2020

36th IARIW General Conference

Paper Prepared for the 36th IARIW General Conference, Oslo, Norway, August 24-28, 2020

Redistribution in a Joint Income-wealth Perspective: A Comparison Across 17 EU Countries

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Over the last decades we have witnessed a renewed interest, both from academic and political actors, in the level and evolutions of inequality, and more particularly the role government intervention plays in these processes. A major reason for this resurgence is the fact that inequality has been on the rise in many developed countries which has only partly been offset by government redistribution. Inequality and redistribution are usually understood in terms of income, as a resource used to rank individuals/households as well as to determine tax liabilities or benefit entitlements. However, one of the most striking distributional evolutions is related to wealth rather than income. Over the last 60 years, private wealth accumulation has continuously increased such that aggregate private wealth–national income ratios have nowadays returned to levels observed in the 19th century, ranging from 300% to 600% (Piketty, 2014). Therefore, it is increasingly argued that more prominence should be given to the joint distribution of income and wealth (Jäntti et al., 2013; OECD, 2013; Stiglitz et al., 2009).

Furthermore, over the last years strong arguments have been made for broadening the scope of indirect and wealth taxes as a way to raise government revenues and adopt forms of taxation less detrimental to growth (e.g. Arnold et al., 2011; Bach et al., 2014; Piketty, 2014). Yet, empirical evidence on the effects of both existing and hypothetical wealth taxes is largely missing as previous studies do not take into account wealth taxes and policies as part of the redistributive effort of welfare states.

By including data from the Eurosystem Household Finance and Consumption Survey (HFCS) into the EU-wide microsimulation model EUROMOD we are able to study redistribution within a joint income-wealth framework. In particular, we evaluate redistributive effects of tax-benefit systems against the joint income-wealth distribution instead of income only. Moreover, we show the redistributive effect of taxes on wealth and wealth transfers alongside those of the ‘traditional’ redistributive instruments (personal income taxes, capital incomes taxes, social insurance contributions, social benefits). To this end, we propose a new approach by extending indicators that were developed in the asset-based poverty literature (e.g. Brandolini et al., 2010; Weisbrod & Hansen, 1968).

In a pilot study (Kuypers et al., 2019, Socio-Economic Review) we evaluated redistributive effects for 6 EU countries included in the first wave of the HFCS (Belgium, Germany, France, Finland, Italy and Spain). Our results show that expressing living standards in terms of both income and wealth leads to considerable reranking of individuals as those with the lowest (highest) income are not necessarily those with the lowest (highest) net wealth. This in turn results in a lower redistributive impact of tax-benefit systems than is traditionally considered based on income alone. Interestingly, this is the case for all tax-transfer instruments we consider. This follows on the one hand from the fact that the size of the redistributive instruments is smaller when using the joint income–wealth framework, and with the exception of social benefits also from a lower degree of progressivity.

In the current paper we update the analysis to the second wave of the HFCS data applied to tax-benefit policies as they were in place in 2017 and extend the analysis to a broader set of 17 EU countries (the 6 countries from the pilot study, Austria, Cyprus, Estonia, Greece, Hungary, Ireland, Luxembourg, Poland, Portugal, Slovak Republic, Slovenia). Hence, the analysis is novel on 2 levels. First, we will provide a more recent estimation of redistributive effects in a joint income-wealth perspective which allows to draw clear policy conclusions and suggest potential reforms to policy makers. Second, by including more countries, we are able to study the effect of including wealth in the assessment framework among a larger variety of tax-benefit systems such as for instance countries with a flat personal income tax (e.g. Hungary) and countries which do not tax intergenerational wealth transfers (e.g. Austria, Estonia, Slovak Republic). Moreover, these countries also represent a wider range of rank correlation between income and wealth (i.e. the extent to which low or high income and wealth are concentrated among the same individuals/households). This rank correlation is for instance very low in Poland and relatively high in France and Spain. In other words, the updated and extended analysis will give us a better insight into which types of policies are redistributive in which institutional settings taking into account the distribution of both income and wealth.