Different but equal? Classes, wealth, and perceptions in Europe

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Abstract

We analyse whether class is still a relevant concept in Europe today along differences in income, wealth, and perceptions and behaviour. Using data for 10 Euro area countries, we apply and adapt the Wolff and Zacharias (2013) class schema for the Euro area. We confirm stark differences between classes in the functional distribution of income, as well as in the distribution of wealth. The self-employed occupy a Janus-faced position; they resemble capitalists in terms of income sources, and workers in terms of wealth composition. Focusing on wealth readily differentiates capitalists into financial versus real capitalist classes.

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1. Introduction

The structure of 21th century's societies might yet come to mirror the 18th and 19th centuries' in terms of social stasis and inequality following decades of globalisation and financialisation (Piketty, 2014). This brings classes back into focus, a concept which had fallen largely out of favour in economics due to marginalist conceptualisations of atomistic societies. In other social sciences, such as sociology and political science, the systematic discrediting of critical approaches as a consequence of the collapse of the Soviet Union played a role in the hibernation of class analysis (Fukuyama, 1992). However, if inheritances rather than work dominate the ability to accumulate wealth, then class structures are likely to solidify. This might in turn increase social segregation and favour the (re-) development of 'class-typical' perceptions and behaviour.

While wealth as ownership of the means of production was at the core of Marx' conceptualization of classes, the differentiation of modern economies (and, possibly, a lack of empirical data) has shifted the focus of more recent theoretical debates to income and positions in the work process (Erikson & Goldthorpe, 1992). This paper argues that re-incorporating wealth into class theory would broaden the focus, and in particular give more insight into the position of the self-employed and into the differentiation within the capitalist class.

Furthermore, analysing class differences in wealth complements the more common investigation of income, since wealth indicates a separate compound of economic possibilities. In particular at the very top of the distribution, income and wealth become fungible. Finally, wealth is typically distributed much more unequally than income (Piketty, 2014; Rehm & Schnetzer, 2015)

In the vein of (Wolff & Zacharias, 2013), we therefore provide an empirical underpinning for using wealth in class analysis by, first, investigating whether there are objective material differences in classes by income and wealth in the Euro area, and how capitalists and the self-employed fare compared to different classes of workers. Second, we provide some insight into whether classes differ along more subjective aspects regarding their economic situation such as financial behaviours and attitudes. Last, we aim to draw some conclusions regarding the link between networks and social ties on the one hand, and the dynastic aspects of wealth on the other hand. To the best of our knowledge, this is the first paper to investigate classes and wealth across European countries.

We make use of a relatively novel data set, the Household Finance and Consumption Survey 2010 (ECB, 2013) conducted by the European Central Bank. It provides for the first time ex-ante harmonized data for most European countries on net wealth and its components, gross income, employment characteristics, as well as a host of perception questions.

The remainder of the paper is structured as follows: Section 2 discusses the literature on class theory and wealth, Section 3 describes the data, Section 4 presents the results regarding income, net wealth, and its components, Section 5 contains the class differences in subjective questions, and Section 6 concludes.

2. Literature Review

The resurgence in class theory takes off from the shoulders of giants: In economics, after classical economics, the functional distribution of income has been a key concept for several strands of theoretical thought. Post Keynesian analysis starts with the distinction between capitalists and workers (Bhaduri & Marglin, 1990; Kaldor, 1955; Pasinetti, 1962). The distinction between factors of production is similarly important for neoclassical economics, notwithstanding the fundamental difference in the determination of income shares between classes in these schools of thought.

In sociology, approaches to social inequality are based on Marxist and Weberian conception of social classes. (Bourdieu, 1984) broadened the class focus beyond the purely monetary status to access to social and symbolic capital. Sociological research has since then investigated class differences in life courses (Mayer & Blossfeld, 1990) and the different ways of life, behaviours or attitudes (Vester, von Oertzen, Geiling, Hermann, & Müller, 2001), showing that the class status has an important impact on people's habitus and thought patterns.

The concept of class has re-attracted the attention of social and economic scientists due to an ongoing decline in social mobility and an increasing divide between the rich and the poor in high-income societies. The question on how to measure classes and how to conceptualise their role for the analysis of social structures is thus again posed in economic (Castel & Dörre, 2009; Dörre, Lessenich, & Rosa, 2009; Mohun, 2016; Wolff & Zacharias, 2013) and sociological (Castel & Dörre, 2009; Dörre et al., 2009; Mohun, 2016; Wolff & Zacharias, 2013) academic debates.

The distinction between capitalists and workers is formulated in several different ways in the literature. An obvious first starting point is the difference in employment status – dependent employment versus self-employment. As Marx pointed out, the lack of ownership in the means of production and the concomitant requirement to sell labour power are a first approximation to the definition of workers and, conversely, of capitalists.

However, in modern economic systems in which indirect ownership and thus managerial personnel play a vital role, the lines between a ruling "capitalist class" and a dependent "working class" become increasingly blurred. Contingent workers – temporary workers who are hired for a certain task under the guise of self-employment – muddy the picture further. The sociological literature thus generated more fine-grained class structures to account for this more nuanced differentiation within modern capitalism. Seminal contributions relevant to this paper are (Poulantzas, 1979) and (Erikson & Goldthorpe, 1992). Erikson and Goldthorpe (1992) combine occupational categories with a person's location within the systems of authority (i.e. the degree of autonomy in performing tasks). They differentiate between higher-grade and lower-grade professionals, routine non-manual workers, small proprietors and artisans with and without employees, as well as farmers, lower-grade technicians, skilled and unskilled manual workers. Poulantzas (1979) investigated on the one hand the position of the self-employed between workers and capitalists, and on the other hand the different factions of capitalists.

