



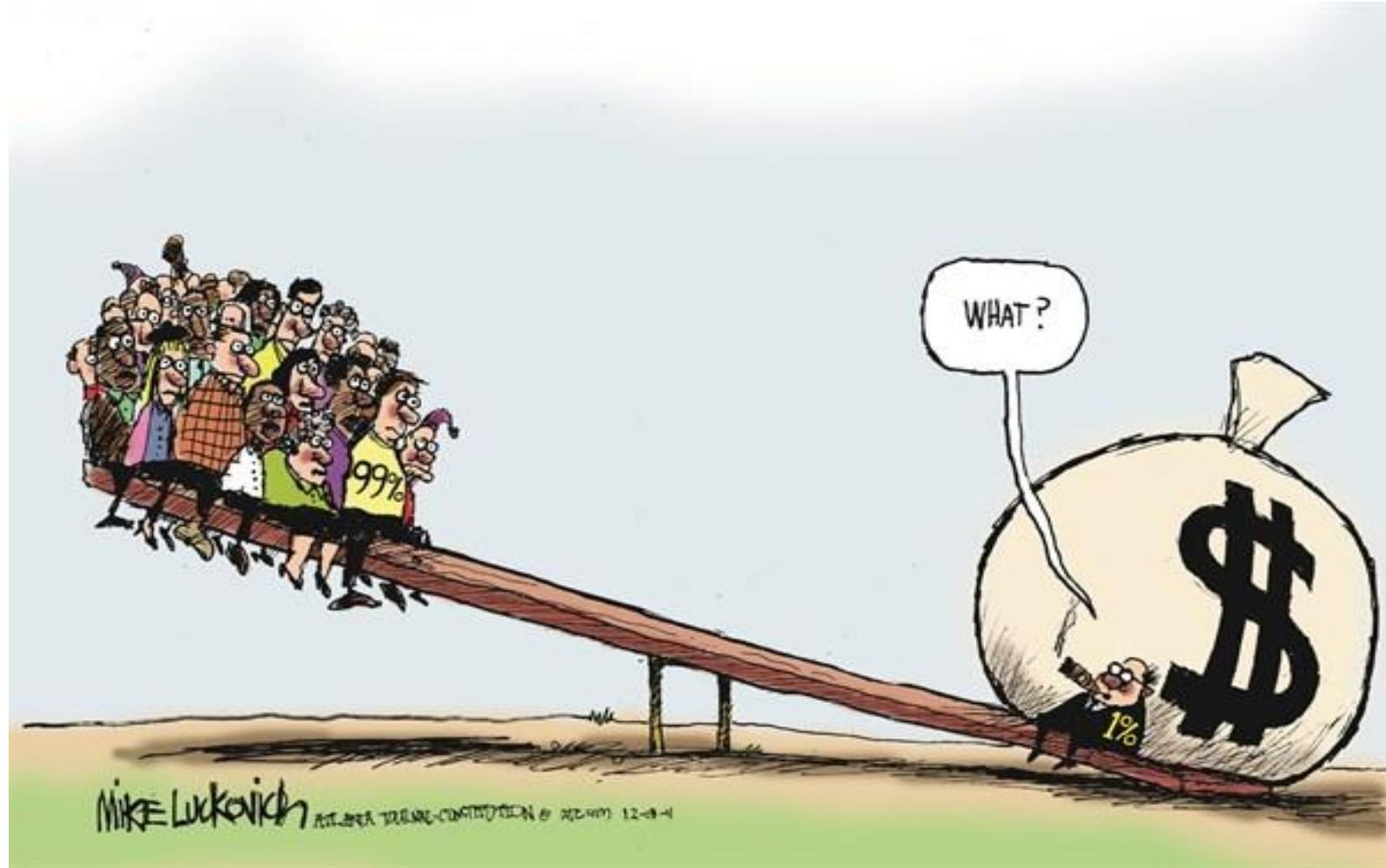
ROBIN CHAKRABORTY, ILJA KAVONIUS, SÉBASTIAN PÉREZ-DUARTE AND PHILIP VERMEULEN: IS THE TOP TAIL OF THE WEALTH DISTRIBUTION THE MISSING LINK BETWEEN THE HOUSEHOLD FINANCE AND CONSUMPTION SURVEY AND NATIONAL ACCOUNTS

