

The growing relevance of wealth, wealth inequality, and inheritance

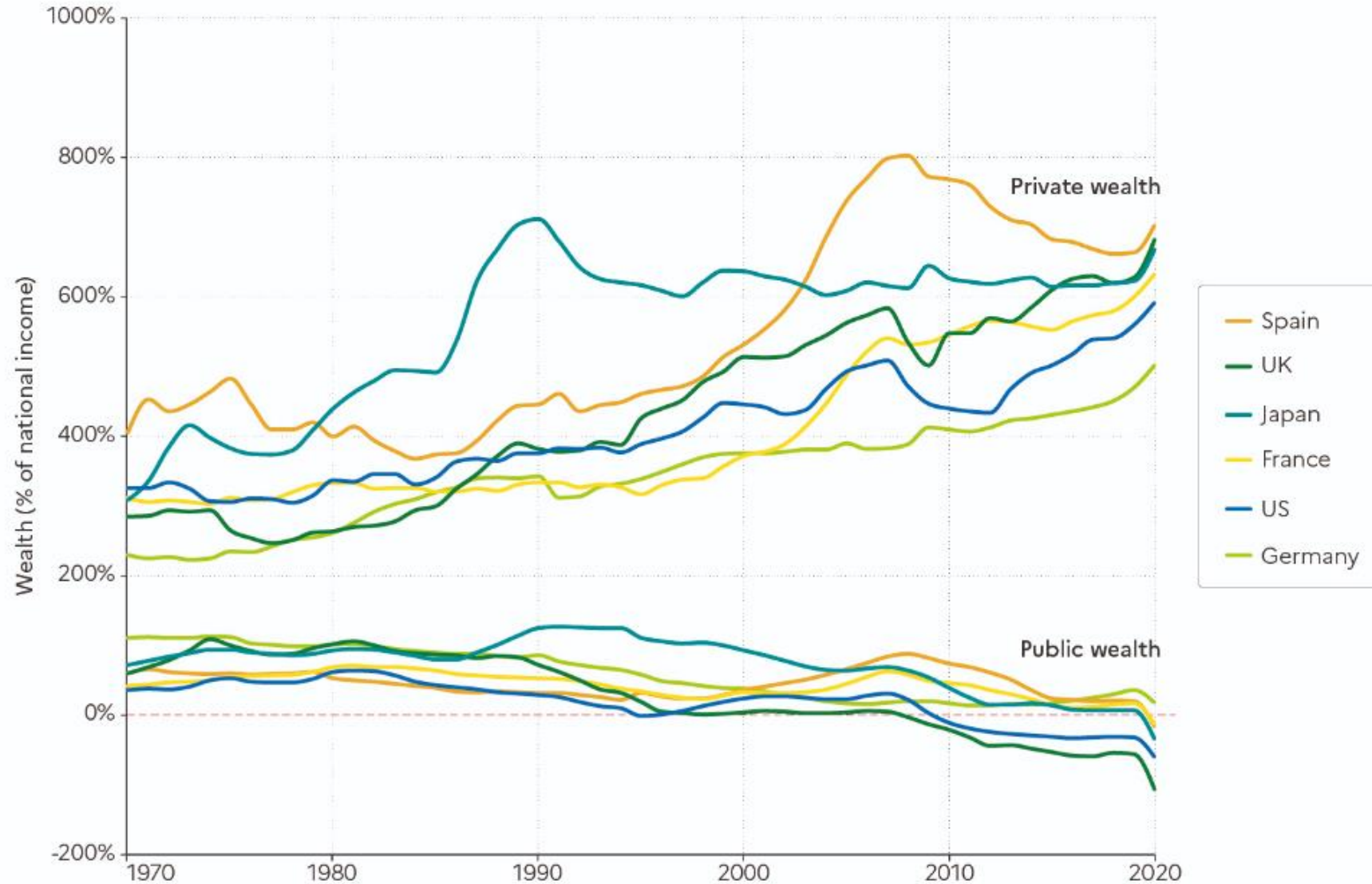
Salvatore Morelli

Conference on Wealth Inequality and Intergenerational Mobility

November 17-18, 2022 ; Vienna University of Economics and Business (WU)

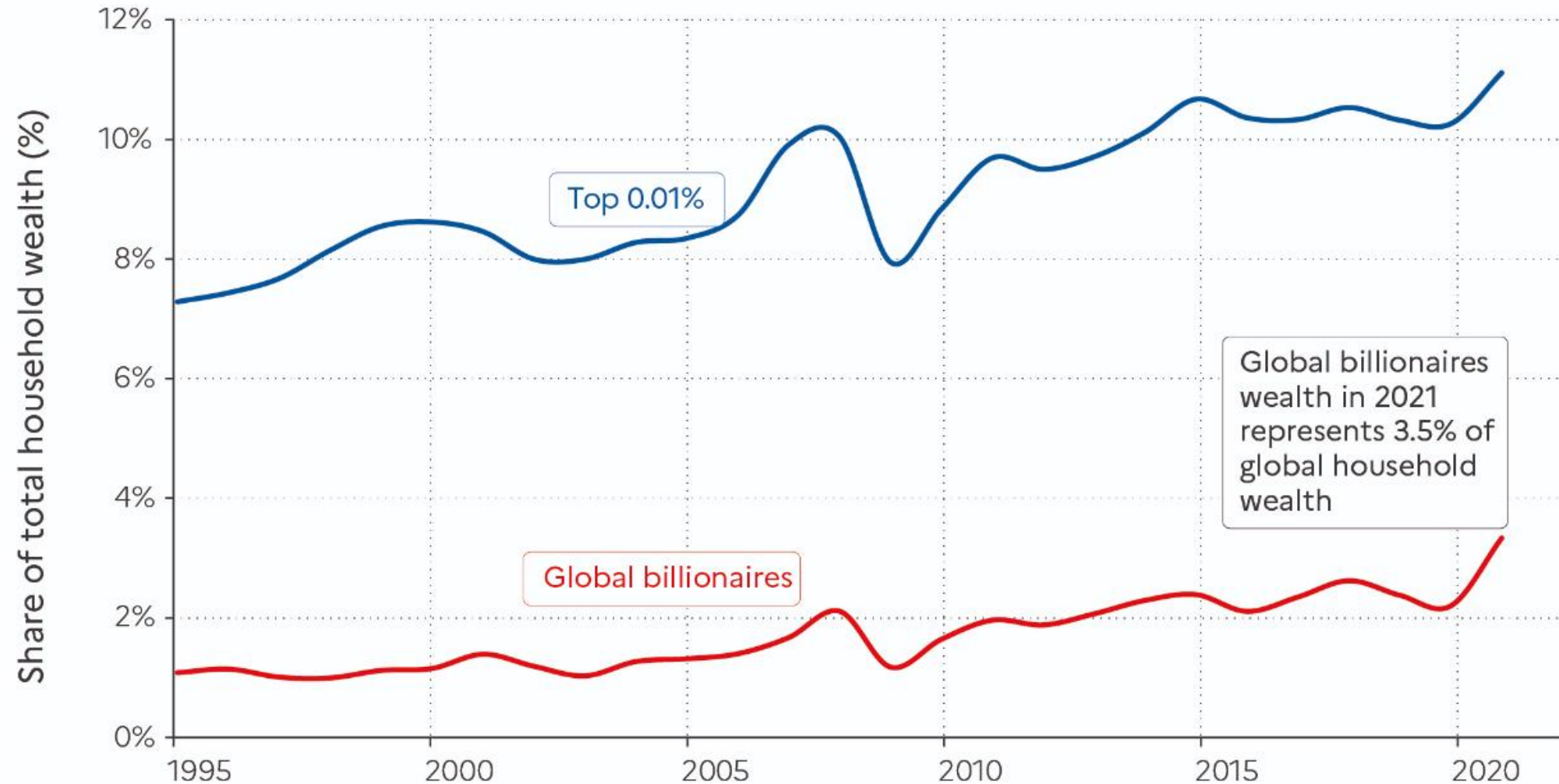


The rise of private wealth and the decline of public wealth in rich countries



Interpretation: In the UK, public wealth dropped from 60% of national income to -106% between 1970 and 2020. Public wealth is the sum of all financial and non-financial assets, net of debts, held by governments. **Sources and series:** wir2022.wid.world/methodology, Bauluz et al. (2021) and updates.

The growing concentration of private wealth : the rise of global billionaires



Interpretation: The share of wealth detained by the global top 0.01% rose from 7% in 1995 to 11% in 2021. The top 0.01% is composed of 520 000 adults in 2021. The entry threshold of this group rose from €693,000 (PPP) in 1995 to €16,666,000 today. Billionaires correspond to individuals owning at least \$1b in nominal terms. The net household wealth is equal to the sum of financial assets (e.g. equity or bonds) and non-financial assets (e.g. housing or land) owned by individuals, net of their debts. **Sources and series:** wir2022.wid.world/methodology, Bauluz et al. (2021) and updates.

Growing body of research focusing on wealth distribution

Literature has been rapidly expanding (empirics, methods, and theory)
Several additional reasons:

1. **Great Recession (GR)** accelerated the recognition of the importance of household balance sheets for the functioning of our economies at large
2. ***Even before the GR:*** Structural transformations of our economies + *old-standing concerns* about growing wealth inequality (*bad for democracy?*)



Investments in measurements and official (macro & micro) statistics
(SNA, LWS, OECD, ECB-HFCS, WID etc.)...

*“Changes in the functioning of advanced capitalist economies, as well as in the ageing of the population, contribute to **shift the emphasis from income to wealth**... on account of greater job insecurity or reduced social expenditure, wealth takes on a new significance for household prosperity. “*

Mario Draghi “Household Wealth in Central Bank Policy Analysis”, speech delivered at the conference on ‘The Luxembourg Wealth Study: Enhancing Comparative Research on Household Finance’, Banca d’Italia, Roma, 5-7 July 2007.



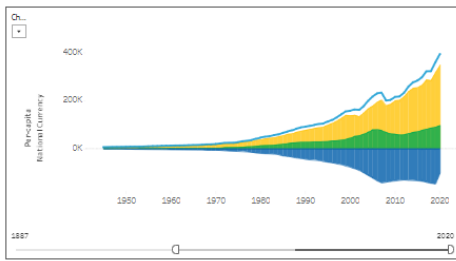
STONE CENTER

ON SOCIO-ECONOMIC INEQUALITY

THE GC WEALTH PROJECT

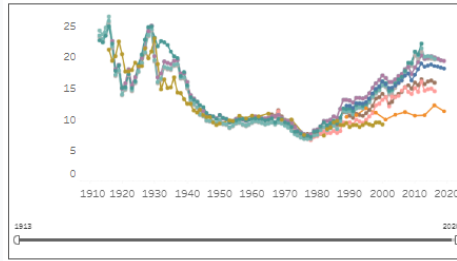
WEALTH TOPOGRAPHY

How is the household wealth portfolio composed in the United States?

[View More](#)

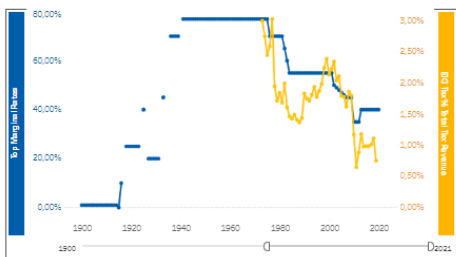
WEALTH INEQUALITY TRENDS

How is wealth inequality changing in the United States over time?

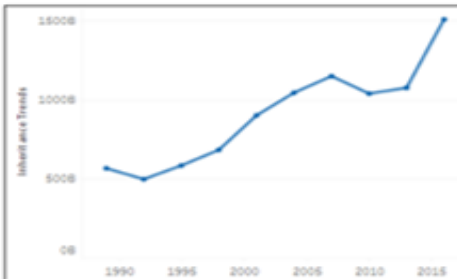
[View More](#)

ESTATE, INHERITANCE, AND GIFT TAXES (EIG)

What is the tax treatment of EIG in the United States?

[View More](#)

Inheritance Trends



A multi-year effort aimed at expanding access to current research and statistics on 4 main components: aggregate private wealth and its composition, wealth inequality, inheritance, and wealth taxation.



Twisha Asher



Gonçalo Pessa Costa



Frincasco Di Biase



Franziska Disslbacher



Demetrio Guzzardi



Ignacio Flores



Adam Rego Johnson



Giacomo Rella



Manuel Schechl



Ana Laura Rojas Silvero

Main motivation:
Importance of wealth statistics for public discussion and public policy

*“Statistics on wealth distribution play a **key political role**”... and they are “as sensitive an issue as the balance of payments or unemployment figures. This means that it is all the more important that they should be firmly based. We should **examine critically the evidence and the assumptions underlying it.**”*

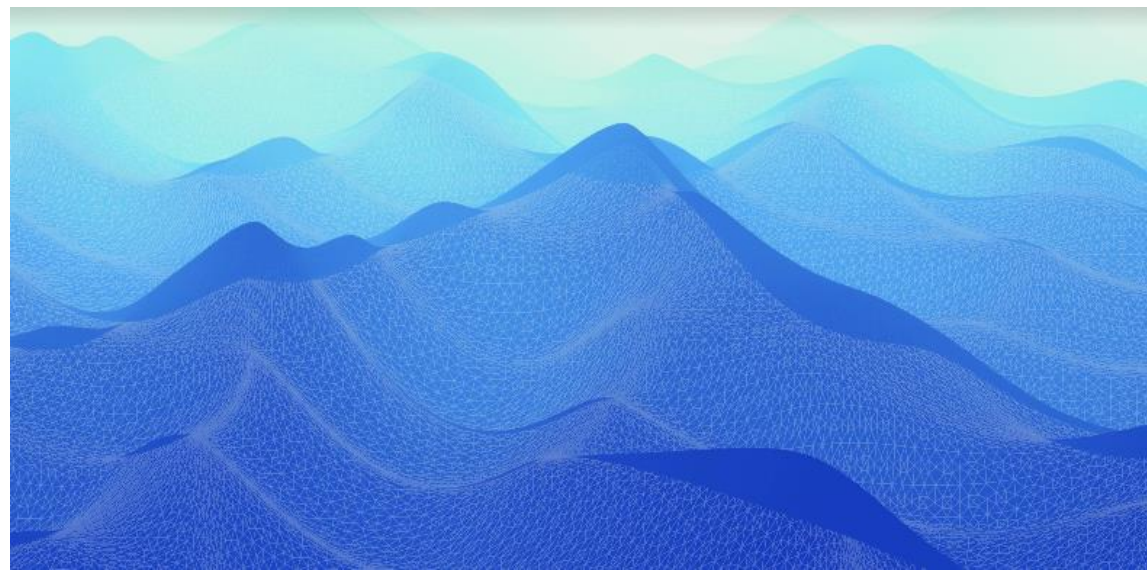
(Anthony Atkinson, 1978 - The Concentration of Wealth in Britain. *Challenge*, 38-42.).

The growing relevance of private wealth: an empirical view

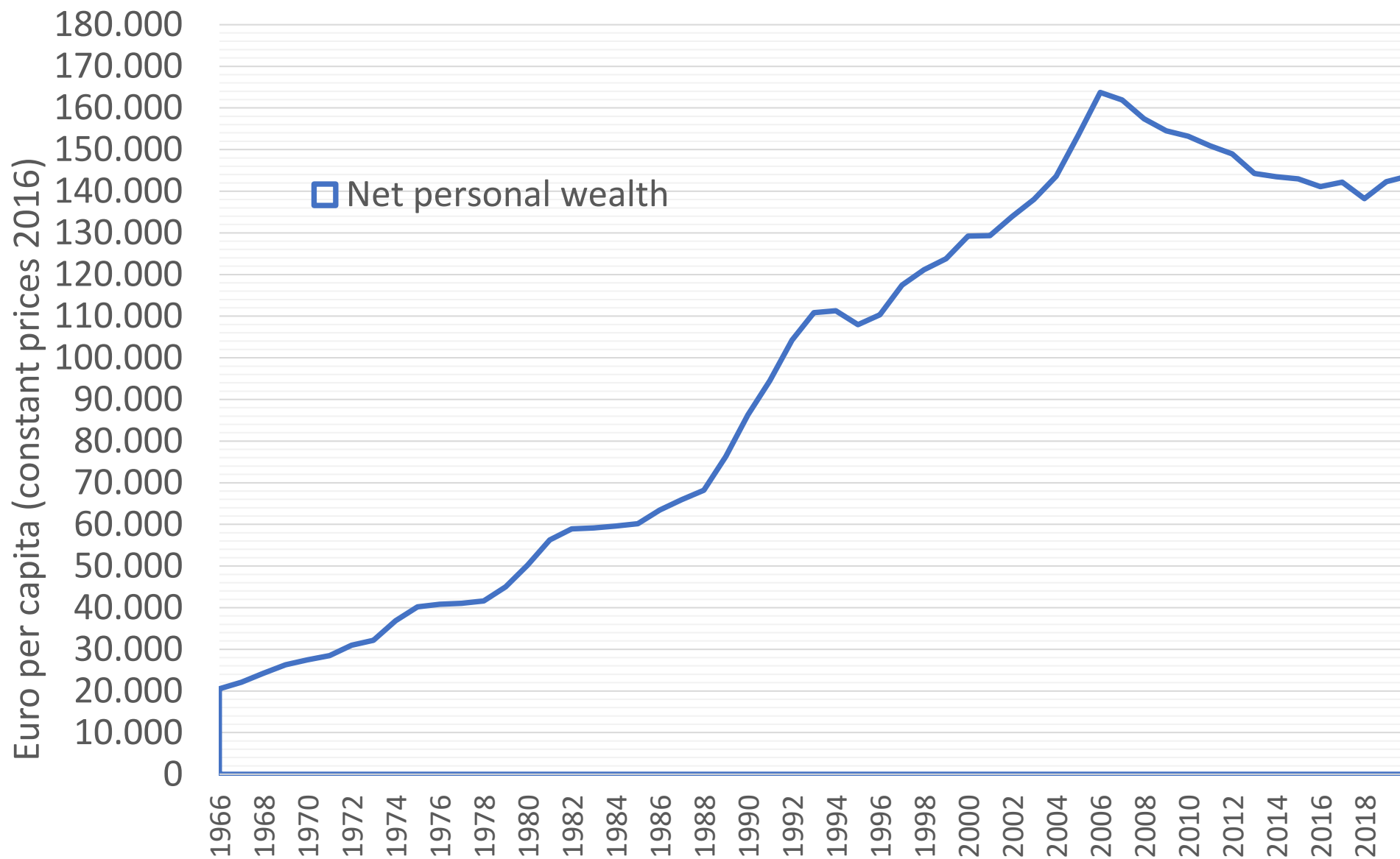
Wealth topography: the growing mountains of assets and the sea of debt

WHAT: The section gathers and visualizes, for all countries where data exist, the aggregate values of household's assets and liabilities; the heterogeneity and the evolution of household portfolios of assets and debt at the aggregate level.

