Private Wealth in Economics and the Economy: A Reflection on Concepts and Methods

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Augmented Wealth Workshop

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Outline

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Concepts

Debate ended with pragmatic decision to mostly use so called "marketable" wealth (Davies and Shorrocks 2000)

- Marketable wealth: Can be (readily) bought and sold; used as a collateral, transferred across generations
- Augmented wealth: Pension rights, life insurance, future government transfers, human capital, and potentially many more...
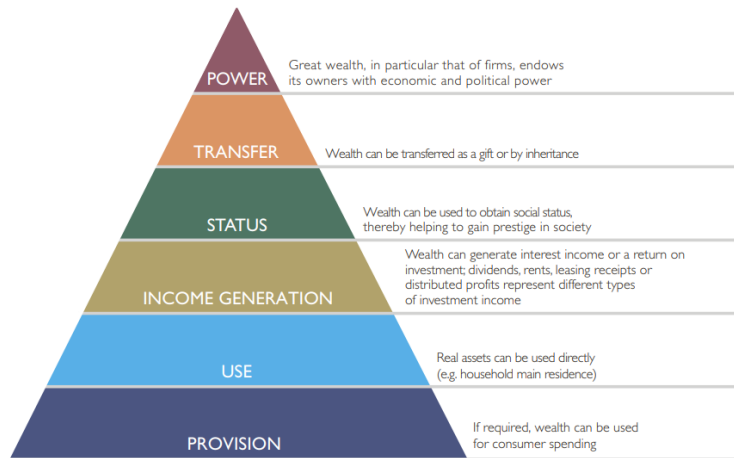
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Wealth Accumulation

Sources of Wealth

Source: Fessler, Mooslechner, Schürz (2012)

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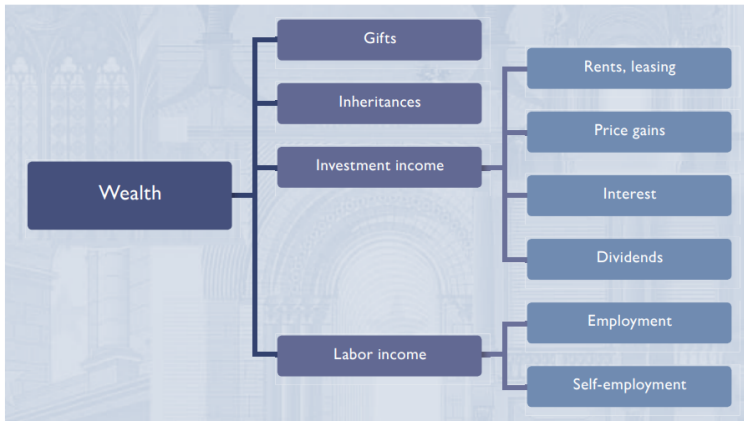
Functions of Wealth: Augmented wealth as compliment and substitute to marketable wealth

Source: Fessler, Mooslechner, Schürz (2012); Fessler and Schürz (2022)
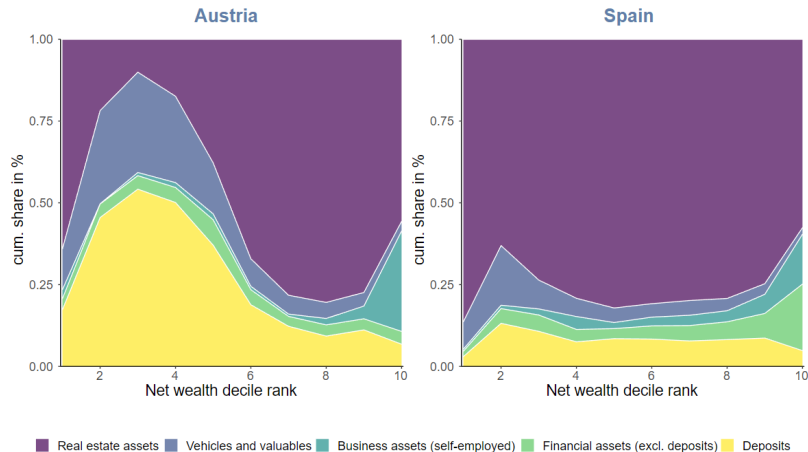
Wealth versus capital?

