweighted mean of the average wealth in the adult population in six countries (France, Germany, Spain, Sweden, the UK, and the US) expressed in constant 2022 US\$. For further details and sources, see [chapter 2](#).

In essence, it is notable that each postwar decade has witnessed an augmentation in wealth. This affirms the robustness of the first fact in the new wealth narrative: we are wealthier today than at any previous point in modern history.

Fact #2: Wealth Is Different Today

Over the course of a century, the asset composition that constitutes private wealth has undergone a monumental

shift. A century ago, in the early twentieth century, wealth comprised primarily agricultural and business assets, largely concentrated among the affluent. If we look at the situation today, the majority of personal wealth is tied up in housing and pension funds, assets that are more evenly distributed among the populace. [Figure 1.2](#) visualizes this transformation by showing the average asset shares across a number of Western countries.

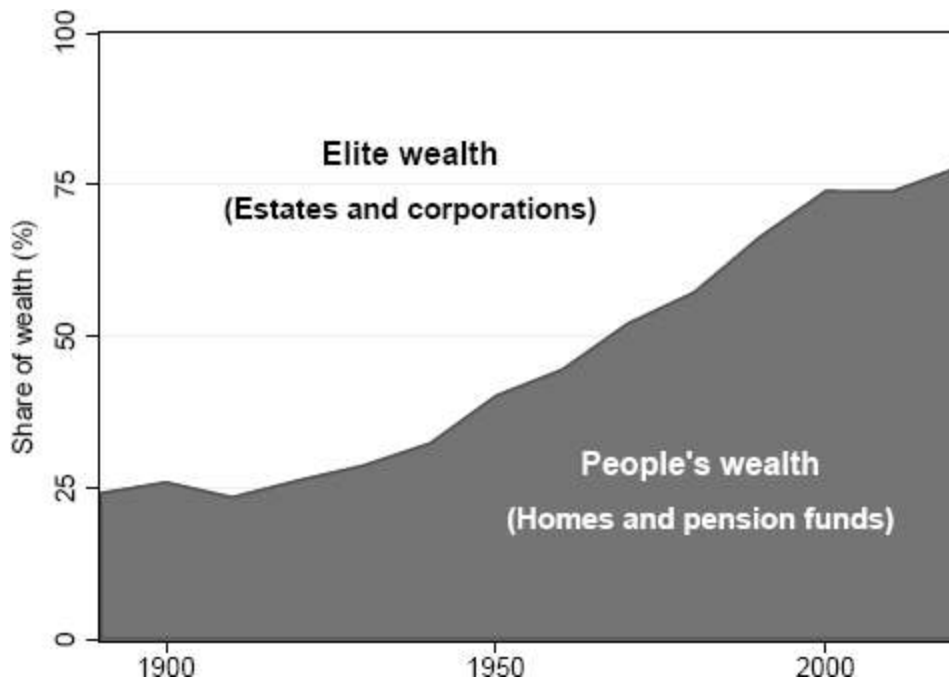


Figure 1.2 The Changing Nature of Wealth from Elite-Owned to Popular Wealth

Note: Unweighted average of six countries (France, Germany, Spain, Sweden, the UK, and the US). For further details and sources, see [chapter 3](#).

Hence, the second fact of the new wealth narrative: wealth has transitioned from being largely elite-centric to being widespread, diffused across the average household. This shift has profound implications for wealth distribution, as we will discuss later.

Fact #3: We Are More Equal Today

A salient goal of this book is to chart and comprehend the evolving patterns in wealth inequality. The issue that we are interested in is not confined merely to the growth of the wealth “pie” but also its equitable distribution. In fact, much of the past debates about wealth among both academics and policymakers concerns the trends in the distribution of household wealth rather than the amount of wealth amassed over the past years. When looking at the most recent data on wealth inequality in the Western world, they reveal a substantial reduction in wealth inequality over the past century. [Figure 1.3](#) shows that, while the wealthiest 1 percent once held quadruple the wealth of the least wealthy 90 percent, the tide has turned. As of 2010, the bottom 90 percent possess twice the wealth of the top 1 percent. Notably, the growth rate in real wealth for the least wealthy far outstripped that of the wealthiest segment.

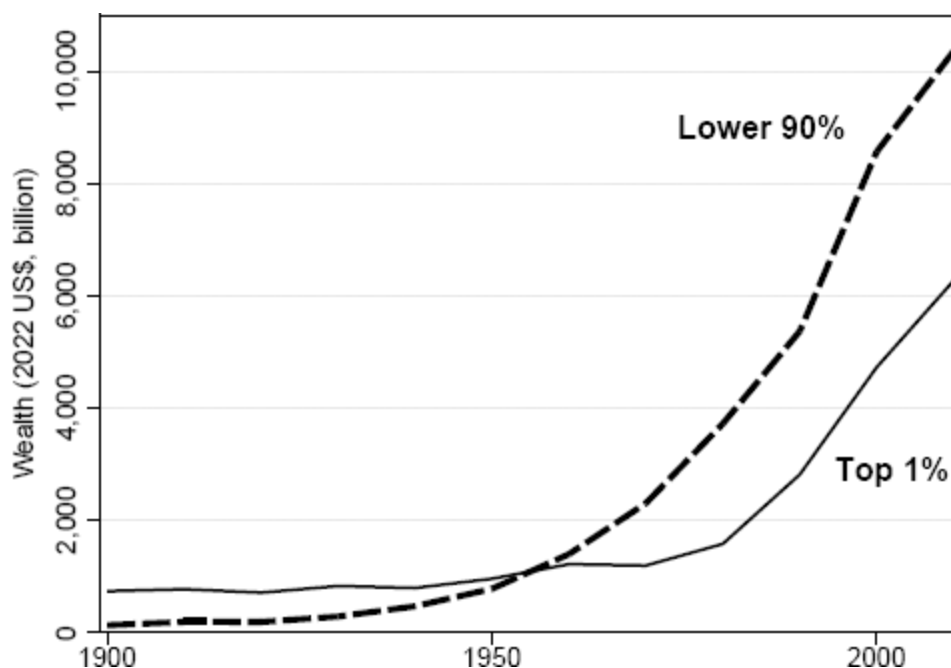


Figure 1.3 Accelerating Growth in Popular Wealth over the Twentieth Century

Note: The figure shows the total value of wealth of the lower nine decile groups (“Lower 90%”) and top percentile group (“Top 1%”) in each country’s distribution, calculated as an unweighted average of the six countries (France, Germany, Spain, Sweden, UK, US). For further details and sources, see [chapter 2](#) for wealth totals and [chapter 5](#) for wealth shares.

A similar pattern is found in [figure 1.4](#), depicting the average of the share of total wealth held by the richest percentile in Europe and the US across history. In 1910, the richest percentile held three times more wealth than in 2010. This forms the third fact in the new wealth narrative: wealth is more equally divided today than it was in the past.

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