Position Paper on Wealth inequality and inheritance taxation

Prepared for Round Table meeting on (wealth)inequality, economic (in)equality and tax policy

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Wealth inequality has long been a topic of concern and debate in Western societies. In recent years, public narratives often suggest that we are living in a "new Gilded Age" of extreme wealth concentration. Yet, a broad, historical perspective reveals a more nuanced story. Over the past century, Western nations have become both significantly richer and more equal in terms of wealth distribution than they were in the early 1900s. The evolution of wealth in Western Europe and other advanced economies shows dramatic shifts – including a large mid-20th-century equalization of wealth – followed by a remarkable stability in wealth inequality in the last few decades.

Several previous studies have established that wealth inequality declined over the 20th century (see e.g. Atkinson and Harrison 1978, Roine and Waldenström 2015, Wolff 2017, Scheidel 2018, Smith et al. 2023). In a notable contribution, Piketty (2014) explained this equalization with major shocks to capital, mainly wars and progressive taxes, that slashed the capital of the rich and equalized wealth until the 1980s, when neoliberal policies reversed the trends.

In a new book (Waldenström 2024), I review recent evidence and reassess existing data to arrive at a different conclusion, both regarding the key determinants behind the historical wealth equalization and how to interpret recent inequality trends.

1. Long-Term Wealth Trends: "Richer and More Equal"

By taking a long-run view from the late 19th century to today, three fundamental facts stand out about wealth in Western nations:

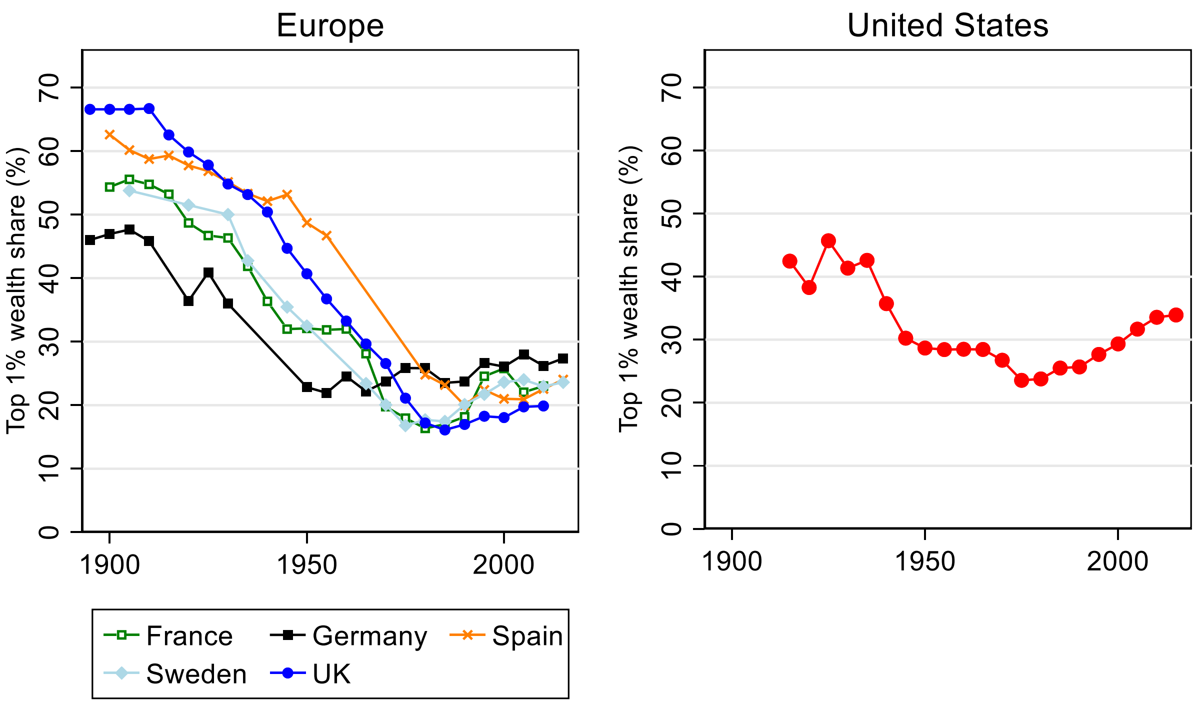
1. **Growth in Wealth per Person:** Households in Western Europe and other advanced economies are far wealthier on average today than a century ago. After adjusting for inflation, *per capita* net wealth (the total value of assets minus debts) has increased roughly tenfold since the early 1900s. In fact, wealth grew especially rapidly after the 1980s due to rising asset values. Simply put, the economic pie has expanded dramatically, meaning the typical citizen now commands far more wealth than in past generations.
2. **A Broadening of Wealth Ownership:** The composition and ownership of wealth have shifted from an elite-dominated model to a mass ownership society. Around 1900, most wealth was tied up in farmland, family businesses, and other assets controlled by a small upper class. Over the 20th century, social and economic reforms transformed this picture. With the spread of democracy, expanded education, higher wages, and new financial institutions, millions of ordinary workers were able to save and invest. Homeownership became common and pension systems developed, allowing people to accumulate assets for retirement. Today, *housing and funded pension savings account for about three-quarters of private wealth* in Western countries – assets widely held by the middle and working classes. This democratization of wealth means a much larger middle class holds a significant share of society's capital today, compared to a narrow elite in the past.

