

Housing and wealth inequality: A story of policy trade-offs

The Measurement of Augmented Wealth: Concepts, Methods and Results

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Motivation

- **Housing is the largest source of households' wealth** => a fundamental driver of wealth accumulation for households and individuals, of wealth distribution and inequality within and across generations
- **OECD governments use various policy instruments** to promote homeownership and affordable housing, yet there is little evidence about distributional context and implications

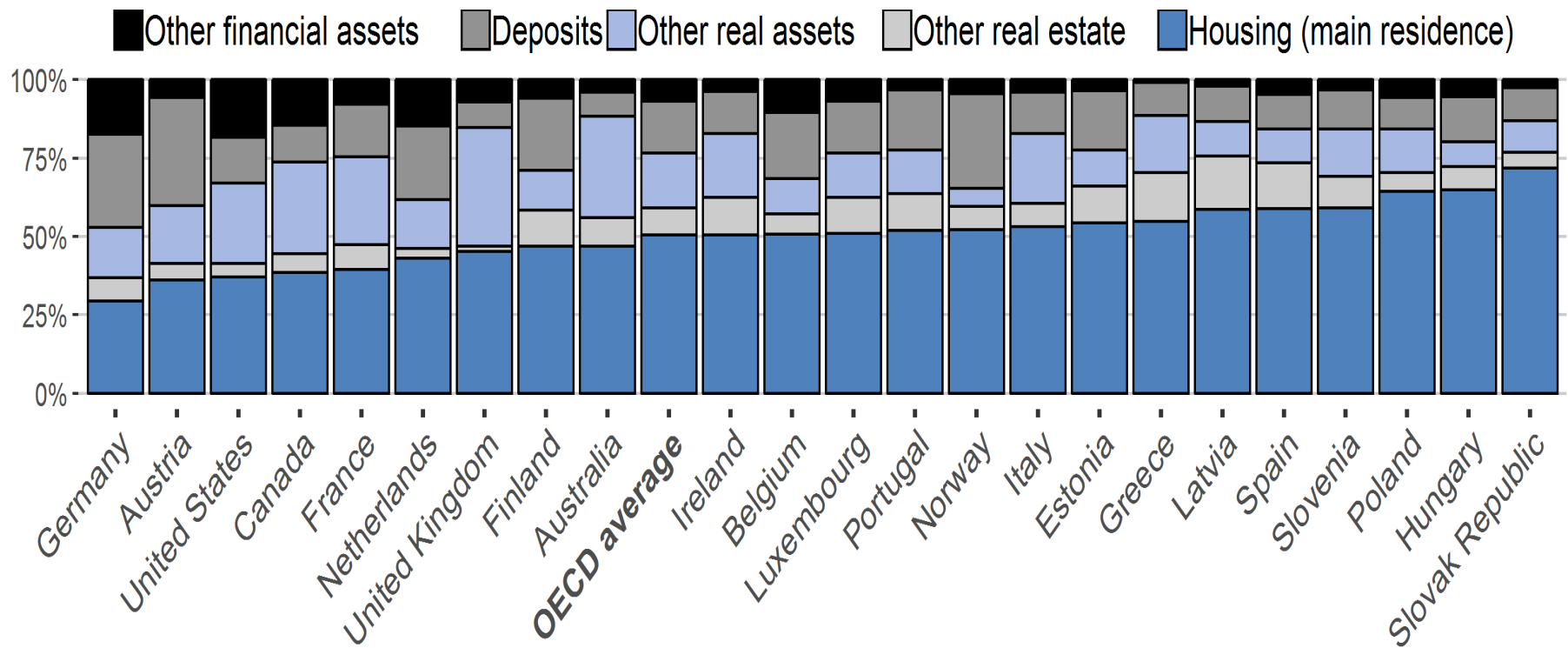
Policy questions

OECD project by Causa et al (2019) delivers evidence on housing, wealth accumulation and distribution, drawing policy implications associated with **multiple policy goals**

- Do housing-related policies affect wealth distribution and **inequality**?
- Do housing-related policies raise potential **trade-offs** between equity and other policy objectives >> **efficiency** and **resilience**?

