Almost half of the wealth losses occurred during financial crisis in the U.S. concentrated in the wealthiest 1%. However, the share of the richest remained constant at 33% of total wealth. Thus, despite the crisis there is an astonishingly high level of stability in the wealth distribution. Unfortunately, statistical data on wealth distribution is of particular poor quality and does not allow answering the most interesting questions.

Wealth inequality after financial crisis
What can we know?

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Introduction

Of all the classes, the rich are the most noticed and the least studied.
John Kenneth Galbraith, The age of uncertainty (1977)

A key feature of wealth distribution is that it is far more unequal than the distribution of income. However, debates on inequality usually focus rather on income than on wealth, often just because of a lack of wealth data.

Many economists assumed inequality would decline during the global financial crisis. They assumed that the gap between the assets held by the wealthy and those held by the middle and lower classes would likely get smaller during the crisis. Increased inequality had been caused by soaring riches at the top. With those fortunes crashing, inequality should shrink. And history teaches that this logic could be seen during several crises. Past recessions (with the exception of the Great Depression of the 1930s) tended to hurt people at the bottom of the distribution to a greater extent than people at the top. These effects were tempered by a safety net, and are driven by the loss of labor market earnings, which recovers when employment recovers.

First, the following analysis considers statistical questions related to the scope of wealth. The difficulties in measuring wealth of private households are abundant. Second, despite rational justifications of taxing wealth the existing taxes are either very low or even abolished in numerous countries. Third, growing wealth of the wealthy might be self-perpetuating because their material resources give them significant political power.

(1) What is wealth?

Developing concepts and definitions of wealth is almost as important as collecting data. However, there is a lack of agreement on concepts, indicators and definitions. The notion is rarely extended beyond economic resources to include other resources such as human capital and social capital.

The concept of wealth refers to resources in the form of assets and liabilities. For assets there must be enforceable ownership rights and economic benefits from holding them or using them over a period of time. Liabilities represent financial obligations. Wealth has a gross and a net dimension. It is usually defined as net worth. The concept of ‘net worth’ comprises the total value of assets owned by a unit (household or person) less the total value of its liabilities at a certain point in time.

Whether consumer durables, such as cars, should be included in wealth is from a conceptual perspective unclear. The asset boundary in the System of National
Accounts (SNA) framework excludes these goods, although they are recorded in a memorandum item in the household sector balance sheet and the possibility of including them in a broader concept of fixed assets is recognised in the SNA’s analysis. In micro statistics of household wealth, these goods are typically included with assets.

The case for a broad concept of wealth (including pension wealth) is that all kind of resources of a person should be considered. The case against a broader concept of assets is also obvious. The different wealth components (real estate, stocks, jewellery, cars) differ in their functions; e.g. pension wealth can be funded by the public and then it will not have the same characteristics as private financial wealth. And the degree of liquidity also differs.

Market valuation is recommended by the SNA for valuing assets and liabilities to ensure consistency between flow and stock measures. This requires to value assets and liabilities at the price at which they might be bought in markets at the time the valuation is required. This is easier for stocks than for real assets, in particular in countries where people do not move so often as e.g. in the U.S.. In any case it is difficult in surveys as people do often not have the adequate knowledge.

For micro statistics, the household unit is generally the main unit for analysis of household wealth. For macro statistics based on the SNA, in principle household wealth covers all households resident in a country at the reference date and all their assets and liabilities at that date. In contrast, in the case of micro statistics on household income and consumption, the coverage will be limited to private households and institutional households will be excluded.

For analytic purposes one would also like to identify the individual components of household wealth in detail. Micro statistics on household wealth relate to the following components: principal residence; other property assets; vehicles; own unincorporated business equity; pension assets; valuables; accounts held with financial institutions; shares; property loans; loans for vehicle purchases; other consumer loans; and credit card debt.

For many types of analysis of household wealth and other aspects of wellbeing it is important to look at different types of households. However, when households are grouped on the basis of characteristics that can only be assigned to an individual (e.g. worker, employer, age or educational attainment) a reference person has to be chosen. The criteria for selecting the reference person for use in micro statistics on household wealth can be: best knowledge within the household about wealth issues, income, age or gender.
Besides these conceptual remarks one has to recognize that empirical – internationally comparable – data are scare. The Luxembourg Wealth Study (LWS) was launched in March 2004 as a joint project of Luxembourg Income Studies (LIS) and institutions from ten different countries. The primary goal of LWS was to harmonize already existing micro-data on household wealth into a coherent database in order to provide a sound basis for comparative research on household net worth, portfolio composition, and wealth distribution. Country rankings according to net worth differ from those of income. The US and Italy are the richest nations according to average net worth. Sweden and Finland are the poorest ones. The highest wealth inequality is found in Sweden, followed by the US, Germany and Canada. Sweden's top ranking is partly due to the high proportion of Swedish households with nil or negative net worth. However, another reason might be that the Swedish administrative data is of higher quality than the US-data based on voluntary household surveys. When the share of net worth held by the top population percentiles are considered, the US regains the lead.

