

EC103: Inequality: Economic, Historical and Sociological Perspectives

Lecture 6: Critical Junctures in the History of Inequality

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OF ECONOMICS AND
POLITICAL SCIENCE ■

Remarkable Persistence of Norman Elites in England

Yesterday Clark and Cummins (2014) have shown us that elites in England are remarkably persistent:

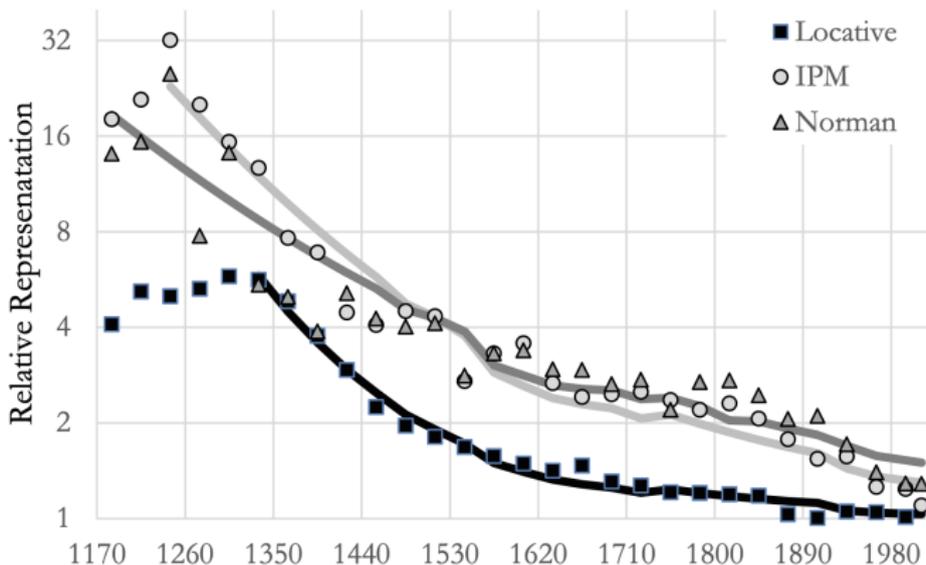


Figure 1: Estimates of b , 1170–1829. Relative representation at Oxbridge of Norman surnames of landowners in the Domesday Book (Norman), Inquisition Post Mortem (IPM), and those of locative origin. The suggested underlying intergenerational mobility is consistent with the analysis of the rare names from 1800 to 1829

From William the Conqueror to Mister Darcy...



William the Conqueror on the Bayeux Tapestry

(Source: Bayeux Museum)



Mr Darcy in the 2005 version of 'Pride and Prejudice'

(Source: BBC)

Persistence across *Critical Junctures*

The years from 1200 to 2000 were tumultuous:

- ▶ Black Death and Plague
- ▶ Wars
- ▶ Colonization
- ▶ Industrialization
- ▶ Rise of the Middle Class

And yet the Norman Elites seem remarkably persistent.

What are *Critical Junctures*?

Robinson (2012) describes the role of Critical Junctures as follows:

"Once a set of institutions comes to dominate society it tends to persist for long periods of time though the institutional path can certainly change in the context of major 'critical junctures'. These could include factors external to a society such as the imposition of colonial rule, interstate war, or globalization, but they also include changes endogenous to society such as revolution, or industrialization and the rise of the middle class."

(Robinson, 2012, p. 30)

Today's Focus: *Critical Junctures* in the History of Inequality

Did Clark and Cummins (2014) uncover a specificity of the English case or does the same hold for other societies?

Plan for Today

Today we will:

- ▶ Look at different *cases of elite persistence*;
- ▶ Look at different possible *explanations for that persistence*;
- ▶ Look at different *critical junctures* and their effects on inequality;
- ▶ Look towards the future of inequality.

Is Britain a Special Case?

At least since the Glorious Revolution 1688, Britain was characterized by:

- ▶ Absence of political revolutions
- ▶ Relative political stability
- ▶ Very secure property rights
- ▶ No radical change in the ownership structure
- ▶ Very rich
- ▶ An absence of radical 'critical junctures' in general.

What about societies that were characterized by the absence of these characteristics?

Is Britain a Special Case?

We will look at five extreme cases very different from Britain:

- ▶ **China** in the 20th Century
- ▶ Tsarist Russia - The **Soviet Union** - Modern Russia
- ▶ The **US South** before, during, and after the Civil War and Emancipation
- ▶ **Sierra Leone**
- ▶ The *sugar islands* of the **Danish West Indies**

Critical Junctures: Case Studies

- ▶ **China in the 20th Century**
- ▶ Tsarist Russia - The Soviet Union - Modern Russia
- ▶ The Ante- and Postbellum US South
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- ▶ The Danish West Indies

Alesina et al. (2020): China - Two Radical Revolutions

*"Thus, the Communist and Cultural Revolutions represent some of the **most radical attempts in human history to eliminate the advantages of the elite**, and to eradicate inequality in wealth and formal education."*

(Alesina et al., 2020, p. 1)

China: Communist and Cultural Revolutions

What measures did the Chinese State take during the Communist and Cultural Revolutions?

- ▶ **Land Reform:** Expropriation and Redistribution of land assets
 - ▶ **Close channel of transmission of status via transmission of physical assets.**
- ▶ **Education:** Closure of Schools and Universities
 - ▶ **Close channel of transmission of status via formal education and human capital.**
- ▶ **Culture:** Stigmatization of values associated with wealth and education.
 - ▶ **Close channel of transmission of status via transmission of cultural capital.**

Alesina et al. (2020) look at three generations in rural China:

- ▶ **1) The Grandparents:**
Born before 1940, grew up before the Revolution.
- ▶ **2) The Parents:**
Born 1940-1965, experienced the revolutionary shocks.
- ▶ **3) The Children:**
Born after 1965, were teenagers when revolutions were over.

They look at several outcomes:

- ▶ Pre- and post-revolution land ownership;
- ▶ Contemporary inequality in housing from the 2000 census;
- ▶ Socioeconomic outcomes and attitudes from the China Family Panel Studies.

Link individuals in the survey to land ownership pre-revolution using "class labels".

The Revolutions are successful in homogenizing "parents":

- ▶ County-level Gini coefficient decreased from .5 to .1.
- ▶ Individuals from elite backgrounds did not achieve a higher level of education than people from non-elite backgrounds.

But the pre-revolutionary elites "grandchildren" manage to bounce back. By 2010 individuals with pre-revolutionary elite grandparents...

- ▶ Earn 16-17% higher incomes than individuals from non-elite backgrounds.
- ▶ Have completed 11% additional years of schooling than individuals from non-elite backgrounds.
- ▶ Have a 14.5% chance of staying in the top income decile. Which is higher than the equivalent for the top 10% income deciles in the US (14.1%) or Canada (11.1%).

Gini coefficients of Land Ownership/Housing

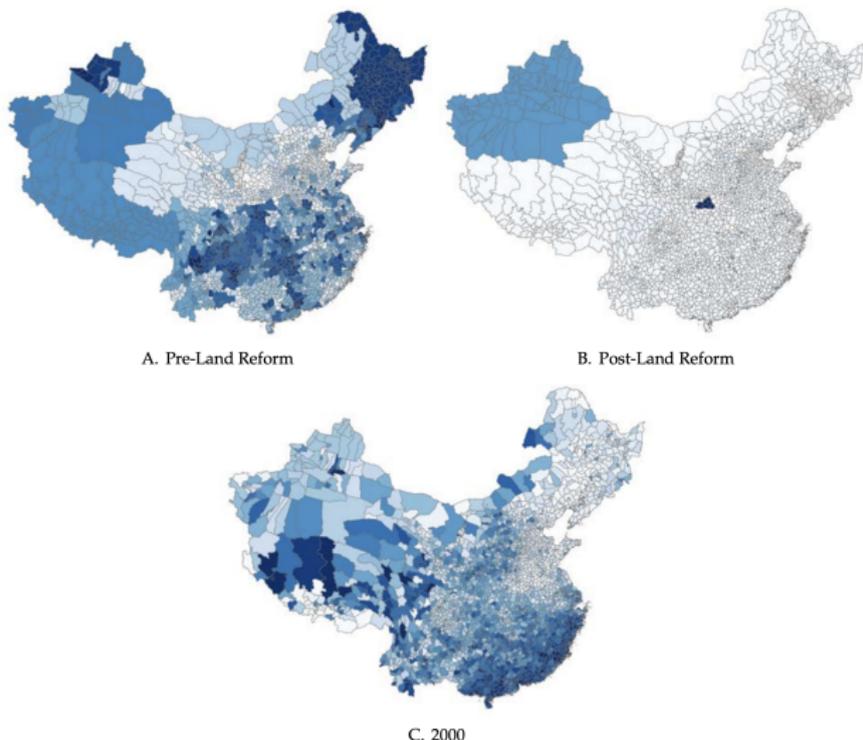


Figure 2: Gini of land ownership before and after the land reform. Gini of housing in 2000. Darker color indicates higher within-county inequality.

Elite Class's Advantage in Educational Attainment



Figure 3: Average difference in the probability in completing at least secondary education between the elite class (defined as individuals from landlord or rich peasant households) and the non-elite class.

Critical Junctures: Case Studies

- ▶ China in the 20th Century
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- ▶ Sierra Leone
- ▶ The Danish West Indies

Eeckhout (2023) - The October Revolution



(Source: Britannica)



(Source: Pushkin House)

- ▶ In 1917, the Bolsheviks under the leadership of V.I. Lenin overthrew the provisional government that had taken over after the abdication of the Tsar - the famous *October Revolution*.
- ▶ According to Lenin's unconventional interpretation of Marx, it was possible to "leapfrog" the capitalist stage of development and proceed directly to a socialist and eventually even communist society.

The history of the USSR/Russia - Many Critical Junctures

The October Revolution was followed by many shocks and critical junctures:

- ▶ Civil War
- ▶ New Economic Policy (NEP)
- ▶ Elite Repression Policies:
 - ▶ 'former exploiting classes' were denied the right to vote.
 - ▶ In 1924, regulations made it much harder for elites to enter higher education
 - ▶ 'End to the class struggle' with Stalin's new constitution of 1936.
- ▶ Stalin's purges
- ▶ World War II
- ▶ Dissolution of the Soviet Union and privatization of state assets
- ▶ Return of authoritarianism under Putin

Tsarist Elites are Remarkably Persistent

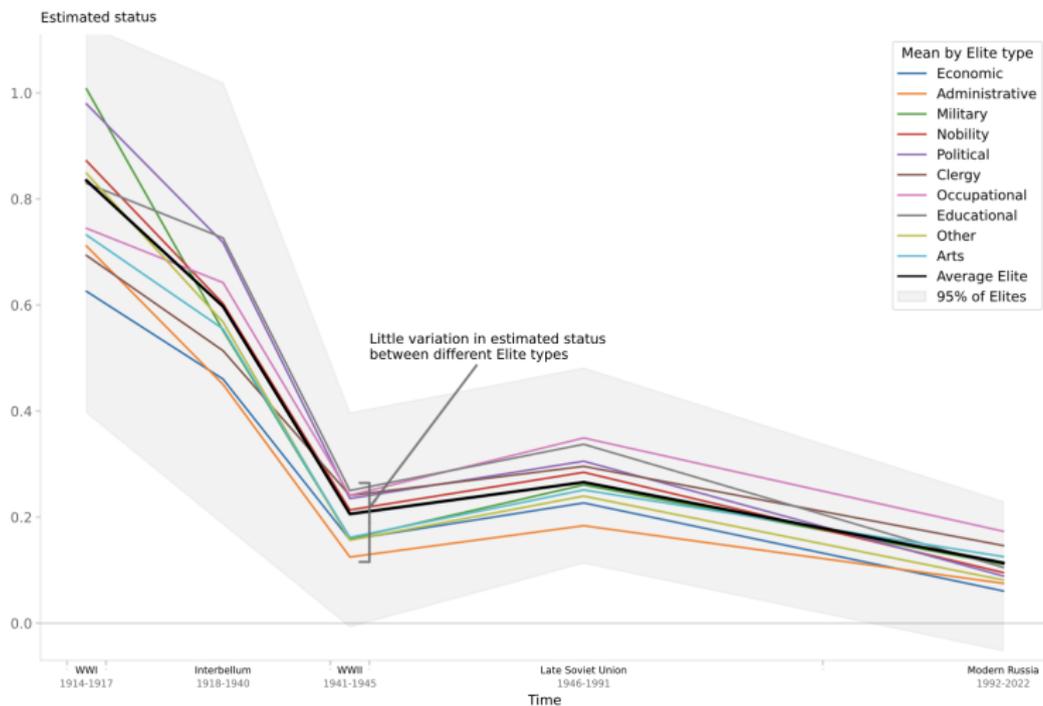


Figure 4: Estimated status per type of Tsarist elite, each line is for the mean of a type. The grey-colored area contains 95% of Tsarist elites. (Eeckhout, 2023, p. 138)

