

## Household Wealth Data and Public Policy

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There has been a recent surge in interest in household wealth data, from a number of different quarters. First, studies by, for example, Piketty (2014), Atkinson (2015) and Saez and Zucman (2014) document long-run trends in wealth inequality in a number of developed countries and show that the concentration of wealth has increased over the past number of decades (though the magnitude of the effects found in some of these papers has been contested<sup>(1)</sup>). Second, rising life expectancies, changes to workplace pensions and pressures on public pension systems have led to concerns about whether households are accumulating enough wealth for their retirement. While most of those currently in or close to retirement have saved more than enough to maintain living standards at older ages (in the US and UK at least)<sup>(2)</sup>, younger cohorts are accumulating wealth at slower rates<sup>(3)</sup>—something that could lead to problems for those households (and indeed for policymakers) in decades to come.

A third reason for the rising interest in household wealth data is the increasing consensus that representative agent macroeconomic models cannot satisfactorily explain many aggregate phenomena – including the recent Great Recession. For a credit crunch to have an impact on household behaviour, there must be both borrowers and lenders (which is not the case in a representative agent model, where there is only one type of agent<sup>(4)</sup>); therefore the wealth distribution matters. Indeed, Carroll (2012) notes that the implications of such models are both ‘embarrassingly implausible’ and ‘empirically inaccurate’.

More generally, a household's level of wealth (or debt) and the characteristics of its portfolio – the composition, liquidity, risk profile, exposure to interest rate changes etc. – are pivotal for how that household will respond to macroeconomic shocks or changes in policy. The wealth distribution therefore matters crucially for the distribution of household responses to fiscal and monetary policy and ultimately for macroeconomic dynamics.<sup>(5)</sup> The realisation of this has in turn led to work by macroeconomists to develop models that help us understand the causes of inequality in wealth across households.<sup>(6)</sup> Household wealth data are necessary to assess the performance of such models.

This special issue of Fiscal Studies brings together a set of papers on the collection and analysis of household-level data on wealth. Many of the papers in this issue are drawn from a conference entitled ‘Household Wealth Data and Public Policy’ held in March 2015.<sup>(7)</sup> The conference included papers that looked at the distribution of wealth, mechanisms generating wealth inequality, saving behaviour over the life cycle, public finance issues, how wealth data can inform an understanding of macroeconomic dynamics and the challenges associated with collecting data on the distribution of wealth.

The UK household wealth distribution is an object that has long been studied.<sup>(8)</sup> Despite this, much less is known about the distribution of wealth than is known about other distributions that also bear upon living standards – income and consumption, for example. Research on the household wealth distribution in the UK, as in many other countries, has been held back by the relative lack of wealth data. The UK has had a household budget survey that collects data on household income and spending since 1961<sup>(9)</sup> and a household labour force survey that has collected data on employment, unemployment and economic activity since 1973.<sup>(10)</sup> The presence of these surveys, and similar ones in other countries, means that we have detailed knowledge about households' characteristics and their labour market experience as well as levels of, and inequality in, income and spending and how those distributions have changed over time. In contrast, it was only in 2006 – when data for the Wealth and Assets Survey (WAS) were collected for the first time – that nationally-representative survey data on household wealth became available.<sup>(11)</sup>

The aim of WAS is to measure the assets and liabilities of the private household population in Great Britain (that is, the UK excluding Northern Ireland; households resident in the latter are not sampled by WAS). The survey was instituted partly in response to the recommendations of the Pensions Commission – an advisory body that was set up to review the UK private pension system and long-term trends in saving. This Commission considered that the institution of a household wealth survey should be a ‘major priority’, in order that trends in household saving, wealth, debt and pension

membership could be evaluated and, where likely problems were identified, policy action could be taken.<sup>(12)</sup> While the US has had a household wealth survey for quite some time<sup>(13)</sup> – the Survey of Consumer Finances (SCF) – wealth surveys in other countries are relatively new. Most recently, the Household Finance and Consumption Survey (HFCS) has been instituted across the euro area.

