The Impact of Housing on Wealth Inequality

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Motivation

- Recent literature points to importance of housing for understanding evolution of wealth inequality

- Empirical evidence suggests that larger shares of home ownership result in smaller overall wealth inequality (e.g. Kaas, Kocharkov and Preugshatc, 2019)

- Administrative tax records have a number of advantages

    ⋆ e.g., full coverage; third-party reporting

    ... but also some serious limitations

- Key challenge: Measures of wealth are incomplete

Cross-country evidence

- Wealth inequality is much higher than income inequality, in part reflecting lifecycle effects as wealth accumulates over time
- Housing has an equalizing effect on the distribution of wealth because housing is more equally distributed than other real and financial assets and is also the most important asset for most households
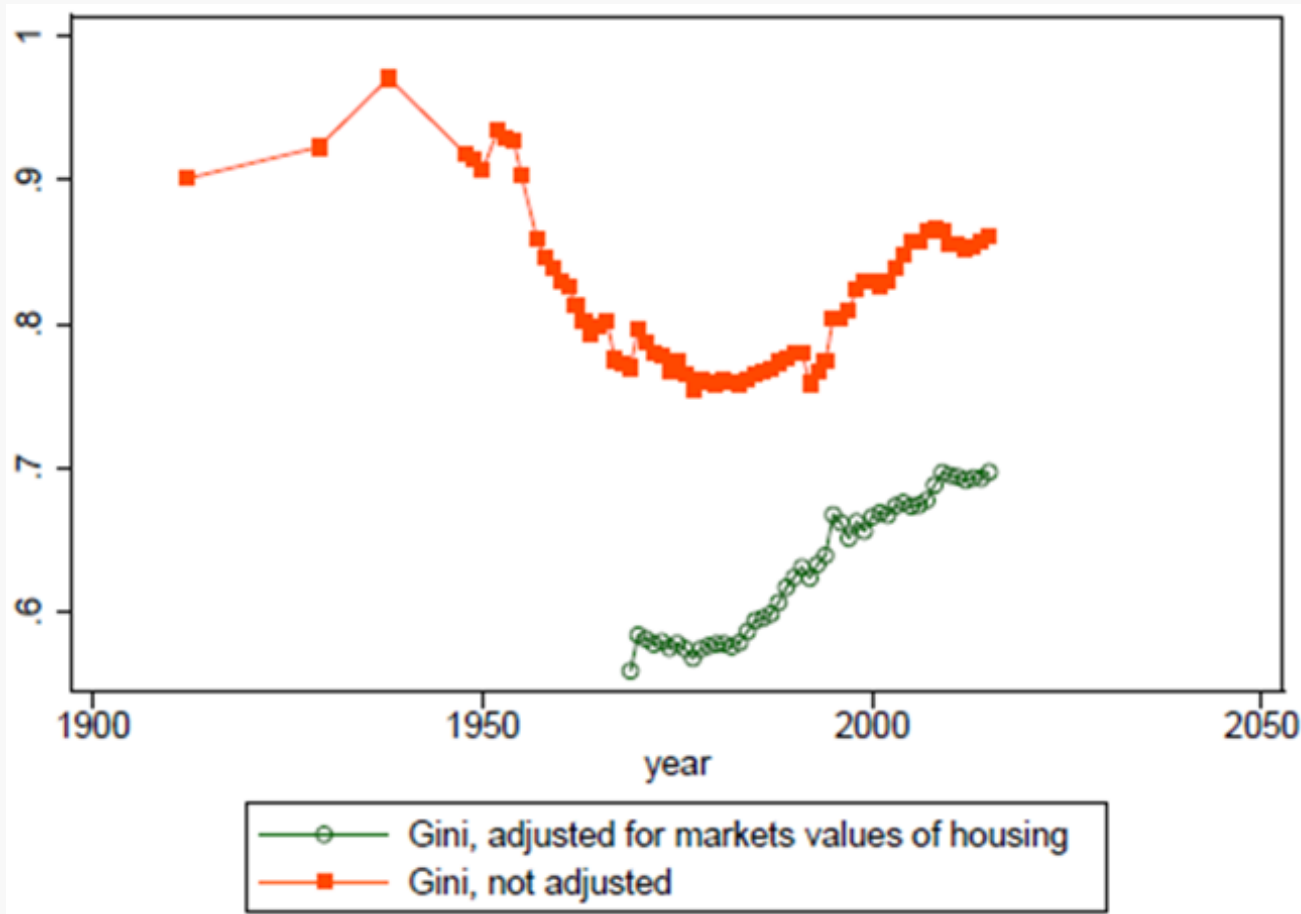
Evolution of the Gini coefficient for distributions of market income and assessed wealth, Norway 1912 - 2018
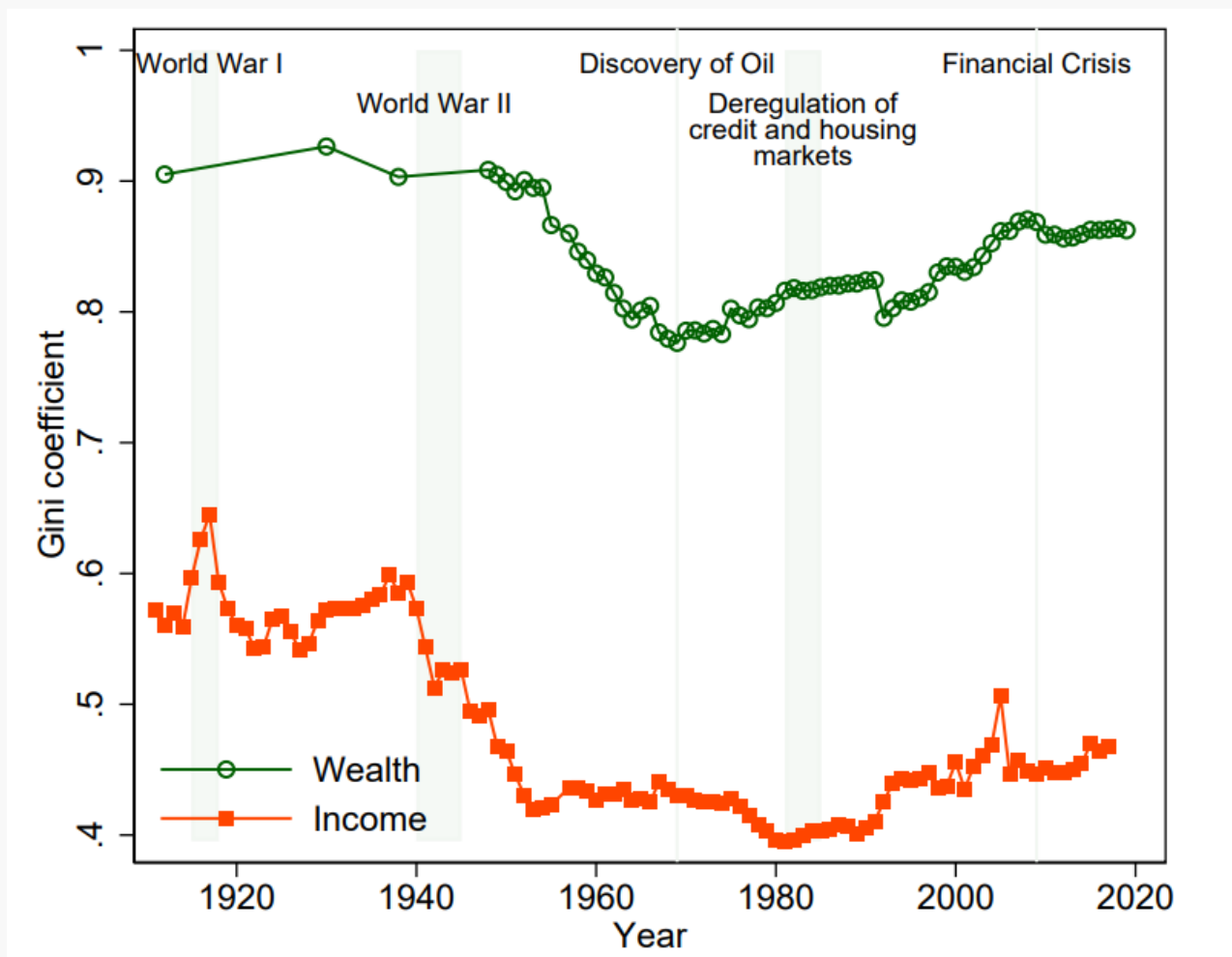
Source: Aaberge, Modalsli and Solbakken (2023): «Measuring Long-Run Wealth Inequality», Mimo, Statistics Norway