The experience from the Luxembourg Wealth Study is not that promising (the data is not used widely for research) and this highlights the need for internationally agreed definitions of the various components identified in the micro level data, particularly those relating to housing wealth, unincorporated businesses and pension wealth. Even such a comprehensive research project suffers from deficiencies because of the ex post approach. Thus, the available data has to be interpreted with caution. A significant statistical improvement is to be expected from the Household Finance and Consumption Survey of the ECB. ([http://www.ecb.int/home/html/researcher_hfcn.en.html](http://www.ecb.int/home/html/researcher_hfcn.en.html) and: [www.hfcs.at](http://www.hfcs.at)). In 2013 the EC will publish for the first time harmonised data on net wealth for the Euro-area countries and this will allow scientific research on different aspects of wealth accumulation.

(2) Who are the wealthy?

This question is actually broadly discussed in the media. The answer is often given by counting households/persons above a certain (mostly arbitrary defined threshold) or by referring to the share of percentiles. The richest 2% of adults in the world own more than half of global household wealth. The richest 10% of adults in the world own more than 85% of global household wealth. The bottom half of the world adult population owned barely 1% of global wealth. Wealth is heavily concentrated in North America, Europe and high income Asia-Pacific countries. People in these countries collectively hold almost 90% of total world wealth.

Private wealth research comes up with the following data e.g.: the number of U.S. households with a net worth of $1 million or more, not including primary residence, grew 8% to 8.4 million in 2010 from 7.8 million the year before,
according to Spectrem Group. This increase follows a 16% rise in 2009 (2008 it has fallen by 27%). The number of Ultra High Net Worth households, those with a net worth of $5 million or more (NIPR), advanced 8% to 1.06 million from 980,000 in 2009. The U.S. millionaire population increased by 600,000 persons up to 7.8 million.

The World Wealth Report, published by Merrill Lynch and Capgemini every year uses an absolute definition of wealth. People with financial assets exceeding US$ 1 million (excluding their home) are defined as High Net Worth Individuals (HNWIs), leading to a calculation of around 10 million millionaires. Ultra-HNWIs are those holding financial assets (excluding collectibles, consumables, consumer durables and primary residences) of US$ and more. Credit Suisse “Global Wealth Report” uses a less stringent definition – any one whose net assets exceed 1 million $ and estimates that there were about 24.2 million in mid 2010, about 0.5% of the world’s adult population. They control 69.3 trillion$ in assets, more of the third of the global total. Some 41% live in the USA, 10% in Japan and 3% in China.

However, these figures on wealth are economic statistically not that valueable. The number of the wealthy is more of interest for the media than for economics. From an analytical point of view we would have to relate these figures to the poor and we would rather like to know the process of wealth accumulation and we would like to know the socioeconomic characteristic of the wealthy (age, profession, formation, attitudes…). Thus, a definition of the rich we would like to propose is the following: rich are those individuals that get a higher income from their wealth than the median from labour income. This would allow drawing a distinction between people who have to work for their life and rentiers.

(3) What can we know on wealth?

All available studies – based on microdata - show that wealth is far more unequally distributed than income and there is evidence that a relatively equal distribution of income does not imply a relative equal distribution of wealth. Wealth taxation, political institutions and cultural differences play a crucial role.

At the macro level, wealth data for the household sector as a whole are needed for a wide range of economic policy and research purposes as well as to compile wealth aggregates for the whole economy. Such data are important for analysing the performance of the economy and for understanding inter-sectoral developments. However, more detailed information about the household sector

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1 This chapter follows considerations in the HFCN in the ECB and conclusions of the OECD Expert group on microstatistics on household income, consumption and wealth
is crucial for the design of distributional policies. For that one needs insights into household behaviour. Micro level data are crucial for these purposes as they provide measures of the distribution of resources across households. As comprehensive tax reports are not generally available, survey data is the most prominent source of information on wealth of private households. Wealth data at micro level would allow research into wealth inequality; analysis of the joint distribution of income and wealth across the community; analysis of the relationship between household wealth and consumption; research into the relationship between housing prices and household indebtedness; research on access to credit and borrowing constraints; evaluation of the way government policies and programs impact on household asset accumulation and distribution, including the barriers and incentives they create; and understanding how households with different characteristics respond to changes in the economic climate.

