

EXPLORING WEALTH AND INEQUALITY IN THE WEST: A CONVERSATION WITH PROF. GUIDO ALFANI

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Following Kuznets' hypothesis on the relationship between economic growth and income inequality (1955), discussions on wealth distribution in economics have been slender for the latter part of the 20th century. Economic history has been the field responsible for keeping the interest on this topic alive: examples are Van Zanden's study of inequality in Holland from the pre-industrial period (1995), and Prof. Alfani's EINITE project (*Economic Inequality across Italy and Europe, 1300-1800*). At the Economic Society for Bocconi Students (ESBS), we had the privilege of being joined by Prof. Alfani, Professor of Economic History at Bocconi University, for our spring term event.

1. WEALTH THROUGHOUT HISTORY

Prof. Alfani illustrated the aim and the approach followed by EINITE: in order to understand the link between economic growth and inequality, data about wealth on a household level has been collected from archival sources, mostly public tax records. The data extensively cover the Italian peninsula, but also Germany, the Low Countries, England, Southern France and Catalonia. Data from local time series have then been aggregated to obtain regional time series, which allow analyses on the evolution of the distribution of total wealth: Prof. Alfani, in his book *As Gods Among Men* (2023), focused on the top 5% and top 1% of households, as well as on how they were perceived during the last thousand years.

Most notably, the trends found show a general increase in inequality throughout history, regardless of whether the area taken into consideration was experiencing a period of economic growth or stagnation. In all regions taken into consideration, only the 14th century pandemic of the Black Death had a levelling impact on inequality; furthermore, data from Germany shows a halt due to the Thirty Years War (1618-1648). This evidence seems to suggest quite a dire outlook: inequality tends to increase, and its growth is only slowed down or reversed by catastrophes, such as wars and pandemics.

Conversely, Prof. Alfani remarked the path of inequality throughout the 19th and 20th century in developed countries: after growing and peaking in the 1920s, inequality dropped until circa 1980, to then start rising again. The World Wars, during which both a material destruction of wealth and large budget deficits combined with soaring inflation took place, undoubtedly contributed to the decline of inequality; as Prof. Alfani argued, both before and after the wars the decline can also be partly attributed to the development of the Welfare State and more progressive taxation. Human agency can therefore play a role in the achievement of a more equal distribution of wealth and income, by redistribution of resources through public services such as education and healthcare.

2. PATHS TO AFFLUENCE

Prof. Alfani then discussed the three main paths to affluence: nobility, entrepreneurship, and finance. All three paths, as Prof. Alfani explained, come with some problems.

Alan the Red, companion of William the Conqueror during the Norman Conquest of England, and Antoine II Crozat, first proprietary owner of French Louisiana, are distinguished examples of the first category. Today, as a cultural preference, we perceive personally acquiring the privileged status as more legitimate than inheriting it. Still, a “global aristocracy”, a situation in which top institutions become very difficult to access, may now be newly arising, leading to the exclusion of the underprivileged.

The second path to affluence is entrepreneurship. Remarkably, Richard Arkwright, inventor of the water frame in the 18th century, and Bill Gates, former CEO and co-founder of Microsoft, followed this path. Reaching wealth with entrepreneurship may not always be considered acceptable, depending on the ethical standards of the historical period. Steadily, as new wealth appears, it becomes older and generational, and, even if the dynasties have different interests from their ancestors, they tend to become aristocratic. This has been the case in the US. The new groups of very affluent families then generally proceed to keep out the newcomers. Prof. Alfani argues that this process might contribute to an end of the historical phases of easy enrichment and prevent further beneficial innovation from taking place. World Wars aside, by the beginning of the 20th century the families controlling a large share of the economy had created a scenario in which brilliant entrepreneurs did not have the same opportunities they would have had 30/40 years before.

