ERC Consolidator Grant 2023
Research proposal [Part B1][1]
(Part B1 is evaluated both in Step 1 and Step 2,
Part B2 is evaluated in Step 2 only)

Understanding Trajectories of Wealth Accumulation and Their Variability

WEALTHTRAJECT

Cover Page:
- Name of the Principal Investigator (PI): Philipp M. Lersch
- Name of the PI's host institution for the project: German Institute for Economic Research (DIW Berlin)
- Proposal duration in months: 60

WEALTHTRAJECT is the first project to comprehensively and systematically examine diversity in long-term trajectories of wealth accumulation within and between social groups.

Wealth inequality is on the rise in many affluent societies. It is time to move beyond prevailing static snapshots of average wealth inequality between people to understand this trend. Instead, a dynamic perspective on wealth changes experienced by people over their lifetimes is needed. This dynamic perspective reveals how diverse the trajectories of wealth accumulation are, i.e., the degree of trajectory variability.

WEALTHTRAJECT integrates disconnected strands of literature to study how variability in trajectories emerges over time through the interplay of saving and spending of income, receipt of transfers from parents and other family members, and (de-)investment in (un-)profitable assets.

WEALTHTRAJECT addresses four main innovative objectives: (i) to document variability in wealth trajectories over people's lives; (ii) to identify intragenerational drivers of variability in wealth trajectories; (iii) to establish the intergenerational relationships between family background and wealth trajectories; (iv) to collect novel life history data on wealth accumulation trajectories.

To address these objectives, WEALTHTRAJECT innovates by adopting a novel approach emphasising the diverse patterns of wealth gains and losses in people's lives. The project challenges the prevalent idea of a uniform hump-shaped life cycle accumulation pattern in wealth.

WEALTHTRAJECT breaks new ground by combining longitudinal data from surveys and registers and original life history data on wealth that, for the first time, allow the mapping of wealth trajectories over extended periods of people's lives. Advanced quantitative methods are applied to leverage the untapped potential of these data.

WEALTHTRAJECT lays the foundations for a new understanding of wealth inequality to inform relevant social policies.

[1] Instructions for completing Part B1 can be found in the '*Information for Applicants to the Starting and Consolidator Grant 2023 Calls'*.

No cross-panel or cross-domain application.

Section a: Extended Synopsis of the scientific proposal

Overview and research objectives

Wealth inequality is on the rise in many affluent societies. A significant share of the world's population owns no or negative wealth. But how much of this is due to the luck of being born into a wealthy family? And how does wealth change over an individual's lifetime? For the first time, WEALTHTRAJECT will shed light on **the role of individual wealth accumulation trajectories and lay the foundations for a new and different understanding of wealth inequality and relevant social policies.** The project promises breakthrough insights into the emergence of inequality and rigidity in wealth, helping to understand how biographical processes and macro-level changes such as housing market dynamics generate unequal outcomes critical for individuals' life chances today.

Individuals' net wealth, which includes the total of their privately-owned assets, such as homes and life insurance, minus liabilities and debts, is fundamental for a comfortable life, providing a safety net, opportunities in the current and next generation, and societal and political influence. Thus, the complex challenge of documenting and explaining why some individuals have more wealth than others is a top priority for researchers and policymakers. Documenting who has what wealth has made substantial progress in recent years, but two significant shortcomings remain. First, the documentation is primarily limited to point-in-time snapshots of the haves and have-nots, ignoring how representative this snapshot is of individuals' wealth over their lives. Second, the documentation of inequality between individuals is mainly limited to examining average wealth, ignoring how representative this average is. It is crucial to go beyond such narrow snapshots of averages to study when and why individuals gain and lose wealth in their lifetimes and how diverse the resulting trajectories of wealth accumulation are. Thus, the general aim of the WEALTHTRAJECT project is to **explicate the diverse patterns of gains and losses of wealth in individuals' lives.** These patterns create point-in-time inequality between individuals.

To address the shortcomings of established research, a **ground-breaking perspective on trajectory variability for wealth** is necessary, building on recent research on income and prestige (Bloome & Furey, 2020; Cheng & Song, 2019; Lersch et al., 2020). Wealth trajectories refer to the age-graded, individual-specific growth paths of wealth over people's lives. The trajectory variability perspective stresses the central role of wealth gains and losses, i.e., intragenerational mobility, over the life course for our understanding of inequality while, at the same time, acknowledging that people inherently differ from each other, for instance, because some had a head start in life. A central proposition of the trajectory variability perspective is that **trajectories are distinguished by substantial differences in when and how much wealth typically grows and how variable trajectories are across social groups**. Trajectory variability describes how much individual trajectories differ from typical, average trajectories within social groups, reflecting that even group-specific averages hide relevant diversity and that the “average individual” is fictive.

