Returns to Class: Capital Ownership and Income Returns to Education.

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Patrick Mokre

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Paper can be presented in German or English

Abstract

Class matters. Segmentation of society by economic function, with resulting hierarchies and relationships of exploitation, are common stock in social sciences and socio-economics. However, a preference for quantitative research and simultaneous poor coverage of the upper classes in statistical registers have created a corresponding gap in the economics profession. We use the SOEP-P dataset, specially designed to capture the richest percents (Schröder et al. (2020)), to show that persons from upper and capitalist classes enjoy higher returns to education in wage income and provide the matching economic model.

Various literatures in economics point to separated, dual or plural, labor markets to explain persistent wage inequalities. From Marxists territories, labor market segmentation (LMS) theory argues that a dual economy of monopolistic and competitive firms is mirrored in corresponding labor markets (Doeringer and Piore (2020), Rubery (1978)), with insider-outsider theory in neoclassical economics separating workers by incumbents and entrants (Lindbeck and Snower (2002)), while institutional economists emphasize the separation of blue and white collar jobs by extent of accountability to the firm. These theories distinguish labor markets by employer or employment characteristics, such as job tenure.

We propose a different separation of labor markets by class, where informal networks and behavioral codes increase the chances of members of the upper middle and capitalist classes in certain, higher paying, jobs. In other words, we suspect that one segment of the population receives a higher gains in wage income per year of education Mincer (1958). We apply three popular concepts of class: (1) Fessler, Lindner, and Schürz (2018)'s functions of wealth (renters, owners and capitalists), (2) separation by capital income (lower 60 percentiles, 70th-89th percentile, Top 10 %) as well as (3) separation by business ownership (no businesses, one business or multiple businesses owned).

Such estimations have been difficult hitherto, as the Mincer income equation requires detailed demographic data usually only provided by surveys, while surveys usually have weak coverage of the richest households. This made it difficult to define and describe a capitalist class which, by definition, is rather small and rather rich. However, the efforts of the German Socio-Economic Panel to "oversample" the wealth-richest percentile of the population ("SOEP-P") allow a detailed description of capitalists proper as well as statistical exploitation of some variation within that class.

We apply quantile regression (Koenker and Bassett (1978)) to distinguish the wage effects over the income distribution and include the usual demographic controls (gender, marriage, number of children, job experience, migration and region). We create only two categories of education (non-academic degrees versus Bachelor degree or above) to interact with class, however, the results are robust to using years of education instead.

Unsurprisingly, we find that both affiliation to a higher class as well as additional years of education increase wage income. However, we also find that returns to education are even higher for members of the upper middle classes in already better-paying jobs in the top half of the wage distribution, ie. class specific income returns to education exist. The results hold over all three definitions of class, with the strictest definition (class by business ownership) giving especially unambiguous results. This suggest partially separate labor markets for professional and managerial jobs, ruled by networks and social homogeneity.

The results provide quantitative support to the qualitative and theoretical research from sociology and educational sciences on inequality of opportunity and social mobility. They furthermore emphasize the relevance of economic class in social structure. Lastly, the results prove the importance of a statistical and survey coverage of the richest households, and the success of the SOEP-P sampling strategy.

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