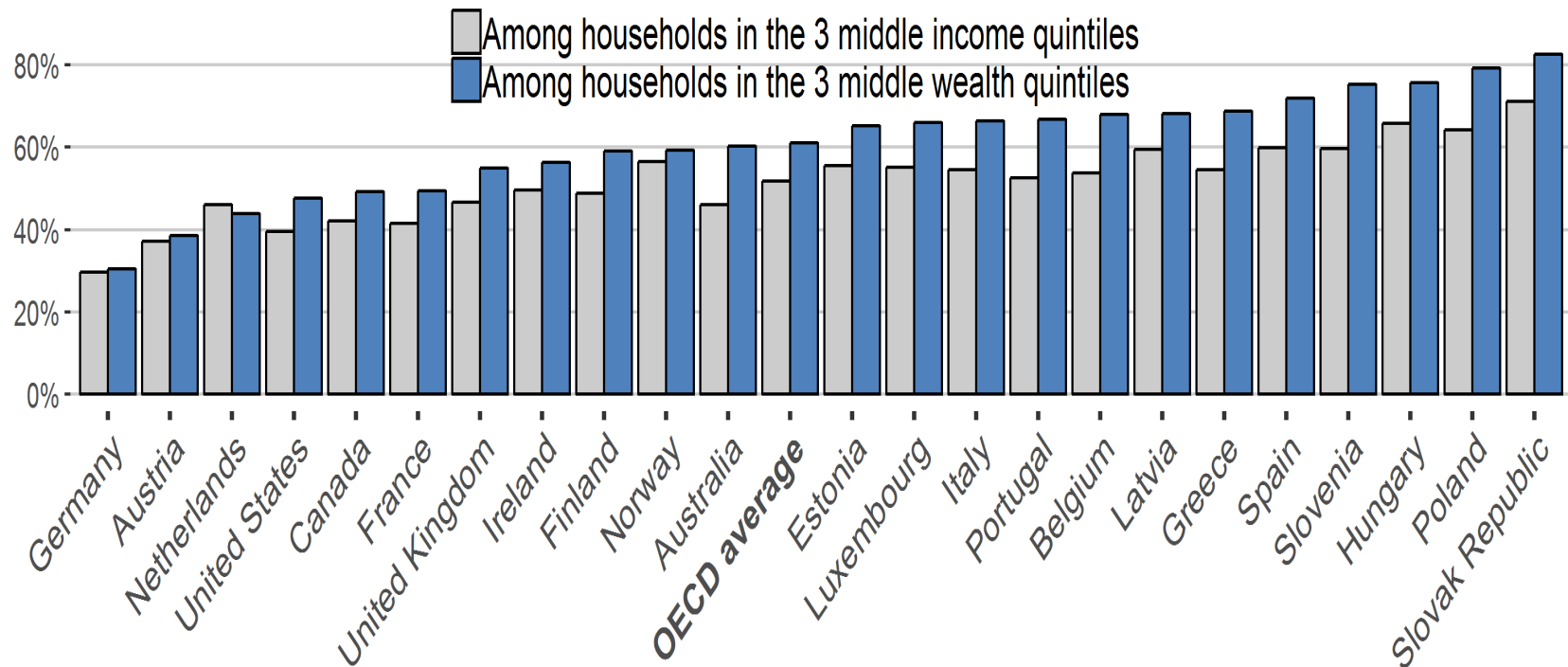
Housing is the first asset in households' portfolio...

