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EUROSYSTEM

# The Measurement of Augmented Wealth: Opening Remarks

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Vienna, March 3, 2023

Ressort Gouverneur  
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## Outline

1. Augmented Wealth – what is it, why is it important?
2. Main types of social benefits` wealth
3. Analytical constraints and considerations
4. Select own references across decades

# I. Augmented Wealth

## What is it?

- A concept of wealth that also includes beside the net value of financial and property wealth minus debt also the present (net value) of other, nonmarketable private or public entitlements (pension benefits, health care benefits, housing benefits, etc)
- Hence augmented wealth ist the sum of (net, funded) private wealth and (unfunded) social benefit wealth

## Why is it important?

- Because the additional and thus total (i.e. augmented) wealth may or is conjectured to be the relevant stock variable that determine consumption and saving decisions, labor supply decisions, etc at micro level and macroeconomic level
- Because it offers less biased distributive considerations and conclusions if one does not leave out major wealth-like components that typically accrue to the lower income and wealth strata
- With an public expenditure share of close to or above 50 of GDP, of which more than half is dispursed for social programs the accumulated size of social benefit wealth across the lower wealth strata is potentially large

## II. Main types of social benefits wealth

- The most-well known and most estimated example is **public pension wealth**, i.e. value of entitlement in a public (and also enterprise-based) pension scheme based on PAYG principle.
  - Used in the form asset (social security/public pension wealth) or liability (implicit pension debt)
  - It has a typically a clear saving and then dissaving differentiation across the life cycle
- Little, if at all, used is the concept of **public health insurance wealth**.
  - Broadly symmetric to public pension wealth, but more differentiated across beneficiaries (spouses, children, grand parents, siblings, etc)
  - Characterized across the life cycle by changes between net-saving and dis-saving across the life cycle
- Little? or not yet used is also the concept of **public housing wealth**, i.e. the present value of housing expenditure below the market value through, say, social housing, cooperative housing (with low or no interest rate loans, capital grants, and, forgiven loans) and tax expenditure on self-financed housing (say, deduction of interest rates on mortgage loans)

## Other potential types of social benefit wealth

- Much smaller scale social wealth may also be considered, but is quantitatively little important such as unemployment insurance that pools bad and good risks, or family benefits (contribution or tax-based), etc. However, the more the benefit moves away from a contribution-benefit link across the life cycle, the less convincing their inclusion is
- A potential further and important candidate could be (additional) human capital wealth that is created by provision of (free) public schools or the subsidy component of private schools

### III. Analytical constraints and considerations

#### **The relevance of life cycle considerations**

- The lynch pin between flows (income) and stocks (wealth) as it explains why individuals/families save and dis-save
- Conventional/basic life-cycle assumption – I enter working life with no wealth, at retirement I have the highest life-time wealth, and I leave no wealth – may not be correct for the highest and lowest income/wealth class

#### **The relevance of markets and/or governments intertemporal interventions**

- With no or limited intertemporal markets and instruments, intertemporal income re-allocation is limited and creates major welfare losses. Inter alia this implies that individual incomes – as welfare measure – cannot be easily compared across individuals and time
- Intertemporal market imperfections also imply that the improvement of markets or government interventions as market substitutes can create welfare gains that may be different across income groups and have major redistributive effects and implications for the measurement of income and wealth inequality

## Select own references across decades

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**Danke für Ihre Aufmerksamkeit**

**Thank you for your attention**

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