3. **Great Equalization of Wealth Inequality:** Wealth is more evenly distributed across the population now than in most of modern history. In the early 20th century, wealth inequality was extremely high – the richest 1% of households owned well over half of all private wealth (in some countries like the UK, their share approached 70%). Over the course of the 1900s, this concentration fell dramatically. By the 1970s, the top 1% share in many Western European countries had dropped to around 20%. This century-long decline in concentration is often called the *"great wealth equalization."* In recent decades, there have been modest upticks in top wealth shares in some countries. However, in Western Europe, Canada, Australia and similar economies, wealth inequality has remained *remarkably stable* since around 1990 – hovering at or near those historically low levels achieved in the late 20th century. Today, the wealthiest 1% in most of Western Europe hold roughly a quarter or less of national wealth, a far cry from the dominance of the top 1% a hundred years ago (by contrast, in the United States the top 1% share has risen to about 35–40%, higher than Europe but still below pre-WWI levels). In short, ordinary citizens in Western democracies are both richer and, in broad terms, more equal owners of wealth than their predecessors.

These facts provide important context and dispel the notion that capitalism has inevitably led to ever-widening wealth gaps. Instead, the historical trend has been towards a *more inclusive distribution of wealth alongside economic growth*. Understanding what drove this great equalization helps clarify why Western Europe's wealth inequality is relatively low and why recent trends have been more stable than alarmist accounts suggest.

Figure 1 shows this development by zooming in on the richest 100th in the population. At the start of the 20th century, the richest 1% held well over half of all private wealth. Then something happened. After the 1910s, wealth inequality started declining, and it went on until the 1970s, when the top share landed at 20%. This is the 'great wealth equalization' of the 20th century. After 1980, European wealth concentration has stayed at historically low levels, exhibiting little or no trend until today. The US experience is quite different, and its wealthiest percentile has increased its wealth share to between 35% and 40% today – much higher than in Europe, but lower than prewar levels of both the US and Europe.

Figure 1: Wealth concentration in Western countries, 1890-2020 (top 1% wealth share)



Source: Waldenström (2024, figure 5.2, data available here).