Accounting for market values of housing, 1969 - 2018
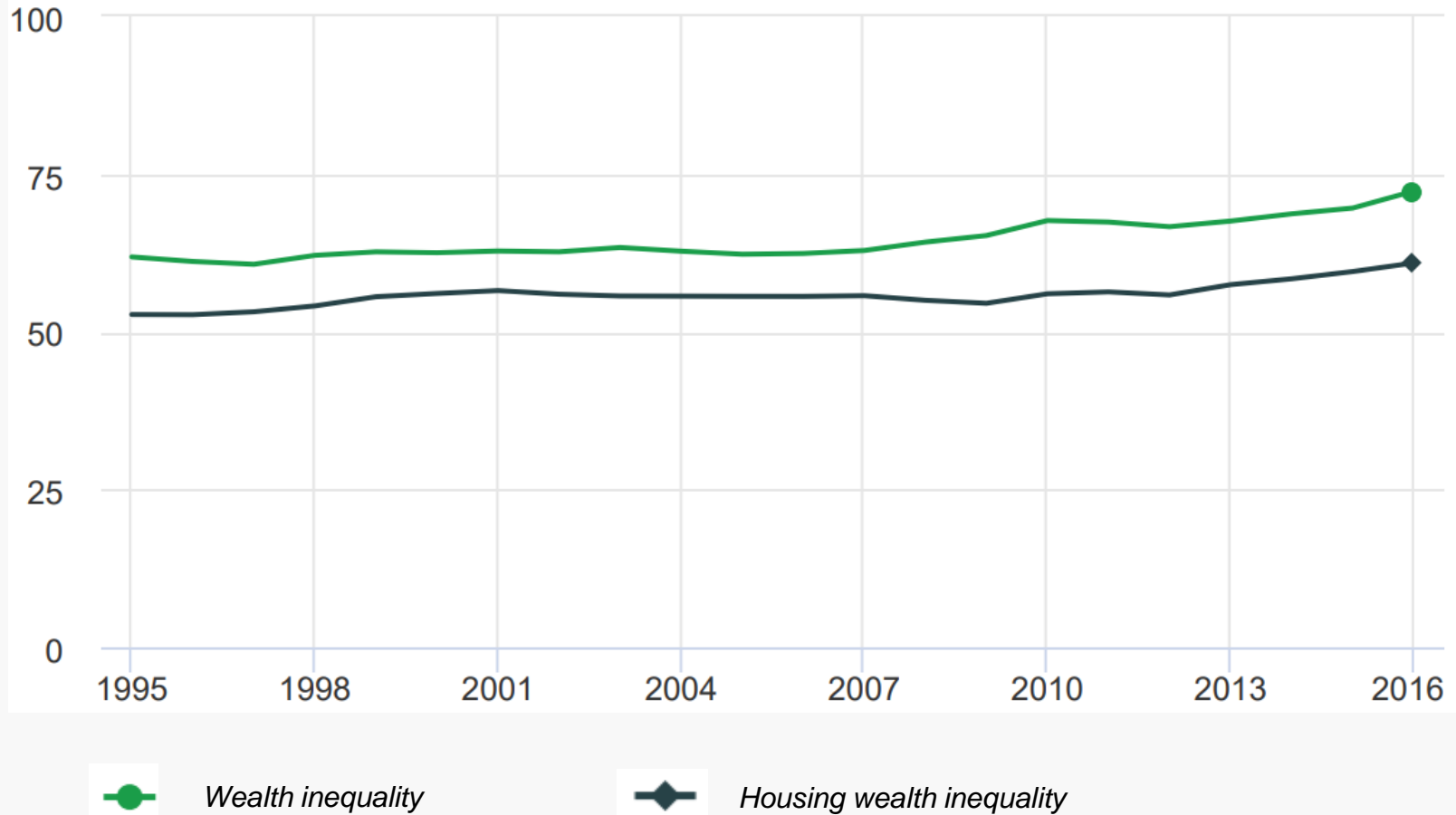
Gini coefficient

