From the Dead: On the Distribution of Estates and the Distribution of Wealth

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There are five main sources of evidence about the distribution of personal wealth: (i) household surveys of personal wealth; (ii) administrative data on personal wealth derived from annual wealth taxes; (iii) administrative data on investment income, capitalized to yield estimates of the underlying wealth; (iv) lists of large wealth-holders, such as the annual Forbes Richest People in America list; (v) administrative data on individual estates at death.

The distribution of estates (the net value of worldwide real and financial property of a deceased person) has commonly served for the estimation of the distribution of wealth among the living via the mortality multiplier method, but has never been under extensive scrutiny in and of itself. Theoretically, the application of multipliers embedding differential mortality by age, gender, and wealth can increase or decrease top wealth shares as well as change the time patterns relative to estate shares, depending on the evolution of the age-gender-wealth profiles. When the age and gender multipliers were first employed in the UK, it was seen as overcoming a "fatal" objection to the use of estate data, since "the accumulated wealth of an individual increases with years … and is usually greatest when a man dies" (Mallet, 1908, p. 67). However, recent research has observed that the concentration of estates and the derived concentration of wealth at the top following the mortality method are actually very close to each other (Alvaredo, Atkinson and Morelli, 2018).

In this paper, we investigate first why the application of mortality multipliers does not alter significantly the picture when both distributions are compared. We study the general conditions under which the concentration of estates at death provides the same informative content as the concentration of the wealth among the living, and identify that the relationship depends crucially on the covariance between mortality rates and estates amounts.

Second, and most importantly, we produce novel long-run historical series of the distribution of wealth for several developed and developing countries where data have not been exploited yet. If, as it is argued, top estate shares are good indicators of top shares of wealth among the living, then one can make use of basic statistical information from the administration of inheritance taxes to make well-grounded inferences about the concentration of wealth in those country-years where there is no information to apply the multiplier method (these are the vast majority of cases). This allows us to estimate series of the distribution of wealth since the late 19th centuries for a number of developed and developing countries: Spain (since 1901), Japan (since 1905), South Africa (since 1905), Denmark (since 1909), Italy (since 1900), Belgium (since the 1930s), several colonies in the former British and French colonial empires, and many more. This is a definite contribution for historical inequality studies, given that existing series of wealth inequality are very scarce and only cover a few developed countries (see WID.world).

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