

DIW Applied Micro Seminar

Redistribution in a joint income-wealth perspective: a cross-country comparison

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Abstract:

When determining living standards it is increasingly argued that we should give more prominence to the joint distribution of income and wealth. Moreover, given increased levels of inequality in most Western countries over the past decades, many researchers and policymakers have made strong arguments for broadening the taxes on (income from) wealth. However, research on both aspects is scarce due to the lack of appropriate data and methods. By including the Eurosystem Household Finance and Consumption Survey (HFCS) into the tax-benefit microsimulation model EUROMOD we are able to add two novel aspects to the literature on the redistributive effects of tax-benefit systems. First, we evaluate the redistributive effects of tax-benefit systems against the joint distribution of income and wealth instead of income only. Second, we include the analysis of recurrent wealth taxes (i.e. real property and net wealth taxes) and event-based wealth. We analyse all this in a cross-country comparison of Belgium, Finland, France, Germany, Italy and Spain. We show that the more comprehensive joint income-wealth framework of living standards results in considerable reranking of individuals, which in turn leads to a lower redistributive impact than is traditionally considered based on income alone. Moreover, we find that wealth taxes are currently not used to their fullest potential as a redistributive instrument.