
Before proceeding farther, in this chapter I must first introduce certain ideas and orders of magnitude. I begin by noting that in all societies, income inequality can be decomposed into three terms: inequality in income from labor; inequality in the ownership of capital and the income to which it gives rise; and the interaction between these two terms. Vautrin’s famous lesson to Rastignac in Balzac’s *Père Goriot* is perhaps the clearest introduction to these issues.

Vautrin’s Lesson

Balzac’s *Père Goriot*, published in 1835, could not be clearer. Père Goriot, a former spaghetti maker, has made a fortune in pasta and grain during the Revolution and Napoleonic era. A widower, he sacrifices everything he has to find husbands for his daughters Delphine and Anastasie in the best Parisian society of the 1830s. He keeps just enough to pay his room and board in a shabby boardinghouse, where he meets Eugène de Rastignac, a penniless young noble who has come up from the provinces to study law in Paris. Full of ambition and humiliated by his poverty, Eugène avails himself of the help of a distant cousin to worm his way into the luxurious salons where the aristocracy, grande bourgeoisie, and high finance of the Restoration mingle. He quickly falls in love with Delphine, who has been abandoned by her husband, Baron de Nucingen, a banker who has already used his wife’s dowry in any number of speculative ventures. Rastignac soon sheds his illusions as he discovers the cynicism of a society entirely corrupted by money. He is appalled to learn how Père Goriot has been abandoned by his daughters, who, preoccupied as they are with social success, are ashamed of their father and have seen little of him since availing themselves of his fortune. The old man dies in sordid poverty and solitude. Only Rastignac attends his burial. But no sooner has he left Père Lachaise cemetery than he is overwhelmed by the sight of Parisian wealth on display along the Seine and decides to set out in conquest of the capital: “It’s just you and me now!” he apostrophizes the city. His sentimental and social education is over. From this point on he, too, will be ruthless.

The darkest moment in the novel, when the social and moral dilemmas Rastignac faces are rawest and clearest, comes at the midpoint, when the shady character Vautrin offers him a lesson about his future prospects. Vautrin, who resides in the same shabby boardinghouse as Rastignac and Goriot, is a glib talker and seducer who is concealing a dark past as a convict, much like Edmond Dantès in *Le Comte de Monte-Cristo* or Jean Valjean in *Les Misérables*. In contrast to those two characters, who are on the whole worthy fellows, Vautrin is deeply wicked and cynical. He attempts to lure Rastignac into committing a murder in order to lay hands on a large legacy. Before that, Vautrin offers Rastignac an extremely lurid, detailed lesson about the different fates that might befal a young man in the French society of the day.

In substance, Vautrin explains to Rastignac that it is illusory to think that social success can be achieved through study, talent, and effort. He paints a detailed portrait of the various possible careers that await his young friend if he pursues studies in law or medicine, fields in which professional competence counts more than inherited wealth. In particular, Vautrin explains very clearly to Rastignac what yearly income he can aspire to in each of these professions. The verdict is clear: even if he ranks at the top of his class and quickly achieves a brilliant career in law, which will require many compromises, he will still have to get by on a mediocre income and give up all hope of becoming truly wealthy.

By the age of thirty, you will be a judge making 1,200 francs a year, if you haven’t yet tossed away your robes. When you reach forty, you will marry a miller’s daughter with an income of around 6,000 livres. Thank you very much. If you’re lucky enough to find a patron, you will become a royal prosecutor at thirty, with compensation of a thousand écus [5,000 francs], and you will marry the mayor’s daughter. If you’re willing to do a little political dirty work, you will be a prosecutor-general by the time you’re forty. . . . It is my privilege to point out to you, however, that there are only twenty prosecutors-general in France, while 10,000 of you aspire to the position, and among them are a few clowns who would sell their families to move up a rung. If this profession disgusts you, consider another. Would Baron de Rastignac like to be a lawyer? Very well then! You will need to suffer ten years of misery, spend a thousand francs a month, acquire a library and an office, frequent society, kiss the hem of a clerk to get cases, and lick the courthouse floor with your tongue. If the profession led
anywhere, I wouldn’t advise you against it. But can you name five lawyers in Paris who earn more than 50,000 francs a year at the age of fifty?²

By contrast, the strategy for social success that Vautrin proposes to Rastignac is quite a bit more efficient. By marrying Mademoiselle Victorine, a shy young woman who lives in the boardinghouse and has eyes only for the handsome Eugène, he will immediately lay hands on a fortune of a million francs. This will enable him to draw at age twenty an annual income of 50,000 francs (5 percent of the capital) and thus immediately achieve ten times the level of comfort to which he could hope to aspire only years later on a royal prosecutor’s salary (and as much as the most prosperous Parisian lawyers of the day earned at age fifty after years of effort and intrigue).

The conclusion is clear: he must lose no time in marrying young Victorine, ignoring the fact that she is neither very pretty nor very appealing. Eugène eagerly heeds Vautrin’s lesson right up to the ultimate coup de grâce: if the illegitimate child Victorine is to be recognized by her wealthy father and become the heiress of the million francs Vautrin has mentioned, her brother must first be killed. The ex-convict is ready to take on this task in exchange for a commission. This is too much for Rastignac: although he is quite amenable to Vautrin’s arguments concerning the merits of inheritance over study, he is not prepared to commit murder.

The Key Question: Work or Inheritance?

What is most frightening about Vautrin’s lecture is that his brisk portrait of Restoration society contains such precise figures. As I will soon show, the structure of the income and wealth hierarchies in nineteenth-century France was such that the standard of living the wealthiest French people could attain greatly exceeded that to which one could aspire on the basis of income from labor alone. Under such conditions, why work? And why behave morally at all? Since social inequality was in itself immoral and unjustified, why not be thoroughly immoral and appropriate capital by whatever means are available?

