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Social Classes and Wealth Inequality: A Missing Link?

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The link between social class and income is well-known, but much less is known about class and wealth, write ***Carlos Gil-Hernández, Pedro Salas-Rojo, Guillem Vidal-Lorda*** *and* ***Davide Villani****, despite the trend of rising wealth inequalities in many Western societies. Can social classes – rooted in the relations arising from the division of labour – help us depict the state of wealth inequality in a selection of European countries?*

Despite bold prophecies about class-death in contemporary societies, social classes are very much alive. From the struggle of the "99%"

against the top-earning "1%" denounced by the Occupy Wall Street Movement to the ambiguous "working class" often invoked by politicians and celebrities, concerns about the detrimental effects of inequality and its entrenchment within the class hierarchy have intensified in public and academic debates. This post explores whether social classes, rooted in social relations arising from the division of labour, are fine-tuned enough to depict wealth inequality.

Social classes: the evolution of a tricky concept

Social classes held a central position in the views of classical political economists such as David Ricardo and Karl Marx. Initially, these thinkers divided societies into two broad classes based on their primary income sources: there were labourers earning wages and capitalists obtaining incomes from profits and investment rents. This perspective evolved as mixed sources of income emerged with (among other things) the rise of multinational corporations, where top managers receive high wages while also benefitting from returns on company profits in the form of bonuses and stock remuneration.

To address this growing analytical complexity, economists often framed social classes as relations across ranks in the income distribution (for instance comparing shares of income held by the top earners versus less affluent groups). But while the type of income earned and the position in the distribution are undoubtedly crucial, a comprehensive definition of social classes requires looking far beyond these measures. Sociologists do just this: various scholars have noted how the division of labor delineates a variety of market positions based on the productive resources at one's disposal, ranging from skills and occupational roles to authority and means of production. These factors influence the uneven distribution of job stability and earnings throughout the class system. Although correlated with the income ranks used by economists, other resources – including economic (eg, wealth), cultural (eg, soft skills), and social (eg, network connections) – also shape the class structure.

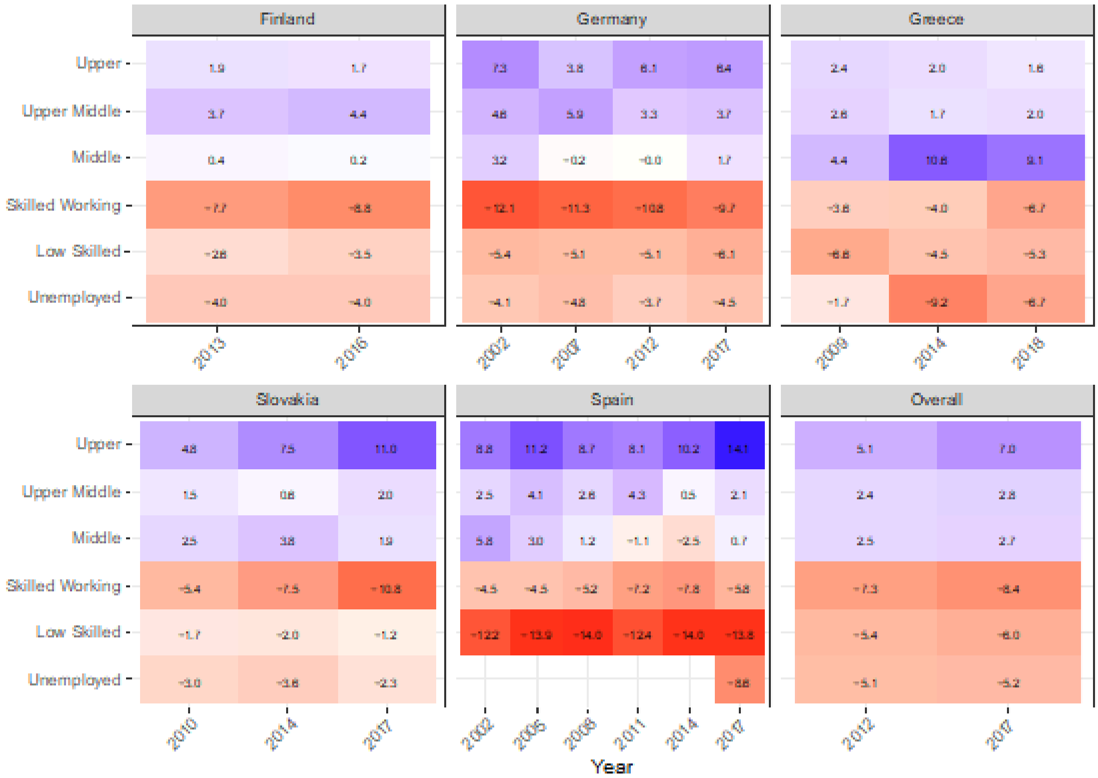
When defining social classes and analyzing economic inequalities, social scientists have tended to focus on the stratification of opportunities and resources by education, ethnicity, or gender. A key angle that has generally been overlooked is wealth. Most of the research around class disregards the wealth accumulation process beyond incomes obtained from the labour market – failing to take account of investment returns, rents and inheritances, and the advantages that these offer as insurance against shocks (notable recent exceptions are Pfeffer and Waitkus (2021) and Duvoux and Papuchon (2022)). Yet wealth is strongly associated with other core dimensions sociologists care about, such as political power, lobbying, social status, and asymmetric job relations. In times of rising wealth inequalities in many Western societies, exploring its stratification across the whole class ladder is crucial.

