

# INCLUSIVE GROWTH

## Wealth inequalities: measurement and policies



## Issues note

26 April 2018, Boulogne, Auditorium

# OECD Conference on wealth inequalities: Measurement and policies

26 April 2018

## Issues note

### Opening Session: Why does household wealth inequality matter?

There is now widespread recognition – particularly since the 2009 report of the *Commission on the Measurement of Economic Performance and Social Progress* (Stiglitz, Sen and Fitoussi, 2009) – that GDP measures are insufficient to understand households' economic well-being. In seeking alternative measures of material living standards, much of the focus has been on household income, with measures such as median disposable income as well as income inequality increasingly featuring in public debates.

However, even household income provides a partial view of the economic resources available to support people's consumption: household wealth also matters. Households can use wealth to consume more than their income or may consume less than their income and add to their wealth. Wealth allows individuals to smooth consumption over time and to protect them from unexpected changes to income. Households with reserves of wealth can benefit from streams of capital income that support a higher material standard of living. While some wealth is held in assets that are not easily converted into money, its existence may allow people to borrow to finance expenditures, e.g. for house extensions, motor vehicle purchases, and so on.

The OECD report *In it Together* (OECD, 2015) highlighted how rising income inequality can not only impact social cohesion but also harm economic growth in the long-term. In the case of wealth, the argument has been made that high wealth inequality, through the generation of capital income, typically accruing to the richest households, can deepen income inequality still further. Wealth inequality can also increase economic vulnerability, and translate into political inequalities, limited social mobility and lower equality of opportunity, for example through the role of inheritances (e.g. Hills, 2017; Piketty, 2014; Stiglitz, 2012). Higher wealth inequalities may also reflect the increased importance of rents and market power by some firms, and have implications for economic stability and macro-economic policies.

#### Questions for discussion

- What do measures and analysis of wealth inequality tell us beyond other longer-standing measures of economic well-being?
- What should countries do to address the consequences of high wealth inequality within and between generations?
- What type of fiscal and social policies could be used to lower wealth inequalities? Do these policies entail significant costs for economic growth? Which policies are more likely to foster both equity and economic growth objectives?

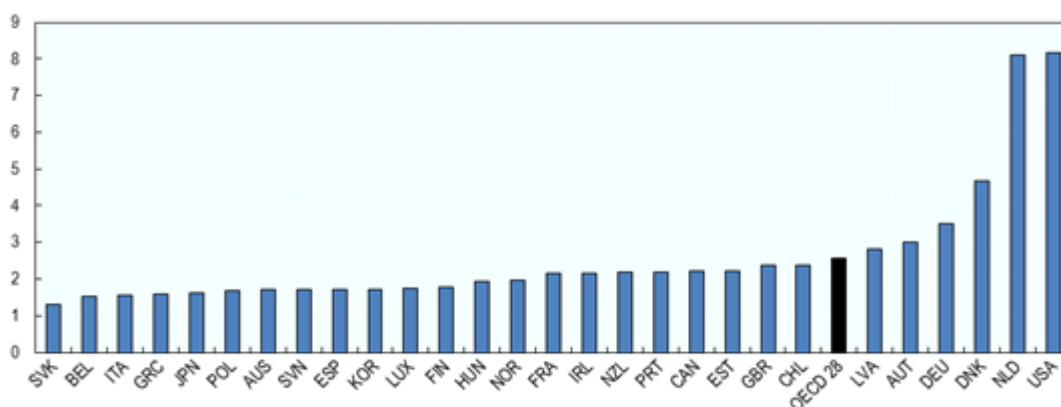
## Session 1: What do we know about the distribution of household wealth in OECD countries and globally?

