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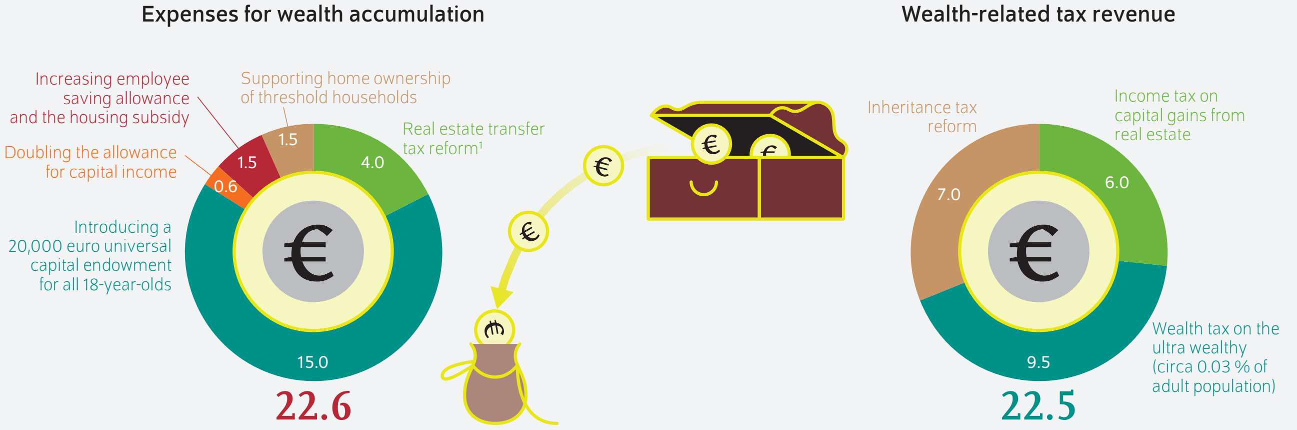
AT A GLANCE

Universal capital endowment and wealth taxes could reduce wealth inequality

By Stefan Bach

- Wealth in Germany is very unequally distributed; the bottom half of the population only has one percent of total wealth
- Over the long term, wealth accumulation could be strengthened by supporting home ownership, private pension plans, and other precautionary saving
- A universal capital endowment of 20,000 per person would decrease wealth inequality more quickly and considerably
- Simulation shows how a universal capital endowment and its financing through the inheritance tax or a wealth tax would reduce inequality
- Depending on the extent of the universal capital endowment and wealth taxes, the Gini coefficient for wealth inequality would decrease by five to seven percent

Government costs of an effective wealth accumulation program and how to finance it
In billion euros per year



1 The real estate transfer tax reform includes limiting tax avoidance opportunities and introducing an allowance of 250,000 euros for the (first-time) purchase of a home.

Source: Author's own calculations.

FROM THE AUTHORS

"The high wealth inequality in Germany can only be quickly and effectively reduced through redistribution. This can be achieved by giving the property-less half of the population a universal capital endowment to accumulate wealth, which would be financed by taxes on the wealthy."
— *Stefan Bach* —

MEDIA

Audio Interview with S. Bach (in German)
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Universal capital endowment and wealth taxes could reduce wealth inequality

By Stefan Bach

ABSTRACT

Wealth is very unequally distributed in Germany. To effect a long-term reduction, the new Federal Government could focus on more effectively promoting home ownership, supplementary retirement provision, and other precautionary savings. However, a universal capital endowment could decrease wealth inequality much more rapidly and successfully. In this report, a universal capital endowment of up to 20,000 euros is simulated, which is granted to everyone 18 and older. These programs, which would require around 22.6 billion euros annually, could be financed by increasing the inheritance tax, implementing a recurrent wealth tax on the ultra wealthy, and taxing real estate properties more effectively. A universal capital endowment, which primarily increases the wealth of the lower and middle classes, paired with wealth taxes would significantly reduce wealth inequality in Germany: Simulations show that the Gini coefficient would decrease by five to seven percent as a result.

The net wealth of households is especially unequally distributed in Germany.[1] While the bottom half of the population has no notable assets, the richest ten percent has 67 percent of overall private wealth, the richest one percent of the population has 35 percent, and the richest 0.1 percent has up to 20 percent (Figure 1).[2] Wealth in Germany is thus very strongly concentrated compared to other EU or OECD countries with a similar income distribution.[3] The relatively low amount of wealth of the German middle class is particularly striking.[4]

Wealth inequality also played a role in the 2021 *Bundestag* election campaigns. Two of the new coalition parties, the SPD and the Greens, wanted to tax high incomes and the wealthy more heavily. The third party, the FDP, firmly rejected this plan and prevailed. Therefore, the coalition agreement between the three parties does not include tax increases on the wealthy. However, measures are planned to promote home ownership, to improve occupational and private pension plans, and to increase the tax-exempt capital income allowance for income tax purposes.[5]

1 Conventionally, net wealth includes real estate, financial assets, insurance assets, business assets, and corporate shares, minus debt. Certain components are excluded, in particular "social assets" in the form of social security entitlements, such as the quantitatively significant entitlements to the statutory pension insurance scheme, civil servants' pensions, or occupational pensions. If these assets are taken into account by capitalizing pension entitlements, wealth inequality in Germany is massively reduced: The Gini coefficient falls by 19 percentage points, cf. Timm Bönke et al., "The Joint Distribution of Net Worth and Pension Wealth in Germany," *Review of Income and Wealth* 65, no. 4 (2019) (available online, accessed on August 30, 2021. This applies to all other online sources in this report).

