Position paper
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Huub Brouwer, Tilburg University
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Executive summary

The key findings in this position paper are that in the Netherlands: (1) the gap in life expectancy between rich and poor is rising, (2) homeownership is becoming less accessible, (3) pillar II pensions are not a great equalizer and should not be counted as wealth, and (4) intergenerational wealth concentration is increasing. Given these findings, policy interventions are necessary to enhance broad prosperity. I identify three low-hanging fruits: (Policy recommendation 1) closing loopholes in the Dutch tax system that enable tax avoidance, (P2) reforming capital income taxation, and (P3) modernizing and reforming gift and inheritance taxation.

A new narrative about wealth inequality

There has been a surge in scientific and societal interest in wealth inequality following the publication of Thomas Piketty's *Capital in the Twenty-First Century* (2014). He argues that in Western countries, wealth-income ratios display a U-shape: they reached a peak in the low-tax, low-regulation capitalism of the 19th century, decreased because of wars and progressive taxation, and are now on the rise again. To counteract the harmful effects of rising wealth-income ratios, Piketty advocates progressive income taxation (chp. 14) and worldwide progressive capital taxation (chp. 15).

Waldenström (2024) challenges Piketty's historical narrative and policy recommendations. Drawing on new data and new research on wealth inequality in France, Germany, Spain, Sweden, the UK and the US, he argues that Western societies are richer and more equal today than they were a hundred years ago. This, according to Waldenström, is apparent from a significant rise in life-expectancy, homeownership, and pension-savings of those at the bottom and middle of the wealth distribution. Based on his historical research, Waldenström advocates for lower income taxation and no capital taxation, among other policy measures (chp. 10.2).

In this position paper, I argue that although historical analyses of wealth inequality can be a very valuable input for policy, the primary concern for policymakers should be developments in and levels of key indicators in the past twenty years, as well as predictions on the development of these indicators following recent policy changes. In the Netherlands, inequality on the key indicators Waldenström considers (life expectancy, homeownership, and pensions) has been rising in recent years. Moreover, intergenerational wealth concentration is increasing. These developments threaten to undermine broad prosperity.[1]

[1] 'Broad prosperity' is a welfare concept that looks beyond direct financial-economic benefits and burdens and also weighs the distribution of welfare, the sustainability of welfare for future generations, and the

<u>Facts about inequality in the Netherlands</u>

1: Differences in life-expectancy between rich and poor are significant and growing
Differences in life expectancy are an important indicator of inequality, and, as Waldenström rightly argues, the economically disadvantaged in Western countries have witnessed a "dramatic enhancement in life expectancy" over the past century (2024, 24).

However, there are still substantial differences in life expectancy at birth between the rich and poor in the Netherlands (CBS 2022):

- Life expectancy at birth for women in the highest <u>wealth</u> quintile is 7,7 years higher than for women in the lowest wealth quintile (86 and 78,3 years). For men, the difference is 9,3 years (83,1 and 73,8 years).
- <u>Healthy</u> life expectancy at birth for women in the highest wealth quintile is 23 years higher than for women in the lowest wealth quintile (72 and 49 years). For men, the difference is 25 years (74 and 49 years).

Moreover, differences in life expectancy *grew* between 2005 and 2015 (Muns, Knoef, van Soest 2018; similar findings are reported for US by Chetty et al. 2016 – see also SER 2023):

- Life expectancy at age 40 for women in the highest <u>income</u> quintile grew by 1,4 years, but declined for women in the lowest income quintile by 0,6 years. Hence, the difference increased by 2,0 years.
- Life expectancy at age 40 for men in the highest income quintile grew by 3,4 years, but only grew by 1,6 years for men in the lowest income quintile. Hence, the difference increased by 1,8 years.

2: Homeownership is becoming less accessible
According to Waldenström (2024, 75-89), Western countries are richer and more equal primarily because homeownership and capital-funded pensions have greatly increased household wealth.

That homeownership is an important driver of household wealth is borne out in data on the Netherlands: The net wealth of households with a median income in the age bracket 60-69 was 663.000 euros for homeowners, whereas it was only half that amount for renters (CBS 2021, 11 – these figures include pension capital).

It is hard to maintain, however, that homeownership will continue to be a great equalizer, because it has become unattainable for an increasingly large group over the past 30 years:

- in 1995, modal gross annual income in the Netherlands was 22.235 euros (CPB 2024) and the average house price was 93.750 euros (CBS 2025a): hence, the average house cost 4,22 times the modal income.

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welfare of other countries. CPB Netherlands Bureau for Economic Policy Analysis is developing a set of key indicators for broad prosperity together with PBL and SCP and is integrating these in its economic analyses and forecasts over the coming years. See https://www.cpb.nl/brede-welvaart.