A major problem of household surveys on wealth participation is its voluntary character; existing surveys usually suffer from a middle-class bias. Participation of wealthy households in such surveys is influenced by the level of income and wealth a household holds. Complementary information deriving from tax registers or deduced from residential areas or energy use is necessary. The abolishment of wealth related taxes not only leads to a decrease of tax income but also to further limiting the availability of information on the unequal distribution of wealth.

In the absence of international standards, there are many differences in the concepts, sources and methods used to gather information and the statistics that are available are frequently not comparable. For example, there are differences in the comprehensiveness of the definition of wealth; in the unit of analysis used; in the classification of wealth components; in the reference or accounting period used; in the valuation criteria used; and in many other important definitional and methodological aspects. Micro statistics on household wealth need to be integrated with other micro statistics, particularly household income and consumption, as well as with macro statistics on the wealth of the household sector.

Perceptions that drive the assessment of wealth can differ widely from the underlying realities. After financial crisis the following conclusion seems to be obvious: increases in measured wealth, largely because of asset price growths, did not signify that people need no longer save out of income in the traditional way. Speculative price increases failed to increase “real wealth”. The temporary higher house prices did not last. The consumers’ perceptions of their wealth can be wrong. Spending prompted by perceived wealth increased but as house prices fell to a more normal ratio of house prices to rents it became evident that the
wealth they spent was in a way illusory. The assets have disappeared but the liabilities linger on. This had apparently negative implications for spending. In spite of low interest rates in recent years, debt service levels (as a proportion of disposable income) have also risen. Lower interest rates increased the demand for longer-lived assets and pushed up their prices. This applied to residential property as well as to financial and other real assets. Again, this implied an increase in measured wealth, but not a permanent increase in "real wealth".

(4) Wealth distribution and financial crisis

There are only a few surveys that provide wealth data for the time during the financial crisis.3 In 2009, the Federal Reserve Board (FRB) implemented a follow-up survey of families that had participated in the Survey of Consumer Finances (SCF) in 2007.4 The panel data shows the effects of changes in the value of specific types of assets and debts and other economic disturbances played out at the household level (see Kennickell 2011). The SCF is conducted by the Federal Reserve Board (FRB) as a triennial cross-sectional survey. The current SCF series was started in 1983, and respondents to that survey were re-interviewed briefly in 1986 and more extensively in 1989. Until the re-interview in 2009 with the participants of the 2007 SCF, no further SCF panel interviews had been conducted.

The results are the following: Over 60 percent of families saw their wealth decline over the two-year period, a sizable fraction of households experienced gains in wealth. Changes in wealth stem from changes in asset values (homes, stock, and business equity) more so than changes in the composition of families’ portfolios or their outstanding debt.

The distribution of wealth shifted downward across the entire range from 2007 to 2009. Comparison of the cumulative distributions of wealth for 2007 and for 2009 shows a broad downward slide in the mass of the distribution. The mean (median) fell from $595,000 ($125,000) in 2007 to $481,000 ($96,000) in 2009. In contrast to the declines in wealth at each percentile of the overall wealth distribution, changes in the wealth of individual families were mixed. The greatest dispersion in wealth changes was among the least-wealthy quarter of families in 2007 families in the bottom quartile of 2007 wealth varied most widely, in part because nearness of the 2007 wealth to zero in many cases tends

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2 This section summarizes results of the wealth survey of the Fed (SCF).
3 Among them are in Europe the surveys of the Banco de Espana and the Banca d’Italia.
4 Most of the questions in the interview of that sample were focused on the “primary economic unit” (PEU) a concept that includes the core individual or couple and any other people in the household (or away at school) who were financially interdependent with that person or couple.
to widen small changes. The losses tended to be greatest for families living in regions with greater declines in real estate prices.

Due to the high degree of skewness in the wealth distribution, extremely large nominal changes at the top of the distribution can correspond to small shifts in terms of percentiles. Unlike means, medians are not additive so a change in the median is not necessarily the median change. The measures are calculated over different populations: the medians are calculated over only families that have a given asset or debt in each year, whereas the median changes are calculated over families that have the asset or debt in either 2007 or 2009.

Housing is a key part of the portfolio for many families. Among the least-wealthy quarter of families, the homeownership rate is less than 20 percent, among the wealthiest nearly 100 percent. Declines in home equity were an important driver of decreases in wealth. Measured as a share of 2007 assets, the value of stock and business equity increased for families with below-median wealth in 2007 and declined for families in the top wealth quintile in 2007.

