

Private Wealth Across European Countries: The Role of Income, Inheritance and the Welfare State

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Paper Abstract: Using microdata from the Household Finance and Consumption Survey (HFCS), this study examines the role of inheritance, income and welfare state policies in explaining differences in household net wealth within and between euro area countries. First, about one third of the households in the 13 European countries we study report having received an inheritance, and these households have considerably higher net wealth than those which did not inherit. Second, regression analyses on households' relative wealth position show that, on average, having received an inheritance lifts a household by about 14 net wealth percentiles. At the same time, each additional percentile in the income distribution is associated with about 0.4 net wealth percentiles. These results are consistent across countries. Third, multilevel cross-country regressions show that the degree of welfare state spending across countries is negatively correlated with household net wealth. These findings suggest that social services provided by the state are substitutes for private wealth accumulation and partly explain observed differences in levels of household net wealth across European countries. In particular, the effect of substitution relative to net wealth decreases with growing wealth levels. This implies that an increase in welfare state spending goes along with an increase – rather than a decrease – of observed wealth inequality.