2 Carsten Schröder et al., "Millionaires under the microscope: data gap on top wealth holders closed; wealth concentration higher than presumed," *DIW Weekly Report*, no. 30/31 (2020) (available online); Stefan Bach, Andreas Thiemann, and Aline Zucco, "Looking for the missing rich: tracing the top tail of the wealth distribution," *International Tax and Public Finance* 26 (2019) (available online).

3 OECD, *Society at a Glance 2019: OECD Social Indicators* (2019): 98 f (available online).

4 This DIW Weekly Report is based on a study that was conducted as a part of a multi-year project on inequality commissioned by the Forum New Economy. Cf. Stefan Bach, Markus M. Grabka, and Marc C. Adam, "Ungleichheit in Deutschland – Politikmaßnahmen zur Trendumkehr," *Forum New Economy Working Papers* No. 05/2021 (in German; available online).

5 *Mehr Fortschritt wagen. Bündnis für Freiheit, Gerechtigkeit und Nachhaltigkeit. Koalitionsvertrag 2021–2025 zwischen der Sozialdemokratischen Partei Deutschlands (SPD), BÜNDNIS 90/DIE GRÜNEN und den Freien Demokraten (FDP)* (2021): 73 f., 92, 165 (in German; available online).

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In the following sections, important drivers of wealth inequality are presented and various methods of promoting wealth accumulation and taxing the wealthy are discussed. Using a micro simulation model, the long-term effects of a universal capital endowment on wealth inequality are simulated, financed by tax increases on the wealthy,

Important drivers of high wealth inequality

Various factors that interact with each other and have a long-term impact are driving the development of wealth inequality in Germany. The following can be deemed as the most important influencing factors for the high concentration of wealth:

- The share of the older population is growing because of the demographic change. Due to where they are in their lives, older people have accumulated more wealth than young people in general.

- The home ownership rate in Germany is very low in an international comparison. By saving for and paying off real estate, homeowners accumulate more wealth than comparable renter households.

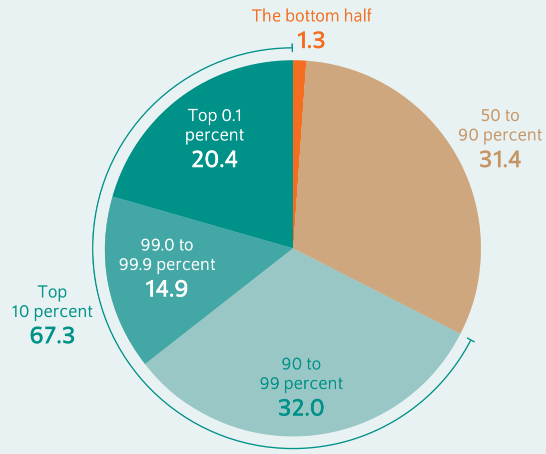
- The well-developed social security systems in Germany do not encourage private provision or wealth accumulation. They require high contributions to be paid, thus reducing opportunities for additional wealth accumulation. This is especially the case for low-income earners and the middle class, as contributions are largely financed proportionally via earned income.

- The saving rate in Germany is high and increased during the coronavirus pandemic. However, many households save in fixed-interest investments such as savings accounts, time deposits, and life insurance policies, or simply leave their money in their checking account. Such investments do not yield any returns, resulting in real losses of wealth.[6] Additionally, such investments do not benefit from rising asset prices. Investments in stocks, bonds, or funds are less widespread in Germany than in other countries, similar to the home ownership rate. Low risk investments with low returns also dominate occupational and private pension plans.

- The inheritance tax and other wealth taxes on the wealthy have not played a major role in Germany since the 1970s. Assets were increasingly underreported: The standard values of real estate properties were not renewed and business assets were significantly undervalued. In 1997, the recurrent wealth tax was repealed. Due to high personal allowances and extensive tax privileges for business transfers in inheritance and gift taxes, revenue from these taxes is limited to just 1.1 percent (as of 2021) of total tax revenue.

Figure 1

Wealth distribution in Germany
In percent of total wealth (as of 2019)



Note: Households only.

Sources: SOEP v35; SOEP-P von 2019; Manager Magazin.

The richest ten percent of the population has two thirds of total wealth.

- Income inequality has also increased over the past years, with upper income groups having far above-average saving rates.[7] The interplay of these types of inequality increases both in the end. Capital income is the most important type of income when explaining the increase in inequality. As income inequality increases, savings possibilities increase for the higher income groups. This increases wealth inequality and drives income inequality through rising capital income.[8]

- Asset prices have increased powerfully over the past decade, primarily benefiting the top half of the population, which has significant assets. As a result, the absolute wealth gap to the asset-less bottom half increases.