Empirical work thoroughly dismantles the conglomerate of the so-called “middle classes”; however, the capitalist class and its inner differentiation have not received as much attention. One reason for this might have been the empirical focus on income and not on wealth, which was perhaps influenced by data availability. Wealth, however, is distributed much more unequally than income (Davies, Sandström, Shorrocks, & Wolff, 2011; Piketty, 2014); the (potential) return on wealth thus provides a measure of the dependence on labour income. The inheritance of wealth furthermore stabilises the social structure, propagating and ossifying inequality between the social strata. Against this background and the developments of finance-dominated capitalism, (Wolff & Zacharias, 2013) incorporate the distribution of wealth into the analysis of classes. For the US, they differentiate between eight different class categories: capitalists (top 1% of wealth), managers, supervisors, professionals, self-employed, white-collar and blue-collar skilled workers, as well as unskilled workers.

This paper combines the class scheme of (Wolff & Zacharias, 2013) with (Erikson & Goldthorpe, 1992)’s approach, and adapts it to the European situation. We differentiate between seven class categories, three of which belong to the capitalist class (high net worth households, rentiers, and business owners), three belonging to the working class (high-skilled, medium-skilled and low-skilled employees), and one which might be viewed as in-between these two classes (the self-employed).

Our differentiation within the capitalist class is more fine-grained than is standard in the literature, and merits some discussion. First, we separate out high-net worth households in the top wealth percentile. This broadly follows (Wolff & Zacharias, 2013), but rather than absolute cut-offs for wealth levels, we employ their robustness check of the top 1%. Second, we explicitly include rentiers, or capital income earners, who are households whose capital income permits them a life of leisure by exceeding the average income from work. Even though we expect an overlap between these two class categories, we assume that there are differences in their attitudes and behaviour as the sociological literature shows that the high-net worth households tend to live in a “different, highly exclusive world” (Mäder, Jeyaratnam, & Schilliger, 2010). Third, we distinguish employers, or business owners, as a separate class category. Owners of businesses derive their social status from real (as opposed to financial) capital, and might therefore have different attitudes, behaviour and political interests from high-net worth households and rentiers (Poulantzas, 1979).

In the European context managers do not play as crucial a role for the functional income distribution as in the U.S.[i] For one thing, their compensation has not impeded the labour share from falling in many European countries (Onaran & Obst, 2016). Furthermore, their share in our data is fairly low and our data does not permit us to differentiate classes by tasks. We are therefore not categorizing them as a separate class of employees.

Instead we single out the self-employed, for which we follow Poulantzas’ (1979) observation that they are in a somewhat Janus-faced position “in-between” the two major classes of workers and capitalists: Some self-employed might be associated with the capitalist class (for instance, a wealthy financial consultant), while others might be closer to the working class (such as a small-scale yoga teacher).

This paper thus focuses on class differences in the distribution of income and wealth as well as in the respondents’ (financial) attitudes and behaviour. Our key hypotheses are, first, that there are

differences in the distribution of income and wealth between the social classes, especially between the various categories of workers on the one hand, and capitalists on the other hand. Secondly, we presume that within the capitalist class, there are differences between the high-net-worth households, rentiers and business owners concerning their wealth, but especially their financial attitudes and behaviour. That is, we would expect high-net worth households to live in “their own, exclusive world”, whose conspicuous consumption would be maintained through distinctive financing channels. In contrast, business owners’ attitudes and behaviour are assumed to be more orientated towards investments. Thirdly, we expect the self-employed to fit neither into worker nor into capitalist categories neatly. Fourthly, between the three categories of employees we expect to find rather linear differences. That is, we expect a hierarchy of low-, medium- and high-skilled workers regarding income, wealth, and financial constraints (such as saving for housing), but without any qualitative breaks.

3. Data Description

This paper uses the Household Finance and Consumption Survey (HFCS) for the Euro system, a micro dataset which contains over 62,000 observations. The data are multiply imputed, which this paper takes into account in all calculations using Rubin's Rule. The survey was conducted in 15 Euro-area countries[ii], most of which performed the surveys in 2009-2010 (ECB, 2013). Due to issues in data comparability, we restrict our sample to Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, and Spain.

The variables that are of particular interest for the purposes of this paper are socioeconomic characteristics, income and wealth components, and subjective questions. Socioeconomic characteristics include age, education, labour and employment status, and occupation.

Income is captured in the HFCS as monthly gross income over the past year. The relevant components of income are labour income, self-employment income, and capital income, all of which refer to the gross income received in the past year. Capital income comprises income from real estate property, financial investments (including dividends) and investments in non-publicly traded private businesses, as well as "other income", which includes capital gains, severance payments and withdrawals from private pension schemes, prize winnings and insurance settlements among others.

Wealth is surveyed in detail by the HFCS. The definition of wealth includes real assets (main residence, other real estate property, vehicles, shares in self-employment businesses), financial assets (deposits, shares, bonds, mutual funds, money owed by others to the household) and liabilities (collateralised and non-collateralised debt). We distinguish between safe and risky financial assets, where we classify investments in mutual funds, hedge funds, and in shares as risky financial assets.

The HFCS contains subjective information provided by respondents on expectations regarding future income, expectations for inheritances and gifts, the reasons for purchasing the main residence, and the reasons for saving. These will be used to illustrate differences between classes beyond the immediate monetary characteristics. However, their interpretation is sometimes less clear-cut; for instance, there is no objective standard against which to assess whether respondents' reasons for saving arise out of choice or necessity.

