The growing relevance of wealth and inheritance

Salvatore Morelli

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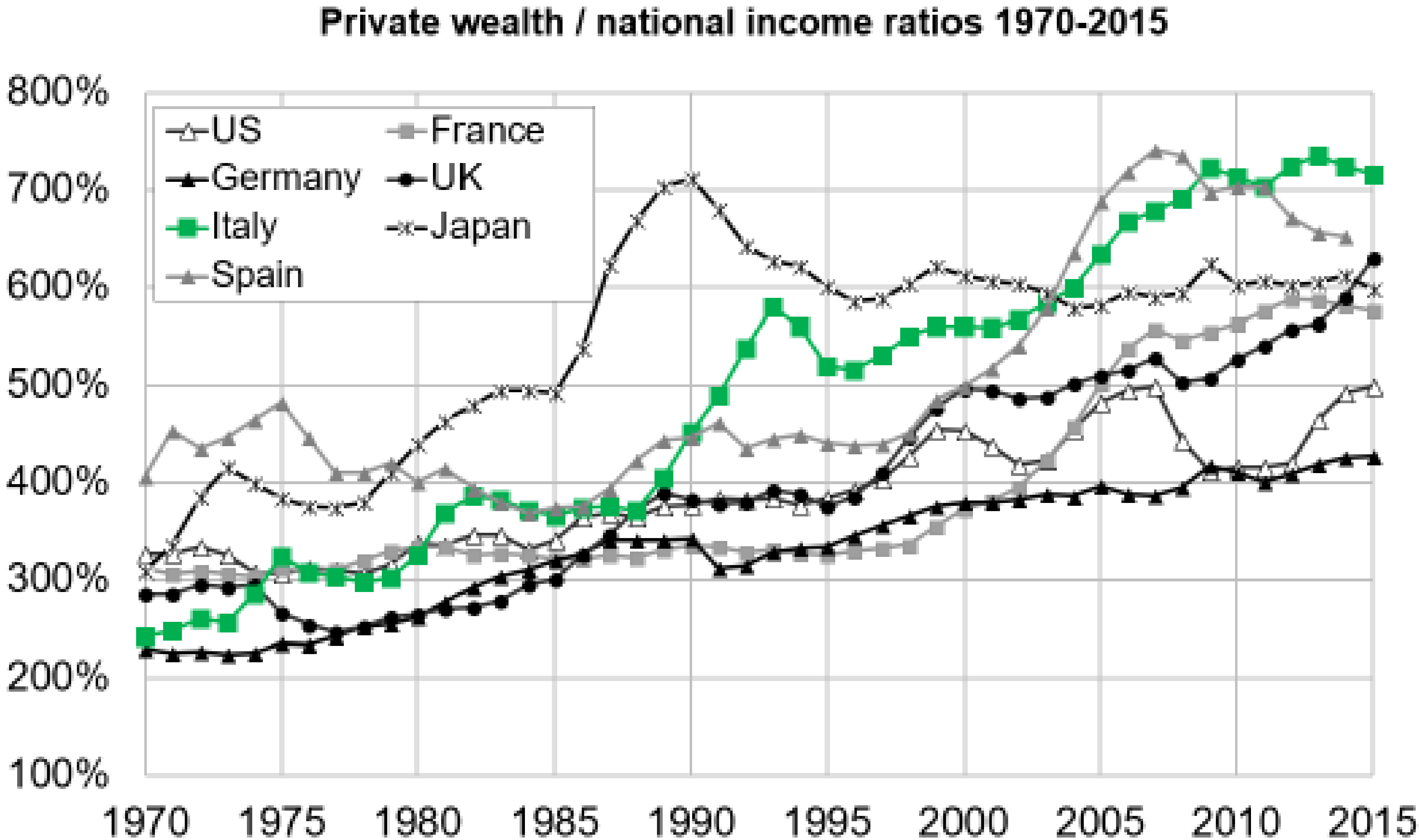
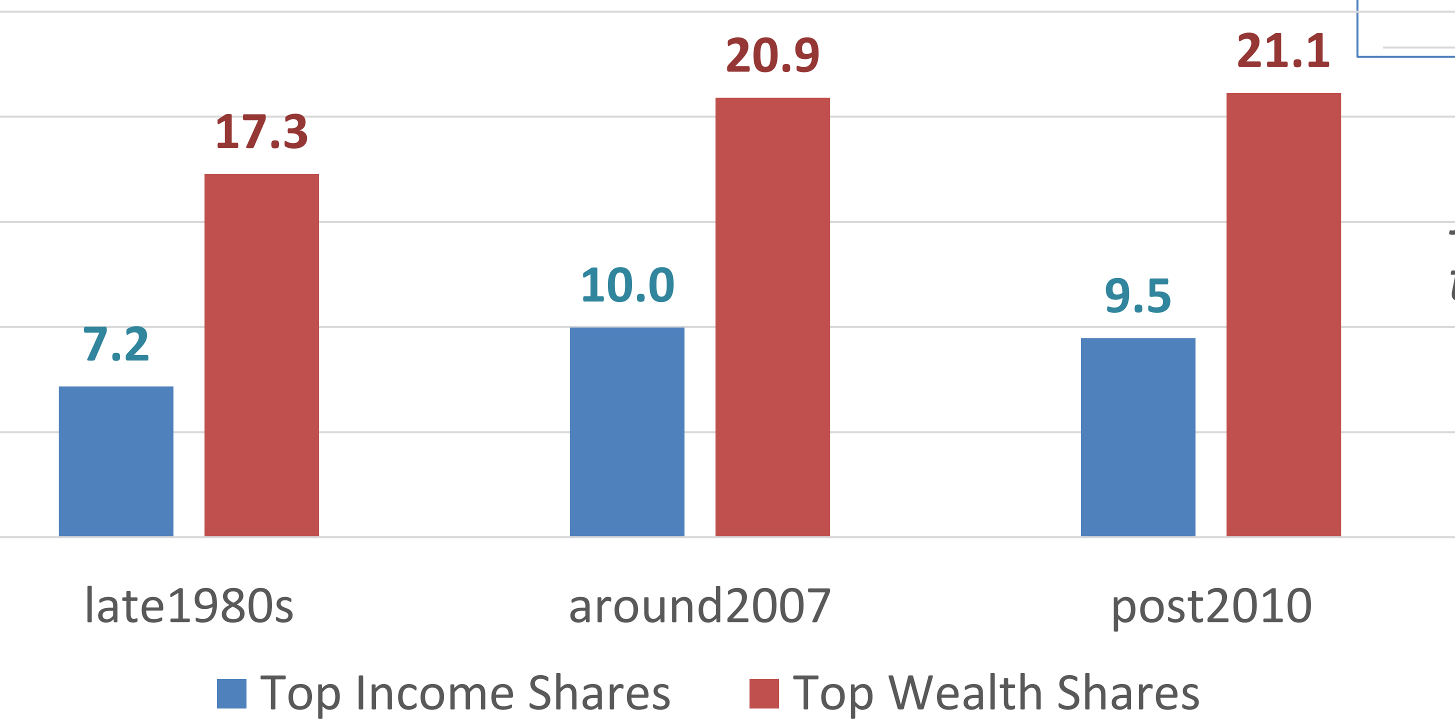
"Wealth is Back" - Increasing recognition of the role of *household balance sheets*

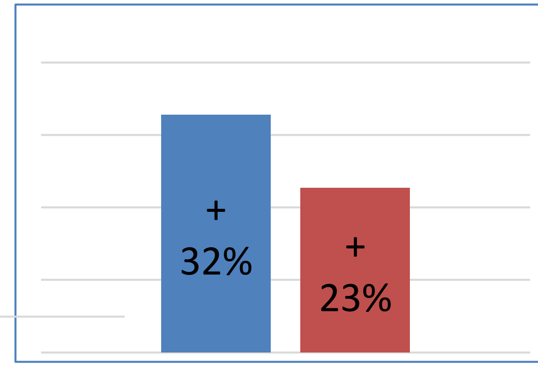


Source: Piketty & Zucman (2014) Figure 1 up to 2010. WIR (2018) for post-2010 series.
Private wealth = non-financial assets + financial assets - financial liabilities (household & non-profit sectors)

The growing relevance of income and wealth concentration: top 1%

Average share for Australia, Finland, France, Italy, Netherland, Norway, Spain, Switzerland*, UK, US





Mean change from mid-1980s to post-2010 (%)

Source: Own elaboration from data in Morelli, Nolan, and Van Kerm (2018)