Debt is an important element of the portfolios of many families, particularly in purchasing real assets. In 2007 nearly 80 percent of families held some kind of debt in the US. Mortgage debt is by far the largest component of family debt—nearly three-quarters of the total reported in the SCF in 2007. Median total debt increased from $70,300 to $75,600, but the median dollar and percent changes were less than zero. The ratio of total debt to assets, the leverage ratio, rose by about 3 percentage points to nearly 18 percent over the period, primarily due to a decline in the value of assets rather than an increase in debt.

Families that suffered a job loss may lower their savings or increase their borrowing. In general, according to the SCF data the relationship between unemployment spells and shifts of families within the wealth distribution appears weak. First, families where the head or the spouse or partner of that person was unemployed in 2007 but not in 2009 were the most likely to move up the wealth distribution. Returning to employment allowed these families to rebuild their assets. Second, families that did not have an unemployment spell in either year were the most likely of any group to have only small changes in their relative wealth position.

The changes experienced during financial crisis can be driven by portfolio rebalancing or by revaluation of portfolio items. But it appears that the major shifts were driven by revaluation of assets (Kennickell 2011). Changes in the values of principal residences and of stock and businesses equity appear to have played a substantial part in explaining the observed changes in wealth. Shifts in
leverage that took place over the period are largely explained by the general
decline in the value of assets.
From 2007 to 2009, wealth declined for most families across the initial 2007
wealth spectrum, and it declined very substantially for some. Yet many families
saw only small changes and a non-negligible group of families saw substantial
increases in their wealth. This diversity of these outcomes is pervasive in the
data.

Thus, the outcome of the only available wealth survey that covers the crisis
worldwide is rather disappointing for the most interesting questions on wealth
inequality. It points to disparate changes but it does not show a clear picture
despite the fact that the share of the top 1% remains stable.

(5) Unearned wealth: Inheritances

One would like to know whether changes in wealth depend on effort or luck.
Emil Durkheim predicted - wrongly - that inheritance would lose its salience in
modern societies. Emile Durkein also stressed the importance of inheritances for
the equality of opportunity principle in societies. Thus the link between empirical
data on wealth and philosophical legitimation debates would be a promising
research agenda.

Inheritances have to be seen in context with other wealth transfers (investment
in human capital, gifts, social capital, prestige, power). Inheritances are very
DIW 2005, OECD 2008). However, the share of inheritances in total household
wealth remains unclear. And different definitions of inheritances hinder
international comparisons.
## Share of Inheritances in Total Household Wealth – Selection of Relevant Literature

<table>
<thead>
<tr>
<th>Authors</th>
<th>Share of inheritances/gifts in total wealth</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kotlikoff and Summers (1981)</td>
<td>80%</td>
<td>United States, capitalized inheritances, spending for durable consumer goods, financial support by parents for adult children</td>
</tr>
<tr>
<td>Modigliani (1988)</td>
<td>20%</td>
<td>United States, inheritances only, no college expenses (therefore figures only half as high as in Kotlikoff and Summers); not remunerated (lops another half off the figures of Kotlikoff and Summers)</td>
</tr>
<tr>
<td>Davies and St.-Hilaire (1987)</td>
<td>35% present value, 53% capitalized</td>
<td>Canada, inheritances not remunerated</td>
</tr>
<tr>
<td>Kessler and Masson (1989)</td>
<td>46% inheritances</td>
<td>France</td>
</tr>
<tr>
<td>Gale und Scholz (1994)</td>
<td>20% gifts, 30% inheritances, 12% college expenses</td>
<td>United States, data based on US-SCF 1983, 1986; deliberate transfers by parents to adult children in other households, only inter-household transfers above USD 3,000 (including payment of college expenses)</td>
</tr>
<tr>
<td>Wolff (2002)</td>
<td>One-third each inheritances, gifts, saving</td>
<td>United States</td>
</tr>
<tr>
<td>Brown and Weisbrenner (2002)</td>
<td>20% to 25%</td>
<td>United States, data based on US-SCF 1998; inheritances and gifts; high degree of concentration</td>
</tr>
<tr>
<td>Klevmarken (2004)</td>
<td>19% capitalized, 10.5% present value</td>
<td>Sweden, inheritances and gifts; capitalized at a real interest rate of 3%; HUS 1998</td>
</tr>
<tr>
<td>Kohli et al. (2006)</td>
<td>27%</td>
<td>Germany, increase in housing value and prices of 2002</td>
</tr>
<tr>
<td>Cannari and D'Alessio (2008)</td>
<td>56% capitalized, 34% present value</td>
<td>Italy, capitalized at a real interest rate of 3%</td>
</tr>
</tbody>
</table>

Source: Authors' compilation.

