



How inheritances shape wealth distributions: An international comparison



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HIGHLIGHTS

- Decomposition of net household wealth inequality in the inequality loadings of its components.
- First study of this kind with HFCS data yielding comparable results for several Euro countries.
- Shows that intergenerational transfers widely equalize relative wealth inequality.

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ABSTRACT

We use data from the European Household Finance and Consumption Survey in order to examine the distributional effect of intergenerational wealth transfers on the net worth distribution in 8 European countries and compare it to recent findings for the US. To do so, we resort to the decomposition of the coefficient of variation as suggested and applied by Wolff (1987, 2002, 2015) and Wolff and Gittleman (2014). The results seem to imply that inheritances and gifts have a vastly equalizing effect on inequality in household wealth in all 8 countries.

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1. Introduction

Economists have recently devoted much attention to the question of how intergenerational transfers affect the inequality in aggregated wealth (Elinder et al., 2016; Boserup et al., 2016; Tiefensee and Westermeier, 2016). Different methodological approaches have so far mainly confirmed previous research in this field: Bequests accrue disproportionately to the benefit of poorer households and thereby tend to reduce relative wealth inequality. Nonetheless, while the literature appears rather conclusive, results often lack comparability over countries as wealth-related research is particularly sensitive to the specifics of the underlying data. The issue of international comparability was substantially improved on the European level with the availability of the Household Finance

and Consumption Survey (HFCS). Initiated by the European Central Bank and designed in a similar fashion as the Survey of Consumer Finances (SCF) for the US, the HFCS brings together representative and consistent microdata on household wealth from 15 countries of the euro area. Fessler and Schürz (2015) and Humer et al. (2016) already address the nexus of inheritances and household wealth using the HFCS and find that bequest reception entails a major rise in the households' wealth rank. The pattern of country-specific estimates in these two papers appears to be coherent, the variations in size and location are however sizeable over countries. Differences in the properties of the national wealth and transfer distributions might well account for much of the variation over countries. We resort to an insightful decomposition of household wealth inequality as measured by the coefficient of variation (CV). This method has been developed by Wolff (1987) and has found fruitful applications in Wolff (2002, 2015) and Wolff and Gittleman (2014). The broad methodological consistency with Wolff (2015) finally permits us to compare our European results with those from the US.

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2. Wealth data

We use the first wave of the HFCS which provides nationally representative data on household assets and liabilities for 15 euro countries surveyed in 2009/10. The HFCS is purposefully designed to improve the comparability on wealth accumulation and portfolio choices over European countries. The nationally conducted surveys nonetheless differ in some respect so that we have to exclude some countries based on recommendations by [Tiefensee and Westermeier \(2016\)](#) and [Tiefensee and Grabka \(2014\)](#): This leaves us with a sample of eight countries comprising Austria, Belgium, Cyprus, France, West-Germany (henceforth Germany), Greece, Portugal and Spain. The HFCS survey design is in many respects built on the SCF, which is why both data sets are considered to be highly comparable ([Vermeulen, 2014](#)). In order to put our results in a wider context, we compare them to decomposition results based on the 2010 wave of the SCF ([Wolff, 2015](#)).

Survey data on wealth is known to be only partially representative due to unit and item non-response and the particularly skewed distribution of wealth. The HFCS deals with these problems by nationally conducted oversampling of wealthy households and multiple imputation. Despite these efforts, the HFCS falls short of covering the very top of the wealth distribution ([Vermeulen, 2014](#)).

2.1. Value and size of past transfers

Households report the value, year and portfolio of up to three past inheritances or gifts to HFCS. Following [Kotlikoff and Summers \(1981\)](#) in the calculation of the present value of past transfers, we attribute returns to bequests fully to the wealth transfer value. Although the approach has found famous critics in [Modigliani \(1988\)](#) and recently in [Piketty et al. \(2014\)](#), we favor it for the sake of comparability to [Wolff and Gittleman \(2014\)](#) and [Wolff \(2015\)](#). Also following [Wolff and Gittleman \(2014\)](#), our results are computed with a real interest rate of 3% per annum since the year of transfer receipt and are expressed in prices of 2010.¹ However, our findings hold for real interest rates between 0 and 5%. We assume that bequests are fully saved and did not displace regular household savings.