2. Drivers of the 20th-Century Wealth Equalization

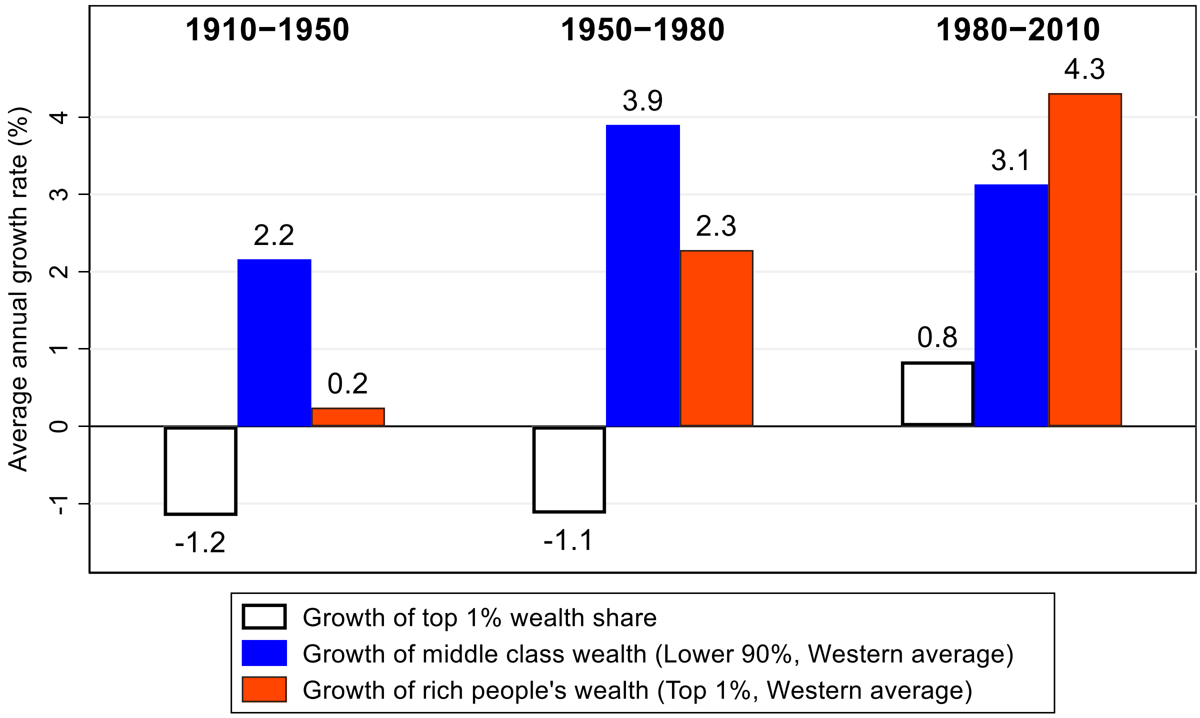
What caused the dramatic reduction in wealth concentration over the 20th century? One common view has been that destructive events and aggressive taxation levelled the playing field. According to this view, the World Wars destroyed many large fortunes and heavy progressive taxes on capital (such as inheritance and wealth taxes in the post-war decades) prevented the rich from re-accumulating wealth, thereby reducing inequality until about 1980. However, new historical evidence challenges the idea that shocks and taxes were the primary engines of equalization.

A closer look shows that many Western countries experienced falling wealth inequality *even when they were not directly affected by war or extraordinary confiscatory policies*. For example, countries like Sweden and Spain, which saw no domestic battlefield destruction in the world wars, witnessed very similar long-run declines in top wealth shares as France, Germany, or the UK. Taxation did play a role – high taxes on income and estates after WWII certainly curbed the accumulation of some large fortunes and state interventions expanded the social safety net. But interestingly, the biggest increases in tax burdens in the 20th century fell on *labour income (wages)* rather than on capital owners alone. This suggests that taxation and war by themselves cannot fully explain the sweeping equalization of wealth.

Instead, broad-based growth and inclusive institutions from “below” were the crucial drivers. As Western societies became more democratic in the early 20th century, governments implemented policies that widened access to economic opportunities.

When examining whether wealth equalization was driven by reduced capital holdings among the wealthy or increased ownership from below, Figure 2, below, provides a clear answer. The decline in top wealth shares (white bars) from 1910 to 1980 correlates with positive wealth growth for the bottom 90% (blue bars) rather than a decrease in wealth for the top 1% (red bars). Have the recent increases in wealth concentration in Western countries come at the expense of the middle class? No, the evidence speaks against this. Top ownership is dominated by successful entrepreneurs and Figure 2 indicates that their wealth grew by an average of 4.3% per year between 1980 and 2010 in a sample of six countries. However, the wealth of the rest of the population grew by almost as much, 3.1% per year, over the same period.

Figure 2: Changes in inequality and real wealth: top vs bottom.