Thus, the table above shows that already the basis issue – share of inheritances in total wealth – leads to highly diverging results. And even on the impact of inheritances on inequality the conclusions differ: Klevmarken (2004) underlines: “Contrary to what many believe, bequests do not increase the inequality of wealth” (Klevmarken 2004, p. 490). His estimates rather suggest that wealth inequality decreases because many estates are split over several heirs, assets are given from wealthy parents to not so wealthy children and small amounts inherited mean more for poor people. And Wolff (2003) finds that bequests have an equalizing effect on wealth distribution. Wolff’s conclusion is that if intergenerational wealth transfers were eliminated wealth inequality would increase.  

However, a number of studies (e.g. Kohli et al., 2006; Szydlik, 2001; Szydlik and Schupp, 2004) have consistently found a significantly higher incidence of inheriting as well as larger inheritances among beneficiaries with higher levels of income and education. And again, the data basis is poor. The Luxembourg Wealth Study (LWS) provides ex-post harmonized data on inheritances on ten countries (including the USA, Germany and Austria). The LWS makes it only

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5 The Gini coefficient drops when, say, in a group of two persons, person A, who already has EUR 10, inherits another EUR 5 and person B, who already has EUR 1,000, inherits another EUR 499. The difference between the wealth of A and B increases in absolute terms, but the respective bequest accounts for a larger share of A’s wealth than of B’s wealth.
partly possible to compare heir- with non-heir-households. When comparing the financial wealth and income medians of these two subsets, we found heirs to be significantly better off in terms of wealth, income and educational attainment (Fessler et al., 2008).

Inter vivos transfers and inheritances are sensitive issues in household surveys. Respondents are particularly likely to refuse to answer questions on where their wealth originated. The issue of inheritances touches upon several taboos. The increase in wealth goes hand in hand with the passing away of a person, conferring an ambivalent note on inheritances. The “item nonresponse” problem is of particular importance in such sensitive questions, meaning that respondents in household surveys do not know the answer or deliberately refuse to give it. If this behavior was randomly distributed, the item nonresponse problem would be less important. However, better-off households – where inheritances and bequests are of crucial significance – are always generally underrepresented in surveys and are more likely to withhold responses.

A number of difficulties arising in the data collection process have to be taken into account when interpreting the results. Questions on the total amount of gifts and inheritances often lead to misunderstandings. Thus, respondents often have trouble remembering the value of bequests made long ago or the year of receipt. Furthermore, not all respondents are able to distinguish between inheritances and gifts. Therefore, we can be sure that the inheritances captured in household surveys only mark the lower bound of the actual volume of bequests. Actually, inheritances are likely to be of a much greater importance.

Moreover, real estate has a special status in inherited wealth. Real estate is not as readily marketable as cash gifts, and often it is the explicit wish of the testator or donor that the estate remains unsold. As a result of demographic aging, the volume of inheritances may probably concentrate on a diminishing number of heirs.\(^6\)

Neglecting these important points of caution we find the number of heirs to be disproportionately low among blue-collar workers, low-income earners, households with low levels of wealth as well as tenants of rental and cooperative apartments. In contrast, the number of heirs is especially high among civil servants, freelance professionals and above all farmers, high-income earners, house owners and households with a particularly high level of real estate wealth.

The size of inheritances depends, above all, on the socioeconomic characteristics of people’s parents and grandparents. The socioeconomic characteristics

\(^6\) Data derived from a 2004 OeNB survey on financial assets of Austrian households show that only one-third of households have received an inheritance whose size varies among these households according to social categories (Schürz, 2007).
themselves are correlated across generations. For instance, people with a higher level of educational attainment tend to have had better-educated, wealthier parents with higher incomes, reflecting a high degree of Intergenerational transmission of social status, income, wealth, consumption and educational attainment.

