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MAGAZINE

Inheritances and social justice

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Salvatore Morelli presented the findings of his latest study: "The Influence of Intergenerational Transfers on Wealth Inequality in Rich Countries: Size Matters" at FBK-IRVAPP

What is the impact of inheritances and donations (so-called intergenerational transfers) on inequality? Are there any wealth transfer thresholds that make a difference? What are the behaviors in developed countries? What policy implications emerge?

These are the central questions from which the research was developed by Salvatore Morelli (UniRoma3), co-author with P. Van Kerm, B. Nolan and J. Palomino. Their scientific paper, not yet published and under review at this time, was presented on February 13, 2023 at FBK-IRVAPP's offices in Trento, Italy.

In a nutshell, it shows a comparative investigation of the role that receiving inheritances or donations plays in influencing inequality in rich countries, comparing in particular the effect that different sizes in transfers produce. The analysis is applied to microdata from wealth surveys for six large countries: Italy, France, Germany, Spain, UK and the US.

Read the full abstract here.

Background

Looking at the statistics for Italy, France, Germany and the U.S., we can see that since 1970 in all four countries there has been a steady upward trend in the significance of inheritances and donations (measured as a percentage of total national wealth): between 4 percent and 8 percent until 1990, and then, particularly in the case of Italy and France, around 11 percent in 2000 and over 14 percent in 2010. In parallel, again in Italy, from 1996 onward, while the weight of transfers has been increasing (from 10% up to 18% in 20 years), the size of savings has been tapering off (from 16% to about 3% over the same period), confirming the established fact that our country is the only developed economy to have experienced a contraction in productivity and purchasing power over the past three decades.

Research approach

The research started out with the identification (by means of estimating influence functions) of wealth thresholds above, or within, which, for each country, the contribution to wealth inequality

indicators was either negative or positive (the main analysis is based on the Gini coefficient, but it can be carried out on different indicators). This exercise is also carried out by differentiating the effects by different transfer orders of magnitude.

For methodological insights see the presentation.

In this paper and more generally in his research program, Morelli describes the importance of looking in depth at data such as wealth or inheritances to understand social dynamics. We spoke with the author about this, asking him specifically what the emerging implications might be.

S.M.: "Indeed, **the identification of country-specific monetary thresholds above which wealth transfers appear to become disequalizing for wealth distribution can guide the choice of exemption thresholds for taxing wealth transfers, or help identifying the value above which transfers might be taxed more progressively or at the highest marginal rate**.

As an example, the research identifies this threshold of cumulative lifetime family transfers as 840,000 euros in the case of Italy. Assuming that family transfers are divided equally between two adults, it means that cumulative individual transfers above 420 thousand are identified as disequalizing for wealth distribution. To give some further reference, the transfer of wealth to children is now subject to a 4 percent tax rate only above the 1-million-euro threshold, while an inheritance of any size received from an uncle is taxed in full at 8 percent. In France, each child is entitled to an exemption of only 100,000 euros, and rates are progressive up to a maximum of 45%. The average maximum rate in OECD countries is 15%.

The results of the empirical work also provide tools to make a judgment about the inequality-reducing prospects of proposals to reform the current inheritance tax such as the proposed tax on "inherited advantages", as conceived by the Inequality Diversity Forum. This proposal suggests a redrafting of the inheritance tax on the sum of all large inheritances and donations received over a lifetime from any source (with an exemption threshold of 500,000 euros and three marginal rates: 5 percent, 25 percent above 1 million euros and 50 percent above 5 million euros). The restructuring of the inheritance tax would provide resources to finance – in large part a universal and unconditional inheritance of 15 thousand euros to be given to every 18-year-old. Such a capital transfer would provide a further boost to the reduction of wealth inequality in the medium term."

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AUTHORS

- Giancarlo Sciascia