Effects of wealth transfers on wealth inequality and intergenerational wealth persistence

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Australians are now receiving more wealth via gifts and inheritances (collectively 'wealth transfers') than ever before. Between 2002 and 2018, the annual flow of wealth transfers grew by 120 per cent in real terms, from 1.2 per cent to 1.4 per cent of the stock of wealth.

Similar trends in other countries, and growing interest in the consequences of existing wealth for inequality since Piketty's *Capital in the Twenty First Century*, have led to a burgeoning literature on the effects of wealth transfers on wealth inequality and intergenerational wealth persistence (IWP). We contribute to this literature by providing estimates of these effects in Australia and a novel approach to attributing a share of IWP to inheritances with the partial data available in Australia (and in many other countries too).

First, we study the effect of wealth transfers on wealth inequality over the period 2002–2018, both in the immediate term (disregarding behavioural responses to transfer receipt) and in the longer term (incorporating behavioural responses to transfer receipt, and focussing on inheritances only), drawing on the Household Income and Labour Dynamics in Australia (HILDA) dataset.

In the immediate term, wealth transfers increased absolute wealth inequality but reduced relative wealth inequality; wealthier people received more in absolute terms, but less as a share of their existing wealth. This effect has been found in every other studied country — Britain, France, Germany, Italy, Spain, Sweden and the United States — although the effect size is smaller in Australia than in each of these countries other than the United States.

The longer-term effect most likely mirrored the immediate-term effect, although substantial uncertainty surrounds these results. On average, each dollar of inheritance received appears to have boosted real wealth by about one dollar five years later, regardless of the recipient's initial wealth. This contrasts with a study of Sweden, which found that the inheritances increased relative wealth inequality a decade after receipt, because initially poorer recipients depleted their inheritances while initially wealthier recipients did not.

Second, we study the effect of inheritances on IWP — the correlation between a parent's position in the wealth distribution and that of their child. As parents' wealth is not recorded in the HILDA dataset, we impute it based on the size of the inheritances that parents left to their children, following patterns of inheritance transmission gleamed from probate records. While this leads to error in our measure of parents' wealth, which biases our estimate of IWP toward zero (attenuation bias), we show that our estimate of the share of IWP attributable to inheritances is plausibly unbiased.

We find that 36 per cent of IWP among Australians aged 64-74 in 2018 was attributable to inheritances. This is similar to that found by a recent study of Denmark (35 per cent), and below that found by two studies of Sweden (50–65 per cent).