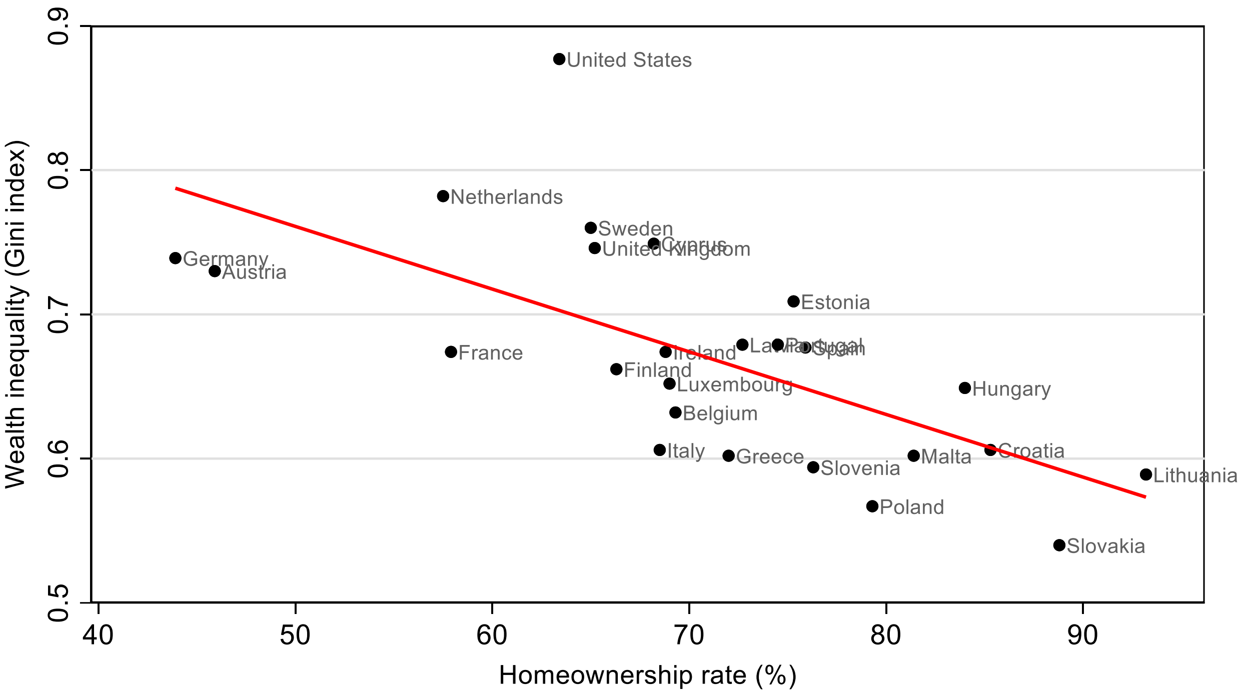


Source: Waldenström (2024, figure 6.1, data available here).

During the 20th century, education became more accessible, raising the skills and earning power of the masses. Labour market reforms and unionization improved wages and job security for workers. These changes meant that a growing share of the population could afford to save money, buy property, and participate in capital markets. The financial sector also innovated (for instance, through the expansion of mortgage lending), which made credit available for families to purchase homes and invest. All of these factors enabled mass asset accumulation for the first time.

The rise of widespread homeownership is a prime example of how bottom-up growth reduced inequality. In the mid-20th century, homeownership rates surged across Europe and North America – rising from very low levels (around 20–30% of households owning homes in 1900) to majorities of households (often 50–70% owning by the late 20th century). Each new homeowner was essentially moving wealth (in the form of housing equity) out of the hands of landlords or aristocrats and into the hands of the middle class. Similarly, the development of pension funds meant that even non-wealthy individuals were accumulating financial assets for retirement. By the 2000s, pensions and insurance savings formed a large portion of household wealth for ordinary people.