Recent interest in the distribution of household wealth has come alongside the increasing availability of data on wealth inequalities, including through the *OECD Wealth Distribution Database (WDD)*, the latest findings from which are described in the background paper for this conference (Balestra and Tonkin, 2018). The WDD was launched in 2015 and now covers 28 OECD countries, providing information on household assets, debt and inheritances, based on the definitions and measurement conventions embodied in the 2013 *OECD Guidelines for Micro-Statistics on Household Wealth*. A number of other international sources also provide information on wealth inequality across a range of OECD and non-OECD countries. These include the *Credit Suisse Global Wealth Report and Databook* (Davies, Lluberas and Shorrocks, 2017) and the *World Wealth and Income Database* used for the *World Inequality Report 2018* (Alvaredo et al., 2017). Together, these studies start to provide a comprehensive picture of the distribution of wealth in the OECD and beyond, although comparisons of results across these studies can be hampered by a range of methodological differences.

Many of the indicators used to measure income inequality are poorly suited to measure wealth inequality due to the large number of households with negative net wealth, meaning the value of the loans, mortgages and other debts they hold exceeds the value of their assets. One useful (although partial) measure of wealth inequality is the ratio between mean and median net wealth. On this measure, the latest WDD data (below) show that wealth inequality is highest in the United States and the Netherlands, followed by Denmark; the same three countries also have the highest wealth inequality when considering the share of net wealth held by the richest 10% of households.

### Ratio of mean to median net wealth

2014 or latest available year



Source: OECD WDD (Balestra and Tonkin, 2018), <http://stats.oecd.org/Index.aspx?DataSetCode=WEALTH>

In addition to overall levels and trends in the distribution of household wealth, it is also important to look at the components of household assets and liabilities, as well as to consider differences between groups of the population. For example, many households have high debt relative to both their income and assets, which exposes them to significant risks due to changes in asset prices, interest rates or personal circumstances. In some countries, falling property prices since the crisis left substantial numbers of homeowners with mortgages exceeding the value of their property (Balestra and Tonkin, 2018). Data on wealth holdings by age cohort show that, in some countries, Millennials are worse off today than previous generations were at the same age (Davies, Lluberas and Shorrocks, 2017; D'Arcy and Gardiner, 2017).

### Questions for discussion

- What factors explain recent changes in both levels and the distribution of household wealth?
- What does the future look like for Millennials in terms of wealth? How can asset accumulation among younger generations be supported?
- What are the reasons behind the increase in personal debt, beyond of current and past low levels of interest rates? At what point are high debt levels likely to become unsustainable for individuals and economies?
- To what extent do different international studies of wealth inequality offer complementary or contradictory pictures, and if the latter why?

## Session 2: Improving estimates of the distribution of household wealth

Compared with household income, the development of high quality estimates of the distribution of wealth has been a relatively recent development, with one of the first sets of international guidelines for micro statistics on household wealth published in 2013 (OECD, 2013) in response to the recommendations in the Stiglitz-Sen-Fitoussi report . Despite the significant progress in the availability and quality of these statistics over the last 10 years, a number of challenges remain to be addressed.

One area of considerable recent focus is the measurement of wealth at the top of the distribution. Measuring wealth of rich households is challenging, particularly when using household surveys, with accuracy affected by a combination of sparsity, non-response and under-reporting. A variety of approaches can be applied to tackle these issues, often in combination. These include over-sampling wealthy households in surveys, supplementing survey information with non-survey sources (e.g. administrative data or information from 'rich lists'), and the use of Pareto models to describe the upper tail of the distribution (see e.g. Bricker, et al., 2016; Lustig, 2018; and Vermeulen, 2017).

Another area for future development is improving the coverage of wealth statistics, both in terms of the range of assets and liabilities covered and the ability of the data to provide information on inequalities not just between households, but also within them. For example, availability of distributional data on the value of wealth held in occupational schemes is limited in many OECD countries, meaning that such wealth is excluded from the main WDD measures. In addition, while social-security pension entitlements are currently excluded from all household wealth statistics (in line with UN, 2008; OECD, 2013), their importance for people's future living standards, as well as the effect they are likely to have on savings behaviour, underscores the need for estimating their value as part of supplementary measures. There is also interest in extending wealth distribution statistics to collect data at the individual (rather than household) level, in order to analyse the gender wealth gap (Deere, Kanbur & Stewart, 2018).