Source: Aaberge, Modalsli and Solbakken (2023): «Measuring Long-Run Wealth Inequality», Mimo, Statistics Norway

Interpretation of the Gini coefficient

$$G = \frac{mean \; of \; all \; pairwise \; differences}{2 \cdot mean}$$

Gini coefficient for wealth and housing wealth, Norway 1995 - 2016

Source: Aaberge and Stubhaug (2018)

Decomposition of the Gini coefficient

As demonstrated by Rao (1969) the Gini coefficient admids the following decomposition with regard to wealth components,

$$G = v_i(G) = \sum_{i=1}^{s} \frac{\mu_i}{\mu} \gamma_i$$

where μ_i is the mean of wealth component i, μ is the overall mean income, and γ_i is the concentration coefficient of component i.

The concentration coefficient γ_i can be interpreted as the conditional Gini coefficient of component i given the rank order in total wealth. The inequality contribution $v_i(G)$ is the product of the income share and the concentration coefficient.

Note that the ratio γ_i / G_i , where G_i denotes the Gini coefficient for wealth component i, can be considered as a measure of the re-ranking effect for component i
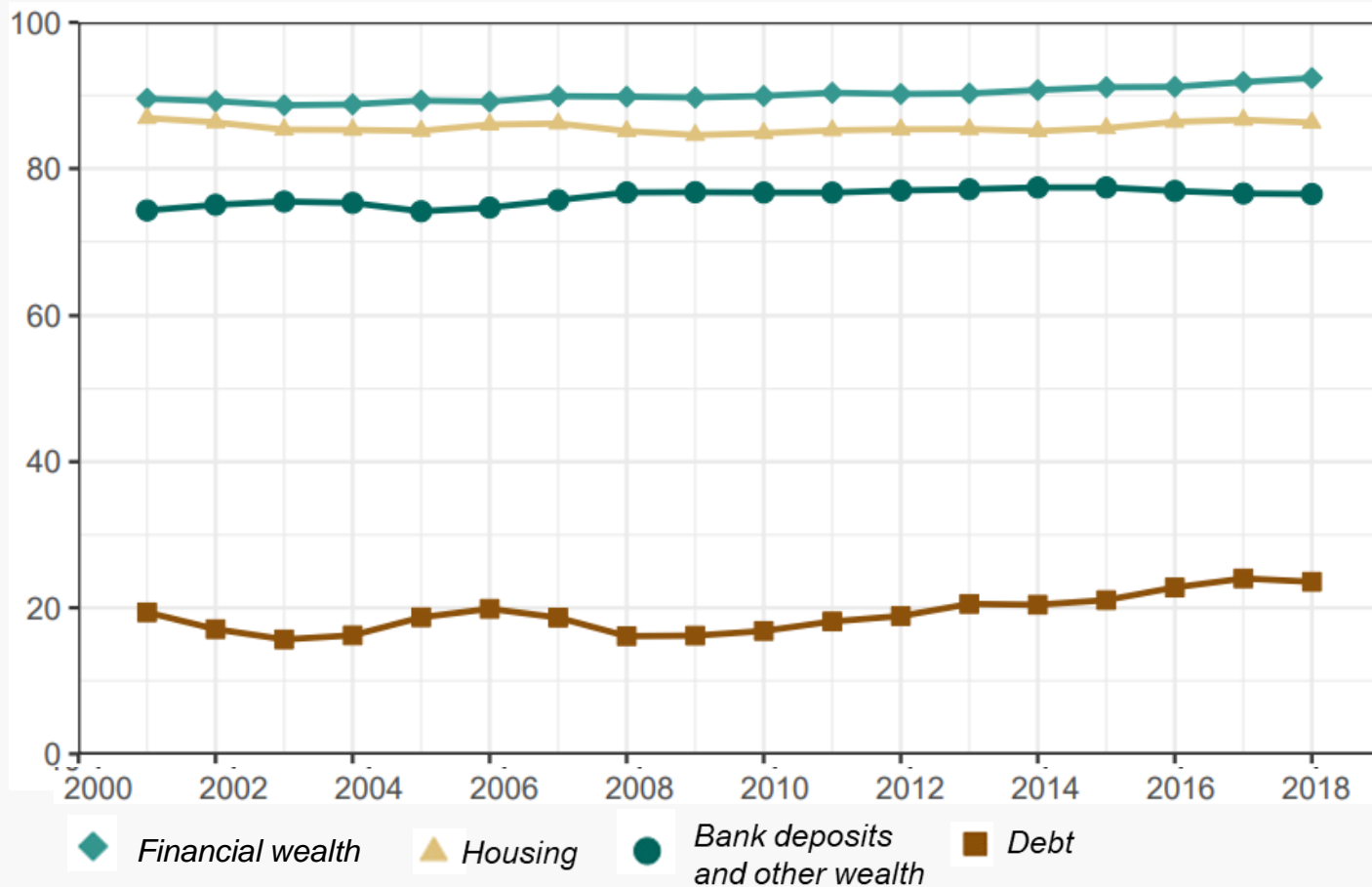
Wealth components' contribution to wealth inequality
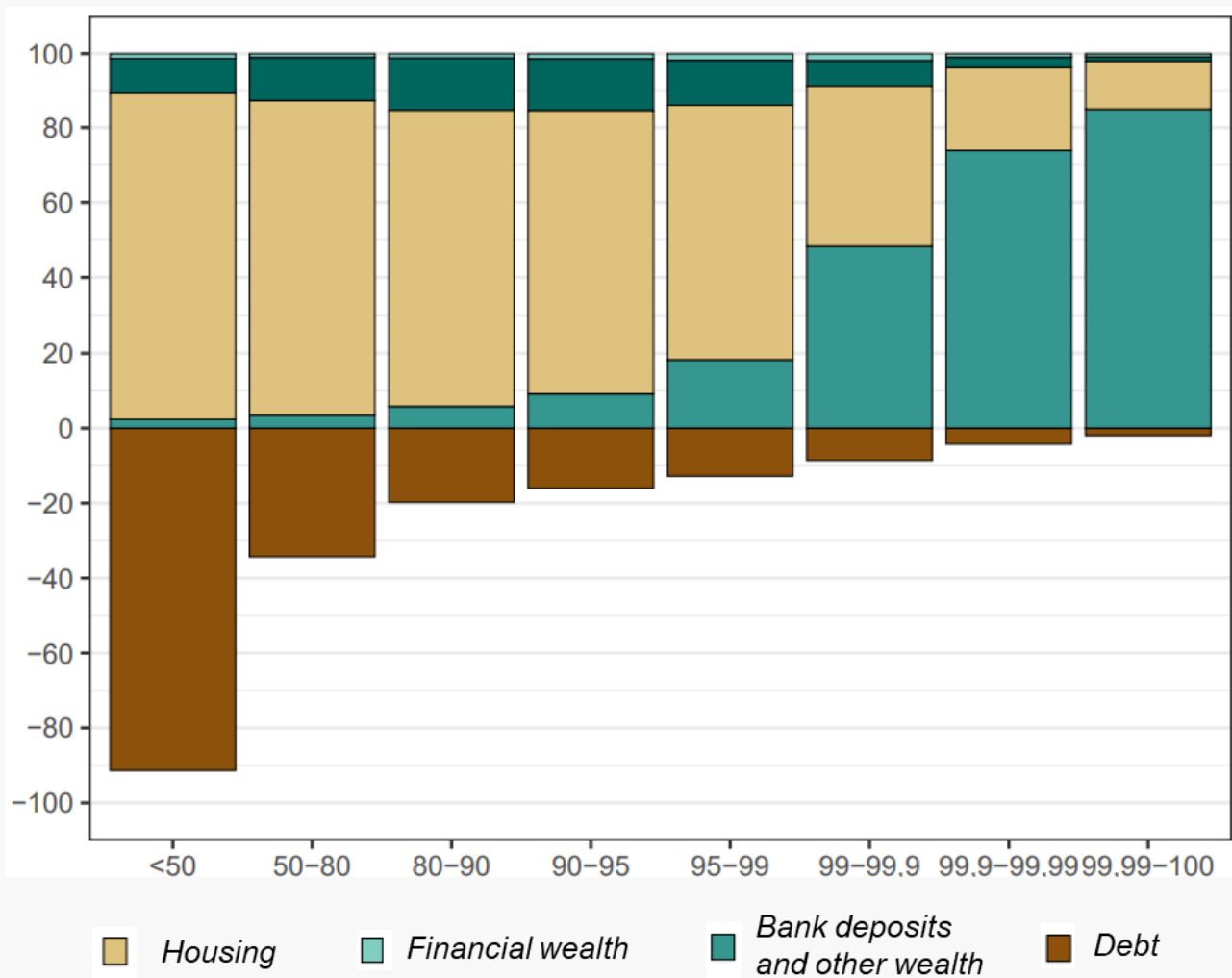**(measured in percentage points)**