* Switzerland excluded for Top wealth share

Plan of the rest of the talk

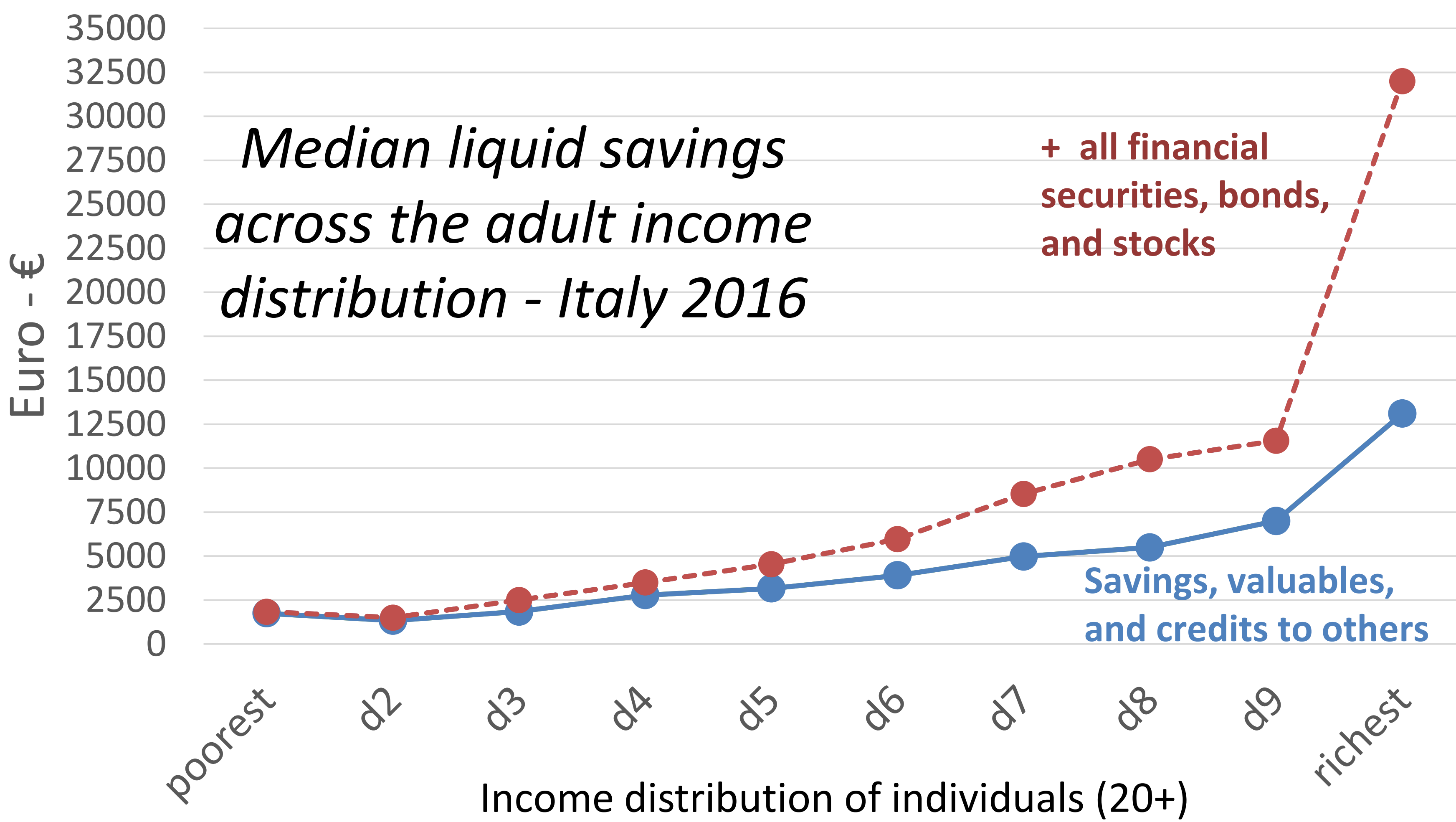
- The advantages of wealth
- The definition and composition of net wealth
- The growing relevance of wealth
- The measurement of wealth distribution: different windows of observations
- The growing relevance of inheritance
- Concluding remarks

The advantages of wealth

The advantages of wealth (and capital)

1 .Reserves to face expected and unexpected life cycle needs

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)

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)

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

The definition and composition of net wealth

The definition net wealth =

Tangible possessions

- House
- Land
- Valuables, collectibles
- Car, Furniture, & durables
- -
- -

+

Financial claims

- Cash, gov bonds
- Savings, deposits
- Shares, bonds
- Loans to others
- Occupational pension & life insurance
- Government pension rights

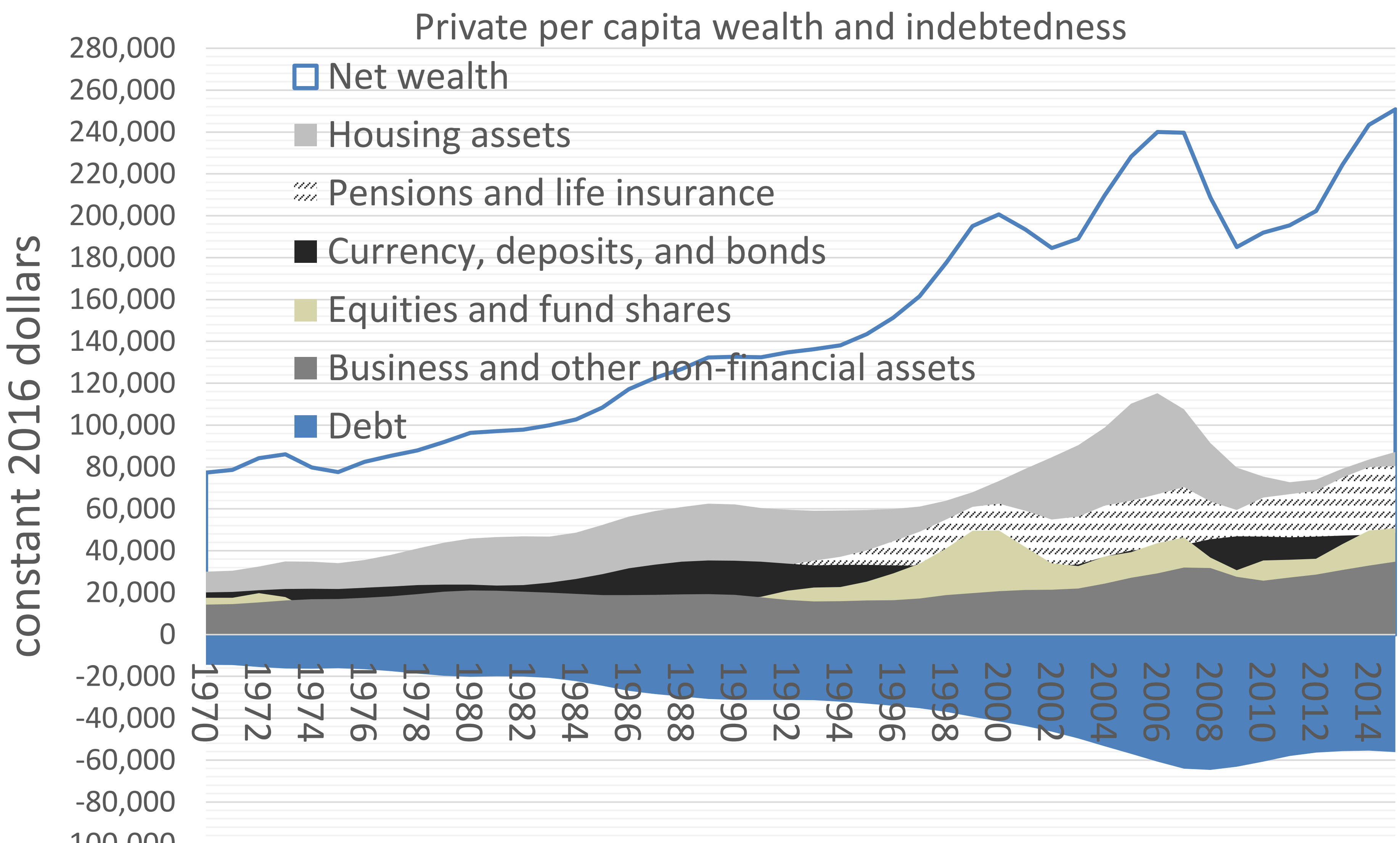
-

Debt

- Mortgage
- Education loan
- Other debt

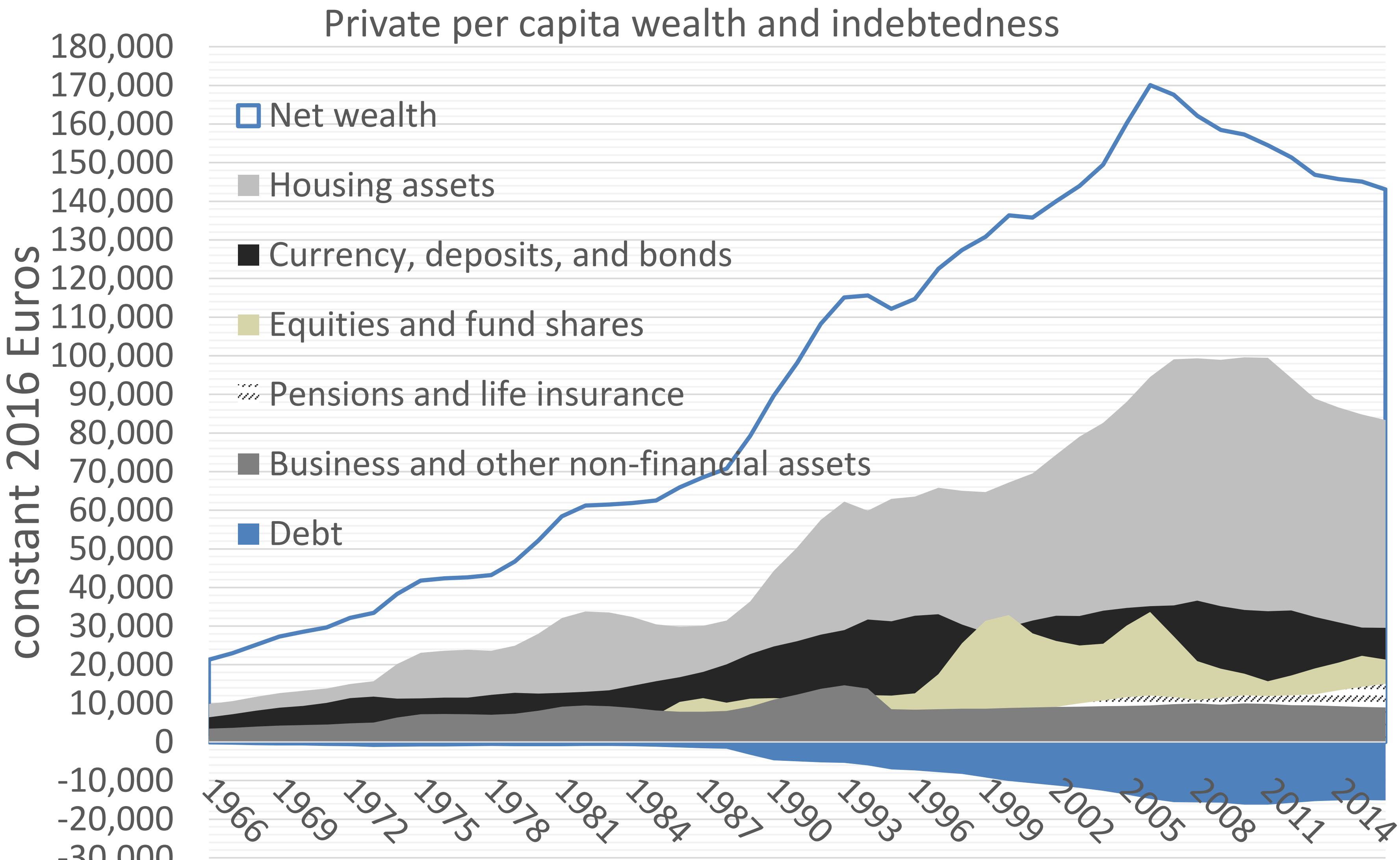
The growing relevance of private wealth

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



Source: own elaboration based on the World Inequality Data (WID)

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



Source: Alvaredo, Acciari, and Morelli , work in progress

The estimation of wealth concentration and inequality

The importance of compelling statistics on wealth distribution

"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.).