- Wealth is what you have, capital is what you (can) use
- Capital is the subset of wealth used to create more wealth by generating income
- Difficult to distinguish as no "property" of the entity itself
- Especially worrisome: The role of land

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Balance sheet

HOUSEHOLDS' BALANCE SHEET

ASSETS

Real assets:
• Main residence
• Other real estate property
• Investments in self-employed businesses
• Vehicles
• Valuables
+
Financial assets:
• Sight accounts
• Savings deposits
• Savings plans with building and loan associations
• Life insurance policies
• Mutual funds
• Debt securities
• Publicly traded stocks
• Money owned to household
• Other

LIABILITIES

Collateralized debt:
• by main residence
• by other real estate property

+

Uncollateralized debt:
• Bank overdrafts
• Credit card debt
• Other uncollateralized loans

GROSS WEALTH

DEBT

GROSS WEALTH minus DEBT = NET WEALTH

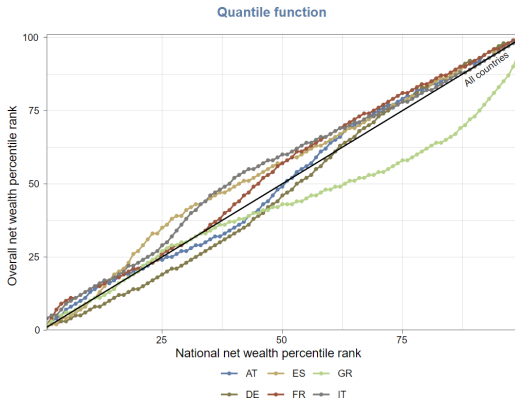# Household Portfolio across the distribution

Source: HFCS 2017 (http://shinyapps.oenb.at/HFCS_Keyfigures/)

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Many issues of comparability also for marketable wealth

- Why compare countries?
- Methodological reasons such as sampling, coverage, editing, weighting, imputation, etc.
- Historical reasons such as war, German reunion, transition in eastern europe, etc.
- Structural differences in the unit of observations (size and age patterns of households)
- Behavioural differences
- Institutions (augmented wealth): pension system, housing subsidies, welfare state, tax system, subsidies, public investment, public infrastructure, etc.
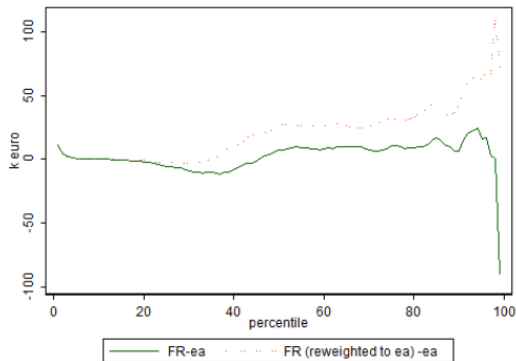
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Most of differences between households and not countries
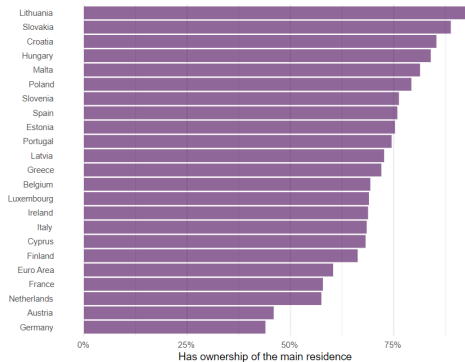
Household Structure and Housing

(b) Diff in (reweighted) HH Dist.

Has ownership of the main residence - Fraction

Source: Fessler, Lindner, Segalla (2014); HFCS 2017 (`http://shinyapps.oenb.at/HFCS_Keyfigures/`)

Fundamental challenges to estimate augmented wealth

- Augmented wealth does not represent a measurable entity but is an epistemic object
- Need for discounted expected future value(s) for individual (or household)
  - ▶ Items and number of potential items unknown
  - ▶ Future value, probability of receipt, interest/discount rate unknown

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$\implies$ All of the above for all remaining lifespans and depending on future international economic and legal development as well as individual behavior

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Examples

- How likely that I get sick and get some monetary transfer through payment of my treatments?
- What is the value of my education (during time) I might receive?
- What discounted wealth should be added for my future expected unemployment payments?
- How likely is it that I will own a firm which is saved by a state transfer in a future crisis?