NEW VISUALIZATION CONCEPT: Household assets are metaphorically represented as “mountains and hills” with different profiles. Debt and liabilities are visualized as the “sea of debts” facing these mountains of assets

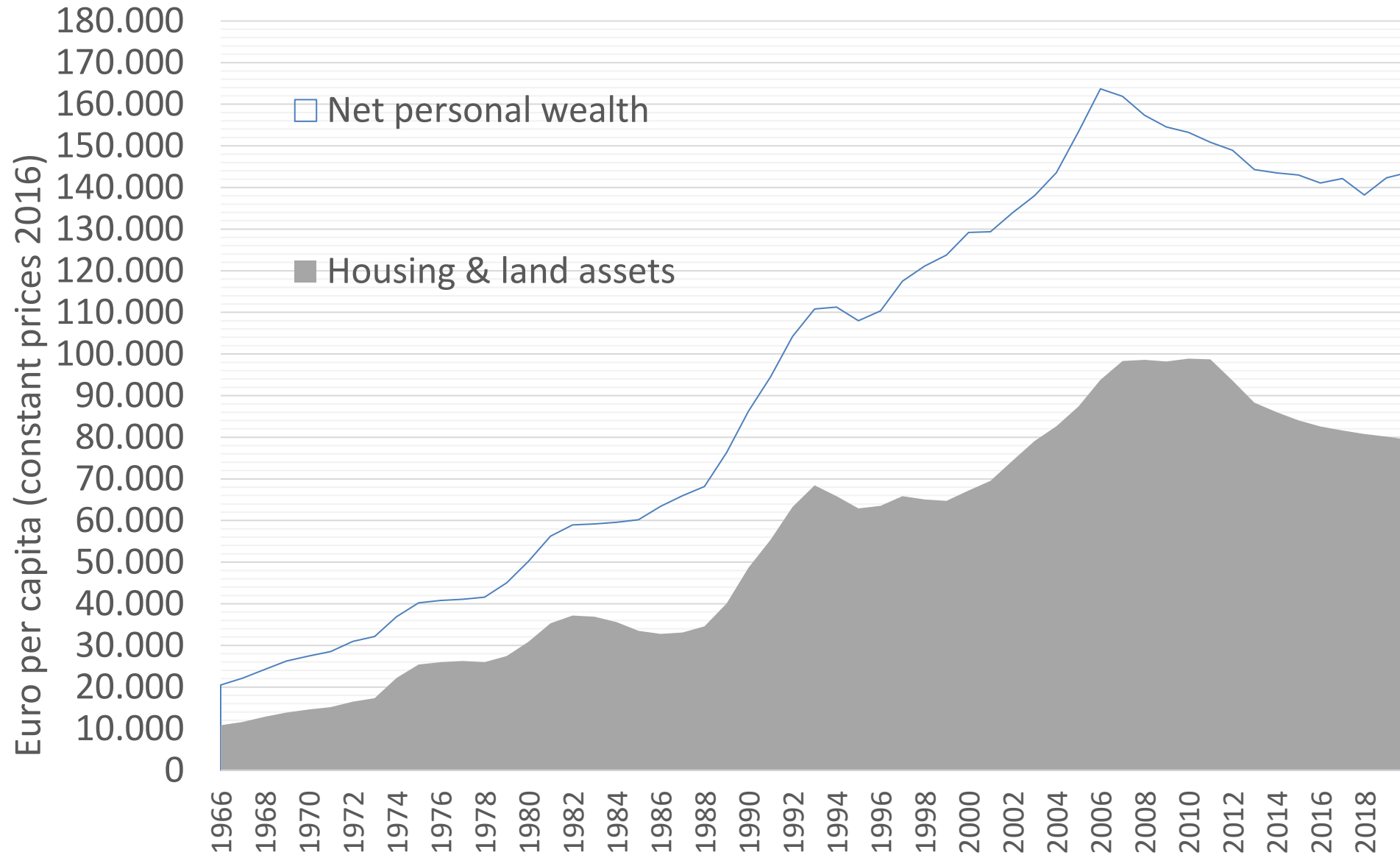


Wealth topography: the growing mountain of personal net wealth- ITALY



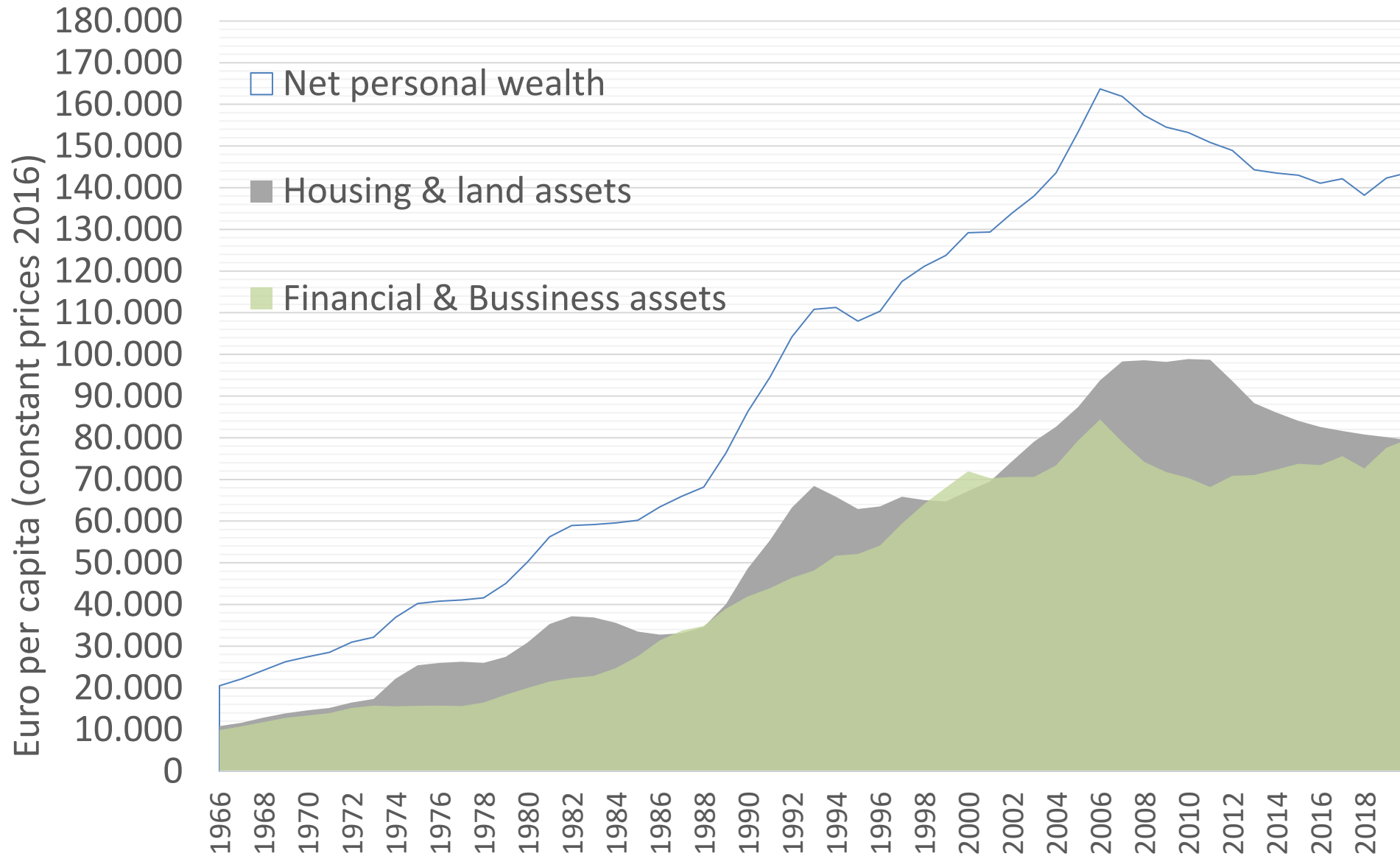
Source: Acciari, Alvaredo and Morelli, 2021 based on Bank of Italy, Istat, and WID data

Wealth topography: the growing mountain of housing & land assets- ITALY



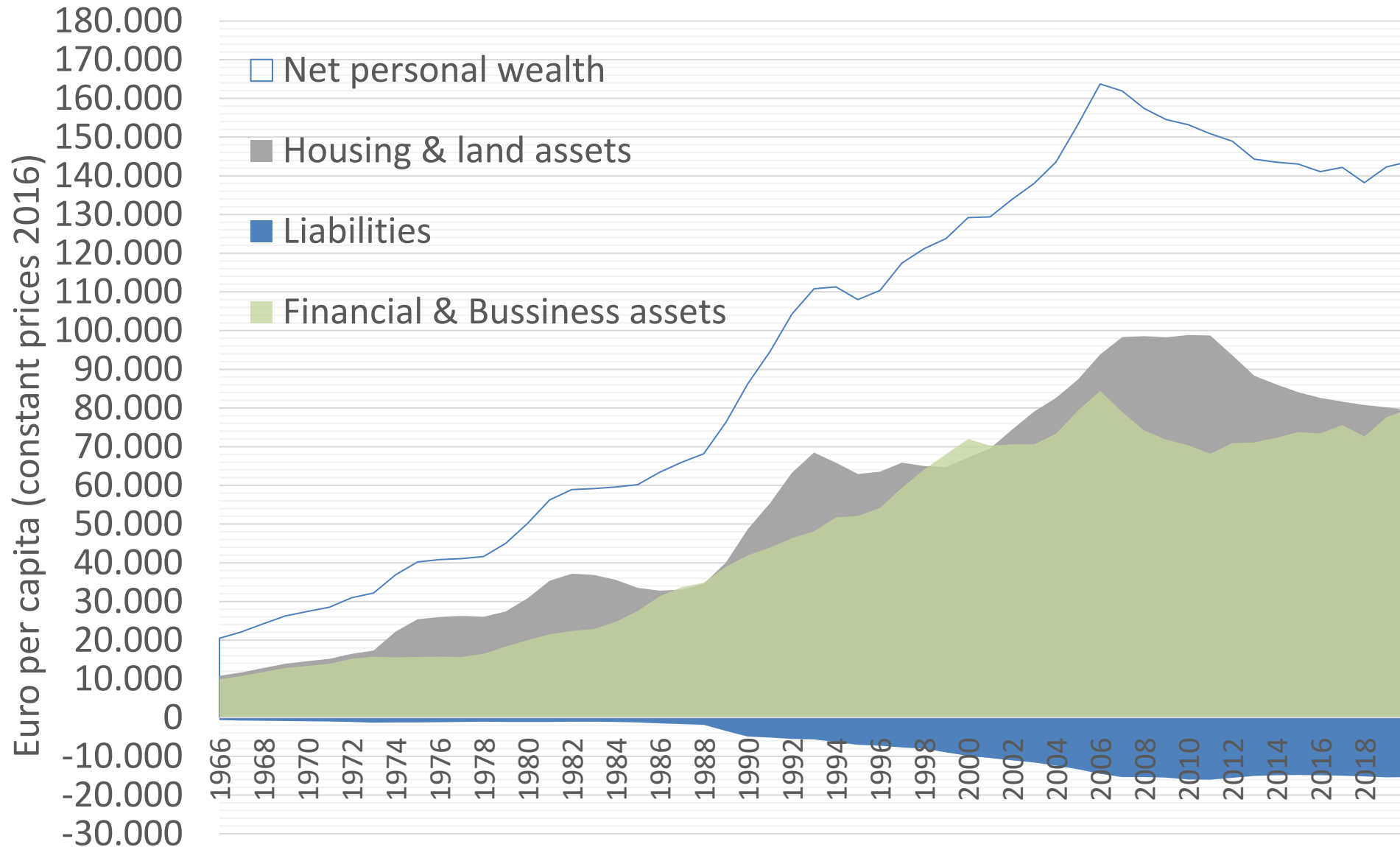
Source: Acciari, Alvaredo and Morelli, 2021 based on Bank of Italy, Istat, and WID data

Wealth topography: the growing mountain financial & business assets - ITALY



Source: Acciari, Alvaredo and Morelli, 2021 based on Bank of Italy, Istat, and WID data

Wealth topography: the growing mountains of assets and the sea of debt - ITALY



Source: Acciari, Alvaredo and Morelli, 2021 based on Bank of Italy, Istat, and WID data

Wealth topography: the growing mountains of assets and the sea of debt

WHY THIS MIGHT BE USEFUL:

- The study of levels, trends, and portfolios of aggregate wealth can be useful to analyze wealth concentration dynamics (Piketty, 2014)
- Household portfolios reflect national specificities (e.g. demographic trends, inflation and interest rates dynamic, extent of imperfection of financial and credit markets, relative importance of the Stock Exchange vs. the banking system, strength of the asset management industries, preferential tax treatment of assets, preferences of households, generosity of welfare state and state pensions, etc.)

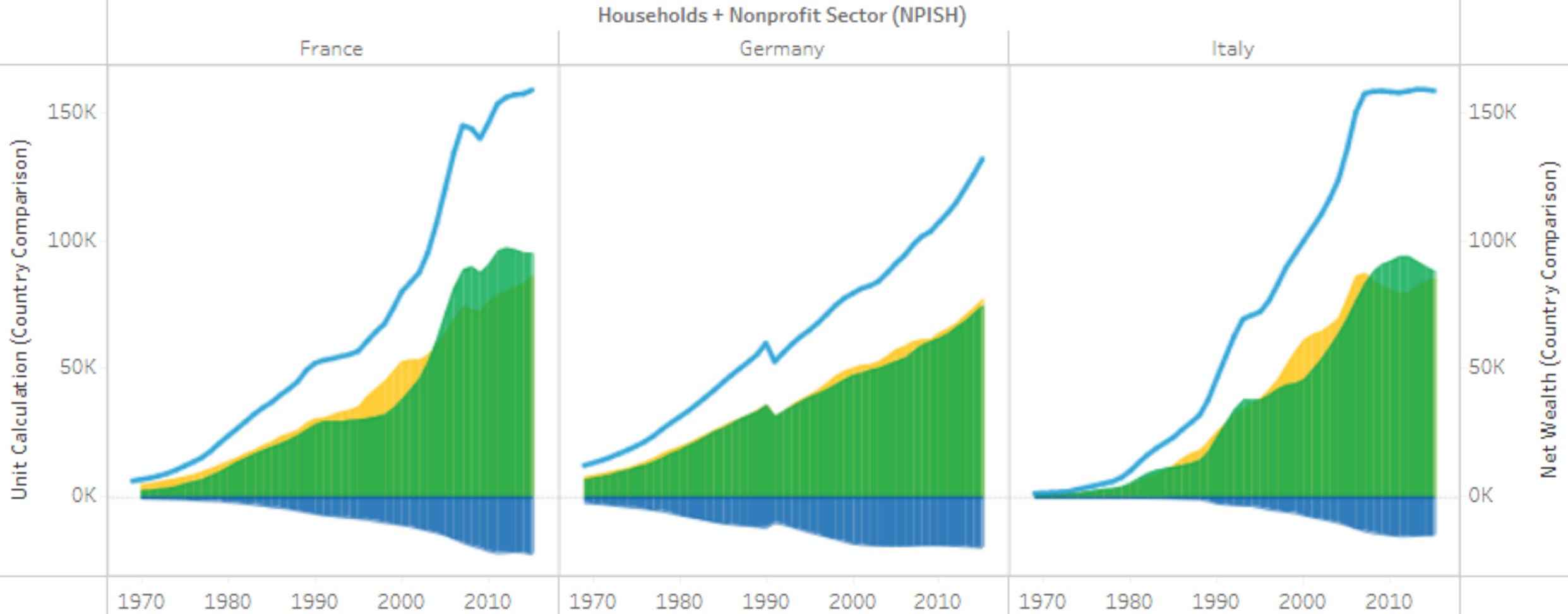
Comparison across countries: France, Germany, and Italy

Net Wealth

Debt

Financial + Business and other Non-Financial Assets

Housing Assets



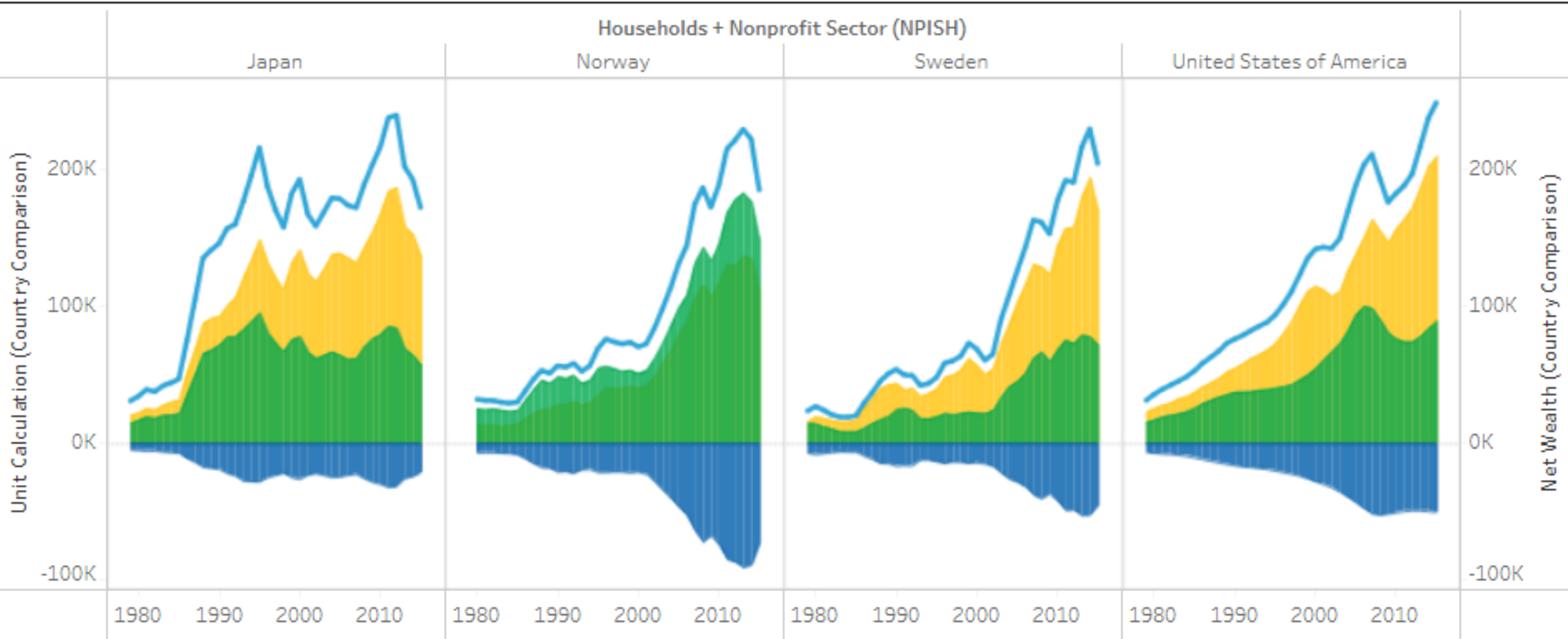
Comparison across countries: Japan, Norway, Sweden, and USA