We See very High Persistence Rates

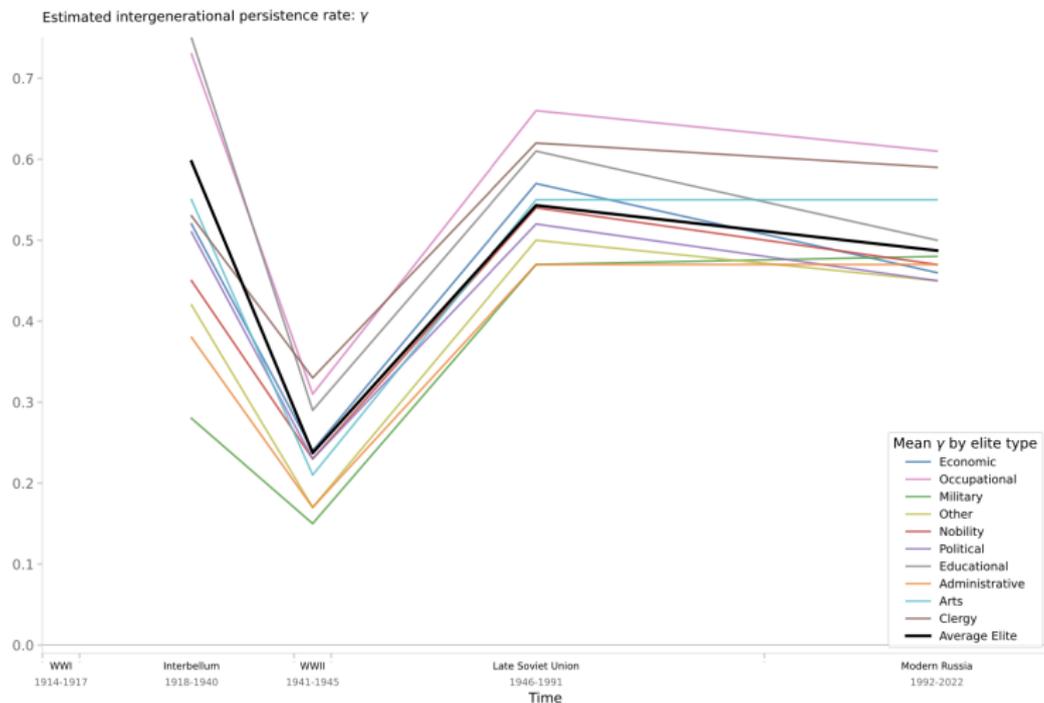


Figure 5: Estimated persistence rate per type of Tsarist elite, each line is for the type-specific estimated persistence rate, from 1916 up to that moment. (Eeckhout, 2023, p. 139)

The Tsarist Elites are no Longer Military Elites but Survive as Cultural/Educational Elites

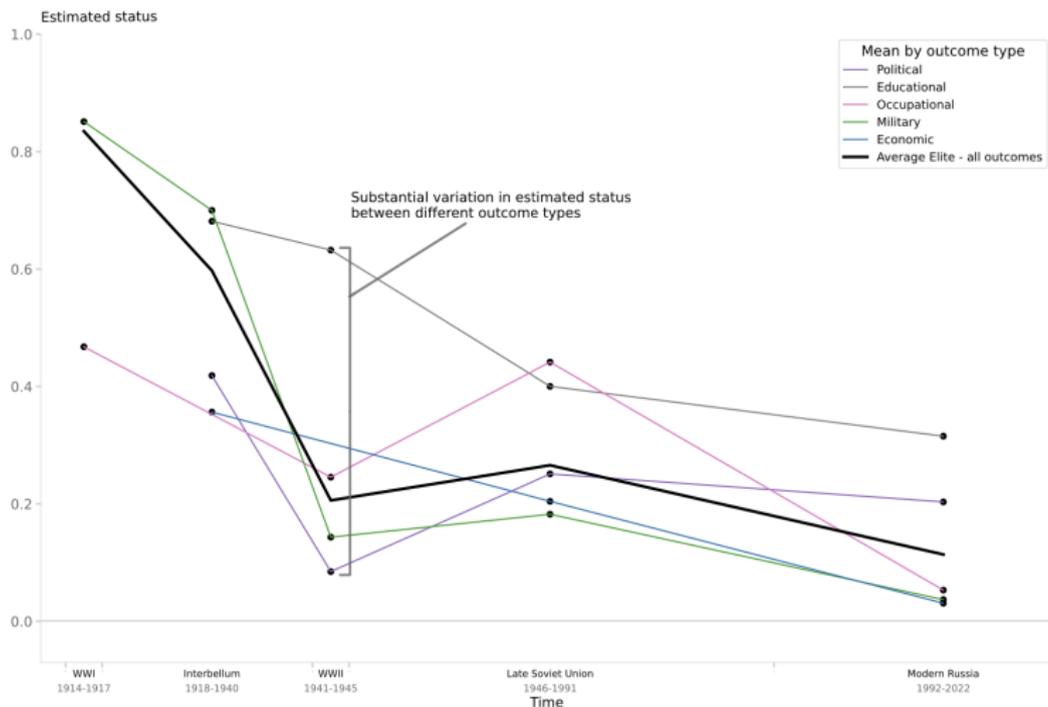


Figure 6: Estimated average status per outcome type, with each colored line the average status for an outcome type. The black line is the overall average (over all outcomes). A black dot indicates an observation for that outcome type and that period. (Eeckhout, 2023, p. 140)

Critical Junctures: Case Studies

- ▶ China in the 20th Century
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- ▶ **The Ante- and Postbellum US South**
- ▶ Sierra Leone
- ▶ The Danish West Indies

Ager et al. (2021): US South - Cancellation of Elite "Wealth"



- ▶ The "wealth" of the plantation owner elite of the US South before the Civil War consisted largely of enslaved people.
- ▶ This "wealth" was nullified after the Civil War.
- ▶ "[...] *one of the largest episodes of wealth compression in history*" (Ager et al., 2021, p. 1)

(Source: National Museum of African American History and Culture)

Ager et al. (2021) look at three generations in the Slaveholding States of the US South:

- ▶ **1) The Fathers:** From the 1860 census - on the eve of the Civil War.
- ▶ **2) The Sons:** From the 1900 census - 35 years after the Civil War.
- ▶ **3) The Grandsons:** From the 1940 census.

They look at:

- ▶ The amounts of enslaved persons the fathers owned (from the slave schedule);
- ▶ Wealth (either directly observed or occupation-based) .

Link individuals explicitly using census-linking.

Slaveholders Recover Quickly

Ager et al. (2021) estimate the following equation:

$$Y_{isp} = \alpha_s + \eta_p + \mathbb{1}(\text{SLAVE_COUNT1860}_i)\Pi + X_i\Theta + \varepsilon_{isp} \quad (1)$$

Where Y is wealth and $\mathbb{1}(\text{SLAVE_COUNT1860}_i)$ are indicators of number of enslaved persons owned.

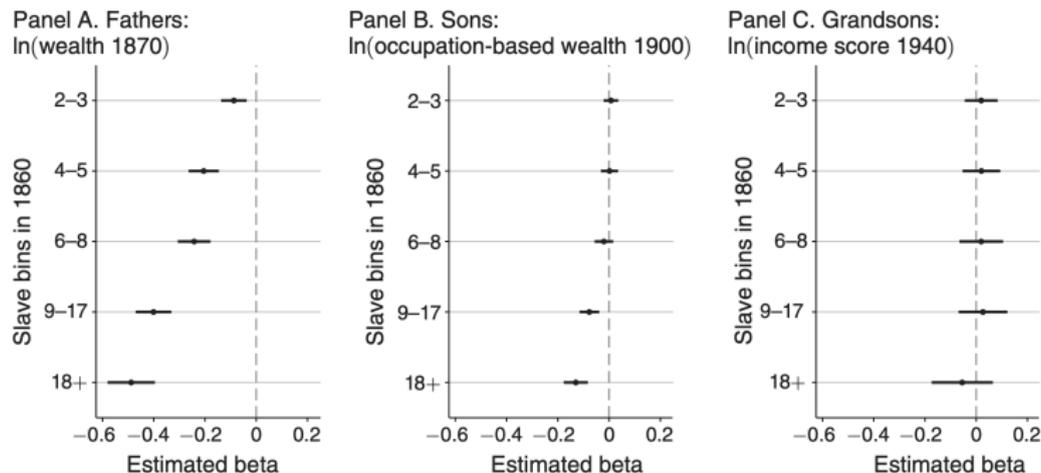


Figure 7: The Relationship of known enslaved property in 1860 and household wealth/income over three generations.

Critical Junctures: Case Studies

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There are Reasons to assume that African Elites are more vulnerable to *Critical Junctures*

- ▶ **Limited Private Property Rights**

Due to historical land abundance and labour scarcity, property rights over land were less developed than property rights over labour. (Austin, 2008)

Individual land tenure was usually limited to settlers.

- ▶ **More Frequent Economic and Political Crises**

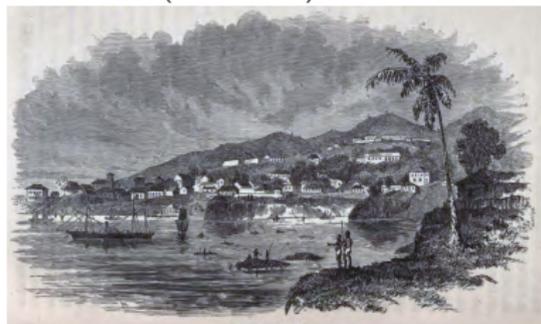
Asset prices are volatile and business failures more wide-spread. Large businesses that offer return on high human capital or high capital incomes are rare.

- ▶ **Dupraz and Simson (2024) test whether this leads to different outcomes.**

The Unique History of Sierra Leone



(Source: AAR)



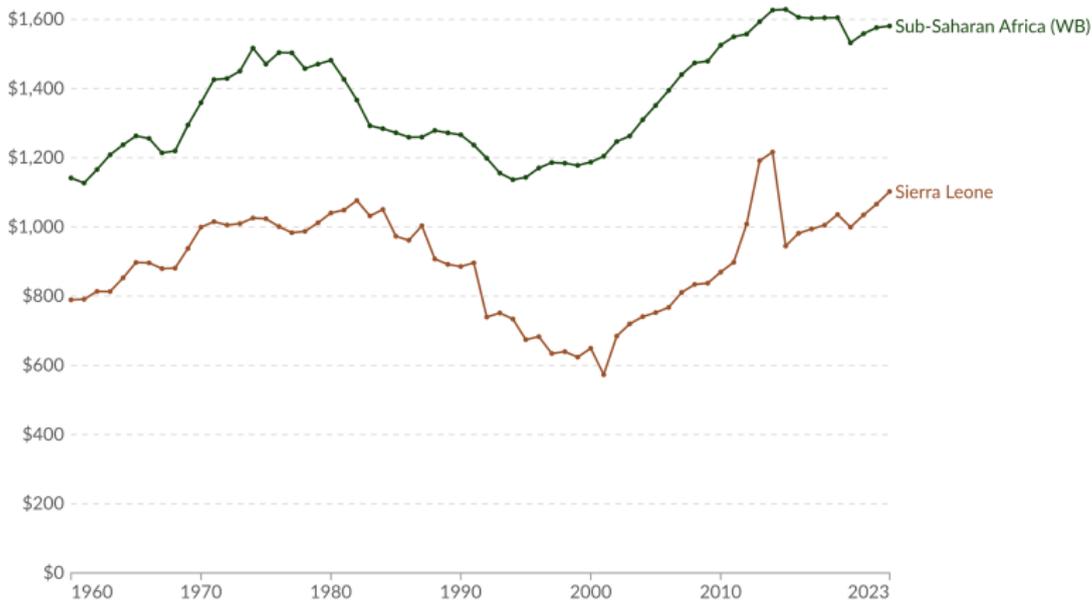
Freetown, ca. 1856

(Source: Wikimedia Commons)

- ▶ Colony of Sierra Leone was founded to **resettle formerly enslaved people** who fought on the English side in the War of Independence.
- ▶ **Freetown** becomes main port of **disembarkation for people freed from intercepted slave trade ships**.
- ▶ 1896: Britain annexes **Sierra Leonean hinterland**.
- ▶ **Treaties with local paramount chiefs** formalises their roles.

GDP per capita

This data is expressed in US dollars. It is adjusted for inflation but does not account for differences in living costs between countries.