Figure 2: Home ownership and wealth inequality



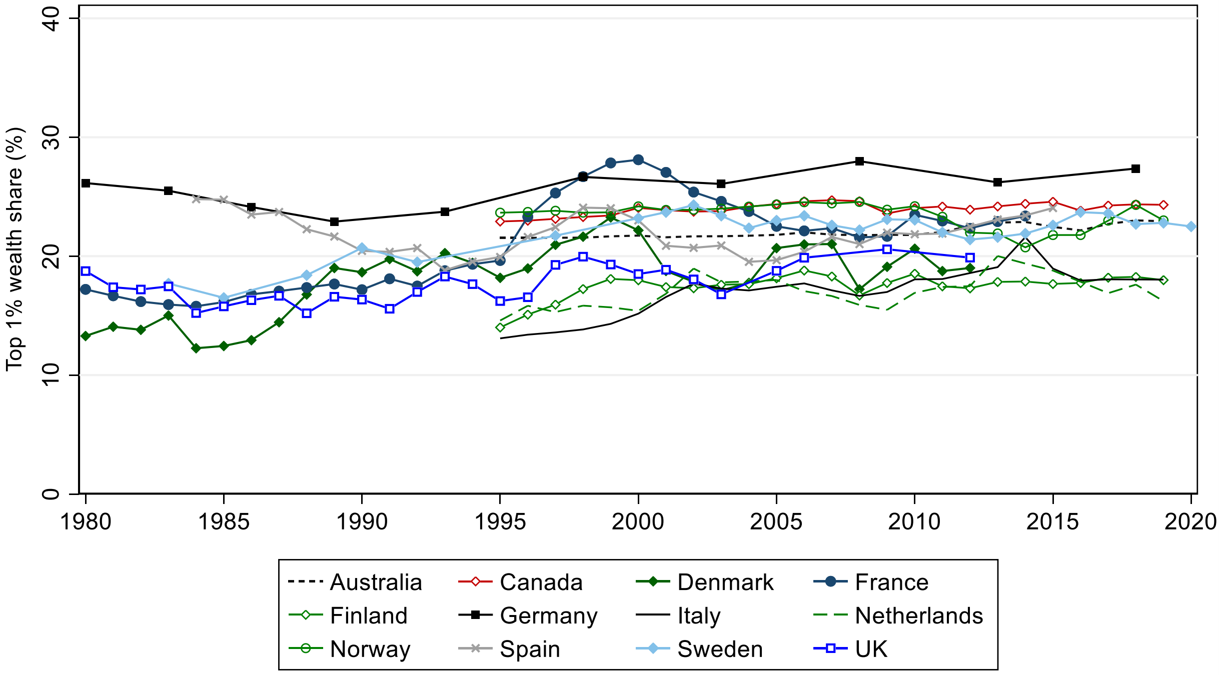
Source: Waldenström (2024, figure 6.7, data available here).

Thus, the great equalization was largely a story of "lifting the bottom" rather than dragging down the top. The rich did not necessarily become dramatically poorer; rather, millions of others became wealth holders and gradually narrowed the gap. Wealth grew at all levels of society, but it grew fastest for those in the lower and middle parts of the distribution as they gained new assets. This historical insight underscores that an expanding economy, when paired with inclusive policies, can benefit broad segments of society and reduce relative inequalities. In summary, it was the political and institutional changes – from universal suffrage and social welfare to pro-homeownership initiatives – combined with steady economic growth that allowed Western nations to become both richer overall and more equal in wealth distribution through the 20th century.

3. Recent Developments: Stability and Subtle Shifts

Since around 1980, and especially in the last 30 years, the trajectory of wealth inequality in Western countries has been surprisingly stable, with a few important nuances. Figure 3 shows that in Western Europe (including the Netherlands and its peers), as well as in countries like Canada and Australia, wealth concentration has not significantly risen since the late 20th century. The share of wealth owned by top groups (top 1%, top 10%) in these societies today remains roughly the same as it was in 1990. This stability is noteworthy, given the dramatic economic changes in the past few decades – from globalization and the tech revolution to the rise of billionaires. It appears that, in broad terms, the egalitarian legacy of the 20th-century wealth distribution has carried forward: the middle class retains a historically high portion of wealth, and extreme concentration at the top has not returned to pre-World War levels in these countries.

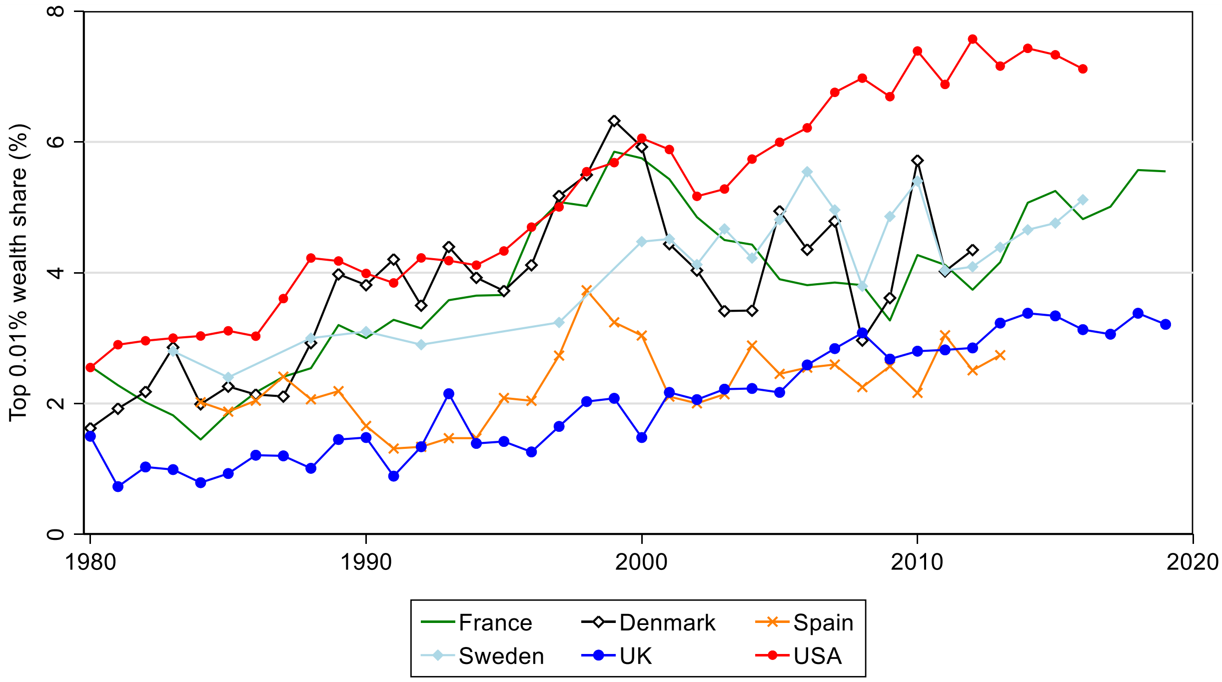
Figure 3: Recent trends in wealth inequality in Western countries, 1980-2020.



