What the latest Household Finance and Consumption Survey tells us about wealth inequality in Europe

Questions of inequality and distribution are likely to become increasingly important in the wake of the Covid-19 pandemic. **Franziska Disslbacher** *and* **Patrick Mokre** *draw on the latest Household Finance and Consumption Survey, released in March, to shed some light on current trends in European wealth inequality.*

Amidst the Covid crisis, some news is drowning in the headlines. For example, many almost missed the recent publication of the new Household Finance and Consumption Survey (HFCS) by the European Central Bank. This EU-wide survey is the most comprehensive basis for studying wealth distribution, and key for inequality research.

The economic crisis triggered by the pandemic and the resulting changes in our everyday lives affect people in differential ways. The structural differences in the extent to which people are affected by the crisis, as well as the ways in which we can deal with its consequences, are all about the many dimensions of distributional issues. Ensuring that inequalities, poverty and wealth do not deteriorate as a result of the pandemic must now be a top priority. When it comes to questions of wealth distribution, we can learn a lot from the research that the HFCS has made possible thus far.

The HFCS is the first systematic survey not only of assets, but also of inheritance, debt, income and consumption of private households in the European Union. This data has been compiled in three waves so far – in 2010, 2014 and 2017. And since all eurozone countries, as well as Croatia, Hungary and Poland now participate in the HFCS, it also enables broad country comparisons.

Real estate ownership

Firstly, in Austria and Germany, the lower half of the population has hardly any net assets. Assets include, amongst others, vehicles, valuables, real estate, account balances, savings deposits, businesses and stocks. These assets can be used as security, for example against unforeseen repairs or a short-term loss of income. In Austria, 45.9% of the population own their main residence, in Germany it is slightly less at 43.9%. In both countries, owning one's main residence is characteristic for the upper half of the net wealth distribution.

We all spend a lot of time in our apartments and houses at the moment. The data of the Austrian National Bank also reveal that in Austria, renters – regardless of the size of their household – may find the walls closing in a bit faster, as they have less living space available than the real estate owners of the upper middle class. Moreover, there are many indications that people who have already lost their jobs in the course of the pandemic are more likely to rent than to own. Generally, the resulting loss of income has far more serious consequences for renters than for owners. This is especially true at the lowest end of the distribution because people at risk of poverty not only spend a larger share of their income on rent, but also pay higher prices per square metre.

There is a crucial difference between Germany and Austria in the ownership of other properties, that is real estate beyond the main residence. While 13% of Austrian households own property assets in addition to their main residence, the figure is up at 22.4% in Germany. These are assets that can be used directly, for example as a second home, or generate income by renting or leasing. A study by the Austrian Institute of Economic Research, which is also based on the HFCS, shows that 82.5% of income from renting and leasing in Austria goes in the top third of the income distribution. When the Austrian House and Landowners' Association criticises the recent freeze contract terminations and evictions imposed by the federal government to the effect that the measure primarily burdens small and medium-sized owners, it is referring to a comparatively small group owning several properties and plots of land in Austria.

At the very top of the wealth distribution, the situation is becoming much more complex. In addition to real estate ownership, there are also substantial corporate investments and various financial assets. Finally, the smallest and richest group either owns several properties or has assets that generate relevant returns allowing their assets to grow further.

Caution with country comparisons

According to the HFCS, inequality in the net wealth distribution is quite high in all participating countries, and significantly higher than in income. In Austria, the Gini coefficient of net wealth is 0.73, according to this measure, the distribution is more unequal only in Germany (0.74), Cyprus (0.75) and the Netherlands (0.78). The lowest values, i.e. the lowest inequality according to the Gini coefficient, are found in Lithuania (0.59), Poland (0.57) and Slovakia (0.54).

But caution should be exercised when comparing countries this way. Unfortunately, a Gini coefficient of 0.73 or 0.54 is not easy to translate into economic or even social meaning, even for the best economists. It is certainly not possible to conclude from these figures that Germans and Austrians are worse off than Poles or Slovakians.

For such purposes, it is necessary to clarify and explain why inequality in wealth distribution is a problem in the first place, and how we imagine a more just and equal society. Above all, we need to understand the role of wealth and its distribution in the country-specific institutional and historical structure and context. Here, the welfare state's substitution function plays a central role, for example in the form of public housing.

The share of net wealth owned by the lower half of the wealth distribution is lowest in the Netherlands (0.5%), Germany (2.7%) and Austria (3.6%), and highest in Slovenia (12%) and Slovakia (15.2%). In Slovakia, this is related to the fact that after the reintroduction of capitalism, tenants became owners of their apartments. Today, the ownership rate of 88.8% is therefore higher in no other HFCS country than in Slovakia and, due to widespread real estate ownership, the proportion of property owned by the lower half of the population is significantly higher than in other European countries. In the Netherlands, Germany and Austria, on the other hand, public housing is relatively strong. As a result, the share of renters in these countries is also much higher, while the share of assets of the lower half of the population is much lower.

The research made possible by the HFCS has also shown how private and public wealth, for example in the form of the welfare state, are related. The welfare state can fulfil a security function, for example in the form of unemployment insurance. And public assets, like schools, hospitals or parks, have a utilisation function. If the Vienna Augarten is not closed due to a pandemic, a millionaire can recover there just as much as a nurse. Here, the welfare state fulfils what economists like to call a substitution function – a replacement for the missing garden or balcony, or the missing funds to survive unemployment on one's own savings.