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Main topic of the paper: distribution of wealth across households





Main contents of the paper

- Quantification of discrepancies between micro-data from surveys and macro-data from national accounts
- Significant underreporting of some financial assets in household surveys
- Possible reason: underrepresentation of the most wealthy households
- Discussion of various methodologies to adjust for underrepresentation
- Conclusions and way forward



Starting point

- Increased policy relevance of distributional information, also from a macro-economic perspective (“inclusive growth”, financial stability analysis, monetary policy, etc.)
- Lots of research on linking micro-data to national accounts => e.g. OECD Expert Group on Disparities in National Accounts (EG DNA), first and foremost targeting at income, consumption and savings
- Household Finance and Consumption Survey (HFCS): triennial survey, primarily targeted at wealth, conducted in a harmonised way in 15 Euro Area countries, for a sample of 62,000 households
- Misalignment to financial balance sheets for households according to national accounts



Linking micro- and macro-data (1)

- Note: Comparison limited to financial assets
- Conceptual alignment: for most financial assets fine, but problems regarding “currency”, “equity” and “insurance and pensions”
- Equity:
 - National accounts: sole proprietorship are consolidated in the households sector
 - HFCS: the net value is reported, as “real assets” in the case of self-employed business and as financial assets in the case of non-self-employed business
 - Option 1: Net value in self-employed business is included in financial assets
 - Option 2: Net value in sole proprietorships is excluded
- Insurance and pensions excluded from comparison



Linking micro- and macro-data (2)

| | SNA | HFCS |
|---------------------|------|------|
| Real estate | 1000 | |
| Cash and deposits | 100 | |
| Equity | | 600 |
| Loans (liabilities) | 500 | |
| Net worth | 600 | 600 |



Linking micro- and macro-data (3)

- Population: in HFCS persons living in institutions are excluded, and some differences regarding non-residents

Table 1: Comparison of population between FA (ESA 95 population data) and HFCS¹²

| Country Code | Population NA (historical vintage) | Population HFCS | Difference total | Difference in % |
|--------------|---------------------------------------|-----------------|------------------|-----------------|
| Austria | 8,388,130 | 8,021,945 | 366,185 | 4% |
| Germany | 81,629,370 | 81,085,984 | 543,386 | 1% |
| Spain | 45,456,960 | 45,632,180 | -175,220 | 0% |
| Finland | 5,336,910 | 5,271,534 | 65,376 | 1% |
| France | 64,444,520 ¹³ | 62,464,244 | 1,980,276 | 3% |

- No explicit adjustments made for population differences
- Timing and frequency



Linking micro- and macro-data (4)

- Naïve: No adjustments made
- Adjusted concept 1: Reclassification of self-employed business, and exclusion of various items from NA
- Adjusted concept 2: Sole proprietorships excluded

Table 4: Coverage ratios of financial assets – Naïve comparison vs. adjusted concepts

| Country | Naïve comparison | | Adjusted concept 1 | | Adjusted concept 2 | | Financial assets of FA covered in the adjusted concepts (same in both concepts) |
|---------|------------------|-----|--------------------|-----|--------------------|-----|---|
| | S1M | S14 | S1M | S14 | S1M | S14 | |
| Austria | 35% | 35% | 96% | 98% | 45% | 46% | 87% |
| Germany | 41% | 43% | 83% | 86% | 64% | 67% | 77% |
| Spain | 34% | 34% | 74% | 75% | 58% | 59% | 82% |
| Finland | 35% | 37% | 51% | 55% | 41% | 45% | 83% |
| France | 37% | 38% | 58% | 59% | 50% | 51% | 90% |