Net Wealth

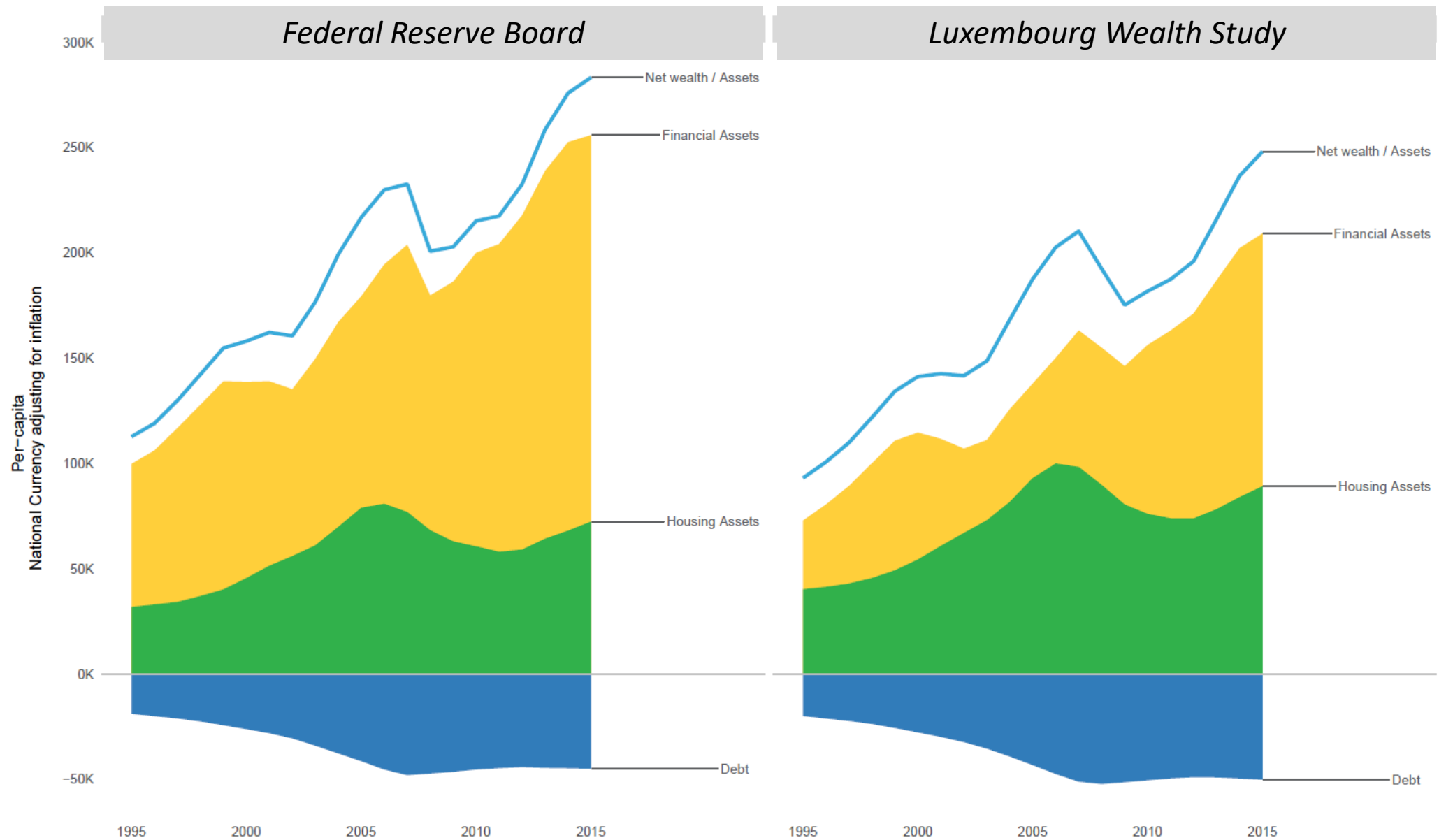
Debt

Financial + Business and other Non-Financial Assets

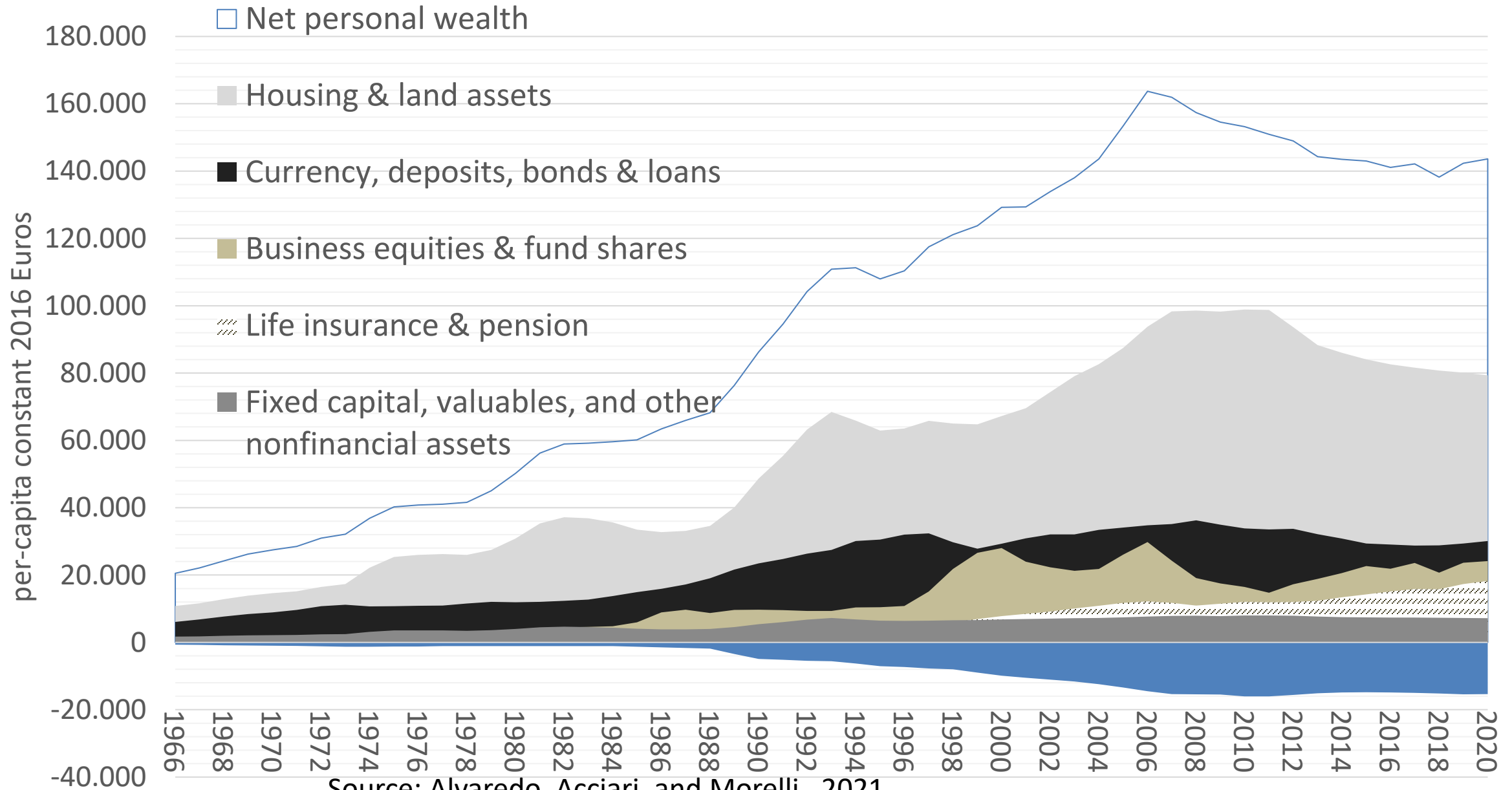
Housing Assets



Comparison across sources – Financial accounts vs survey data - USA



Wealth topography: the growing mountains of private assets and the sea of debt - ITALY



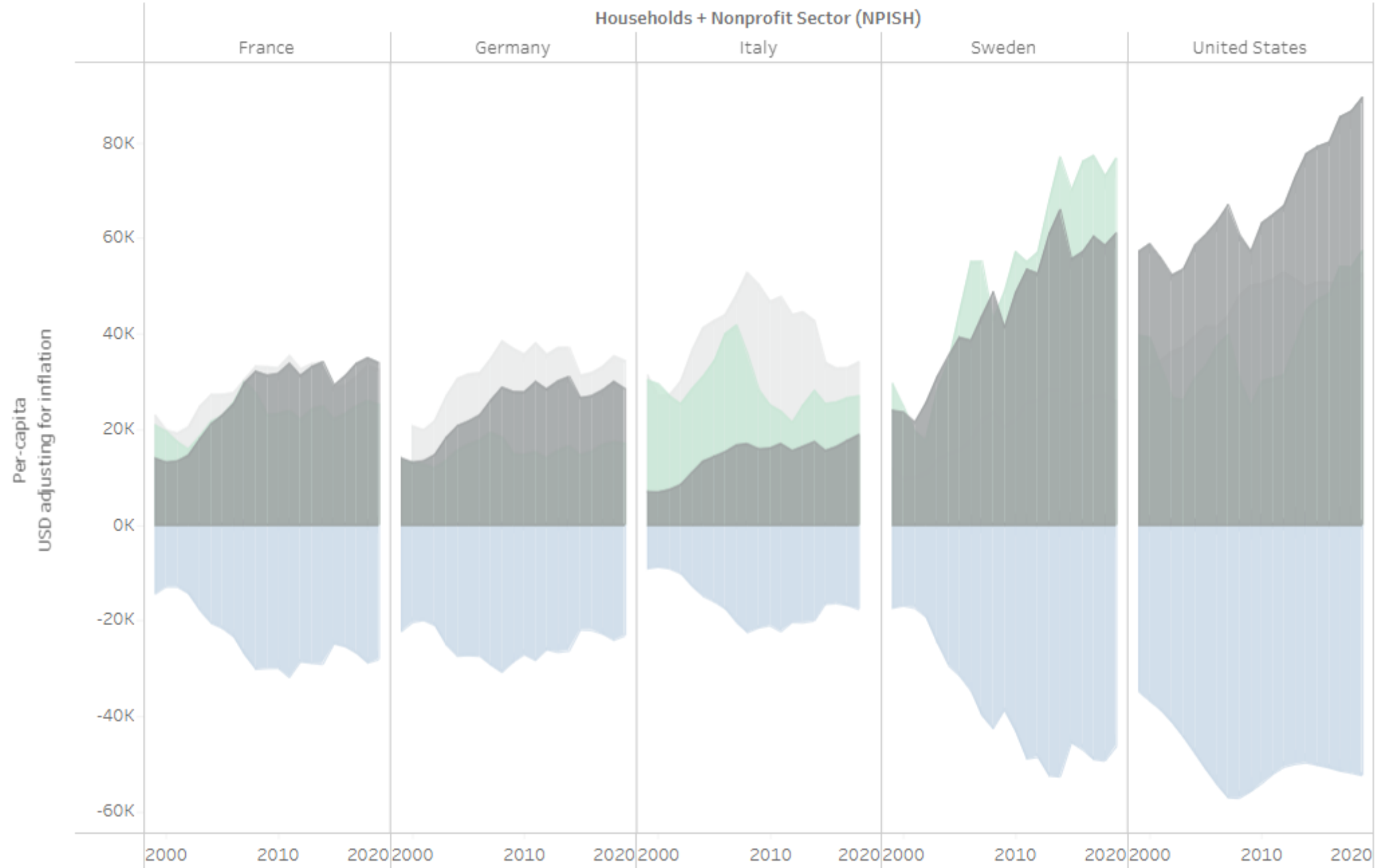
Source: Alvaredo, Acciari, and Morelli , 2021

Debt

Equities and Fund Shares

Currency, Deposits, Bonds and Loans, assets

Pensions and Life insurance

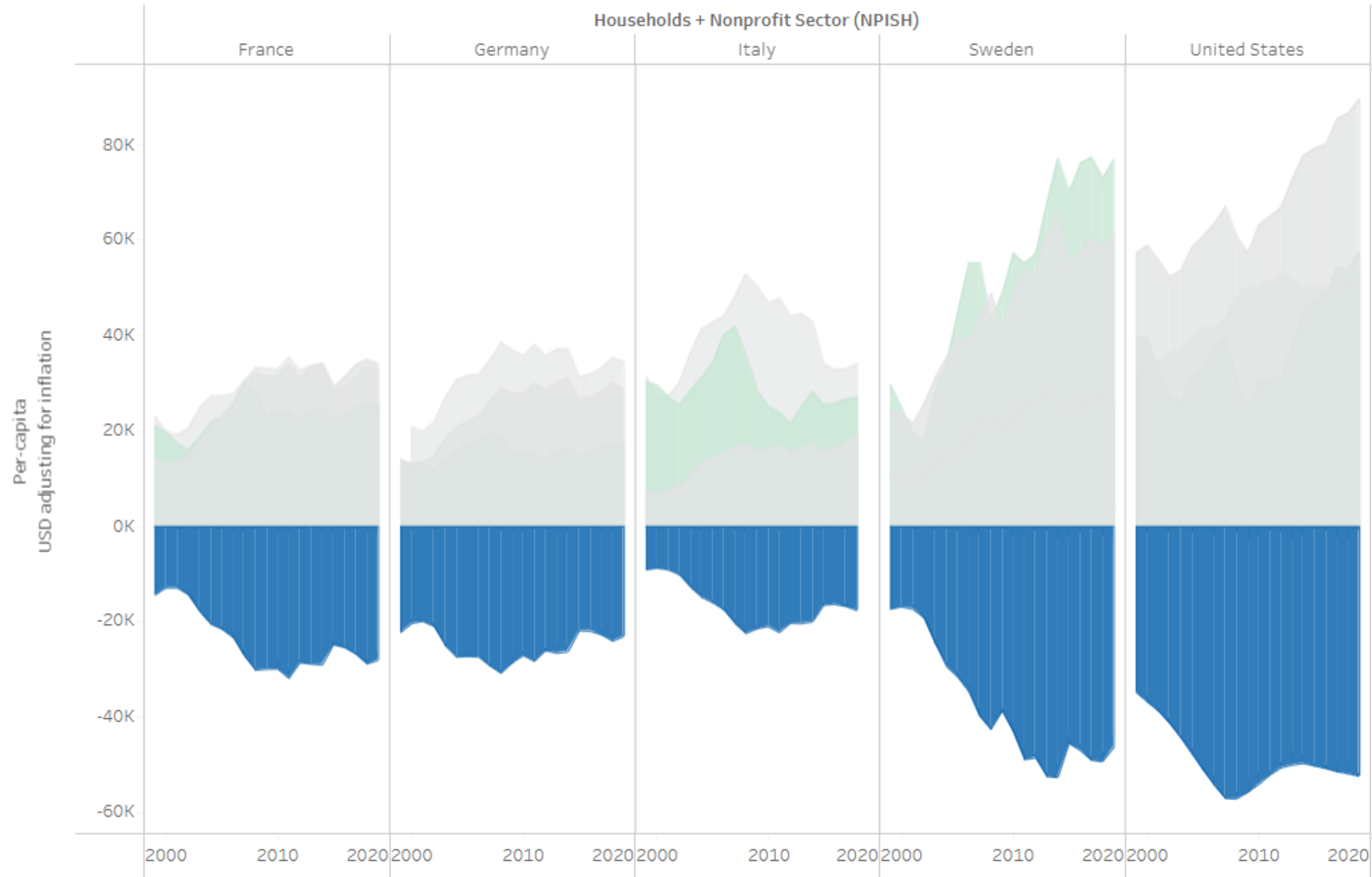


Debt

Equities and Fund Shares

Currency, Deposits, Bonds and Loans, assets

Pensions and Life Insurance

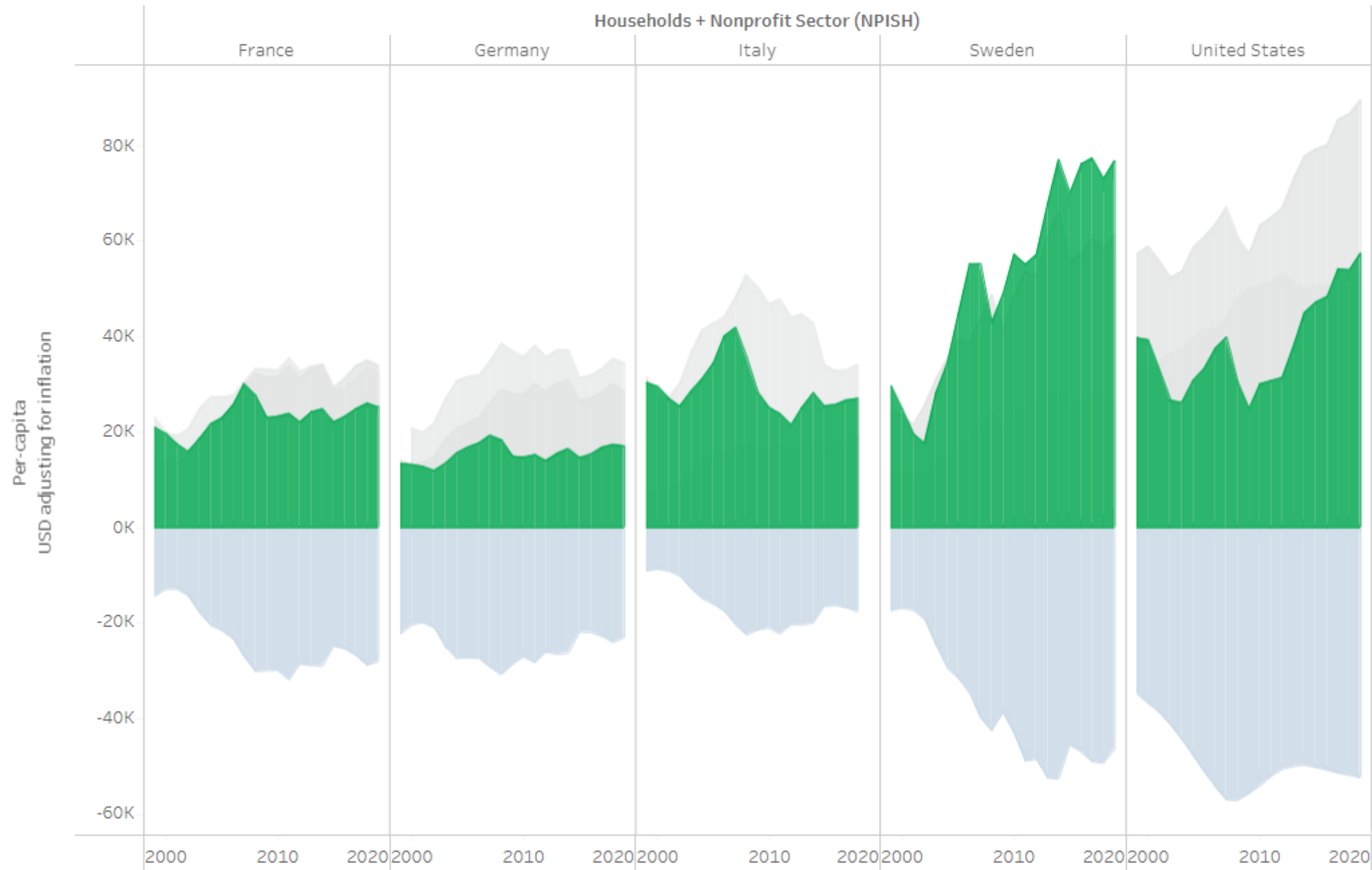


Debt

Equities and Fund Shares

Currency, Deposits, Bonds and Loans, assets

Pensions and Life insurance



Plan for the rest of talk

1. The meaning and advantages of wealth

The measurement of wealth distribution:

2. The definition, composition, and valuation of net wealth
 3. Different windows of observations
-

4. The determinants of wealth accumulation

Discussion and conclusions

The meaning of and the advantages
conveyed by wealth

The advantages of wealth (and capital)

