The process of wealth accumulation with regard to the path dependence theory

Abstract

Student: Stefan Kranzinger

Supervisor: Dr. Jakob Kapeller

Subject: Diplomstudium-Wirtschaftwissenschaften, Institut für Philosophie und Wissenschaftstheorie

University: JKU-Linz

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Abstract

Increasing inequality and the accumulation of wealth in the hands of few has sparked my interested on the topic of social inequality. Therefore, I wrote my diploma thesis about the phenomenon of wealth accumulation.

To describe the phenomenon of resistant and manifest social inequality, I focused the core of my study on the process of wealth accumulation. In this context the concept of path dependency is used, which shows the process of developing inequality in a theoretical way. Therefore, it is necessary to find mechanisms of wealth accumulation, which will be used to analyse the process of path dependency. The thesis understands these mechanisms as direct and indirect network effects, which can be used as analytical instruments of a path depended development.

As a theoretical fundament of a direct network effect, the thesis uses the concept of the “matthew effect”, which contains the approach of cumulative advantages for high wealth. These cumulative advantages cause increasing social inequality and wealth accumulation. The two principles of indirect network effects are Pareto´s (1963) elite theory and Bourdieu´s (1983) capital theory.

According to the theory of Pareto, political power and economic capital need each other and lead to positive feedback loops. Therefore, political power leads to economic capital and vice versa. This supports the phenomenon of shadow banks, which are built from social elites and in addition causes matthew effects. To give an example how social elites benefit in the process of wealth accumulation the thesis discusses some results of Piketty´s (2014) work: capital in the twenty-first century.

Next Bourdieu´s capital theory will be used to analyse another indirect network effect. According to this theory a huge amount of economic capital leads to an easier accumulation of cultural and social capital. These two forms of capital can be furthermore used to accumulate economic capital, which leads finally to an indirect network effect of wealth accumulation.

To support the idea of direct and indirect network effects a model, based on an equation of Meade (1964, 1975) according to Davies and Shorrocks (2000), will be developed, simulated and illustrated with graphs. Therefore, direct and indirect network effects will be included step by step to simulate the process of wealth accumulation.

Finally, the thesis will take a look on the contemporary discussion of social inequality. This happens on the foundation of two concepts: The marginal-productivity theory and Piketty´s work: capital in the twenty-first century.

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