WEALTHTRAJECT challenges the dominant idea of a uniform hump-shaped life cycle accumulation pattern in wealth. Instead, the central working hypothesis of WEALTHTRAJECT contends that wealth trajectories are characterised by substantial variability linked to social processes. Building on novel theory and recent empirical findings from sociological and economic research, new data, and cutting-edge methods, the following central research question is addressed: **What shapes variable wealth accumulation trajectories?** The project has four main innovative objectives in response to this question:

1. To document variability in wealth trajectories over individuals' life courses;
2. To identify intragenerational drivers of variability in wealth trajectories;
3. To establish the intergenerational relationships between family background and wealth trajectories;
4. To collect novel life history data on wealth accumulation trajectories.

WEALTHTRAJECT can make critical progress by addressing these objectives now. The first steps in developing the trajectory variability perspective, jointly with unprecedented data availability and advancements in quantitative modelling, create a unique opportunity window for generating timely knowledge regarding a defining challenge of our time: economic inequality (Atkinson, 2015; Piketty, 2014). The project breaks new ground by combining longitudinal data from surveys and registers from Australia, Germany, Norway, and the United States and original life history data on wealth that, **for the first time, allow mapping wealth trajectories over extended periods of individuals' life courses**. While country coverage varies by data availability, the data allows for covering a diverse selection of countries contributing to the generalizability of results to other rich democracies.

Trajectory variability perspective

Wealth refers to a stock of accumulated economic resources from wealth transfers, savings from surplus income, and price dynamics in assets such as rising house prices. Wealth accumulation **trajectories describe the stability, growth, and decline of wealth in individuals' lives**. Thus, wealth mobility can be upward and downward. Each wealth trajectory can be characterised by a starting point in early adulthood because very few children own wealth (Boserup et al., 2018). Further, trajectories can be defined by expected (non-linear) wealth growth rates and deviations from the expected growth rate. We observe variability, if individual trajectories differ from one another in any of these dimensions. More variability means that individual trajectories within a respective group of individuals are more diverse, and measures of central tendencies are less representative of the experience of individual group members.

We can differentiate unequal levels of wealth at the start of the trajectory – i.e., **origin variability** – and diverse mobility over the trajectory when individuals accumulate wealth at unequal rates – i.e., **growth variability** (Killewald & Bryan, 2018). High origin variability indicates a head start for some that may have a long reach into later life. Growth variability, related to diverse changes within individuals as they age, is likely a result of heterogeneity in biographical experiences, long-term financial behaviour, and changes in the economic context; thus, a mix of constrained choices and luck. Finally, unexpected wealth shocks create volatility within individuals around expected accumulation trajectories, which may differ in magnitude between individuals – i.e., **fluctuation variability** (Cheng, 2014). Such shocks may be related to life course events such as unemployment, unexpected transfers, and financial crises.

Central to the trajectory variability perspective is the **systematic variability principle** recently introduced by Lersch et al. (2020). The principle states that trajectories of attainment are characterised by substantial dissimilarity in origin, growth, and fluctuation variability between relevant social groups such as birth cohorts. In other words, we can describe groups by how diverse they are and how much and in what way group members deviate from the typical trajectories in their groups.

By taking a trajectory variability perspective with rich longitudinal data and innovative methods, WEALTHTRAJECT can address three sets of scientific challenges derived from the project's first three main objectives in complementary and distinct project parts. The collection of novel life history data is the fourth objective detailed in the Methodology section.

Objective 1. Document variability in wealth trajectories over life courses

The initial objective of WEALTHTRAJECT is to provide the first comprehensive empirical study of variability in wealth accumulation trajectories.

Challenge 1.1: Discover typical wealth trajectories. A fundamental challenge in this project is establishing thick descriptions of typical wealth accumulation trajectories to anchor subsequent analyses of variability around these trajectories. When does wealth typically grow in the life course, how fast does it grow, and for how long? When and for whom is wealth stable? Are there systematic between-group differences in typical wealth trajectories? In initial responses to these questions, most research draws on the conventional life cycle model, which builds on the premise of rational and forward-looking agents. However, there is surprisingly little systematic research backing up these assumptions because research on wealth trajectories and intragenerational mobility in wealth is lacking (Killewald & Bryan, 2018). This state of the research calls for a systematic, detailed, and flexible discovery of typical wealth trajectories in the WEALTHTRAJECT project accounting for fundamental differences between groups defined by birth cohort, gender, education, and parental social class. Previous research suggests these groups are crucial in differentiating wealth accumulation (Hansen & Toft, 2021; Lersch et al. 2017; Lersch & Groh-Samberg, 2022).