Classes are defined here following a merged and adapted Erikson-Goldthorpe and Wolff-Zacharias categorisation. Since many variables are available only on the household level, the class status of the primary earner is assigned to the household, as is customary in the literature. However, it should be noted that this is a sensitive point since the class location of the reference person is transferred to the entire household.

As discussed in Section 2, we define seven classes: employees in three education groups, the self-employed, and three capitalist classes, high net worth households, rentiers, and business owners. Households where no member is economically active (including unemployed and on leave) are not included in the analysis.

Employees are divided into three groups according to their highest education level. These comprise low skilled (primary and lower secondary education, ISCED 1+2), medium skilled (upper secondary and post-secondary education, ISCED 3+4), and high skilled (first and second stage tertiary, ISCED 5+6) employees. The self-employed are defined through their employment status. Self-employed on leave and family workers are included in this class, since the latter are paid from the proceedings of the family business.

Capitalists are defined through one of three criteria (in this order): high capital income, large wealth, or large business ownership. First, conceptually, capital income that exceeds average labour or self-employment income renders a day job optional for 'rentiers'. Operationally, capital income is calculated by distributing household capital income across household members over 16 years. Second, large wealth of 'high net wealth households' (HNWH) is defined as the top 1% of net wealth (gross wealth minus debt). The literature on the elite constituted by the top 1% is vast, and has garnered broad attention (Piketty, 2014). Third, a 'large' business is characterised as one having five or more employees. While the precise cut-off for the number of employees may be debatable (and has minimal impact on our class size), this criterion for participation in the capitalist class is well-grounded in theory since it rests on the potential for appropriation of surplus value by the business owners.

Table 1 shows the share of the eight classes in all households. Employees are by far the largest group at a combined 89% of the population; low-skilled employees constitute ca. 23%, medium-skilled 42% and high-skilled employees 26% of households. The number of self-employed in the HFCS is about 6% of households. Combined, capitalists make up less than 4%, about 2% of which are high net worth households and rentiers.[iii] This fits relatively well with (Wolff & Zacharias, 2013) analysis for the U.S., where 2% of households are capitalists, defined through cut-offs in the absolute wealth level.

Table 1: Proportion of classes in the population

High net worth households	Capital income earners	Business owners	Self-employed	High-skilled employees	Medium-skilled employees	Low-skilled employees
0.9	1.0	2.0	6.2	25.5	41.8	22.7

Source: HFCS 2010, own calculations

The correlation between classes is shown in Table 2. Per definition, there is no correlation between dependent employees, managers and the self-employed, which are categorized mutually exclusively on their employment status and occupation. Capitalists, however, are defined as traversing the other classes. In practice, however, they are not correlated with dependent employees. Among capitalists, high net worth households are somewhat correlated (0.23) with rentiers; this is expected as a result of the connection between net wealth and capital income. The correlation between business owners and high net worth households is less strong (0.12) but still notable. Business owners are less correlated to rentiers (0.01) than to the self-employed (0.06). All in all, there is some expected overlap between the

three capitalist classes, and between them and the self-employed, but virtually no employees have been re-assigned a capitalist class status.

Table 2: Correlation between classes

	High net worth households	Capital income earners	Business owners
High net worth households	1		
Capital income earners	0.23	1	
Business owners	0.12	0.01	1
Self-employed	0.07	0.06	0.13
High-skilled employees	0	0	0
Medium-skilled employees	0	0	0
Low-skilled employees	0	0	0

Source: HFCS 2010, own calculations

4. Class differences in income and wealth

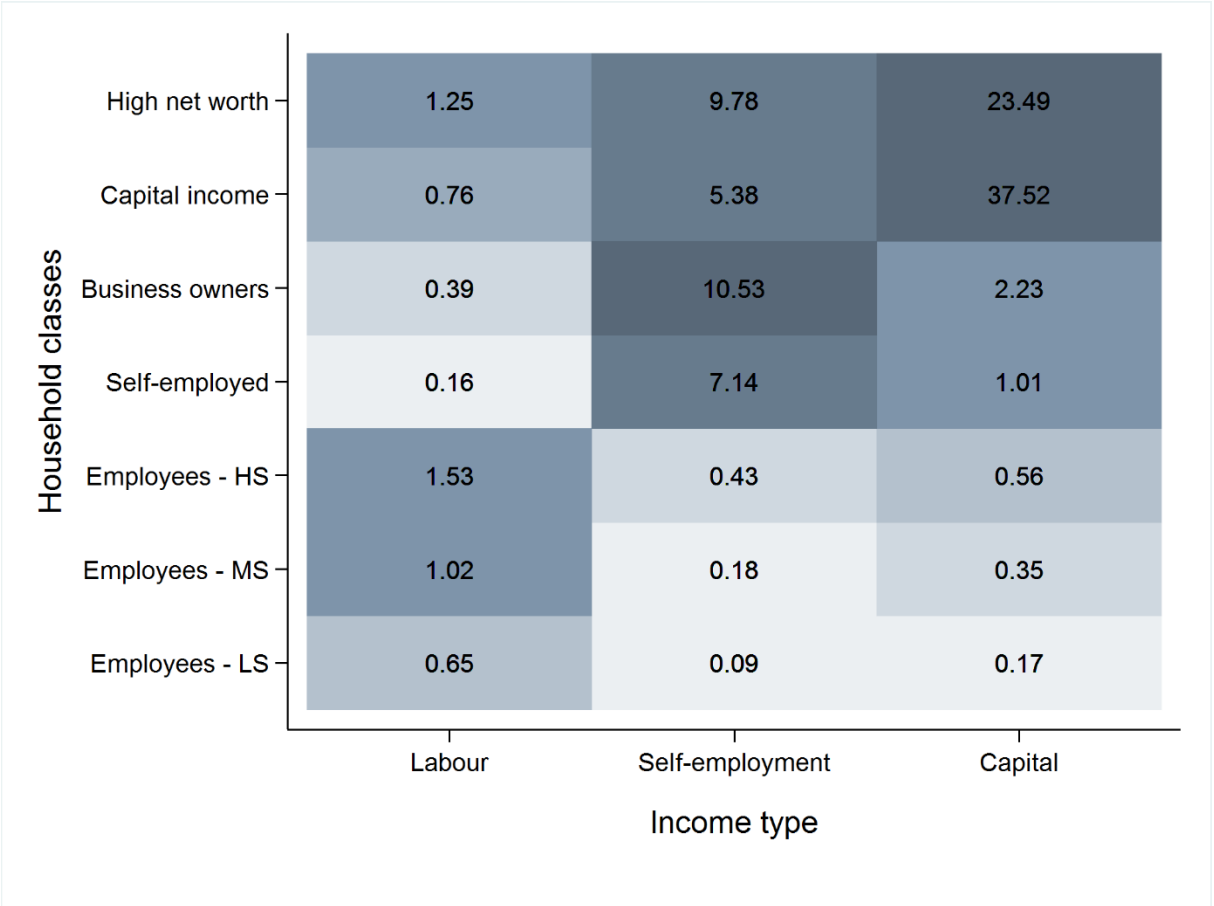
This section presents the empirical evidence on the differentiation of classes with respect to income, real and financial wealth, and debt.