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Comparing augmented wealth

- Main reason for need of augmented wealth is the wish to compare across countries or savings decisions
- Welfare state crowds out private saving (Feldstein 1974)
- Three ways to do it:
  - ▶ Macro level
    (examine macro time series)
  - ▶ Combine Macro and Micro level
    (integrate cross country/time macro variables into micro data and examine jointly)
  - ▶ Micro level
    (use assumptions to ad present values at micro level)

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Table 6. Multilevel regressions

	Null	HH-Lev	Pension	PensionRE	Social	SocialRE	Labor	LaborRE
Inheritance		1.397***	1.397***	1.337***	1.397***	1.346***	1.361***	1.397***
		(0.041)	(0.041)	(0.138)	(0.041)	(0.134)	(0.126)	(0.041)
Income		0.345***	0.345***	0.432***	0.346***	0.433***	0.431***	0.345***
		(0.015)	(0.015)	(0.087)	(0.015)	(0.087)	(0.088)	(0.015)
Pension expenditure			−0.170***	−0.151**				
			(0.065)	(0.069)				
Social expenditure					−0.071**	−0.064**		
					(0.034)	(0.033)		
Labor market policy							−0.134	−0.000
							(0.142)	(0.165)
Controls		X	X	X	X	X	X	X
Random coefficients				X		X		X
Var country	.636	.299	.182	.005	.210	.005	.008	.299
Var households	18.230	14.977	14.977	14.868	14.977	14.869	14.870	14.977
ICC	.0336	.0196	.0121		.0138		.0005	
N	41 501	41 496	41 496	41 496	41 496	41 496	41 496	41 496

Notes: (i) This table shows pooled multilevel regressions. Random coefficients refer to household income as well as the inheritance dummy. We use the full set of controls as in previous regressions. Malta as well as Cyprus are not included as not all control variables are available. (ii) Null refers to a benchmark model with country random effects only. HH-Lev adds household level controls. Models Pension-LaborRE refer to multilevel models allowing for random intercepts of the country-level variables (pension, social security and active labor market expenditures) as well as additional random coefficients (RE models) for income and inheritance effects. (iii) Standard errors are presented in parentheses and *,**,*** denote significance at the 10%, 5%, and 1% level.
Source: HFCS 2010.

Source: Fessler and Schürz (2018)

Combined micro-macro II

(b) Pension expenditure and net wealth

(b) Substituion effect of social security expenditure
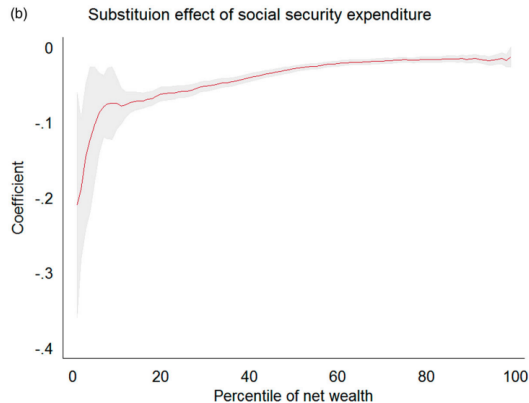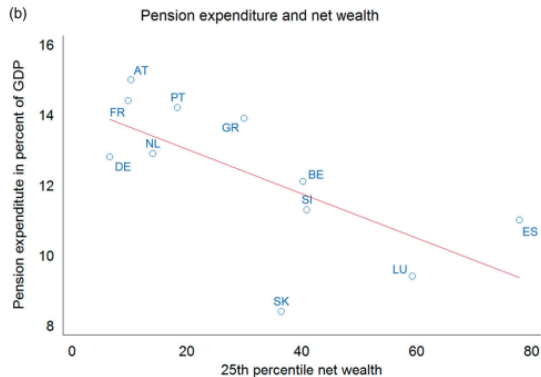
Source: Fessler and Schürz (2018)

Conclusions

- A lot of problems when comparing marketable wealth already
- Estimating present values for individuals (or households) comes with very strong assumptions; uncertainty attached can not be quantified
- Definitions are not right or wrong but either useful or not useful.
- Complex questions remain with regard to:
  - Development of the concept (epistemic object) of augmented wealth
  - Development of all three approaches (macro, macro/micro, micro)
  - Identifying the right approach for different questions/settings
  - Communication of results
- One question is answered: We should not ignore the issue when comparing countries or the same country across time

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