

Wealth inequality and policies

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Spring School on Political Economy of Production and Labour

Scuola Normale Superiore - Firenze - 16 March 2025



Growing body of research focusing on wealth distribution

Research on wealth inequality has now come to the fore and is now attracting a great deal of attention .

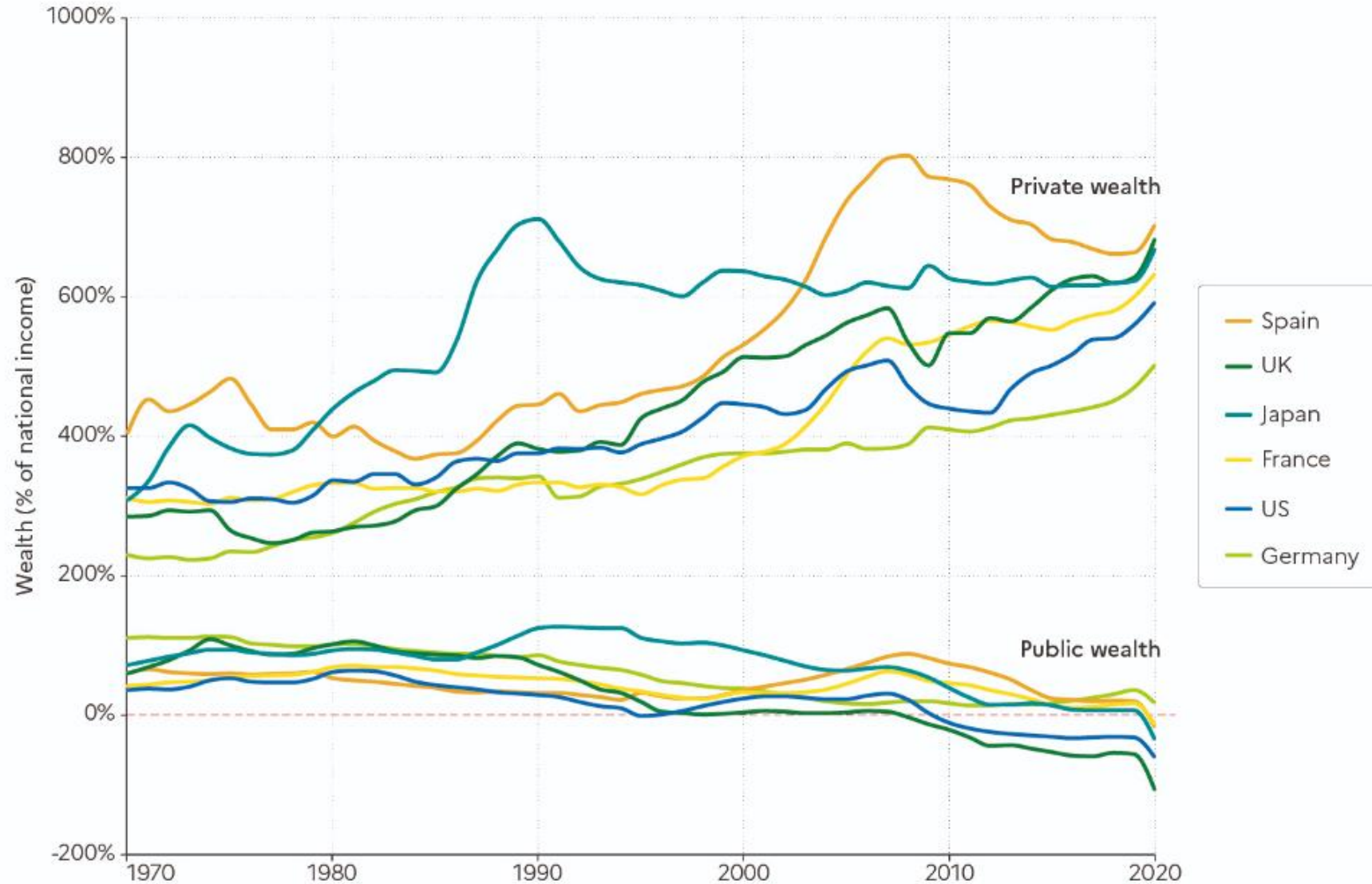
Literature has been rapidly expanding (empirics, methods, and theory)

- 1. Great Recession (GR)** accelerated the recognition of the importance of household balance sheets for the functioning of our economies at large (up to the GR, macroeconomic theory largely neglected the issue)
- 2. Landmark book by Thomas Piketty**, *Capital in the Twenty-First Century* (displayed a wide array of macroeconomic trends on wealth, inheritances, and economic inequality)
- 3. Even before the GR:** Structural transformations of our economies + *old-standing concerns* about growing wealth inequality (*bad for democracy?*)

*“Changes in the functioning of advanced capitalist economies, as well as in the ageing of the population, contribute to **shift the emphasis from income to wealth**... on account of greater job insecurity or reduced social expenditure, wealth takes on a new significance for household prosperity. “*

Mario Draghi “Household Wealth in Central Bank Policy Analysis”, speech delivered at the conference on ‘The Luxembourg Wealth Study: Enhancing Comparative Research on Household Finance’, Banca d’Italia, Roma, 5-7 July 2007.

The rise of private wealth and the decline of public wealth in rich countries



Interpretation: In the UK, public wealth dropped from 60% of national income to -106% between 1970 and 2020. Public wealth is the sum of all financial and non-financial assets, net of debts, held by governments. **Sources and series:** wir2022.wid.world/methodology, Bauluz et al. (2021) and updates.

Plan for the class

1. The growing relevance of private wealth

2. The meaning and advantages of wealth

The measurement of wealth inequality:

3. Why it matters?

4. Different data windows of observations and methods of estimation

5. The determinants of wealth accumulation

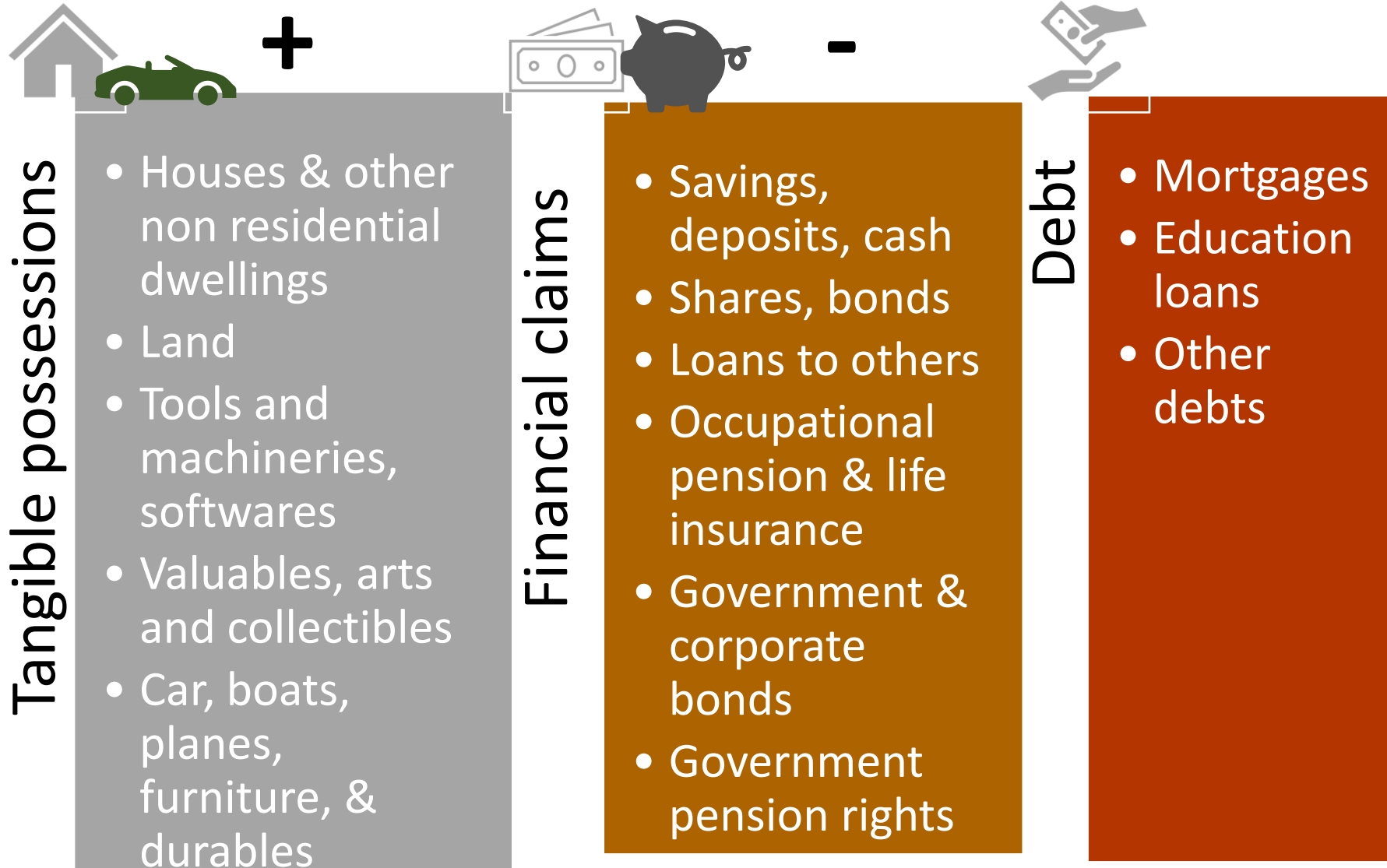
6. The role of inheritance and inheritance taxation

Discussion and conclusions

The meaning of and the advantages conveyed by wealth

Multidimensional problem: Past, present, future and distant future matter for wealth.