Legend: Housing, Financial wealth, Bank deposits and other wealth, Debt
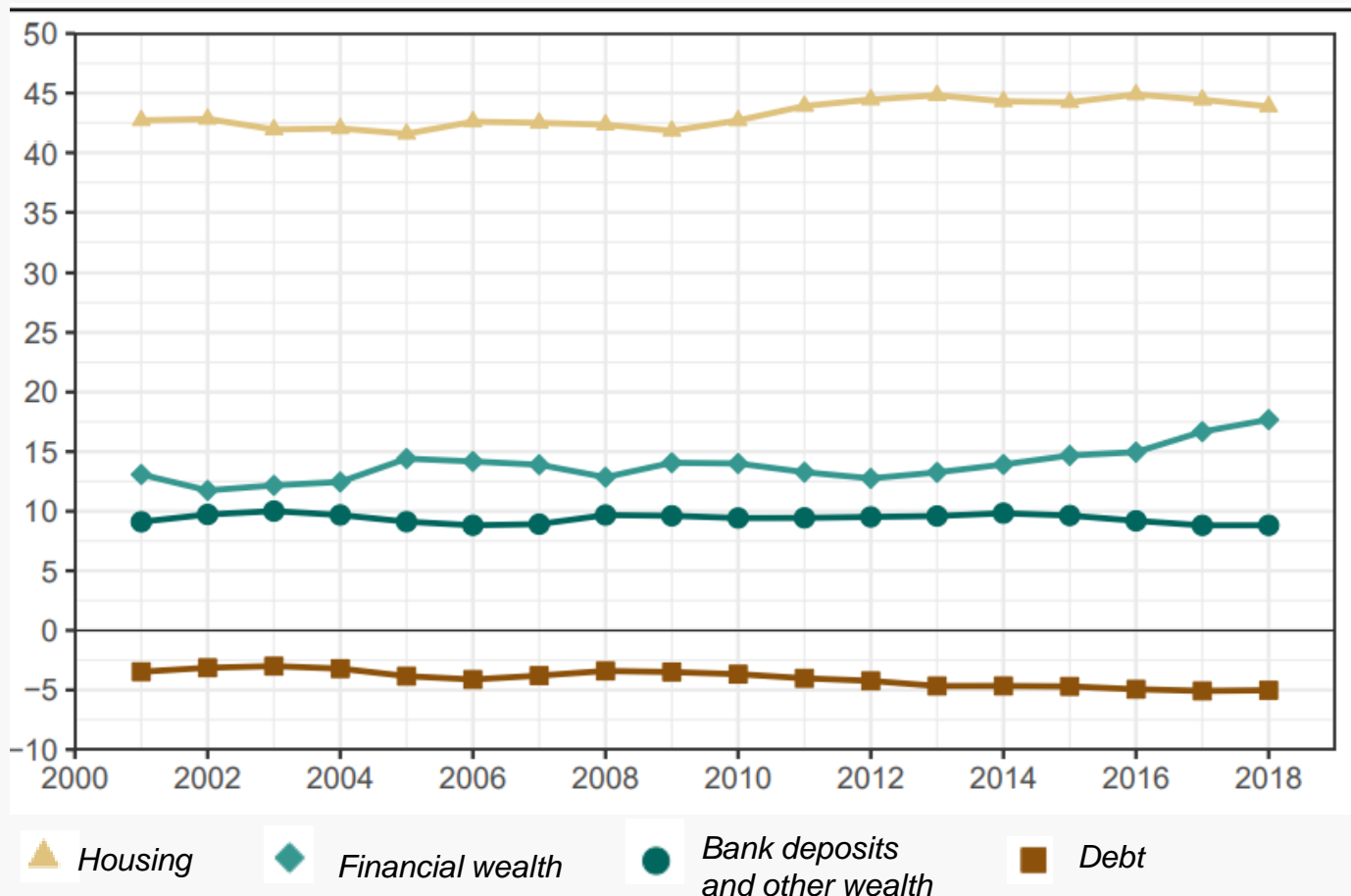
Source: Aaberge, Mogstad, Vestad and Vestre (2021)