Finally, the last path to affluence Prof. Alfani described is finance. Stigma around it still remains today, even if in a much-reduced form. On the positive side, contrary to the other paths, finance was, even in the past, relatively open to women. An exemplary one of them was Gracia Nasi, one of the wealthiest Jewish women of Renaissance Europe. Interestingly, women remained particularly relevant in the financial market of Milan also later on, during the beginning of the modern period. Today, finance has become across the West a more prevalent path to wealth than it ever was.

3. THE ROLE OF THE RICH IN SOCIETY

To conclude, Prof. Alfani discussed the role of the rich in society. He started by citing Nicolas Oresme, French philosopher of the later Middle Ages, and Thomas Piketty. Both authors were pointing at the same thing: in a democracy, if somebody has a much higher command of economic resources over all others, then the institutions will no longer function. At the same time, in a modern democracy everybody should be given access to institutions, super-rich included.

More generally, going back to the Middle Ages, simply being rich (and a commoner) was a problem. The rich were intrinsically sinners, and their sin was avarice or greed. Thomas Aquinas even advised rulers to prevent their citizens from getting involved in international trade. On the other side, wealth of the nobles was never considered a problem, since it was considered part of God’s plan. Common rich people did not belong to a well-organized Christian society.

From the 15th century, Western society had found a role for the rich: saving in

the interest of the community. As Poggio Bracciolini put it in his *De Avaritia*, the rich should constitute “*a private barn of money, into which you can tap in times of crises, both willingly and not*”, as in whether the rich themselves are willing to help or not. This role was actually twofold: the second one was that of reviving the classic age of magnificence by changing private wealth into public benefit and into an ornament of the fatherland. Cosimo de’ Medici embodies these two aspects. Still, his magnificence was not munificence; Cosimo was not at all dis-interested, as his benevolence also implied to have a right to rule.

Finally, in the early modern period and in particular, during the Reformation, the building of a fortune acquired a religious character unto itself, independently of its final use (what Max Weber called Beruf, “the calling”).

Prof. Alfani lastly assessed whether the rich today still perform the social role that was assigned to them from the 15th century, that of saving in the eventuality of crises. The last and more recent example we can recall is that of J.P. Morgan during the banking crisis of 1907, after which the Federal Reserve System was established with the specific purpose of never again having to rely on the goodwill of private financiers to save the finances of the country.

By looking at the historical data, you could say that the patrimony of the rich is becoming more resistant to crises. This resilience, however, may be caused by the fact that the rich are not being asked to contribute during crises, adding to a missing increase in taxation of them. Assuming that this is true, Prof. Alfani’s prospective conclusion is that the rich have no longer been performing the role that had been theirs from the 15th century to the World Wars. Recent crises might have given them the opportunity to demonstrate their social usefulness. This, however, did not happen during the Covid-19 pandemic, just as it did not during the Great Recession: governments preferred instead to increase the public debt to pay for anti-crises policies.

Prof. Alfani ended his lecture with one open question: in a context in which taxation is becoming less and less progressive in most countries across the West, who will be paying these countries’ debt?

SUGGESTED READINGS

- Alfani, Guido. 2023. *As Gods Among Men*, Princeton University Press, Princeton.
- Alfani, Guido. 2017. *The rich in historical perspective. Evidence for preindustrial Europe (ca. 1300-1800)*, *Cliometrica*, 11(3), pp. 321-348.
- Alfani, Guido. 2015. *Economic Inequality in Northwestern Italy: A Long-Term View (Fourteenth to Eighteenth Centuries)*. *The Journal of Economic History* 75, no. 4 (2015): 1058–96.
- Van Zanden, Jan Luiten. 1995. *Tracing the beginning of the Kuznets Curve: Western Europe during the Early Modern Period*. *The Economic History Review*, 48(4), 643–664.
- Kuznets, Simon. 1955. *Economic Growth and Income Inequality*. *The American Economic Review*, vol. 45, no. 1, pp. 1–28. JSTOR.

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