LONG-TERM TRENDS IN AMERICAN WEALTH INEQUALITY

by

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Simon Kuznets, Nobel Prize Laureate in economics, has postulated that there is—almost inevitably—an early rise and later decline in inequality during long-term modern economic growth. Jeffrey Williamson and Peter Lindert[1] have undertaken a detailed study of wealth inequality trends in America that confirms the Kuznets hypothesis.

Major Conclusions

Seventeenth and eighteenth century America saw relatively egalitarian and stable aggregate wealth concentration. During the first half of the nineteenth century, in contrast, there was a marked rise in wealth concentration. The period from the Civil War to the Great Depression was also one of stability in wealth concentration, but it was characterized by substantially greater inequality than had prevailed in the colonial era. During the second quarter of the twentieth century, wealth inequality again decreased so that inequality of wealth-holding today resembles what it was on the eve of the Declaration of Independence. Those who would argue, therefore, that the degree of wealth inequality is some sort of eternal constant will be uncomfortable with the Williamson-Lindert findings.

Perhaps their most controversial conclusion is that neither changes in age composition nor changes in the size of the immigrant population influenced in any important way these changing trends in American wealth inequality.

Colonial Era

The basic conclusion they reach for this period of American history is that, though the experience of different local areas varied, when the New England or Middle Colonies are examined as a whole, there is no evidence to support the view that aggregate wealth concentration was increasing between the late 1600s and 1774.

The authors come to this conclusion on the basis of data collected from local tax assessment and probate records. They show how the choice of a benchmark date from which to measure trends affects the results, and they discuss which dates should be taken as "normal" periods of economic activity. They demonstrate that wealth inequality was on the rise in fast growing cities which attracted young adults and/or the propertyless, that there was no visible increase in wealth inequality among the slow growing cities, that settled agrarian regions had no stable pattern, and that frontier settlements exhibited some evidence of rising inequality. Their major contribution to the debate on colonial wealth inequality, however, is their proof that generalization from such local histories to an assessment of aggregate wealth concentration can be and has been distorting.

There are no data on wealth inequality for the colonies as a whole until 1774. Colonial historians have traditionally based their conclusions on data from settled urban areas (Boston, Philadelphia, Hartford, New York City) or from older eastern townships or counties (Hingham, Chester). But such evidence takes no account of population shifts, changes in per capita wealth differentials between regions, or changes in wealth inequality in different regions.

Williamson and Lindert develop an aggregate wealth inequality statistic[2] which can be disaggregated into four components: (1) change in concentration of wealth in the settled regions, (2) change in concentration at the frontier, (3) change in the size of the older settlements in relation to the size of the total population, and (4) the ratio of per capita wealth in the older settlements to that in the colonies as a whole. This allows them to use available data on population and average wealth in various regions, plus generally agreed upon conclusions regarding relative wealth inequality in the settled regions versus the frontier, to make their overall assessment that there is no evidence of a trend toward increasing aggregate wealth inequality in the colonial era. They also assess, within the constraints of available data, how this conclusion would be affected by the age distribution patterns of the population and the selectivity of the migration flows and conclude that, if anything, these factors would tend to bias observed wealth inequality upward.

Their explanation for the lack of trend is that the opportunities for wealth accumulation on the frontier were exploited assiduously. This led to extensive and intensive development in the interior and the influx of population and resources from the coast. Wealth per capita grew relative to that in the seacoast settlements which, since the new settlements were comparatively poor to begin with, constituted a levelling influence.

The First Century of Independence

For this period scholars have been able to use probate inventories and manuscript census samples to produce aggregate benchmark statistics on wealth-holdings for 1774, 1860, and 1870. Using these data Williamson and Lindert show that aggregate inequality increased markedly between 1774 and 1860 but remained stable between 1860 and 1870. Their task for this historical period is to assess the reliability and robustness of these estimates and the reasons for the observed trend. They show that inequality was increasing over the period if slaves are excluded. If they are included (both as property and as propertyless members of the population) the trend becomes slightly less steep but still substantial. Possible sources of bias in the probate records and the manuscript census returns have not been ignored; Williamson and Lindert conclude that there is no evidence on systematic bias in the estimates.