The definition net wealth



The advantages of wealth (and capital)

The Neo-classical view: store of value (asset can be cashed in or collateralized to appease consumption needs), source of security and income

**1 .Store of value.
Fungible reserves to
face expected and
unexpected life cycle
needs**

The advantages of wealth (and capital)

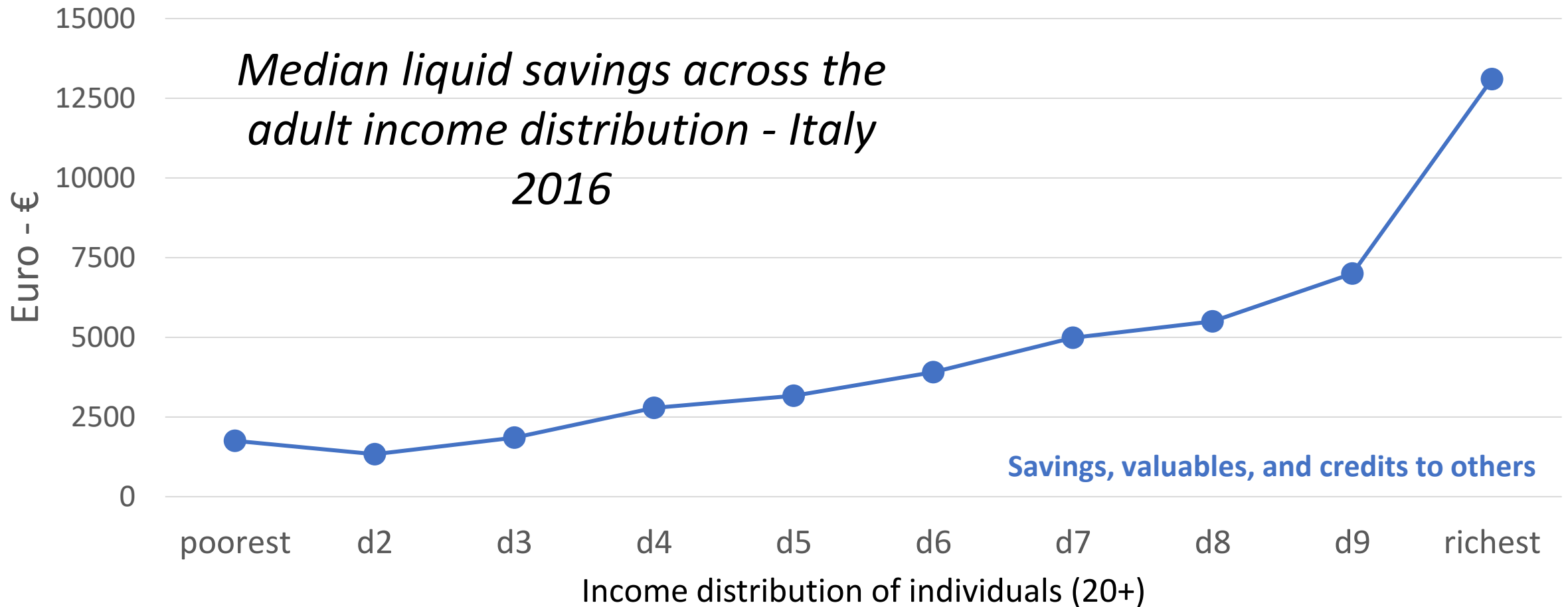
Wealth as «right to income»

1 .Reserves (and new income flows) to face expected and unexpected life cycle needs

2. Freedom to chose and to plan ahead, circumventing capital constraints, escape poverty (access to opportunities)

Wealth enhances the spectrum of opportunities

Wealth inequality at the center of the debate: Enough savings to face an income-less Covid-19 lockdown?



Source: own elaboration based on Survey of Household Income and Wealth, Bank of Italy.

The advantages of wealth (and capital)

The Neo-Kaldorian view: wealth as «power»

1 .Reserves (and new income flows) to face expected and unexpected life cycle needs

2. Freedom to chose and to plan ahead, circumventing capital constraints

3. Transfer of economic advantage or resources to future generations (e.g. bequests) or to society at large (e.g. philanthropy)

4. Control over productive resources, and other people's lives –power, influence, and social status –

The value of wealth is not exclusively measured in terms of the utility flows generated by own consumption. Wealth, can therefore enter the utility function: Weber's "spirit of capitalism." Keynes (1919, 1931) "love of money as a possession", "the virtue of the cake [savings] was that it was never to be consumed."

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Wealth inequality: Why it matters?

Why inequality matters to policymakers, economists, and the public?

Three classical arguments:

- **Efficient Resource Allocation:**

- Inequality, alongside market imperfections, leads to inefficient resource allocation.
- High-ability individuals may face limited opportunities, hindering innovation and growth.
- Thus, we care about inequality for instrumental reasons

- **Social Justice Concerns:**

- Beyond instrumental reasons, individuals may be averse to inequality for its own sake.

- **Negative Externalities:**

- Even if people don't directly care about inequality, they may care about its societal effects.
- New research (Stostad and Cowell, 2023) suggests negative inequality externalities justify more progressive tax rates.
- Challenges the conventional wisdom of revenue-maximizing Laffer rates, proposing higher tax rates for societal well-being.

Inequality as a negative externality: three examples

2. Inequality and the Transmission of Unfair Advantages:

- Excessive economic inequality can crystallize over time, fueling intergenerational socio-economic immobility.
- Today's outcomes shape tomorrow's playing field, transmitting unfair advantages to the next generation.
- Hence, a good reason to be concerned with inequality of outcome today is precisely because it directly affects equality of opportunity.

Inequality as a negative externality: institutional capture

- Excessive wealth inequality distorts political institutions (national state capture).
- Inequality of wealth begets unequal de facto political power

“Extreme inequalities in the ownership of property are in my view undesirable ... A man with much property has great bargaining strength and a great sense of security, independence and freedom; he enjoys these things not only vis-á-vis his propertyless fellow citizens but also vis-á-vis the public authorities.”

James E. Meade (1964, 38); Efficiency, Equality and the
Ownership of Property

Inequality as a negative externality: the transmission of unfair advantages, fuelling inequality of opportunities

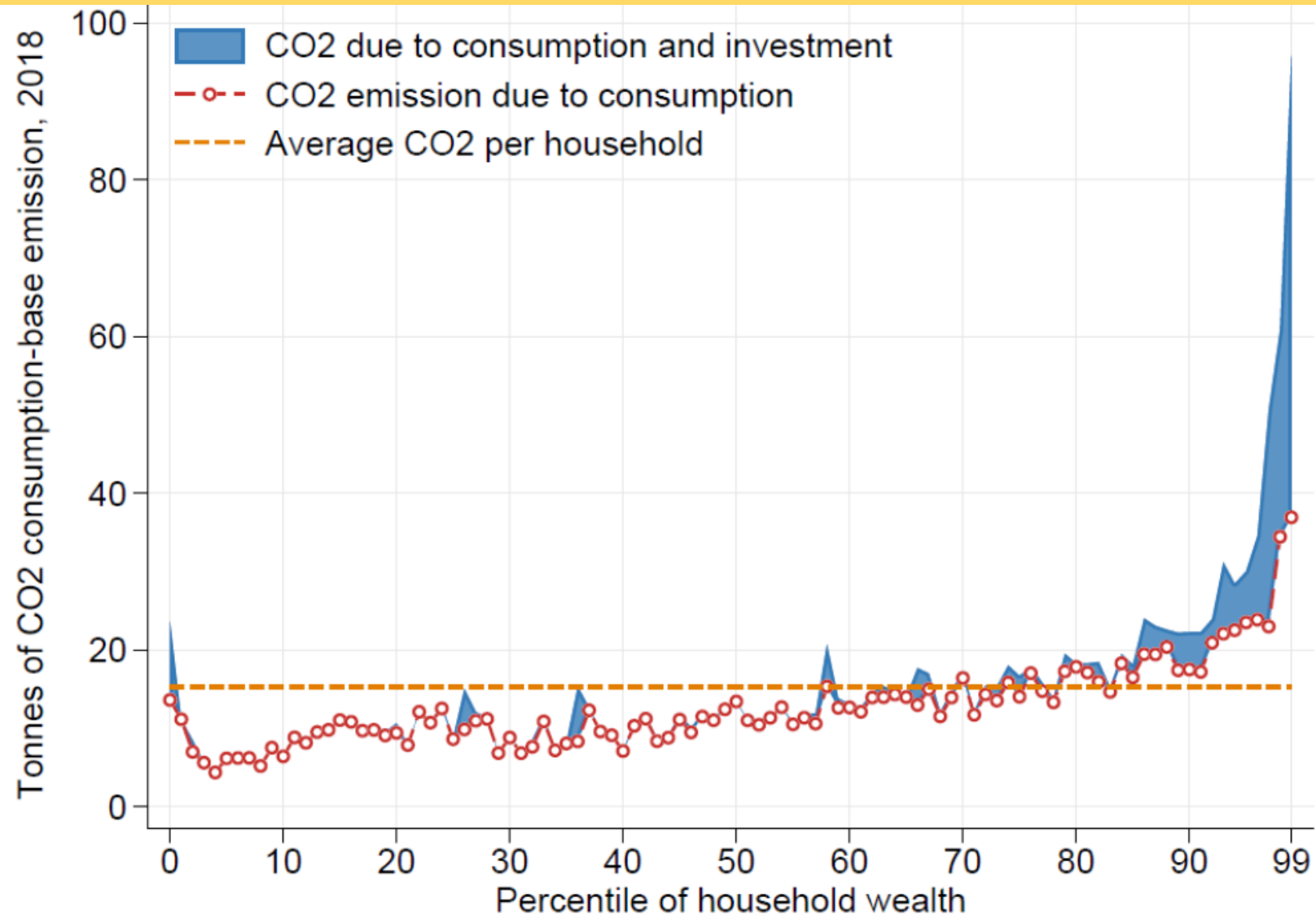
“Today’s ex-post outcomes shape tomorrow’s ex ante playing field: the beneficiaries of inequality of outcome today can transmit an unfair advantage to their children tomorrow.”