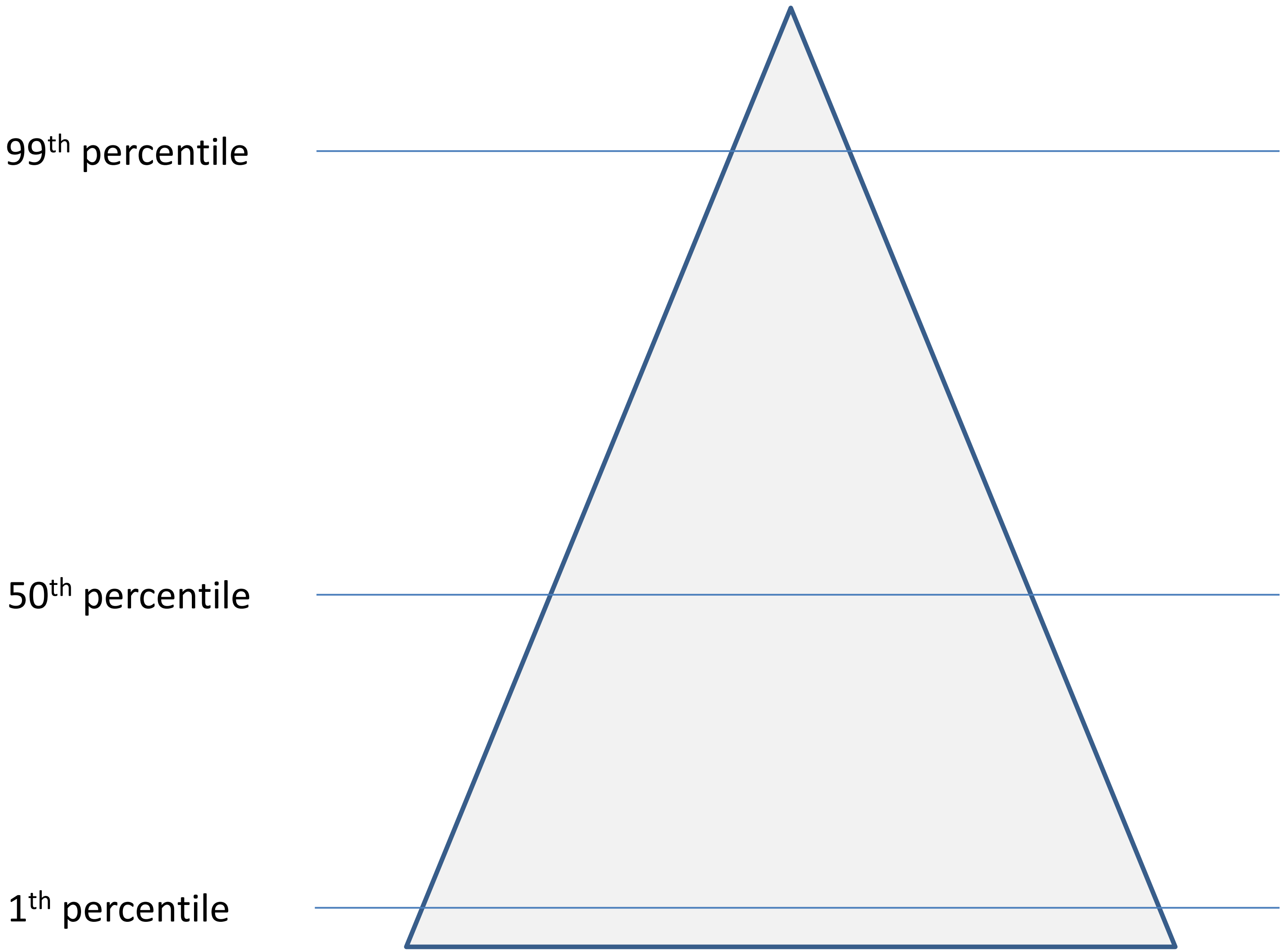
Different windows of observation on wealth

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).

The object of analysis : the pyramid of wealth



5 Different main windows of observation on wealth

Wealth register (and Annual wealth tax)

Estate or inheritance taxes

Capital income tax

Household survey

Rich List

Combining information inferred from different windows

Hybrid method

1 + 2 + External Wealth & Population Totals

Combining information inferred from different windows: the DINA method

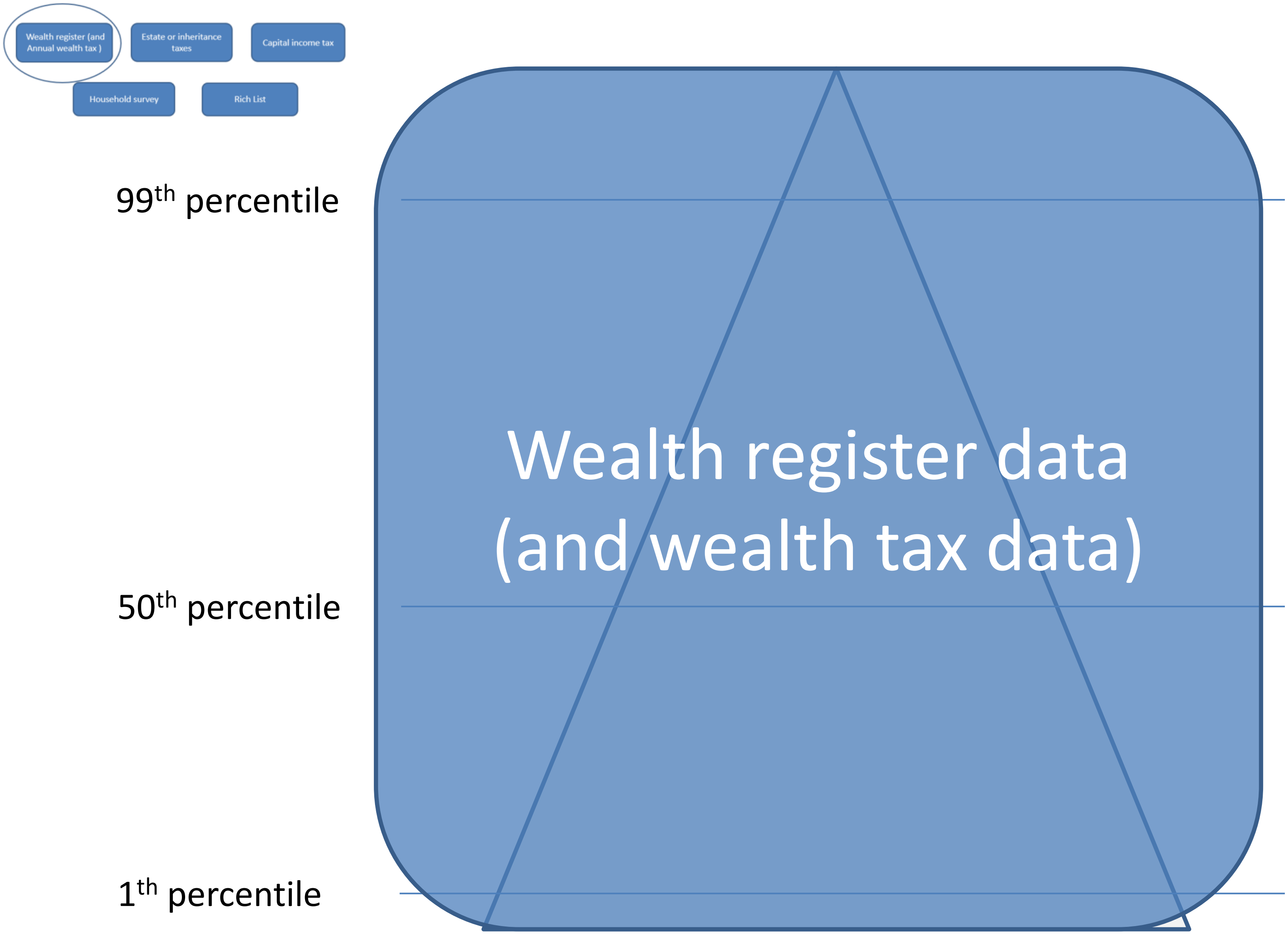
Hybrid method (e.g. WIDlab DINA ; Alvaredo et al. 2016)