Analysis of the distribution of household wealth jointly with income and consumption underpinned several of the key recommendations of the Stiglitz-Sen-Fitoussi report. Despite this, the availability of coherent data on the joint distribution of income, consumption and wealth remains limited, due to the data challenges involved. Nonetheless, progress is being made, with a variety of approaches being employed, including survey integration, data linking, and statistical matching/modelling. Internationally, work in this area is now being coordinated by a new Eurostat/OECD Expert Group, with representatives from 25 countries which aims to develop experimental measures of inequality in the joint distribution, building on the work of Fisher et al. (2016) and others.

### Questions for discussion

- What should be the priorities for the future methodological development of statistics on wealth inequality?
- Do available wealth statistics currently meet user needs in terms of inequalities between and within population groups and within households? If not, what are the priorities for future work?
- What should official statistical producers take from existing non-official approaches to improving the coverage of the top of the wealth distribution?
- How best should official statistical producers move towards integrated data on the distribution of income, consumption and wealth?

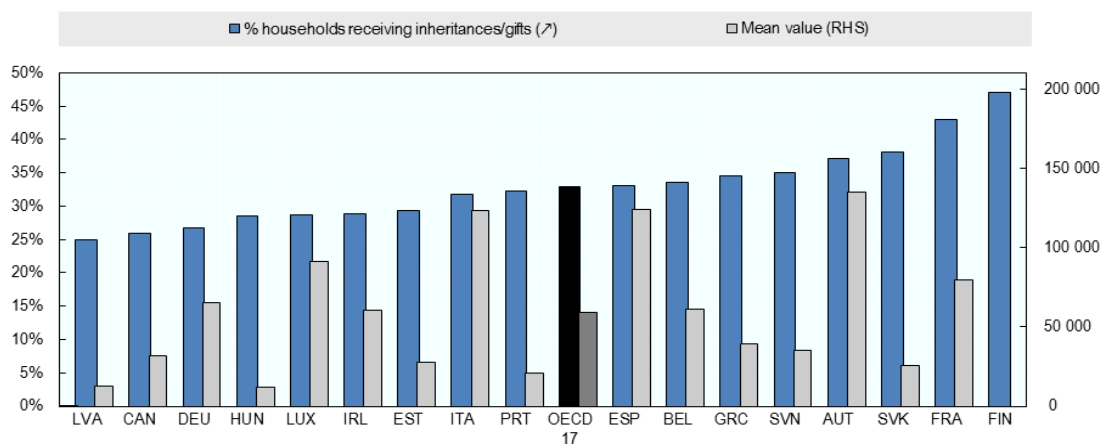
## Session 3: Inheritances and other wealth transfers

As a result of the long-term increase in household wealth observed in most OECD countries, older households today have much more wealth that they can leave to younger generations, either through gifts or inheritances. This means that bequests are having an increasing influence on household wealth and its distribution. It is important to understand more about their influence on wealth inequality, social mobility and the intergenerational transmission of advantage. Are inheritances and gifts received predominantly by those who are already economically more advantaged? Do they reduce or increase wealth inequality?

According to the OECD WDD, members of one in three households have received some form of gift or bequest in their lifetime, ranging from around 25% of households in Latvia and Canada, to 43% in France and 47% in Finland (below). These inheritances and gifts can be both financial and non-financial in nature, including bequests made up of real-estate and other physical wealth. There are also large cross-country variations in the average amount received in inheritances and gifts: In Austria, Spain and Italy, average inheritances are in excess of USD 120 000 per household having benefitted from them while, at the other end of the spectrum, the average value of inheritances in Hungary is less than USD 12 000.