Asset decomposition of households' portfolio



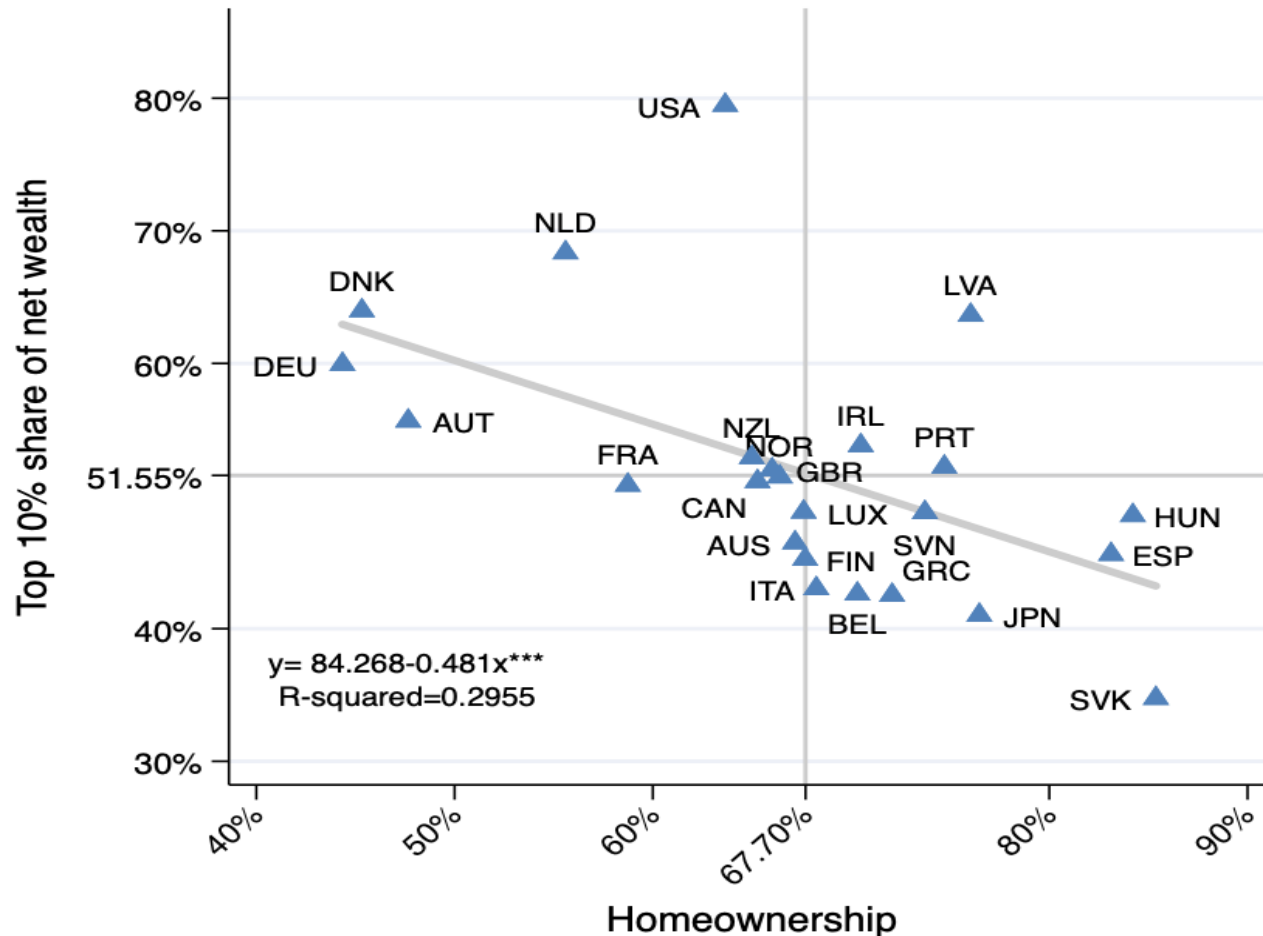
...so the chief asset of the middle class