Instruments against wealth inequality: supporting wealth accumulation

If the Federal Government aims to increase equal opportunities and strengthen personal provision, more people must be supported in accumulating wealth. To achieve its goal, the Federal Government should focus on increasing the wealth of the middle class by supporting home ownership, supplementary pension provision, and financial assets. For the lower income groups, supplementary pension provision and financial assets are particularly relevant. In addition, barriers

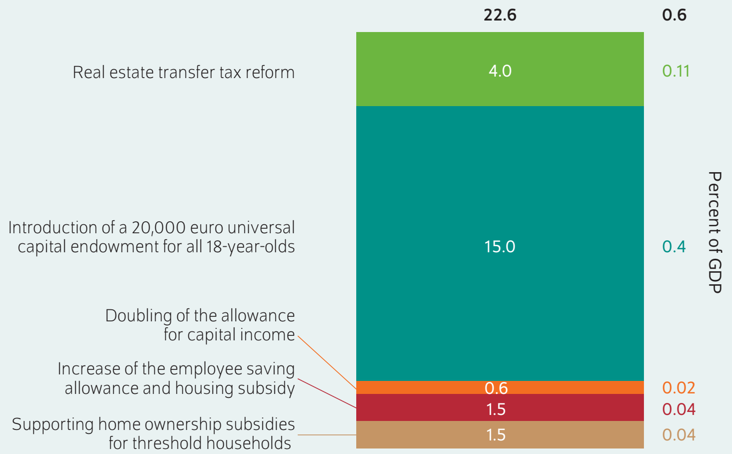
6 Cf. Markus M. Grabka and Christian Westermeier, "Reale Nettovermögen der Privathaushalte in Deutschland sind von 2003 bis 2013 geschrumpft," *DIW Wochenbericht*, no. 34 (2015): 727–738 (in German; available online).

7 Karl Brenke and Gert G. Wagner, "Ungleiche Verteilung der Einkommen bremst das Wirtschaftswachstum," *Wirtschaftsdienst* 2 (2012): 110–116 (in German; available online).

8 Cf. Bach, Grabka, Adam, "Ungleichheit in Deutschland – Politikmaßnahmen zur Trendumkehr;" Thilo N. H. Albers, Charlotte Bartels, and Moritz Schularick, "The Distribution of Wealth in Germany, 1895–2018," *ECONtribute Working Paper* (2020) (available online).

Figure 2

Annual expenses of a universal capital endowment and subsidy programs for wealth accumulation
In billions of euros, estimated for 2022



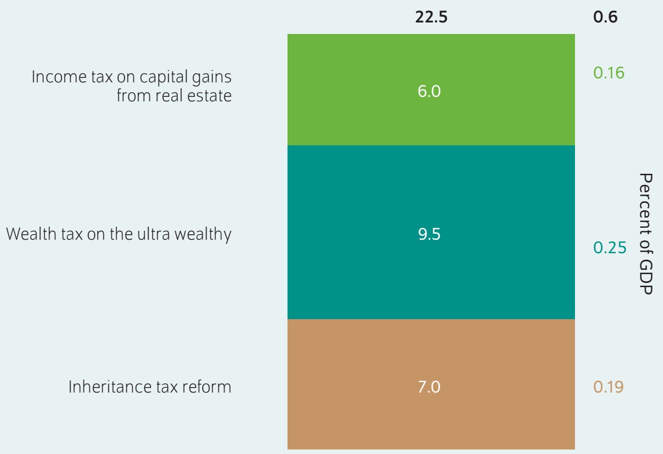
Note: The real estate transfer tax reform primarily includes restrictions on tax avoidance opportunities, especially share deals, and the introduction of an allowance of up to 250,000 euros for the (first-time) purchase of a home.

Source: Author's own calculations.

To effectively drive wealth accumulation, programs should promote capital accumulation and introduce a universal capital endowment.

Figure 3

Annual revenue from an increase in wealth-related taxation
In billions of euros, estimated for 2022



Notes: A reform to the inheritance tax includes a minimum tax for business transfers, eliminating other tax privileges, and reforming the personal allowance. The wealth tax for the ultra-rich one percent applies to personal net worth exceeding 20 million euros (this affects around 21,000 adults or 0.03 percent of the adult population).

Source: Author's own calculations.

The 22.6 billion euros required to finance a universal capital endowment and the subsidy programs could come from reforms to wealth-related taxes.

to wealth accumulated should be eliminated, for example in the real estate markets or in tax law.

Supporting home ownership is an important tool for strengthening personal provision and combating wealth inequality over the long term.[9] Home owners save more, are more financially secure in old age, and are currently benefiting from the boom in asset prices. At the same time, however, high fiscal costs and free-rider effects should be avoided, as was the case with broad-based subsidies such as the former *Eigenheimzulage* (a first-time home buyer allowance) or, most recently, the *Baukindergeld* (a subsidy granted per child to help families purchase homes).[10] Therefore, politicians should concentrate support on the relevant households on the threshold, primarily younger households and families with medium incomes. Appropriate programs are promotional loans,[11] lease-purchase models,[12] or specific premiums for households that cannot afford to purchase property (*Sozialkaufprämie*).[13]

In addition, the new Federal Government should reform all regulations that are currently driving up incidental construction and purchase costs or preventing the mobilization of building land. This includes building regulations, notary and land registry fees, and planning and permitting procedures. This applies to the real estate transfer tax in particular, in which an allowance for (first-time) home buyers could be introduced.

In addition to promoting home ownership, adjustments should also be made to pension provision. The Riester pension[14] and occupational pension provision schemes should be simplified and the full return of premium guarantee should be relaxed to be able to use higher-yielding investments. In addition, alternatives should be available through public or public service pension plans that develop standard products

9 International comparisons suggest that countries with a high home ownership rate also have lower wealth inequality. Cf. Martin Beznoska, Judith Niehues, and Tobias Hentze, *Vermögensverteilung – Vorurteilen auf der Spur* (Institut der deutschen Wirtschaft Köln e. V.: 2017): 17 f (in German; available online).