Tony Atkinson – Inequality What Can be done (Atkinson, 2015)

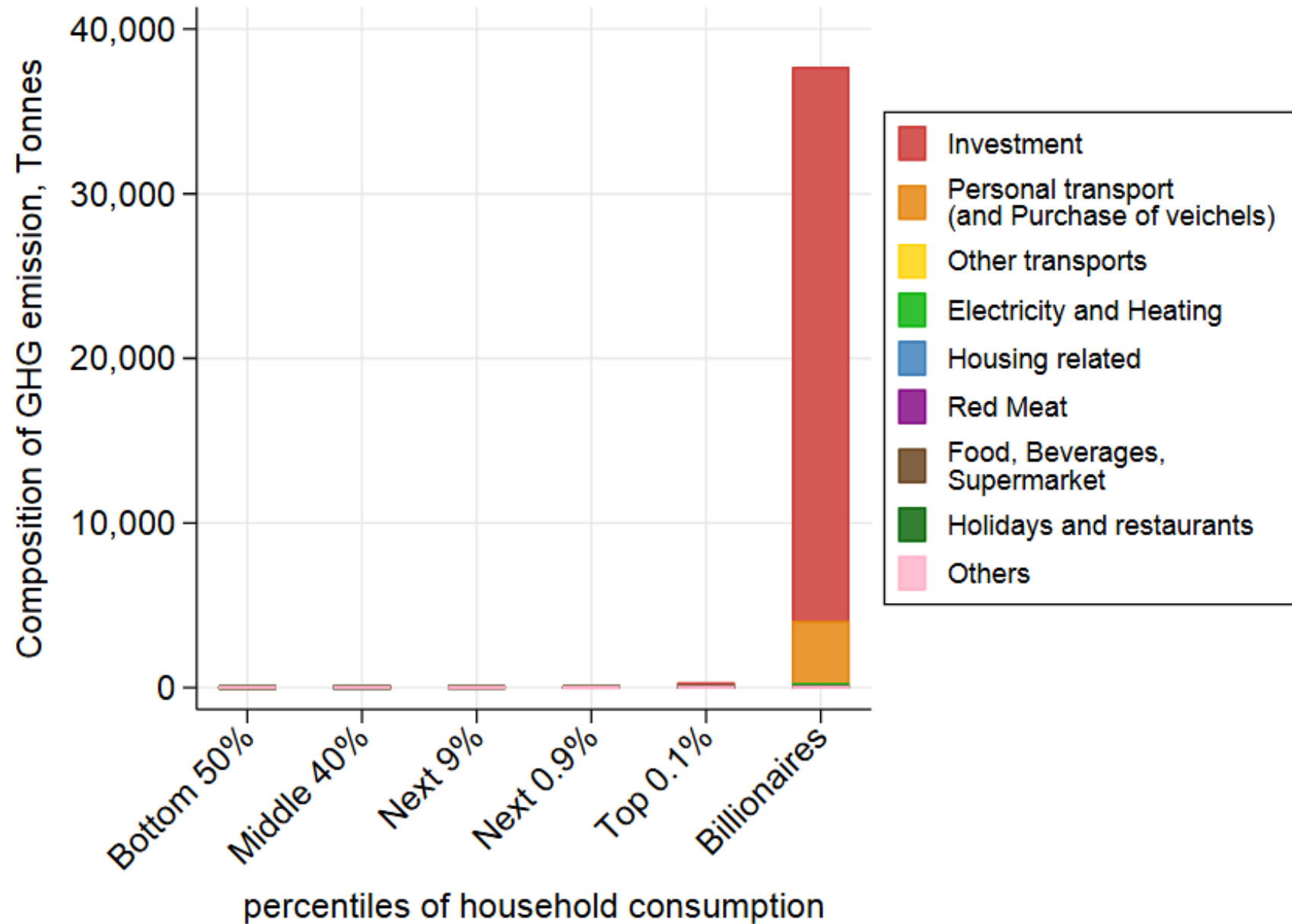
Inequality of outcomes vs.
inequality of opportunity: a false dichotomy

Inequality may accelerate climate change and slow down the adoption of mitigation policies

CO2 emissions of the wealthy – Italy 2018



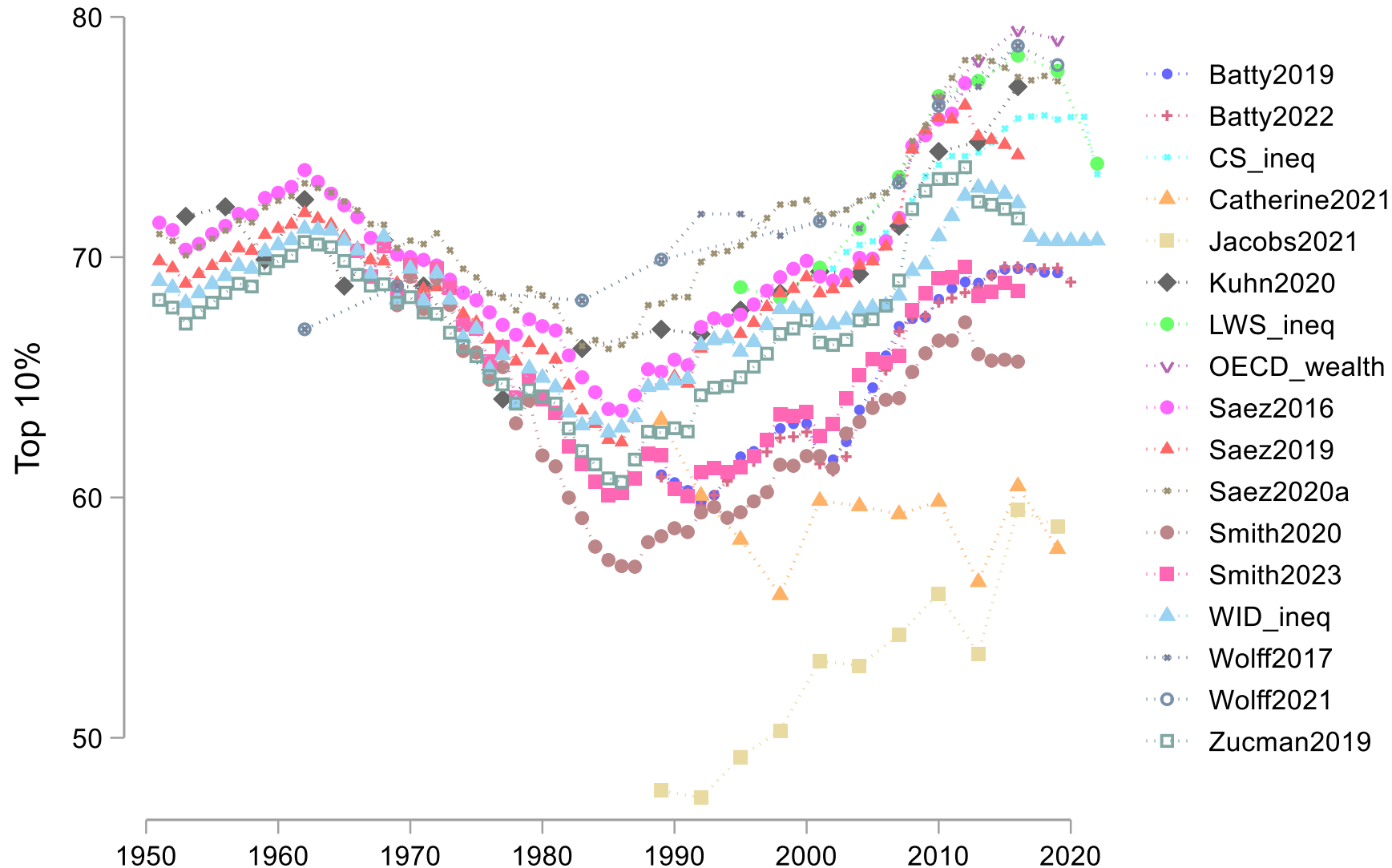
GHG Composition with investment



WEALTH INEQUALITY TRENDS

The measurement of wealth distribution: trends
and methods

The top 10% wealth share in the US - 17 series



5 main windows of observation on wealth

$$W = \sum_{i=1}^{N_E} m_i w_{E,i}$$

$$Y_k = W_k * r_k$$

Wealth register
(wealth tax)

Estate or
inheritance tax

Capital income tax

Household survey

Rich List

Combining information inferred from different windows

Hybrid method

1

+

2

+

External Wealth
& Population
Totals

How to deal with all these information?

