

CRESUS

Measuring and mobilizing wealth for a cohesive, inclusive and fair society

DURATION
1/10/2013 - 28/02/2018

BUDGET
1.300.000 €

PROJECT DESCRIPTION

Even if the Belgian poverty rate has remained stable in recent years, poverty still affects a sizeable part of the population. Within the context of the “Europe 2020 Agenda” Belgium is committed to reduce poverty and social exclusion by a substantial number by 2020. However, in the context of an ageing population, a shrinking work force, intensifying international competitive pressures and the need for fiscal consolidation it is clear that this will be an uphill battle. Moreover, Belgium is urged from various sides to take steps to accelerate the correction of the deficit in public finances, to curb its age-related expenditures and to reduce the high tax burden on labour. To realize the Belgian social inclusion ambitions, major redirections in socio-economic policy are needed, including a fundamental rethinking of the way the Belgian extensive welfare state is financed. There appears to be some unexplored potential in the substantial assets and savings hold by Belgians. In addition, the propensity towards saving may be channelled to reduce the need for direct public expenditures, for example in the form of social housing, pension and health care funding.

In addition, a growing interest in wealth inequality can be witnessed in both policy and academic circles. Recent studies have documented widespread rises in inequality (OECD, 2008 and 2011). The recent interest in the level of inequality and its drivers reopened an old debate in both the academic and the public sphere about the consequences of this rising economic inequality. Influential scholars like Wilkinson and Pickett (2009) and Stiglitz (2012) have recently argued that inequality is harmful to a range of social, political and economic factors.

While many studies have described the distribution of disposable income, remarkably little is known about the actual distribution of wealth held by Belgian households. Yet, understanding the distribution of assets and wealth is central to issues of equitable taxation and effective redistribution. In addition, wealth accumulation is likely to affect labour supply decisions (and in particular retirement decisions), entrepreneurship, long term care decisions and many other issues that are of scientific interest and have a high policy relevance.



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The aim of the CRESUS project is to integrate wealth in the analysis of social inclusion policy and to equip the relevant policy agencies with the facts and tools to adjust their policies. In particular we focus on the following four aspects.

1. We describe the distribution of wealth, assets and liabilities, using the newly released HFCS dataset of the European Central Bank in combination with the existing SHARE data set. We perform a detailed analysis of the ownership of the different wealth components by socio-demographic and economic determinants, and we study the joint distribution of income and wealth, with a special focus on the lower tail of the distribution and the elderly.
2. We provide state-of-the art theoretical models describing capital accumulation, and the taxation of wealth in presence of non-optimal income taxes, behavioural anomalies and imperfect smoothing.
3. We develop tools for policy reform and ex-ante evaluation, including a detailed microsimulation tax-benefit model based on data on household assets and wealth.
4. We analyse the implications for social policy design focusing on the following questions. How can we improve the traditional approaches to monitoring poverty, incorporating assets and wealth? Is asset accumulation discouraged when welfare program eligibility is made dependent on the amount of assets and wealth? How can assets and wealth be taken into account to optimize redistributive efforts? Finally, we examine various scenarios of shifting the tax burden from income to wealth, and compute the budgetary impact as well as its distributive consequences.

The CRESUS project has two major aims:

- a. We aim to contribute to a better informed public debate and policy making process on current policy issues, including the fight against poverty and social inclusion, efficient and equitable taxation, sustainable pensions and health care, labour market access and employability.
- b. We aim to make significant scientific contributions on the joint distribution of income and wealth, especially among the poor and the elderly, the integration of assets and wealth in the measurement of poverty and social exclusion, the incorporation of assets and wealth in the design of social policy and the optimal taxation of wealth.

By investigating the research questions listed, we seek to inform the public in general and policy makers in the spirit of the Mirrlees Review (2011). This initiative has involved a joint effort of high-profile experts and includes a comprehensive review of the tax system in the UK. It proposes various possible directions for reform. The review has since become a reference work, not only documenting the current state of the theory, but also by listing a range of open policy questions.

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