Source: Waldenström (2024, figure 5.3, data available here).

That said, not all segments of the wealth distribution are static. One notable trend is the growing concentration of wealth at the very apex – the ultra-rich elite, often defined as the top 0.01% of wealth holders. In recent decades, as shown in figure 4, this tiny fraction of the population (multimillionaires and billionaires) has seen its combined share of wealth increase. Essentially, while the top 10% or even top 1% as a whole have not dramatically pulled away from the rest in Europe and similar economies, *within* the top tier the gains have been skewed toward the very richest individuals. This reflects many developments, but ultimately that the most successful entrepreneurs in OECD countries have been able to accumulate large private fortunes. Globalization, and in particular with the entry of China in world trade and technological development today reaching also low- and middle-income countries, has expanded market size and rewarded winners more than in the past. In effect, inequality among the wealthy has risen, even if inequality between the wealthy and the rest has been relatively flat in many countries outside the US.

Figure 4: Wealth shares of the super-rich (top 0.01%), 1980-2020.



Source: Waldenström (2024, figure 5.6, data available here).

The United States provides a contrasting case that helps put Europe's stability in perspective. U.S. wealth inequality has climbed noticeably since the 1980s – the top 1% in the U.S. increased their share from around 25% in mid-century to roughly 35–40% today. This divergence is often attributed to a combination of booming stock markets, higher income inequality feeding wealth gaps, and policy differences (for instance, relatively fewer social protections or redistributive measures). Yet even in the U.S., wealth concentration remains below the peaks recorded in the early 1900s. The key point is that Western Europe's wealth inequality trend has not mirrored the U.S. rise; instead, Europe's pattern has been one of continuity at a moderate level of inequality. In policy discussions, it is therefore important to recognize that the "wealth inequality problem" is not uniform across the West – countries like the Netherlands, France, or Germany have not experienced a sharp upsurge in wealth concentration in recent times, even as they have navigated the same global economic currents.