Naive approach: start approximating the “**average**” trend across sources and years

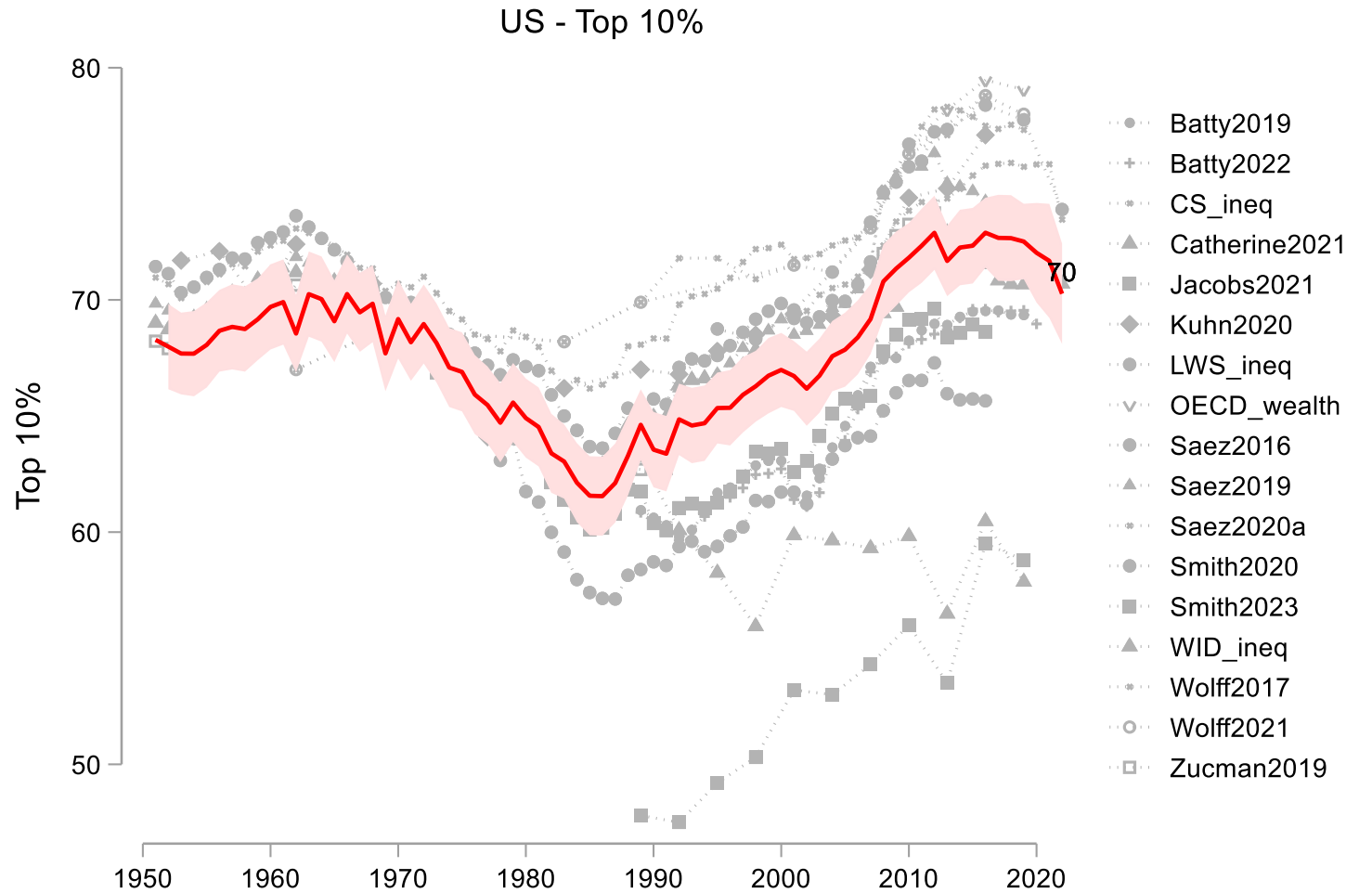
Control for compositional differences

→ Across years the number of sources varies.

→ **Fixed Effect approach**

However we can do better, and accounting for:

- difference across in unit of analysis,
- data types,
- data adjustments,
- etc.