### Proportion of households receiving inheritances or gifts, and average amount received

2014 or latest available data, values in 2011 USD



Note: Wealth values are expressed in 2011 USD by, first, expressing values in prices of the same year (2011) through consumer price indices and, second, by converting national values into a common currency using 2011 purchasing power parities for household consumption.

Source: OECD WDD (Balestra and Tonkin, 2018), <http://stats.oecd.org/Index.aspx?DataSetCode=WEALTH>.

The evidence on the effects of inheritances on inequality is complex. Studies have shown that both the probability of receiving an inheritance and their value is higher for those at the top of both the wealth and income distributions than for those at the bottom, implying that inheritances increase absolute differences in wealth. However, evidence also suggests that inheritances may reduce relative differences, at least in some countries (e.g. Balestra and Tonkin, 2018, Gardiner, 2017). Moreover, the overall impact of inheritances on inequality is shaped not just by their incidence and value, but also by the extent to which households use inheritances to build their wealth in the long term rather than to fund current consumption. Research has suggested that this may be influenced by a variety of factors relating to individuals' circumstances (e.g. Arrondel, Garbinti and Masson, 2014; Benton & Keister, 2017).

### Questions for discussion

- What impact do gifts and inheritances have on wealth inequality and intergenerational mobility? To what extent is this likely to change in the future?
- What factors affect whether the receipt of inheritances or gifts leads to a lasting benefit to people's economic well-being?
- What policies might help families make intergenerational wealth transfers earlier, so that younger generations can potentially benefit from them when they need them the most?
- Are current data on inheritances and gifts adequate? What should be done to improve their quality and availability?

## Session 4: The role of tax policy: Opportunities and challenges

In response to high levels of wealth inequality there is a renewed interest in how tax policy can be used to address inequalities in general and wealth inequality in particular. Some scholars, notably Thomas Piketty, have proposed a Global Wealth Tax to reduce wealth inequality.

Despite this renewed interest, net wealth taxes are now far less widespread than they used to be in the OECD. While 12 countries had net wealth taxes in 1990, there are only four OECD countries that currently levy recurrent taxes on individuals' net wealth. Decisions to repeal net wealth taxes amongst OECD countries have been justified by efficiency and administrative concerns, and by the observation that net wealth taxes frequently failed to meet their redistributive goals. The revenues collected from net wealth taxes have also, with a few exceptions, been very low (OECD, 2018a).

Taxes on wealth can be levied not just on the stock of wealth (i.e., net wealth taxes) but also on the returns from wealth (i.e., taxes on capital income). Taxes on capital income can be less distortive and more equitable than net wealth taxes, largely because net wealth taxes are imposed irrespective of the actual returns that taxpayers earn on their assets. This means that taxpayers with low-return assets can face a higher effective tax rate under a net wealth tax than taxpayers with high-return assets. In addition, wealth taxes can place a heavy burden on those taxpayers with illiquid assets (e.g., a large family home).

OECD research has focused on how taxes on capital and inheritances can reduce income and wealth inequality (Brys et al., 2016). This research suggests that the taxation of capital income in OECD countries is often incoherent and in need of reform (OECD, 2018b). In many cases different assets are taxed at different rates, while some assets are actually not taxed at all, or even tax-subsidised. This raises the efficiency costs of these capital taxes and opens up opportunities for taxpayers to reduce their tax rates by investing in particular assets. In some circumstances, capital taxation is also regressive and may exacerbate income and wealth inequality. This is, at least in part, due to certain tax provisions such as mortgage interest deductibility or the concessional tax treatment of retirement savings, which can benefit those taxpayers with higher levels of wealth or those on higher incomes. The taxation of capital income can also be regressive because tax-planning opportunities that exist in the system can be most readily taken advantage of by those taxpayers with high levels of income and wealth (OECD, 2018b).