The authors then address the "common suspicion" that the trend toward increasing inequality was due to demographic shifts—in either the age distribution or the immigrant mix.

Two techniques are used to test the age effect. First, the 1860 age distribution is applied to the 1774 wealth data; very little difference in trend appears. Second, they examine available data on the relationship of age to wealth-holdings; they conclude that attention to age distribution

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Long Term Trends

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trends in the antebellum era suggests that the aggregate inequality indices understate the true trend toward wealth inequality.

To assess the effect of the foreign-born they again use their inequality statistic, this time decomposing it into changing inequality within the foreign- and native-born groups, changing inequality between the two groups, and the changing proportion of the two groups in the total population. They estimate that the presence of the foreign-born in the American wealth distribution raised the Gini coefficient in 1860 by only about 2%.[3] They also use available data to show that, although the native-born were wealthier than the foreign-born, the ratio of the wealth of the two groups seemed rather stable over time. The major source of the steeply rising wealth inequality, therefore, must lie in trends toward increasing inequality within both groups.

They then examine the extent to which urbanization accounts for the aggregate trends by disaggregating their inequality statistic into rural and urban components, and conclude that urbanization did raise the degree of inequality during the period, but that its effect on aggregate inequality was relatively modest—increasing it on the order of 3%. "This again implies," they state, "that the vast majority of the antebellum wealth inequality surge in America had its source *within* sectors and regions."

Civil War to Great Depression

Williamson and Lindert again collect, compare, and evaluate what evidence there is on the wealth distribution for this period. Probate records have not yet been exploited; until they are, according to the authors, the evidence over much of the period is scant. What there is suggests that the degree of inequality was about the same at the end of this period as at the beginning. According to statistics from the manuscript censuses there was some levelling across the 1860s (due principally to the massive confiscation from the richest Southerners of slave property as a result of emancipation). According to a Federal Trade Commission special probate estate valuation survey of the 1912-1923 period, some levelling also occurred across the World War I decade. But by 1929 this was reversed largely if not entirely (according to the estate tax data mentioned below). The authors' most likely candidates for the pinnacle of wealth inequality in America are the period around 1860, the period around 1914, and 1929: "That each of these pinnacles was followed by a major upheaval . . . suggests interesting hypotheses regarding the effects of these episodic events on wealth inequality (or perhaps even the impact of inequality on these episodic events)."

Jeffrey G. Williamson and Peter Lindert, "Long-Term Trends in American Wealth Inequality," Institute for Research on Poverty Discussion Paper no. 472-77.

Post-World War I

Williamson and Lindert use two main data sources for the modern period: estimates of top wealth-holder shares as measured by estate tax returns, and the Federal Reserve Board's 1962 Survey of Financial Characteristics of Consumers. They resolved inconsistencies between the two by making the wealth-holding units comparable across data sources and correcting for an error found in the total private net worth estimate used in the Federal Reserve Board survey. The adjusted estimates show that wealth inequality increased between 1922 and 1929, decreased between 1929 and 1953, and has since remained stable.

As they did for previous periods, Williamson and Lindert examine whether this pattern could be just an artifact of changes in the age distribution. They conclude that "age-life cycle effects appear to be a trivial component of aggregate wealth concentration trends in the mid-twentieth century. Regardless of the time span selected, Gini coefficients vary hardly at all in response to these demographic forces. What small impact there is produces increased wealth concentration over time. Thus, it appears that the post-1929 levelling in wealth distribution is understated, and proper adjustment for life cycle effects would make the trend towards greater wealth equality even steeper."

A forthcoming monograph by Williamson and Lindert goes beyond description of these trends to advance a theoretical model of the processes behind them.

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[1]Jeffrey Williamson and Peter Lindert are Professors of Economics at the University of Wisconsin-Madison and the University of California-Davis, respectively.

[2]They do this by dividing the colonies conceptually into an urban (old settlement) area and a rural (new frontier) area and decomposing the colony-wide variance in wealthholding into the weighted sum of variance within and between each region.

[3]By this measure (the Gini coefficient), if each percentile of the population had the same percentage of total wealth, there would be absolute equality and the Gini coefficient would equal zero. In a state of absolute inequality the Gini would be one.