The Neo-classical view: store of value, source of security and income

**1 .Store of value.
Reserves to face
expected and
unexpected life cycle
needs**

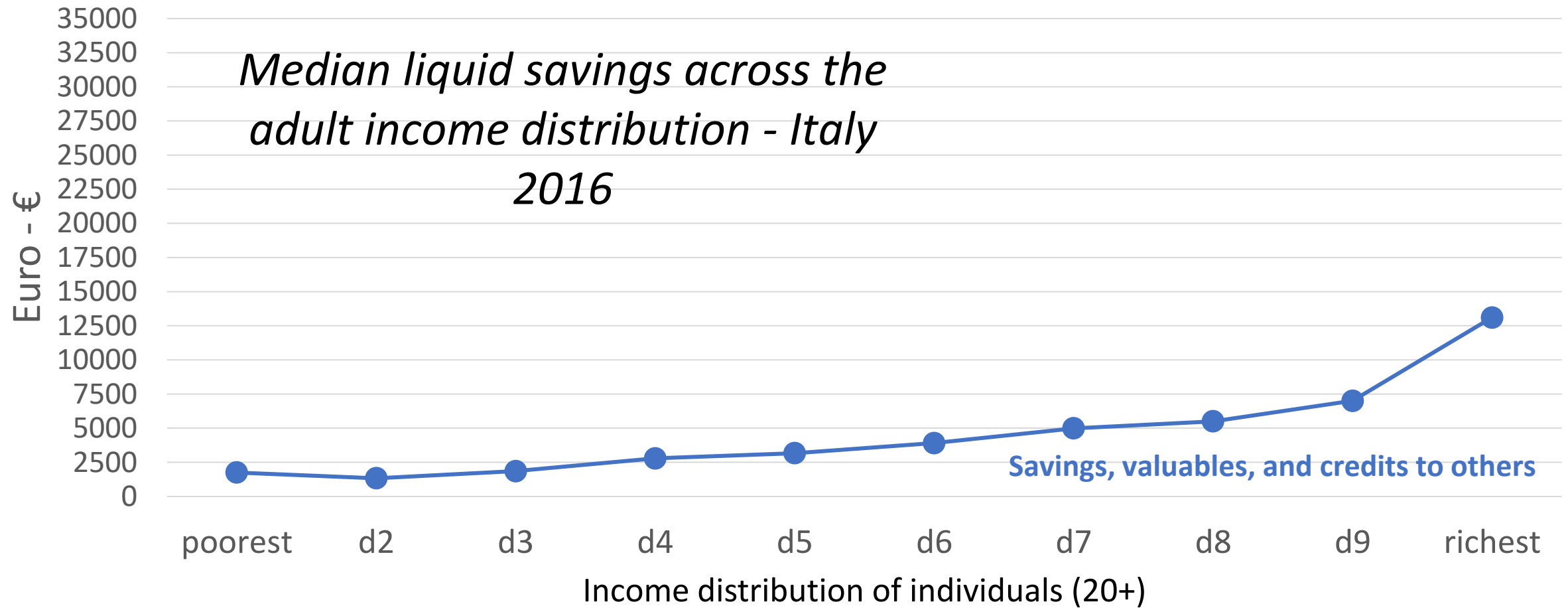
The advantages of wealth (and capital)

Wealth as «right to income»

1 .Reserves (and new income flows) to face expected and unexpected life cycle needs

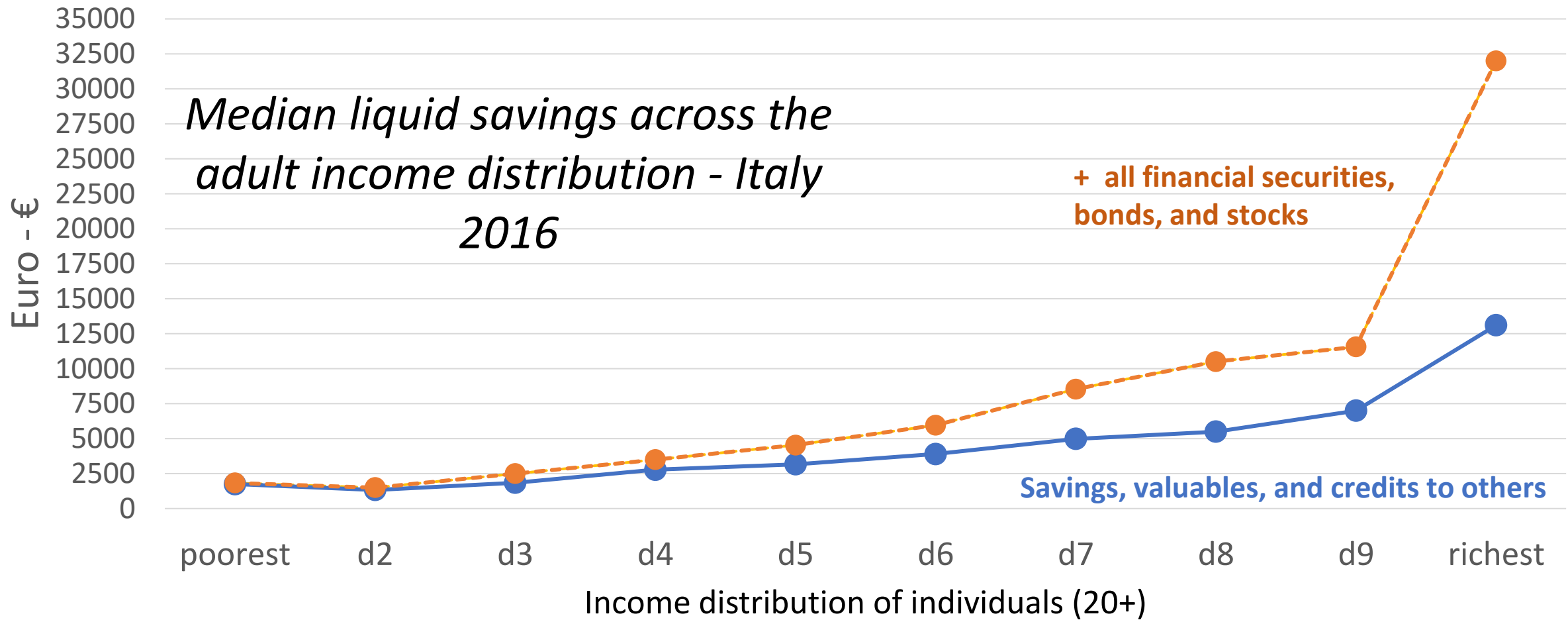
2. Freedom to chose and to plan ahead, circumventing capital constraints, escape poverty (access to opportunities)

Wealth inequality at the center of the debate: Enough savings to face an income-less Covid-19 lockdown?



Source: own elaboration based on Survey of Household Income and Wealth, Bank of Italy.

Wealth inequality at the center of the debate: Enough savings to face an income-less Covid-19 lockdown?



Source: own elaboration based on Survey of Household Income and Wealth, Bank of Italy.

The advantages of wealth (and capital)

Wealth as «the right to convey property»

1 .Reserves (and new income flows) to face expected and unexpected life cycle needs

2. Freedom to chose and to plan ahead, circumventing capital constraints

3. Transfer of economic advantages or resources to future generations (e.g. bequests) or to society at large (e.g. philanthropy)

*“Changes in the functioning of advanced capitalist economies, as well as in the ageing of the population, contribute to **shift the emphasis from income to wealth...** on account of greater job insecurity or reduced social expenditure, wealth takes on a new significance for household prosperity. Personal wealth has a crucial role in **cushioning against life’s uncertainties**, and the possibility of relying on a buffer stock makes people feel less vulnerable. But the implications are even more far reaching, as wealth is a **crucial determinant of what people can do at the beginning of their lives.**”*

Mario Draghi “Household Wealth in Central Bank Policy Analysis”, speech delivered at the conference on ‘The Luxembourg Wealth Study: Enhancing Comparative Research on Household Finance’, Banca d’Italia, Roma, 5-7 July 2007.

The advantages of wealth (and capital)

The Neo-Kaldorian view: wealth as «power»

1 .Reserves (and new income flows) to face expected and unexpected life cycle needs

2. Freedom to chose and to plan ahead, circumventing capital constraints

3. Transfer of economic advantage or resources to future generations (e.g. bequests) or to society at large (e.g. philanthropy)

4. Control over productive & enviromental resources, and other people's lives –power, influence, and social status –

“Extreme inequalities in the ownership of property are in my view undesirable ... A man with much property has great bargaining strength and a great sense of security, independence and freedom; he enjoys these things not only vis-à-vis his propertyless fellow citizens but also vis-à-vis the public authorities.”

James E. Meade (1964, 38); Efficiency, Equality and the
Ownership of Property

Please answer this question

<https://www.menti.com>

3484 7772



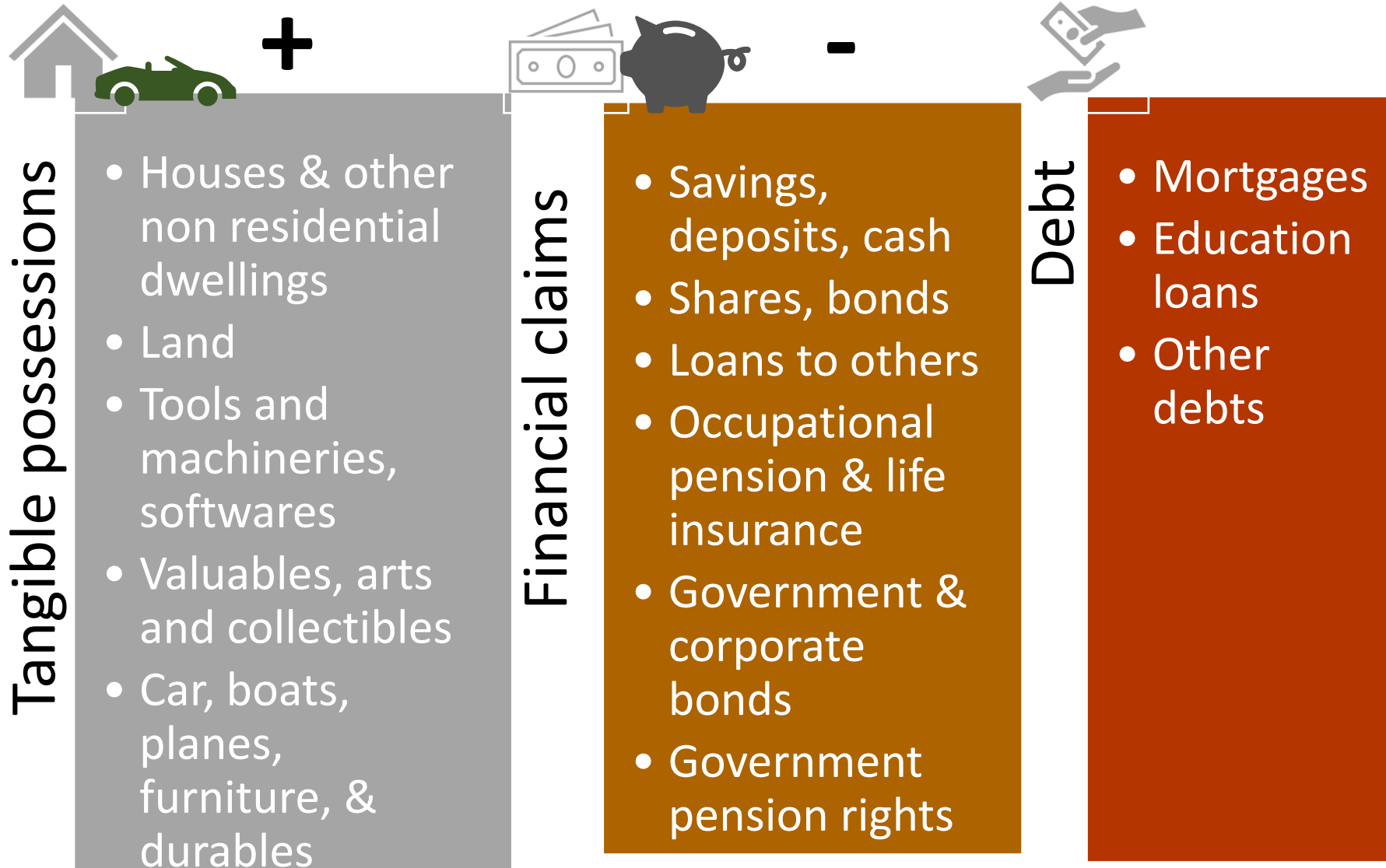
The measurement of wealth
distribution: the definition and
composition of net wealth

Several questions raised so far

1. Which asset should we include in the definition of wealth and how should they be valued?
2. Which is the most appropriate unit of analysis to be used?
3. Should we take household size and composition into account?

The answers may depend on the objective of the analysis

The definition net wealth



SNA's definition excludes a number of assets

1. **Wealth owned outside of the country of residence is not fully captured** (e.g., bank or investment accounts held offshore)
2. Antiques, art, and valuables are generally included in the SNA definition, but **consumer durables** (e.g., vehicles, electronic goods, and other household possessions) are not.
3. **Social security pension** wealth or unfunded defined pension plans.

Different windows of observation on wealth

A favorite sentence by Tony Atkinson

“The available economic statistics are our main windows on economic behavior. In spite of the scratches and persistent fogging, we cannot stop peering through it and trying to understand what is happening”

(“Economic Data Issues,” in Zvi Griliches and Michael D. Intriligator, eds., *Handbook of Econometrics* (Amsterdam: Elsevier, 1986), vol. 3, quote p. 1509).

5 main windows of observation on wealth

Wealth register
(wealth tax)