Challenge 1.2: Identify variability in wealth trajectories around average. Because the average individual and trajectory do not exist, the following questions are addressed: How diverse are trajectories within groups around the typical patterns identified in the first challenge? In which aspects are trajectories diverse? How does this diversity vary between groups? While the conventional approach using the life cycle model would lead us to expect homogeneous trajectories, several arguments support the proposition of (increasing) variability and heterogeneity in wealth trajectories (Browning & Crossley, 2001; Jianakoplos & Menchik, 1997). People make different life course choices and experiences relevant to wealth accumulation, can draw on unequal resources to build wealth, and differ in their preferences and life goals. All of this should lead to between-individual variability in wealth accumulation. It is unsettled, however, how much variability these

forces create and how variability differs across groups. The literature on typical wealth trajectories treats variability as a statistical nuance but identifies some variability. Not accounting for such heterogeneity in wealth trajectories and between-group differences may lead to wrong conclusions about wealth accumulation patterns (Hochguertel & Ohlsson, 2011).

Challenge 1.3: Understand how trajectory variability shapes period inequality in wealth. In recent years, it has been increasingly recognised that intragenerational mobility and trajectories of attainment are crucial for inequality (Bloome & Furey, 2020; Lersch et al., 2020). Therefore, the third challenge in WEALTHTRAJECT is to gauge the influence of variability on period inequality. Generally, wealth inequality at a point in time is a consequence of individual-level wealth accumulation trajectories; therefore, trajectory variability is related to period inequality. In a multicohort setting, period inequality will not only depend on the origin, growth, and fluctuation variability of each birth cohort (or other socially relevant groups) but also on the weight of each cohort based on its size relative to the population (Deaton & Paxson, 1994). Given the complex relationship between variability and period inequality, a thorough investigation of the consequences of wealth trajectory variability is crucial to understand the source of wealth inequality.

Objective 2. Identify intragenerational drivers of variability in wealth trajectories

Building on the thick description developed in response to Objective 1, the second objective focuses on the drivers and mechanisms of wealth trajectory variability from an intragenerational perspective.

Challenge 2.1: Understand the role of life course events for variability in wealth trajectories. Wealth reflects prior life course events and experiences (Killewald & Bryan, 2018), where the role of life course events in the domains of work and family is central. It is increasingly acknowledged that wealth is crucially shaped by education and the labour market (Black et al., 2020). Therefore, labour market events are fundamental for wealth, but knowledge about the relationship remains sketchy. Similarly, family events can profoundly impact wealth accumulation with different outcomes for women and men (Lersch et al., 2022). Previous research is focused on typical outcomes of life events, however, without considering diverse consequences for wealth leading to variability. For instance, in the family domain, nascent literature focuses on typical wealth changes after life events such as marriage and union dissolution (Boertien & Lersch, 2021; Lersch, 2017). The systematic study of trajectory variability following the risk of experiencing life course events in WEALTHTRAJECT provides innovative insights into wealth accumulation processes.

Challenge 2.2: Examine social antecedents of heterogeneity in saving. Wealth is a complex outcome to study because it does not only depend on inflows but also, in the next step, on how these inflows are consumed or saved, i.e., put aside at the end of the month (Black et al., 2020). Variance in the who, when, and how much of saving can contribute to variability in wealth trajectories. This challenge stresses the questions of how saving is socially graded and the potential implications of saving for variability in wealth accumulation. Studying the relationship between, on the one hand, birth cohort, gender, education, and social class, and, on the other hand, saving within WEALTHTRAJECT will provide essential insights into how variability in wealth trajectories may emerge.

Challenge 2.3: Examine the role of investment in homeownership and returns. Increasingly, investment returns are considered key to understanding cross-sectional period inequality in wealth (Benhabib et al., 2019). Therefore, returns may also be pertinent to understanding variability in wealth trajectories. For instance, a large share of year-to-year volatility in wealth may be due to asset price changes rather than active (dis-)saving (Fagereng et al., 2019), and – given that individuals own different assets – variability may result. For most households that own wealth, self-occupied housing is the most significant component in their portfolios (Flavin & Yamashita, 2002). Previous research has shown how entry into homeownership has become more difficult due to macro trends such as rising economic insecurity (Bayrakdar et al., 2019). However, this research focuses on typical ages and housing trajectories. Instead, the current challenge is to examine the spread in entry ages and resulting variability in housing trajectories. Furthermore, there is considerable variance in the annual capital gains and losses to housing (Flavin & Yamashita, 2002; Flippen, 2001) that needs to be considered to understand heterogeneity in wealth accumulation.