4. The Role of Hidden Wealth and Pension Systems

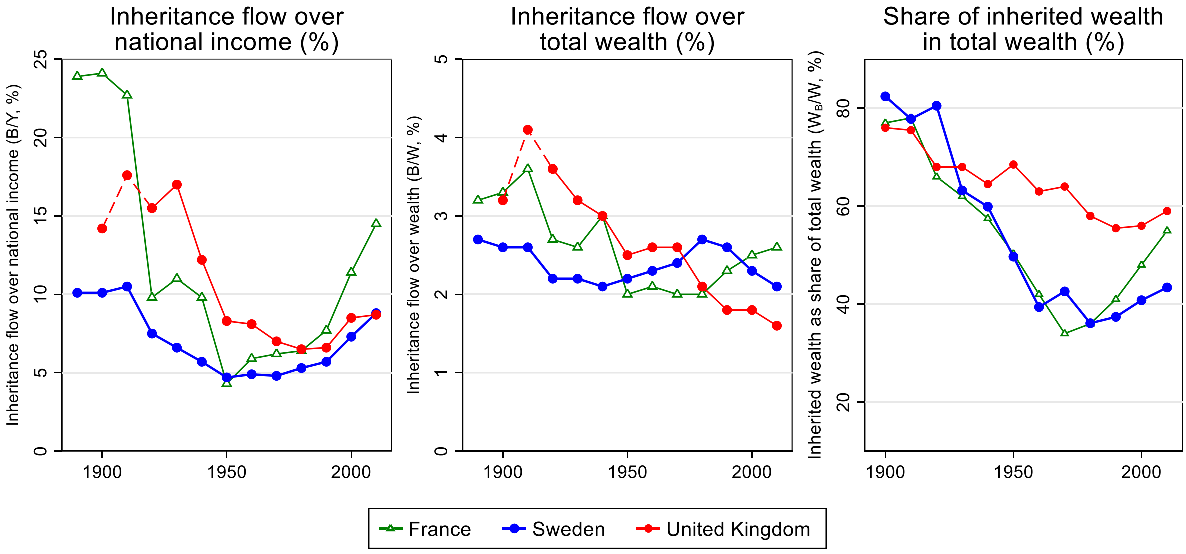
Some of the rich park money in tax havens, so official statistics miss a slice of their fortunes. Adding these assets back nudges the top shares up—but only slightly. Even when trillions stashed in Switzerland, the Caribbean or Luxembourg are counted, Europe's wealth map barely changes. Hidden wealth is real, concentrated and relevant for tax enforcement, but it does not overturn the broad trend.

Western Europe's pay-as-you-go pensions (such as the Dutch AOW plus occupational schemes) are promises of future income, not personal accounts, so they are absent from household balance sheets. Valued as annuities, however, these promises amount to large "invisible" assets for most workers and sharply flatten the wealth curve. Countries with generous public pillars show less private saving at the bottom, yet citizens are not poorer—they hold pension rights instead of financial portfolios. Including those rights would reveal a far more equal distribution. Because measures of inequality hinge on whether such pension wealth is counted, the design of retirement systems is crucial when comparing countries or tracking trends over time.

5. Inherited wealth and inheritance taxation

The macroeconomic and historical evidence suggests that inherited wealth is an important part of the resources that households command, shown in figure 5. Each year, heirs receive inheritances worth around ten percent of national income, and roughly half of all the wealth people hold today has been inherited. Historically, however, inherited wealth constituted an even more important part of the macroeconomy. Both as share of national income or household wealth, today's societies seem to be contain more of the kind of dynamism that encourage new wealth to be created. New savings and entrepreneurship generates relatively more wealth today than in the past, pondering the overall role of inheritances.

Figure 5: The Historical Evolution of Inheritance in Western Economies.