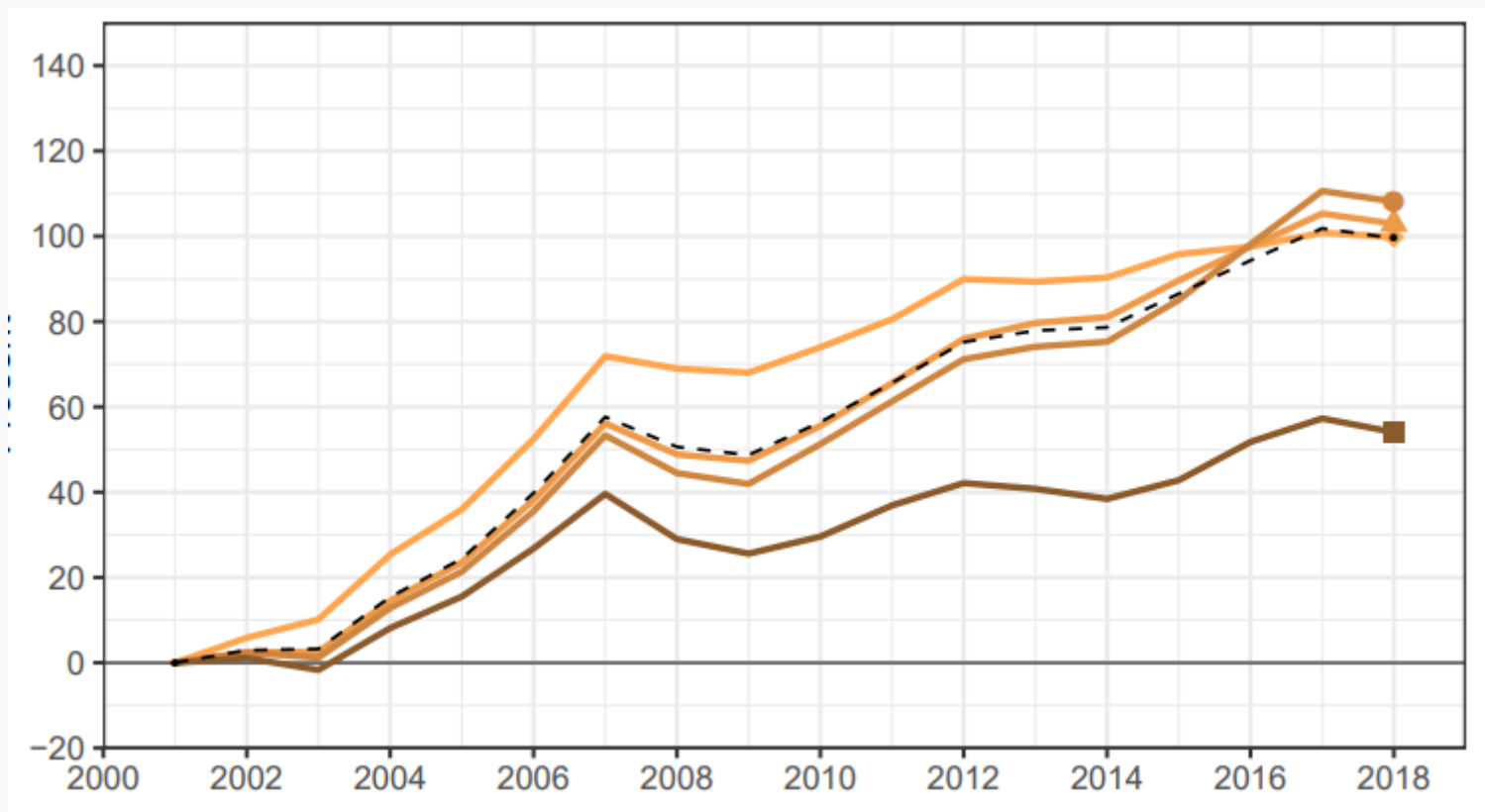# The re-ranking effect of wealth components (γ_i/G_i)

