On (the Study of) the Distribution of Wealth

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How to study the distribution of wealth?

- wealth (coming from an income distribution-tradition) is often studied as if it were income (e.g., equal sharing within a household, equivalence scale, etc)
- this is reasonable if we think of (all net wealth) as “potential income” – i.e., funds we can easily convert to current consumption expenditure
- wealth for purposes of measuring Haig-Simons income (the amount we could consume in a period with no change in net wealth) would fit this...
- ... but wealth is rarely (if ever) measured for H-S income (requires before and after income period wealth)
- wealth is held for a few main purposes (arguably, but who knows), including in many but not all cases to provide housing services
Why study the distribution of wealth?

- some wealth components generate consumption (housing services, transportation etc) . . .
- . . . but some wealth is a potential source of income . . .
- . . . to finance a standard of living (consumption) in
  - case of adverse income shock (current)
  - unexpected increase in need (e.g. illness; current)
  - at end (or start) of life cycle (pension, higher education; future)
- institutions (pensions, health care or higher education financing) matter tremendously for both the level and distribution of wealth accumulation for these purposes

- is it meaningful to compare the distribution of wealth in a country with generous public pensions/unemployment insurance/health care/higher education with one in which most of these are private?
Implications

- the true reason individuals hold wealth are unknowable, but a focus on a number of key motives and the associated institutions may be useful

- one of the most straightforward ways in which measures of wealth are useful for the measurement of economic well-being, to measure Haig-Simons income, should be more often available (but comes at significant cost)

- many of the issues I raise (and many more) can be fruitfully addressed with the aid of more, more frequent (and preferably longitudinal) data on wealth of high quality along with income data
... on the other hand

- many of the issues I raise apply, at least to some extent, to income (and consumption)
- we need to remember for all measurement of economics well-being that institutions and changes in institutions matter
- (very high) wealth most likely confers benefits to its holder that we understand poorly, such as power and influence or “status” [this is one of many reasons why a focus on the very top of the wealth distribution is very important]
- intergenerational settings (in economics) often involve dynastic lineages; their appropriateness for measuring economic well-being can and should be critically examined, but for at least certain types of wealth, it may be an important part of why wealth is held