Administrative tax data

Household survey

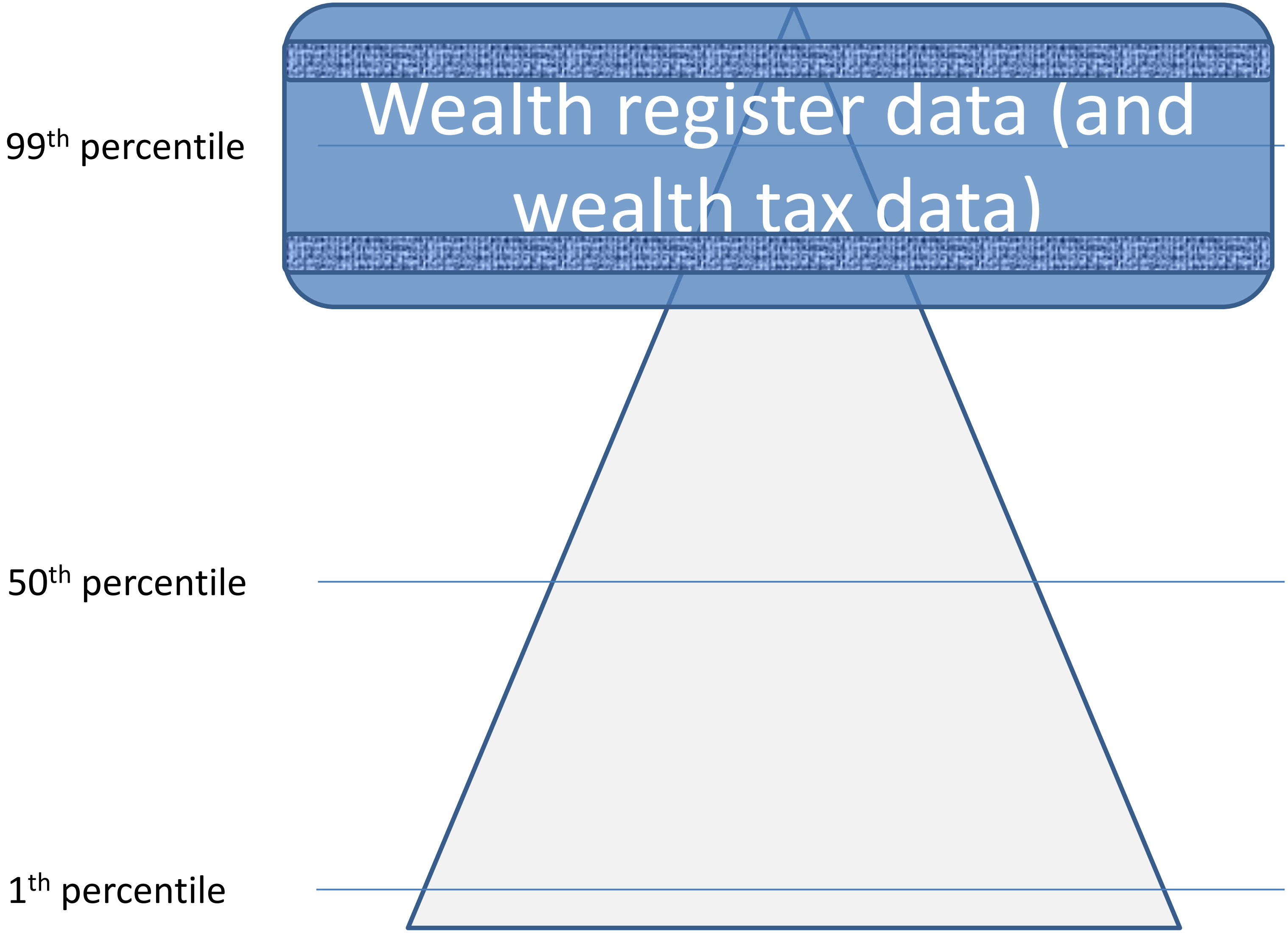
External Wealth (NA) & Population Totals

Different windows on the pyramid of wealth

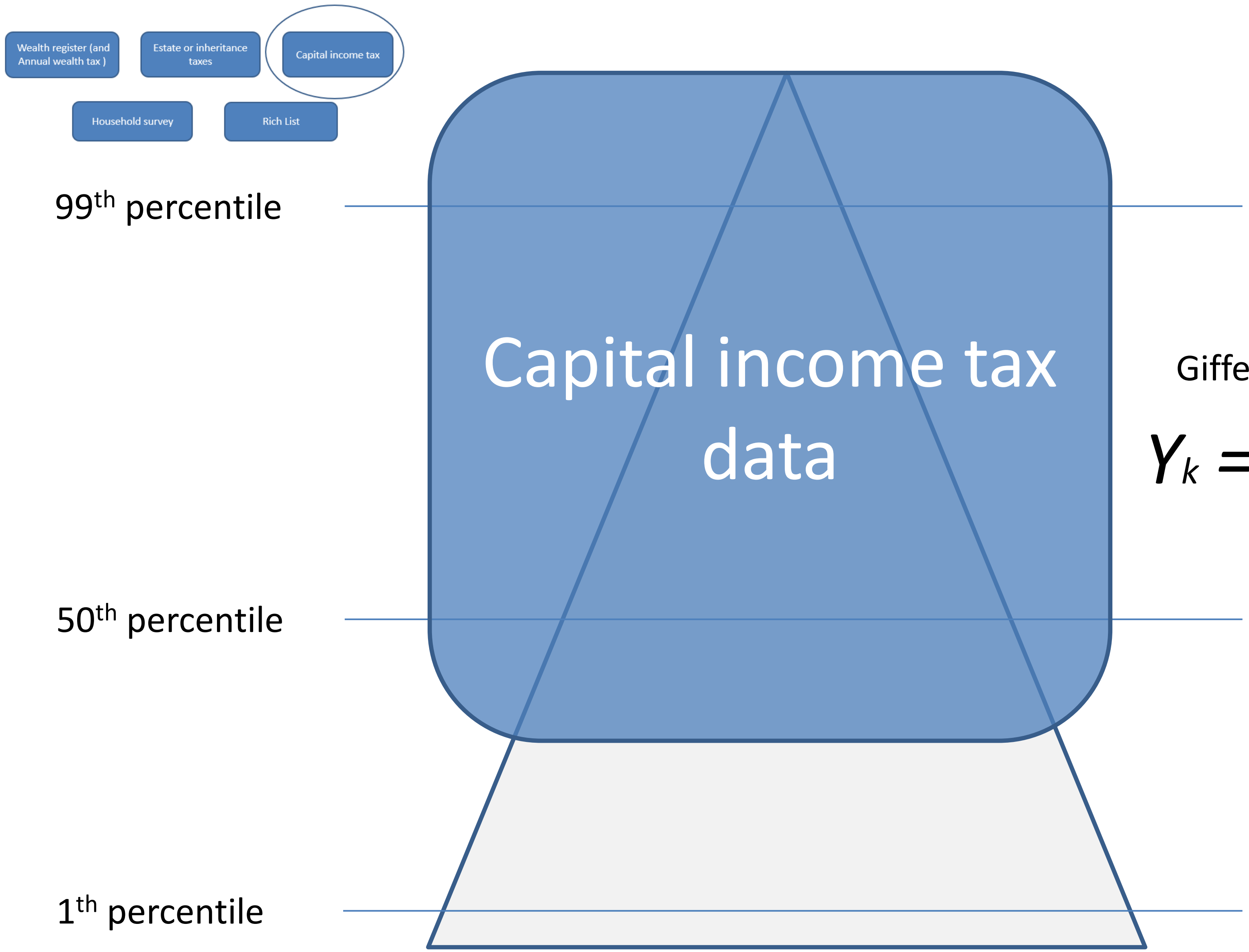


Different windows on the pyramid of wealth

Scratches and fogging: Tax exempt assets need to be imputed. Only a small share of the population is covered