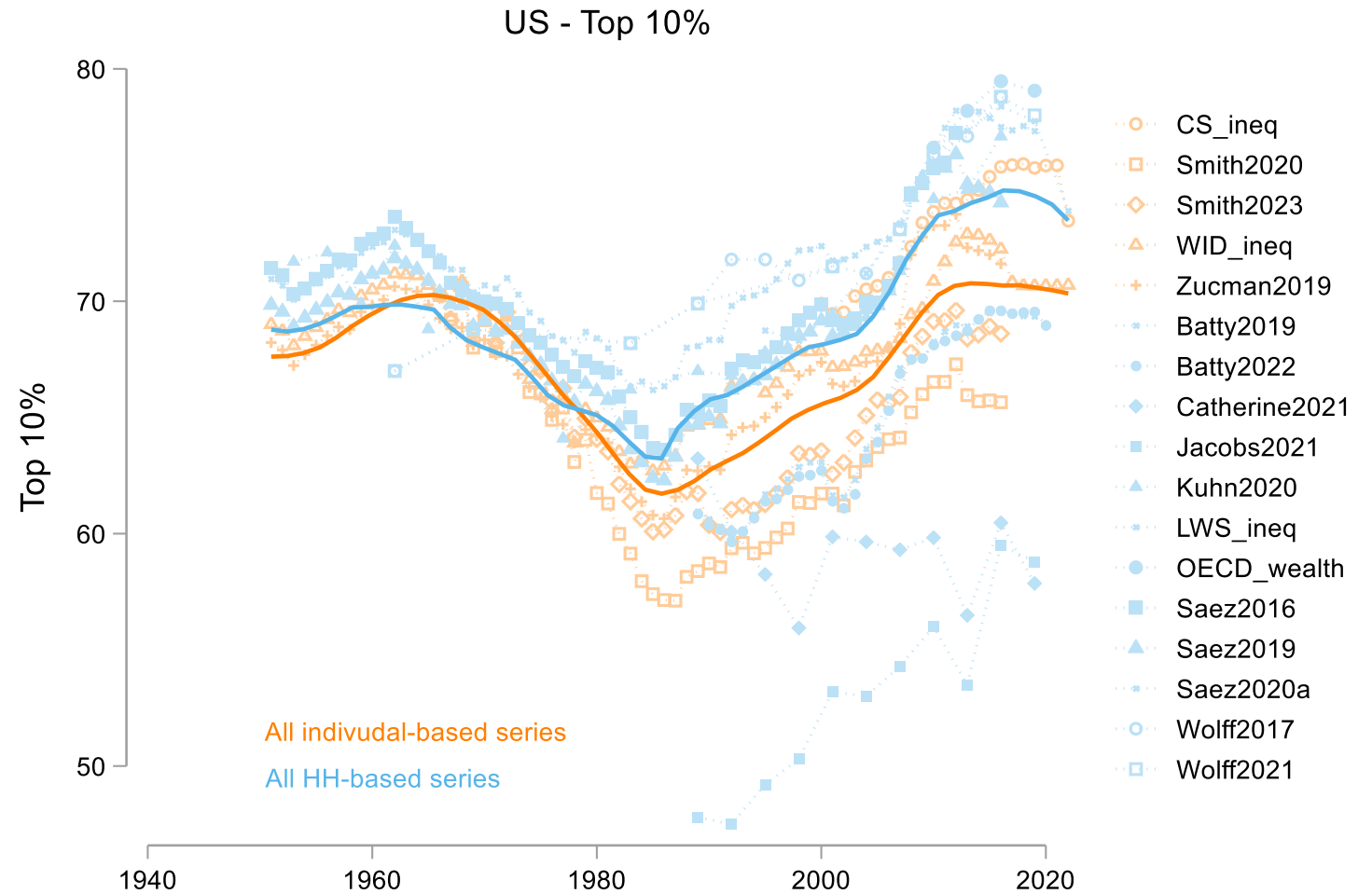


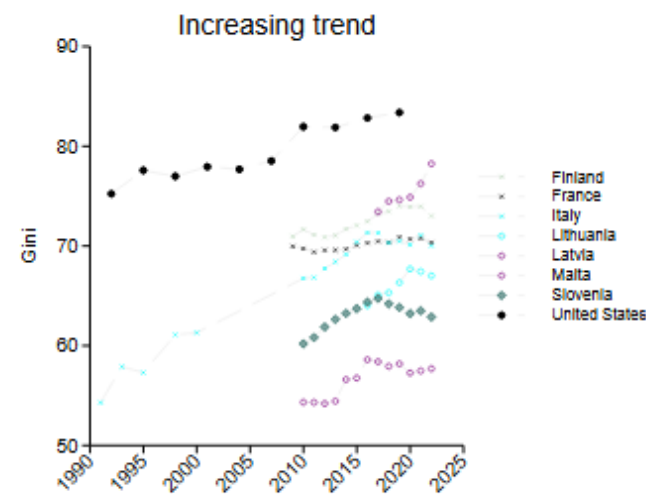
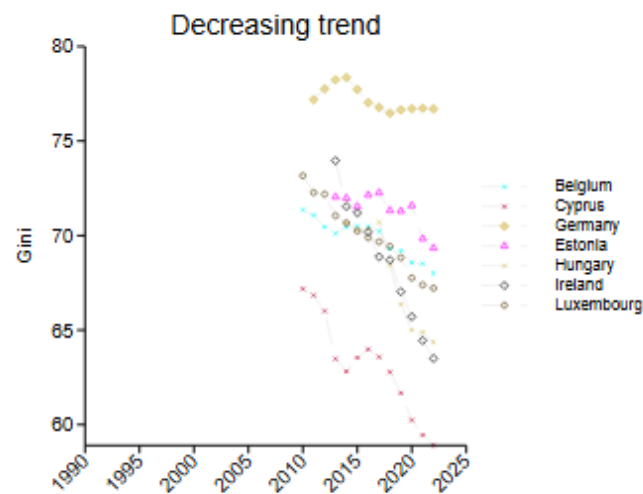
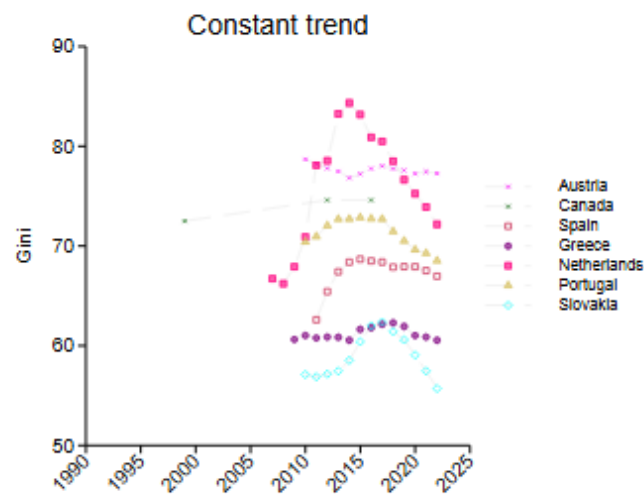
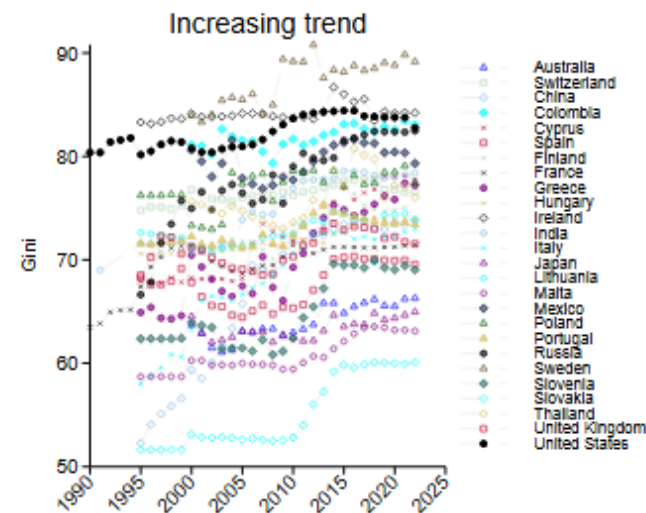
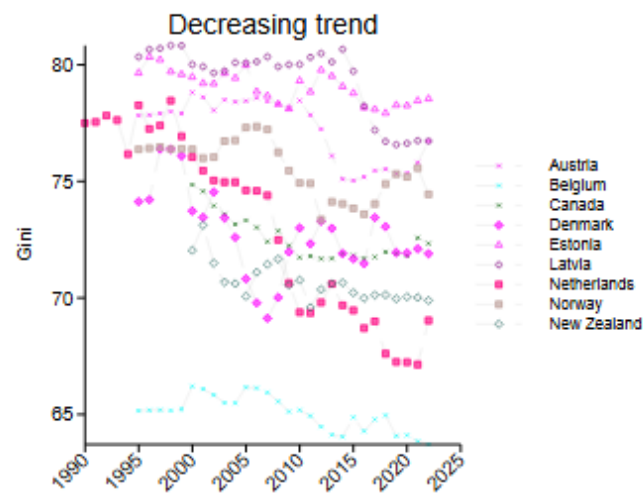
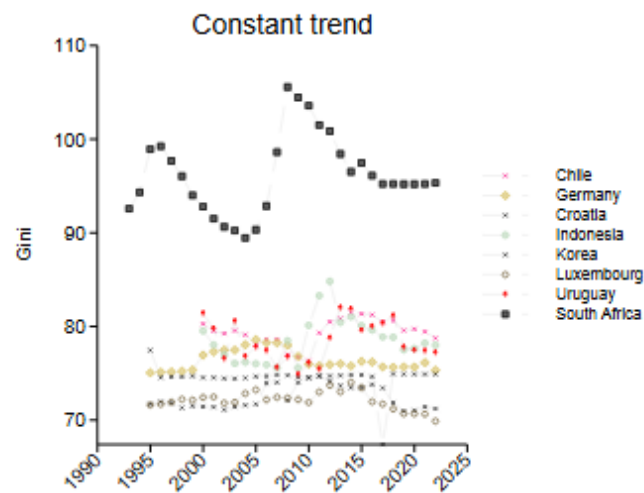
Different sources:

- Based on different **observational units:**

HH-based = households or tax units/family

IND-based = individuals, equal-split or per-capita





Notes: The figure plots average trends for all individual-based series and all household-based series. The estimation procedure to derive averaged trends involves running a linear regression where the dependent variable is the vector of eligible estimates for each year across the available country-specific series. The regression includes year and source fixed effects. The estimated series is obtained by adding the constant to each year-specific coefficient. This procedure allows to account for changes in the data composition in the computation of the average value over the years

What have we learned so far

- The relative weight of private wealth has been growing in our economies but there is considerable amount of heterogeneity of wealth portfolios across countries
- Wealth means different things to different people
- There is no such a thing as THE wealth distribution as wealth has different definitions (the objective of the analysis matters!).
- The definition and valuation of wealth matters (for aggregate and distributive measures and, therefore, for guiding policy)
- Wealth inequality estimates are less settled than income ones. A variety of methods exist each with pros and cons. Triangulation of evidence is important. A Multi-source approach is important.

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The determinants of wealth accumulation

The three main determinants of individual wealth accumulation

1 .Savings

Wealth is generated from savings out of earned incomes as individuals save during their working lives and dissave through retirement.

The three main determinants of individual wealth accumulation

2. Returns

The existing stock of real and financial assets tend to reproduce themselves. Financial wealth generates capital incomes that can be saved and assets may appreciate or depreciate over time.

The three main determinants of individual wealth accumulation

3. Inheritance

Individuals may receive donations or inheritances throughout their lives adding to the stock of existing wealth.