Housing as a share of total assets



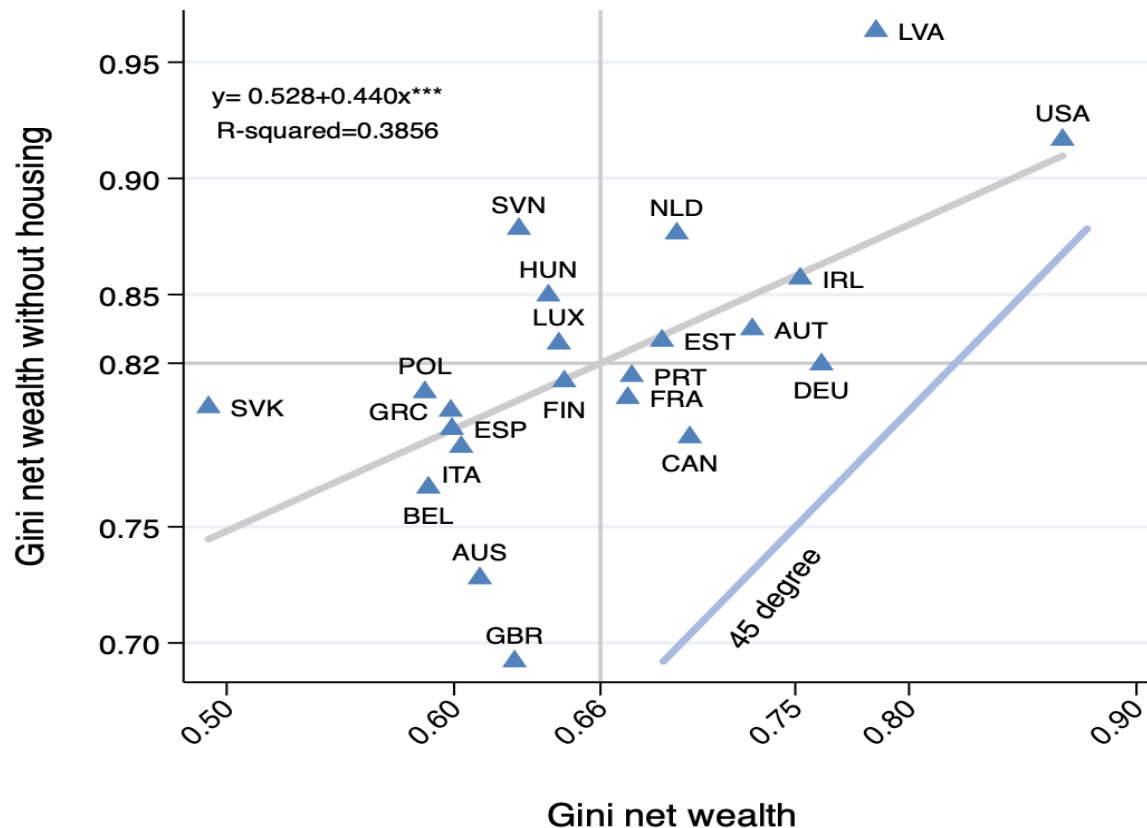
Wealth inequality is lower in countries with higher homeownership

Homeownership and wealth inequality



....Because housing tends to equalize the distribution of wealth from a static cross-country perspective