[Table 1](#) gives an overview of the inequality in the national net worth and wealth transfer distributions.² The Gini values for transfers are comparable over countries and indicate that wealth transfers are most unequally distributed in Portugal and most equally in Germany.³ In addition, [Table A1](#) provides some sample statistics: the share of households with positive wealth transfers, conditional and unconditional means, medians, shares of wealth transfers on overall net worth and sample sizes. In [Table A1](#), Portugal and even more pronounced Greece stick out. These two countries show high conditional means of wealth transfers whose share of overall net worth exceeds 100%. One main driver for the observed high relative importance of wealth transfers are exceptionally high inflation rates in the 1970s and 1980s.⁴ High inflation rates drive the present value of wealth transfers received well in the past and thus increase their relative importance. Hence, for cross-country comparisons the consideration of median present values is equally important.

¹ We use the country-specific consumer price indices provided by Eurostat. Inheritances and gifts received before 1960 are capitalized as if received in 1960.

² The HFCS (2013) data are officially provided with 5 multiply imputed imputates, compensating for nonresponse biases. Additionally, replicate weights allow for the correct computation of bootstrapped standard errors. If not otherwise noted, all results are standard applications for multiple imputation data and all standard errors are bootstrapped.

³ Differences in the Gini index of net worth to e.g. [Carrol et al. \(2014\)](#) are due to sample restrictions. For instance, the exclusion of the former socialist East German states.

⁴ The average annual inflation in the 70s and 80s amounted to 16.3% in Greece and 17.5% in Portugal. While Spain also experienced a high average inflation of 12%, the inflation in most countries remained on average below 8%.

2.2. Decomposition

The CV is defined as the ratio of the standard deviation and the mean. The inequality of household net worth (NW) equals

$$CV(NW) \equiv \sqrt{\text{VAR}(NW)} / E(NW). \quad (1)$$

Wealth transfers (WT) are one of two components of observed NW, in the sense that $NW = NWX + WT$, where NWX is the household's wealth net of transfers. Following [Wolff \(1987\)](#), a wealth component contributes to total wealth inequality by its magnitude relative to total wealth, by its own degree of inequality and by the correlation of the components with each other. Using the properties of the variance, the squared coefficient of variation CV^2 can be decomposed as follows:

$$CV^2(NW) = p_1^2 CV^2(NWX) + p_2^2 CV^2(WT) + 2CC(NWX, WT). \quad (2)$$

Where $p_1 = E(NWX) / E(NW)$ and $p_2 = E(WT) / E(NW)$ represent the relative magnitudes of the two wealth components. The term CC denotes the coefficient of covariation defined as $CC = \text{COV}(NWX, WT) / E(NW)^2$ and describes the linear relationship between the two wealth components. Hence, the decomposition breaks down the CV^2 of observed household wealth into a weighted sum of each components CV^2 and the components' covariation.

3. Results

[Table 2](#) displays the results from the decomposition analysis. The first panel shows the inequality in household NW and the respective inequality loadings of its components WT and NWX. It is striking that inequality in net worth is universally lower than the inequality in either component. This finding mirrors the commonly cited evidence that inheritances tend to equalize the wealth distribution ([Elinder et al., 2016](#); [Boserup et al., 2016](#)). However, this also poses the key question: How can adding up two unequal components yield a less unequal aggregate? The coefficient of covariation CC, illustrating the relationship between hypothetical net-of-transfer wealth and wealth transfers, takes negative values over all countries. This finding is well in line with the year-specific results presented in [Wolff and Gittleman \(2014\)](#) for the US and turns out to be the pivotal figure in understanding the distributional effect of inheritances: The negative correlation between the components conveys that – in relative terms – poorer households tend to receive higher transfers. [Table A2](#), which lists the relative bequest sizes over the national wealth distributions, looks at this finding from another angle: Wealth transfers as a percent of net worth generally decrease with increasing household net worth. Wealth transfers therefore raise the total wealth share of poorer households and entail a reduction in relative inequality. While this pattern is certainly predominant in our country sample, [Table A2](#) indicates some more heterogeneity in the development of relative transfers over wealth distributions than the monotonically decreasing relative transfer sizes that [Elinder et al. \(2016\)](#) present for Sweden.

The second panel of [Table 2](#) illustrates the relative magnitudes of the wealth components, where p_2 (WT) displays the share of inheritance-based wealth in total wealth. Despite the same capitalization rate, all countries in our sample show a higher share of inheritances in aggregate wealth than the US for which [Wolff and Gittleman \(2014\)](#) detect an average share of 23% between 1989 and 2007. The 2010 share for the US, as reported by [Wolff \(2015\)](#), equals 25% and still ranks at the bottom. These differences are mainly attributable to country-specific interplays of inflation and growth: The stable US real annual growth over the last decades comes much closer to the 3% capitalization than for instance

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