The three processes can interact with different strength over time and across the distribution and be persistent across generations

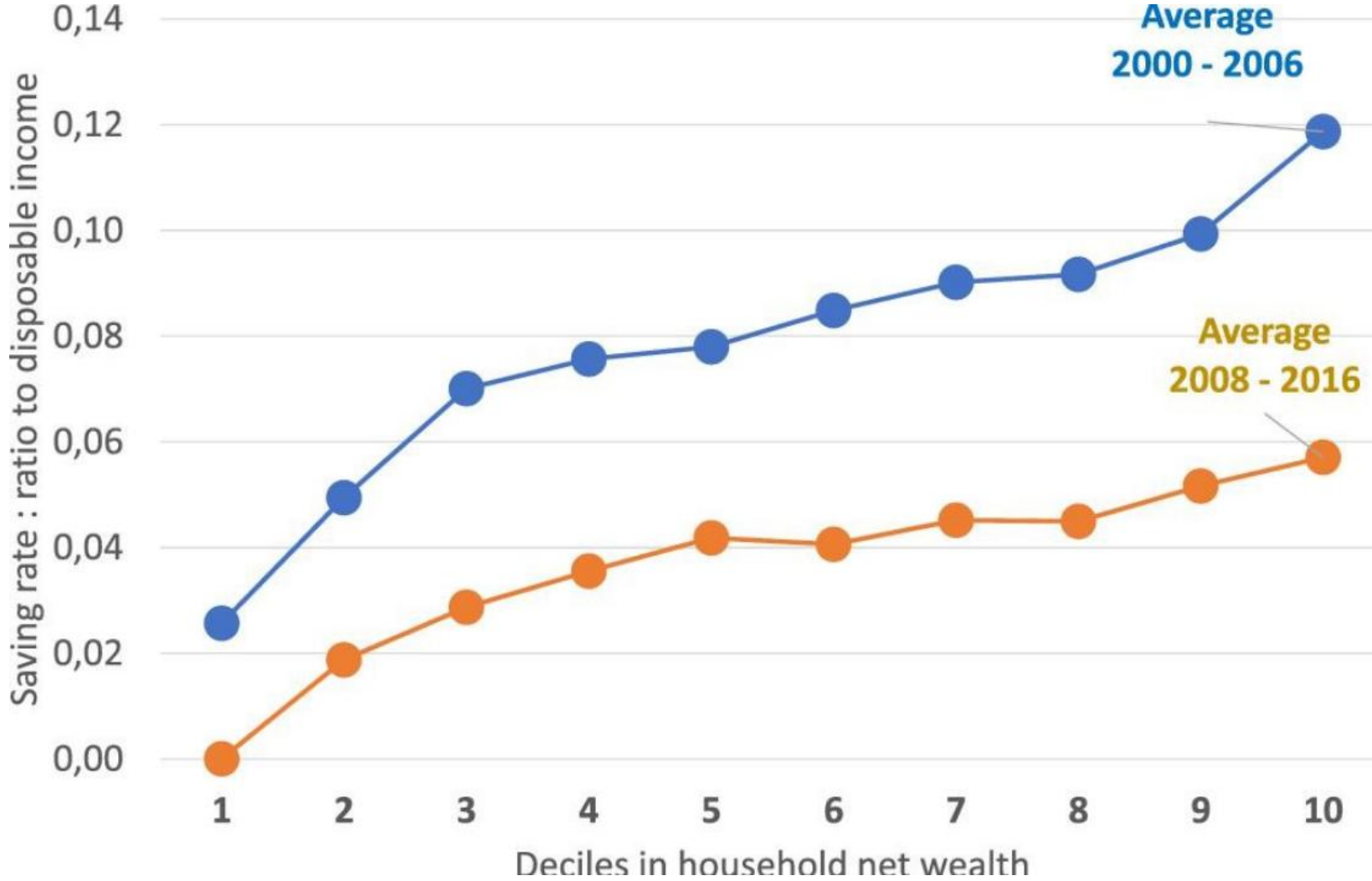
1 .Savings

2. Returns

3. Inheritance

$$W_{t+1}^i = (1+q_t^i) * (W_t^i + r_t^i W_t^i + Y_{Lt}^i - C_t^i + I_t^i - T_{It}^i)$$

Unequal saving rates across the wealth distribution in Italy



Source: Acciari, Alvaredo, and Morelli (2024) – [The concentration of personal wealth in Italy 1995-2016](#), *Journal of European Economic Association*

Investigating the role of inheritances and gifts : understudied topic

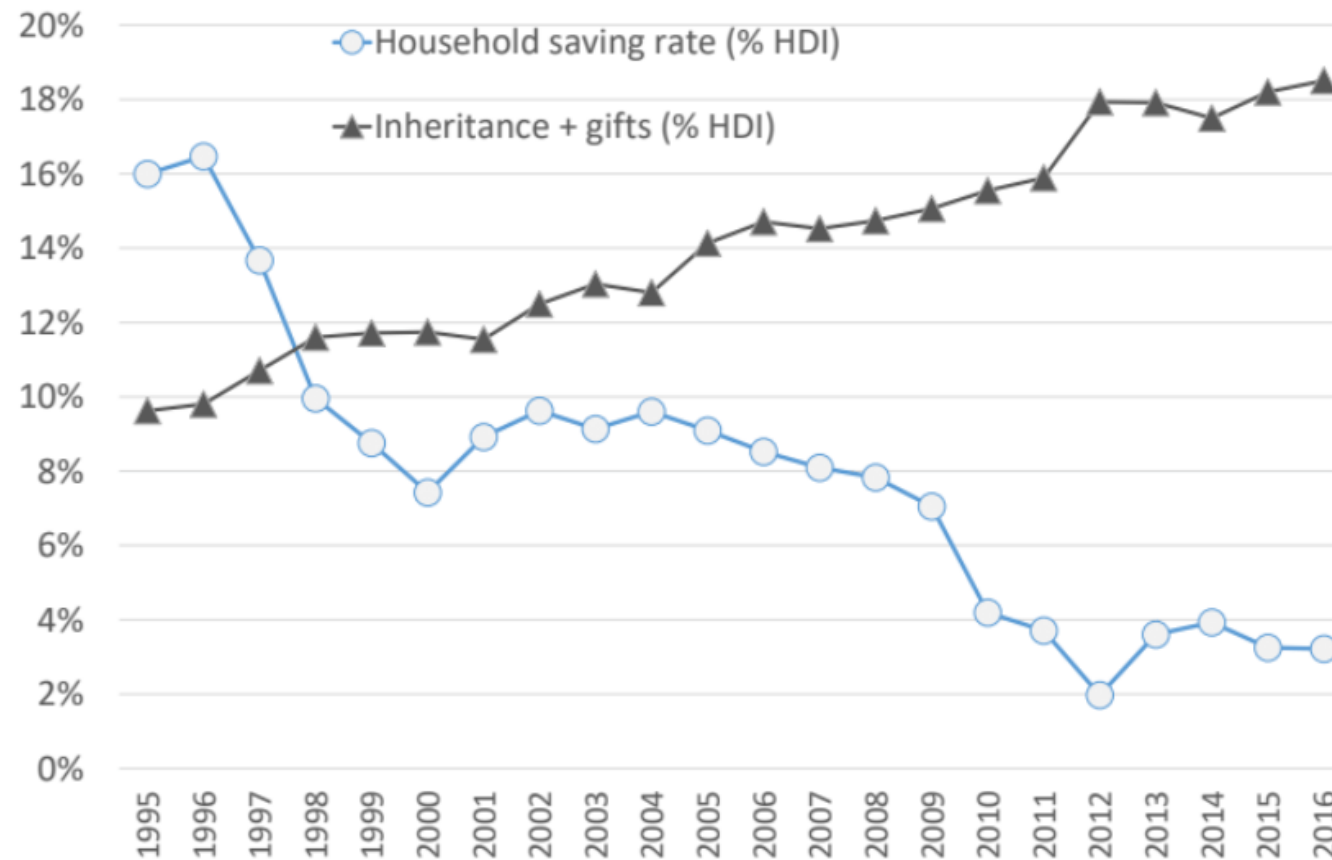
Are aggregate flows of inheritances and gifts growing over time?

How have the estate, inheritance and gift tax policies been changing over time? What are the effects?

Are wealth transfers increasing or decreasing wealth inequality?