Social classes and wealth inequality

Our analysis focuses on five European countries – Finland, Germany, Greece, Slovakia and Spain – encompassing different institutional settings and periods from the early 21st Century. We use data from the *Luxembourg Income Study* (specifically the *Luxembourg Wealth Study* or LWS module). Building upon the class scheme proposed by Moawad and Oesch (2023), we generate five social classes based on occupations, education and employment status: upper (top managers and employers); upper-middle (higher-grade professionals); middle (lower-grade managers and professionals, high-skilled clerks and self-employed); skilled working (skilled service and blue-collar workers); and low skilled (low-skilled service and blue-collar workers, and basic occupations). In addition to these five social classes, we include the unemployed as a single category. Regarding wealth, we employ a measure of net worth, aggregating all assets (real estates, bank accounts, financial stocks and so on) owned by households belonging to a particular class minus the associated liabilities. Further details about the class scheme and methodology can be found in Gil-Hernández et al. (2024).

Figure 1 delves into the association between social classes and their wealth holdings. To interpret it, first imagine a scenario where wealth is distributed among the different social classes according to their share in the population. The figure is colour-coded to show deviations from this "equal distribution" scenario: red indicates a group holding a smaller share of wealth relative to its size, while blue indicates a larger wealth share. The accompanying numbers indicate how much a social class deviates from the equal distribution scenario. For example, a value of 3 signifies that a class owns three times the wealth that it would based on its population share alone, whereas -3 indicates wealth that is just one third of what the class's population share would suggest.

Figure 1: Wealth by social classes



Source: Gil-Hernández et al. (2024), using LIS/LWS data.