Data source: World Bank and OECD (2025)

OurWorldinData.org/economic-growth | CC BY

Note: This data is expressed in constant 2015 US\$.

Figure 8: GDP per capita Sierra Leone (Source: Our World in Data)

They look at two different Elite Groups

Krio

- ▶ Descendants of formerly enslaved people from the US, Britain, the Caribbean, and intercepted ships.
- ▶ Based in and around Freetown.
- ▶ Elite "traditionally" active in urban professions.
- ▶ Close to the cultural and educational center of Freetown.

Paramount Chiefs

- ▶ Descendants of the different chiefly families.
- ▶ Based in the Southern hinterland.
- ▶ Elite "traditionally" active in mining.
- ▶ Based far from the cultural and educational center of Freetown.

- ▶ **Dupraz and Simson (2024) identify the two groups using surnames.**

Name Relative Representation in Parliament

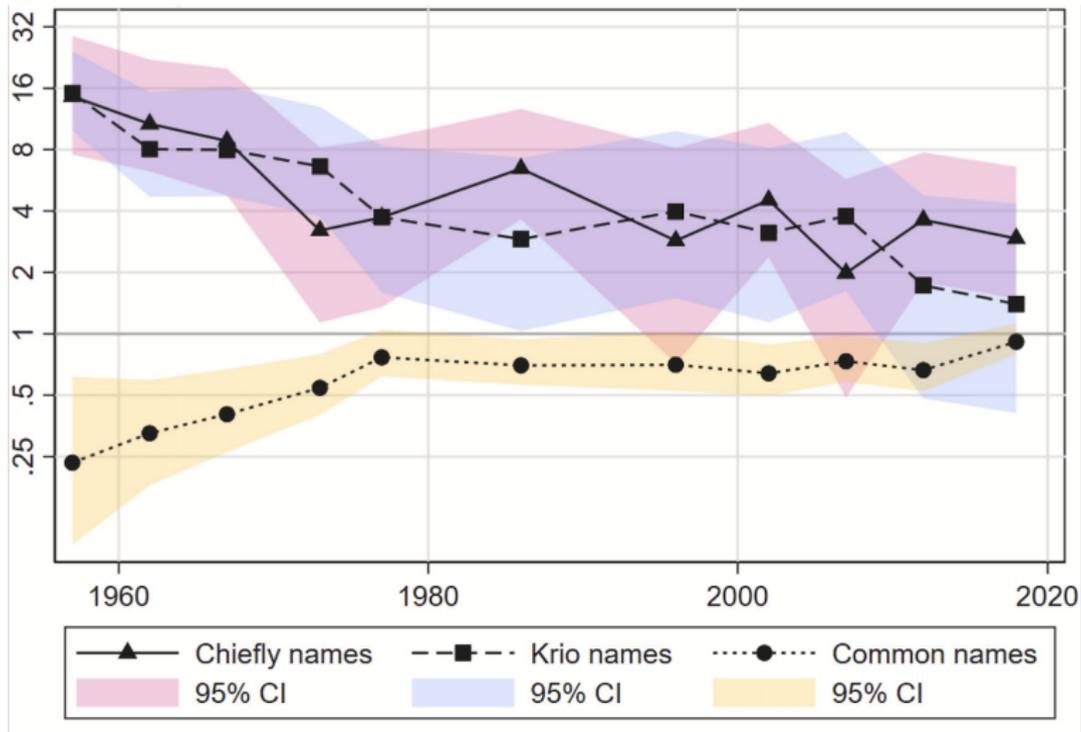


Figure 9: Name relative representation in parliament (Dupraz and Simson, 2024, p. 7)

Name Relative Representation in Alluvial Mining Licence Ownership

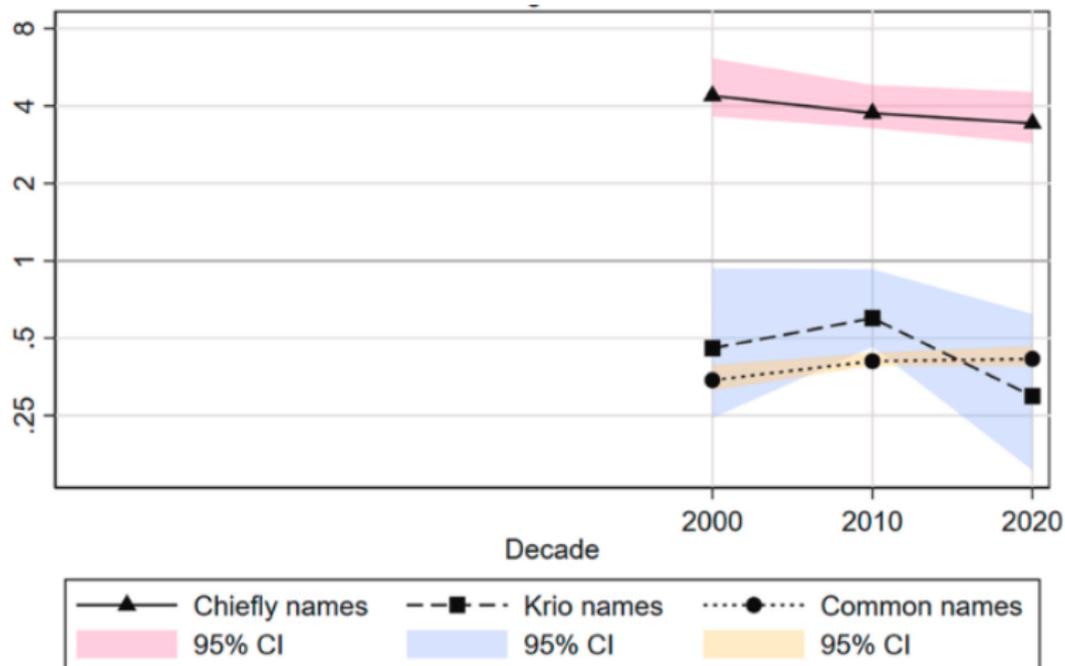


Figure 10: Name relative representation in alluvial mining licence ownership (Dupraz and Simson, 2024, p. 8)

Name Relative Representation in Different Professions

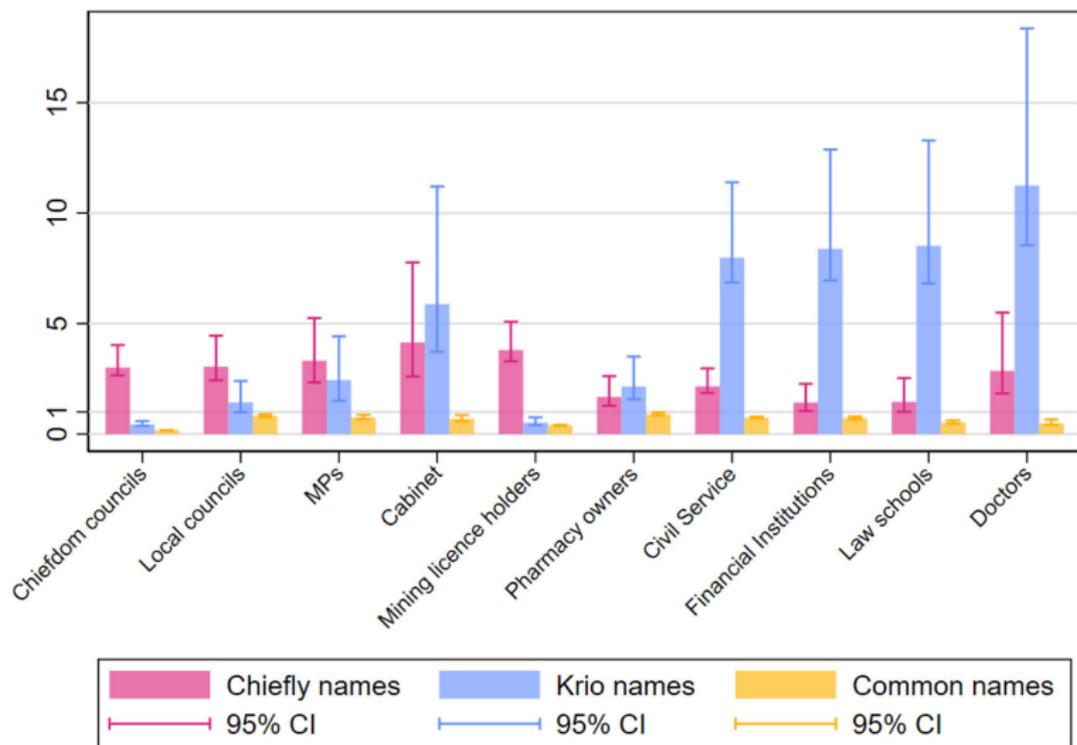


Figure 11: Relative Representation in Various Elite Categories after 2000. Note: Confidence intervals are obtained with bootstrapping (Dupraz and Simson, 2024, p. 9)

Critical Junctures: Case Studies

- ▶ China in the 20th Century
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Most Inhabitants were Enslaved

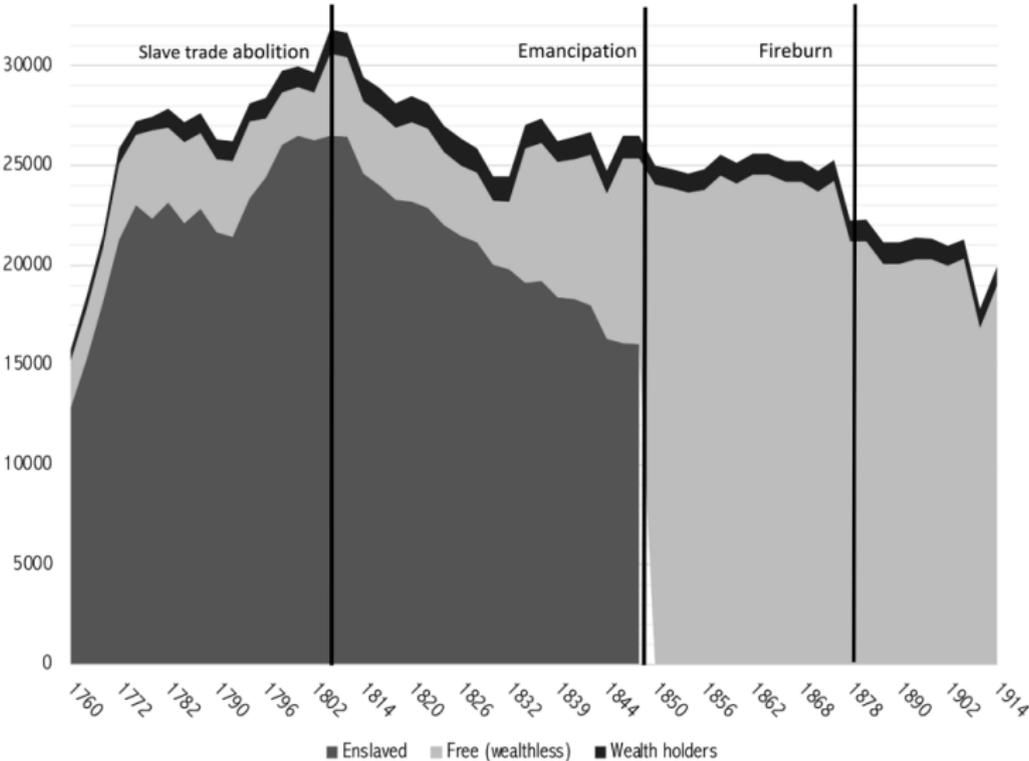


Figure 12: Structure of the society, St. Croix 1760–1914.