10 These programs supported a wide range of income groups up to high earners. The subsidy amounts, at 10,000 to 20,000 euros, were too low for threshold households to acquire the required capital to finance a home without significant assets, especially in metropolitan areas with high land prices. Therefore, free-rider effects and questionable incentives in factor of owner-occupied homes and rural areas were created. For more on the *Baukindergeld*, cf. Claus Michelsen, Stefan Bach, and Michelle Harnisch, "Baukindergeld: Einkommensstarke Haushalte profitieren in besonderem Maße," *DIW aktuell* 14 (in German; available online).

11 Claus Michelsen, "Erwerb von Wohneigentum: Eigenkapitalschwelle für immer mehr Haushalte zu hoch," DIW akutell 2 (2017) (in German; available online); Michael Voigtländer, "Mehr Wohneigentum für NRW: Stellungnahme zu der Drucksache 17/5627," IW-Report, no. 40 (in German; available online).

12 Cf. Peter Gründling and Markus M. Grabka, "Staatlich geförderter Mietkauf kann einkommensschwachen Familien Weg in die eigenen vier Wände ebnen," *DIW Wochenbericht*, no. 29 (2019) (in German; available online).

13 Reiner Braun and Markus M. Grabka, "Die Sozialkaufprämie – ein Vorschlag zur Ergänzung der Immobilienförderung in Deutschland," *DIW Wochenbericht*, no. 27 (2021) (in German; available online).

14 Johannes Geyer, Markus M. Grabka, and Peter Haan, "20 years of the Riester pension—personal retirement provision requires reform," *DIW Weekly Report*, no. 40 (available online).

with low transaction and administrative costs.[15] Furthermore, the previously voluntary supplementary systems could be strengthened by making insurance compulsory, allowing the insured the option of opting out.

The employee savings allowance (*Arbeitnehmersparzulage*) and housing subsidy (*Wohnungsbauprämie*) could be more integrated and operate according to the new income limits for the building subsidy.[16] In addition, the subsidy could be increased and the income limits expanded further, with the use of the savings being tied to specific purposes, similar to the housing subsidy. Such purposes could be purchasing real estate, completing further training, or starting a business. The subsidy could also be combined with concepts such as the opportunity loan (*Lebenschancenkredit*) or opportunity account (*Chancenkonto*) as part of a universal capital endowment, which will be discussed in more detail in the next sections.

The allowance for capital income could be increased for the personal income and withholding taxes to exempt returns earned by households on financial assets that serve as supplementary provision. To this end, the current tax-free sum of 801 euros per person could be doubled to 1,600 euros.[17]

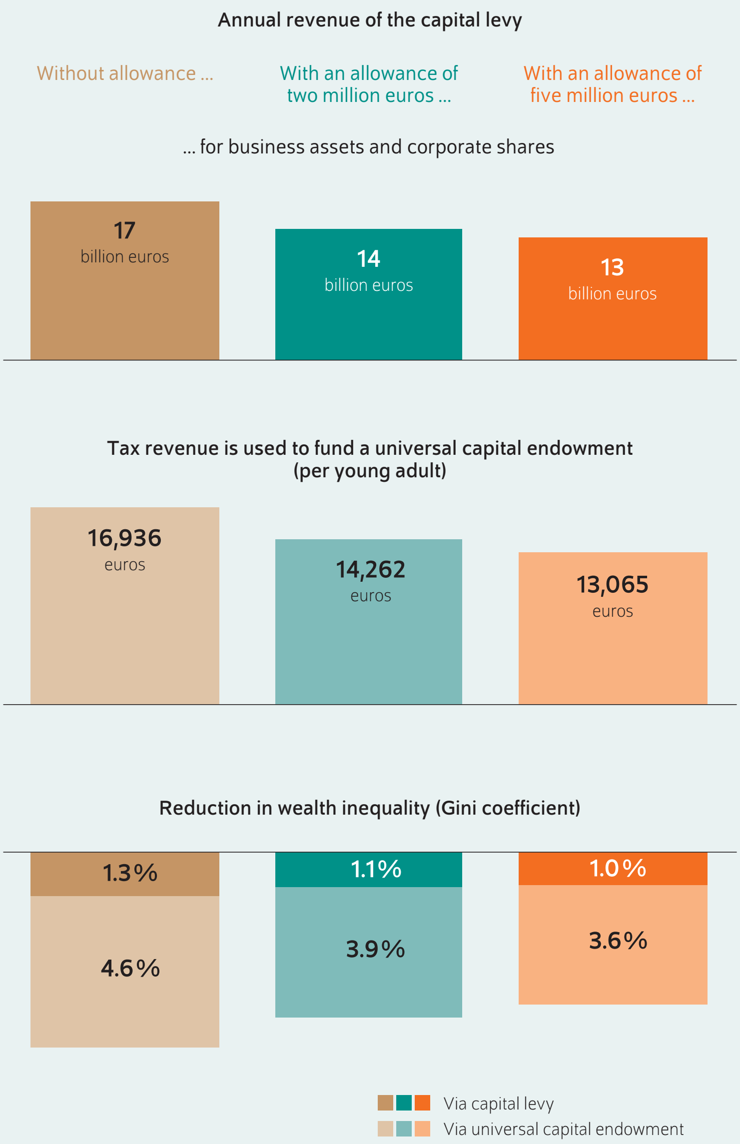
A sovereign wealth fund that invests in globally diversified portfolios could generate complementary returns that benefit the population. Such a fund could be used to co-finance a basic income, pension provision, or a universal capital endowment, for example.[18]

The programs outlined here are likely to require annual spending of 3.6 billion euros (Figure 2). However, due to the moderate funding volumes and the focus on the middle class, they only have a moderate effect in the long term on the wealth distribution and are easily overshadowed by other developments. For faster results, wealth must be more directly and noticeably redistributed.