Income

We first investigate income; in particular the functional income distribution of labour, self-employment and capital income across classes. Since income is not divided evenly across the three categories, we compare the income type generated by one class to the class's share in total population to capture the concentration of income across classes. That is, a value equal to one indicates that the class is receiving just the share in income that corresponds to its share in the population. The class captures a disproportionately large share of that income if the value is greater than one, and a disproportionately small share if the value is smaller than one.

Figure 1 shows the heat map of the functional income distribution across classes. The matrix cells are colour-coded according to the income share-population share ratio. A darker shade thus indicates that the respective class is receiving an income share that is disproportionately high relative to its share in the population. A lighter share, conversely, shows that a group is underrepresented as a receiver of that income form.

Figure 1: Heat map of functional income distribution across classes



Note: This graph shows the share of household classes in functional income types as a ratio to their share in the total population. A value of 1 indicates that the class receives exactly the share in income that corresponds to its share in the population; a value larger (smaller) than 1 indicates that it receives a share in the income type that is larger (smaller) than its population share.

Source: HFCS 2010, own calculations

A class structure with some graduation is discernible in Figure 1. Two 'hot spots' of income concentration are in the top right and in the bottom left quadrant of the heat map. Capitalists in the top three rows receive a disproportionate share of both self-employment income and capital income, while they mostly have a lower share of labour income than their share in the population. Conversely, employees in the bottom three rows have a lower share in self-employment and capital income and mostly a higher labour income share relative to their population share.

High net worth households at the very top and low-skilled employees at the bottom do not fit this pattern for labour income very well; for households in which the reference person is a low-skilled employee, labour income is the main source of income, so they do not reach their population share due to their low absolute labour income. The case of high net worth households is different. They receive a disproportionately large share of both capital and self-employment income, but then also earn labour income which just exceeds their share in the population.

Households with self-employed reference persons have higher self-employment income than their share in the population by a factor of 7. They also have capital income which is about double their share in the population, and a share in labour income which is about half their share in the population.

All in all, a broad class scheme emerges from the functional income distribution. Labour income is indeed still the main income source for employees, and they earn a large share of it relative to their population share. Self-employment income is the mainstay of capitalists as well as the self-employed. A disproportionately large share of capital income is earned by capitalists and the self-employed. As employees become more high-skilled, their share in capital income relative to their population share increases.

Wealth

Next we look at the distribution of wealth across classes. We distinguish between real assets, safe and risky financial assets as discussed in Section 3.