- in 2025, modal gross income is estimated to be 46.500 euros (CBP 2024), and the average house price was 470.000 euros during the first quarter (Kadaster 2025): hence, the average house now costs 10,11 times the modal income.

3: Pensions are not a great equalizer and should not be counted as wealth
When it comes to pensions, the Netherlands is often deemed to have the best pension system in the world, combining a pay-as-you-go state pension scheme (pillar I), capital funded collective pension schemes (pillar II), and individual pension products (pillar III). Old-age poverty is very low (except for people aged above 90), which is a significant achievement (Hoff & Hulst 2019).

However, it is hard to maintain that pensions are a great equalizer in the Netherlands. Importantly, the pillar II pension works according to an insurance principle, not according to a savings principle. Retired participants receive a monthly benefit and when the participant and their partner pass away, their remaining pension contributions are not paid out to the next of kin, but are instead retained by the pension fund.[2] Given life expectancy differences between the rich and poor in the Netherlands, the poor have a much shorter period during which they can draw benefits from their contributions than the rich. Also, pensions are unequally distributed between higher and lower educated workers[3] and between employees and the self-employed.[4]

A fundamental question here is whether pillar II pension contributions should be counted as part of people's wealth in the first place. These contributions are not withdrawable at will, not transferrable, and not otherwise manipulable (for instance, individuals cannot decide what their contributions are invested in). The best conceptualisation of pillar II pensions, then, is not as wealth in which one has solid property rights, but instead as an insurance for an income at old age. Because of this, researchers in the Netherlands often exclude pillar II pension contributions from wealth inequality statistics (see, for instance, IBO vermogensverdeling 2022 – for discussion, see Toussaint 2024, 5).

4: Intergenerational wealth concentration is increasing
An important claim in Waldenström's book is that the U-shaped pattern in wealth-income ratios reported by Piketty (2014), among others, is the result of overestimating wealth-income ratios for the late 19th and early 20th century.

[2] In the future, participants will be able to, if the Senate passes a bill on this that has already passed Parliament, request 10% of their pension capital to be transferred to them upon retirement.
[3] The highly educated aged above 75 on average have €246.000 of pension capital, whereas people with lower education in the same age group have €58.000. See Arts & Pouwels-Urlings (2020) for details and appendix 1 for additional statistics for other age groups.
[4] To see this, consider a common measure of adequate old-age pension: whether people's total pension income (combining pillar I, II, and III) equals at least 70% of their gross annual income before retirement. It turns out that self-employed workers, non-Western immigrants and welfare recipients are much more likely to have a replacement ratio of gross annual income below 70%. At median incomes, the share of self-employed workers who are faced with a below 70% replacement ratio is 11 percentage points higher than for employees. In the highest income quintile, this difference is 19 percentage points (Knoef et al. 2017).

However, empirical research on the Netherlands (Toussaint et al. 2024), does not only find a U-shaped pattern in wealth-income ratios, but also one of the highest 19th century wealth-income ratios on record: of 700% around 1880. Toussaint et al. (2024) argue that this particularly pronounced U-shape can be explained by colonial and other foreign investment during the 19th century, and the widespread introduction of capital-funded collective pensions during the 20th century.

Recent research shows that the richest 10% currently hold 62% of wealth, and the richest 1% hold 26% of wealth in the Netherlands (IBO vermogensverdeling 2022, 5). In the medium to long term, wealth can be passed down within families through gifts and inheritance. A recent study finds that intergenerational wealth concentration has increased over the past two decades (Schulenberg et al. 2024):

- children from parents in the top 1% of the wealth distribution are on average 7 percentiles higher in the wealth distribution in 2022 than in 2006.
- children from parents in the bottom 10% of the wealth distribution are on average 2 percentiles lower in the wealth distribution in 2022 than in 2006.

These empirical findings are pertinent, because the greatest wealth transfer in the history of the Netherlands will take place over the next 20 years, when the baby boom generation will bequeath their companies, homes, investments and savings to the next generation.

Policy recommendations

Given these facts about inequality in the Netherlands, policy interventions are necessary to enhance broad prosperity. In this position paper, I identify three low-hanging fruits:

Policy recommendation 1: Close loopholes in the Dutch tax system
The tax system needs to be monitored and maintained permanently to ensure it achieves the aims and intentions of the policymakers and politicians who created it. A priority here should be the closing of loopholes.