As individual households may have inherited more than once, and as different households will have inherited at different points in time, the values of their inheritances need to be adjusted to make them comparable over time. The usual approach is to calculate present values. As these value adjustments imply a transformation of the values indicated in the survey, it appears to make sense to calculate different variants. Adjusting the values of assets is particularly difficult in the case of inherited properties, as price developments will differ strongly from building to building, depending on location, building fabric, refurbishing or extension work, and numerous other factors. The common approach in the literature is to assume underlying values to have changed at a real interest rate of between approximately 2% to 3% per annum (Wolff, 2002; Cannari and D’Alessio, 2008) or to use real estate price indices (Kohli et al., 2006), which tend to reflect even higher increases in value. The international literature’s assumptions on return are arbitrary. It often assumes a standard real remuneration rate which does not reflect the development of asset prices. Given that fluctuations in real estate values differ from those in financial assets, it is of limited use to apply general price adjustment methods. Moreover, changes in real estate prices follow different regional patterns and can vary quite a lot even within a closely delimited geographical area. The method of assuming inherited real estate to have gained in value over time is controversial for a number of reasons. On the one hand, it is not clear whether increases in value should be considered to be part of the inheritance. On the other hand, it is hard to say what part of an inheritance is used for consumption and what part is used to increase real estate wealth. Obviously, the respective shares differ significantly among different types of households. Notwithstanding these controversies, in the literature, the adjustment interest rate is generally applied to the total inheritance value.
Figure 1 shows the share of inherited values by age and real estate wealth quintile in total inherited values. At the same time those who hold high amounts of real estate wealth in the upper quintiles are also those who have the highest shares in inherited values. Of course endogeneity plays a major role here. But the shares of inherited values for the higher real estate wealth quintiles are higher. The importance of the inheritance as (possible) part of their real estate wealth is decreasing with real estate wealth. The number of little real estate inheritances is large, that of large real estate inheritances is very small. This finding is in line with international evidence produced by other inheritance analyses (e.g. Wolff, 2002; Kohli et al., 2006; Cannari and D’Alessio, 2008).

The percentage of heirs and the money value of inheritances rise with wealth quintile. The value of inheritances as a share of wealth declines in upper wealth quintiles. So even if wealthier groups receive inheritances of higher money value, values as a share of net wealth are remarkably higher for lower wealth deciles which lead, ceteris paribus, to an equalizing effect of inheritances in terms of the distribution of household wealth. This equalizing effect of inheritances does not mean that inheritances make society more equitable. But wealth transfers are larger for poorer households than for richer ones as a proportion of their current wealth holdings. Thus, the dislike of poor people against an inheritance tax is not that irrational and may not only be caused by misinformation.

The conclusion that bequests offset inequality somewhat neglects differences in the use of inheritances; whether inheritances are used for consumption or for saving. Neither the Austrian HSHW data nor the German SOEP (Socio-Economic Panel) data provide any evidence about the direct use of inheritances.
Still, Kohli et al. (2006) conclude on the basis of SOEP longitudinal data generated in two waves that inheritances tended to increase the wealth previously accumulated by households.

The number of households which have inherited huge real estate properties is very small. Approximately only 20% of Austrian households have inherited real estate, with the inheritance share being highest (about 27%) for the age group of the 50- to 70-year-olds. The Gini coefficient for inherited real estate is 0.92. This is comparable to the Gini-coefficient in the U.S.

The policy conclusion is not that inheritances make society more equitable. But wealth transfers are larger for poorer households than richer ones as a proportion of their current wealth holdings. Thus, the aversion of poor against an estate tax is not that irrational and it is not only caused by misinformation. Even after financial crisis, when the logic of an inheritance tax seems to be obvious these concerns have to be regarded.

(6) Justification of wealth inequality: from effort to success

Once the need to legitimise inequalities is recognised, there is usually a set of explanations at hand: Income inequalities are often justified in terms of recognition of greater effort. Popular arguments to justify wealth accumulation include the explanation that existing assets are the result of successful savings or successful business activities. Savings however, are only possible for those who dispose of sufficient income. A focus in research on wealth mobility would be necessary: there is a high persistence of wealth across generations and this hinders the principle of equality of opportunity.

Rich people will often deny being wealthy. They will claim that they are only well off or even will rather prefer the notion of middle class to locate themselves. This show unpublished data of the Austrian HFCS. A likely hypothesis for this result might be: while people coming out of poverty might feel rich when getting a good job with proper income, good quality housing and better educational possibilities for their children the rich demand more.

In particular in the US there is an ongoing public debate on the legitimacy of inheritances. An important argument in this debate is that there is no individual effort in some forms of increasing wealth. The self made millionaire Andrew Carnegie influenced with his article “Gospel of Wealth” a liberal perspective on this issue. Carnegie point was “[t]he man who dies thus rich dies disgraced”. Thus, he claimed that wealth should be transferred to philanthropic foundations during lifetime. Otherwise an inheritance tax should be placed on wealth (Carnegie 1992 [1889]: 140). The inheritance tax should give an incentive to set up such foundations and hinder the bequeathal of wealth within the family. The
wealth lives on tied to the name of the donor but for community purposes. This idea is normatively grounded in the idea that the testator knows better how the wealth should be put to the best use for the common good.