High Elite Persistence across *Critical Junctures*

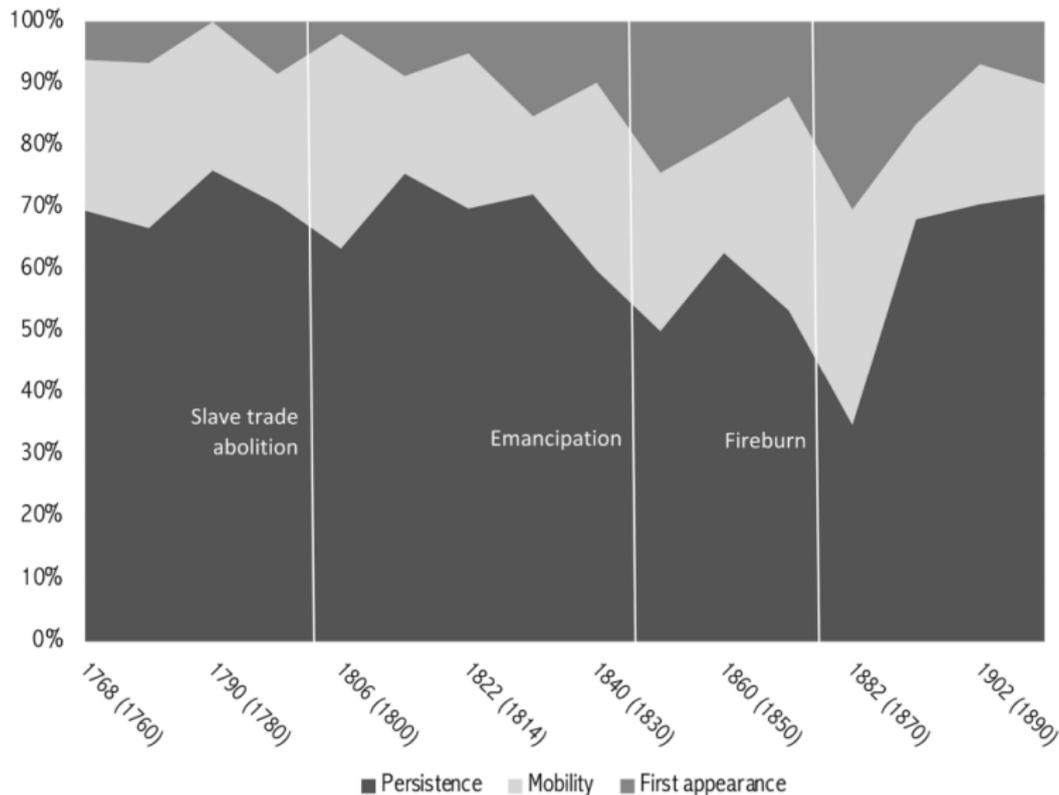


Figure 13: Rate of inter-generational persistence, Top 10 percent.

Elite Wealth is Strongly Correlated with Sugar Price

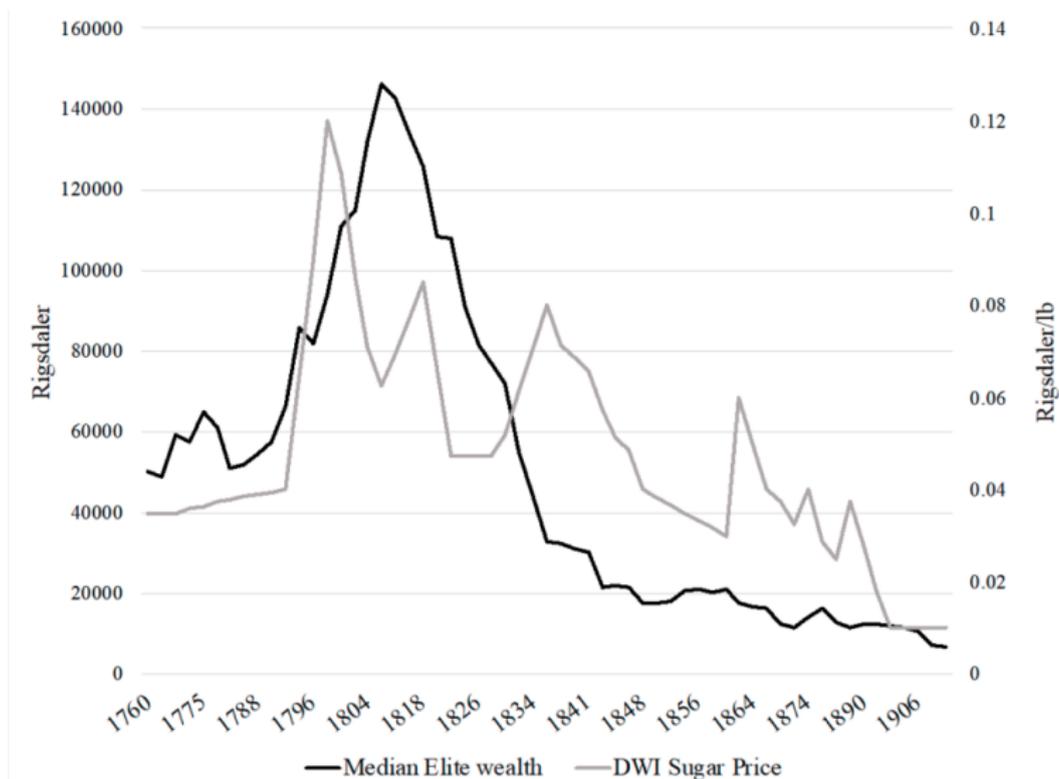


Figure 14: Median elite wealth (nominal) and DWI sugar prices, 1760–1914.

Why do the Elites (not) Rebound?

How can we explain the elite's economic rebound in these very distinct cases?

How do the authors explain it?

- ▶ **Transmission of Values/"Informal" Human Capital** (Alesina et al., 2020)
- ▶ **Elite Networks** (Ager et al., 2021)
- ▶ **Persistent First-mover Advantage** (Dupraz and Simson, 2024)
- ▶ **Bourdieu (1984, 2011): Different Forms of Capital** (Alesina et al., 2020; Ager et al., 2021; Eeckhout, 2023; Dupraz and Simson, 2024)
- ▶ **Underlying Economic Structure** (Galli et al., 2024)

Transmission of Values/"Informal" Human Capital (Alesina et al., 2020)

From the Survey Data on China, Alesina et al. (2020) find that:

- ▶ Individuals whose grandparents were part of the pre-revolution elite are **less averse to inequality, more individualistic, and more likely to consider effort important for success.**
- ▶ This is due to **vertical transmission**: The effect is absent for people whose parents died prematurely.
- ▶ Interestingly, these values **"skipped a generation"**, as their parents are not more likely to express these values.

Elite Social Networks (Ager et al., 2021)

Ager et al. (2021) rule out several other explanations:

- ▶ Innate ability;
- ▶ Entrepreneurship;
- ▶ Specific Skills;

They conclude that the slaveholders social networks must have helped them recover:

- ▶ Advantageous marriages;
- ▶ Access to credit and business networks;
- ▶ Transition from agriculture to industry occurred through social networks: "*[...] more than 60% of mill owners in the growing textile industry were from prominent planter [...] families.*" (Ager et al., 2021, p.3786)

Persistent First-Mover Advantage (Dupraz and Simson, 2024)

Sierra Leonean elites seem to be as persistent as elsewhere.

This is interesting because the Krio settlers - as formerly enslaved people - were of distinctly non-elite origin:

- ▶ Krio (initially) had **no elite social networks**;
- ▶ Krio (initially) had **no human capital legacy**;
- ▶ There seems to be an enduring "first-mover advantage".

Different Forms of Capital - (Bourdieu, 1984)

- ▶ Last week, we looked at the ideas of Pierre Bourdieu (1984).
- ▶ He defined capital as "*[...] what makes the game of society – not least, the economic game – something other than simple games of chance*".
- ▶ Different forms of capital can be "exchanged for one another".
- ▶ Financial capital is often turned into cultural and social capital that can be turned back into financial capital when the political situation changes:
 - ▶ The Tsarist elites managed to convert their financial capital into cultural capital and maintain their social capital.
 - ▶ The Chinese elites managed to preserve their social and human capital.
 - ▶ The Southern US elites managed to build up social capital through their financial capital.
- ▶ This allowed them to rebound in post-Soviet Russia/post-Deng China/the post-abolition US.

Underlying Economic Structure (Galli et al., 2024)

Galli et al. (2024) identify three mechanisms which allowed elites to persist:

- ▶ Inheritance;
- ▶ Institutional co-optation;
- ▶ Limited franchise.

They managed to weather the shocks of several *critical junctures*. But they did so against the background of their **gradual impoverishment:**

- ▶ Before emancipation, sugar prices began to decline.
- ▶ This was due to the competition from other producers and sugar beet.
- ▶ Crucian elite impoverished.

Do legal *Critical Junctures* always correspond to Economic Changes?

▶ **Emancipation**

Many formerly enslaved people without wealth continue to work as sharecroppers on cotton and tobacco plantations.

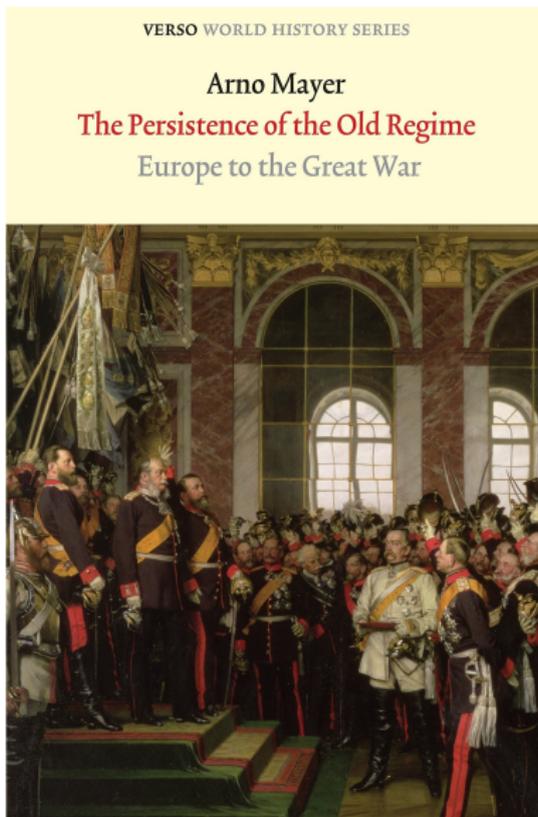
▶ **End of Serfdom in Russian Empire**

Former serfs often continue to work the land of their former lords.

▶ **French Revolution**

The revolutionaries pursued the "*abolition of the feudal system*" but were unsure of what that would entail. The abolition of feudal property or just stripping it of feudal elements. Feudal lords became landlords but there was no expropriation of feudal property (Blaufarb, 2016).

Echoes Arno Mayer (1981) - The Persistence of the Old Regime



Arno Mayer (1981) - Key Ideas

- ▶ Europe's *anciens régimes* survived until World War I which was a symptom of their crisis.
- ▶ Primary product production and therefore landed property still dominated economic life in Europe.
- ▶ "*[L]anded nobles became postfeudal [...] as they adopted capitalist methods of agricultural production [...].*" (Mayer, 1981, p. 9) But they remained at the top of the wealth distribution.
- ▶ Land remained the dominant form of wealth.
- ▶ Downstream from this is their dominance in the realms of politics, culture, and thought.
- ▶ "*Integral and coherent social, economic, and cultural systems [...] were exceptionally stable.*" (Mayer, 1981, p. 6)

Why could this be of Relevance to the Biggest Questions in Economic History?

*"[Historians] have been far more **preoccupied with these forces of innovation** and the making of the new society than with the **forces of inertia and resistance** that slowed the waning of the old order. [...] There has been [...] a marked **tendency to neglect** [...] the old forces and ideas and their cunning genius for **assimilating, delaying, neutralizing, and subduing capitalist modernization, even including industrialization.**" (Mayer, 1981, p. 4)*

How can economic theory explain this persistence of inequality? (Piketty, 2000)

Theories based on pareto-efficient markets:

- ▶ Utility function incorporating intergenerational altruism - for example Beckerian dynastic utility function:

$$U_{it} = \sum_{s \geq t} \frac{U_{c_{is}}}{(1+\theta_i)^s}$$

Where $U_{c_{is}}$ is children's utility.

Theories based on market failure:

- ▶ Imperfect Credit Markets
- ▶ Local Segregation into Unequal Communities
- ▶ Self-Fulfilling Beliefs/Discrimination

Discussion

What do you think? Why are elites so persistent? What might this imply for policy?

If elites manage to rebound after all these shocks - what *does* have an effect on inequality? What *critical junctures* reduce inequality?

Different *Critical Junctures*

A Change of Perspective: Different Critical Junctures and their Effects on Inequality

- ▶ War;
- ▶ Black Death;
- ▶ Slavery.

Different *Great Levelers*

- ▶ **War;**
- ▶ Black Death;
- ▶ Slavery.

How did War affect Inequality?

Results are inconclusive.

On the one hand side...

- ▶ Scheidel (2018) counts war as one of his *Great Levelers*.
- ▶ Alfani et al. (2022) find that the 30-years War substantially reduced inequality in what would later become Germany.
- ▶ Piketty (2014) finds substantial reductions in both income and wealth inequality after the two World Wars.

On the other hand side...

- ▶ Preindustrial wars tended to be much less destructive (the 30-years War as exception). Growing investment in the military & rise of the fiscal-military state, led to inequality growth due to regressive taxation (Alfani and Di Tullio, 2019; Schaff, 2020; Alfani, 2021; Alfani et al., 2022).
- ▶ Apparent reduction in inequality after World Wars may largely have been due to tax avoidance/evasion (Cummins, 2022).

