

# 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