In the case of the real estate transfer tax, tax avoidance opportunities should be abolished and the (first-time) purchase of a home should be made tax exempt, as is planned in the coalition agreement. Introducing a first-time home buyer allowance in the amount of 250,000 euros and limiting share deals[19] is estimated to result in an annual revenue shortfall of 4.5 billion euros. Like the programs, these reforms are likely to reduce wealth inequality only moderately and in the long term at best, to the extent that it makes it easier for lower income households to purchase property.

Figure 4

Effect of the capital levy and universal capital endowment on inequality
In percent



Notes: Capital levy with a rate of 15 to 30 percent (progressive rate for net worth above 30 million euros) and a personal allowance of two million euros.

Source: Simulations using data from the Household Finance and Consumption Surveys (HFCS) 2017 including the estimated cases of the ultra wealthy.

The use of capital levy revenue for a universal capital endowment would, depending on the scenario, reduce wealth inequality by up to six percent.

The more effective tool: universal capital endowment

Larger subsidy programs for specific types of assets, such as home ownership or pension provision, easily trigger free-rider effects and privilege specific assets. Furthermore, it takes decades for a relevant effect on wealth distribution

15 Cf. Geyer, Grabka, and Haan, "Ungleichheit in Deutschland – Politikmaßnahmen zur Trendumkehr."

16 Konstantin A. Kholodilin and Claus Michelsen, "Wohneigentumsförderung in Deutschland – Kleine Prämien mit Wirkung," *DIW Wochenbericht*, no. 27 (2021) (in German; available online).

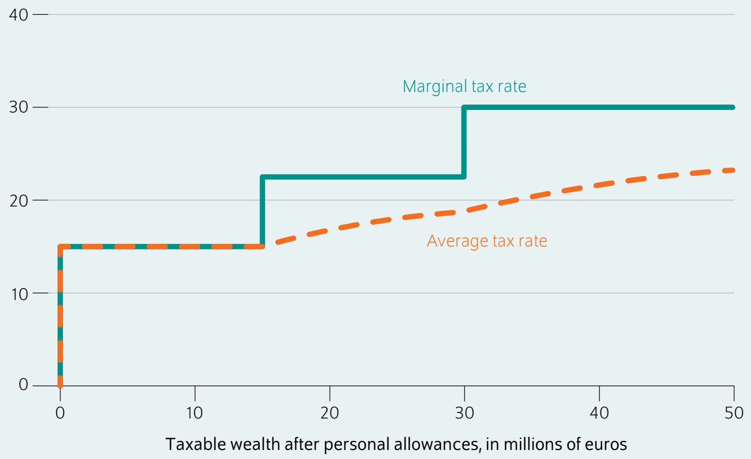
17 Until 1999, the allowance for capital income was 6,000 DM (or 3,048 euros) per person.

18 Clemens Fuest et al., "Staatsfonds für eine effiziente Altersvorsorge: Welche innovativen Lösungen sind möglich?" *ifo Schnelldienst* 14 (2019) (in German; available online).

19 Cf. Stefan Bach and Sebastian Eichfelder, "Real estate taxation reform: tax land values, abolish privileges," *DIW Weekly Report*, no. 27/28 (2021) (available online).

Figure 5

Tax burden of a capital levy
In percent of taxable wealth



Source: Author's own calculations.

The top tax rate of 30 percent would apply to taxable net wealth of 30 million euros or more.

to materialize. An alternative would be a broad-based asset transfer, such as an unconditional capital endowment.[20] Every resident would receive capital from the state at 18 years old. To create a noticeable effect on wealth inequality, an amount of up to 20,000 per person is suggested. Financing of around 15 billion euros annually would be required for the current group of around 750,000 young adults per birth cohort (Figure 2).

Such a universal capital endowment would noticeably reduce wealth inequality, which is perpetuated generationally via inheritances and gifts. Currently, most people either inherit nothing or a small amount. Only around 25 to 30 percent of the population inherits 100,000 euros or more, and mostly only later in life.[21] Few people inherit large amounts at a young age and very few inherit very large amounts. Because of this generational mechanic, equal opportunities within a generation are substantially reduced.

It thus makes sense to finance a universal capital endowment via a higher inheritance tax or other taxes on the wealthy (for more on this, see the following section). This would be particularly consistent with meritocratic notions of performance, distribution, and tax equity. Furthermore, allocating this revenue to a universal capital endowment would also reduce the strong resistance to increasing the inheritance tax—a concept that is also quite unpopular among the upper middle and lower upper classes, despite it barely affecting them.

A universal capital endowment would be unconditional, granted regardless of personal assets or lack thereof. Its use, however, would be tied to certain purposes: To finance education, to purchase a home, to finance self-employment or a start-up, to participate in further education or training, or to use as a financial cushion in the event of unemployment or illness. It could also be used to cover expenses for taking care of children or elderly or disabled family members. Such concepts have been developed as opportunity loans,[22] opportunity accounts, or personal worker accounts (*persönliche Erwerbstätigenkonten*).[23] Unspent amounts could earn interest and be put aside for retirement or discretionary use in older age.

Financing: increase wealth-related taxes

Taxes on income and the wealthy could be moderately increased to finance the programs and, above all, the universal capital endowment. The inheritance tax and real estate taxation should be the main focus, and the possible negative economic effects must also be considered.