Estate taxation is important for the regulation of the transfer of property (e.g. Gates and Collins 2003; Graetz and Shapiro 2005). However, estate tax plays only a small role in overall tax receipts of the state. Estate taxes have rarely ever contributed more than 2% to the federal budget. An estate tax is an effective way to raise a large amount of revenue. In addition to presenting the possibility of raising large amounts of revenue; estate taxes may improve the equal opportunity among citizens. In addition, estate taxes are vertically equitable (in the sense that they impose a higher burden on those with a higher ability to pay).

Since inheritances are unequally distributed (Keister and Moller 2000; Szydlik 2004; Wolff 2002), the estate tax affects only a very small economic elite. In the US more than 99% of all estates are not taxed, because of high thresholds. More than half of the revenue from the estate tax is collected from only 1,366 estates (Internal Revenue Service 2008). The estate tax is paid by the estates of super rich testators, whose heirs would, conversely, derive the most benefit from the abolition of the estate tax. That due to the unequal distribution of wealth, only a tiny fraction of estates is always paying estate taxes, should make this tax politically unproblematic. There should be overwhelming support for it from the majority of voters. And the rich should have no particular interest in questions regulating the distribution of their wealth after their death, since they are not affected by it. This would lead to the conclusion that bequests are a kind of natural candidate as a common good. However, estate taxation is highly controversial.

From a historical perspective, estate taxation has been one of the most contentious topics concerning the regulation of the transfer of property mortis causa. In the twentieth century, some of the most voiced conflicts over taxation in the United States have been about the estate tax. And individuals who will never be affected by this tax repeatedly oppose taxation of inheritances in opinion polls (Bartels 2005). The conflictual nature of inheritance taxes involves emotions that makes the transfer of wealth mortis causa a highly sensitive social issue and principles of modern society clash when it comes to inheritance taxation;

Bequests and their taxation affect people in profound ways. Bequests and their taxation speak about in a particularly conflictual way the value-orders of modern societies. Thus, an estate tax relates in a fundamental way to crucial normative ideas of societies. Jens Beckert examined the debates over inheritance law and inheritance taxation in a comparative study of the United States, France, and
Germany (Beckert 2008). Beckert claims that too little attention is being paid to the political and social conflicts surrounding the distribution of economic wealth and that to give these issues greater priority in research in economic sociology, one has to view society as a process of struggle between actors vying to shape economic structures in ways that promote their material and ideal interests. Beckert comes up with four value principles of normative relevance in debates related to an estate tax: family principle, equal opportunity principle, justice principle, and community principle. Beckert misses a crucial point, namely “capture of politicians by elites”.

The rising wealth inequality is not only an economic but also a political outcome. Inequality is the result of shifts in what governments have done and what they have allowed. To understand the intergenerational continuities of social inequality, it is not enough to look at the educational system and the role of cultural and social capital available in families. The transfer of wealth plays a crucial role. To reverse inequality it will take government action to improve the economic standing of those who have been left outside. It would require political reform to reduce the power of elites to block taxation of the rich. Restoring the legitimacy of equality, would require building a new consensus around objectives of social justice. This can only be accomplished through a categorical effort at the intellectual and political level. But finally it has to be based on massive social power shifts.

The value principles on estate taxation are multifaceted and collide often: family orientation, equality of opportunity principle, justice principle, and community principle (beckert 2006). These principles, which are, in part, simultaneously legitimated socially, can lead to quite different conclusions for the taxation of inheritances. Actors must legitimate their demands in public discourse by invoking not their particularistic advantages, but to a common good. To generate political support, positions must be framed with reference to broader values that have legitimacy in the social arena. Beyond monetary interests of powerful interest groups, these conflicting value principles contribute to a highly contested character of estate taxation. Even in current debates on estate taxation, one can observe the persistence of discourse elements that were formed already at the time of the French Revolution.

As the legitimation of wealth shifts from effort to success, inheritance taxation remains unpopular even during a huge public debt crisis.

6 Wealthy politicians and the wealthy
Economists often note that much of the rise in inequality at the very top has occurred in market incomes. However, the conclusion that economic policy is not driving this trend would be misleading. It confounds pre-tax and -transfer inequality with pre-government inequality. The implicit view is that the market autonomously produces a pattern of distribution of income and only then does government step in to redistribute income. Yet government actually has an enormous range of tools for affecting the distribution of earnings before taxes and expenditures take effect. Government policies do not simply redistribute what people on labor and financial markets produce; they structure markets in ways that shape both economic outcomes and the capacity for organized action among economic interests. Governments profoundly influence the economy through an extensive range of policies that shape markets. On the other side, economic actors—especially when capable of sustained collective action on behalf of shared material interests—have an impact on how political authority is exercised.