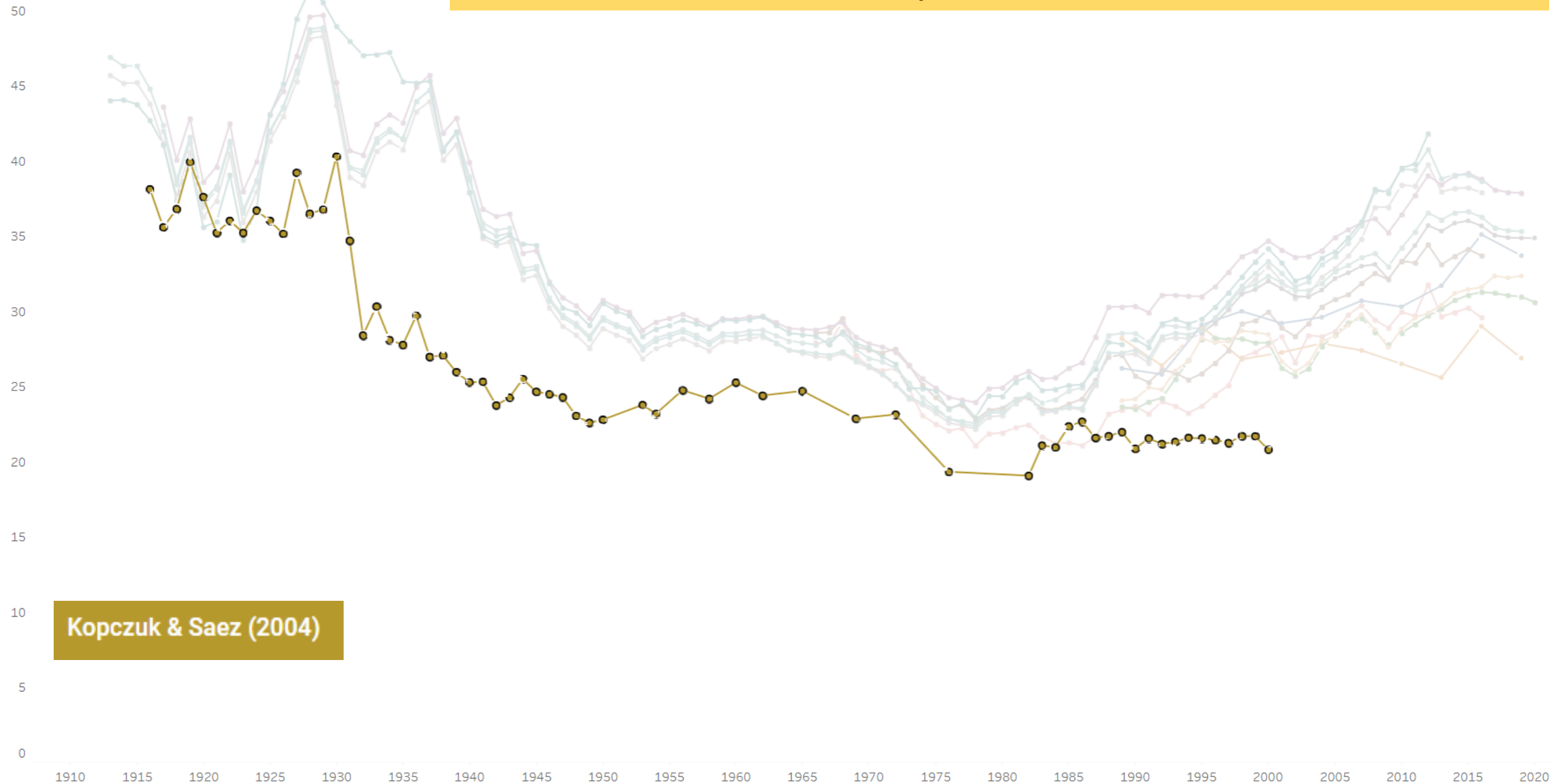
Estate or
inheritance tax

Capital income tax

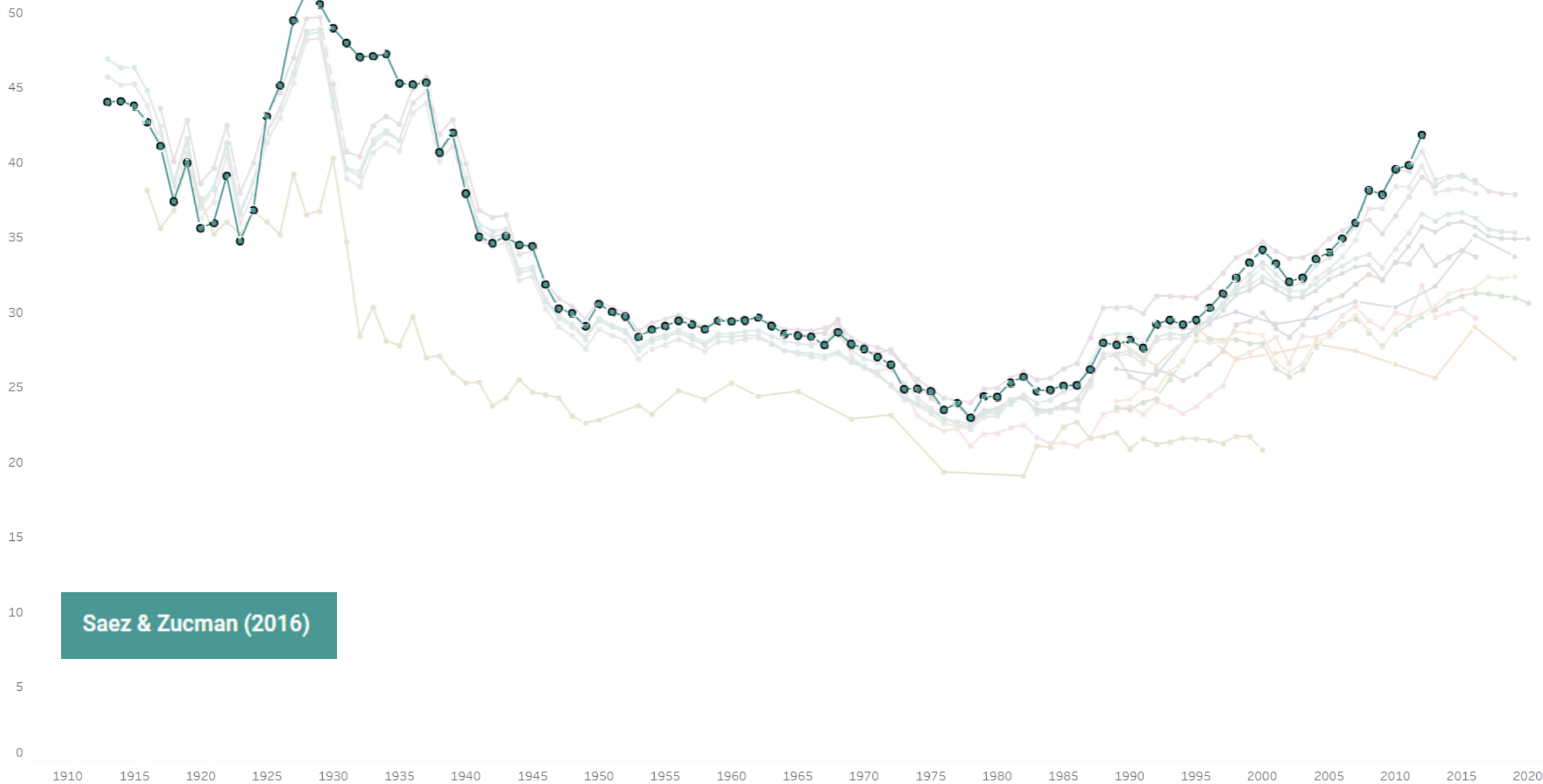
Household survey

Rich List

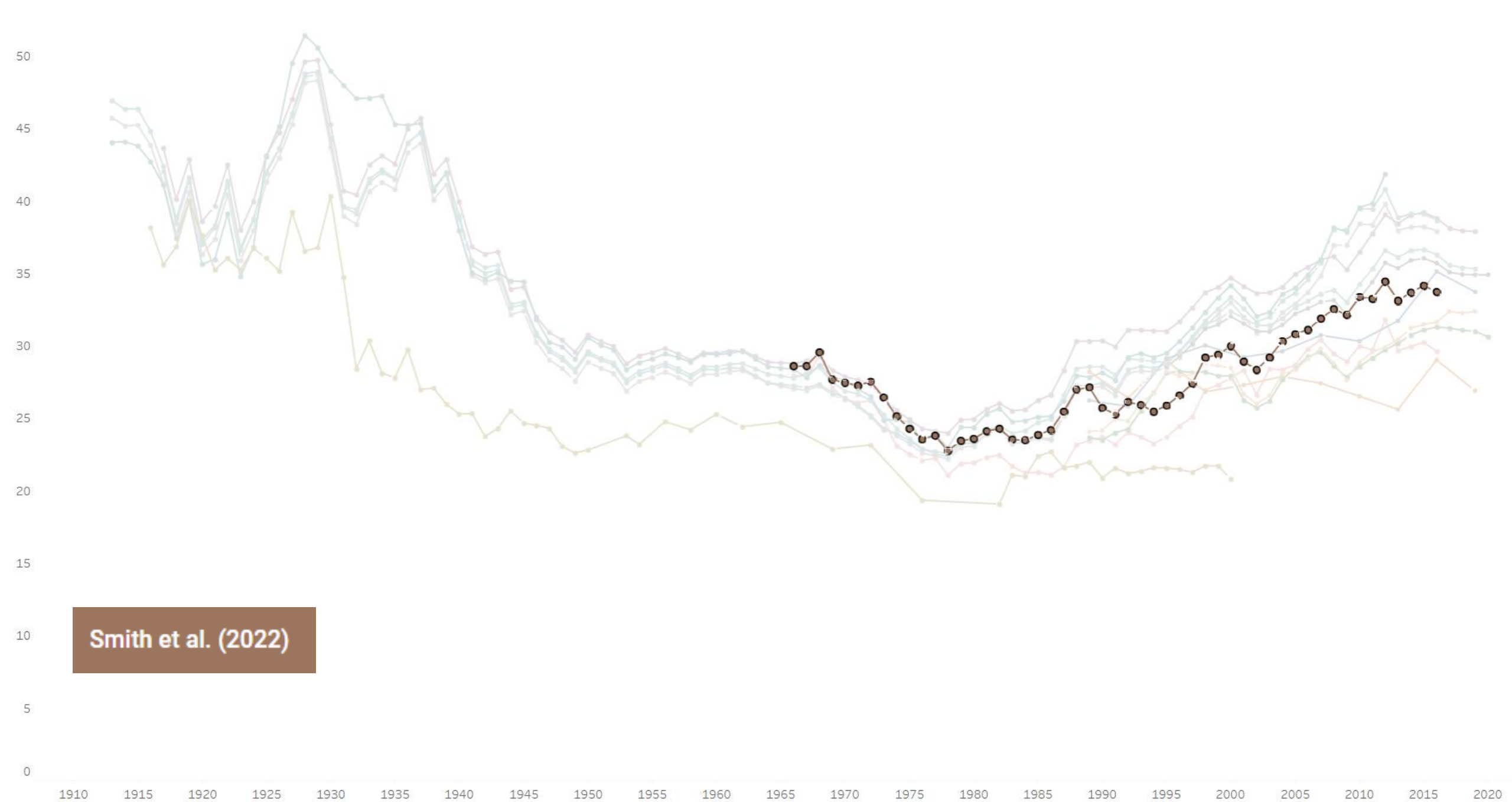
The evolution of top 1% wealth share in the US

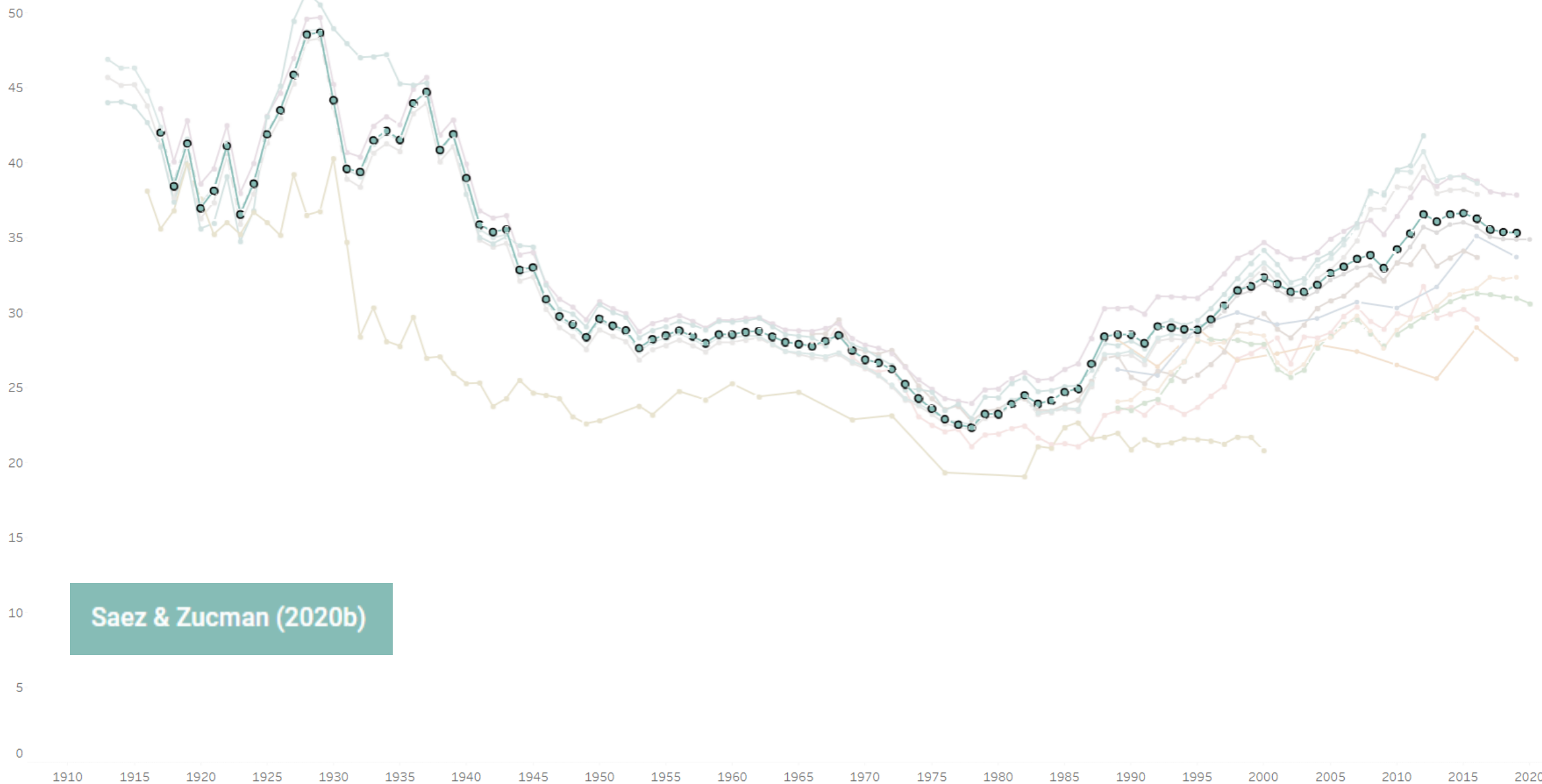


Kopczuk & Saez (2004)

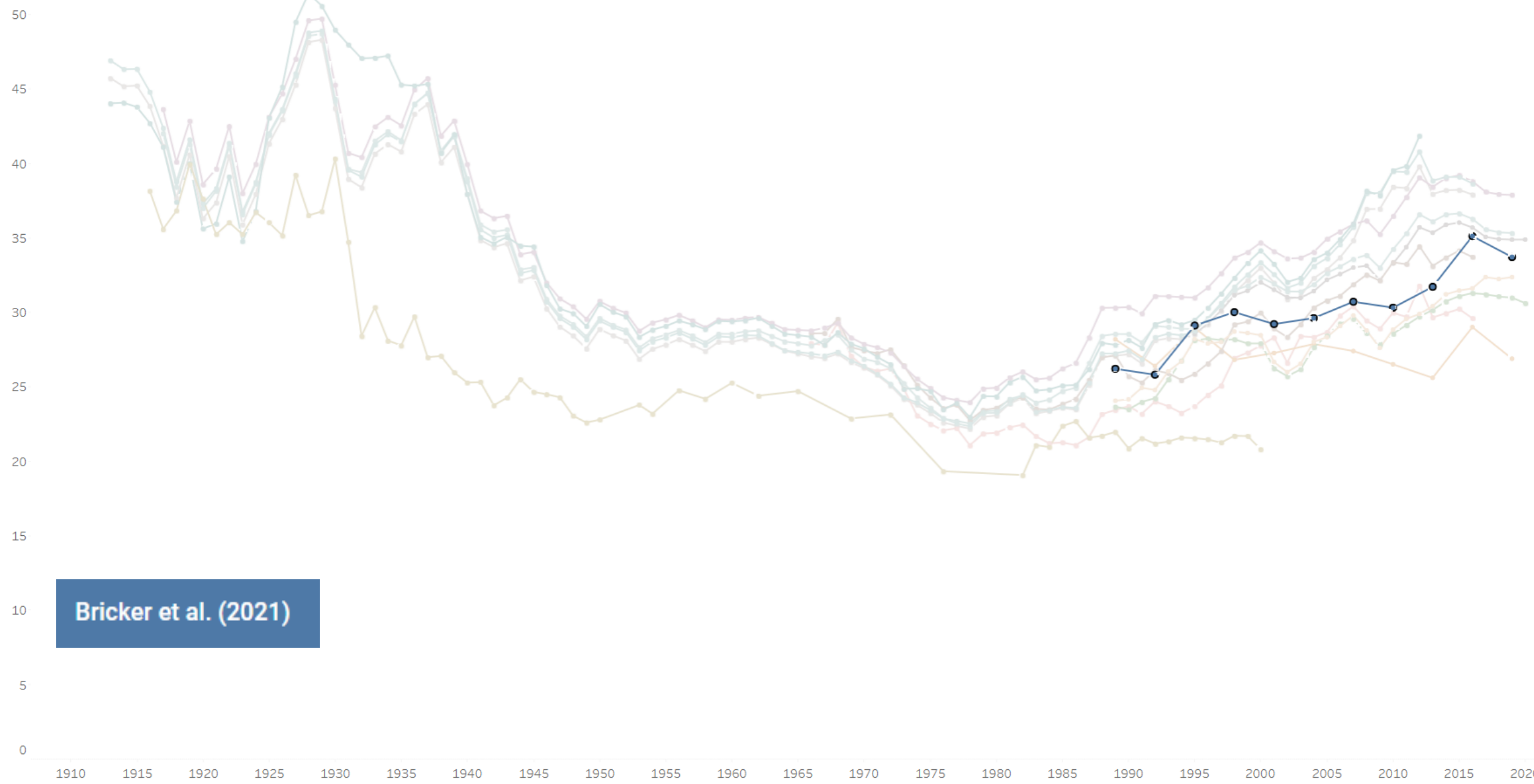


Saez & Zucman (2016)

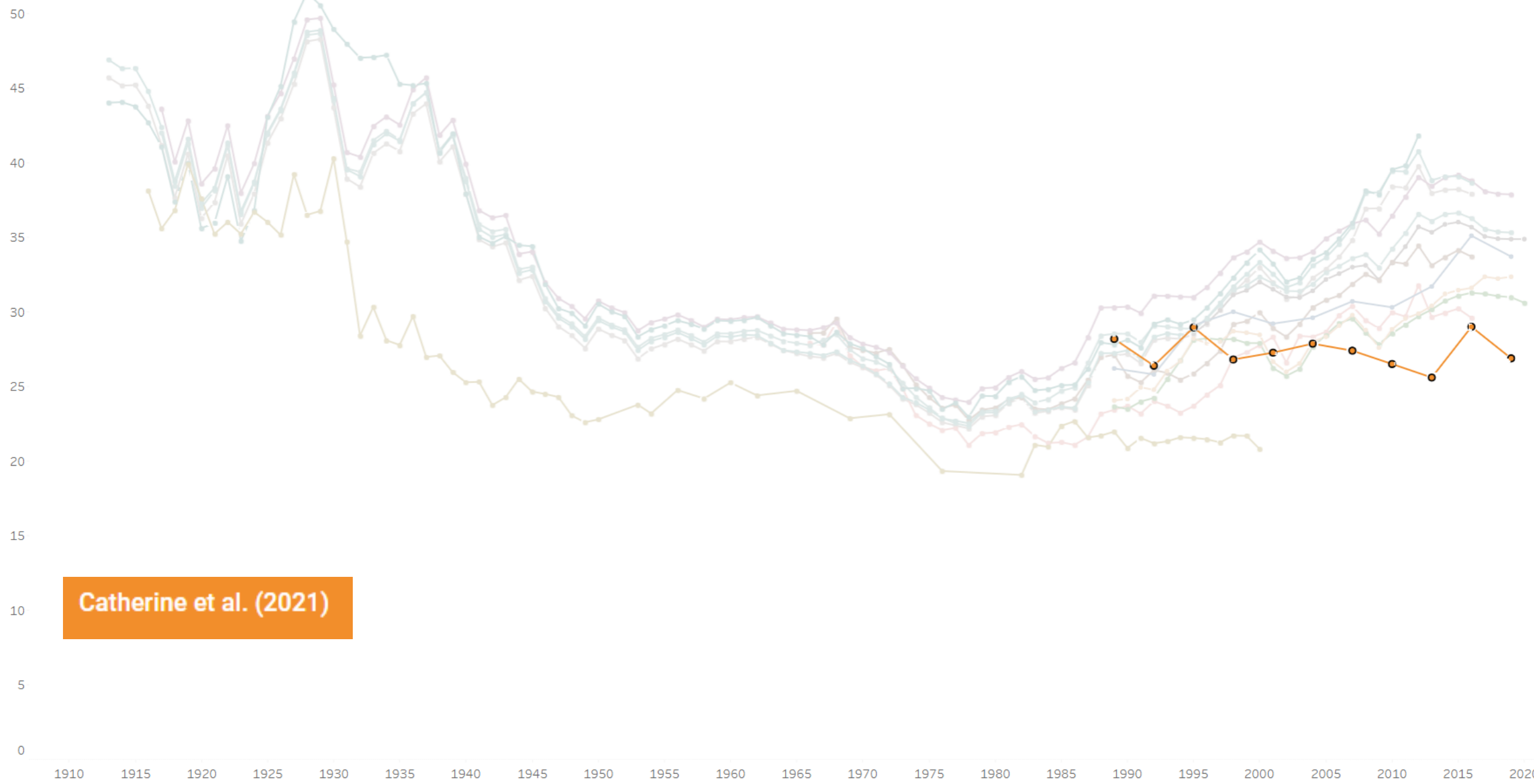




Saez & Zucman (2020b)



Bricker et al. (2021)



Catherine et al. (2021)

What have we learned so far

- The relative weight of private wealth has been growing in our economies but there is considerable amount of heterogeneity of wealth portfolios across countries
- Wealth means different things to different people
- There is no such a thing as THE wealth distribution as wealth has different definitions (the objective of the analysis matters!).
- The definition and valuation of wealth matters (for aggregate and distributive measures and, therefore, for guiding policy)

The determinants of wealth accumulation

The three main determinants of individual wealth accumulation

1 .Savings

Wealth is generated from savings out of earned incomes as individuals save during their working lives and dissave through retirement.

The three main determinants of individual wealth accumulation

2. Returns

The existing stock of real and financial assets tend to reproduce themselves. Financial wealth generates capital incomes that can be saved and assets may appreciate or depreciate over time.

The three main determinants of individual wealth accumulation

3. Inheritance

Individuals may receive donations or inheritances throughout their lives adding to the stock of existing wealth.

The three processes can interact with different strength over time and across the distribution and be persistent across generations

1 .Savings

2. Returns

3. Inheritance

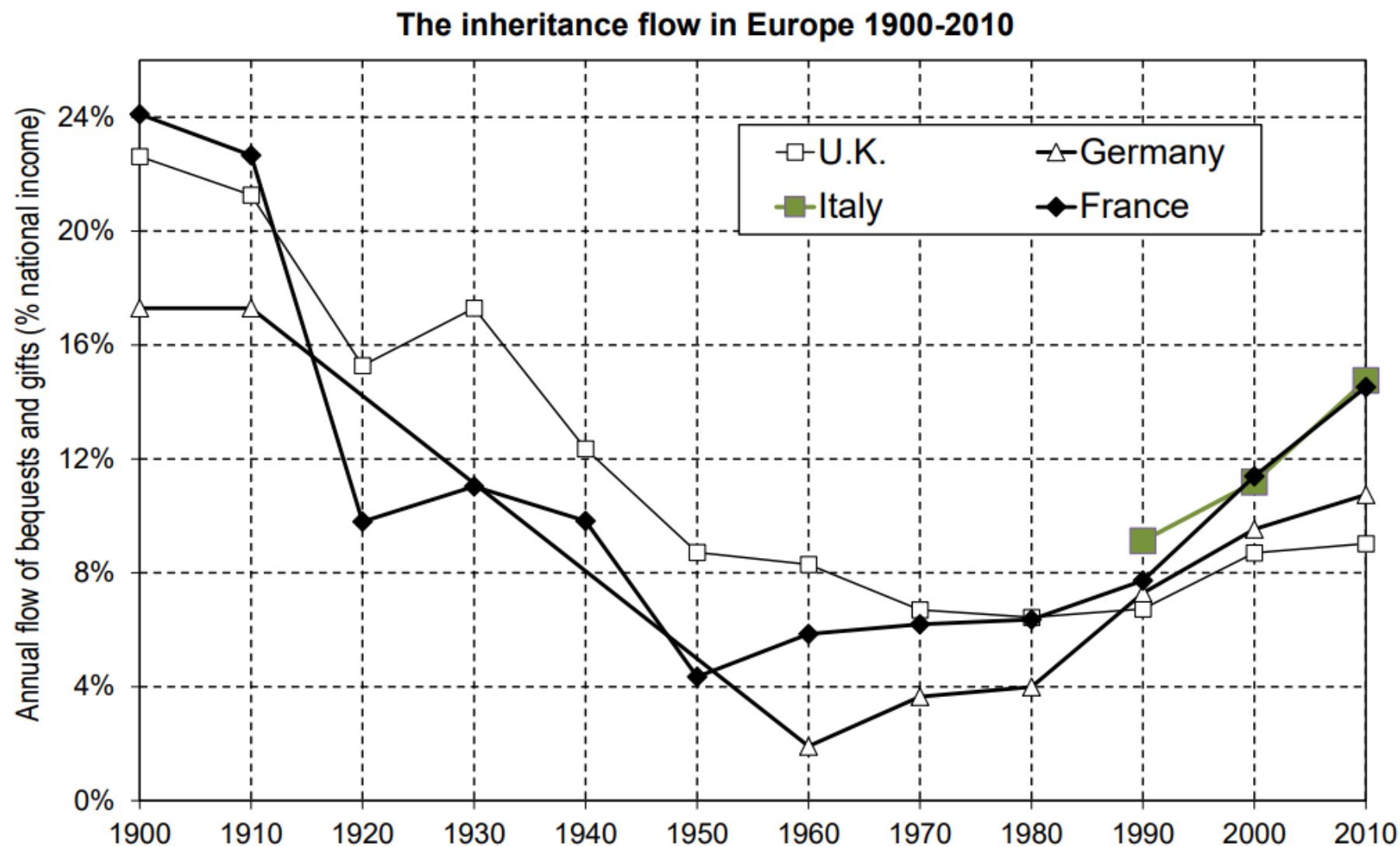
Investigating the role of inheritances and gifts: a relatively understudied topic

Are aggregate flows of inheritances and gifts growing over time?