Different windows on the pyramid of wealth

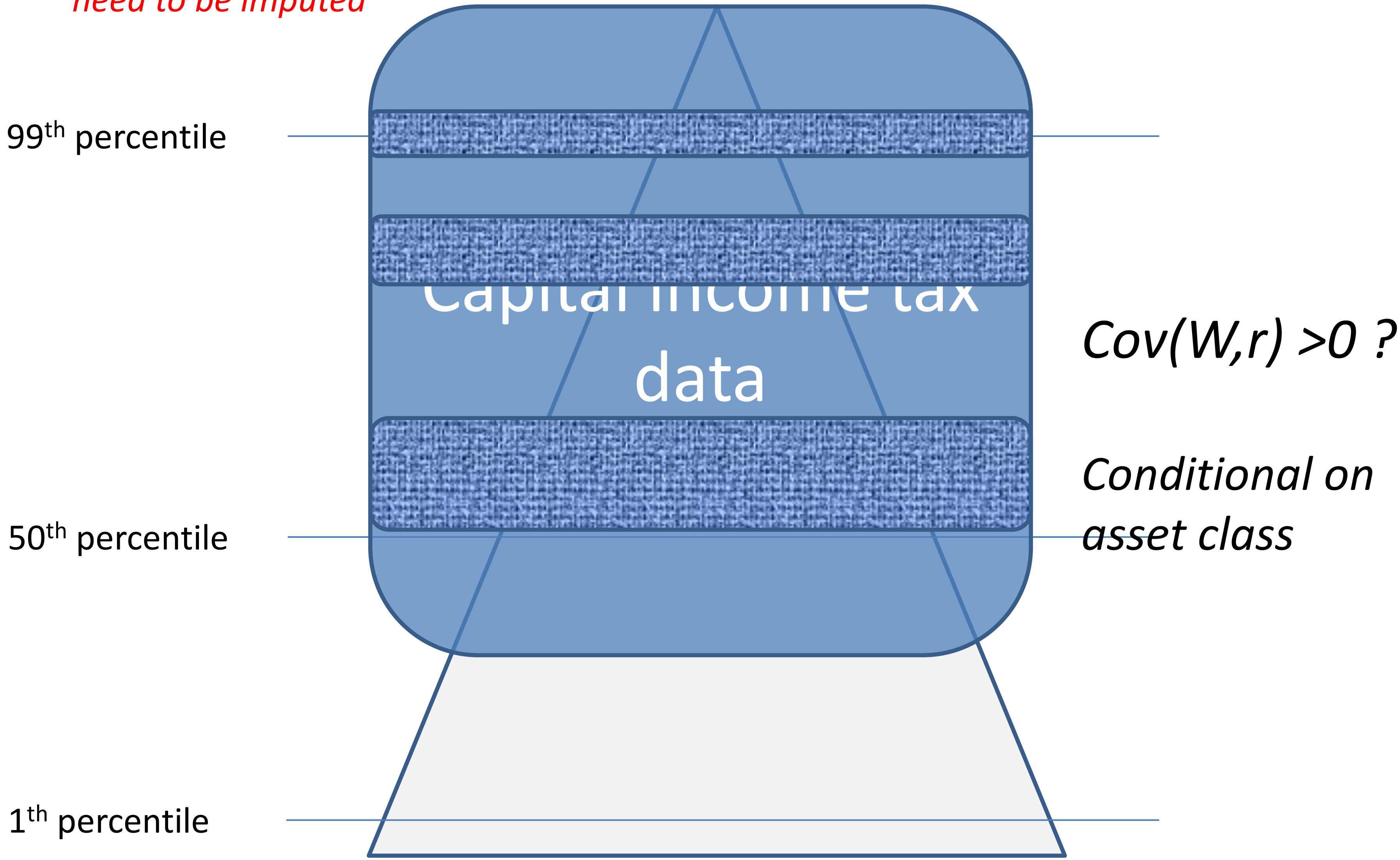


Giffen's method

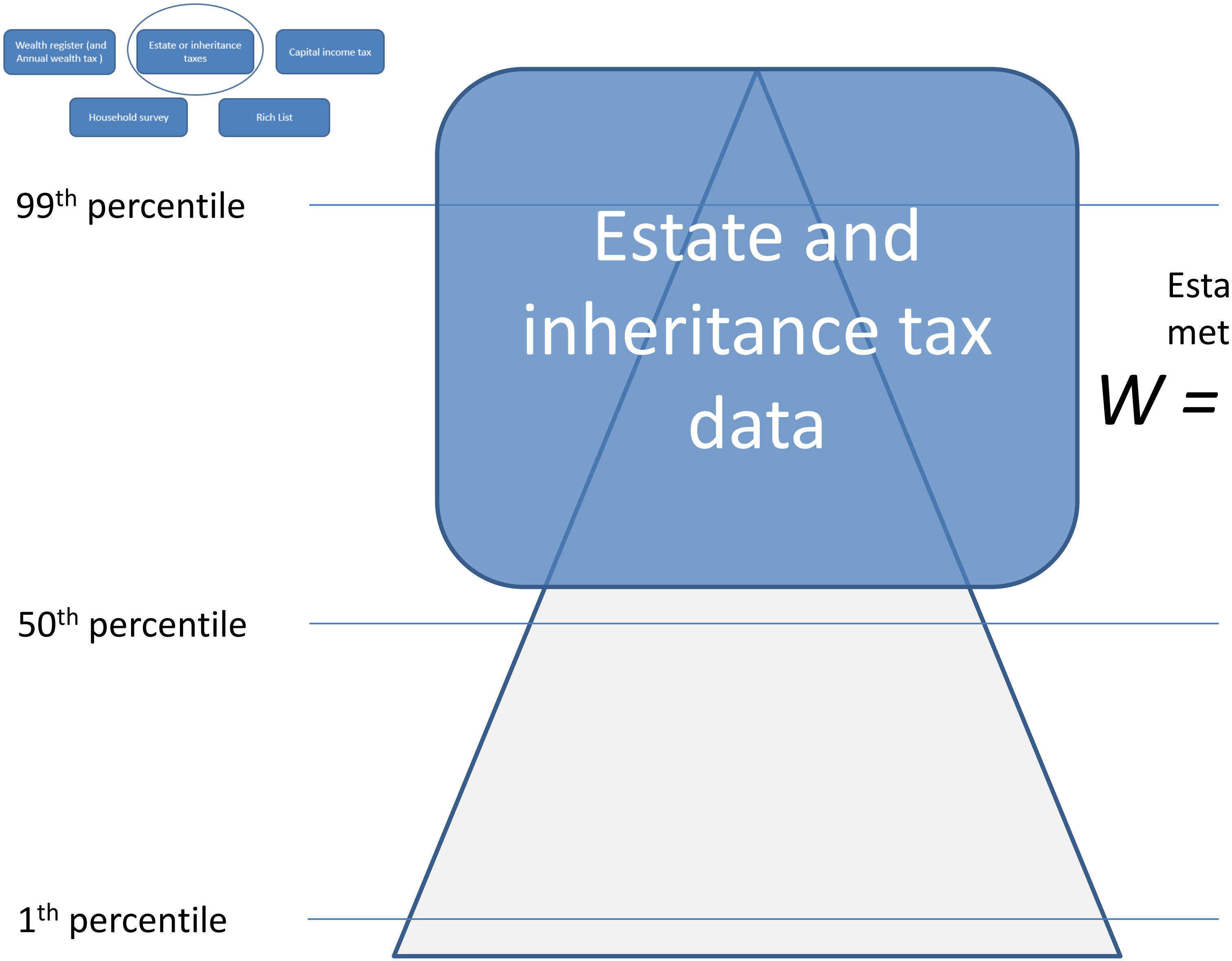
$$Y_k = W_k * r_k$$

Different windows on the pyramid of wealth

Scratches and fogging: A substantial share of capital incomes are non-taxable. Assets need to be imputed