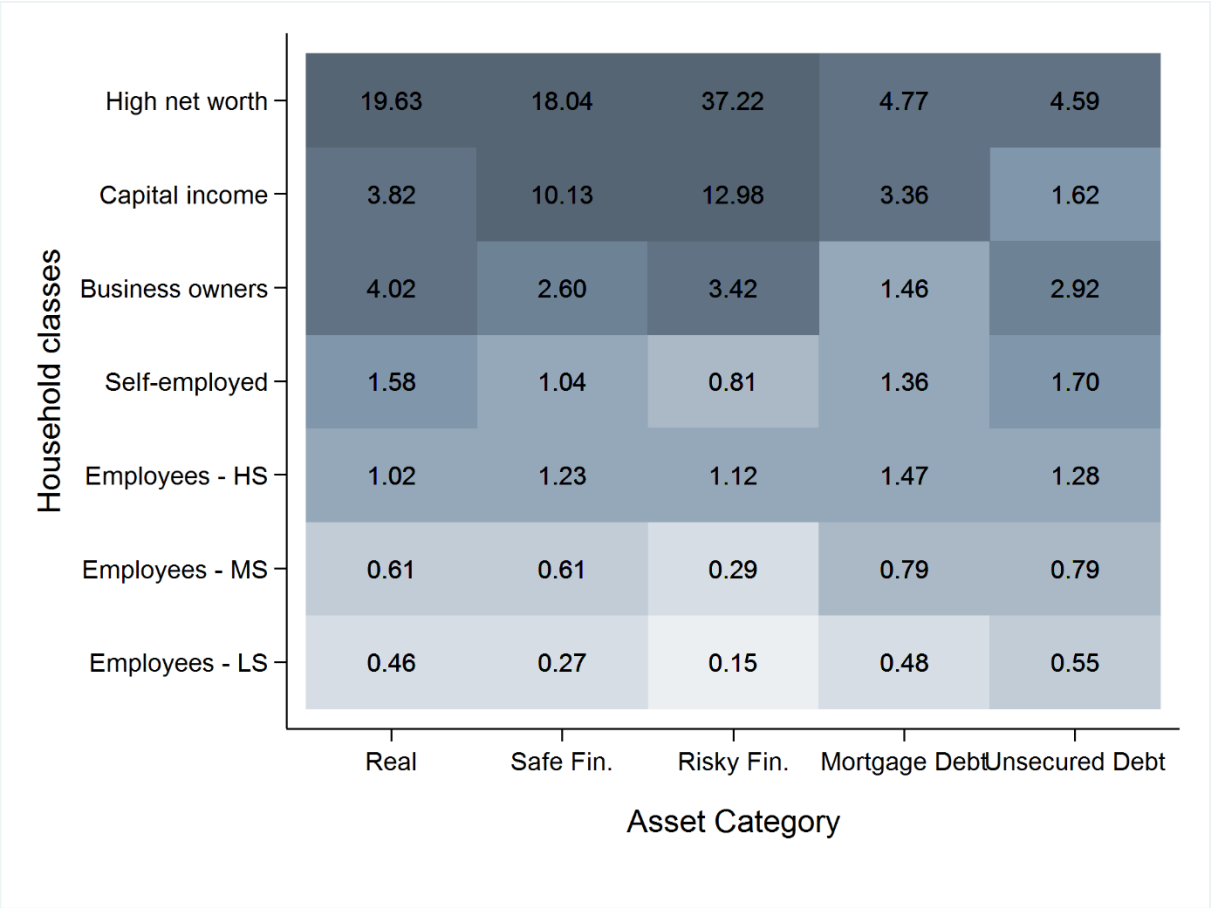
Figure 2 shows a heat map of the distribution of wealth categories across classes. Analogous to the income types in Figure 1, numbers and the colour grade represent classes' shares in assets relative to their population share. The overall picture is one of an increasing share in wealth on the one hand, and one of increasing risk-taking on the other, as one moves up the y-axis of classes. Employees and self-employed own comparatively low shares of wealth relative to their shares in the population, whereas all three groups of capitalists own multiples of their population share. The wealth structure of the top two classes, which could be considered financial capitalists, is geared more towards financial wealth and in particular risky financial assets.

Ownership of real assets rises across all classes. The share in real assets goes from less than half their share in the population for low-skilled employee households to rough parity with their population share for high-skilled employee households. Business owners and capital income earners own a share in real assets that roughly exceeds their share in the population by a factor of 4, and for high net worth households this jumps to a factor of almost 18.

Financial assets, both safe and risky, follow a similar trajectory. The ratio of safe asset ownership relative to the share in the population roughly doubles for each class from low-skilled (at about 0.3) to high-skilled employees (about 1.2). Risky financial assets to the population share increases from 0.15 for low-skilled to more than 1 for high-skilled employees. Business owners' share in risky and safe financial assets is roughly 3 times their population share; this is closer to employees' and the self-employed's values than those of the other two capitalist classes. Capital income earners and high net worth households own a disproportionately large share of financial assets relative to their population share: 11 and 15 times in the case of capital income earners and 16 and 34 times in the case of high net worth households for safe and risky financial assets, respectively. It is noteworthy that the financial investment of each capitalist class as a whole is larger in risky than in safe assets.

Household whose reference person is self-employed own visibly less financial assets than the positioning of their class between high-skilled employees and business owners would suggest. In contrast to the functional income distribution, regarding the distribution of wealth, the self-employed appear to be situated between medium- and high-skilled employees. This might be due to the Janus-faced composition of the self-employed class, which comprises both contingency workers with few assets and better-off lawyers, doctors and managers of their own businesses that have less than five employees.

Figure 2: Heat map of wealth distribution across classes



Note: This graph shows the share of household classes in asset categories as a ratio to their share in the total population. A value of 1 indicates that the class owns exactly the share in an asset that corresponds to its share in the population; a value larger (smaller) than 1 indicates that it owns a share in the asset category that is larger (smaller) than its population share.

Source: HFCS 2010, own calculations

Debt

The distribution of debt broadly rises with classes along the y-axis. The monotonous increase is broken only by high-skilled employees for mortgage debt and capital income earners for unsecured debt. Overall, debt is distributed much more equally than assets: all employee classes have higher debt than asset shares relative to their population, and capitalist classes have much lower debt than asset shares. The debt/population ratio of shares does not even reach 4.

Asset categories

The main residence is quantitatively the most important asset category for private households. However, (full or partial) home ownership is steeply graduated across classes. 55% of low-skilled and medium-skilled employees own their homes. About two thirds of high-skilled employees and 62% of the self-employed own their main residence. For the three capitalist classes, this rises to roughly three

quarters home ownership for capital income earners, 85% for business owners and 100% for high net worth households.