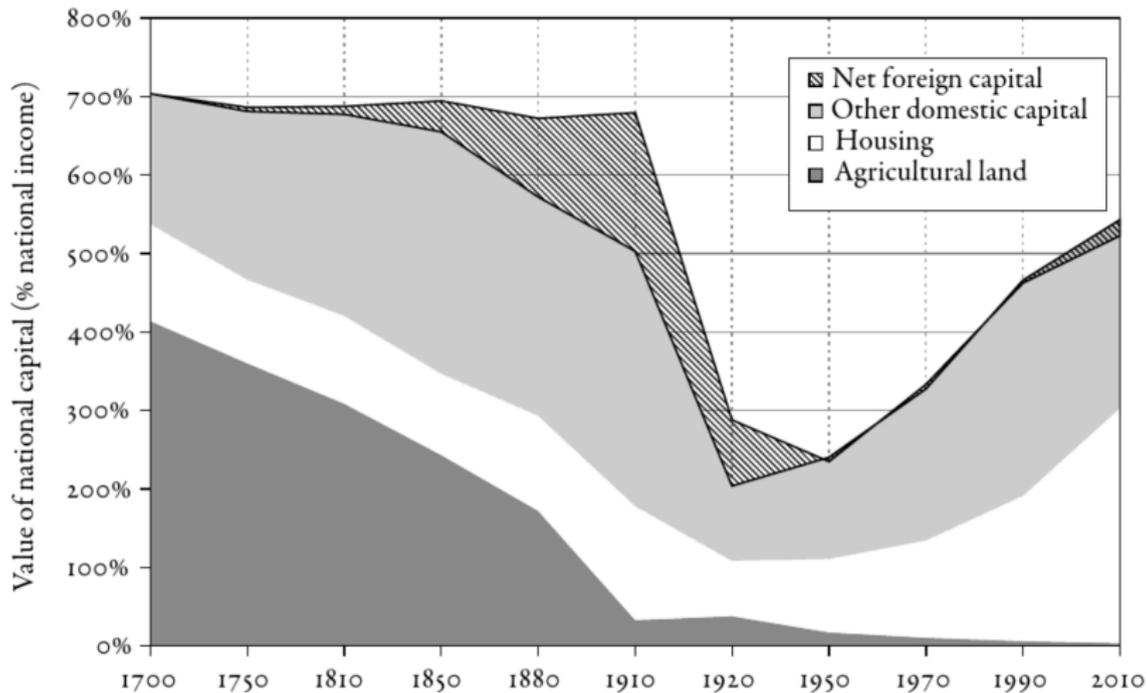
World Wars seem to Reduce Inequality (Piketty, 2014)

Figure 15: Income Inequality in the United States, 1910-2010



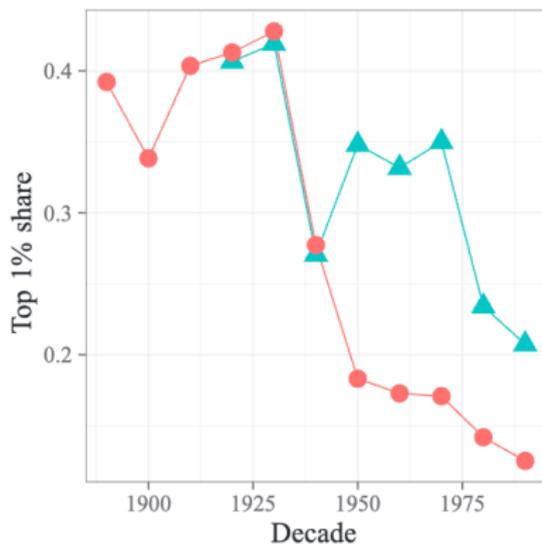
World Wars seem to Reduce Inequality (Piketty, 2014)

Figure 16: Capital in Britain 1700-2010

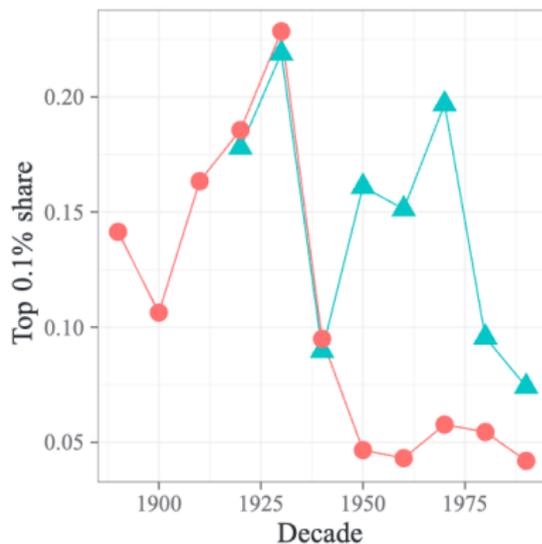


Piketty (2014) might overestimate the Reduction because of Tax Evasion Avoidance (Cummins, 2022)

Figure 17: Top shares, observed and 'true'. Notes: Calculated at the rare-surname level



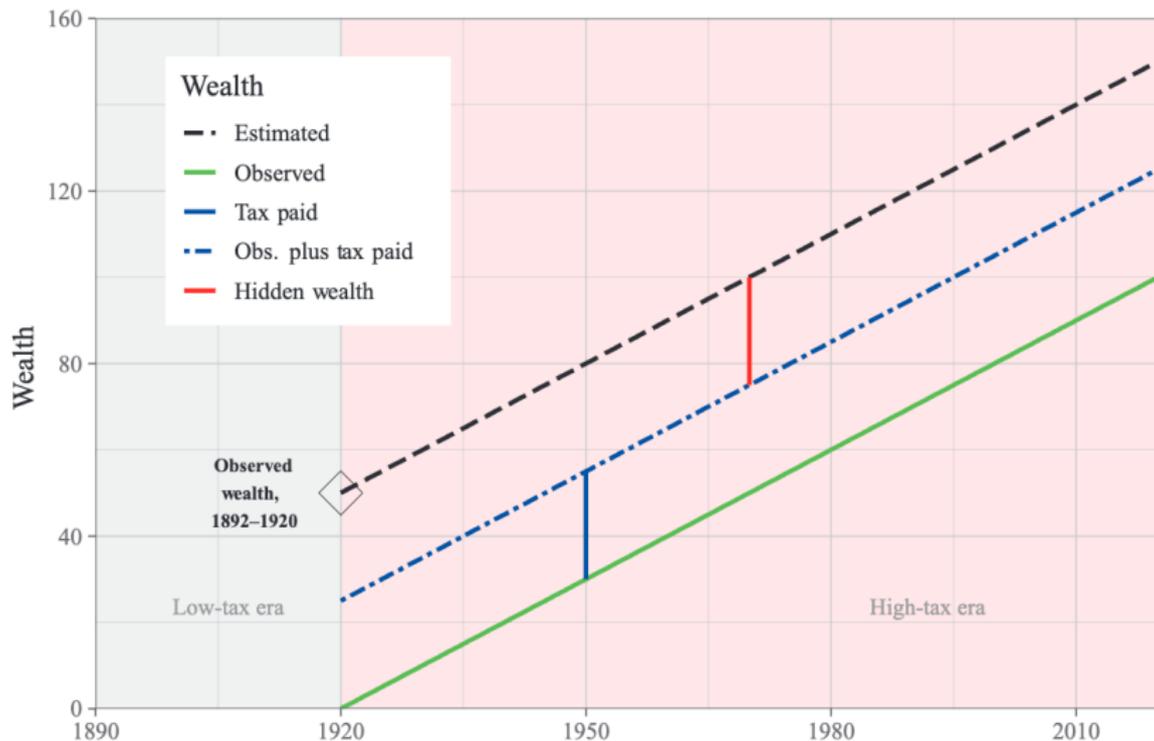
(b) Top 1%



(c) Top 0.1%

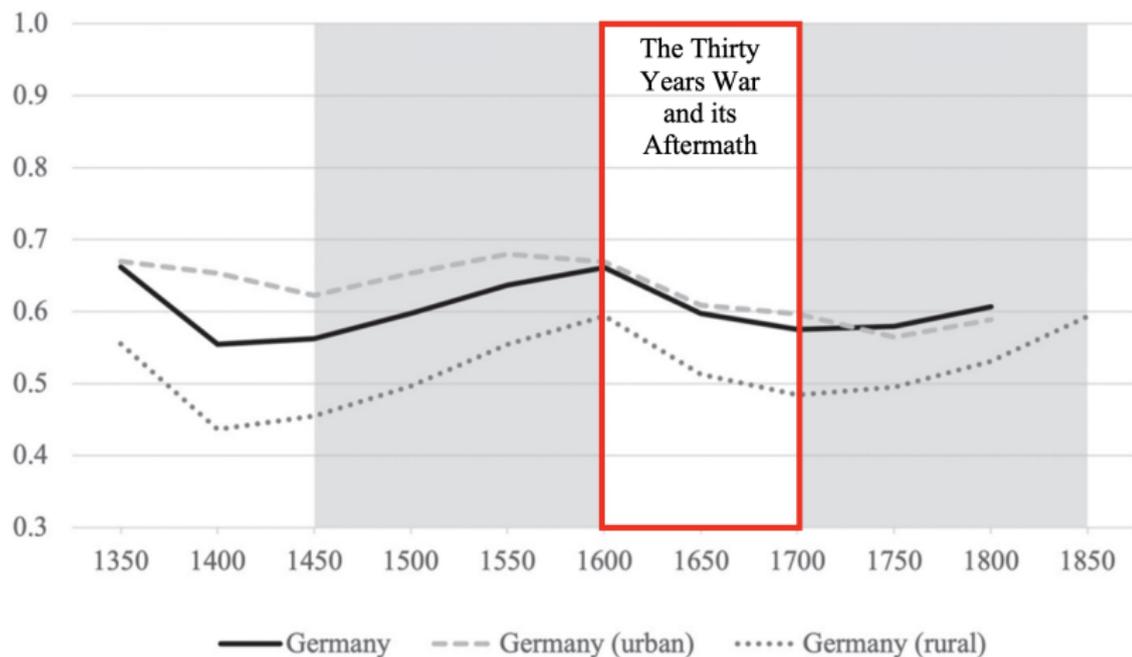
The concept: Suspiciously low Wealth at the Beginning of the High-Tax Era - (Cummins, 2022)

Figure 18: Estimating dynastic hidden wealth: the concept



What about Premodern War? (Alfani et al., 2022)

Figure 19: Long-term Trends in Economic Inequality in Germany (Gini Indexes)



The 30-Years War

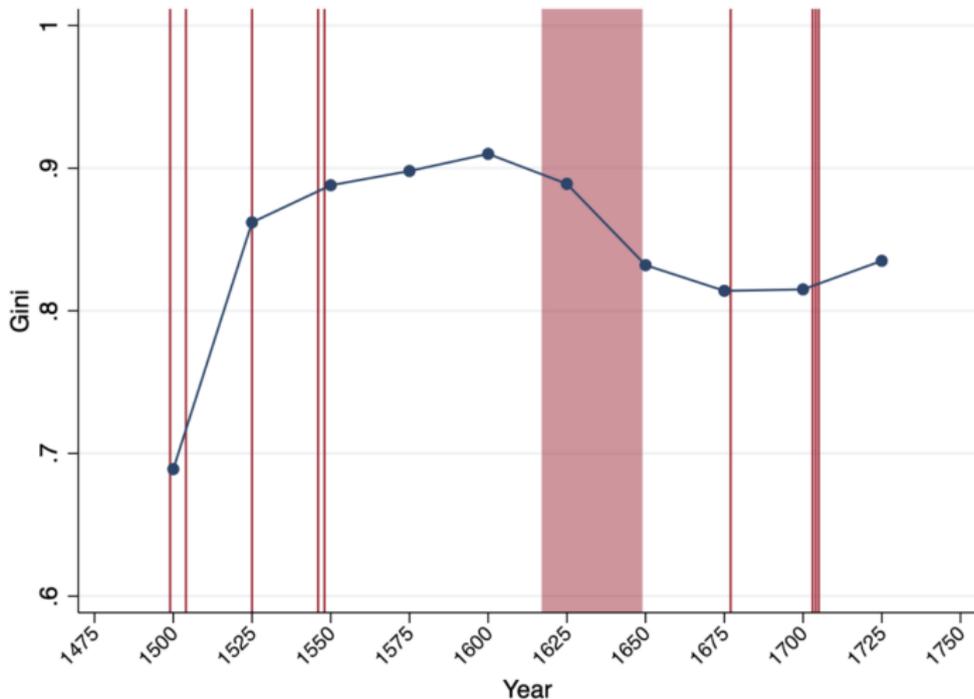


(Stefano Della Bella *Der Tod reitet über ein Schlachtfeld*, 1645/48, Source: Grünes Gewölbe)

- ▶ The 30-years War (1618-1648), which mostly ravaged in what is today Germany, was exceptionally violent.
- ▶ Most deadly period in European History prior to the 20th century.
- ▶ One third of the Holy Roman Empire's population was killed.
- ▶ It triggered a "general crisis" of starvation, epidemics, and inflation.