Various remarkable fiscal structures (‘opmerkelijke belastingconstructies’) have emerged over time. These are conscious attempts to structure and/or shift income, profits, transactions, and wealth to reduce one’s tax burden by exploiting differences in rates, exemptions, and tax base definitions (Reiding, Timmerman, Nissen 2023). Several of these fiscal structures have been reported on extensively by researchers and policymakers (IBO vermogensverdeling 2022, 79-87, appendix 10), such as improper use of the business succession scheme (‘bedrijfsopvolgingsregeling’), box hopping between box 2 and box 3, and putting companies in the name of infants (‘baby bv’).

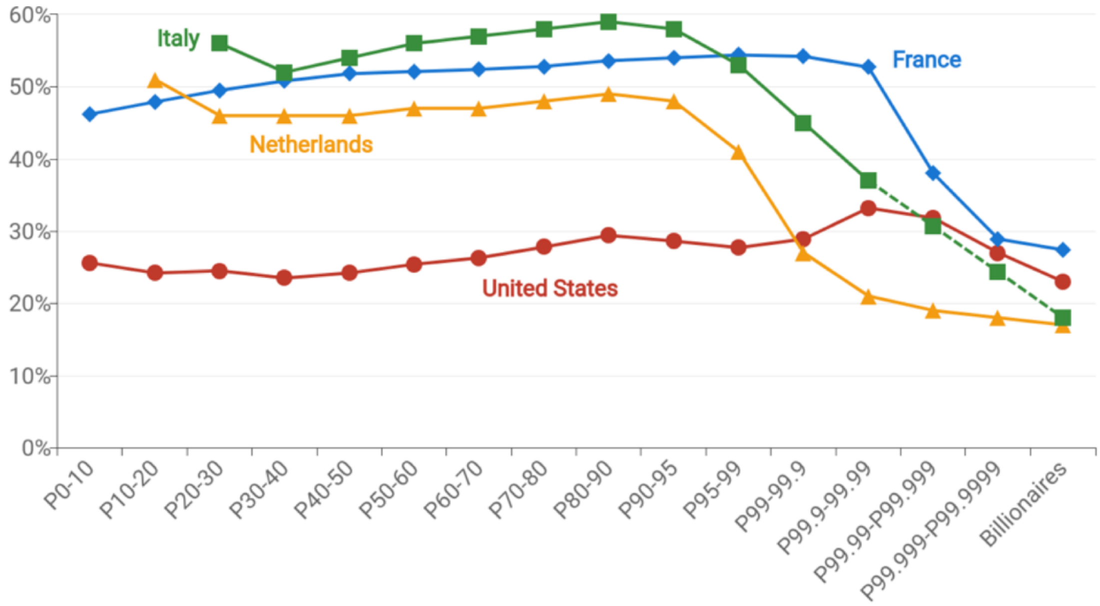
These fiscal structures can lead to tax revenue shortfalls and tax regressivity (i.e., imposing a smaller tax burden on those who are wealthier). It is important to note that even when only few people make use of a particular fiscal structure (such as the ‘baby bv’), its continued existence can undermine the perceived legitimacy of the tax system.

One structure that has not received much attention yet is giving gifts on paper ('schenkingen op papier') to next of kin and thereby reduce inheritance tax liability (see appendix 2 on how this works).

Policy recommendation 2: Reform wealth income taxation

Recent research from Zucman (2024) suggests that the overall tax burden is regressive for those in the top 10% of the income distribution in the Netherlands. Consider the following figure from Zucman's report, which shows all taxes (including income, consumption, and corporate taxes) paid by different income groups at all levels of government in France, Italy, the Netherlands, and the United States:[5]

Figure 1: Average tax rates by income groups and for billionaires (% of pre-tax income)



Notes: This figure reports estimates of effective tax rates by pre-tax income groups and for U.S. dollar billionaires in France, the Netherlands, Italy, and the United States. These estimates include all taxes paid at all levels of government and are expressed as a percent of pre-tax income. P0-10 denotes the 10% of adults at the bottom of the pre-tax income distribution, P10-20 the next decile, etc. Pre-tax income includes all national income (measured following standard national account definitions) before taxes and transfers and after the operation of the pension system. Sources and methodology: see Appendix A.

One of the reasons why overall taxation is regressive in the Netherlands is that high net worth individuals use holding companies to avoid capital gains realization and dividend taxation. They can then borrow from these companies to fund consumption, buy real estate, and so on, without paying income tax. In the United States, two laws have been in place since the early twentieth century to prevent the use of holding companies for tax avoidance (Zucman 2024; see Saez & Zucman 2016 for details). In the Netherlands, the 2023 'excessive borrowing act' ('wet excessief lenen') is a step in the right direction, restricting the amount that can be borrowed to € 500.000.

[5] These countries, taken together, "host about 35% of global billionaires and account for about 40% of global billionaire wealth" (Zucman 2024, 10). They are among the very few countries for which data on effective tax rates paid by different wealth deciles and billionaires is available.