Addressing distortions in the taxation of capital involves balancing the need for a coherent system of capital taxation against other policy goals that may merit preferential tax treatment of certain assets. Such goals may include encouraging retirement saving and encouraging home ownership. In most OECD countries home-ownership is tax subsidised. However, while this may be a policy goal, tax preferences for home ownership may exacerbate distortions in housing markets and lead to over-investment in housing relative to other assets (Fatica and Prammer, 2017). The taxation of housing wealth also needs to be considered in the context of rising urbanisation and regional inequality across the OECD.

Another key aspect of reducing wealth inequality relates to the need to address the issue of tax evasion, particularly by ensuring that holdings of offshore wealth are effectively taxed (Pellegrini, Sanelli and Tosti, 2016, Zucman, 2014). Tax evasion through offshore centres has been found to increase the regressivity of the overall taxation of wealth, as those with high wealth may be more likely to conceal assets offshore for the purposes of evading tax (Alstadsaeter, Johannesen and Zucman, 2017). The development of Exchange of Information on Request (EOIR) and the introduction of Automatic Exchange of Information (AEOI) mark a step change in tax transparency and in the ability of tax administrations to combat offshore activity (Johannesen and Zucman, 2014). However, efforts to frustrate or circumvent new systems for exchanging information on tax continue, highlighting the need for continued vigilance and implementation.

### Questions for discussion

- Should the impacts of wealth inequality be addressed through the tax system?
- If so, where should the focus be? Capital income, capital gains, inheritances and gifts, real-estate, or overall net wealth?
- What are the challenges associated with the taxation of wealth and/or capital income, particularly in a global economy? How can policy makers address these?
- What can we learn from the practical experiences of countries that have sought to use the tax system to address wealth inequality?