The 30-Years War was Exceptionally Violent and Destructive for a Premodern War (Schaff, 2020)

Figure 20: Inequality and conflicts in early-modern Augsburg, Periods of War in Red



Different *Great Levelers*

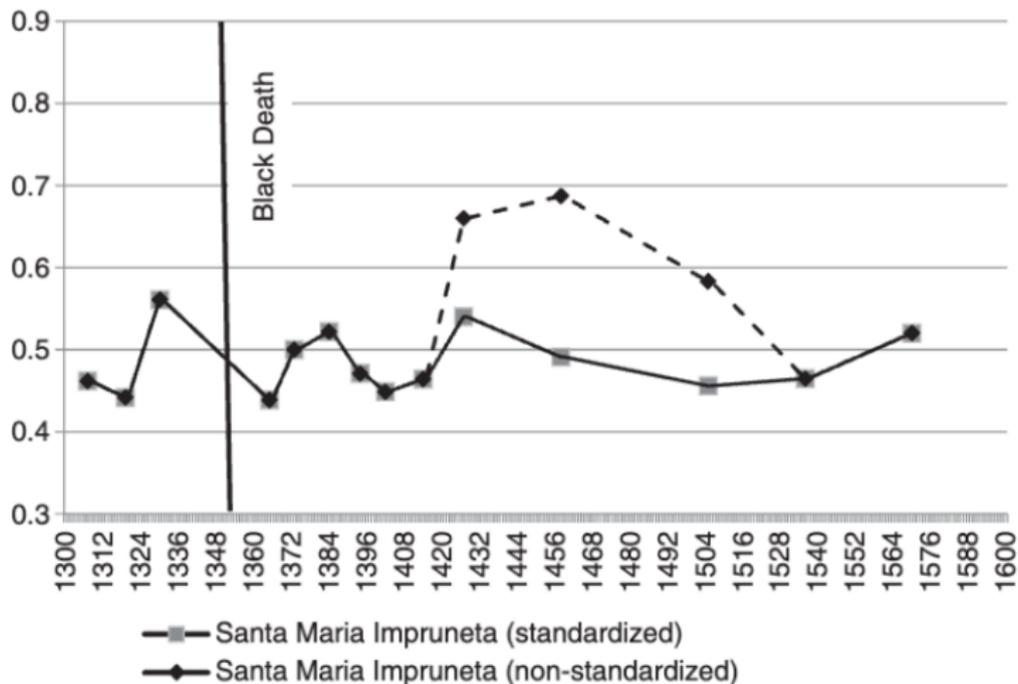
- ▶ War;
- ▶ **Black Death;**
- ▶ Slavery.

The Black Death as Great Leveler

- ▶ **All available evidence points towards the Black Death to have been a major Great Leveler. We have evidence from:**
 - ▶ Italy (Alfani, 2015; Alfani, 2022; Alfani and Ammannati, 2017)
 - ▶ Germany (Alfani et al., 2022)
- ▶ **This happened through two mechanisms:**
 - ▶ **At the bottom:** Plague disproportionately killed the poor.
 - ▶ **At the top:** Equal inheritance rules led to dispersion of patrimonies in times of mass death.

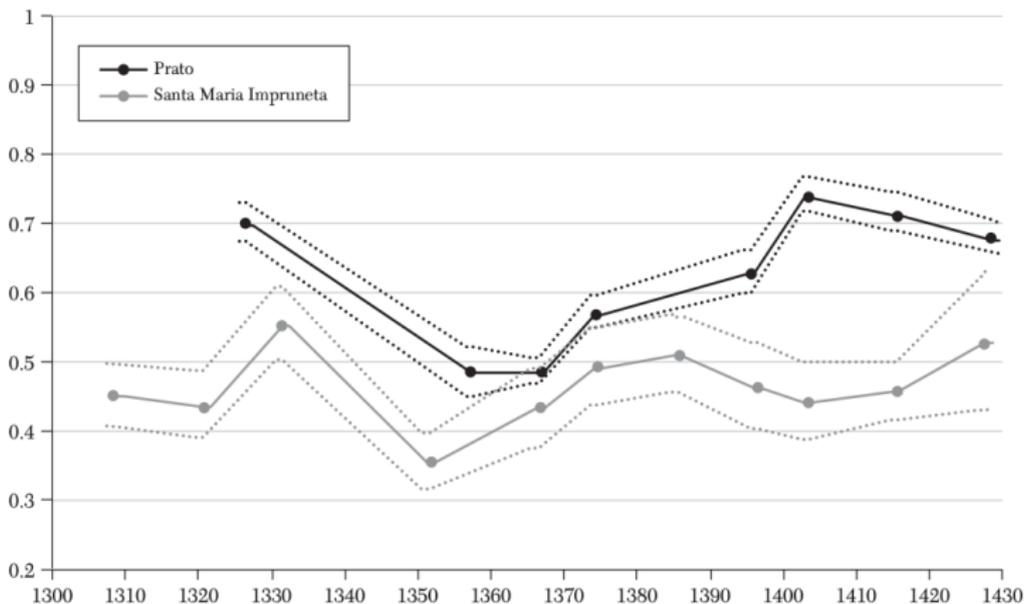
Black Death and Inequality in the Florentine State - Alfani and Ammannati (2017)

Figure 21: Economic inequality in Santa Maria Impruneta, 1307–1570 (Gini indexes, with or without standardization)



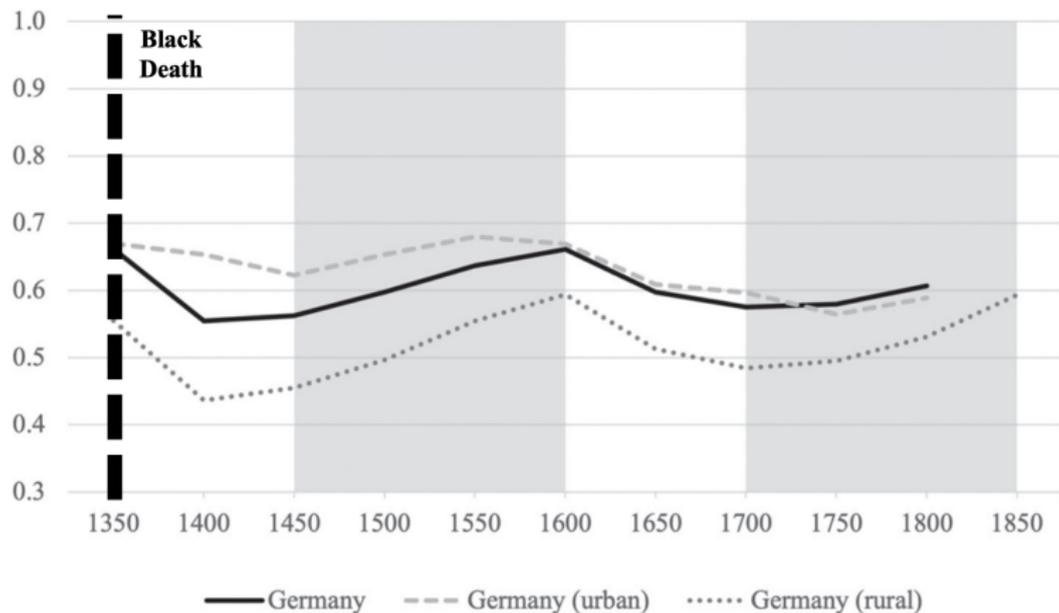
Black Death and Inequality in Tuscany - Alfani (2022)

Figure 22: Wealth Distribution in Medieval Tuscany, ca. 1300–1430 (Gini indexes with 95 percent confidence intervals)



Black Death and Inequality in "Germany" - Alfani et al. (2022)

Figure 23: Long-term Trends in Economic Inequality in Germany (Gini Indexes)



Discussion

Having learned what you have learned - How do you think an ideal society should look like in terms of...

- ▶ Living standards;
- ▶ Levels of inequality;
- ▶ Levels of social mobility.

Different *Great Levelers*

- ▶ War;
- ▶ Black Death;
- ▶ **Slavery.**

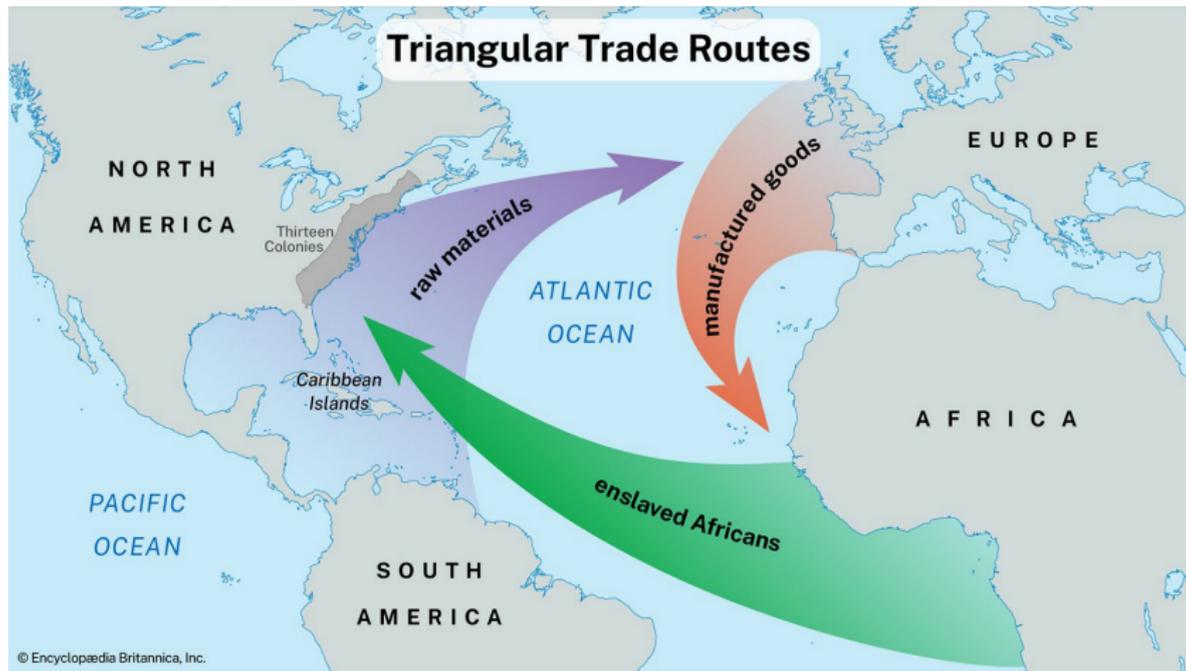
The two ways Slavery can Affect Inequality

Slavery can affect...

- ▶ Inequality *within* a country (such as the USA);
- ▶ Inequality *between* countries.

We will look at both.

A Triangular Trade...



(Source: Britannica Kids)

A Triangular Trade...

We will look at the effects of slavery on the inequality within countries on all three corners of the triangle:

- ▶ within **Britain** (Heblich et al., 2022);
- ▶ within **Africa** (Nunn, 2008; Nunn and Wantchekon, 2011; Nunn and Puga, 2012);
- ▶ within the **USA** (Derenoncourt et al., 2024).

Long Version

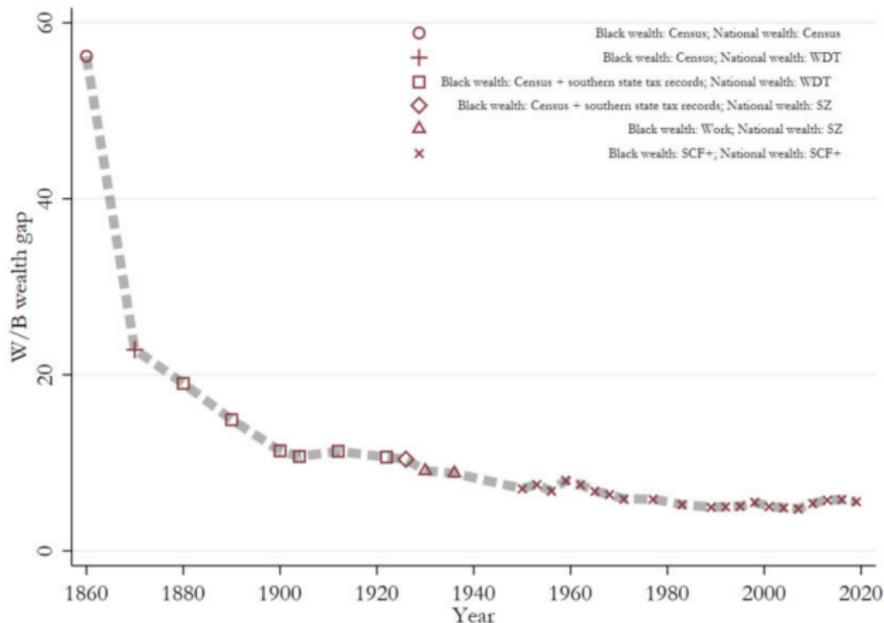
What about the US?