The detailed income figures Vautrin gives are unimportant (although quite realistic): the key fact is that in nineteenth-century France and, for that matter, into the early twentieth century, work and study alone were not enough to achieve the same level of comfort afforded by inherited wealth and the income derived from it. This was so obvious to everyone that Balzac needed no statistics to prove it, no detailed figures concerning the deciles and centiles of the income hierarchy. Conditions were similar, moreover, in eighteenth- and nineteenth-century Britain. For Jane Austen’s heroes, the question of work did not arise: all that mattered was the size of one’s fortune, whether acquired through inheritance or marriage. Indeed, the same was true almost everywhere before World War I, which marked the suicide of the patrimonial societies of the past. One of the few exceptions to this rule was the United States, or at any rate the various “pioneer” microsocieties in the northern and western states, where inherited capital had little influence in the eighteenth and nineteenth centuries—a situation that did not last long, however. In the southern states, where capital in the form of slaves and land predominated, inherited wealth mattered as much as it did in old Europe. In Gone with the Wind, Scarlett O’Hara’s suitors cannot count on their studies or talents to assure their future comfort any more than Rastignac can: the size of one’s father’s (or father-in-law’s) plantation matters far more. Vautrin, to show how little he thinks of morality, merit, or social justice, points out to young Eugène that he would be glad to end his days as a slave owner in the US South, living in opulence on what his Negroes produced.² Clearly, the America that appeals to the French ex-convict is not the America that appealed to Tocqueville.

To be sure, income from labor is not always equitably distributed, and it would be unfair to reduce the question of social justice to the importance of income from labor versus income from inherited wealth. Nevertheless, democratic modernity is founded on the belief that inequalities based on individual talent and effort are more justified than other inequalities—or at any rate we hope to be moving in that direction. Indeed, Vautrin’s lesson to some extent ceased to be valid in twentieth-century Europe, at least for a time. During the decades that followed World War II, inherited wealth lost much of its importance, and for the first time in history, perhaps, work and study became the surest routes to the top. Today, even though all sorts of inequalities have reemerged, and many beliefs in social and democratic progress have been shaken, most people still believe that the world has changed radically since Vautrin lectured Rastignac. Who today would advise a young law student to abandon his or her studies and adopt the ex-convict’s strategy for social
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advancement? To be sure, there may exist rare cases where a person would be well advised to set his or her sights on inheriting a large fortune.* In the vast majority of cases, however, it is not only more moral but also more profitable to rely on study, work, and professional success.

Vautrin's lecture focuses our attention on two questions, which I will try to answer in the next few chapters with the imperfect data at my disposal. First, can we be sure that the relative importance of income from labor versus income from inherited wealth has been transformed since the time of Vautrin, and if so, to what extent? Second, and even more important, if we assume that such a transformation has to some degree occurred, why exactly did it happen, and can it be reversed?

Inequalities with Respect to Labor and Capital

To answer these questions, I must first introduce certain basic ideas and the fundamental patterns of income and wealth inequality in different societies at different times. I showed in Part One that income can always be expressed as the sum of income from labor and income from capital. Wages are one form of income from labor, and to simplify the exposition I will sometimes speak of wage inequality when I mean inequality of income from labor more generally. To be sure, income from labor also includes income from nonwage labor, which for a long time played a crucial role and still plays a nonnegligible role today. Income from capital can also take different forms: it includes all income derived from the ownership of capital independent of any labor and regardless of its legal classification (rents, dividends, interest, royalties, profits, capital gains, etc.).

By definition, in all societies, income inequality is the result of adding up these two components: inequality of income from labor and inequality of income from capital. The more unequally distributed each of these two components is, the greater the total inequality. In the abstract, it is perfectly possible to imagine a society in which inequality with respect to labor is high and inequality with respect to capital is low, or vice versa, as well as a society in which both components are highly unequal or highly egalitarian.

The third decisive factor is the relation between these two dimensions of inequality: to what extent do individuals with high income from labor also enjoy high income from capital? Technically speaking, this relation is a statisti
cal correlation, and the greater the correlation, the greater the total inequality, all other things being equal. In practice, the correlation in question is often low or negative in societies in which inequality with respect to capital is so great that the owners of capital do not need to work (for example, Jane Austen's heroes usually eschew any profession). How do things stand today, and how will they stand in the future?

Note, too, that inequality of income from capital may be greater than inequality of capital itself, if individuals with large fortunes somehow manage to obtain a higher return than those with modest to middling fortunes. This mechanism can be a powerful multiplier of inequality, and this is especially true in the century that has just begun. In the simple case where the average rate of return is the same at all levels of the wealth hierarchy, then by definition the two inequalities coincide.

When analyzing the unequal distribution of income, it is essential to carefully distinguish these various aspects and components of inequality, first for normative and moral reasons (the justification of inequality is quite different for income from labor, from inherited wealth, and from differential returns on capital), and second, because the economic, social, and political mechanisms capable of explaining the observed evolutions are totally distinct. In the case of unequal incomes from labor, these mechanisms include the supply of and demand for different skills, the state of the educational system, and the various rules and institutions that affect the operation of the labor market and the determination of wages. In the case of unequal incomes from capital, the most important processes involve savings and investment behavior, laws governing gift-giving and inheritance, and the operation of real estate and financial markets. The statistical measures of income inequality that one finds in the writings of economists as well as in public debate are all too often synthetic indices, such as the Gini coefficient, which mix very different things, such as inequality with respect to labor and capital, so that it is impossible to distinguish clearly among the multiple dimensions of inequality and the various mechanisms at work. By contrast, I will try to distinguish these things as precisely as possible.