At the same time, public housing and the welfare state are not a panacea. Even the best developed welfare state cannot change the fact that wealthy people are able to donate to think tanks or parties, to avoid or even evade taxes. At the same time, there are many practicable proposals on the table with regards to tax optimisation, tax evasion and uncooperative tax swaps. A lack of political will and implementation has been the decisive factor in this respect so far, not a lack of answers to questions of feasibility.

The problems with the sampling methodology

Although the Austrian HFCS is regarded as a role model within the European Central Bank, which oversees and coordinates the survey, it has a catch. Despite pressure from the scientific community, the particularly wealthy people in the top percentages are still enabled to withdraw their assets from public and democratic debate. In contrast to the other countries participating in the HFCS, no special attention is paid to the top of the distribution in Austria. If this is not considered, the public debate remains distorted.

The HFCS is a sample survey. It does not survey the assets of all households, but only those of a small group that is supposed to be representative of the whole country. It is highly unlikely, however, that a very wealthy household will be part of the sample, as there are far fewer wealthy households. And this is only the first obstacle to be overcome. After all, participation in the survey is not obligatory; in the end, about half of the households asked in Austria refused to participate. And despite well-trained interviewers, nobody can force survey respondents to answer all questions or provide correct information, and not, for example, to avoid reporting a stock portfolio, a holiday home or their debts.

Many studies show that the wealthy tend to hide their assets rather than show off. And wealthy households are more likely to refuse to participate in the survey if chance would have it: 17 of the countries participating in the HFCS, including Germany, are counteracting this problem by targeting the top of the distribution through various strategies of "oversampling". Presumably, wealthy households are then more likely to be drawn into the sample (e.g. based on postcodes, in the case of Germany). The lack of implementation of such strategies in Austria has the consequence that the inequality in wealth distribution and the concentration of wealth at the top end is likely to be underestimated – we know very little about the super-rich.

This is problematic, as it is precisely this top end of the distribution that is of relevance for many questions, problems and problem-solving strategies. For example, because we know from other countries that the large assets in the top percentiles are growing much faster than the assets of the rest of the population. Some political initiatives cannot be evaluated seriously and only with great uncertainty without this knowledge, because their impact depends heavily on wealthy households at the top end of the distribution: taxation of large assets or inheritances, higher top tax rates but also financial market regulations primarily affect this small minority in many proposals as they are put forward for discussion.

The unequal distribution of wealth has consequences for democracy and society

Researchers in the social sciences are certain that political influence grows with wealth. The channels are manifold, for example higher social standing, media attention, but also donations to, and networking with, political decision-makers. Or simply to ensure that certain topics and aspects, such as wealth, are removed from the debate. These phenomena are also concentrated at the top of the wealth distribution.

But wealth inequality also undermines the much-vaunted principle of equal opportunities. Owners of large fortunes have more (and completely different) possibilities. Those who live in expectation of a large inheritance or in their family's condominium can embark on "riskier" life models – unpaid internships, starting a business or even an extra year to put the finishing touches on their academic thesis. The loss of a job due to the Covid-19 pandemic, or the lost semester at university, also becomes a much less existential threat.

Simply not knowing what kind and extent of assets the top actually own is a democratic deficit as well. These assets are also far removed from the imagination of most people. We know what a small car, a condominium or a weekend home might look like, but what does it mean to own a stock portfolio of £12 Billion (which would rank fifth on the Sunday Times Rich List)?

And finally, it is also a question of justice as the incomes of workers and professionals, and the savings of the lower 90%, are very well recorded. In Austria, anyone who wants to receive unemployment benefits must disclose their financial circumstances.

Room for improvement

One thing is clear: without the HFCS data we would still be very much in the dark about important aspects of society. Especially in Austria, it has contributed to the fact that scientific as well as political debates on the distribution of wealth, on the potential impact of wealth and inheritance taxes, now have solid foundations. The result is a database that is important for researchers and that makes it possible to get to the bottom of things.

Leading inequality researchers, such as Thomas Piketty and Branko Milanovic, agree that understanding global inequality, and addressing it politically, are central tasks for the 21st century. This requires progressive property taxes and inheritance taxation. While these taxes serve to finance concrete benefits, the aim is also to reduce inequality.

We can no longer chase after illusions of meritocracy – the idea "everyone is the architect of their own happiness" – or equality of opportunity without seriously discussing the taxation of wealth and inheritance and the many shades of tax evasion and avoidance. The inequalities of today are the inequalities of tomorrow. That was already the case before the "new normal", but Covid-19 has illustrated these issues even more brutally. The re-stocking of toilet paper rolls was already part of the everyday work of supermarket employees in January 2020, and the pressure in the nursing and healthcare professions was already high in 2019. In 2018, renters' apartments were already smaller than those of homeowners.

The virus itself does not discriminate between apartment building owners and supermarket cashiers, but the risk of infection is much higher in care settings and essential occupations. Home quarantine is also easier to survive in a house with a garden than in a small flat without open spaces, with massive effects on quality of life and psychological stress.

But above all, the consequences of the economic standstill (not to mention the threat of recession) direct our attention to the possibilities of securing oneself by means of assets. The question of distribution will become even more important in the coming months, and the fresh batch of HFCS data comes at just the right time.

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