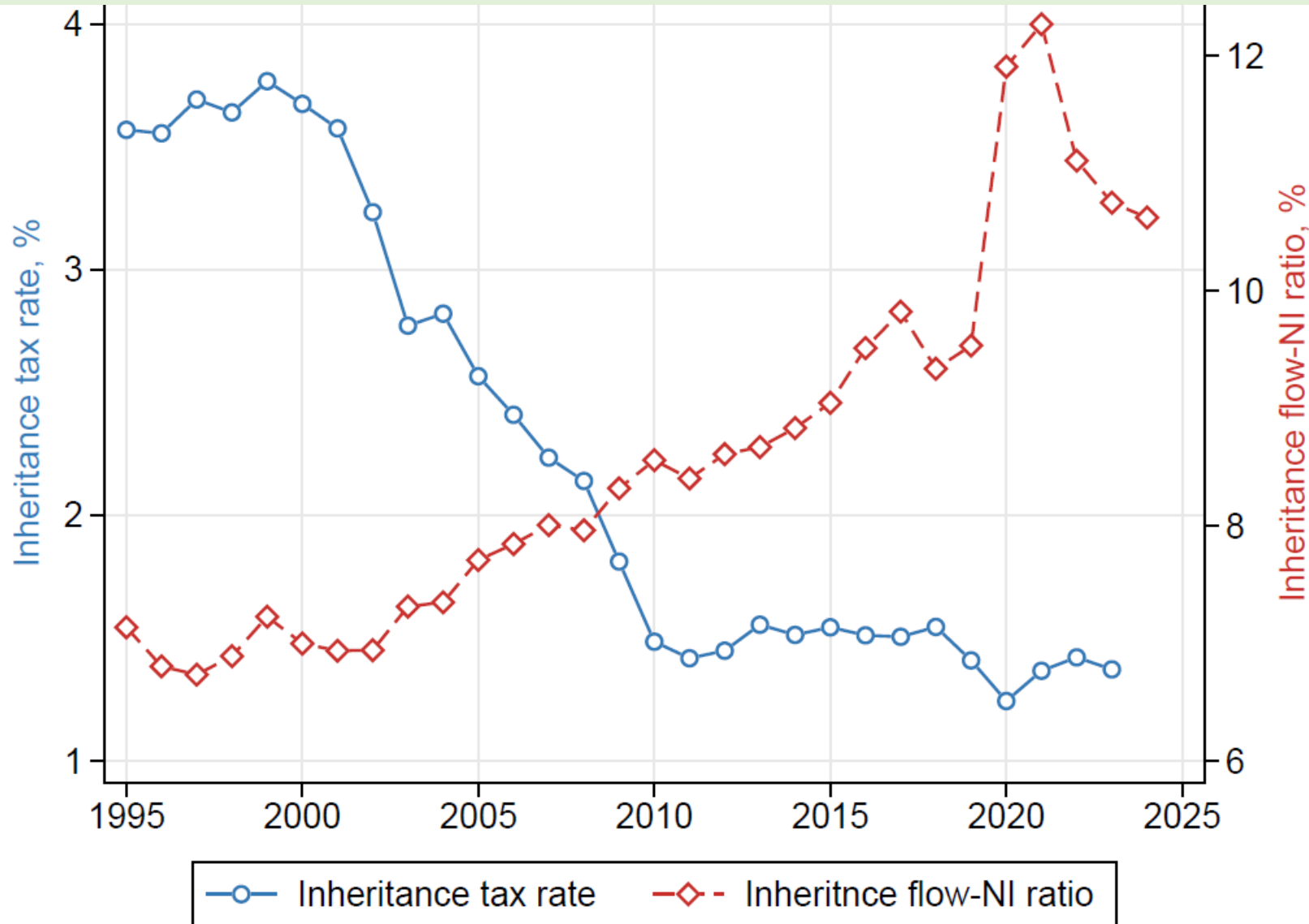
More and more wealth coming from the past. Inheritance + gifts (% HDI) UP – Saving rates DOWN: Italy 1995-2016

Figure 8: Inheritance vs saving rates (% of household disposable income -HDI)



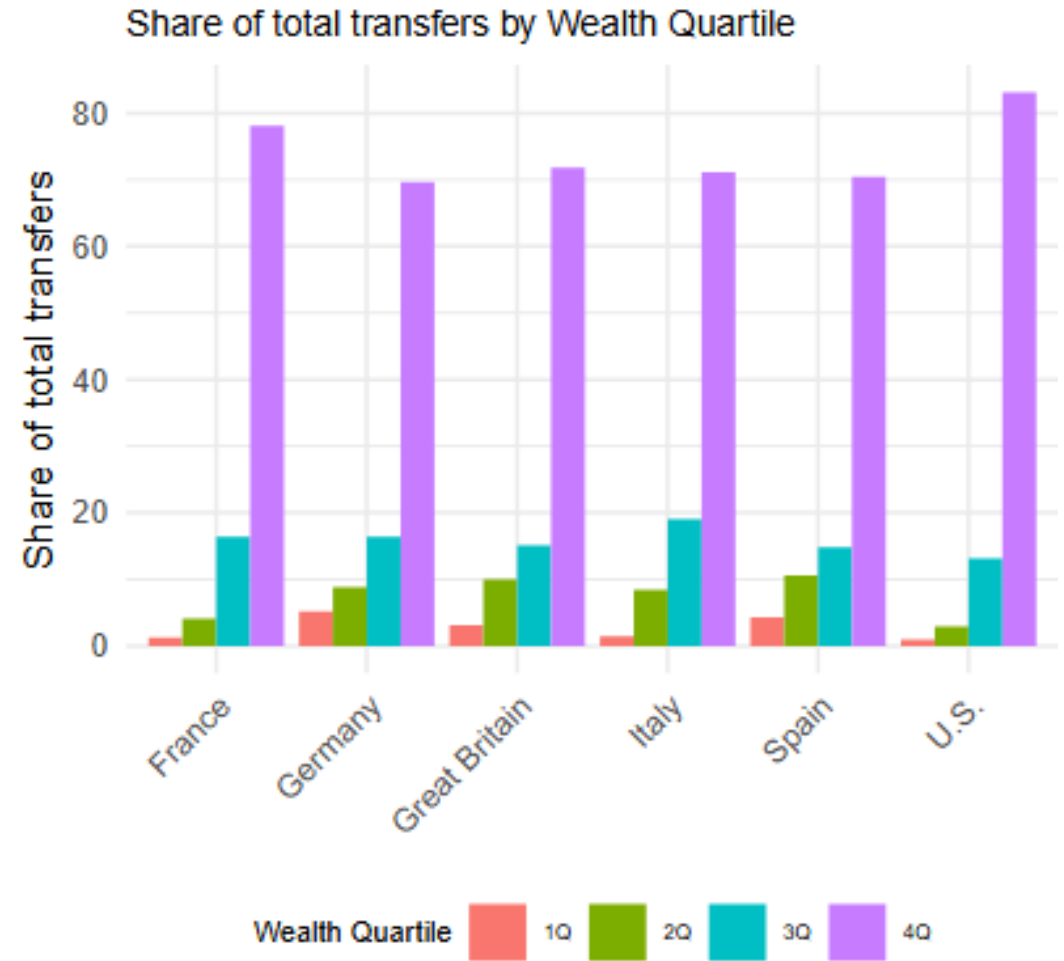
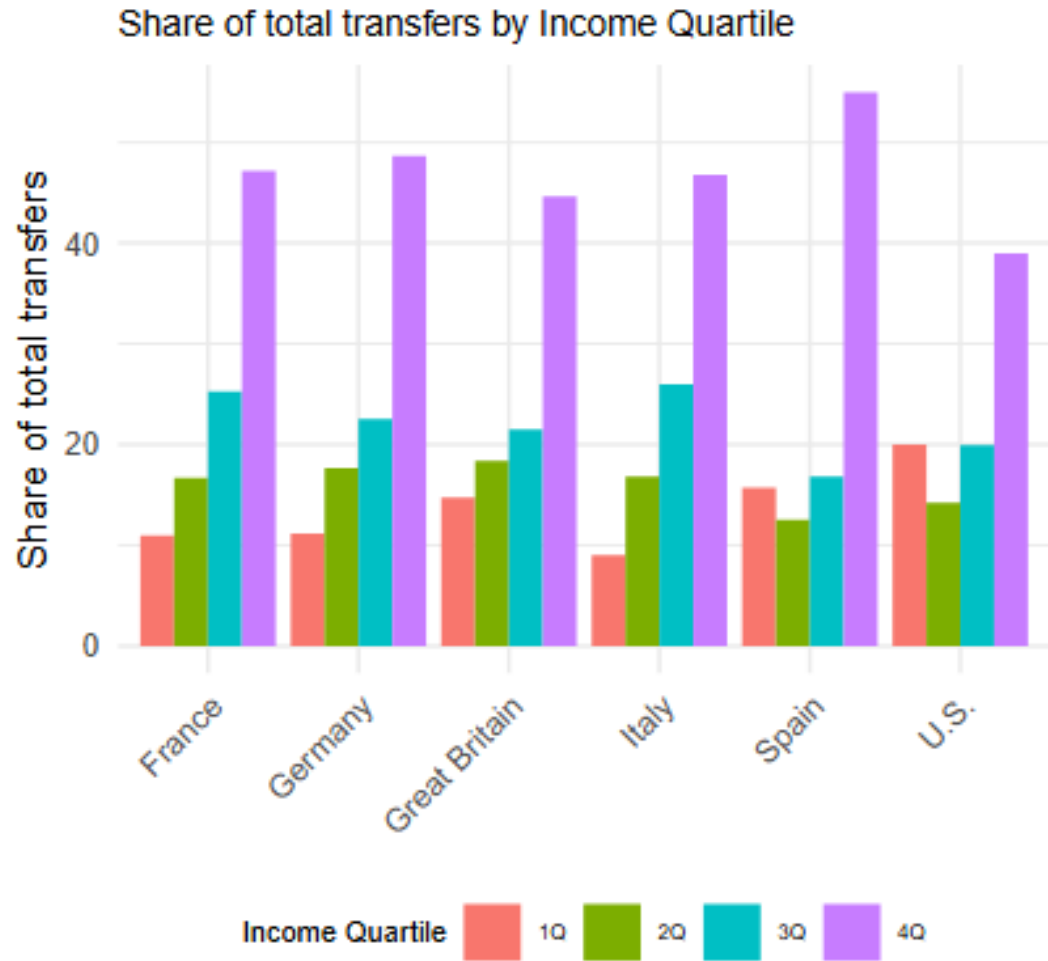
Source: Acciari, and Morelli, 2021, NBER volume

