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Article

"Value of inheritances varies considerably from country to country": Eight questions to Christian Wintermeier

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Christian Westermeier, Ph.D. Student at the Research Infrastructure Socio-Economic Panel (SOEP) study at DIW Berlin

EIGHT QUESTIONS TO CHRISTIAN WESTERMEIER

»Value of inheritances varies considerably from country to country«

1. Mr. Westermeier, in which European countries do we see assets being inherited more frequently and in which countries is this a less frequent occurrence?
Overall, the frequency of inheritances and gifts is quite similar across all European countries. Between 30 and 40 percent of households benefited from an inheritance. However, the figures depend on the age structure and/or when exactly intergenerational transfers are made and, indeed, whether they are made at all. Moreover, in some countries, such as Spain, it is not common practice to transfer assets as gifts. The value of inheritances, however, varies considerably from country to country.
2. What is the average value of inheritances and gifts in the various European countries? In western Germany, we calculated the average value of inheritances and gifts for each household at just under 200,000 euros. For the rest of Europe, the corresponding figure varied between 85,000 euros in Portugal and approximately 270,000 in Cyprus on average.
3. These sums seem to be extremely high. This is due to the fact that inheritances are very unequally distributed. A small number of large inheritances obviously drives this average value upward. In all countries studied, the median value was considerably lower.
4. How would you explain the differences between the various European countries? First, asset values vary substantially from country to country, which is partly the result of different portfolios. For example, real estate ownership is far more widespread in the Mediterranean region than in Germany. However, property is inherited much later in these countries as it cannot be transferred prematurely. Another important factor is that birth rates and household structures are different in the various European countries. France has substantially higher birth rates than Germany, for instance. And so, obviously, assets have to be divided between more individuals here.
5. Which groups of the population are likely to benefit most frequently from an inheritance? If we examine the different income groups, it is clear that in central Europe, the highest earners are most likely to have already received an inheritance and, looking at Europe as a whole, we can see that the inheritances received by high-income households are also of higher value than those received by low-income households. From this perspective, low-income groups are doubly disadvantaged since they already have fewer opportunities to build wealth from their own regular income.
6. What implications does this have for the distribution of wealth in Germany? Does it mean that the rich are getting richer while the poor remain poor? This does seem to be a reasonable conclusion but we can't really substantiate this with the data currently available. To be able to respond to this, we would have to examine longer-term developments. Other studies have concluded that this could in fact tend to have an equalizing effect since middle-class households receive inheritances.
7. So the high number of inheritances is unlikely to cause a further increase in wealth inequality? No, it won't, partly because of how inequality is normally measured. If a member of the middle or upper middle class owns assets to the value of 100,000 euros and then receives an additional 100,000 euros, this doubles his or her wealth. If a household in the upper class has assets of a million euros and receives a further 200,000 euros this increases their wealth by just 20 percent. The bottom line is that this reduces inequality even though the rich actually inherit more.
8. As a statistician, what do you perceive as the biggest obstacles to capturing the necessary data? The biggest problem is that our data essentially fails to factor in the impact of the top one percent or the top 0.1 percent, in other words, the really big assets and inheritances. As a result, we are unable to estimate this effect. On the one hand, the probability of being able to survey one of these extremely wealthy individuals is, per se, very slim. On the other hand, the chances of a person or household like this participating in a survey declines, the higher their wealth.

Interview by Erich Wittenberg



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