Source: Aaberge, Mogstad, Vestad and Vestre (2021)

The wealth composition in different parts of the wealth distribution, Norway 2001 - 2018

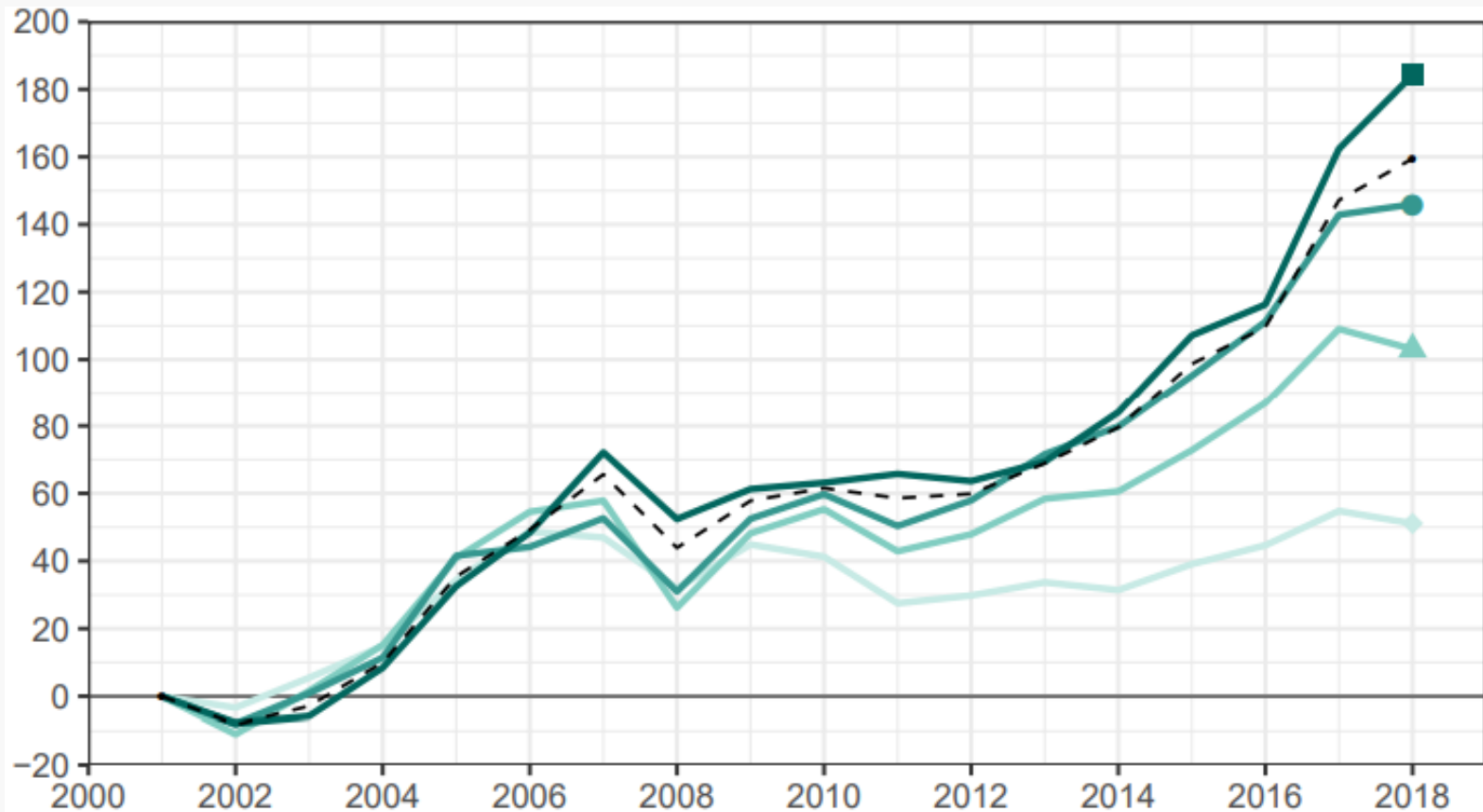Source: Aaberge, Mogstad, Vestad and Vestre (2021)

Growth in housing wealth for different segment of the wealth distribution

Legend: Bottom 50 %, P 50 – P 90, P 90 – P 99, Top 1 %, Entire pop.

Source: Aaberge, Mogstad, Vestad and Vestre (2021)