How have the estate, inheritance and gift tax policies been changing over time?

What is the contribution of transfer wealth to wealth concentration?

Evidence on the aggregate flows of inheritances and gifts: The return to a state of “patrimonial capitalism”?



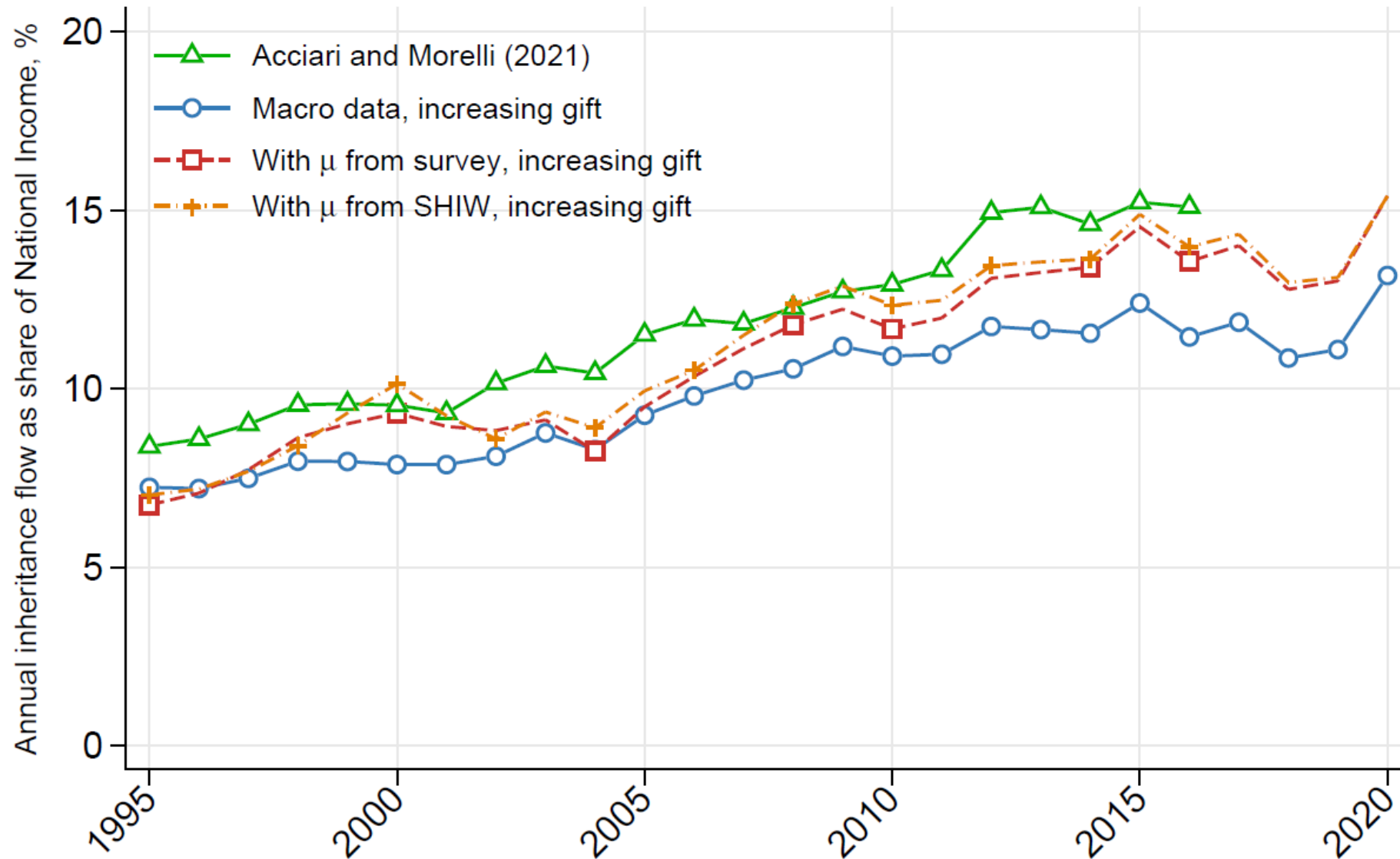
Source: Alvaredo, Garbinti, and Piketty (2017), Atkinson (2013), and Acciari, Alvaredo, and Morelli (2021)

Estimating aggregate flows of inheritances and gifts: new preliminary work

1. Observing fiscal flows of bequests and gifts (making allowances for tax-exempt assets and non-filers)
2. Estimating Economic flows (Piketty, 2011) :

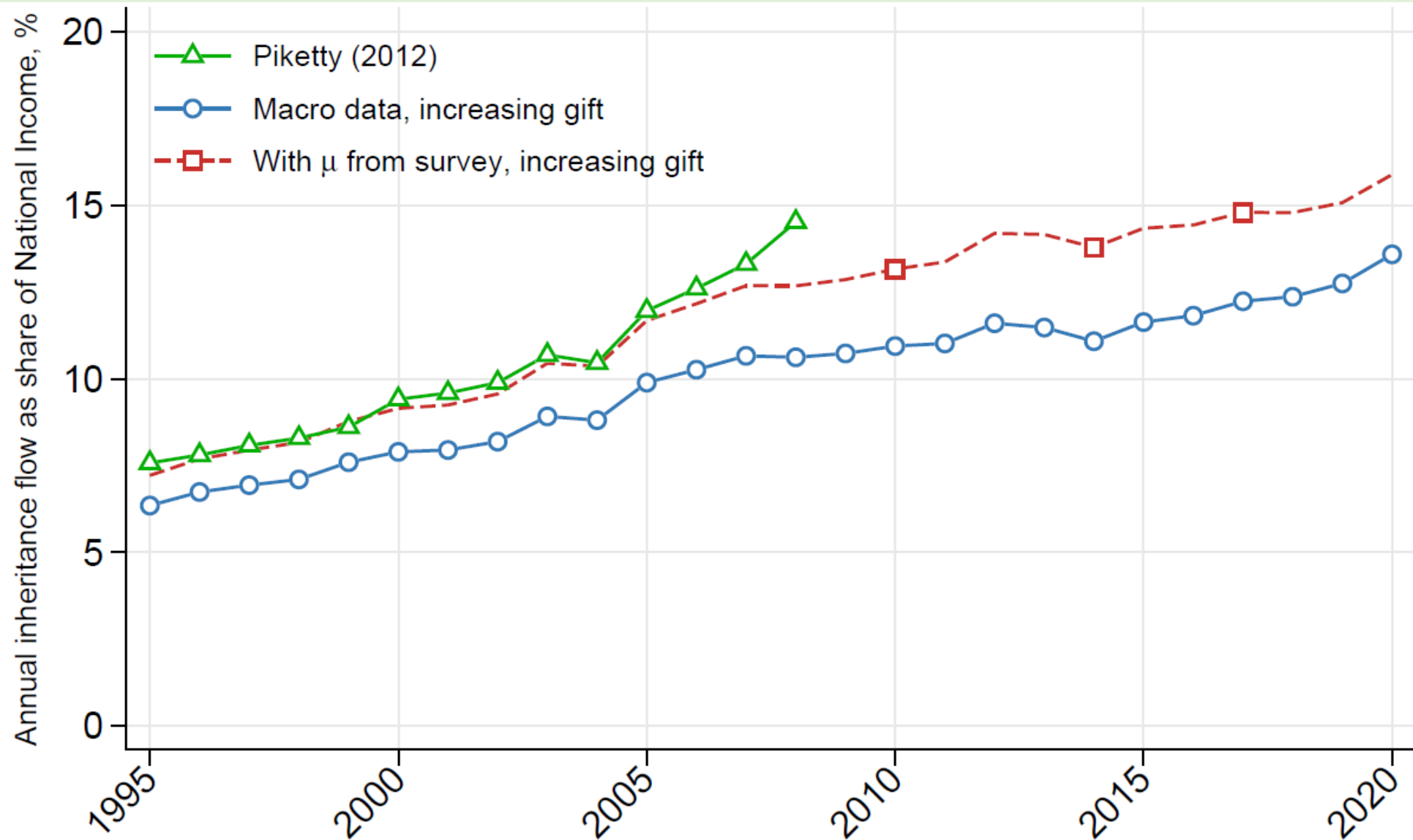
$$B_t = (1 - v_t) \mu_t^{20+} * cf * m_t^{20+} * W_t$$

Inheritance and gift flows (% of NI) - Italy



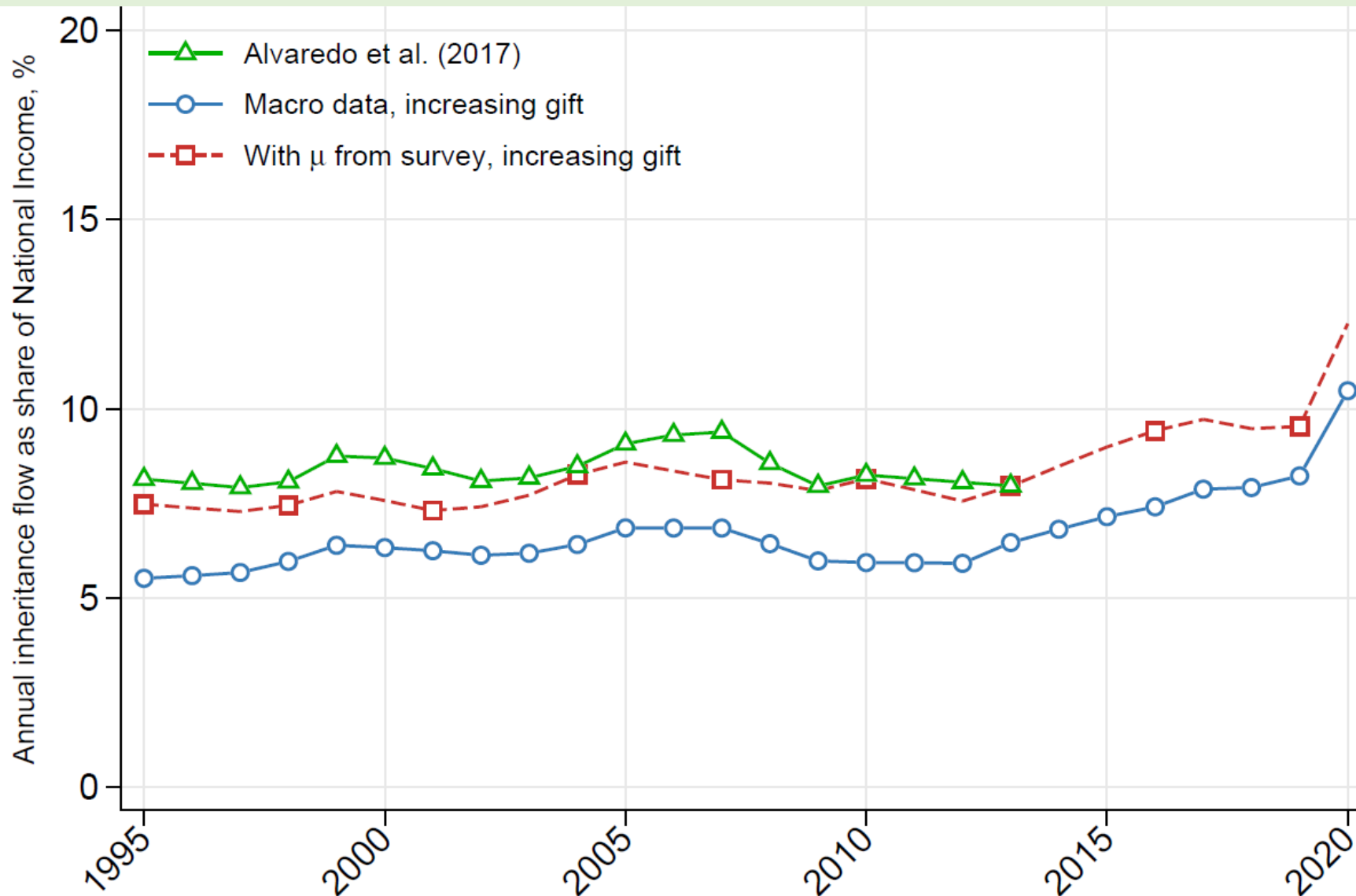
Source: preliminary estimates Guzzardi and Morelli (2022)

Inheritance and gift flows (% of NI) - France



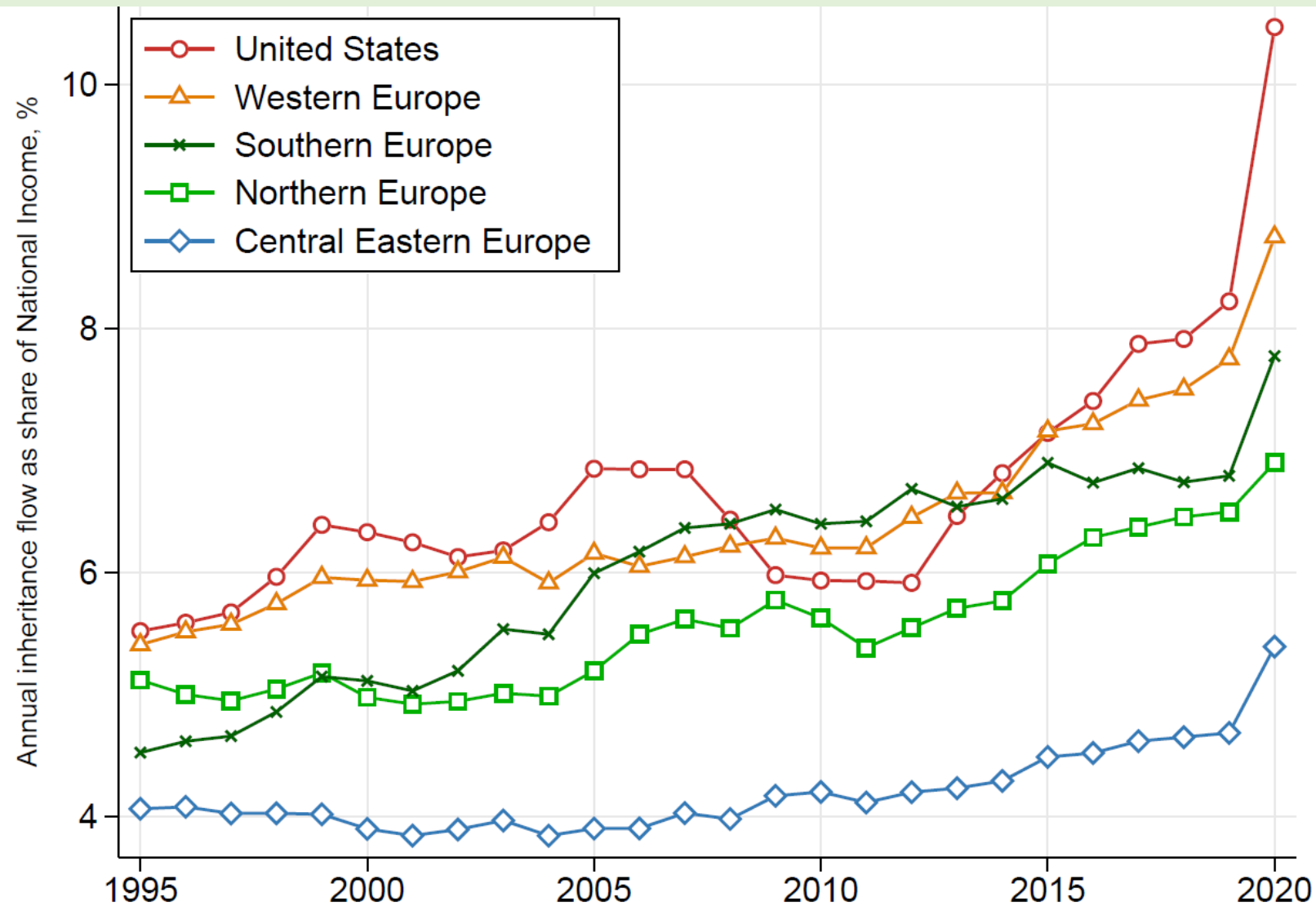
Source: preliminary estimates Guzzardi and Morelli (2022)

Inheritance and gift flows (% of NI) - USA



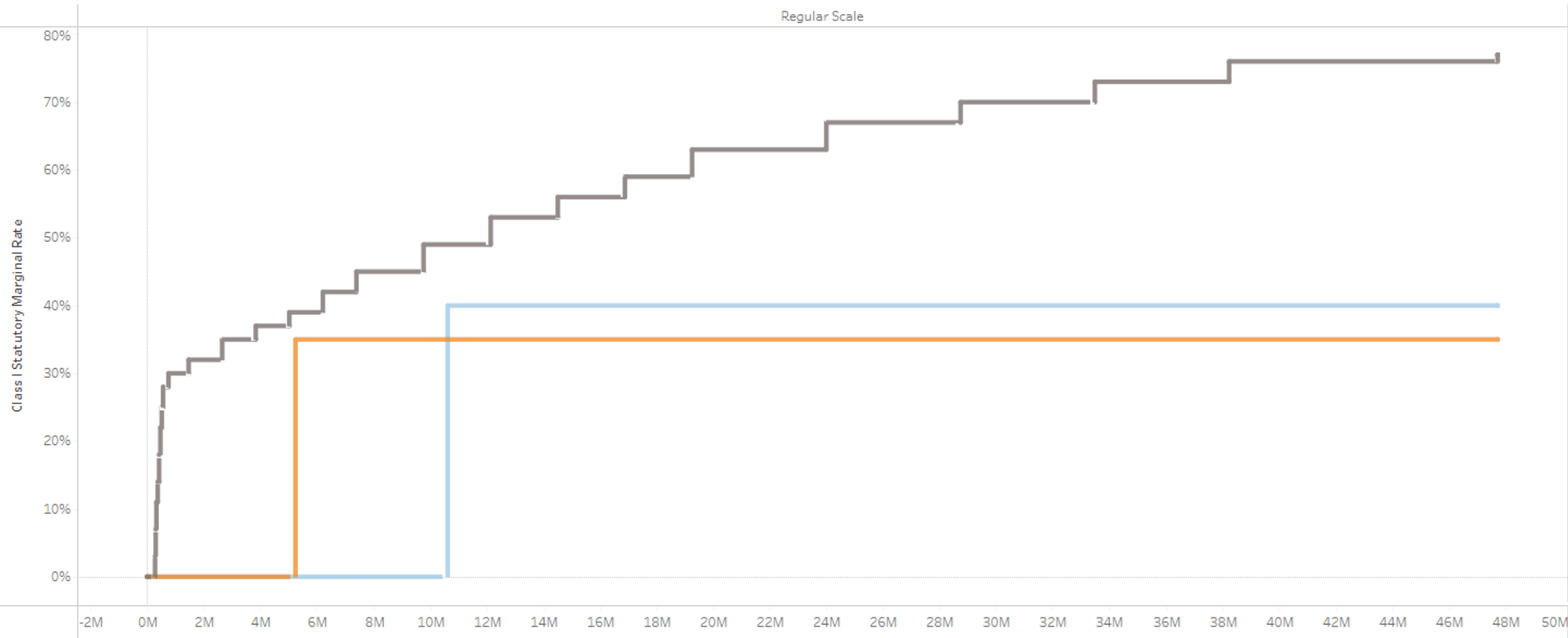
Source: preliminary estimates Guzzardi and Morelli (2022)