Objective 3. Establish relationships between family background and wealth trajectories

Family background is not only relevant for the starting point of wealth trajectories and later when direct transfers occur (Boserup et al., 2017), but the family background can have a continuous influence on growth patterns and deviations from expected trajectories throughout the life course. In this regard, the family can create similarity and variability in wealth trajectories.

Challenge 3.1: Identify the family variability in trajectories. It is an open and pressing question how similar wealth trajectories are within families, which will be addressed in WEALTHTRAJECT. Is siblings' wealth similar at origin in early adulthood? Do siblings have similar growth rates? Does their wealth deviate similarly from expected growth trajectories? Such questions have been recently addressed for income trajectories, where Cheng and Song (2019) find similarities in trajectories across generations drawing on a linked trajectory mobility model. There is some suggestive evidence for similarity in wealth trajectories, e.g., for intergenerational persistence in capital returns (Fagereng et al., 2020). However, no direct examination of family similarity in wealth trajectories is available. With a clear understanding of the influence of family background on wealth trajectories and variability therein, we can gauge the social rigidity of wealth inequalities as an essential indicator of equality of opportunity.

Challenge 3.2: Discover how parental social class influences variability in wealth trajectories. How parents transfer their advantaged social positions to their children remains a central issue in the social sciences. The role of wealth is increasingly considered one of the big four dimensions next to occupation, income, and education in this process (Hällsten & Thaning, 2022). Because social class remains a powerful predictor of offspring life chances, recent efforts have tried to link class analysis with research on wealth inequalities (Hansen, 2014). The focus is on how wealth trajectories are part of social reproduction strategies within families. However, previous research did not examine how parental social class may affect wealth trajectories in the offspring generation, which will be addressed in WEALTHTRAJECT. Tentative evidence by Hansen and Wiborg (2019) is descriptive and focused on typical origin-class differences in trajectories by inheritance status, showing broadly similar trajectories in early adulthood for those without transfer receipt and more accelerated accumulation for those with transfers.

Challenge 3.3: Explore the uniqueness of direct financial transfers for saving and investment. A potential source of wealth trajectory variability is the receipt of intergenerational direct financial transfers (including inter vivos transfers and inheritances), which is socially selective and related to parental social class (Albertini & Radl, 2012), and how the recipients use these transfers. In particular, the use of transfers among recipients is underresearched and highly important to evaluate the consequences of transfers. Transfers may create considerable variability in later-life wealth growth because transfers can constitute a substantial share of individual-level wealth (Alvaredo et al., 2017; Nolan et al., 2021). It is an urgent challenge to explore how individuals use transfers and whether and how they are saved or consumed, tackled in WEALTHTRAJECT.

Methodology

The scientific challenges outlined above can only be addressed by integrating and triangulating evidence from several existing and new data sources, meeting the highly ambitious and data-demanding project requirements. WEALTHTRAJECT will combine three data types with their unique strengths to meet these requirements: household panel surveys, register data, and originally collected life history data. I will use the following panel surveys: **Household, Income and Labour Dynamics in Australia** (HILDA) Survey, the **Panel Study of Income Dynamics** (PSID) from the U.S., and the German **Socio-economic Panel** (SOEP). These large-sample and long-running surveys cover detailed wealth information, capture more granular life course, behavioural, and attitudinal information than register data, and provide more accurate prospective information than life history data. They will be used for Objectives 1, 2, and 3. I will draw on **public register data on wealth in Norway** to complement the survey data. Registers provide large numbers of observations and very accurate, detailed, and long-running data on wealth reported mainly by third parties rather than self-reported. Still, they lack the comprehensive coverage of other life course dynamics, attitudes, and behaviour available in household panel surveys and life history data. Register data is crucial for analyses in Objective 1 and the sibling similarity analysis in Objective 3.

