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How can we understand wealth inequality across countries?

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Dr Fabian Pfeffer is Associate Professor and Associate Chair of the Department of Sociology, Research Associate Professor at the Institute for Social Research, and Director of the Stone Center for Inequality Dynamics at the University of Michigan. His research investigates social inequality and its maintenance across time and generations, with a current focus on wealth inequality and its consequences for the next generation.



Dr Nora Waitkus is a Research Officer in the International Inequalities Institute at LSE. Her research focuses on exploring and explaining cross-national variation and the institutional drivers of wealth inequality and concentration. Her work further deals with class elites and wealth accumulation, using quantitative approaches and longitudinal data.

Decades of research into economic inequality has focused on explaining income inequality in different countries. **Nora Waitkus** introduces the results of a new study, one of the first to focus on wealth, which identifies housing equity as the key driver behind wealth inequalities between nations.

From reports about the accumulated wealth of the top one per cent to the ways the pandemic has impacted wealth concentration at the top, inequality is rarely off the agenda. But while there has been plenty of research into comparative economic inequalities, analysis has tended to focus on income rather than wealth inequality, meaning that there is little understanding to date around how countries might rank when compared through this measure. Researchers Dr Nora Waitkus, International Inequalities Institute, LSE, and Dr Fabian Pfeffer, University of Michigan are looking to address this issue.

Their paper, **The Wealth Inequality of Nations**, published in the *American Sociological Review*, attempts to map wealth inequality across countries, identify that cross-national differences in wealth inequalities diverge greatly from income inequalities, and begin to explain the key drivers behind wealth inequalities between nations.



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This matters, Dr Waitkus explains, because their examination of countries according to wealth inequality paints a very different picture of which countries are more or less unequal, than when ranked according to income inequality.

“Previously, researchers have mostly been looking at income inequality, because people know what they make each month and so it’s much easier to measure,” she says.

“It gets more complicated when we look at wealth inequalities, because that includes assets that aren’t so easily calculable, like stock, housing equity or people’s business and financial assets. These are of course linked to income on the household level, but in an aggregate cross-country perspective, essentially, we show that income and wealth are two different types of economic inequality. This matters, because we will not find solutions to reducing wealth inequalities between countries if we cannot understand what is driving them.”

Wealth inequality differs from income inequality

Using data from the Luxembourg Wealth Study, one of the few harmonised datasets that have information on wealth and asset ownership across different countries, the researchers were able to map differences in wealth inequality across 15 countries in the Global North.

Their first step was to look at whether income inequality and wealth inequality aligned, and whether the explanations given for the variation in income inequality across countries – for example low income inequality in Scandinavia and high income inequalities in liberal economies – held up when it came to wealth inequality.



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The results show that this is not the case: “Our correlations show that wealth inequality is actually very different from income inequality,” Dr Waitkus explains. “Meaning that countries with low income inequality could have very high levels of wealth inequality and vice versa.”

The data revealed that in general, a country’s level of income inequality is separate to its level of wealth inequality. Although one country – the United States – was found to have both high levels of income and wealth inequality, this was very much an outlier amongst the countries compared.

“It’s extreme how unequal and how different the United States is when compared to all the other countries in the sample,” says Dr Waitkus. “We found they have almost double the wealth concentration. But they were very much the outlier in this way.”

Dr Waitkus also highlights Sweden as an interesting case – while the country is found to be fairly equal when measured by income inequality, a different picture is revealed when compared by wealth inequality. “The Scandinavian cases are interesting, as we found high levels of wealth inequality, but – most likely – for entirely different reasons than in countries like the States,” explains Dr Waitkus. “This is because average levels of wealth are much lower. Sweden has very generous pension and welfare provision, and so people do not necessarily need to build up wealth in the first place to finance education, health, or other social infrastructures compared to eg, the United States.



“This really highlights the importance of also looking at possible reasons behind any wealth inequality we might find. The reasons why people accumulate wealth in the first place will differ across countries, according to welfare contexts and housing markets, for example.”

Housing equity is key to comparative analysis of wealth inequality

The reasons why people might be able to accumulate wealth vary according to country-specific circumstances. But if we are to understand why some countries experience more wealth inequality than others, it is important to explore what is driving a nation’s level of wealth.

“We found a huge variation in wealth inequality across countries, so that requires some alternative thinking into the determinants of wealth inequality across countries,” explains Dr Waitkus. “And so we decomposed wealth into its components. Through this, we were able to identify that the key driver behind wealth inequality is the unequal distribution of housing equity across countries.”

As a result, the paper argues that housing equity should be the central building block of the comparative analysis of wealth inequality going forward.

“Fabian and I have been studying wealth inequality for quite some time and so it was not particularly surprising to us that housing is such a key factor,” concludes Dr Waitkus. “This is one of the first attempts to show this with large datasets, however, and so for other comparative scholars I think this might be a surprising result, because it is so new.” ■

Dr Nora Waitkus was speaking to Jess Winterstein, Acting Head of Media Relations at LSE.

The Wealth Inequality of Nations

by Fabian T Pfeffer and Nora Waitkus is published in *American Sociological Review*.

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