- ▶ The **capital** from the slave trade was accumulated **in England**.
- ▶ The enslaved people, however, were shipped **mostly from Africa to the Americas**.
- ▶ How did slavery affect **inequality in these societies?**
- ▶ Deroncourt et al. (2024) have studied this empirically for the **United States**.

The Persistent Racial Wealth Gap in America

Derenoncourt et al. (2024) find a **large and persistent wealth gap** between the white and black populations in the United States?

Figure 30: White-Black per Capita Wealth Ratios: 1860–2020



Is this a persistent legacy of slavery?

The Racial Wealth Gap and Slavery

- ▶ The **main reason** for the persistent gap are the **enormous difference in initial wealth** after the Civil War.
- ▶ **But...** Had whites and blacks had identical savings rates and returns on capital, the gap would now be 3 to 1, not 6 to 1.
- ▶ More recently **racial differences in capital gains rates** have played the biggest role.
- ▶ Black people have different portfolios.
- ▶ From 1870 to 1930 convergence was slower than in the "equal conditions" case.
- ▶ From the 1960s to the 1980s, convergence was faster than predicted by "equal conditions" model. Then it slowed down.
- ▶ **Convergence might stop or even reverse.**

In Summary: Is "Surprise" a Key Element?

*"In actual fact, across Western history, the **only phases of substantial and long-lasting decline in wealth inequality** appear to have been triggered by terrible catastrophes, and particularly by the Black Death pandemic of the fourteenth and the century and the World Wars of the twentieth, and this in large part due to the fact that they **took the economic elites basically unawares.**"*

(Alfani, 2023, p. 8)

The Role of "Surprise" and Institutions - Alfani (2023)

- ▶ When elites encounter a shock for the first time and are taken unawares, they suffer economically.
- ▶ This leads to institutional adaptation that makes them prepared for the next such shock.

Example: The Black Death and the *Fideicommissum*

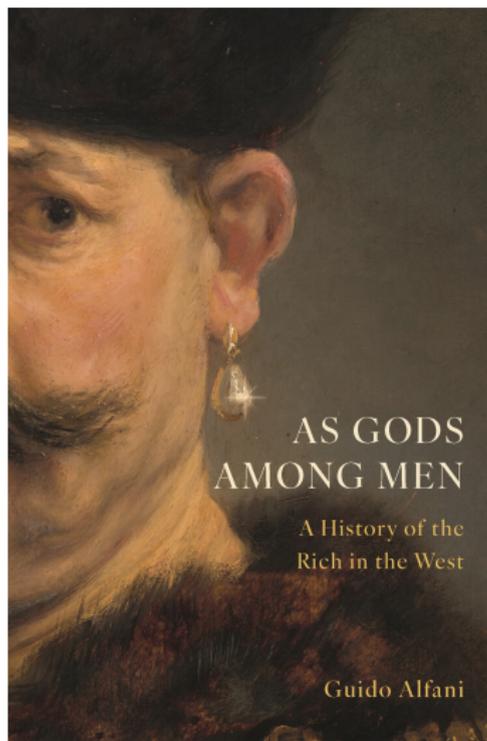
- ▶ Black Death significantly reduced inequality.
- ▶ No such evidence exists for later epidemics of this kind. Why?
- ▶ General rule of **partible inheritance** led to **fragmentation of patrimonies** in times of mass mortality. (Alfani, 2023, p. 293)
- ▶ Solution: The **Fideicommissum** (Entail), prevents this fragmentation.
- ▶ Had been known since Roman times, but massively **spread throughout Europe in the aftermath of the Black Death.**
- ▶ When the next epidemic arrived, elites were prepared.

Discussion

Has this lecture changed how you think about inequality and social mobility? If so, in what way?

Elites do changes - But which conditions favour the rise of a new elite?

Alfani (2023) - *As Gods Among Men*



(Source: Princeton University Press)

In his book on the *History of the Rich in the West*, Alfani identifies three main **historical paths to affluence**:

- ▶ **Nobility/aristocracy**
- ▶ **Entrepreneurship**
- ▶ **Finance**

and concludes that these have been **relatively more open or closed at different times throughout history.** (Alfani, 2023, p. 181 ff.)

Different Eras of Open and Closed Elites (1/2) - Alfani (2023)

▶ **Until the Middle Ages**

- ▶ In an economy dominated by agriculture, accession to the landed aristocracy is the only path to wealth.
- ▶ Entrepreneurship is of limited importance.

▶ **After the Commercial Revolution**

- ▶ Entrepreneurship and trade becomes an important path to wealth.
- ▶ Another path to wealth is the outsourcing of the increasingly extensive state functions like tax farming or the postal monopoly (The *Thurn und Taxis* family in the Holy Roman Empire).

▶ **Opening of Atlantic and Colonial Trade**

- ▶ Tendency intensifies with the opening of new opportunities in the new world.
- ▶ Many people of middle class backgrounds rise the ranks through service in the colonies.

Different Eras of Open and Closed Elites (2/2) - Alfani (2023)

▶ **First and Second Industrial Revolution**

- ▶ Entrepreneurship reaches relative peak in importance.

▶ **Early Twentieth Century**

- ▶ Markets are dominated by trusts and cartels owned by increasingly aristocratic super-wealthy families.

▶ **After WWII**

- ▶ Enrichment through the path of entrepreneurship is relatively easy, before closing again.

▶ **Computer and Information Age**

- ▶ Entrepreneurship is again a major path to wealth.
- ▶ The rise of the global financial system makes finance an important path to wealth.

Multigenerational Wealth Accumulation - Alfani (2023)

Conditions that favour/hinder Multigenerational Wealth Accumulation:

Favour...

- ▶ Higher savings rates among the rich
- ▶ Higher propensity to save
- ▶ Impartible inheritance rule

Hinder...

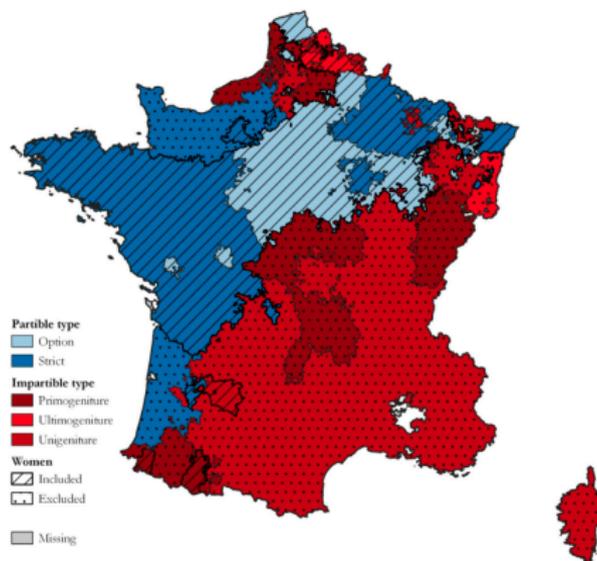
- ▶ Rapid population growth
- ▶ Equal inheritance rules
- ▶ Estate and inheritance taxes

Inheritance Rules

Europe before the 19th had very diverse inheritance customs:

- ▶ In England, Primogeniture dominated;
- ▶ France, for example, was a patchwork of inheritance customs:

Figure 31: Variation in Inheritance Customs in Ancien Régime France



All of these Problems can be Circumvented by the Wealthy

- Alfani (2023)

- ▶ Rapid Population Growth...
 - ▶ **...Fertility Response**
- ▶ Equal Inheritance Rules...
 - ▶ **...Notarial Practices like the Fideicommissum**
- ▶ Estate and Inheritance Taxes...
 - ▶ **...Tax Evasion and Avoidance** (See: Saez and Zucman, 2019; Alstadsæter et al., 2022; Cummins, 2022)

Result: The Elites are Remarkably Resilient!

"Aristocratization" - Alfani (2023)

At several points in history, elites transformed themselves into closed off oligarchic elites:

- ▶ In **Italy** in the 17th century, leading to falling back behind the Netherlands
- ▶ In **the Netherlands** in the 18th century, leading to the end of the *Golden Age* and falling behind England

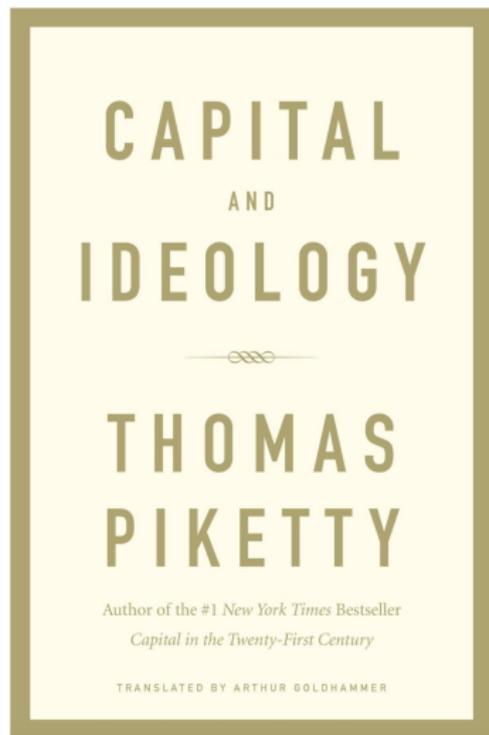
Economically, this led to stagnation:

- ▶ Shift in investments from trade and industry towards land.
- ▶ But it was based on sound (individual) economic reasoning.

This echoes Mayer (1981):

"[Historians] have been far more preoccupied with [the] forces of innovation and the making of the new society than with the forces of inertia and resistance that slowed the waning of the old order." (Mayer, 1981, p. 4)

Piketty (2020) - *Capital and Ideology* - The Change in Inequality Regimes



(Source: Harvard University Press)

- ▶ Following from that we can change perspectives and look at the ideas associated with different inequality regimes.
- ▶ This sheds light on why unequal societies can be very stable.
- ▶ *"Every human society must justify its inequalities: unless reasons for them are found, the whole political edifice stands in danger of collapse."*
- ▶ These *"Ideologies"* adapt to the changing economic conditions.

Conclusions?

Today we have learned that:

- ▶ The **wealth distribution is remarkably stable** and persistent across shocks and critical junctures.
- ▶ **Elites are quite persistent** across generations.
- ▶ **We don't** yet **understand** exactly **why** this is the case.
- ▶ There are many **candidate explanations**: Social network, human capital legacies, different forms of capital, persistent first mover advantages etc.
- ▶ **Ideas might play a role in stabilizing unequal distributions** by portraying them as legitimate.

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Slavery - The Williams Thesis



Eric Williams Capitalism and Slavery



(Source: Penguin Books)

- ▶ Eric Williams: an Afro-Caribbean historian and the first Prime Minister of Trinidad and Tobago
- ▶ In *Capitalism and Slavery* (Williams, 1944) he argues that the slave trade contributed significantly to the British Industrial Revolution.
- ▶ Wealth from the slave trade/on plantations provided the capital needed for industrial expansion and infrastructure.
- ▶ Once Industry had taken off, slavery was made obsolete and the slave trade abolished.

Williams - *A Smithian Economic Argument*

A possible non-economic argument:

- ▶ **Racism** → **slavery**: Racism existed prior to slavery and made it possible or even caused it.
- ▶ **Opposition to racism** → **abolition**: Moral arguments against racist ideas and resistance against slavery led to abolition.

Williams's economic argument:

- ▶ **Slavery** → **racism**: Racism was downstream from slavery and emerged to justify it. It emerged because it was economically beneficial for those who enslaved people.
- ▶ **Economic change** → **abolition**: Once slavery had become economically obsolete, it was abolished.

The Williams Thesis and Inequality

If Williams is right, this could have massive consequences for inequality:

- ▶ *Between* countries, as it might have been essential for Britain pulling away from everyone else.
- ▶ Also *within* countries it could have had lasting effects on inequality.