Different windows on the pyramid of wealth

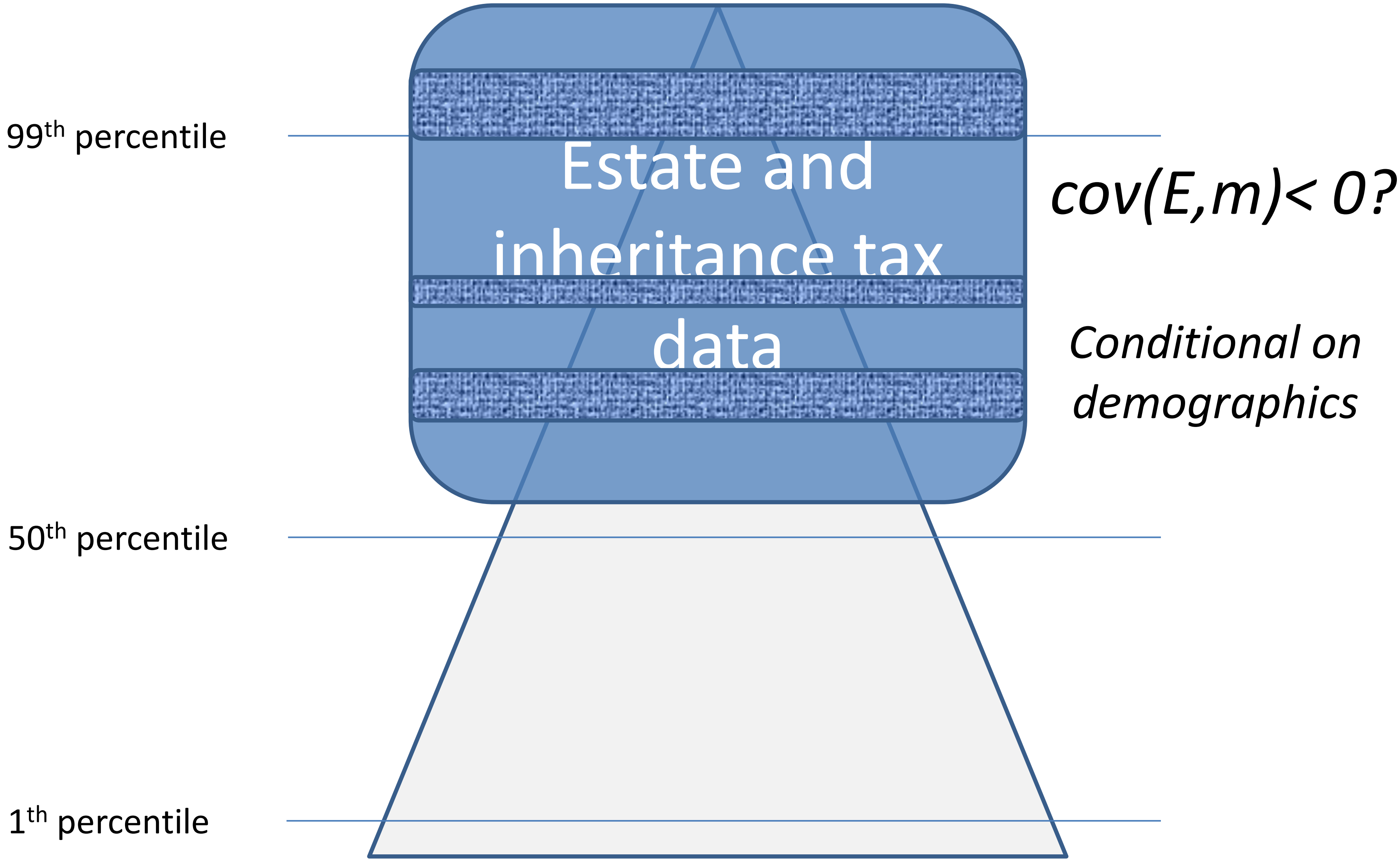


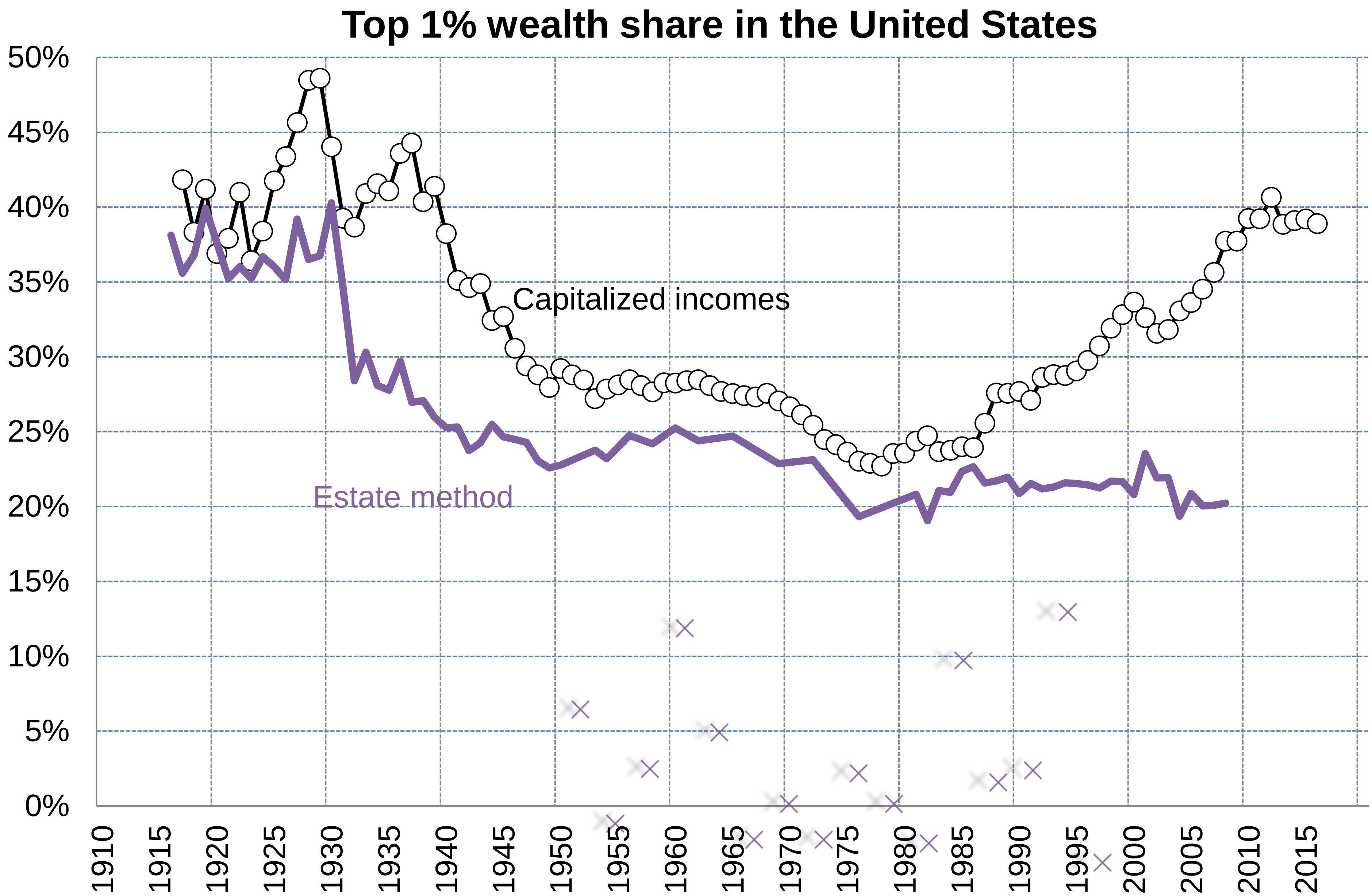
Estate multiplier method

$$W = E * 1/m$$

Different windows on the pyramid of wealth

Scratches and fogging: Decedents population (coverage can be poor). Tax exempt assets and wealth of missing population need to be imputed

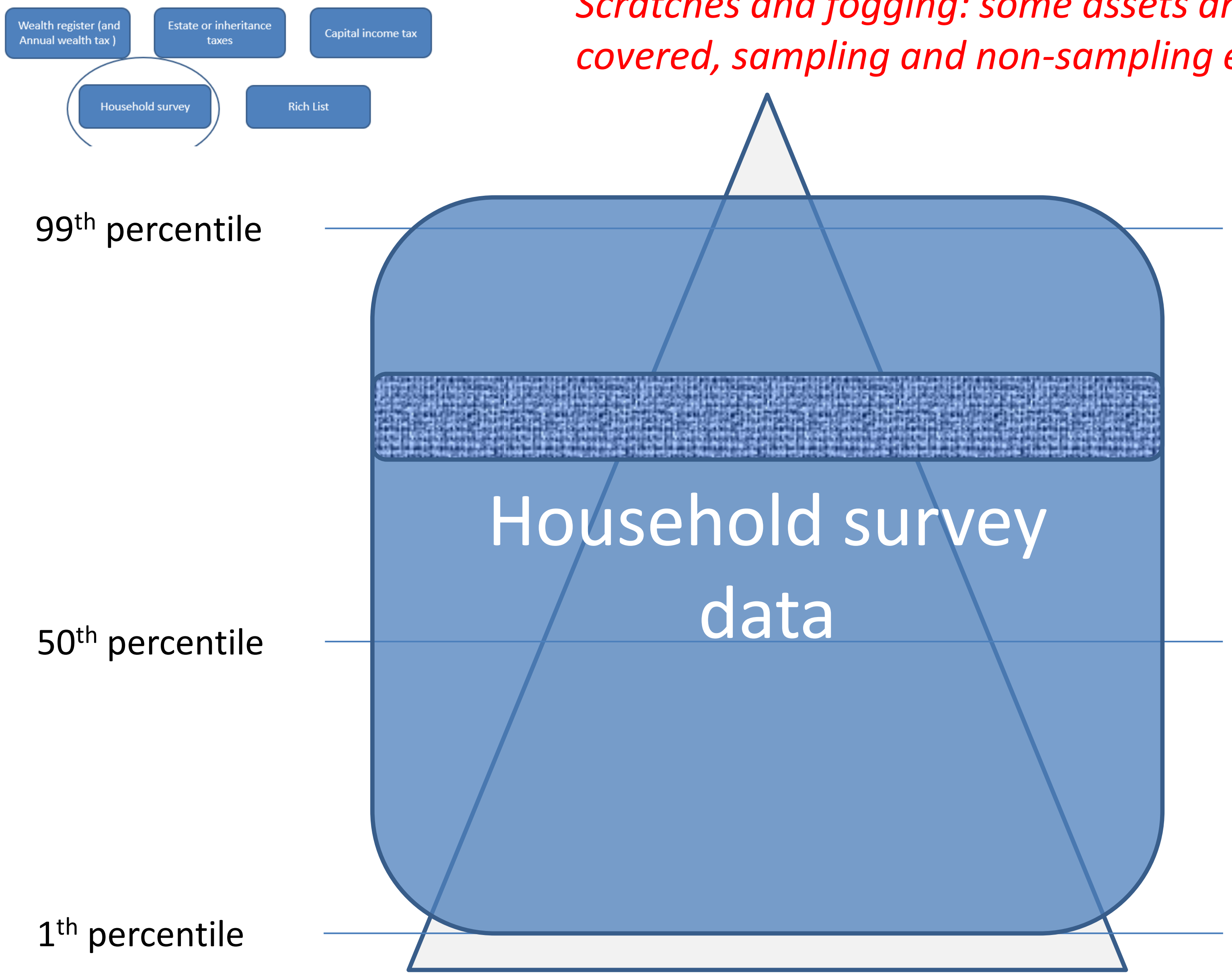




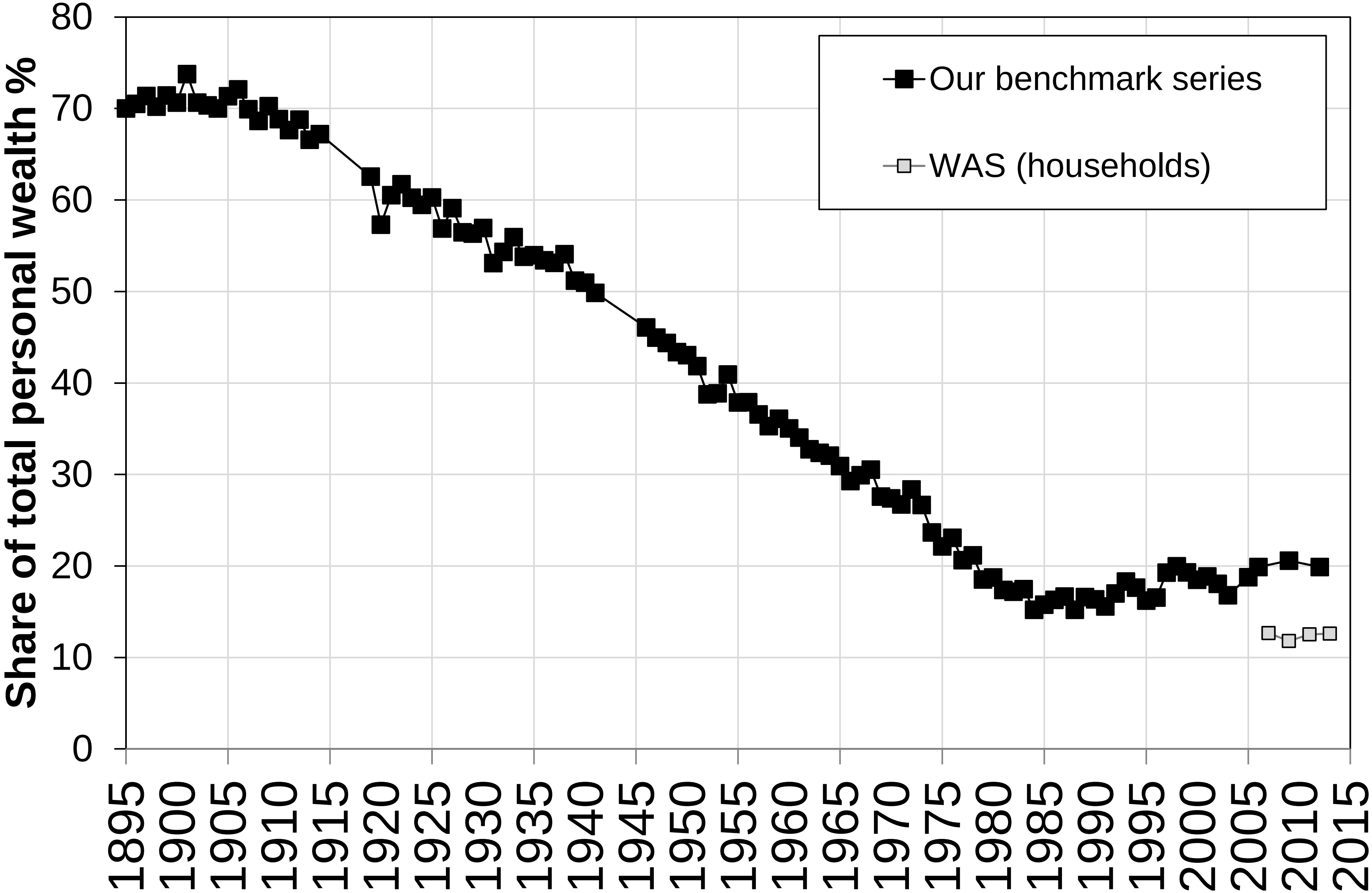
Source: Kopczuk and Saez (2004), Saez and Zucman (2016) and Zucman (2019)