Unfortunately, however, home acquisition loans are currently exempted (also when such loans are provided to children and grandchildren). Removing this exemption would help in addressing tax regressivity at the top of the income distribution.

Moreover, the current tax on income from saving and investment (box 3) is based on hypothetical returns (1,44% return on savings and 6,04% return on other investments in 2024). Because those with greater wealth have higher returns on their portfolio's (Bach, Calvet, Sodini 2020), this system can amplify wealth inequality. A system that instead taxes actual returns would be preferable.

Policy recommendation 3: Modernize and reform inheritance taxation
Political philosophers ranging from libertarians (Nozick 1989) to (socialist) egalitarians (Robeyns forthcoming; White 2008) all advocate for inheritance taxation. Libertarians are worried about intergenerational wealth transfers undermining people's freedom, whereas egalitarians are concerned that such transfers threaten substantive equality of opportunity. This convergence is noteworthy, especially because inheritance taxation is unpopular with the general population.

In the Netherlands, the median inheritance was 39.300 euros, and the average inheritance 165.400 euros in 2022 (CBS 2025b). Taxing small inheritances is burdensome for the tax office and could undermine public support for inheritance taxation. One option would be to exempt all inheritances below 50.000 euros and then apply a more progressive rate on inheritances above the exemption, to compensate for the resulting revenue shortfalls. It is also advisable to revise current rate differentiation based on the recipient's relationship with the deceased, which highly favours children—and, to a lesser extent, grandchildren (for the current rates, see appendix 3). This set-up incentivizes wealth concentration within families, which, as pointed out, is on the rise in the Netherlands.

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Appendix 1: Wealth and pension II capital by education level

Taken from Arts & Pouwels-Urlings (2020, table 3.9)

Age	Education level	Average wealth without pillar II capital	Average pillar II pension capital	Total (wealth + pillar II pension capital)
Total	Low	€ 115.700	€ 91.900	€ 207.600
Total	Middle	€ 160.000	€ 135.900	€ 295.900
Total	High	€ 262.100	€ 241.100	€ 503.200
younger than 35	Low	€ 17.400	€ 10.000	€ 27.400
younger than 35	Middle	€ 25.800	€ 16.600	€ 42.400
younger than 35	High	€ 49.600	€ 26.300	€ 75.900
35 till 55	Low	€ 73.500	€ 66.200	€ 139.700
35 till 55	Middle	€ 132.700	€ 108.900	€ 241.600
35 till 55	High	€ 230.500	€ 181.700	€ 412.200
55 till 75	Low	€ 153.300	€ 152.500	€ 305.800
55 till 75	Middle	€ 262.500	€ 263.800	€ 526.300
55 till 75	High	€ 421.500	€ 481.900	€ 903.400
older than 75	Low	€ 150.500	€ 58.000	€ 208.500
older than 75	Middle	€ 253.900	€ 106.800	€ 360.700
older than 75	High	€ 450.200	€ 246.000	€ 696.200

Appendix 2: Calculation gifts on paper
Thanks to dr. Nicole Gubbels (Tilburg University) for the calculation

Gifts to children are exempted from gift taxation up to an amount of € 6.713 per year (2025 exemption, see appendix 3). A common way of avoiding inheritance taxation is to not actually transfer gifts to children, but give them 'on paper', and then pay children interest as compensation for not actually having transferred the gift. When the giver passes away, these gifts on paper are deducted from children's inheritance. No inheritance tax has to be paid on the interest payments.

<u>Regular gifts</u>
Parent gives € 6.000 every year, during a period of 50 years, to their child

Total 50 x € 6.000 =	€ 300.000
Reduction in inheritance taxation (20% x € 300.000) =	**€ 60.000**

<u>Gifts on paper</u>

Debt at moment of passing (50 x € 6.000) =	€ 300.000
Yearly interest payment (6%), in total ≈	€ 40.000
Reduction in inheritance taxation (20% x € 340.000) =	**€ 68.000**

Appendix 3: Gift and inheritance taxation rates

Value gift or inheritance	**Partner, children**	**Grandchildren and further descendants**	**Other benificiaries**
up till € 154.197	10%	18%	30%
from € 154.197	20%	36%	40%

The following exemptions apply to the gift tax in 2025:
- Children, annually: € 6.713
- Children, one off: expensive education (€ 67.064) *or* any other aim (€ 32.195)
- Anyone else, annually: € 2.690

The following exemptions apply to the inheritance tax in 2025:
- Partners: € 804.698
- Children and grandchildren: € 25.490
- Great-grandchildren: € 2.690
- Sick and disabled children: € 76.453
- Parents: € 60.359
- Other beneficiaries: € 2.690