Growth in financial wealth for segments of the wealth distribution

Bottom 50 %   P 50 – P90   P 90 – P99   Top 1 %   Entire pop.
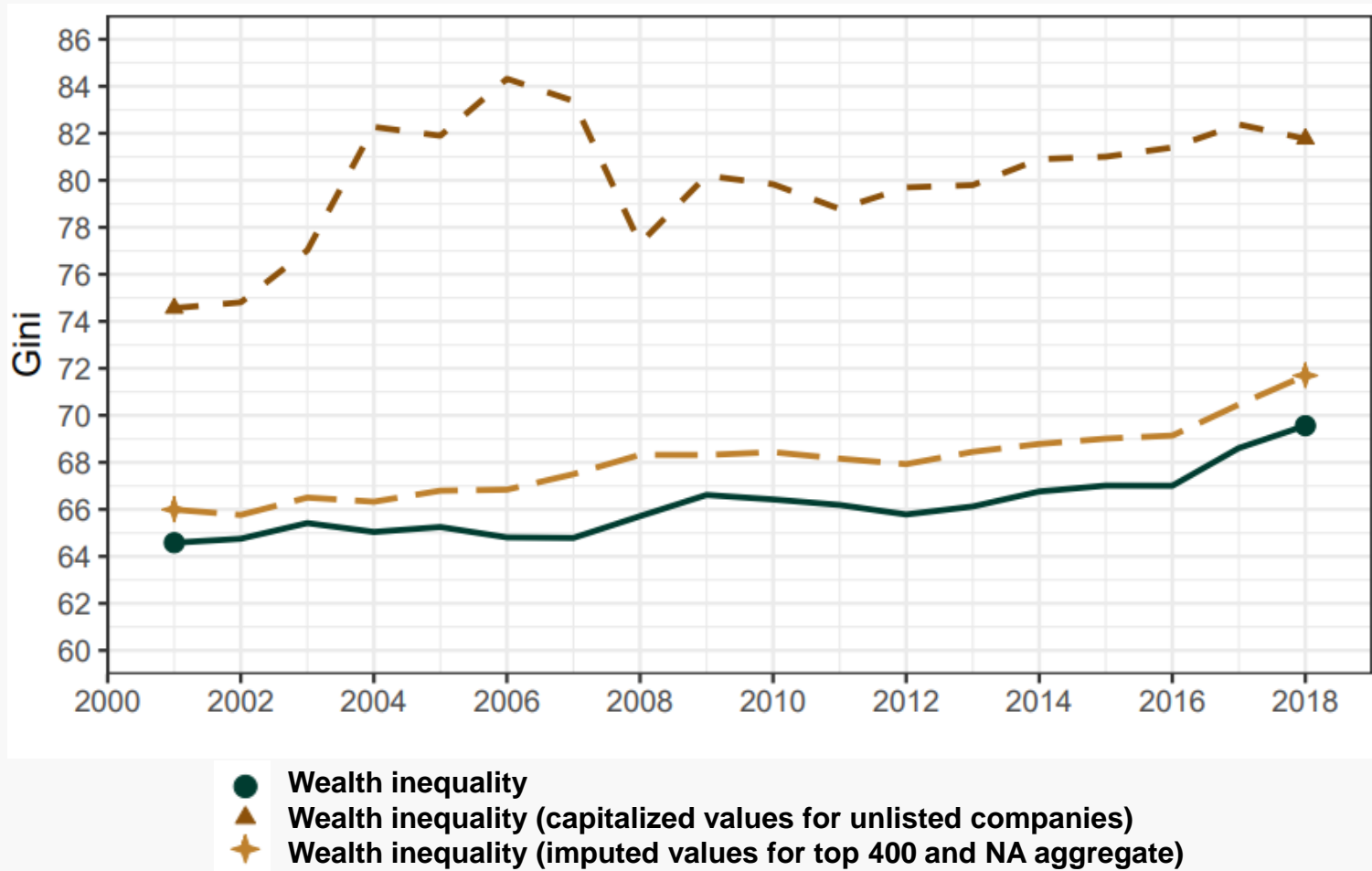
Source: Aaberge, Mogstad, Vestad and Vestre (2021)

«Market value» of unlisted companies

Legend:
- ● Wealth inequality
- ▲ Wealth inequality (capitalized values for unlisted companies)
- ✦ Wealth inequality (imputed values for top 400 and NA aggregate)

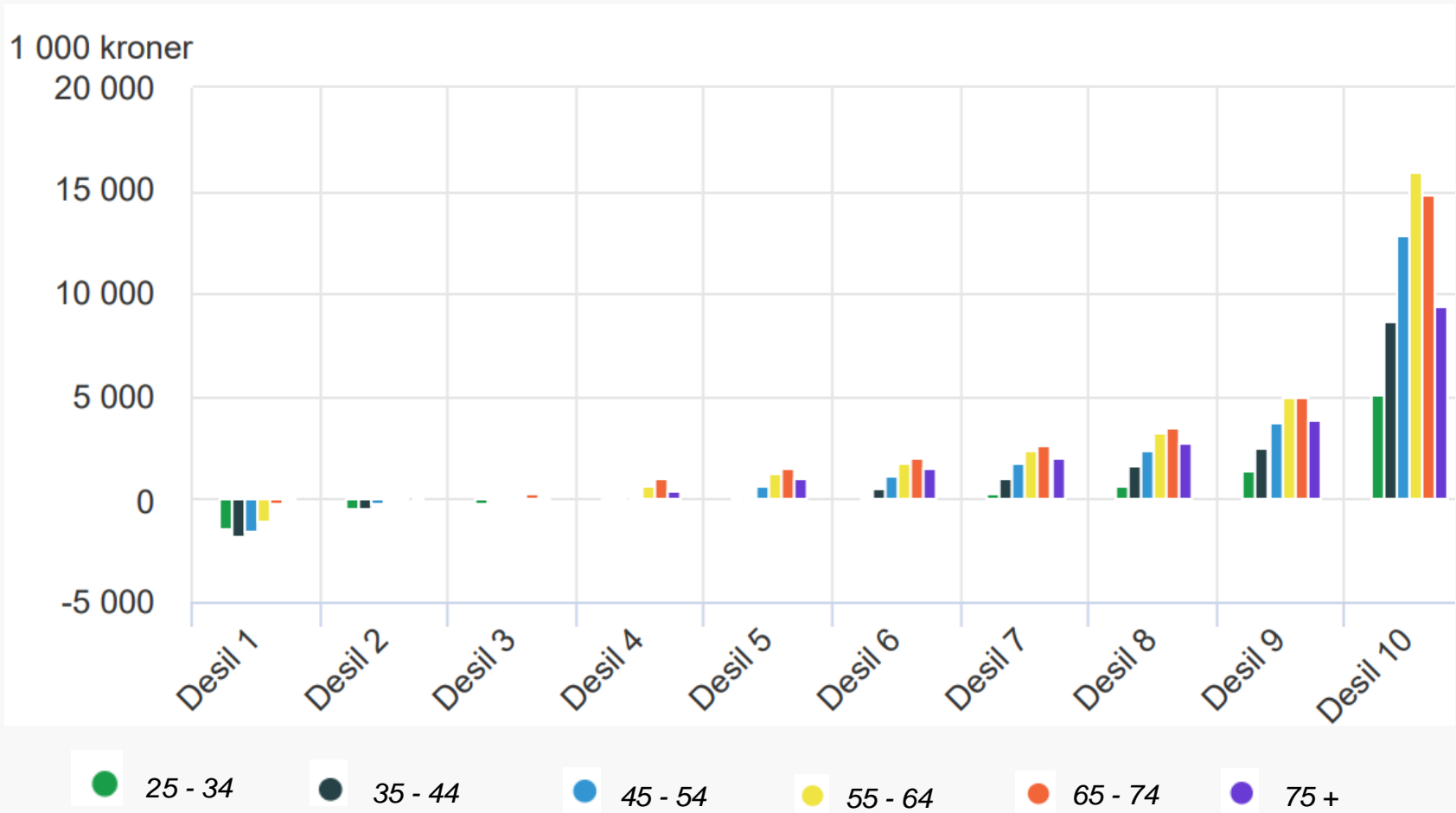*Source: Aaberge, Mogstad, Vestad and Vestre (2021)*