Adjusting for underrepresentation of the top of the wealth distribution (1)

- Three methods to adjust micro-data, assuming that the top is well approximated by a Pareto distribution:
 - Based on a simple random sample
 - Taking into account weights of observations in the sample
 - Only using survey data
 - Adding data from the Forbes list (although definitions are slightly different)
- Note: some additional assumptions have to be made to adjust the results of the above exercise (based in total net wealth)



Adjusting for underrepresentation of the top of the wealth distribution (2)

- Results for adjusted concept 1 and the 3rd method (including Forbes)
- Three thresholds used for approximation Pareto: 2M, 1M, 500K

Table 14: Adjusted concept 1 (financial assets) if tail is added using regression method including Forbes³⁵

| Country | Adjusted concept 1 ($\geq 2M$) S14 | Increase (vis-à-vis Table 4) | Adjusted concept 1 ($\geq 1M$) S14 | Increase (vis-à-vis Table 4) | Adjusted concept 1 ($\geq 500T$) S14 | Increase (vis-à-vis Table 4) |
|---------|--|------------------------------------|--|------------------------------------|---|------------------------------------|
| Austria | 110% | (+12%) | 105% | (+7%) | 103% | (+5%) |
| Germany | 100% | (+14%) | 100% | (+14%) | 104% | (+18%) |
| Spain | 78% | (+3%) | 81% | (+6%) | 78% | (+3%) |
| Finland | 59% | (+4%) | 59% | (+4%) | 56% | (+1%) |
| France | 63% | (+4%) | 63% | (+4%) | 60% | (+1%) |

- Increase coverage for Austria and Germany the largest (less effective oversampling)
- For other countries relatively modest impact on coverage
- Major differences in coverage of micro-data across countries



Discussion

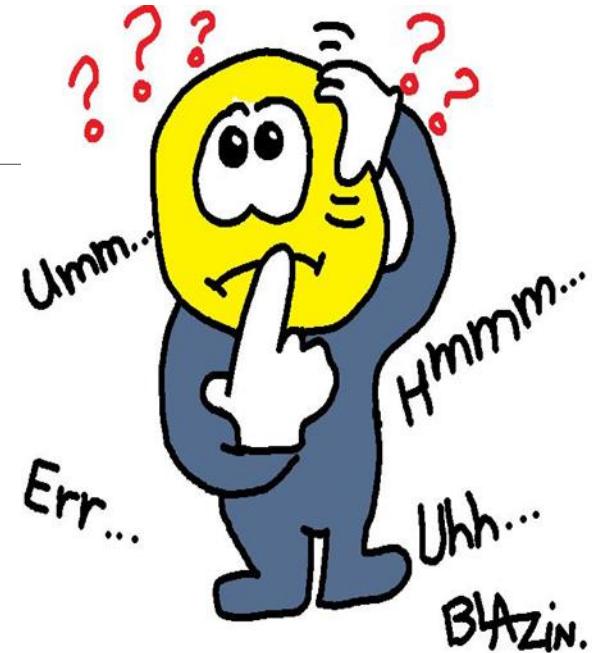
- Only the results of the comparison shown for total financial assets => would it nice to see divergences at the level of instruments, as it may also provide an explanation for the under-coverage
- It is quite problematic to conceptually align micro- and macro-data for “financial assets”, because of sole proprietorships => why not use net wealth for the comparison?
- Pensions of primary importance to understand savings and wealth accumulation, but excluded => would authors see possibilities to include it, e.g. pension registers?





Discussion

- More generally, what about the use of administrative data for wealth measurement (e.g. tax and pension records), instead of having surveys, if only to have more information on the tail?
- Differences in coverage across countries surprisingly large => explanation?





Thank you for your attention!