The first paper in this issue, by Alvaredo, Atkinson and Morelli, considers the different ways in which wealth inequality, particularly the share of wealth held by those in the upper tail of the distribution, might be measured. While household survey data might be a very good source if the aim is to document patterns of wealth holdings among most of the population, it is unlikely that those in the top 0.1 per cent of the population, for example, will be captured by general population surveys.<sup>(14)</sup> Even if these surveys only miss a small proportion of the population, it may be that they miss much greater proportions of total household wealth. Other methods that the authors discuss involve backing out the distribution of wealth from data on estates – a method with a long pedigree in the analysis of the wealth distribution<sup>(15)</sup> – and estimating the distribution of wealth from the distribution of capital income (administrative data on the latter tend to be more readily available than those on the former). Alvaredo et al.'s analysis suggests that wealth in the UK has become more concentrated since the turn of the century, but that the data available do not permit more concrete statements about the extent to which this is the case. The authors emphasise that measuring the wealth distribution is extremely difficult and that there is value in using all available sources (survey data, data from estates, data from capital income etc.) to obtain the best possible understanding of the topic under consideration. They conclude that data on wealth in the UK (and elsewhere) are in need of substantial and continued investment if researchers are to be able to communicate firm conclusions to policymakers about trends in the wealth distribution. We very much second this conclusion.

The next paper, by Crawford, Innes and O'Dea, also investigates household wealth in the UK, but the focus is on the distribution more generally rather than shares held by the wealthiest. The paper uses the (relatively) new data from the Wealth and Assets Survey to look at the distribution of wealth, its component parts (financial wealth, housing wealth and pension wealth), and trends in holdings between 2006 and 2012. On average, household wealth (perhaps surprisingly) increased in real terms over this turbulent period, although the increase was driven largely by increases in pension wealth – wealth held outside of pensions exhibited falls on average. Three waves of WAS are now available, with a fourth to be made available shortly and a fifth currently in the field. WAS – unlike, for example, the US SCF or the European HFCS – is a longitudinal survey and, as additional waves of data become available, the survey will become an increasingly valuable research resource.

The third paper in this issue, by Crawford and Hood, investigates the effect that the receipt of inheritances has on the distribution of wealth. The paper uses the English Longitudinal Study of Ageing (ELSA) – a survey that contains a representative sample of individuals in England aged 50 or over. ELSA collects data on household wealth and, in addition, respondents are asked about their past receipts of gifts and inheritances. Previous research in a number of countries has shown that inheritances reduce inequality in marketable wealth. Crawford and Hood show, however, that when the wealth measure examined includes pension wealth, this result no longer holds. On this broader measure of wealth, the impact of intergenerational transfers is either negligible or inequality-increasing rather than inequality-reducing.

The next paper, by Looney and Moore, goes beyond the measurement of the wealth distribution and begins to assess the effect that policy can have on that distribution. The authors use US data from the Survey of Consumer Finances. This is the most venerable and most studied of the international wealth surveys (having started in 1983)<sup>(16)</sup> and, arguably, best captures the top tail of the wealth distribution.<sup>(17)</sup> Wealth is distributed more unequally than income.<sup>(18)</sup> However, published estimates of inequality in the wealth distribution typically ignore the fact that, in the case of tax-deferred pension wealth, the distribution of after-tax wealth (which is the definition of wealth most closely linked with household welfare) will differ from the distribution of pre-tax wealth. The authors find that the former distribution is less concentrated than the latter in the US. They also find that the US income tax system reduces wealth inequality to a lesser extent than it did a decade ago – largely due to the lower rates of taxation on capital gains.

Next, Blundell, Crawford, French and Tetlow turn to a life-cycle analysis of wealth holdings. They look at the age path of wealth – with a particular focus on wealth trajectories in retirement. Their analysis compares data from the US and England and their comparative focus is facilitated by their use of data

from two surveys that are specifically designed to be internationally comparable. These surveys – the Health and Retirement Study (HRS) and ELSA (introduced above) – contain representative samples of the population aged 50 and over and collect data on household balance sheets (as well as on many other aspects of respondents' characteristics and circumstances). Blundell et al. show quite stark differences between the wealth decumulation behaviour of the over-70s in the US and similarly-aged individuals in England. In the US since 2002, household wealth has declined gradually with age, while in the UK it has actually increased. Greater house price appreciation in the UK explains some, but not all, of this difference. Understanding this different behaviour – and the extent to which it relates to each of different preferences and different institutions in the two countries – is an interesting and lively research area.