Conclusion

- Wealth and housing wealth inequality measured by the Gini coefficient increased from 0.62 and 0.53 in 1995 to 0.72 and 0.61 in 2016
  - The mean pairwise difference in wealth increased from 1.23 times the mean wealth in 1995 to 1.45 times the mean wealth in 2016
- Accounting for market values of housing reduced the estimate of the Gini coefficient for wealth by 23 – 33 per cent for the period 1969 - 2018
- Financial wealth is the dominating wealth asset for the top 1%, while housing is the dominating wealth asset for the bottom 99%
- Housing accounted for
  - 60% of the gross wealth in 1995 and 71-72% after the mill
  - 74-79% of the (net) wealth inequality after 1995
- Limitation: The assessment of unlisted companies are based on book values
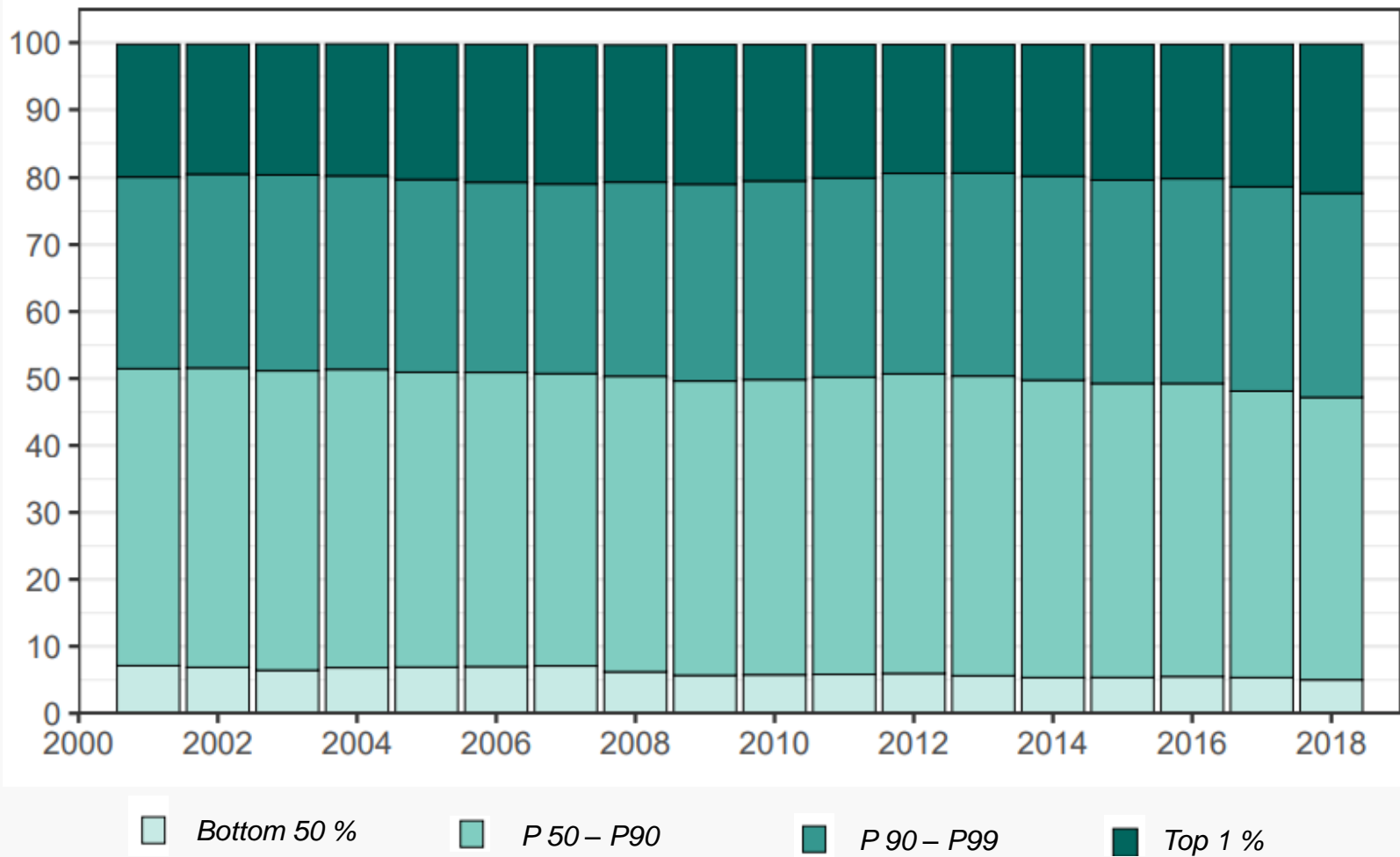
Thank you!

Comments welcome

Wealth by decile and age, Norway 2016

Source: Aaberge and Stubhaug (2018)

Distribution of wealth by segments

Legend: Bottom 50 %, P 50 – P 90, P 90 – P99, Top 1 %

Source: Aaberge, Mogstad, Vestad and Vestre (2021)