Despite multiple reforms over the past decades, there continue to be issues with the inheritance tax. Business successions are largely tax-exempt so as not to jeopardize firms. Very large transfers also receive special treatment, even if they are to persons not actively involved in the company and do not bear any particular entrepreneurial risks as shareholders, such as minors and children.[24] Furthermore, transfers to foundations or multiple uses of personal allowances offer tax avoidance opportunities.

A minimum tax on high-worth business transfers and abolishing tax privileges could double inheritance tax revenue in the longer term. Moreover, the ten-year time limit for personal allowances should be considerably extended or even abolished so that they can only be claimed once in a lifetime. To indirectly progressively tax high business incomes, a recurrent wealth tax on the ultra wealthy could be introduced, for example starting at 20 million euros. In the case of real estate assets, the land value and capital gains could be taxed higher via the property and income taxes, respectively.[25]

20 Proposal 6 in Anthony B. Atkinson, *Inequality: What Can Be Done?* (Harvard University Press: 2015) (available online); cf. also Anthony B. Atkinson, "Inequality: What Can Be Done?" *Working Paper 2 International Inequalities Institute, London School of Economics and Political Science* (2015) (available online).

21 Kira Baresel et al., "Hälfte aller Erbschaften und Schenkungen geht an die reichsten zehn Prozent aller Begünstigten," *DIW Wochenbericht*, no. 5 (2021) (in German; available online); Stefan Bach and Andreas Thiemann, "Hohe Erbschaftswelle, niedriges Erbschaftsteueraufkommen," *DIW Wochenbericht*, no. 3 (2016) (in German; available online).

22 Steffen Mau, "Der Lebenschancenkredit: Ein Modell der Ziehungsrechte für Bildung. Zeitsouveränität und die Absicherung sozialer Risiken," *WISO direkt* (2015) (in German; available online).

23 Cf. The Federal Ministry of Labor and Social Affairs, *Weißbuch Arbeiten 4.0* (2017): 181 f (in German; available online).

24 Stefan Bach, "Erbschaftsteuer: Firmenprivilegien begrenzen, Steuerbelastungen strecken," *DIW Wochenbericht*, no. 7 (2015) (in German; available online); Stefan Bach and Thomas Mertz, "Vor der Erbschaftsteuerreform: Nutzung der Firmenprivilegien hat Minderjährige zu Multimillionären gemacht," *DIW Wochenbericht*, no. 36 (2016) (in German; available online).

25 Bach and Eichfelder, "Real estate taxation reform."

Overall, these tax reforms could achieve annual revenue in the amount of up to 22.5 billion euros a year, or 0.6 percent of the GDP estimated for 2022 (Figure 3). This revenue can be used to finance the programs outlined here, including real estate transfer tax relief, and the universal capital endowment in particular.

Wealth taxes only moderately decrease inequality

The long-term effects of wealth taxes on the cross-section of the wealth distribution can be shown by simulating a one-time capital levy (Figure 4). Over a period of 30 years, about a generation gap, a recurrent wealth tax with an annual rate of one percent has a similar effect as both an inheritance tax with a 30 percent rate that is levied every 30 years or a one-time capital levy with a 30 percent rate that is paid in equal amounts over 30 years. The capital levy, as simulated below, therefore represents the long-term effects of a higher inheritance tax or a recurrent wealth tax. This is simulated here in a simplified form, neglecting further economic effects. In addition, the long-term impact of a universal capital endowment on the wealth distribution is investigated.

Using a micro simulation model, different scenarios of the capital levy are simulated for the year 2017.[26] In the scenarios, a personal allowance of either one or two million euros is simulated. In addition, scenarios with allowances for business assets and corporate shares of two or five million euros are investigated, which are meant to protect small and medium-sized firms.

A progressive, graduated tax rate is used for the capital levy (Figure 5): For assets up to 15 million euros, the taxable wealth exceeding the exemption will be subject to a tax rate of 15 percent. For taxable wealth up to 30 million euros, the exceeding amount will be subject to a tax rate of 22.5 percent, and beyond that, exceeding wealth will be subject to a tax rate of 30 percent. This then applies analogously to the rate of an inheritance tax that is levied every 30 years.[27] The analogous marginal tax rates of a recurrent wealth tax are then 0.5, 0.75, and 1.0 percent, corresponding to the brackets of taxable wealth.

Depending on the scenario, the capital levy results in overall revenue of 384 billion euros (with a personal allowance of two million euros and a business asset allowance of five million euros) to 615 billion euros (with a personal allowance of

26 The calculations on the capital levy and the universal capital endowment are based on an integrated dataset for the entire wealth distribution of households in Germany for 2017, cf. Stefan Bach, "Vermögensabgabe DIE LINKE: Aufkommen und Verteilungswirkungen," *DIW Berlin Politikberatung kompakt* 157 (2020) (in German; available online). The third wave of the 2017 Household Finance and Consumption Survey (HFCS) from the euro central banks is used, which is conducted by the Deutsche Bundesbank for Germany. Furthermore, the 300 richest Germans in 2017 according to the list of *Manager Magazin* are integrated into the model dataset. Assuming the Pareto distribution, the wealth and wealth distribution of the households with high net wealth (three million euros or more) are estimated for the top wealth area. Using a micro simulation model, the tax revenue and distribution effects of the capital levy and the basic inheritance are calculated.