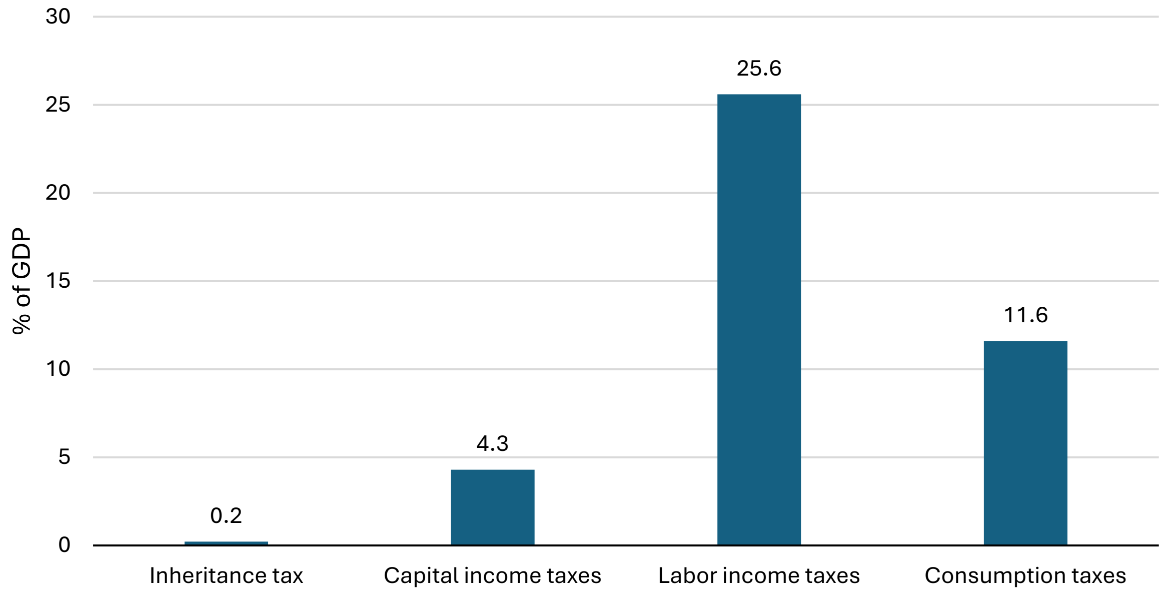


Note: The UK data are somewhat less reliable due to subsequent revisions in wealth–income ratios, indicated by a dashed line pattern in the UK series before 1920. *Source*: Ohlsson et al. (2020), Waldenström (2024).

Inheritance taxation, historically a tool for redistributing wealth, now plays a marginal role in modern tax systems. In the Netherlands, it accounts for just 0.2% of GDP and faces growing political and administrative challenges, as shown in figure 6. While the tax is normatively justified by principles of fairness and equal opportunity—targeting unearned windfalls that entrench inequality—its practical impact is limited. Revenues are low, enforcement is difficult, and avoidance is common among wealthy households through trusts, gifts, or offshore transfers. Evidence from Sweden and other OECD countries shows that inheritance taxes can distort economic behavior, discourage investment, and even drive wealthy individuals abroad. Although inheritances do contribute to long-term wealth inequality, the tax itself tends to have only a modest and short-lived redistributive effect. Public support remains weak, and many countries have abolished inheritance taxes entirely without noticeable fiscal or inequality shocks. In practice, the inheritance tax has become politically fragile, economically inefficient, and increasingly irrelevant.

Given its minimal revenue, administrative complexity, and political unpopularity, inheritance tax is an ill-suited tool for addressing wealth inequality today. Policymakers should consider simplifying or phasing it out while focusing on more effective alternatives. These include strengthening capital income and wealth taxation during life, improving compliance, and investing directly in equal opportunity—especially in education, housing, and youth capital formation. Where retained, the inheritance tax should target only very large estates, with high exemptions and minimal loopholes. Ultimately, tackling inequality requires modern, enforceable instruments—not a legacy tax that underperforms on both economic and social grounds.

Figure 6: Vanishing inheritance tax revenues in the Netherlands (data from 2022).



Note: Capital income taxes include property taxes. *Source*: OECD Tax Database.

6. Concluding remarks

History never fully repeats itself, but five central policy lessons stand out from this new wealth narrative.

1. *Question zero-sum thinking.* Viewing the economy as a zero-sum game – that someone's success comes at someone else's expense – has little support in the data. During the 20th century, ownership of assets increased at both the top and the bottom of the distribution. New businesses created products, jobs, incomes, and tax revenues that were not 'taken' from anyone, indicating how dynamic and value-creating growth lifts everyone.

2. Homeownership benefits households and society. Private homeownership is associated with lower wealth inequality, less depreciation than in rented housing, a toehold for borrowing, and high long-run investment returns at low risk.

3. Private pension planning provides security through funded savings. A private pension buffer strengthens personal finances in retirement and provides the opportunity to invest beforehand if needed. Funded private pension systems also address the demographic trend towards more retirees and fewer contributing wage earners.

4. Tax capital income, not wealth. Taxes on capital income, such as corporate profits and dividends, are most effective in both redistribution and revenue generation (Bastani and Waldenström 2020). Wealth taxes, and even inheritance taxes, have always caused problems. They drain the free resources of entrepreneurs, are difficult to collect, and generate little revenue, so most countries no longer use these capital taxes.

5. Power and wealth: strengthen politics and media without hindering business activity. Wealthy individuals can sometimes leverage their resources to exert disproportionate influence over policymakers and media. The best way to address this is not by limiting business growth, but by protecting political and media institutions from undue influence. Effective measures could include enhanced transparency, stricter rules on campaign contributions, and support for smaller media outlets.

In summary, economic history shows that broad and equitable ownership is achieved not by restricting those at the top – where successful entrepreneurs thrive – but by empowering those below who are still building wealth. Two key assets, housing and pension savings, have been especially vital in this process. Promoting homeownership and long-term savings, therefore, fosters both wealth creation and economic equality.

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