Wealth inequality *with* & *without* housing

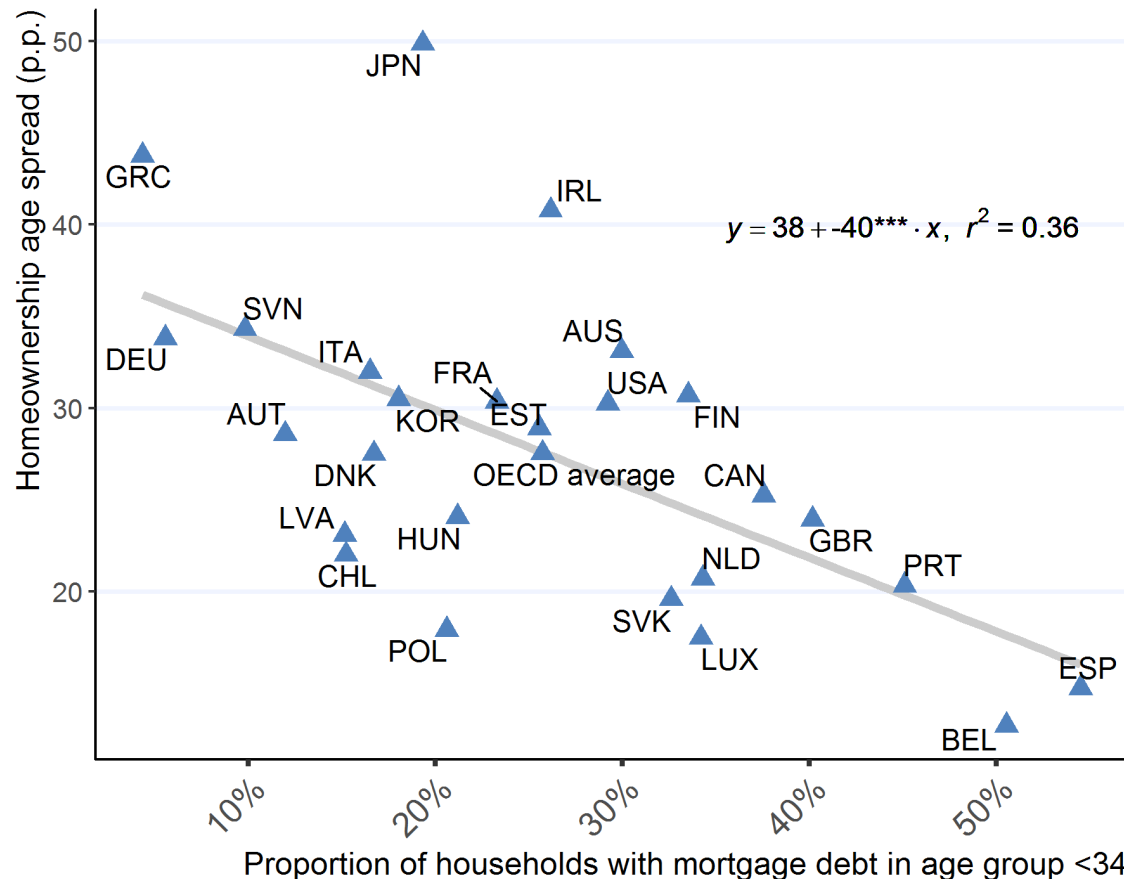


Policy issues & trade-offs

- **Promoting homeownership has been a policy objective for many countries.** Policy tools include preferential tax treatment of owner-occupied housing relative to rented housing and to other savings/ assets.
- Even if wealth inequality is lower where homeownership is more widespread, **encouraging homeownership is not the appropriate policy response to help low- and middle-income families accumulate wealth.**
- Because **policies favoring homeownership are likely to conflict with other important policy objectives.**

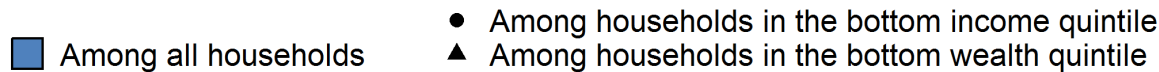
Access to mortgage debt allows liquidity-constrained households to become homeowners...

Participation in the mortgage market by young households and homeownership age spread

