A Fundamental Flaw in Capitalism?

Gregory Clark
University of California, Davis
Where does wealth derive – created or inherited?


- Prediction - by 2050 in France 80-86% of wealth will once again be inherited.

- As long as r>g so will it ever be.

- Moral and economic reasons for significant wealth taxation.
Reason For Piketty Conclusion

\[ \frac{W_T^H}{W_T} = \frac{1}{30} \sum_{t=T-29}^{T} (1 + rs_K - g)^{T-t} \]
Piketty, 2014, figure 11.7
Does the same conclusion hold for England and other countries?

- Probate registry gives wealth at death of everyone in England 1858-2014

- Shows what is left, but not what is received

- Similar pattern in terms of size of bequests relative to income as for France
Figure 9: Bequests as a Fraction of Annual Income, England, 1809-2013.
Inheritance Flows as a Fraction of National Income, France, 1820-2010
Sample of families from rich rare surname lineages identified by deaths 1858-1887

- 23,258 individuals born 1770-2012. 205 rare surnames

- Wealth at death of everyone dying with the surname 1858-2012

- We can thus calculate the lineage wealth by generation, assuming 30 year generations

- This wealth will approximate the total wealth of descendants of the rich dying 1858-1887
# Individual and Group Level Correlations of Wealth across Generations, England, 1858-2012

<table>
<thead>
<tr>
<th>Period of child death</th>
<th>N</th>
<th>Father-Son Wealth Correlation</th>
<th>Correlation - Surname Groupings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1888-1917</td>
<td>902</td>
<td>0.49</td>
<td>0.71</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.028)</td>
<td>(0.026)</td>
</tr>
<tr>
<td>1918-59</td>
<td>2,109</td>
<td>0.39</td>
<td>0.68</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.017)</td>
<td>(0.028)</td>
</tr>
<tr>
<td>1960-87</td>
<td>1,126</td>
<td>0.38</td>
<td>0.72</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.023)</td>
<td>(0.032)</td>
</tr>
<tr>
<td>1999-2012</td>
<td>449</td>
<td>0.42</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.055)</td>
<td>(.077)</td>
</tr>
</tbody>
</table>
Parents
Sons
Unmarried Daughters
Daughters in Law
SURNAME LINEAGE
Parents
Sons
Unmarried Daughters
Married Daughters
losses
 gains
Table 2: Estates of daughters versus daughter-in-laws, deaths 1860-1949

<table>
<thead>
<tr>
<th></th>
<th>Married Daughters N</th>
<th>Married Daughters Ave Value</th>
<th>Daughters in Law N</th>
<th>Daughters in Law Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Estate, 1860-89</td>
<td>168</td>
<td>£6,063 (1,056)</td>
<td>444</td>
<td>£9,452 (1,633)</td>
</tr>
<tr>
<td>Average Estate, 1890-1919</td>
<td>268</td>
<td>£6,909 (743)</td>
<td>499</td>
<td>£12,026 (3,131)</td>
</tr>
<tr>
<td>Average Estate, 1920-49</td>
<td>321</td>
<td>£11,010 (1,201)</td>
<td>587</td>
<td>£11,993 (2,451)</td>
</tr>
</tbody>
</table>
Share Inherited Wealth

\[
\frac{W_T^H}{W_T} = \frac{H_t}{B_t} = \frac{B_{t-1}}{B_t} \frac{B_{tR}}{B_{t-1R}}
\]
Figure 11: Wealth, Rare Rich Surnames, relative to all bequests, 1858-2012

Note: Wealth at death of rare surname group relative to all wealth set at 100 in 1858-1889.
Figure 12: Wealth per Death, Rich Rare Surnames, Relative to Average Wealth per Death, 1858-2012
<table>
<thead>
<tr>
<th>Period</th>
<th>Wealth at Death England (£ m.)</th>
<th>Wealth at Death (£ m.)</th>
<th>Share Wealth Inherited</th>
<th>Average birth date of rare surname deaths</th>
<th>Share of Wealth inherited (30 year generation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1858-89</td>
<td>4,252</td>
<td>45.3</td>
<td>-</td>
<td>1814</td>
<td>-</td>
</tr>
<tr>
<td>1890-1919</td>
<td>6,723</td>
<td>38.2</td>
<td>0.53</td>
<td>1843</td>
<td>0.52</td>
</tr>
<tr>
<td>1920-49</td>
<td>12,102</td>
<td>43.1</td>
<td>0.63</td>
<td>1867</td>
<td>0.55</td>
</tr>
<tr>
<td>1950-79</td>
<td>52,776</td>
<td>59.3</td>
<td>0.32</td>
<td>1888</td>
<td>0.20</td>
</tr>
<tr>
<td>1980-2012</td>
<td>707,649</td>
<td>329.8</td>
<td>0.41</td>
<td>1920</td>
<td>0.43</td>
</tr>
</tbody>
</table>
Share of wealth from inheritance likely even lower than these estimates suggest

- This exercise assumes that all the wealth within these wealth lineages is inherited

- But good evidence that even some of this is newly created
Example

- Richard Frederick Colvile, for example, died leaving an estate of £12.2 million in 2004.
- But his father Kenneth who died in 1956 left an estate of only £34,520, and his mother Kathleen, dying in 1982, left an estate of only £91,118.
- He was one of 4 siblings
Wealth at death, births before 1800, as a function of family size

- If all wealth in the lineage is inherited, then family size would be a strong predictor of wealth at death.

- Before 1880 enormous variation in family sizes (aged 21+)

- Range 1-17
Figure 5: The Distribution of Family Size in the Rare Surnames Sample, pre-1880
Figure 6: Share of Children in each family size, pre-1880
Random Elements in Net Fertility pre 1880

- William IV, 1765-1837
- Mistress 1791-1811, Dorothea Bland – 10 children, 8 alive 1837 (Bland gave birth to 14 children in total – she was 30 when her affair with the Prince began)
- Wife, 1818-37, Princess Adelaide
  - Wife 25 at marriage, happy union
  - 2 births (dead in infancy), 3 miscarriages, no heir
  - Succeeded by niece, Queen Victoria
Evidence that fertility variation largely random

- Very little explained by observed family characteristics – less than 7% of variation

- Intergenerational correlation of fertility, marriages pre-1880 0.03 (se = .02)

- Intergenerational correlation of longevity 0.2
Wealth at death and family size
<table>
<thead>
<tr>
<th></th>
<th>Fathers' Wealth</th>
<th>Grand Father</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ln Wealth Father</td>
<td>0.334***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.020)</td>
<td></td>
</tr>
<tr>
<td>lnN</td>
<td>-0.404***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.107)</td>
<td></td>
</tr>
<tr>
<td>Ln(Gfather wealth)</td>
<td>0.210***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.027)</td>
<td></td>
</tr>
<tr>
<td>lnN(Gfather)</td>
<td>-0.052</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.142)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>4,732</td>
<td>2,824</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.120</td>
<td>0.046</td>
</tr>
</tbody>
</table>
Probate Rates Grandchildren

![Graph showing probate rates by family size for grandchildren.]
Why are these results so different than for Paris?

- **Differing economic structures?**

- **Source issues?**
USA?

- Probate is a state matter in the USA, so a similar exercise would be infeasible.

- Also, for tax reasons, large scale use of trusts and other devices by wealthier in USA (not such an issue in England).

- Share of inherited wealth, if anything, likely to be lower than in England – immigrant society, many successful new groups (Indians, Iranians etc.).
Conclusions

If England is a guide:-

- Most wealth at death is likely created during the lifetime, not inherited, now and always