27 This corresponds approximately to the inheritance tax rate in tax class I (in German; available online).

Table 1

Revenue and distributive effects of a capital levy

	Personal allowance of one million euros			Personal allowance of two million euros		
	Allowance for business assets and corporate shares					
	None	Two million euros	Five million euros	None	Two million euros	Five million euros
Taxpayers						
In thousands	1,564	1,448	1,332	423	366	293
In percent of the population	2.3	2.1	2.0	0.6	0.5	0.4
Tax revenue in billion euros						
Total	615	511	475	498	419	384
Annual[1]	20	17	16	17	14	13
	Distribution of total tax revenue by percentiles of net wealth in percent					
1st–99th percentile	3.7	2.4	2.5	0.0	0.0	0.0
99.1th–99.9th percentile	28.4	20.9	21.8	18.7	9.5	9.6
Top 0.1 percent	67.9	76.7	75.6	81.3	90.5	90.4
	Percentage change in measures of wealth distribution					
Gini coefficient	−1.6	−1.3	−1.2	−1.3	−1.1	−1.0
GE(2)[1]	−44.4	−45.3	−45.4	−45.4	−46.0	−46.2
	Ratio of the average wealth of the top 1 percent to the bottom half of the population					
Reference: 466	394	406	410	406	415	420
	Collection costs as a percentage of total tax revenue					
	3.2	3.5	3.7	2.3	2.4	2.5

1 The GE(2) measure of inequality primarily considers the changes in the upper part of the distribution.

Source: Simulations using data from the Household Finance and Consumption Surveys (HFCS) 2017 including the estimated cases of the ultra wealthy.

Table 2

Effect of tax revenue from the capital levy and a universal capital endowment on the wealth distribution

	Personal allowance of one million euros			Personal allowance of two million euros		
	Allowance for business assets and corporate shares					
	None	Two million euros	Five million euros	None	Two million euros	Five million euros
Capital endowment per person in euros	20,917	17,380	16,169	16,936	14,262	13,065
	Percentage change in net wealth					
1st–50th percentile	93.7	77.9	72.5	75.9	63.9	58.6
50th–90th percentile	4.7	3.9	3.6	3.8	3.2	2.9
90th–99th percentile	0.2	0.3	0.3	0.6	0.5	0.5
99.1th–99.9th percentile	−9.2	−5.6	−5.5	−4.9	−2.1	−1.9
Top 0.1 percent	−21.4	−20.1	−18.4	−20.7	−19.4	−17.8
	Percentage change in measures of wealth distribution					
Gini coefficient	−7.2	−6.0	−5.6	−5.9	−5.0	−4.6
GE(2)[1]	−50.2	−50.0	−49.9	−50.1	−49.9	−49.7
	Ratio of the average wealth of the top 1 percent to the lower half of the population					
Reference: 466	204	228	238	231	253	265

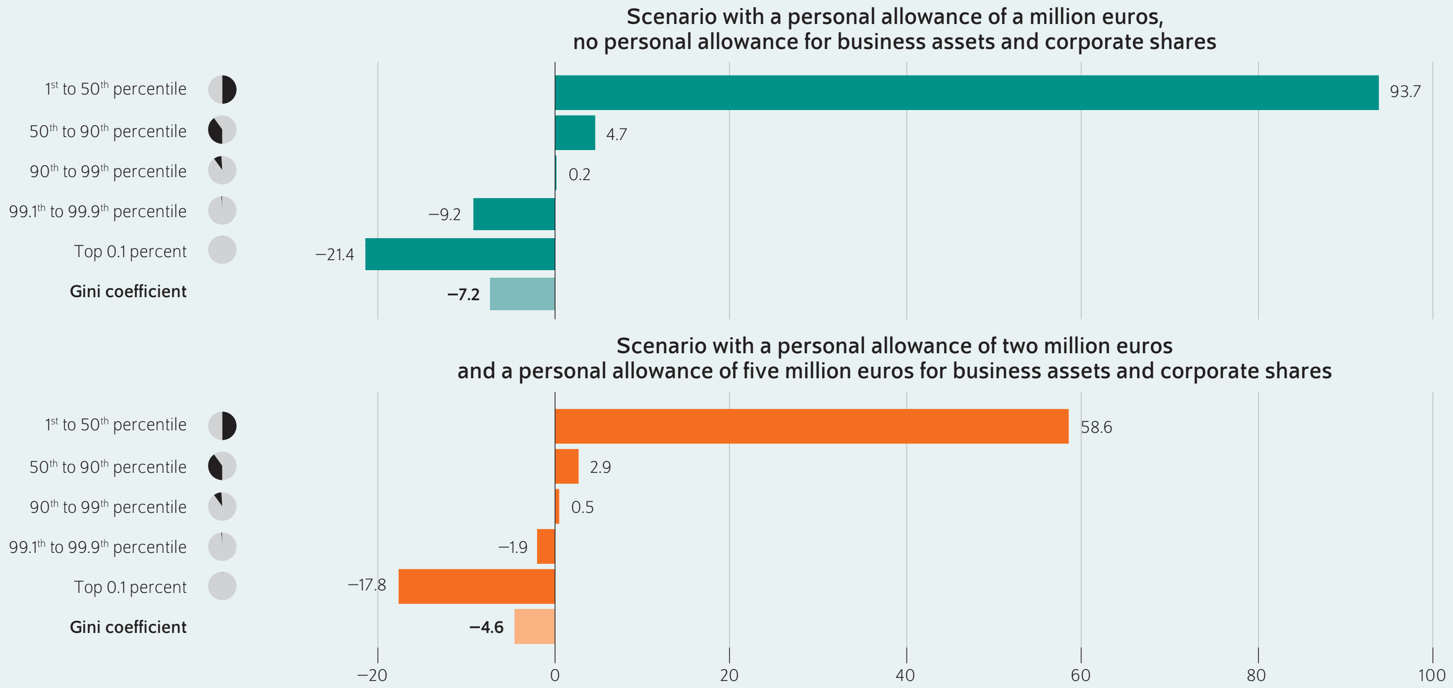
1 The GE(2) measure of inequality primarily considers the changes in the upper part of the distribution.