Conversely, the incidence of households renting their main residence decreases from about 38% for low-skilled and 40% for medium-skilled employees to 0% for high net worth households. The difference to 100% is made up by households which can use their main residence for free; for instance, young persons living in apartments or houses belonging to a family member, or elderly people who have already transferred ownership in their main residence to their heirs.

The size and value of the main residence differs starkly between classes. Low-skilled and medium-skilled employees live in homes that cover on average roughly 91 and 95 square meters, respectively. For high-skilled employees and the self-employed, the average rises to about 104 square meters. There is another jump in home sizes for the three capitalist classes. Capital income earners' homes are ca. 122 square meters, business owners' 162, and high net worth households 194 square meters on average. The average value of the main residence rises along with the size, from 180,000 Euro for low-skilled employees to almost 730,000 Euro for high net worth households.

The way in which the main residence was acquired clearly sets high net worth households apart from the other classes, including the other capitalist classes. High net worth households have the highest incidence of main residences that were gifted to them (14%). That is, they received part of their potential inheritance during their ancestors' life time. High net worth households have the second-highest of inherited main residences at 21% after the self-employed at 28%. This resonates with Piketty's conclusion that inheritance is becoming more relevant as a means of wealth accumulation for the very rich (Piketty 2014). Another quarter (26%) of high net worth households constructed their main residence; this makes them substantially more likely to build their own home than all other classes. As a consequence, high net worth households were the least likely of all classes to have purchased their home (39%).

For all other classes, purchasing the main residence is by far the most common way of acquisition. Its incidence ranges from 61% for medium-skilled employees to 75% for high-skilled employees. The probability of construction ranges from 11% to 19%. It is higher for the two capitalist classes than for employee or self-employed households, even though medium-skilled employees also have a comparatively high rate of self-constructed housing. This might be due to a higher incidence of skilled workers in this group. Between 14% and 16% of households inherited their main residence. The exceptions are high-skilled employees and the self-employed; of the former only 9% inherited their home, of the latter, 28%. This is perhaps the starkest difference between these two classes.

To sum up, there is a clear cut-off between classes regarding wealth. Whereas employees and the self-employed hold comparatively low shares of wealth, all three classes of capitalists own disproportionately large shares of real, as well as risky and safe financial assets. Furthermore, some differentiation between capitalists emerged. The wealth structure of the top two classes, high-net worth households and rentiers, is geared towards financial wealth, and in particular risky financial assets. This is consistent with a characterization of these classes as financial capitalists. In contrast to wealth, debt is distributed much more equally across classes.

Looking more closely at the main residence, the most important asset for large swathes of households, provides both a glimpse into the life styles of classes and first clues about their backgrounds. Both size and value of the homes of capitalists are clearly set apart from those of employees and the self-employed. On average, high-net worth households live on double the space compared to employees and the self-employed. Furthermore, main residences set high net worth households, the 1%, apart from all other classes. This does not only refer to their size and value, which jump even compared to rentiers' houses, but also to the way in which they were acquired. High net worth households have the highest share of all classes of having acquired their homes through a gift or inheritance. This provides a first indication of the role of dynastic wealth in classes.

5. Class status, financial attitudes and behaviour

The objective economic circumstances in which a household lives – i.e. its income, wealth and debt situation – might be linked to the subjective perceptions, attitudes and behaviour of its members. This section thus investigates whether there is a connection between the economic class status and some class-related attitudes and behaviour, as far as the available data permits. The HFCS dataset provides the following subjective variables at the household level: perceived changes in expenses and income, risk aversion and perceived credit constrains, the reasons for savings, and the chance to receive financial assistance, as well as gifts and inheritances.

Perceived changes in expenditure and income

Table 3: Perceptions on changes in income and expenditures

	High net worth households	Capital income earners	Business owners	Self-employed	High-skilled employees	Medium-skilled employees	Low-skilled employees
Expenditure	0.19	0.07	0.21	0.07	0.19	0.14	0.14
Income	-0.05	-0.10	-0.11	-0.15	0.08	-0.05	-0.21
Income vs. expenditure	0.15	0.16	0.13	0.17	0.25	0.17	0.20

Note: This table shows the net effect of lower (-1), same (0) or higher (1) expenditure or income expectations, and of expenditures exceeding (-1), equalling (0), or being lower than (1) income across classes.

Source: HFCS 2010, own calculations

Post-Keynesian theory suggests that there is a ratchet effect to household expenses (Duesenberry, 1949); they tend to increase with rising income levels but plateau when income stagnates or declines. The HFCS survey was conducted after 2008 in all countries, that is, after the economic and financial crisis hit Europe. This data appears to corroborate the ratchet hypothesis: Against very low inflation in the Euro area of 0.3% in 2009 and 1.6% in 2010 (Eurostat, 2016), on average, the households in all classes think their expenditures increased slightly compared to the previous year. The values range from 0.07 to 0.21. There is thus no indication from the subjective data that certain classes as a whole substantially raised or contracted their expenditures compared to others.

In contrast, nominal income at the class level might be somewhat more volatile due to growth effects (which are in turn precipitated by changes in demand) and in the functional income distribution. Most classes consider their income in the year preceding the survey to have been lower or similar in comparison to 'normal' years (values between -0.21 and 0.08). This is again in sync with the macro data of a real GDP contraction in the order of 4.5% in 2009 and growth of 2.1% in 2010 in the Euro area. Changes in the functional distribution of income that typically occur over the business cycle are reflected in our subjective data. Business owners and the self-employed are typically hard-hit by volatile profit income in downturns, whereas income of employees with permanent contracts tends to be more stable over the cycle as layoffs are postponed. Job losses in the crisis might be born

disproportionately by low-income groups as temporary contracts are not renewed and displacement effects ripple through the ranks of employees.