A ground-breaking **primary data collection of life history data on wealth** supplemented with prospective information is conducted to overcome data limitations of the panel surveys and register and expand the coverage of life course phases (Objective 4). New and so far unavailable data on subjectively influential life course dynamics for wealth accumulation will be collected. These data will be used to address Objectives 1, 2, and 3. Generally, life history data capture continuous measurement of qualitative variables that are retrospectively collected, i.e., respondents are asked to report on their complete prior life history in specific domains. This type of data has been widely and productively used in other areas of life course research (Lersch et al., 2020; Mayer, 2015) but is currently not used in wealth research. Data will be collected through the SOEP Innovation Sample (SOEP-IS) – a nationally representative, annual omnibus panel survey in

Germany open to the international scientific community. The SOEP-IS is uniquely suited for the project because comprehensive retrospective information about the life course domains family and work together with detailed information about the family of origin and socioeconomic status is already available (but no wealth data has been collected yet). I have secured access to the SOEP-IS as a member of the SOEP team. These prolific data will offer myriad possibilities for analysis beyond the WEALTHTRAJECT project.

The WEALTHTRAJECT project addresses complementary but distinct scientific challenges requiring varied **cutting-edge analytical methods** to fully exploit the potential of the data. These include **growth curve modelling** (Singer & Willett, 2003), **heterogeneous variance component models** (Leckie et al., 2014), **panel regression** methods, **tree-based machine learning, and sequence analysis**. Common to these approaches is a longitudinal perspective, in which individuals are followed over time for some part of their life courses as they accumulate wealth and an analytical focus on variability. Unfortunately, most empirical tools have yet to be used for wealth research, even though they are highly pertinent, undermining the analytical potential inherent in the data and hindering crucial advances in understanding how variable wealth accumulation trajectories are. I am experienced in applying these methods (e.g., Lersch et al., 2017, 2020).

Project team. I will form a team of researchers with strong quantitative skills. The project will employ the PI (0.5 FTE / 5 years), 1 PhD student (0.75 FTE / 4 years), 2 postdocs (1 FTE / 3 and 4 years) to work on complex aspects of the project, and 1 research assistant (0.3 FTE / 5 years).

Output. The project results will be disseminated in at least 12 open-access articles in leading peer-reviewed journals, 1 doctoral dissertation, presentations in international conferences (about 20 conferences in total), policy briefs and brief reports, and two workshops with academics, civil society members and policymakers. Data and computer codes for all empirical analyses are made publicly available in repositories.

Risk and Feasibility. The WEALTHTRAJECT project is ambitious both in scope and depth. It is the first project to study wealth accumulation in such detail over extended periods in life courses. It will move into uncharted territory by asking new questions, adapting recent theory developments, collecting ground-breaking data, and applying an innovative and data-demanding empirical approach. The project comes with considerable risks associated with the primary data collection, risks of data quality for life course analysis, and risks of null findings because of its ground-breaking nature. By combining different data and adapting a multifaceted research agenda, I flexibly respond to these risks. At the same time, the project has great promise for original and pertinent results with a significant impact on many related and multi-disciplinary research fields. Therefore, it is undoubtedly a **high-risk/high-gain project**. Despite the risks, the project is feasible because the newly available large-scale longitudinal survey and register data, together with the original life history data to be collected in the project, meet the high requirements of the project.

I am uniquely positioned to lead this project successfully because I combine outstanding expertise in life course and wealth research. I contributed to the development of the trajectory variability perspective (Lersch et al., 2020) and made substantial contributions to our understanding of life course dynamics (e.g., Lersch, Forthcoming). I demonstrated the ability to publish in top journals on wealth inequality (Lersch, 2017) and wealth dynamics (Lersch et al., 2017). I have excellent data analytical skills and extensive experience with longitudinal data. I am very experienced in the leadership of teams and management of projects. I am part of an established network of internationally recognised collaborators evidenced, e.g., by numerous co-authored publications. In addition, I am part of the SOEP team at DIW Berlin, one of the worldwide most distinguished research centres for collecting and analysing longitudinal data.

Impact. WEALTHTRAJECT produces significant multi-disciplinary scientific and social added value**,** which will have a lasting international impact. Scientifically, there are **new insights into the over-time rigidity of the social structure in the wealth dimension**, which has so far been too little considered. The project will generate original knowledge about how people end up in unequal wealth positions over time, how much their wealth changes as they age, and how much inequality is due to these within-individual changes at any point in time. Furthermore, new knowledge is produced about how life course processes such as marriage and job loss, and financial behaviour, in interaction with other social factors, can contribute to the emergence of inequalities. Societally, the project can provide the **necessary impetus for socio-political debates on the consolidation of inequality and meritocratic processes** in Europe and elsewhere and speak to questions of justice and inclusion. For example, how much wealth is due to the luck of birth and could be tackled by inheritance taxation? How much do people take turns in being rich and poor over time? Can people benefit equally from financial behaviours promoted through social policies?

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