Source: Simulations using data from the Household Finance and Consumption Surveys (HFCS) 2017 including the estimated cases of the ultra wealthy.

Figure 6

Changes in wealth due to capital levy and a universal capital endowment

In percent for the scenario with the highest (blue) and lowest tax rate (orange)



Source: Simulations using data from the Household Finance and Consumption Surveys (HFCS) 2017 including the estimated cases of the ultra wealthy.

Measured by the Gini coefficient, wealth inequality would decrease by five to seven percent.

a million euros and no business asset allowance) (Table 1). This equals to an annual revenue of 13 to 20 billion euros.

However, the capital levy only reduces the wealth distribution's Gini coefficient by 1.0 to 1.6 percent.[28] After all, since the total households' assets equal more than twelve trillion euros, a revenue between 384 and 615 billion euros is still only around five percent of total private wealth. Moreover, the Gini coefficient refers to the middle of the distribution and does not react strongly to changes at the upper end where the capital levy is levied. In contrast, the rather top-sensitive GE(2) measure, which reacts strongly to changes in the upper range of the wealth distribution,[29] decreases by almost half. The ratio of the average wealth between the top one percent and the bottom half of the population, which is 466 in the reference scenario, reacts more strongly.[30] This ratio drops to 394 to 420.

Universal capital endowment can cause a noticeable reduction in wealth inequality

The long-term impact of a universal capital endowment is simulated by paying out the revenue of the capital levy uniformly to each member of the population between 18 and 47 years old, which is around 30 million people as of 2017. Thus, it is treated as if the universal capital endowment had been paid for the past 30 years and the recipients of the money had used it for wealth accumulation and had not spent it. The capital levy revenue can finance a universal capital endowment of either 13,000 or 21,000 euros per beneficiary at the lowest or highest amount of revenue, respectively (Table 2).

A universal capital endowment benefits the younger generations, which have fewer assets and are not affected by the capital levy. Accordingly noticeable are the effects on the wealth distribution: In the bottom half of the population,

28 The Gini coefficient for the wealth distribution of households in Germany is around 0.8. The Gini index is a statistical standard measure of inequality of a distribution. It is measured from a scale of 0 (no inequality) to 1 (the most inequality possible). You can find further information (in German) in the DIW Berlin Glossary.

29 The generalized entropy measures (GE) with weighting >1 emphasize changes in the upper range of the distribution more strongly (top-sensitive), cf. Frank A. Cowell, "Generalized entropy and the measurement of distributional change," *European Economic Review* 13, no. 1 (1980): 147–159 (available online). The GE(2) measure in particular, which corresponds to the half of the squared variation coefficient of the distribution, is very sensitive to changes in the upper range of the distribution.

30 The average wealth of the lower population is 12,245 euros while it is 5.7 million euros for the top percent. This means that the richest percent of the population has 466 times the amount of wealth per capita as the poorer half.

wealth increases by an average of 59 to 94 percent, depending on the amount of the capital levy, while the wealth of the top 0.1 percent decreases by an average of 18 to 21 percent as a result of the capital levy (Figure 6). The ratio of the average wealth between the top one percent and the bottom half of the population decreases from 466 to 204 to 265.

Including the universal capital endowment, the Gini coefficient decreases by five to seven percent. The strong top-sensitive GE(2) measure, in contrast, only decreases a little less than in the case of the pure capital levy. This is because the universal capital endowment only plays a minor role in the highest range of the wealth distribution.

In these simulations, simplified assumptions are made that are canceled out by other developments in reality. For example, the wealthy and ultra wealthy population will mostly meet tax requirements from their returns or offset them through their high saving rates. Low-earning and middle class households could reduce their saving efforts as a result of the universal capital endowment, but this could be reduced by the endowment's usage requirements. In addition, tax avoidance and other economic effects of wealth taxes reduce their revenue. Overall, the actual effects on the wealth distribution are likely to be smaller. Further elements of the inheritance tax and, primarily, real estate taxation reforms suggested here do not only affect the very wealthy. Therefore, these are likely to only have a minimal impact on the wealth distribution.

Conclusion: Wealth for all by supporting wealth accumulation, a universal capital endowment, and wealth taxes

Wealth is especially unequally distributed in Germany, and the middle class in particular has relatively low net wealth. More widespread wealth accumulation would increase (pension) provision and reduce the risk of poverty, especially in old age. In the long term, this would also relieve public finances. To achieve this goal, the new Federal Government should more effectively support home ownership, supplementary pension provision, and financial assets. Moreover, it should eliminate barriers to wealth accumulation, such as on the real estate market or in tax law. However, these wealth accumulation and tax reform programs would decrease the high wealth concentration in Germany only moderately and over the long term.

A universal capital endowment of around 20,000 euros for each 18-year-old would be more effective in particular. Altogether, the programs including the reduction of the real estate transfer tax cost around 22.5 billion euros annually. They could be financed via an inheritance tax increase or other taxes on the wealthy. In particular, a universal capital endowment paired with wealth taxes would reduce wealth inequality considerably in Germany.

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