The HFCS data does indeed show particularly low income of business owners and self-employed in the reference period, an average of around 11% and 15% of whom report unusually low income. High-net worth and rentier households are affected somewhat less strongly; an average of 5% and 10%, respectively, of these classes state abnormally low income. Among high-skilled employees an average of 8% claims unusually high income, which might be affected by interpersonal rather than intertemporal comparisons. On average, 5% of households of medium-skilled employees state that their income was exceptionally low. Worst hit by the crisis is the class of low-skilled employees; 21% of this class reportedly had income lower than usual. The subjective comparison of income levels to 'normal' times thus indicates a u-shaped effect of the crisis across classes. Apart from the business cycle effect on profit income which is a stylized fact that is well-established in the national accounts data on the functional distribution of income, the disaggregation of classes shows a differential effect across employees. Whereas high-skilled employees weathered the downturn relatively unscathed, especially low-skilled employees report being hard hit by income falls.

On average, all classes claim on average that their income exceeded expenditures that year. In line with the cyclical income fluctuations discussed above, on average a lower share of capitalist households reports positive saving rates than of worker households. The overall picture here fits with stylized facts from both micro- and macroeconomic data regarding saving rates, which usually find a positive saving rate for the entire population. However, micro data typically shows negative savings rates for a substantial part of the population; this – intertemporally paradox – result is not confirmed in the subjective data of the HFCS.

To sum up, the emerging class differences in subjective questions on expenditure and income in the HFCS data corroborate both Post Keynesian theory and stylized facts of the functional distribution of income.

Financial risks and credit constraints

Table 4: Credit and investment attitudes

	High net worth households	Capital income earners	Business owners	Self-employed	High-skilled employees	Medium-skilled employees	Low-skilled employees
Credit constraint	0.8%	1.4%	2.3%	12.4%	4.0%	7.2%	8.6%
Investment attitude	0.61	0.64	0.78	0.63	0.53	0.45	0.38

Note: This table shows the share of households reporting to be affected by credit constraints, and the willingness to take on no (0) to substantial (3) financial risk in investment, by class.

Source: HFCS 2010, own calculations

Financial risk-taking is linked to wealth and social norms in the empirical literature (Nelson, 2015; Piketty, 2014). As Section 4 showed, financial capitalists (high-net worth households and rentiers)

invest much more heavily in risky financial assets than other classes. However, real investments might also carry substantial financial risks. In their own perception, business owners are by far the most willing class to take financial risks with an average score of 0.78, where the options range from 0 (not willing to take any risk) to 3 (willing to take substantial risks for substantial returns. The professed risk affinity of the self-employed is also quite high (0.63), roughly at a par with high-net worth households (0.61) and capital income earners (0.64). Workers as a class declare themselves to be noticeably more risk averse, with risk aversion rising as the skill level falls (0.53 to 0.38).

Class differences do not only emerge in investment attitudes, they also play an important role concerning the (assumed) possibilities for accessing substantial loans. Perceived credit constraints rise virtually linearly across classes. Only around 1% of high-net worth households and rentiers, and more than 2% of business owners, claim having considered applying for a loan but did not follow through due to worries that they would not be granted. This share rises for employees from 4% for high-skilled to almost 9% for low-skilled employees. The exception are the self-employed, where about 12% report having backed away from applying for a loan.

In combination, the subjective information on risk affinity and credit constraints paints a picture of well-financed, venturesome capitalists (more so for real than for financial capital) and cautious, credit-constrained workers (the less educated, the more strongly so). The self-employed emerge as a class caught between stools – they claim to be prepared to take risks, but also fear that they will be denied loans.

Reasons for saving

Table 5: Reasons for saving

	High net worth household	Capital income earners	Business owners	Self-employed	High-skilled employees	Medium-skilled employees	Low-skilled employees
Purchase house	3%	4%	9%	6%	14%	10%	12%
Other assets	21%	21%	24%	24%	36%	38%	24%
Business investments	4%	1%	11%	8%	1%	1%	0%
Financial assets	14%	2%	10%	3%	5%	2%	2%
Unexpected events	41%	33%	51%	55%	52%	50%	52%
Pay off debts	5%	8%	18%	8%	7%	6%	6%
Old-age provision	45%	45%	42%	46%	43%	37%	29%
Travel holidays	17%	24%	38%	16%	36%	34%	24%
Education of children	21%	24%	35%	21%	28%	21%	28%
Bequests	9%	11%	9%	3%	3%	3%	4%
State subsidies	5%	3%	12%	3%	3%	2%	2%
Other	17%	24%	11%	11%	13%	12%	7%

Note: This table shows the proportion of households in each class reporting to save for the respective reason (multiple responses possible).

Source: HFCS 2010, own calculations

As argued in Section 2, the sociological literature shows that class status is connected with the way of living. It can thus be assumed that the reasons for saving vary between classes. Data shows though, that the two reasons mentioned most often in the dataset are nearly the same for all social classes: hedging against unexpected events and old-age provision. A second group of answers receives medium support: other major purchases, travel and holidays, and the education of children.