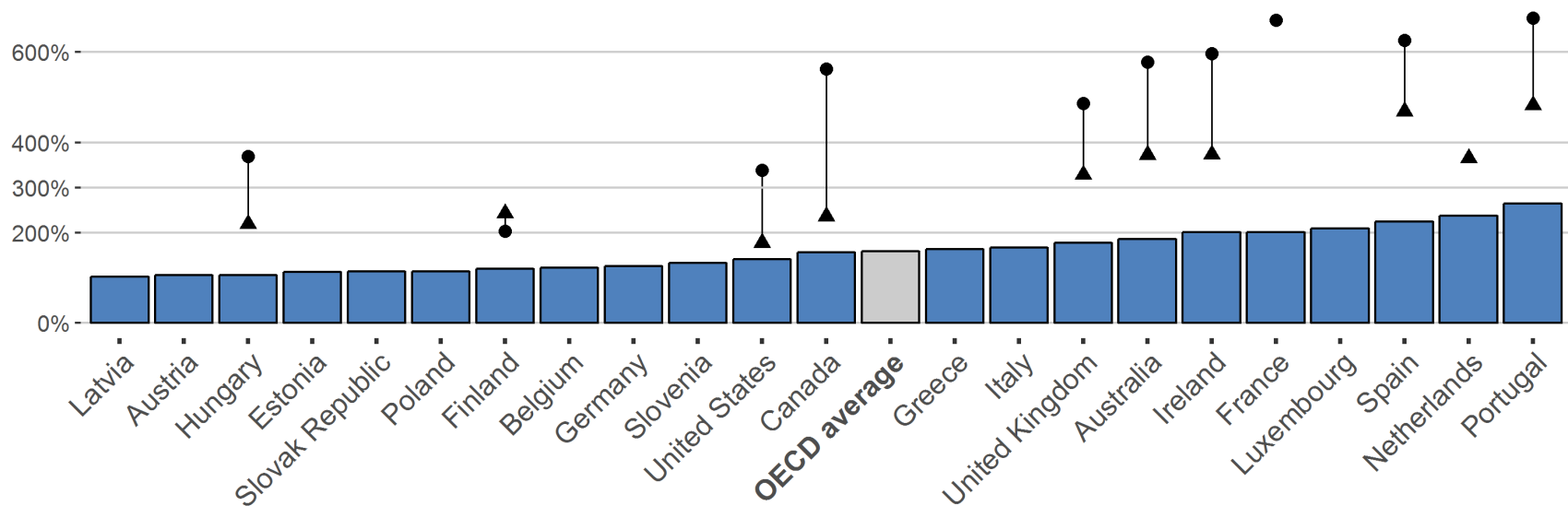


...which however exposes them to financial vulnerability

Mortgage debt-to-income ratio

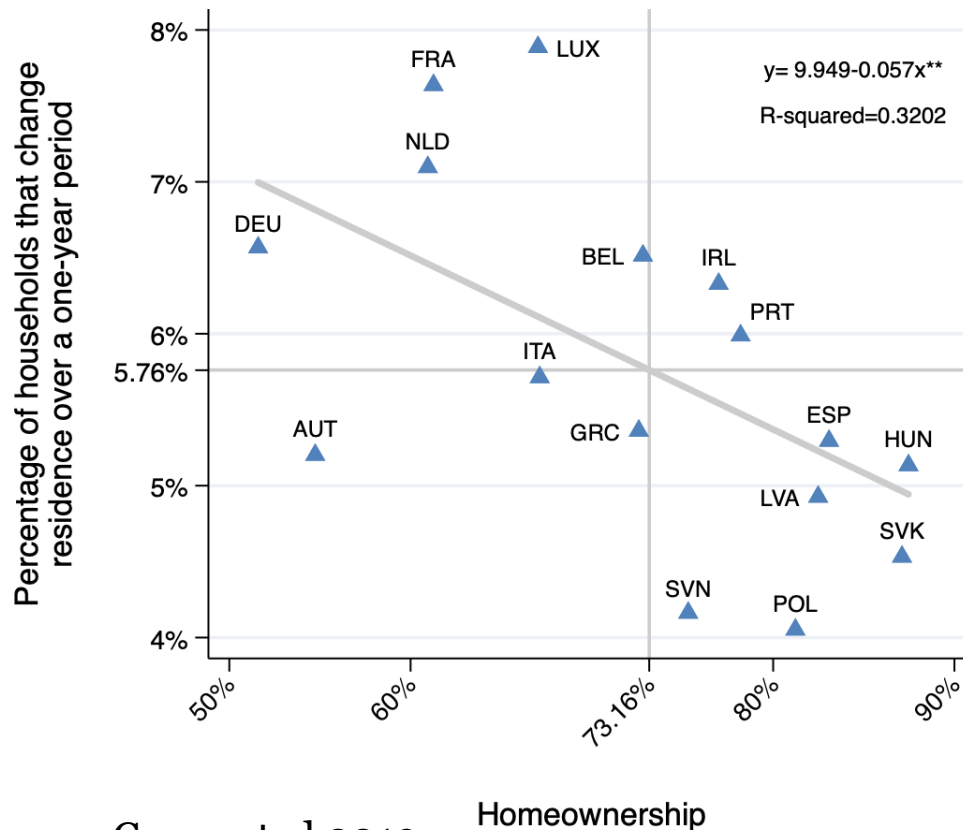


Panel A: Debt-to-income ratio, median



High homeownership countries tend to display low residential mobility

Homeownership and residential mobility

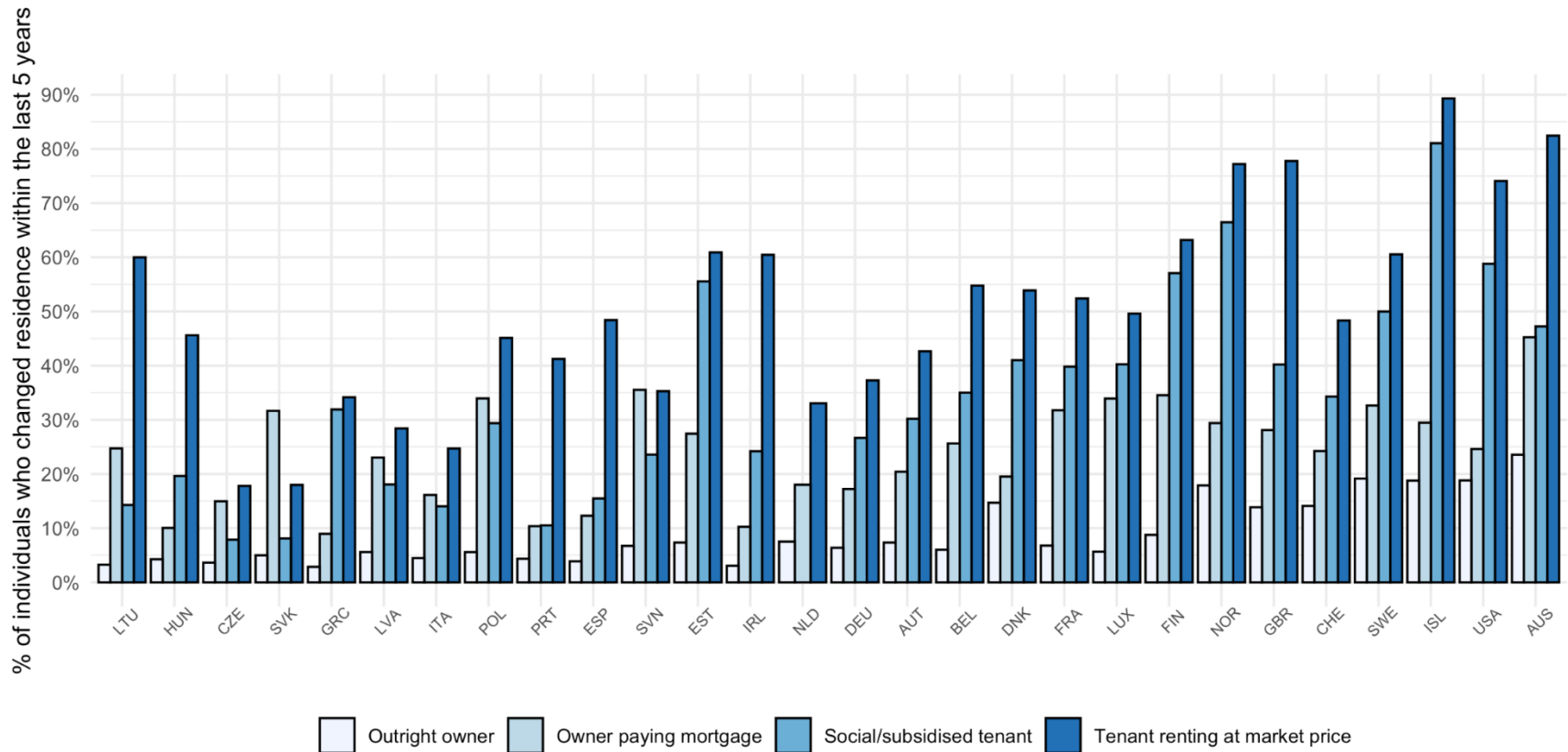


Source: Causa et al 2019

Homeownership

...because homeowners are much less mobile than renters

Residential mobility by household tenure status



Policy options

Reforming housing taxation to make the overall tax system more progressive and efficient

- Phasing out the regressive features associated with the preferential tax treatment of owner-occupied housing such as mortgage interest deductibility
- Shifting from income to progressive recurrent taxes on immovable property and on inheritance and gifts

Policy options (cont'd)

- **Reducing household-level financial risks with borrower-based prudential regulation**
- **Designing policy packages to remove housing-related obstacles to mobility**
 - Reducing housing transaction costs (e.g. taxation, legal fees)
 - Reforming social housing programs with a view to avoid lock-in effects and residential segregation and expanding well-designed portable housing allowances >> requires complementary investments in public transportation and effective urban planning
 - Address excessive housing price imbalances and housing affordability problems, especially in central cities (e.g. land-use regulations, taxes, rental market regulations)

References

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<http://www.oecd.org/sdd/OECD-wealth-distribution-database-metadata.pdf>.

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