## References:

- Alstadsaeter, A., N. Johannesen and G. Zucman (2017), "Who owns the wealth in tax havens? Macro evidence and implications for global inequality", *NBER Working Paper 23805*, <http://www.nber.org/papers/w23805>.
- Alvaredo, F. et al. (2017), *World Inequality Report 2018*, World Inequality Lab, Paris, <http://wir2018.wid.world/files/download/wir2018-full-report-english.pdf> (accessed on 13 March 2018).
- Arrondel, L., B. Garbinti and A. Masson (2014), "Inégalités de patrimoine entre générations : les donations aident-elles les jeunes à s'installer ?", *Economie et statistique*, Vol. 472/1, pp. 65-100, <http://dx.doi.org/10.3406/estat.2014.10490>.
- Balestra, C. and R. Tonkin (2018), "Inequalities in household wealth across OECD countries: evidence from the OECD Wealth Distribution Database", *Statistics Working Papers*, Forthcoming, OECD, Paris.
- Benton, R. and L. Keister (2017), "The lasting effect of intergenerational wealth transfers: Human capital, family formation, and wealth", *Social Science Research*, Vol. 68, pp. 1-14, <http://dx.doi.org/10.1016/J.SSRESEARCH.2017.09.006>.
- Bricker, J. et al. (2016), "Estimating Top Income and Wealth Shares: Sensitivity to Data and Methods", *American Economic Review: Papers & Proceedings*, Vol. 106/5, pp. 641-645, <http://dx.doi.org/10.1257/aer.p20161020>.
- Brys, B. et al. (2016), "Tax Design for Inclusive Economic Growth", *OECD Tax Policy Working Papers 26*, OECD, Paris.
- D'Arcy, C. and L. Gardiner (2017), "The generation of wealth: Asset accumulation across and within cohorts - Resolution Foundation", *Intergenerational Commission Wealth Series*, Resolution Foundation, London, <http://www.resolutionfoundation.org/publications/the-generation-of-wealth-asset-accumulation-across-and-within-cohorts/> (accessed on 29 March 2018).
- Davies, J., R. Lluberias and A. Shorrocks (2017), *Global Wealth Report 2017*, Credit Suisse Research Institute, Zurich, <http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=12DFFD63-07D1-EC63-A3D5F67356880EF3> (accessed on 13 March 2018).
- Deere, C., R. Kanbur and F. Stewart (2018), "Horizontal inequalities, intra-household inequality and the gender wealth gap", in OECD (ed.), *For good measure: advancing research on well-being metrics beyond GDP*, Forthcoming, OECD Publishing.
- Fatica, S. and D. Prammer (2017), "Housing and the tax system: how large are the distortions in the euro area?", *European Central Bank Working Paper Series 2087*, <http://dx.doi.org/10.2866/456421>
- Fisher, J. et al. (2016), "Inequality in 3D: Income, consumption, and wealth", *Working paper series*, No. 2016-09, Washington Center for Equitable Growth, Washington, DC, <http://cdn.equitablegrowth.org/wp-content/uploads/2017/12/21123945/122117-WP-Inequality-in-3D.pdf> (accessed on 29 March 2018).
- Gardiner, L. (2017), *The million dollar be-question: Inheritances, gifts, and their implications for generational living standards*, Resolution Foundation, London, <http://www.resolutionfoundation.org/app/uploads/2017/12/Inheritance.pdf> (accessed on 14 March 2018).
- Hills, J. (2017), *Good times, bad times : The welfare myth of them and us.*, Policy Press, Bristol.
- Johannesen, N. and G. Zucman (2014), "The end of bank secrecy? An evaluation of the G20 tax haven crackdown", *American Economic Journal: Economic Policy*, Vol. 6/1 B, pp. 65-91, <http://dx.doi.org/10.1257/pol.6.1.65>.
- Lustig, N. (2018), "The Missing Rich in Household Surveys: Causes and Correction Methods", *CEQ Working Paper*, No. 75, Commitment to Equity Institute, Tulane University.
- OECD (2013), *OECD Guidelines for Micro Statistics on Household Wealth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264194878-en>.
- OECD (2013), *OECD Framework for Statistics on the Distribution of Household Income, Consumption and Wealth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264194830-en>.
- OECD (2015), *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264235120-en>.
- OECD (2018a), "The use and design of net wealth taxes in the OECD", *OECD Tax Policy Studies No. 26*, OECD Publishing, Paris.

- OECD (2018b), “The Taxation of Household Savings”, *OECD Tax Policy Studies* No. 25, OECD Publishing, Paris.
- Pellegrini, V., A. Sanelli and E. Tosti (2016), “What do external statistics tell us about undeclared assets held abroad and tax evasion?”, *Banca d’Italia Occasional Papers* No. 367, November.
- Piketty, T. (2014), *Capital in the twenty-first century*, Harvard University Press, Cambridge, MA
- Stiglitz, J. (2012), *The price of inequality*, W.W. Norton & Company, Inc, New York City, NY.
- Stiglitz, J., A. Sen and J. Fitoussi (2009), *Report by the Commission on the Measurement of Economic Performance and Social Progress*, Commission on the Measurement of Economic Performance and Social Progress, <http://ec.europa.eu/eurostat/documents/118025/118123/Fitoussi+Commission+report> (accessed on 20 March 2018).
- UN (2008), *System of National Accounts 2008*, United Nations, New York City, <https://unstats.un.org/unsd/nationalaccount/sna2008.asp> (accessed on 29 March 2018).
- Vermeulen, P. (2017), “How Fat is the Top Tail of the Wealth Distribution?”, *Review of Income and Wealth*, <http://dx.doi.org/10.1111/roiw.12279>.
- Zucman, G. (2014), “Taxing across Borders: Tracking Personal Wealth and Corporate Profits”, *The Journal of Economic Perspectives*, Vol. 28/4, pp. 121-148, <http://dx.doi.org/10.1257/jep.28.4.121>

OECD Statistics and Data Directorate  
April 2018