Different windows on the pyramid of wealth

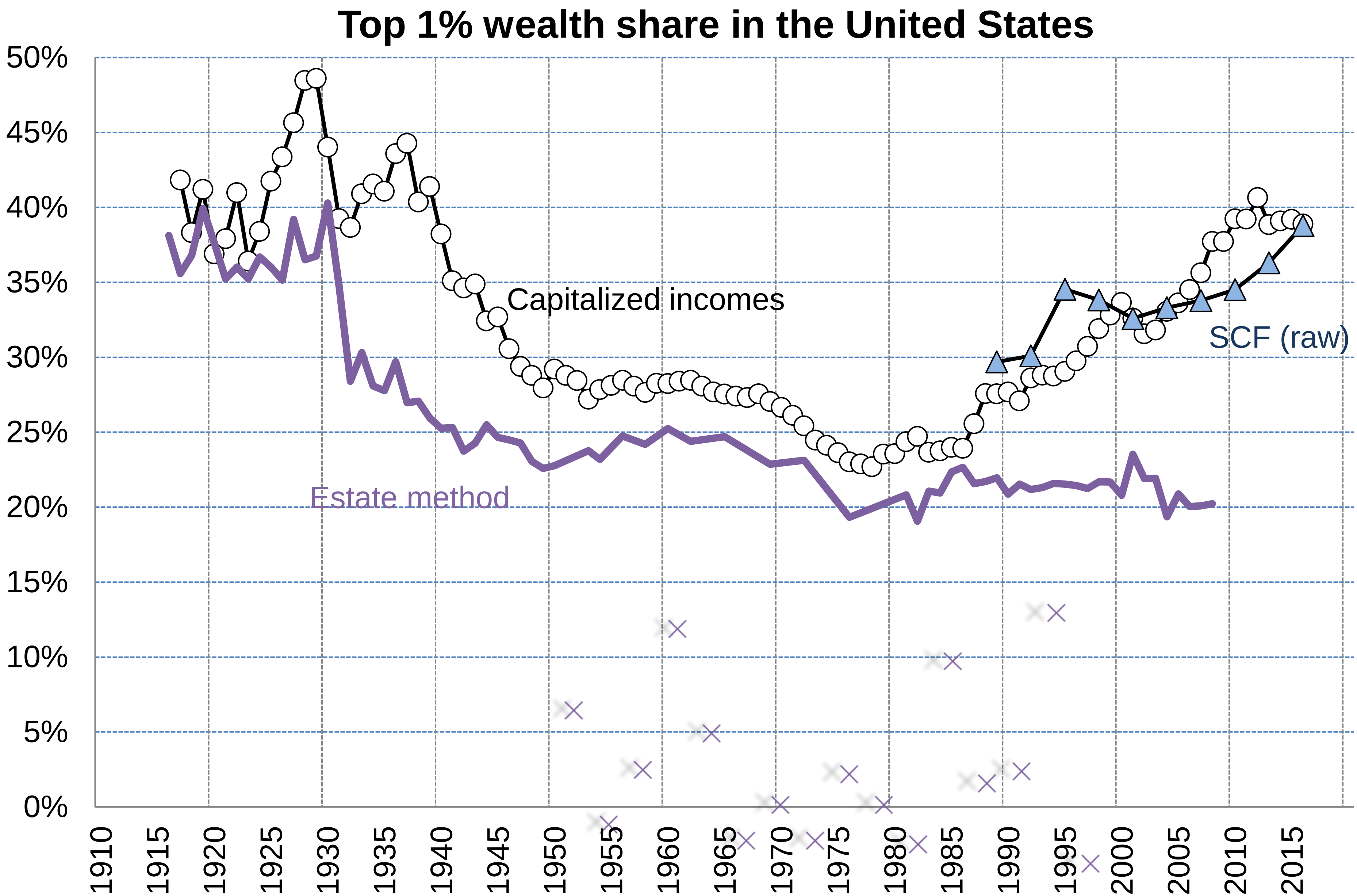
Scratches and fogging: some assets are not covered, sampling and non-sampling errors



Comparison with existing estimates of the top 1% wealth share in the UK



Source: Alvaredo, Atkinson, and Morelli, 2018, *Journal of Public Economics*.



Source: Kopczuk and Saez (2004), Saez and Zucman (2016) and Zucman (2019)

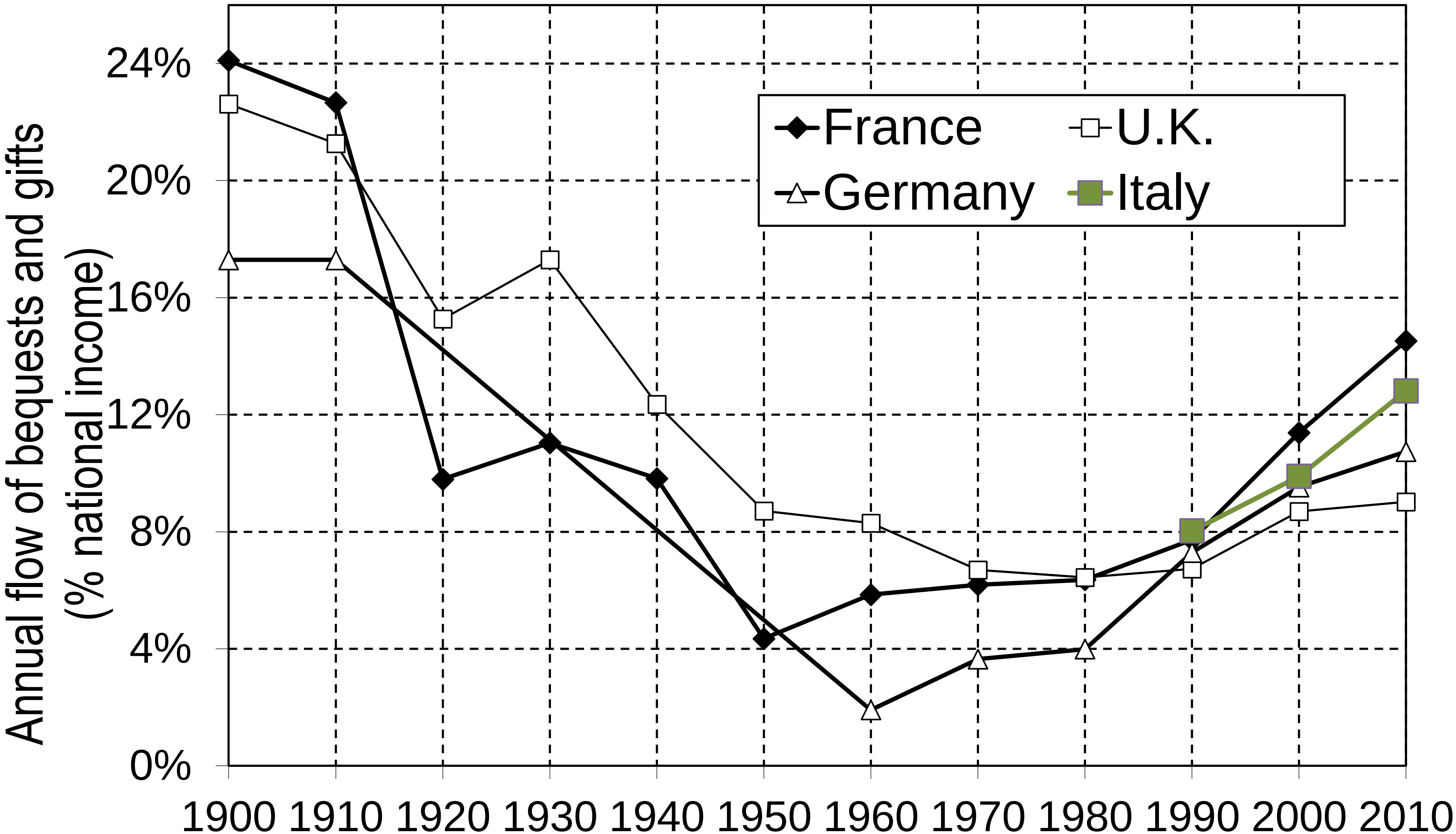
The three main determinants of wealth accumulation

