

World Inequality Database

Background, Methods, and Next Steps

Matthew Fisher-Post¹

NTA Workshop

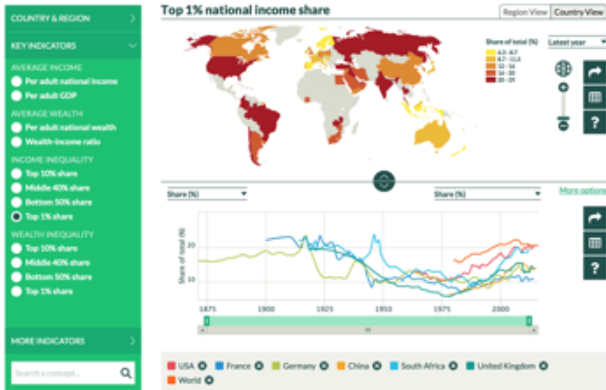
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¹Paris School of Economics - World Inequality Lab
mfp@psemail.eu



- A large database on the distribution of income and wealth.
- Centralizes contributions from scholars around the world.
- Contributes to the development of new standards and methodological tools for measuring inequality.
- All data, methodology, estimates and working papers available at <https://wid.world>

https://wid.world



Today's presentation

- WID.world and distributional national accounts (DINA)
- Sources and methods for measuring income and wealth
- The road ahead

WID.world and the DINA project

- Old tradition of using tax data to measure the distribution of income (Pareto, 1896; Kuznets, 1953)
 - Early revival of that literature by Piketty (2001) (for France) and Piketty & Saez (2003) (for the United States)
 - Historical depth
 - Ability to track top incomes
 - Work was then extended to numerous countries by several authors, and collected into two collective volumes:
 - *Top incomes over the twentieth century* (2007)
 - *Top incomes: a global perspective* (2010)
- ⇒ World Top Incomes Database (WTID) created in 2011 to provide free and easy access to these series.

- Many limitations of the WTID
 - Different statistical units (tax units, individuals)
 - Different income concepts
 - What about the bottom of the distribution?
 - What about wealth?
 - What about taxes and transfers?
 - What about tax-exempt income?
 - ...
- ⇒ Need to measure inequality within a consistent framework, with consistent guidelines and a comprehensive measure of both income and wealth

There exists already an internationally accepted set of guidelines to quantify total income and wealth: the UN System of National Accounts.

⇒ Distributional National Accounts (DINA) agenda: to consistently estimate the distributions of 100% of national income and wealth.

Where we stand:

- Detailed DINA studies cover most countries
(e.g., USA, Europe, Latin America, China, South Africa)
- Simplified estimates for other countries
(esp. developing countries)
- Continuing research among academic, public, and non-profit actors
- Partnerships with UN agencies and country governments
- Inclusion of DINA principles into official guidelines
(including forthcoming UN SNA revision)

Data sources: income & wealth

- National accounts (esp. net national income)
 - Broadest and most standard definition of income
 - Reference for measuring inequality *between* countries
- Survey data
 - Covers the entire distribution (esp. lower-income households)
 - Usually available as microdata ⇒ flexibility in the use of concepts
 - Small samples
 - Not fully representative (esp. highest-income households)
- Tax data
 - Covers high-income households very well
 - Sometimes *only* covers high-income households
 - Not always available as microdata
 - Influenced by various legislative quirks (tax units, income definitions)
 - Tax evasion

- National balance sheets
 - Still a limited coverage, in particular non-financial ones
- Survey data
- Wealth tax data
 - Very limited coverage, even more limited usability
- Inheritance tax data
 - Indirect measure (\Rightarrow estate multiplier method)
- Capital income tax
 - Indirect measure (\Rightarrow income capitalization method)
- Rich lists (Forbes, Sunday Times, etc.)
 - Unclear methodology, lack of transparency

Combining several data sources

In practice, no source or method is self-sufficient:

- Bottom of the distribution rarely covered well by tax data
- Wealth data: need to account for assets that are difficult to observe
- Tax data may not allow proper treatment of the statistical unit
- Some types of income are tax-exempt

⇒ For comprehensive estimates, we use all available data.

When tax *and* survey microdata exists (e.g. France, USA):

- better to start from tax microdata (precision, especially at the top)
- incorporate forms of income absent from the tax data, using surveys, by matching observations based on a few characteristics
- make some simple assumptions regarding forms of income that are absent from both sources
- rescale income components to match national accounts totals

Conclusion

Conclusion: the road ahead

Distributional national accounts are still in their infancy.

We will never be able to perfectly and finally solve every methodological or conceptual issue, but that should not keep us from moving forward to...

...An official standard, clear, consistent, comprehensive measurement on the distribution of income and wealth.

For more, see Alvaredo et al (2020): [click here](#)

Thank you!