Inheritance + gifts (% NI) UP – Average tax rate DOWN: World A growing tax base left untapped



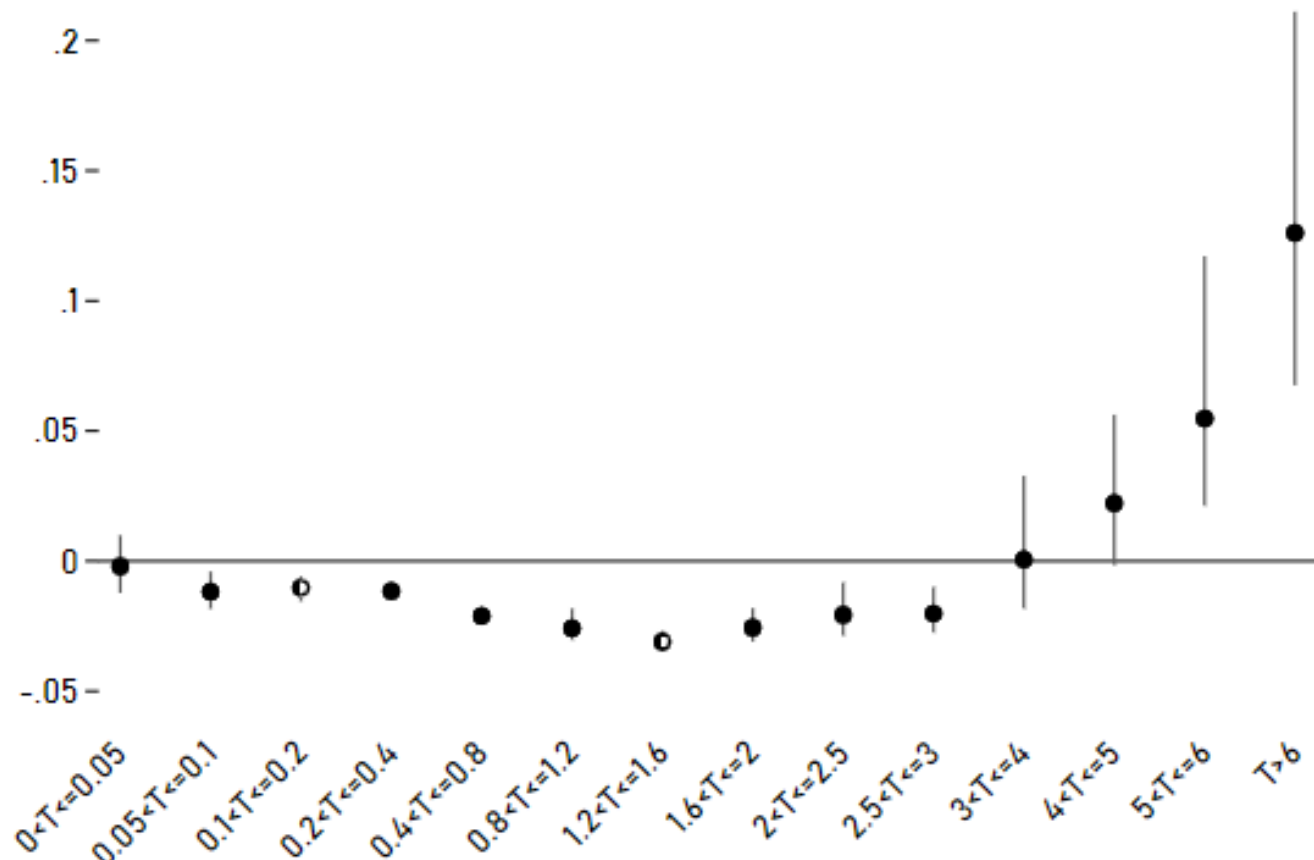
Source: Guzzardi and Morelli, 2026, The Return of Inheritance, preliminary estimates

Inheritances are very unequally distributed: The share of total wealth transfers increases with the income and the wealth positions



The impact of wealth transfers on the Gini coefficient on net worth by transfer size (influence function regression estimates)

(d) Italy



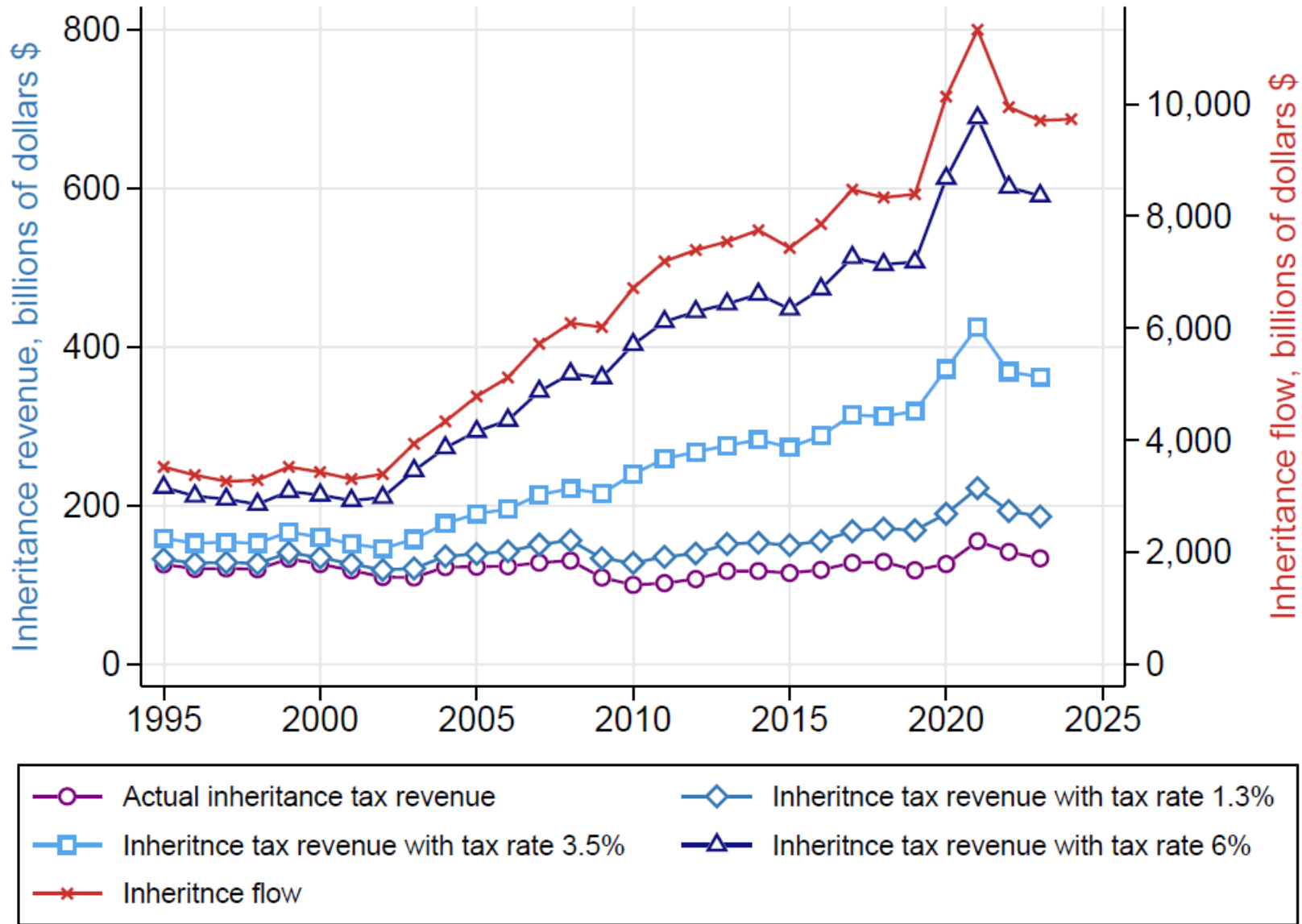
Transfer size expressed in multiples of average net worth.

We identify the thresholds above which transfers become disequalising



This could inform the design of progressive taxes on capital receipts

Reforming Inheritance Tax in the world?



Source: Guzzardi and Morelli, 2026, The Return of Inheritance, preliminary estimates

Concluding remarks

- Private wealth is becoming more and more visible in our economy and more and more concentrated at the top. Inequality has been increasing in most of countries but not everywhere.
- The weight of wealth coming from the past under the form of wealth transfers, namely inheritances and gifts is has been growing steadily
- Nevertheless, in the face of these trends, the effectiveness of wealth transfer tax levies and its progressive structure, has been decreasing steadily over time. In several countries such taxes were even abolished.
- Although the overall effect of wealth transfers is equalizing on the wealth distribution, a crucial heterogeneity by size of transfers has not been previously recognised: large transfers remain disequalizing (Results could better inform the design of inheritance tax policies)
- The relative contribution of inheritance for wealth accumulation remains an understudied topic