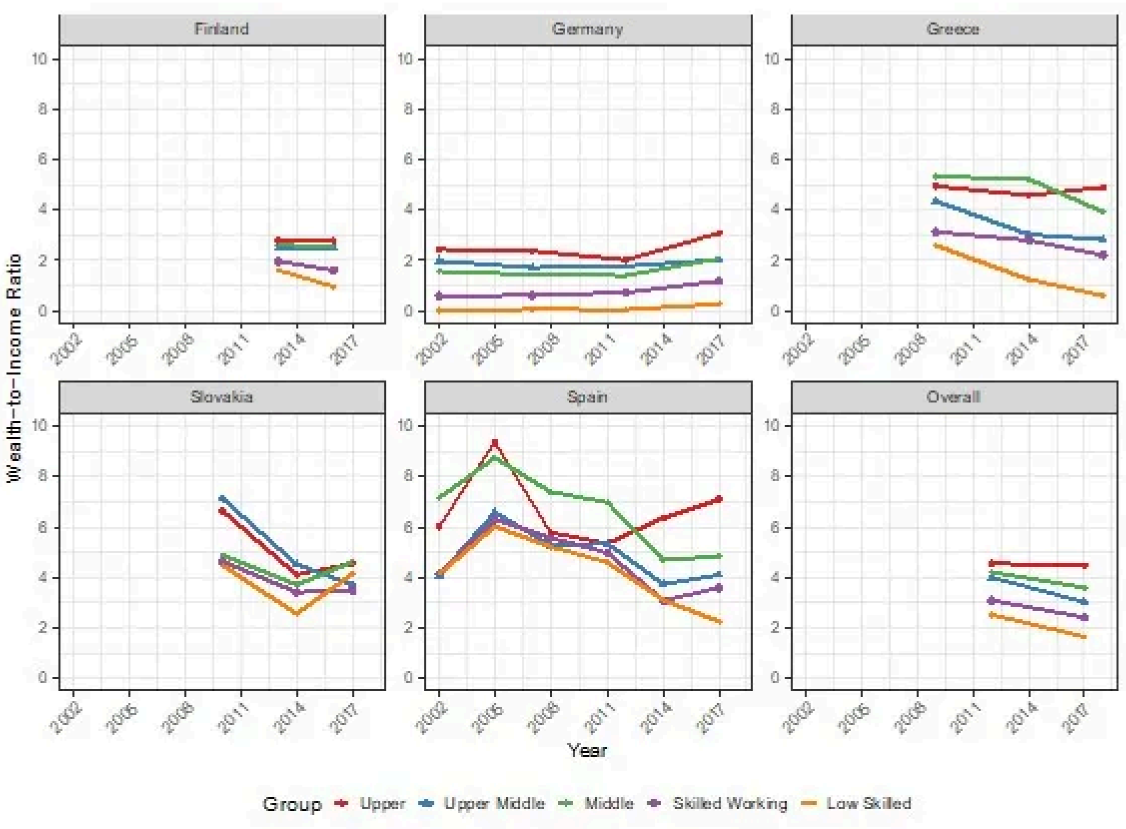
The overall trend is clear: wealth shares of the upper classes consistently surpass their population shares, indicating a concentration of resources, while lower classes, particularly the low-skilled class, consistently possess less wealth than their population shares. This highlights a pronounced economic disparity. The cases of Spain and Slovakia are particularly illustrative, with the upper classes holding a share of wealth relative to their population size, at times exceeding a factor of 10.

As we trace disparities over time, the economic divide becomes more pronounced. In Spain and Slovakia, the wealth share of the upper class has significantly grown over the years, exacerbating the economic gap between the upper and lower classes. The "Overall" box averages results across countries and confirms that the 5-class scheme outlined above accounts for significant wealth disparities.

Wealth relative to income, by class

Disparities in wealth-to-income ratios (WIR) across classes also aids in identifying patterns of wealth concentration. Households with higher WIR values tend to be better positioned to withstand economic shocks, such as job loss or unexpected expenses, as the accumulated assets serve as financial buffers, reducing reliance solely on their incomes. By contrast, lower WIR values are associated with economic vulnerability and a higher dependence on the redistributive mechanisms of the welfare state.

Figure 2: Wealth-to-Income Ratios



Source: Gil-Hernández et al. (2024), using LIS/LWS data.

Figure 2 shows the greater capacity for wealth accumulation among the upper classes, contrasting with lower WIR values for the working classes, especially in Germany and Finland. For instance, the upper class owns wealth assets representing, on average, about 4.5 years of accumulated annual gross income. Greece, Spain, and Slovakia (in 2010) exhibit the highest WIR levels, with Spain, Greece and, to some extent, Germany experiencing widening values across time, indicating class divergence. The elevated WIR values the upper classes attain reveal their capacity to amass wealth through the accumulation of income over time.

Final remarks

Social class divides extend far beyond market income. Although income is undoubtedly a reliable proxy of social status, power relations, and labour market position, among other social dimensions, it may not capture all valued resources influencing people's chances in life. As we argue extensively in our paper, shifting the spotlight towards wealth accumulation makes clear the multidimensional nature of socioeconomic inequalities. As we've summarized here, wealth is stratified by social classes, with the upper classes accumulating much more wealth than those at the bottom, and this gap seems to have widened in many countries. Policy responses to tackle rising class-based wealth inequalities are beyond the scope of this post, but wealth or inheritance tax reforms might certainly play a major role.

There is a growing academic literature on wealth inequality dynamics, especially economists highlighting distributional rank positions and the elite accumulation of wealth. Sociologists, however, are somewhat lagging behind. Social class is still a key tool for understanding the causes of rising wealth inequality in contemporary capitalism, but it could be sharpened by including wealth analyses over the entire class structure.

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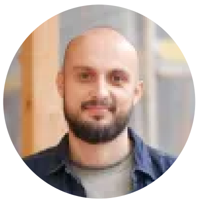

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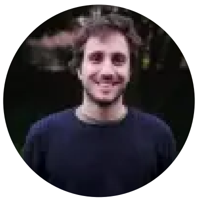

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