There is evidence that a small number of people may exercise increasing influence over economic policy. Wealthy people are in a position to influence the definition of principle social concepts and values. Philosophical concepts such as the autonomy and freedom can be shaped politically according to their needs. Freedom then denotes only economic freedom, and autonomy signifies consumer sovereignty. Solidarity tends to be regarded as merely personal, individual qualities rather than duties of a society. At the same time security is mainly viewed as the need to secure property and goods. The more the accountability of governments shifts towards the interests of the wealthy and away from the needs of people, the smaller the budgets for public sector spending (including social services and infrastructure) becomes.

Discrediting the welfare state and a solidarity-based tax system, combined with an individualization of risk are as much part of this development as is the growing privatisation and liberalisation of public services. Accountability of those who have accumulated wealth and today control an unproportional share of the world's wealth is extremely limited. This has also become clear in the current crisis.

In Unequal Democracy, Larry Bartels invokes “the immense significance of elite ideology in the making of American public policy” in particular the mobilization of business and corporate groups from the 1970s on, and the weakening of organized labor. Shifts in the balance of organized interests in society exert effects on parties. Over the last decades, mass membership organizations representing the economic interests of voters from the middle to the bottom of the economic ladder have lost influences further, while the ability of employers, business-linked interests, and the affluent in general has greatly increased. The
decline of unions and the increasing importance of lobbyists of financial institutions for politics have reduced the democratic significance of ordinary citizens on economic policy issues. Also parties traditionally rather in favour of estate taxes have responded to the substantial decline in organized labor and increase in the capacity of organized business interests by repositioning themselves on a number of critical issues, including taxation and deregulation. In Austria the conservatives were in favour of abolishment of inheritance taxation but also the Socialdemocrats did not oppose it.

Poverty evokes little political response. When the votes of the poor do not matter so much politically, politicians may seek support by claiming common values and following the material interests of the rich. Aside from the search for votes, only the threat of populism, social disorder, and violence would move politicians to focus on taxes for the rich, as a way to dampen public anger and lessen poverty.

However, there seems to be also a coalition of common interests. In the U.S. members of Congress must list their assets and liabilities, asset transactions, gifts they received and more. Their primary residence is not listed. Lawmakers themselves have stock holdings or other financial relationships with corporations that are lobbying for their interests. About 1 percent of all Americans are millionaires. In Congress, that number is between 40% and 50%. Congressional millionaires’ might be closer to the interest of the wealthy minority in the U.S. society.7

The small group of the extremely wealthy has particular political influence. It is no argument that other taxes—such as the income tax—are also paid predominantly by a relatively small group of very high income-earning taxpayers and that these taxes are not so controversial politically. Income – a flow- is less important than wealth – a stock -for the rich.

The fact that marginal rates of income tax have fallen in OECD countries over recent years (and in many countries taxes on property and inheritances have also been reduced or even abolished) implies that top income groups are able to keep a higher proportion of their income. This means that it is easier for rich people to accumulate wealth, and this should lead to increases in their capital income in the future. The little available data on wealth suggests that wealth will be becoming more concentrated in the highest income groups. In general the top

7 Personal financial disclosure reports are filed once every year, meaning the information contained may already be stale the day it’s made public. Likewise, lawmakers are only required to disclose their assets in broad ranges, meaning a truly accurate snapshot of a lawmaker's wealth is difficult to ascertain.
fractile groups have proportionately more capital income than the rest of the population. However, in most countries for which data were available, the increase in the share of top incomes is associated with increases in labour income, rather than capital income (OECD 2010). This is a further statistical puzzle.

Conclusions

Wealth concentration in most countries is massive. But a rigorous taxation of capital transfers on death and inter vivos seems to be no option even after financial crisis. A crucial problem for researchers is that, there are not many wealth surveys with panel data available. A modest step of improvement in the quality of economic policy advice would be to reach for better data. This seems to be a lot more important than better models. And developing concepts and definitions of wealth seems to be almost as essential as collecting data. The lack of agreement on concepts, indicators and definitions allows drawing contradicting policy conclusions. A particular focus should be laid on efforts to improve the quality of micro statistics on the household sector. For policy debates this will be a prerequisite.

In fact, the available wealth data up to now do not allow answering the most interesting economic policy issues on inequality:

(1) What is the share on inheritance in wealth? This would inform us about the part of wealth not created by effort and would be relevant for the policy question: legitimation of unearned wealth and the principle of equal opportunity?
(2) What is the role of capital income? This would allow us draw a line between the rich and the rest.
(3) Has insecurity increased over the years? This would allow us to check the different functions of wealth for the poor and the rich.
References