Among the first two, the reason cited most often for saving is to accumulate a rainy-day fund to hedge against unexpected events by all classes except the two financial capitalist classes. Its incidence ranges from 50% to 55% among workers, the self-employed and business owners. High-net worth households and rentiers register substantially below that at 41% and 33%, respectively. This suggests that these two classes of financial capitalists do not require this form of safety net. Conversely, the two financial capitalist classes cite the reason "providing for old age" most often at around 45%, respectively. It is the second-most cited reason for saving in all other classes. Its incidence ranges from 29% for low-skilled employees to 46% for the self-employed. These two questions might indicate that wealth provides a certain measure of safety to financial capitalists, which even real capitalists do not enjoy in the same manner, even though they have comparable wealth levels.

Financing other major purchases such as residences, vehicles or furniture is cited as a reason for saving especially by around 36-38%% of medium- and high-skilled employees, but also around 24% of business owners, self-employed and low-skilled employees. Similarly, saving for travels or holidays is especially relevant for business owners, high- and medium-skilled employees (34-38%), and low-skilled employees around 24%. The education of children induces 21% to 35% (business owners) of households to save. Of all households groups, the lowest share of financial capitalists cites these more short-term reasons for saving.

Other reasons for saving are relevant for individual classes; for instance, 14% of high-skilled employees save for purchasing a house. In general, business owners report the most reasons for saving, many of them related to their class status. They save for business investments (11%), for investing into financial assets (10%), paying off debts (18%), and for tax reasons (12%).

Both financial capitalists (high-net worth households and rentiers) and low-skilled employees at the other end of the class spectrum cite relatively few reasons for saving. One can only surmise that the reasons differ – where financial capitalists might not feel the need to focus on saving, low-skilled employees might not see themselves as being able to save much.

Bequests are more relevant reasons for saving for capitalists and especially financial capitalists than for the self-employed and for workers. Thus, the dynastic aspect of wealth appears to play a larger role among capitalist households, who are also able to pass on substantially larger amounts of wealth. This leads us to the last aspect of class-related financial attitudes and behaviour: the role of gifts and inheritances.

The role of gifts/inheritances and social networks

Table 6: Inheritance and social networks

	High net worth households	Capital income earners	Business owners	Self-employed	High-skilled employees	Medium-skilled employees	Low-skilled employees
Receive inheritance	69%	44%	39%	25%	51%	34%	14%
Receive financial assistance	65%	61%	69%	68%	73%	52%	50%

Note: This table shows the proportion of households in each class expecting a substantial gift or inheritance in the future, and the proportion of households in each class reporting to be able to receive financial assistance of €5.000 from friends or family in an emergency.

Source: HFCS 2010, own calculations

An interesting dimension of class differences concerns the expectations of substantial gifts or inheritances in the future: At one end of the social strata, about two thirds of high-net worth households expect an inheritance or a substantial gift, while at the other end only 14% of low-skilled workers do so. Among other capitalists, 44% of rentiers and 39% business owners are looking to inherit, but also about half of high-skilled employees. A third of medium-skilled employees and a quarter of self-employed hope to receive an inheritance or substantial gift. This might provide an indication that, absent outside interventions, the differentiation between social classes with regard to wealth might prove to be rather stable in the future.

Moreover, the ability to receive financial assistance of €5.000 from friends or family in an emergency varies between classes: Only around 50% of low- and medium-skilled employees indicate that this would be possible for them. In contrast, around 70% of business owners, of the self-employed, and of high-skilled employees as well as over 60% of high-net worth and capital income earners could expect financial assistance from their social networks. This is an indication for the unequal access to social ties between the classes. In Pierre Bourdieu's words, higher social classes have more access to social capital and thus also more access to financial capital.

6. Conclusion

This paper argued that (re-) adapting class theory by incorporating wealth into the analysis improves our understanding of differences between classes. In particular, it allowed us to differentiate within capitalists and place the self-employed alongside employees and capitalists. It used a novel data set for several Euro area countries, the Household Finance and Consumption Survey (HFCS) of the European Central Bank, which provides multiply imputed data on net wealth and its components, market income, and rich information on financial perceptions and behaviour.

We showed that there are stark differences between classes regarding the functional distribution of market income. Employees earn mostly labour income, even relative to their population share, even though some differentiation exists: the higher skilled the employees, the larger their share in capital income. Capitalists, in contrast, garner a disproportionate share of both self-employment income and capital income. The self-employed have an income structure that is comparable to capitalists'.

Regarding wealth, a similarly clear-cut picture emerges. There is a glaring discontinuity in wealth ownership between employees and capitalists. That is, employees hold low shares of wealth relative to their share in the population, while capitalists are disproportionately wealthy. Two noteworthy aspects surfaced in the analysis of wealth by class: First, in contrast to income, when it comes to wealth the self-employed are more similar to employees than to capitalists. This suggests that they hold a Janus-faced position between employees and capitalists which we conjecture might be linked to their composition of well-off professionals and precarious contingency workers. However, a detailed analysis of the composition of self-employed and the effect on their income and wealth structure must be relegated to future research.

Second, we find that the analysis by wealth leads to a differentiation of capitalists classes. The top two classes, high-net worth households and rentiers, own disproportionately large shares of financial wealth compared to real wealth, and have the riskiest investment profile. This would indicate that these two classes are financial capitalists. The high net worth households, the top 1%, are further set apart from the other capitalist classes by the higher importance of gifts and inheritances in acquiring their main residence, and in the hints at luxury lifestyles that size and value of their homes give.

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[i] For this reason, (Wright, 1997)'s work which emphasizes the distinction between managers and supervisors by using work autonomy – or lack thereof – as a distinguishing feature between workers and capitalists is not incorporated into our class categorization.

[ii] These are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Italy, Luxemburg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.

[iii] See the appendix for summary statistics of classes.