The final two papers in this issue illustrate the use of wealth data in macroeconomics. The penultimate paper, by Anderson, Bunn, Pugh and Uluc, introduces the Bank of England / NMG Survey – a survey of household wealth that, since 2004, has been carried out by a private firm (NMG) on behalf of the Bank of England; the data are made publicly available. The survey has the advantage to the Bank of England of giving it timelier data on the wealth distribution than it could expect from WAS, though at the cost that the NMG Survey is perhaps not as credibly representative of the household population as WAS (for example, respondents without internet access are not included in the sampling frame). That the Bank of England commissions and uses this survey shows the importance of wealth and its distribution for monetary policymaking and financial stabilisation.

The final paper, by Devlin-Foltz and Sabelhaus, looks at the relationship between trends in the distributions of income, wealth and household spending on certain items in the US. Aggregate household spending is the largest single component of GDP and is therefore an object whose dynamics are central to those of the business cycle. Devlin-Foltz and Sabelhaus use the SCF, which, like the NMG Survey, is funded and heavily used by the monetary authority (the Federal Reserve Board in the case of the US), but is, like WAS, a large-scale population-representative wealth survey. The authors look at changes in purchases of 'big-ticket' items such as cars and housing and how they have been correlated with changes in income and wealth across the distribution.

The papers in this volume show the range of issues to which the household wealth distribution is relevant and the critical importance to economic policy of having the ability to measure it. We hope that these papers will spur further discussions on these issues and ensure that the UK and other countries have the best possible infrastructure for the collection and analysis of household wealth data.

1. See Bricker et al. (2015).
2. See Scholz, Seshadri and Khittrakun (2006) and Crawford and O'Dea (2014) respectively for those two countries.
3. See Hood and Joyce (2013).
4. In representative agent models, the agent must own a nation's capital stock, and is thus a lender, not a borrower. Such an agent is unaffected by a reduction in the supply of credit.
5. See Huo and Ríos-Rull (2015) for some recent work emphasising this.
6. De Nardi (2015) provides a survey of work in this area.
7. This conference was organised by the Institute for Fiscal Studies (IFS) and Public Economics UK (PEUK), funded by the Nuffield Foundation and the ESRC and hosted by the Bank of England. The opinions expressed in this introduction and in the papers that follow are those of the authors and not those of IFS, PEUK, the Nuffield Foundation, the ESRC or the Bank of England.
8. See Baxter (1869) and Giffen (1913) for early contributions and Atkinson and Harrison (1978) for a review of the literature in the century to that date.

9. This survey is currently known as the Living Costs and Food Survey (LCFS), and was previously known as the Expenditure and Food Survey from 2001 to 2008 and the Family Expenditure Survey from 1961 to 2001. It was predated by a more limited survey on food spending – the National Food Survey – which started as early as 1940. The Family Resources Survey (FRS), which started in 1992, collects more detailed data on income than the LCFS and does so for a larger sample.
10. This survey is called the Labour Force Survey.
11. The English Longitudinal Study of Ageing (ELSA) has, since 2002, collected rich data on household wealth, but that survey only covers the household population aged 50 and over. Since 1991, the British Household Panel Survey (BHPS) has collected data on housing wealth and, in selected years, collected some additional data on liquid financial wealth (1995, 2000 and 2005) and pension wealth (2001 and 2005). See Crossley and O'Dea (2010) for an application of the data on liquid financial wealth and Emmerson and Wakefield (2009) for an application of the data on pension wealth.
12. Pensions Commission, 2005.
13. See Bucks and Pence (2015) for a discussion of wealth data in the US and a survey of the challenges involved in measuring household wealth.
14. This is true notwithstanding the oversampling of the wealthy (which is best practice in wealth surveys – see Vermeulen (2015)).
15. See Atkinson and Harrison (1978).
16. Though a precursor to the SCF – the Survey of Financial Characteristics of Consumers – collected data in 1962 and 1963.
17. Vermeulen, 2015.
18. For evidence of this in the UK, see the papers by Crawford, Innes and O'Dea and by Alvaredo, Atkinson and Morelli in this issue.

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