US wealth gap widening more quickly than Europe's: Study

January 25 2023, by Laura Singleton

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The wealth gap was partly due to significant rises in stock market prices, according to the new study from Imperial College Business School, published in the *Journal of Monetary Economics*.

Researchers from Imperial and the Paris School of Economics are calling for action to be taken by governments and policy makers in the

US, to boost wages at the lower end of the market, control unemployment, and stabilize house prices.

The researchers drew on new economic data from which they could build a database of the distribution of wealth for most European countries for the first time. This brought the data in line with the available US financial figures and allowed them to compare the change in both total household wealth and wealth inequality in Europe and the United States since the 1970s to the present day, as well as working out the reasons for those changes.

The researchers found that although both regions had a similar steady growth in total household wealth, the way the wealth had been distributed has been markedly different since the 1980s.

Dr. Clara Martínez-Toledano, Assistant Professor in Finance at Imperial College Business School and one of the lead authors of the study said, "From the 1980s we see a wealth gap start to emerge, where there's a more dramatic change in the United States. The wealth that the top one percent richest people own in the States has undergone a significantly larger increase than the top one percent richest in Europe—in other words, the gap between rich and poor in the US became much more pronounced as wealthy Americans became even richer."

Reasons for the wealth gap

To discover why this gap emerged, the researchers broke wealth down into three key drivers: differences in saving rates; wages; and capital gains rates.

During the decades surveyed, the research showed that house prices had gone up dramatically in both regions, as had financial asset prices. However, stock market prices had increased much faster in the US than in Europe.

Dr. Martínez-Toledano continued, "Differences in the composition of these assets across wealth groups is key. The richest people tend to own financial assets such as stocks and bonds, while the middle wealth groups tend to have a house as their major asset. But even with a big growth in house prices in both regions, stock market prices were the standout distinguishing factor, with a huge jump in value of US stocks during those decades."

Another important factor that can explain the wealth gap between rich and poor in the US is inequality of labor income, with the US economy showing a much bigger contrast in pay between the lowest and highest paid workers than the European economies over the same time period.

To document these findings, the researchers ran simulations that substituted the labor income inequality and asset price trajectories from France into the US figures. They found the hypothetical US wealth concentration levels were lower as a result of the smaller rise in labor income inequality and the larger rise in house prices relative to financial assets in Europe. The results were similar when they substituted the same figures from other European countries into the US data.

The researchers say US policymakers should prioritize job market policies that are aimed at boosting wages at the lower end of the distribution to reduce wealth inequality. They also call on central banks to play a key role in stabilizing house prices.

Dr. Martínez-Toledano explained, "Less equal societies have less stable economies. High levels of economic inequality can lead to economic and political instability. This is why action needs to be taken before societies become polarized."

The new Distribution Wealth Accounts for Europe database is already available on wid.world for other researchers to build on this work, with the researchers planning regular updates to stay informed about the state of wealth inequality in Europe and the US.

The project forms part of a bigger international drive by the World Inequality Lab to provide more comprehensive public information about wealth and income inequality across the world.

More information: Thomas Blanchet et al, Wealth inequality dynamics in europe and the united states: Understanding the determinants, *Journal of Monetary Economics* (2022). DOI: 10.1016/j.jmoneco.2022.11.010

Provided by Imperial College London