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Differences in Wealth and Wealth Inequality Among the CEE Countries

Wealth is of prime importance as a determinant of individual economic well-being and its distribution in the society. It provides security by smoothing income shocks and enabling individuals to maintain consumption during retirement. Wealth itself generates income, thus shaping the distribution of current income and of current consumption. It is positively correlated with power and social recognition and some of its elements, e.g. real estates and vehicles, are a straightforward source of utility for its owners.

It is widely agreed, however, that wealth is more unequally distributed than income and it potentially plays a role in increasing within-country social tensions. The distribution of household wealth also differs substantially across countries (Cowell et al., 2016; Mathä et al., 2017). Existing studies in this matter, however, focus on the U.S. and Western European countries. In this paper we aim at shedding light at the differences in wealth and wealth inequality among the selected Central and Eastern European countries, additionally compared to an example of a rich developed country such as France.

We employ the Eurosystem Household Finance and Consumption Survey (HFCS) (Eurosystem Household Finance and Consumption Network 2013, 2016). The HFCS is a household wealth survey coordinated by the European Central Bank and conducted by national partners. An important feature of the study is that country wealth surveys that are part of the project follow an ex ante harmonised methodology. As noticed by Cowell and van Kerm (2015), the HFCS provides harmonized, cross-country comparable data on household wealth and can be considered probably as the best quality survey data on wealth available for cross-country comparisons. The second wave of the survey conducted in 2014 and released in 2016 provided microdata for the eurozone countries, Poland and Hungary. Therefore, the group of CEE countries we focus in this study includes Estonia, Latvia, Hungary, Poland, Slovenia and Slovakia.

We use microeconomic decomposition techniques to study the contribution of socio-economic and demographic characteristics to cross-country differences in the distribution of wealth. In particular, we study how age, household type, labour market status, educational attainment and income contribute to differences in wealth distribution among the selected CEE countries at various points of the distribution (the mean, the median, and the chosen bottom and top percentiles). We perform the analysis separately for various components of net worth (financial assets, housing, financial debt and housing debt).

Decomposition techniques allow us to split the overall difference in wealth levels and wealth inequality between countries into endowments (characteristics) effects and coefficients effects. The endowments effects are related to the changes in the distribution of the above-mentioned covariates, such as age, household structure, labour market status, educational attainment and income. Coefficients effects are due to the changes in returns (prices) to these covariates. Decomposition analyses of this type allow to assess the importance of individual factors in explaining cross-country differences in wealth and wealth inequality. Several different decomposition methodologies were so far

used in the literature on wealth inequality (e.g. Sierminska et al. 2010, Cowell et al. 2017). As a sensitivity check, we study whether the results are robust to the use of various decomposition methodologies offered in the literature. In our view, the most useful approach is the Recentered Influence Function (RIF)-based decomposition (Firpo et al. 2009) as it allows for computing the individual endowment and coefficient effect for each covariate studied. It was used by e.g. Lindner (2015) and Mathä et al. (2017) to study various aspects of cross-country wealth differences in the rich eurozone countries. Due to growing relevance of wealth accumulation process in the CEE countries after their transitions to market economies, it is of paramount importance to understand cross-country wealth differences in this group of countries too.