Inheritance and gift flows (% of NI) – EU vs Italy

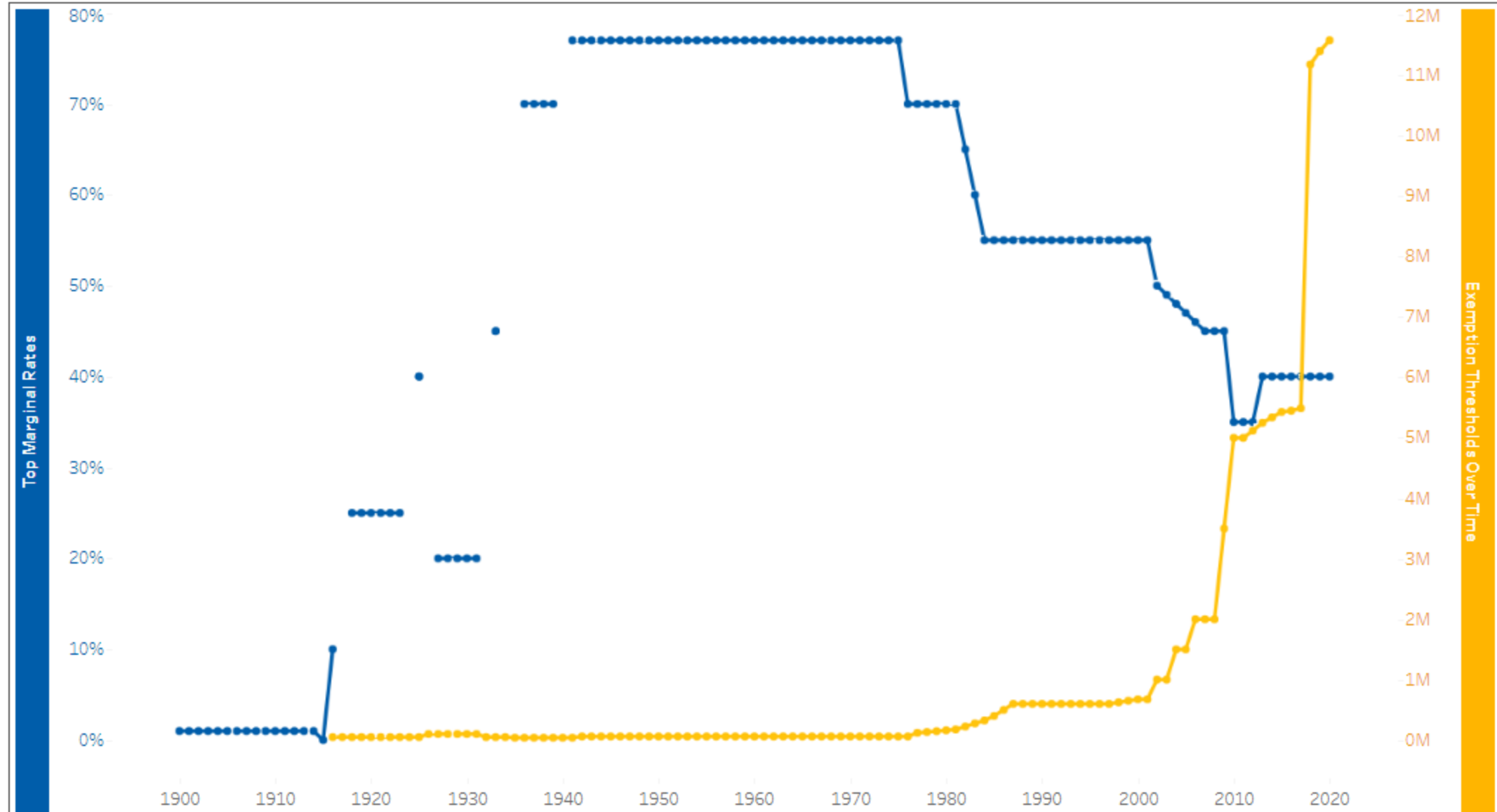


Source: preliminary estimates Guzzardi and Morelli (2022)

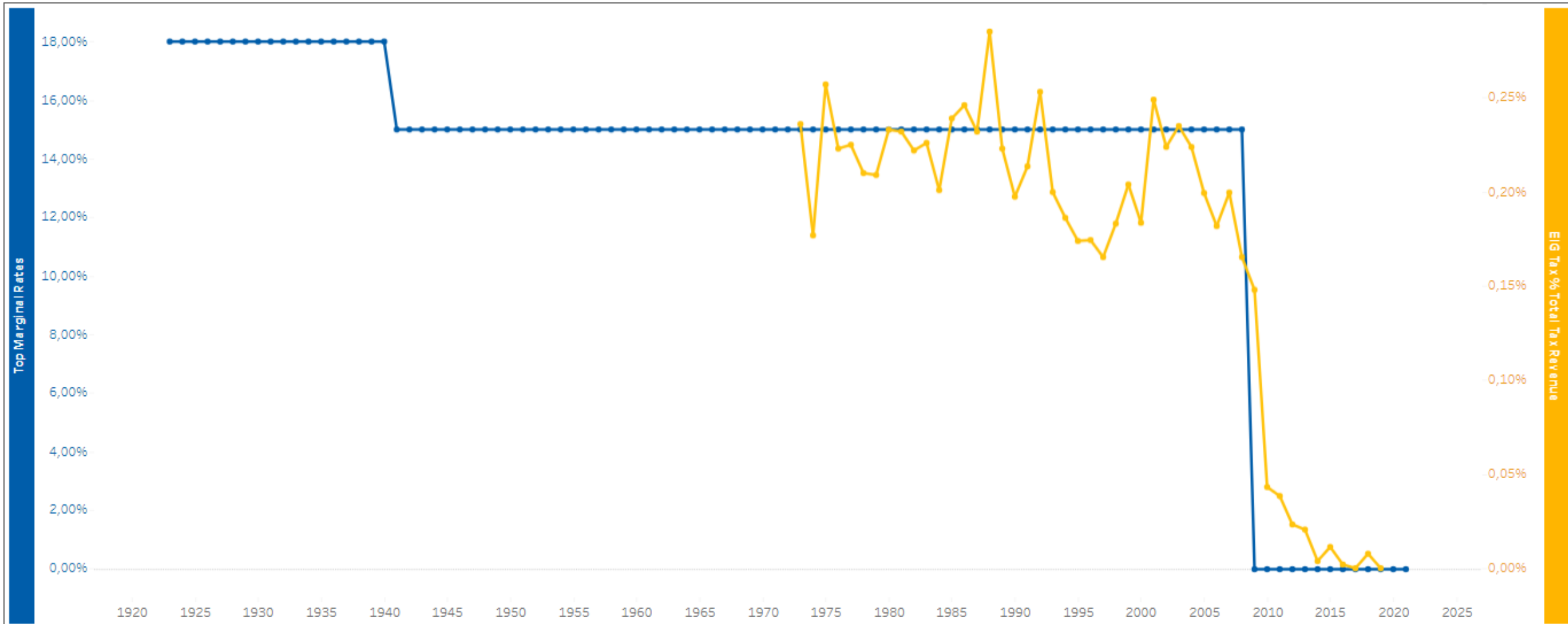
How have the estate, inheritance and gift tax policies been changing over time? Estate tax schedule- USA - 1970, 2011, 2019



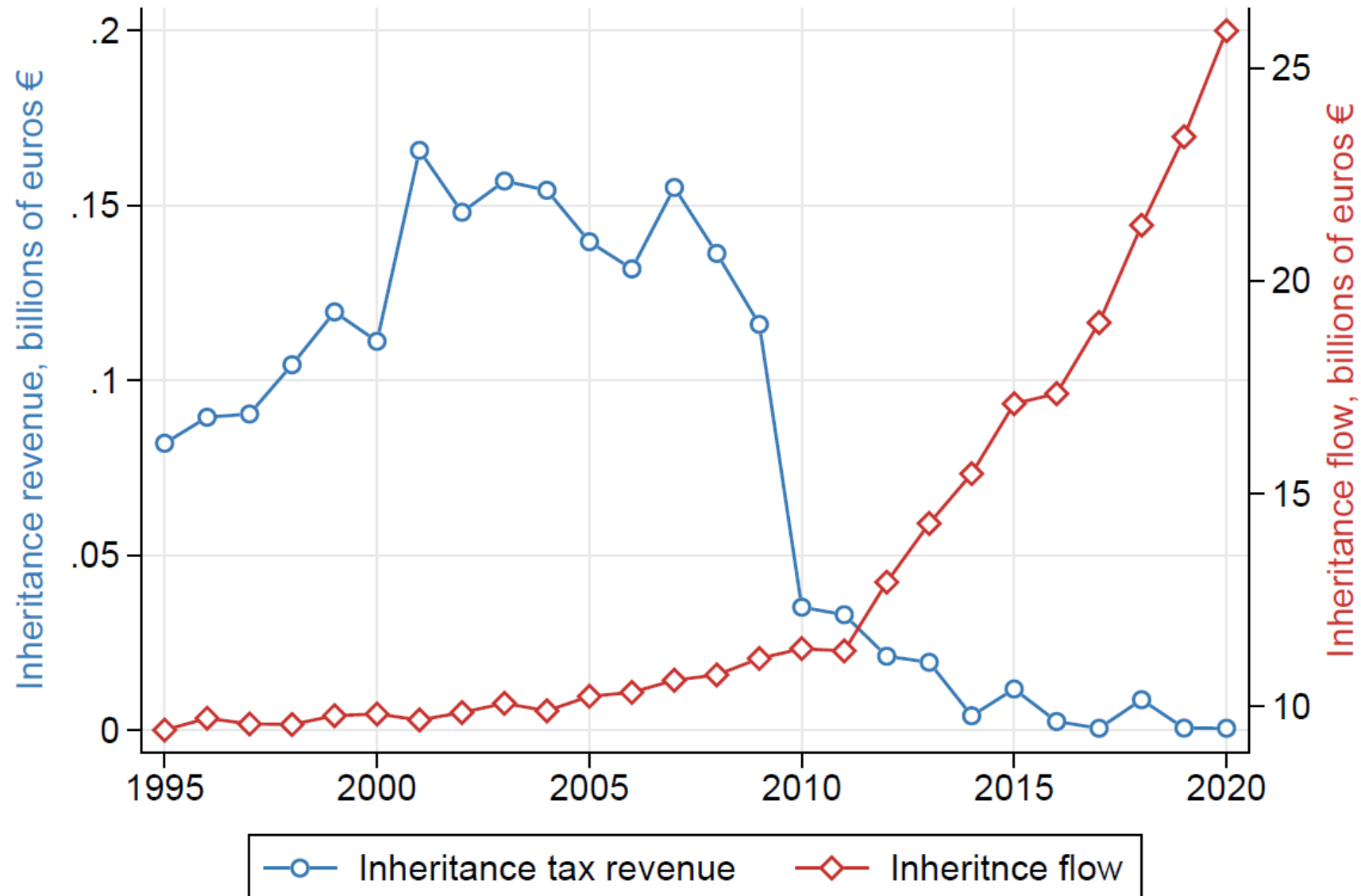
The evolution of top marginal estate tax rates and exemption thresholds over time - USA



The evolution of top marginal estate tax rates and tax revenue (% of tot tax revenue) over time - Austria

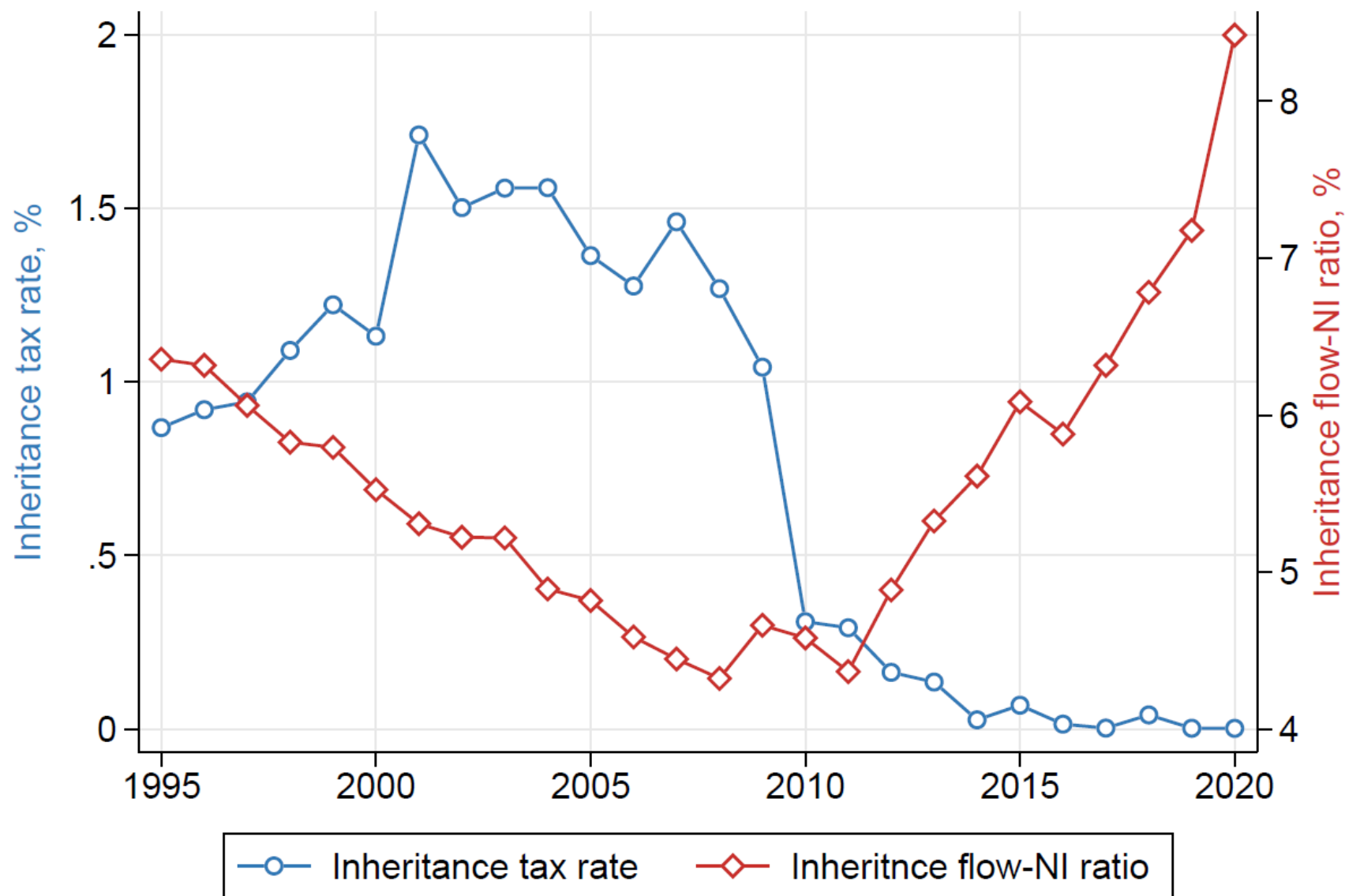


Inheritances and gifts: Tax revenue vs monetary flows - Austria



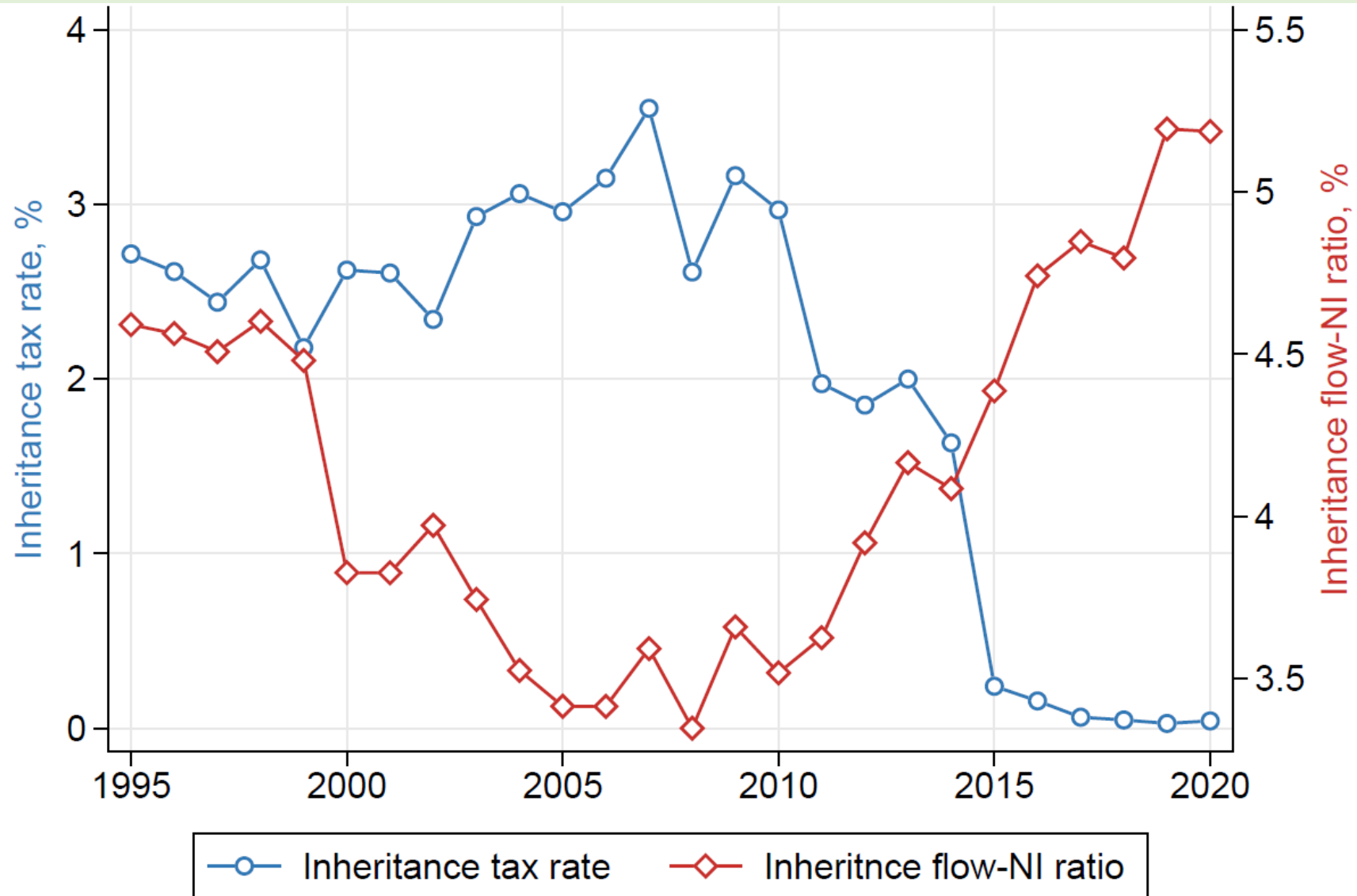
Source: preliminary estimates Guzzardi and Morelli (2022) and estate, inheritance, and gifts tax revenue from OECD

