Wealth inequality and the accumulation of debt

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Introduction

- Wealth as an important dimension of economic well-being
- Insufficient evidence and data on wealth and its distribution
- Recent attention to wealth (ECB)

The GINI Project and wealth:
- GINI Discussion Papers
- GINI Country Reports
- GINI Work Package “Drivers of Growing Inequalities”
- Existing literature & additional analysis of available data
Wealth, income and the increasing importance of debt

- Wealth-income ratios increased over the last decades
- Drivers
  - Price developments of financial assets and houses
  - Macroeconomic dynamics
- Debt-income ratios increased as well

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>(Net*) wealth-income ratio</th>
<th>Financial-wealth income ratio</th>
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<td>Australia</td>
<td>1977-2007*</td>
<td>Doubled</td>
<td>Doubled</td>
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<td>1965-2009*</td>
<td>Doubled</td>
<td>1987-2001-2006 7-9-6</td>
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<td>1987-2006</td>
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<td>1993-2011*</td>
<td>2.9 to 4.7</td>
<td>1.9 to 3.1</td>
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<td>Sweden</td>
<td>1978-1992 2002-2004</td>
<td>3.6 to 2 2.7 to 3</td>
<td>2.3 to 1.2</td>
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Data on wealth inequality

- Data sources: household surveys, tax records, imputation
- Harmonised wealth data:

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<th>Type</th>
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<th>Years</th>
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<td>2000</td>
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<tr>
<td>GWR</td>
<td>secondary</td>
<td>all</td>
<td>2010-2012</td>
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<tr>
<td>LWS</td>
<td>microdata</td>
<td>subset OECD</td>
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<td>HFCN</td>
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Wealth inequality across countries

- Large cross-country differences in wealth inequality levels
- The effect of the Great Recession?
Measurement challenges

- Wealth levels and wealth inequality (fig. 4.2)

- (Lack of) equivalisation: household definition and family welfare

- Inequality and negative values: why negative net worth?
  - Measurement errors:
    - Misclassification of households
    - Debt incurred for investments not covered by the data
    - Tax records
    - Other explanations (credit markets)

- (Exclusion of) public pension assets
Drivers of cross-country differences in wealth inequality

- Demographic factors do not explain much...

- Institutional factors offer a better explanation:
  - Old age expenditures ([Fig. 4.8](#))
  - Housing expenditures ([Fig. 4.9](#))

- As well as debt ([Fig. 4.10](#))

- Labour markets & inheritance (US versus other countries)
(Non-harmonised) trends in wealth inequality
Asset contribution to the trends of wealth inequality

Non-harmonised housing wealth inequality

Non-harmonised financial wealth inequality

Non-harmonised debt inequality
Drivers of wealth inequality trends

- Growth of financial wealth (very concentrated)
- The explosion of debt had disequalizing/equalizing effects
- LM & inheritance: the increased share of capital and its return increase wealth concentration
- LM & billionaires
- Tax systems diminished their capacity to tax (increasing) capital diminished (change in the tax base as for finance and offshoring, structure as for inheritance and capital income) and stimulated debt
The relationship between income and wealth distributions

The relationship between income and wealth inequality is not straightforward.
The relationship between wealth and income distributions

- Limited data availability and comparability

- The distribution of wealth by income quintiles shrinks the dispersion of wealth (Fig. 4.11)

- The relative weight of debt is more “equally” distributed across income quintiles, but is a heavy burden at the bottom especially in recent years (Fig. 4.13)

- The presence of asset rich among income poor may partially cushion income inequality (Table 4.4)
Conclusions

- Wealth has gained importance w.r.t. income
- Wealth inequality varies widely across countries, but...
- Higher levels of wealth inequality may not correspond to a higher dispersion of economic well-being
- Wealth inequality and polarization increased, due to...
- The evolution of capital, financial assets, debt, their fiscal treatment and the “working rich”
- Income dynamics do not fully explain wealth, debt may worsen the situation of income poor but may its distribution over income may compress the distribution of net wealth, wealth alone is not enough
- Careful interpretation of data because of measurement challenges and underlying differences
THANKS
Wealth levels and inequality

The diagram shows a scatter plot correlating wealth levels and inequality, measured in USD for the year 2010. Countries are plotted on the graph, with wealth levels on the y-axis and median wealth on the x-axis. The trend line indicates a negative correlation between wealth levels and inequality.
Old age expenditure and wealth inequality
Housing expenditure and wealth inequality
Private debt and wealth inequality

[Graph showing the relationship between private debt as % of GDI and wealth inequality for various countries.]
Wealth and income distributions

wealth and income inequalities (quintile hh means, national average = 100)
Wealth, debt and income

Net worth and debt over quintiles of income
# Wealth and income deciles

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*Household shares*

*Wealth shares*