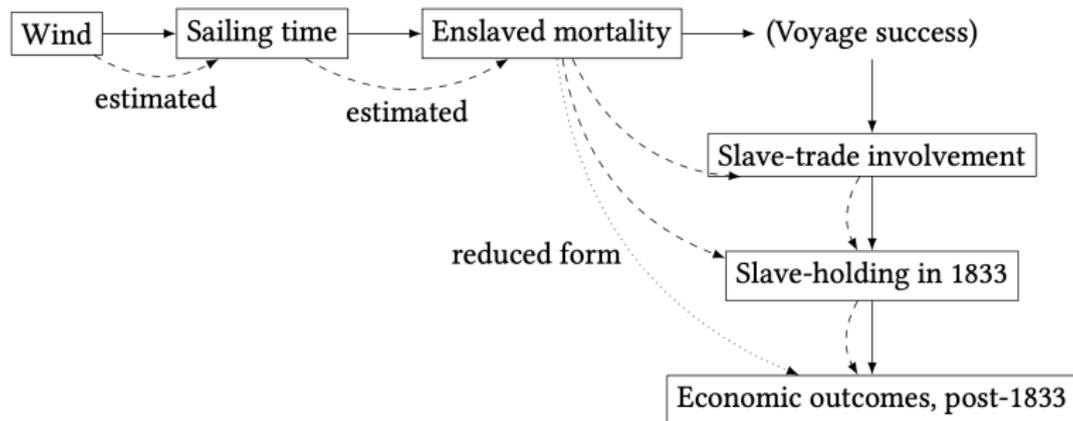
Was Williams right?

Heblich et al. (2022) empirically test Williams' hypothesis. They find that:

- ▶ The **slave trade gave a boost to Industry** in areas where the profits of the slave trade were concentrated.
- ▶ Slavery happens overseas, so **extraction** of resources can happen **without installing extractive institutions "at home"**, which can hamper growth (see Acemoglu et al., 2001).

Heblich et al. (2022) - Identification Strategy

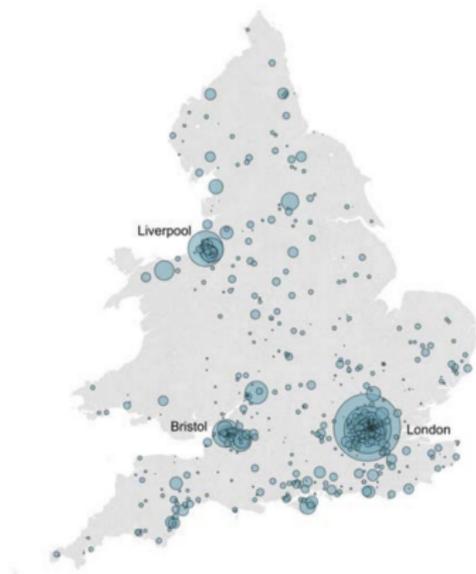
Figure 24: Heblich et al. (2022) Identification Strategy



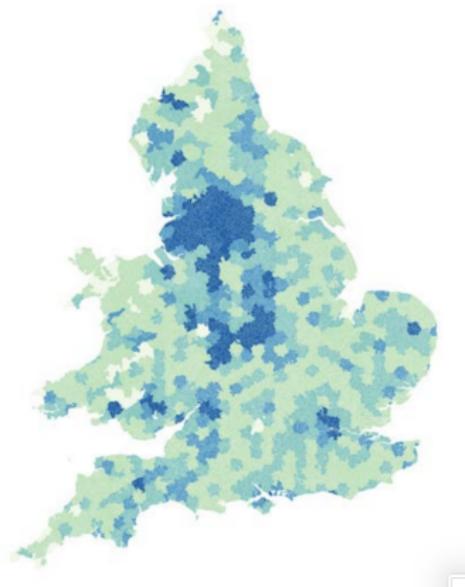
- ▶ Causation could also go the other way around: The capital from industry is invested in the slave trade.
- ▶ They use exogenous variation in wind and its effect on mortality on slave trade ships to isolate the effect of slave trade capital on industry.

A Visible Correlation - Slave Trade and Industry

Figure 25: Slaveholding and Structural Transformation in the 1830s.



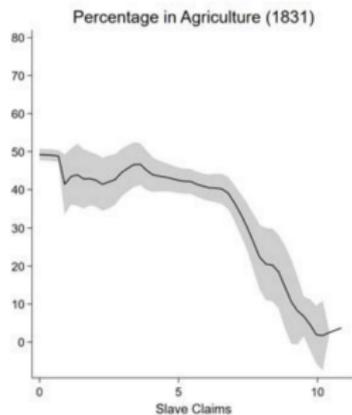
**(a) Slaveholder Compensation
in 1833**



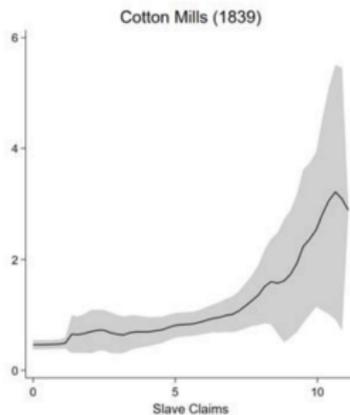
**(b) Manufacturing
Employment Share in 1831**

The More Slave Claims, the More Industry...

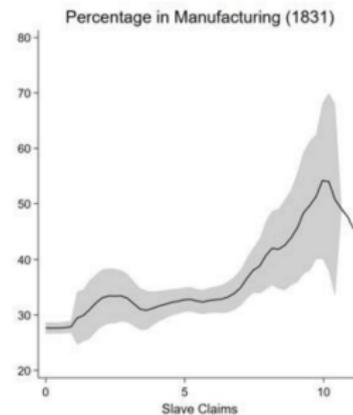
Figure 26: Slaveholding and Structural Transformation in the 1830s.



(a) Agriculture



(b) Cotton Mills



(c) Manufacturing

Did Slavery make England rich?

- ▶ **Slavery** has contributed to accelerating the British Industrial Revolution and thereby increased global inequality.
- ▶ Slavery has raised national income by about **a decade of growth**.
- ▶ It has **made Britain more prosperous**.
- ▶ It was **not a necessary condition**: The **Industrial Revolution** (and the associated prosperity) would have probably still been British without slavery.
- ▶ But would it **have happened later**?

The Slave Trade and Inequality *within* England

- ▶ **Regional Inequality**

Areas around major slavetrade ports like Bristol or Liverpool profited more, changing the economic geography of England.

- ▶ **Inequality between Factors of Production**

Slavetrade wealth raised returns for capitalists and lowered returns for landholders, the class hitherto at the top of the wealth distribution.

What about Africa?

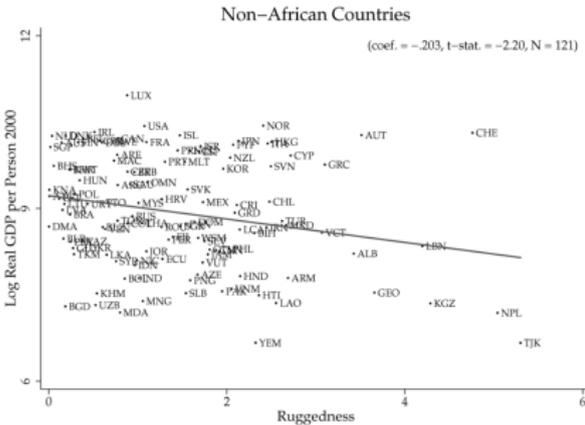
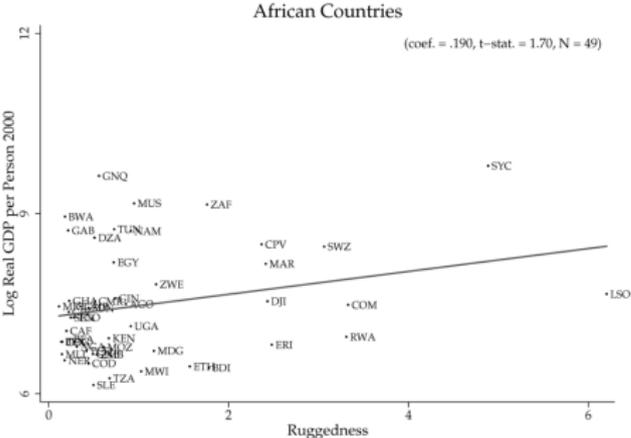
- ▶ How did the slave trade affect inequality within Africa?
- ▶ No research on effect of slave trade on inequality *within* African societies.
- ▶ Nunn (2008), Nunn and Wantchekon (2011) and Nunn and Puga (2012) study how the slave trade affected the differential development of African economies and therefore the inequality *between* modern African countries.

The Slave Trade and Trust

- ▶ Atlantic and Indian Ocean slave trade hurt the affected societies economically in the long run.
- ▶ **Mechanism:** A decline in trust.
- ▶ Trust is key in a commercial society. Economic activity relies on transactions with strangers every day.
- ▶ The slave Trade eroded this trust.

Nunn and Puga (2012) - The "Ruggedness Puzzle"

Figure 27: Income and Ruggedness among African and non-African Countries

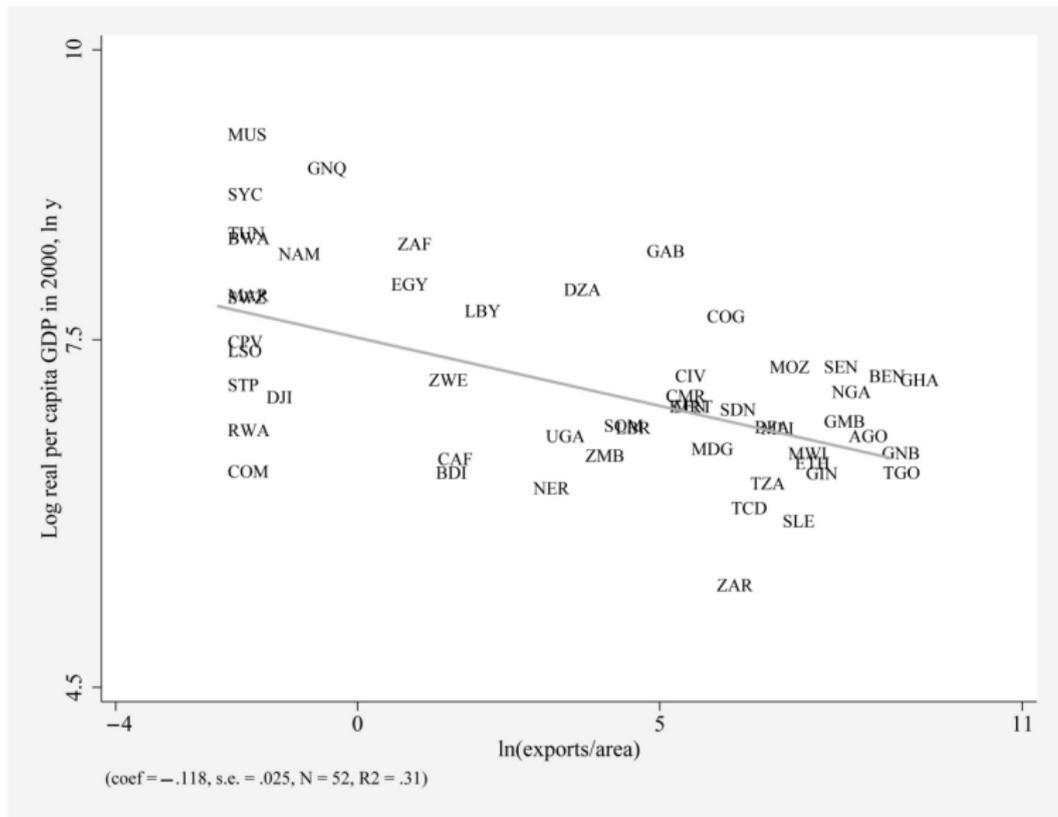


Nunn and Wantchekon (2011) - Slave Trade lowered Trust

	Trust of relatives (1)	Trust of neighbors (2)	Trust of local council (3)	Intragroup trust (4)	Intergroup trust (5)
ln (1 + exports/area)	-0.178*** (0.032)	-0.202*** (0.031)	-0.129*** (0.022)	-0.188*** (0.033)	-0.115*** (0.030)
Colonial population density	Yes	Yes	Yes	Yes	Yes
Ethnicity-level colonial controls	Yes	Yes	Yes	Yes	Yes
Individual controls	Yes	Yes	Yes	Yes	Yes
District controls	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	16,709	16,679	15,905	16,636	16,473
Number of ethnicity clusters	147	147	146	147	147
Number of district clusters	1,187	1,187	1,194	1,186	1,184
R ²	0.13	0.16	0.21	0.16	0.12

Nunn (2008) - Lower GDP today in affected Countries

Figure 28: Relationship between Log Slave Exports Normalized by Land Area, $\ln(\text{exports}/\text{area})$, and Log Real Per Capita GDP in 2000, $\ln y$



Nunn (2008) - Divergence since 1950

Figure 29: Paths of Economic Development Since 1950