Inheritances and gifts: Effective tax rate vs flows (% NI) - Austria



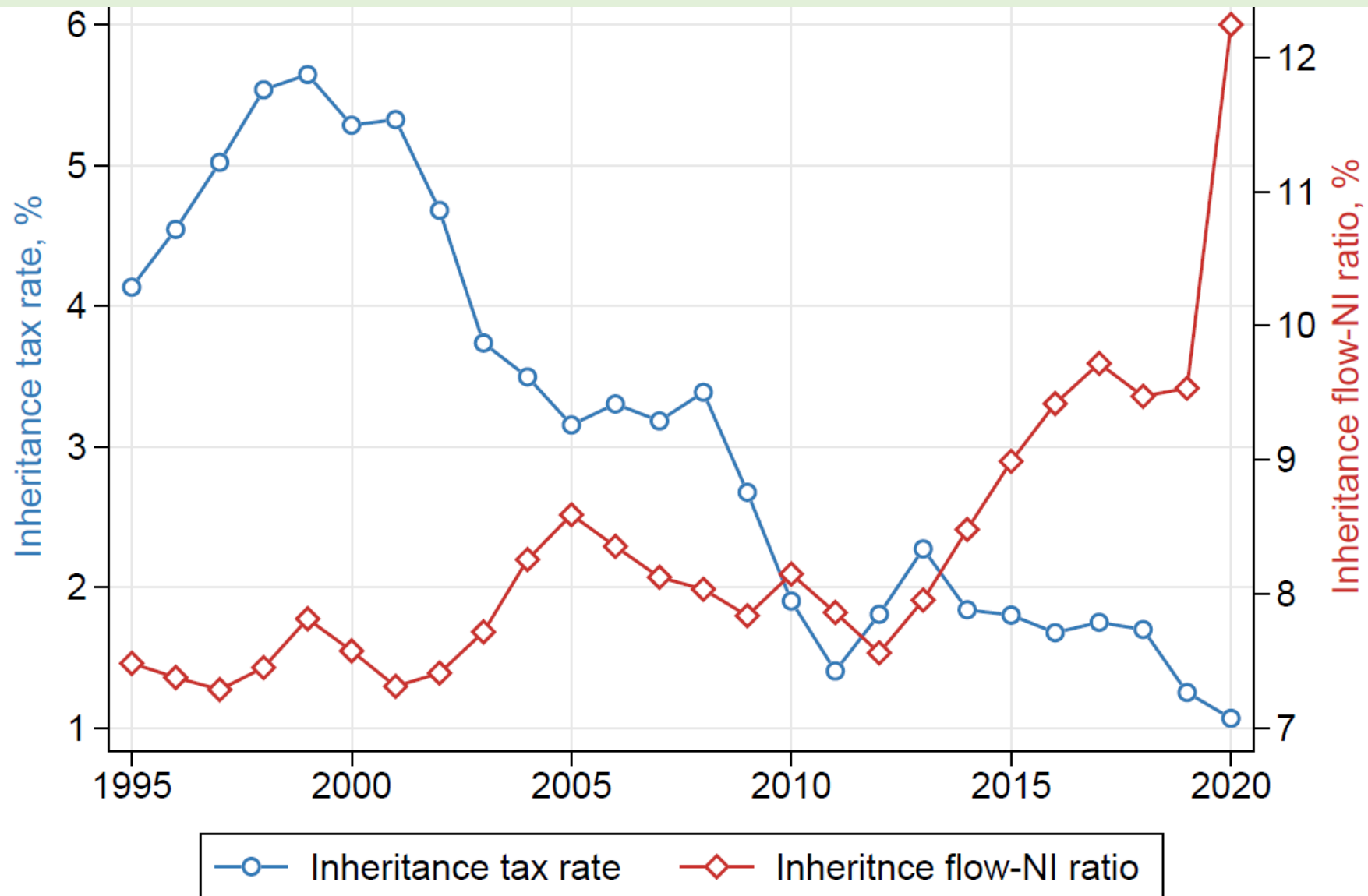
Source: preliminary estimates Guzzardi and Morelli (2022) and estate, inheritance, and gifts tax revenue from OECD

Inheritances and gifts: Effective tax rate vs flows (% NI) – Norway



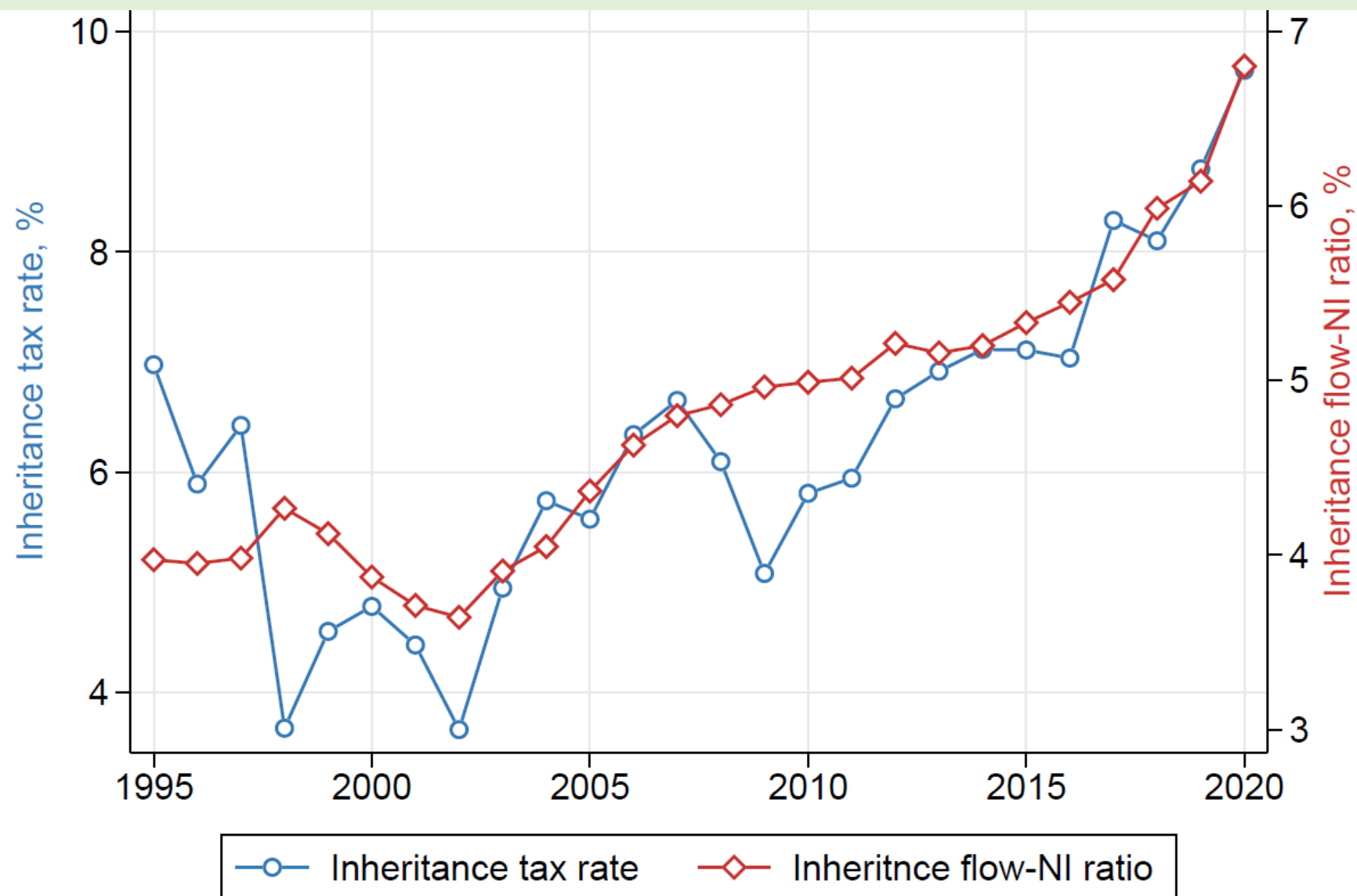
Source: preliminary estimates Guzzardi and Morelli (2022) and estate, inheritance, and gifts tax revenue from OECD

Inheritances and gifts: Effective tax rate vs flows (% NI) - USA



Source: preliminary estimates Guzzardi and Morelli (2022) and estate, inheritance, and gifts tax revenue from OECD

Inheritances and gifts: Effective tax rate vs flows (% NI) – South Korea



Source: preliminary estimates Guzzardi and Morelli (2022) and estate, inheritance, and gifts tax revenue from OECD

What is the contribution of transfer wealth to wealth concentration?

... inheritances and gifts have vastly equalizing effect on inequality in household wealth

(Bönke et al., 2017)

... strongly suggestive that intergenerational wealth transmission plays an important role in helping to explain wealth concentration (Feiveson and Sabelhaus, 2018)

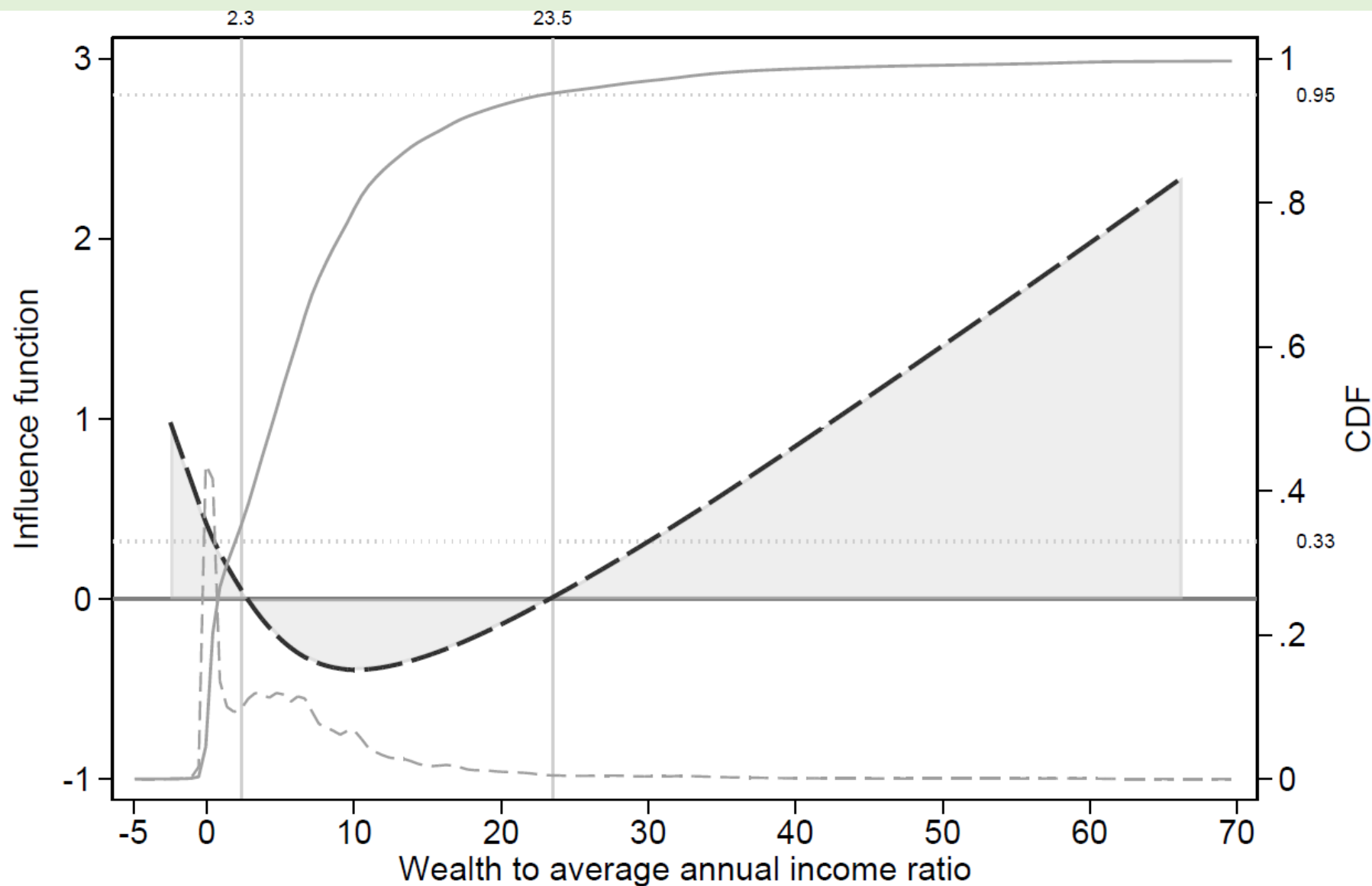
“...Upon their receipt, inheritances reduce relative measures of wealth inequality, such as top shares or percentile ratios... Within a decade, however, the effect is reversed: inheritances increase wealth inequality since the different depletion rates widen the inequality in inherited wealth over time... Taken together, inheritances increase the wealth inequality in the long run...”

(Nekoei and Seim, 2021)

Disequalizing effect of large transfers

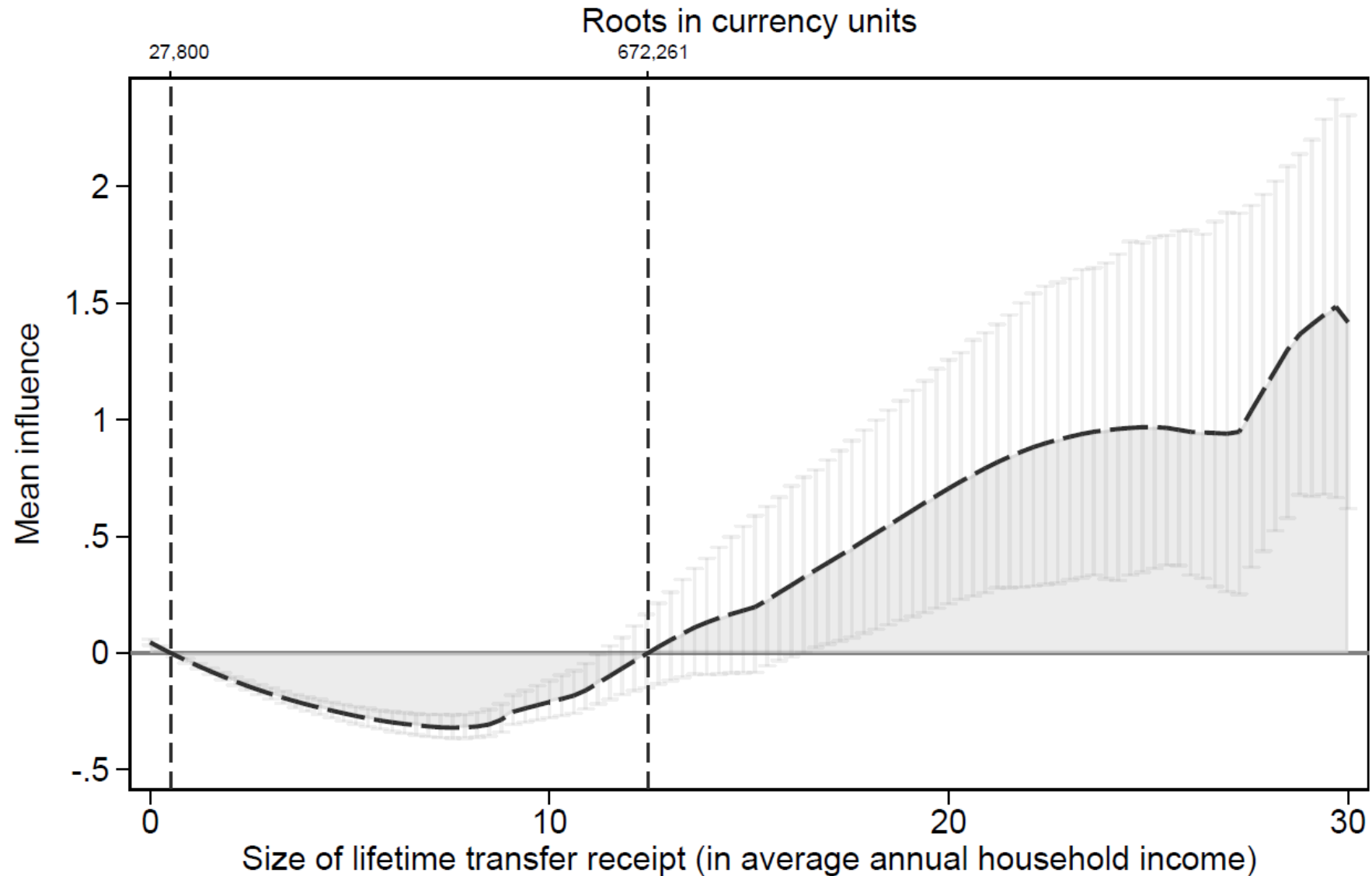
1. In a paper *The Influence of Intergenerational Transfers on Wealth Inequality in Rich Countries: Size Matters* (S Morelli, B Nolan, J Palomino, and P Van Kerm), results suggest that (for IT, FR, ES, DE, UK, and the US) having more transfer recipients and correspondingly fewer non-recipients would be expected to **reduce wealth inequality modestly**
2. In contrast, however, an increase in the proportion of recipients of large transfers is seen to increase overall wealth inequality. **“Large” transfers are always disequalizing** (even in the short-run).
3. **Policy bonus:** The method used in the paper allows to identifies country-specific thresholds above which transfers become disequalising (an informative feature for the design of taxes on inheritances and gifts).

The shape of the influence function for the Gini coefficient: Italy



U-shaped form :
Both the upper and the lower tail contribute positively to inequality (more individuals at either end tends to increase the Gini coefficient) and the 'middle' contributes negatively.

Distribution of net worth for transfer recipients and non-transfer recipients



Source: Morelli, Nolan, Palomino, Van Kerm (2022)

Concluding remarks

- Private wealth is becoming more and more visible in our economy and more and more concentrated at the top.
- The weight of wealth coming from the past under the form of wealth transfers, namely inheritances and gifts is has been growing steadily over time across Europe and the US.
- Nevertheless, in the face of these trends, the effectiveness of wealth transfer tax levies and its progressive structure, has been decreasing steadily over time. In several countries such taxes were even abolished.
- Although the overall effect of wealth transfers is equalizing on the wealth distribution, a crucial heterogeneity by size of transfers has not been previously recognised: large transfers remain disequalizing (Results could better inform the design of inheritance tax policies)
- The combination of growing share of wealth transfers and the reduction of the effectiveness of their taxation is expected to push wealth inequality up.



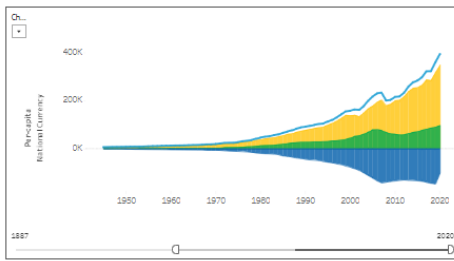
STONE CENTER
ON SOCIO-ECONOMIC **INEQUALITY**

THE GC WEALTH PROJECT

WEALTH TOPOGRAPHY

How is the household wealth portfolio composed in the United States?

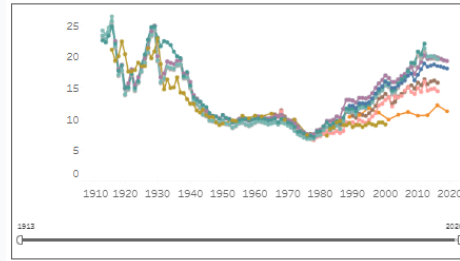
[View More](#)



WEALTH INEQUALITY TRENDS

How is wealth inequality changing in the United States over time?

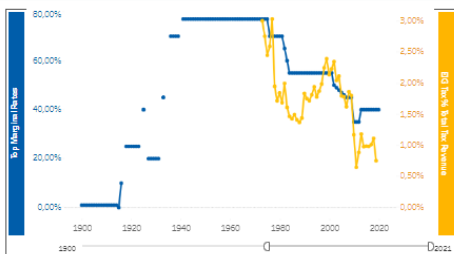
[View More](#)



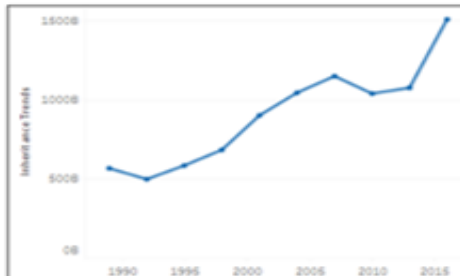
ESTATE, INHERITANCE, AND GIFT TAXES (EIG)

What is the tax treatment of EIG in the United States?

[View More](#)



Inheritance Trends



MANY THANKS!
And stay tuned for the launch
of the GC Wealth project