The growing relevance of wealth and inheritance

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

Private wealth / national income ratios 1970-2015

- US
- France
- Germany
- UK
- Italy
- Japan
- Spain

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, Netherlands, Norway, Spain, Switzerland*, UK, US

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

Top Income Shares
Top Wealth Shares

late1980s: 7.2% 17.3% 21.1%
around2007: 10.0% 20.9% 21.1%
pot2010: 9.5% 20.9% 21.1%

Mean change:
Top Income Shares: +32%
Top Wealth Shares: +23%

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?

Median liquid savings across the adult income distribution - Italy 2016

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 choose and to plan ahead, circumventing capital constraints, escape poverty (access to opportunities)
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1. Reserves (and new income flows) to face expected and unexpected life cycle needs

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

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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 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

Net wealth
- Housing assets
- Currency, deposits, and bonds
- Equities and fund shares
- Pensions and life insurance
- Business and other non-financial assets
- Debt

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”

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

99th percentile

50th percentile

1st percentile

Wealth register data (and wealth tax data)
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

Capital income tax data

$Y_k = W_k \times r_k$

Giffen’s method

99th percentile

50th percentile

1st percentile
Different windows on the pyramid of wealth

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

\[ \text{Cov}(W,r) > 0 \]

Conditional on asset class

99\textsuperscript{th} percentile

50\textsuperscript{th} percentile

1\textsuperscript{th} percentile

Capital income tax data
Different windows on the pyramid of wealth

Estate and inheritance tax data

99th percentile

50th percentile

1th percentile

Estate multiplier method

\[ W = E \times \frac{1}{m} \]
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.

$\text{cov}(E,m) < 0$?
Conditional on demographics

99th percentile

50th percentile

1st percentile

Estate and inheritance tax data
Top 1% wealth share in the United States

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

Household survey data

99th percentile

50th percentile

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

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

% of total transfers in each country

- First Quartile
- Second Quartile
- Third Quartile
- Fourth Quartile
- Top Decile
- Top 1%

Britain
- 4.5
- 11.3
- 18.8
- 65.4
- 42.5
- 12.6

US
- 1
- 5.2
- 10
- 83.8
- 58.7
- 18.2

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

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

Italy 1995-2016

- Saving rate (% household disposable income)
- Inheritance + gifts (% national income)
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