1 .Savings

2. Inheritance

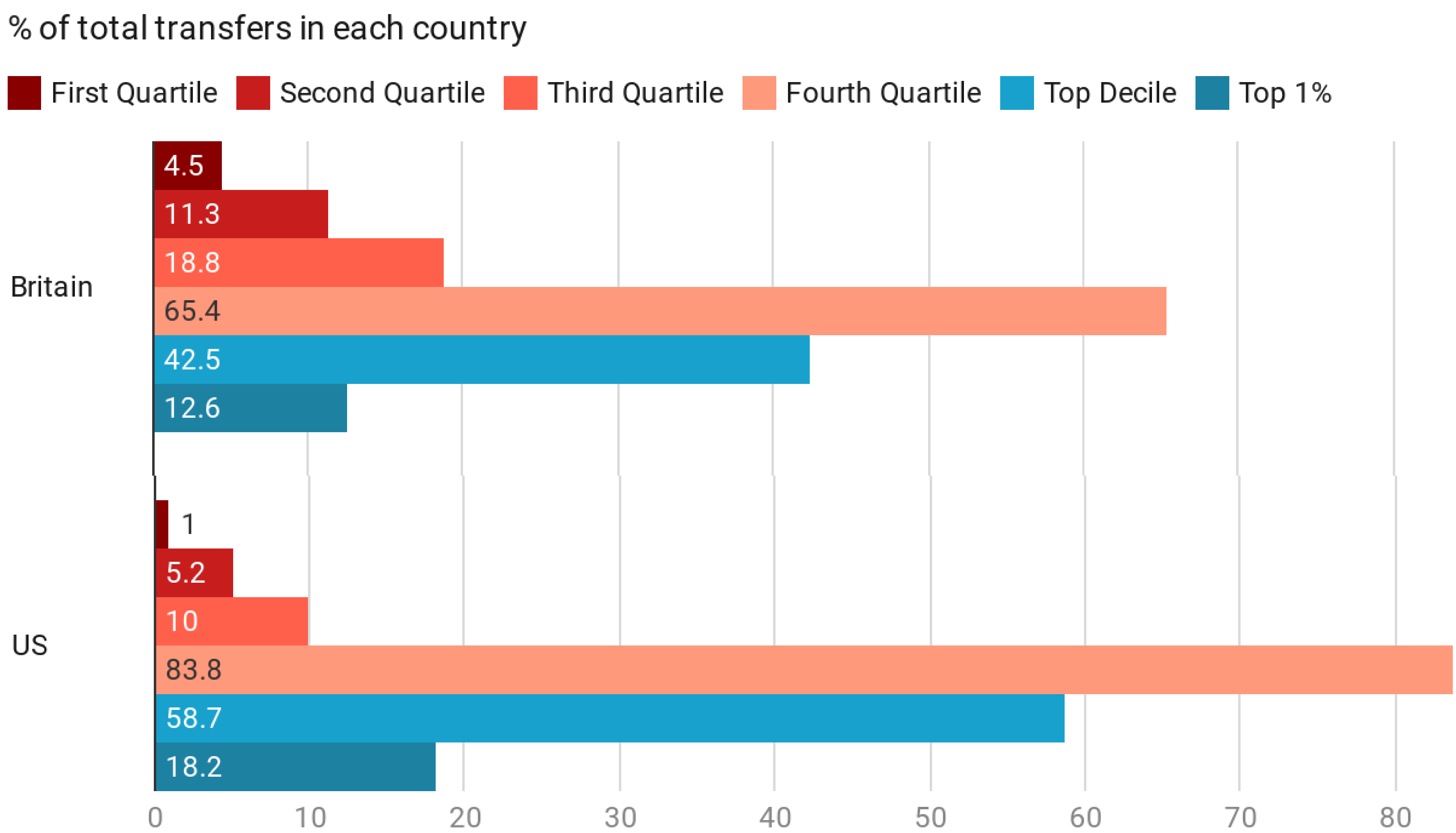
3. Returns

The growing relevance of inheritance



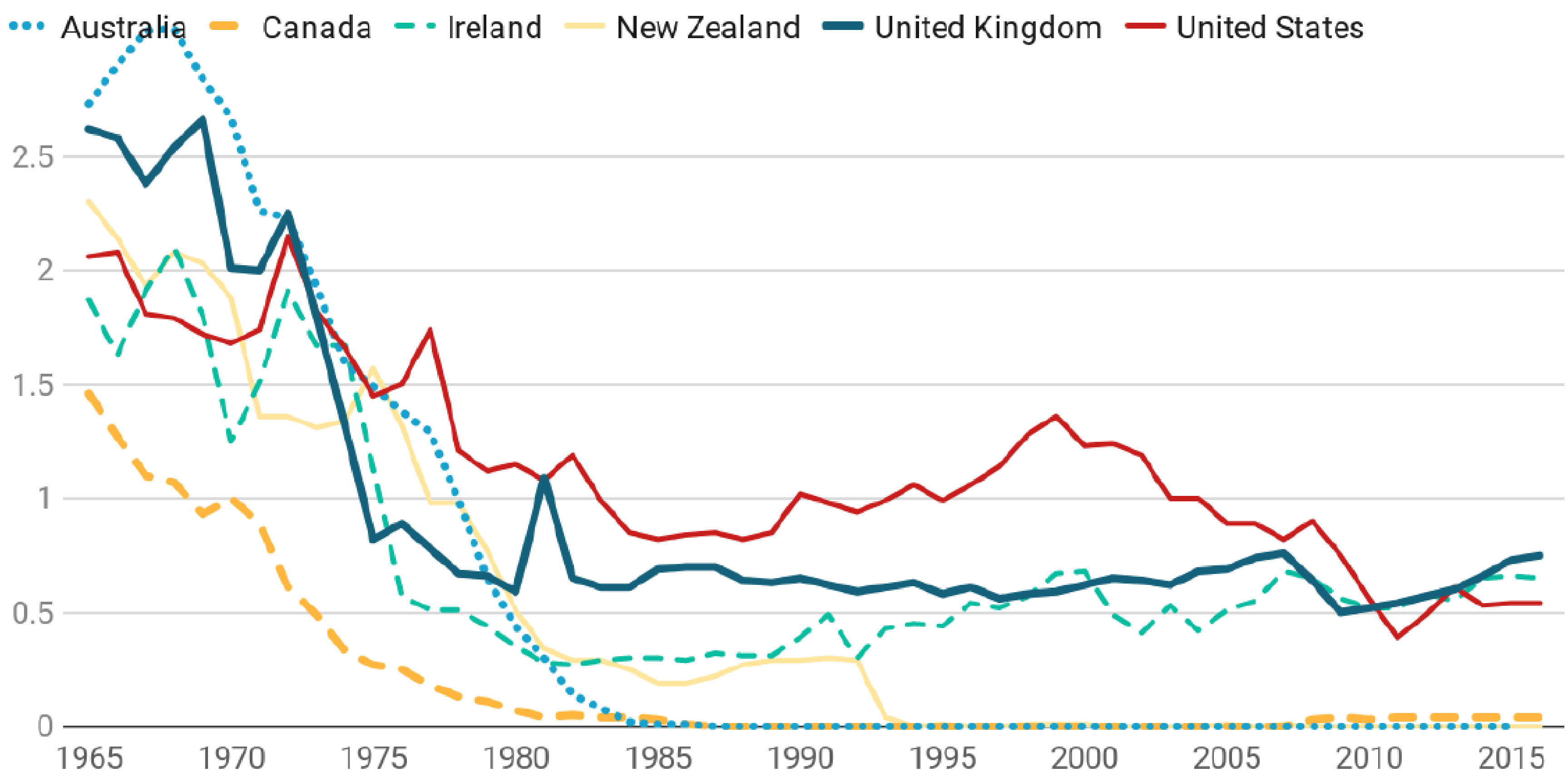
Source: Alvaredo, Garbinti, and Piketty (2017) and Acciari, Alvaredo, and Morelli (in progress)

% of tot transfer amount going to each wealth group



Source: Nolan, Palomino, Van Kerm and Morelli (2020) The Wealth of Families: The Intergenerational Transmission of Wealth in Britain in Comparative Perspective – Report to the Nuffield Foundation.

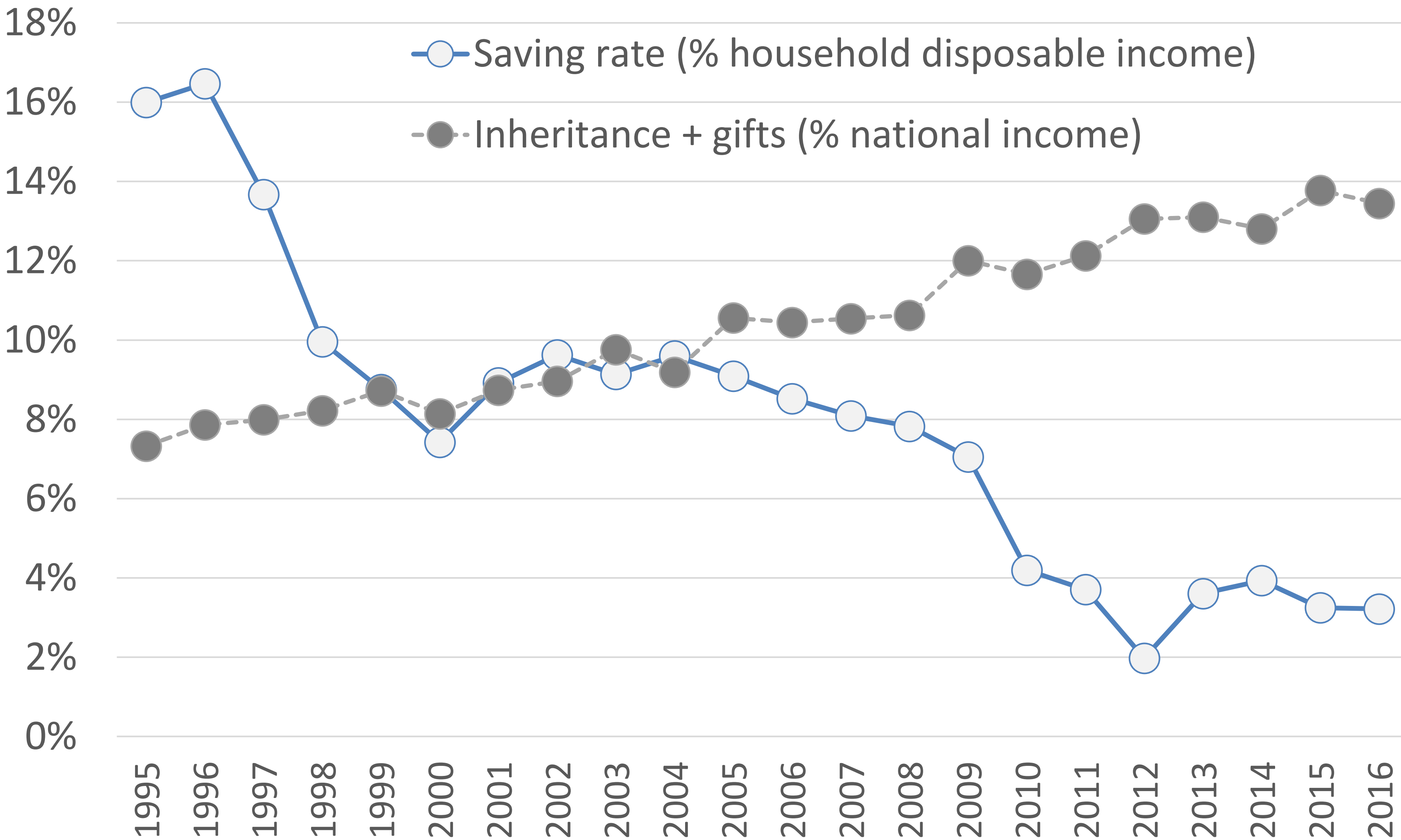
Inheritance and gift tax as % of total tax revenue – English speaking countries



Source: Nolan, Palomino, Van Kerm and Morelli (2020) The Wealth of Families: The Intergenerational Transmission of Wealth in Britain in Comparative Perspective – Report to the Nuffield Foundation

Their relative contribution of each factor to wealth accumulation may be time-varying:

Italy 1995-2016



Concluding remarks

- Personal wealth and inheritance +gifts have been growing over time. Their concentration is increasing over time too.
- Yet, more investments to improve wealth statistics are needed!
- Tax data and household surveys are complements and not substitutes. No single method is sufficient on its own. Multi source are a fruitful avenue of research. More emphasis should given to the existing uncertainty surrounding the estimates.
- The relative contribution of inheritance for wealth accumulation is an understudied topic and, more broadly, there is very little agreement on what exactly is driving wealth concentration.
- Policy bonus: Accumulation at the bottom of the distribution should be incentivized. Wealth transfers taxation (preventing self-made wealth to become inherited wealth) should be preserved and strengthened. Different forms of wealth taxation should be assessed and discussed.

Thank you for your attention!

… and thanks to my co-authors, collaborators, and assistants

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