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HOW DOES WEALTH CONCENTRATION COMPARE ACROSS COUNTRIES ?

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OECD BETTER POLICIES FOR BETTER LIVES

Motivation

- Growing inequality is a major concern for policy-makers and civil society (‘*Capital in the XXIst Century*’)
- Less evidence on wealth inequality with good cross-country comparability
- OECD Household Wealth database:
  - Based on 2013 OECD Guidelines
  - Complements previous works (LWS, 2006; Crédit Suisse, 2010-2014; ECB, 2013; Piketty et al.)

Data characteristics

- Private households, non equivalised
- Consistent classification of assets and liabilities:

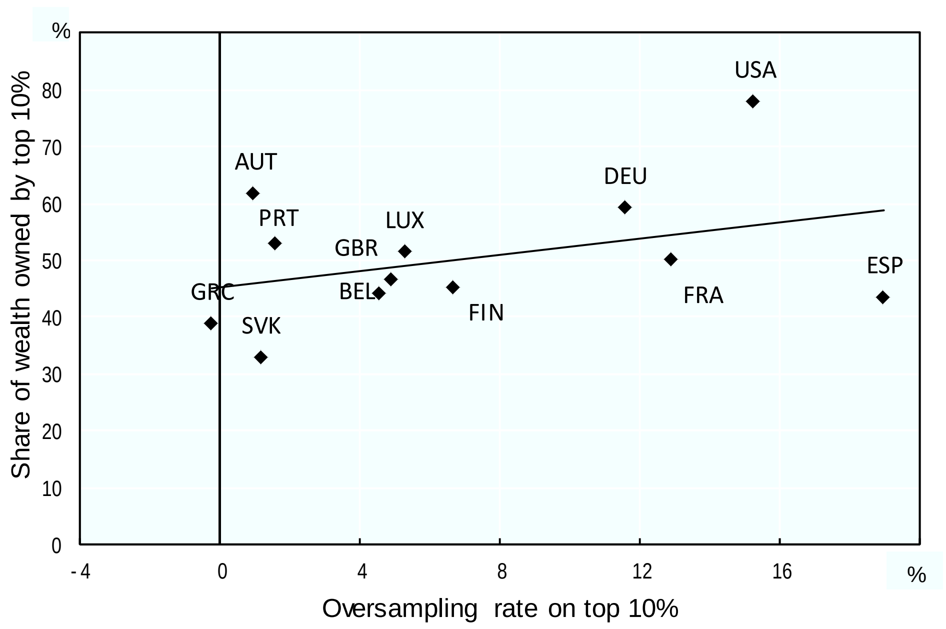
Assets		Liabilities
Non financial	Financial	
Principal residence	Deposits	Principal residence debt
Other real estate	Bonds and debt securities	Other property debt
Vehicles	Mutual and investment funds	Other debt
Valuables	Net equity in own incorporated business	
Other non-financial assets	Stocks	
	Unlisted shares	
	Other financial non-pension assets	
	Voluntary pension-life insurance	
	Pension scheme (employer)	

- Households by housing status, type, age, education
- Joint distribution of income and wealth, over-indebtedness

Data characteristics (cont.)

- One year (2010 or latest) 18 countries
- Occupational pension wealth not included
- Based on household surveys: unequal over-sampling of top decile with unknown incidence

Panel A. Top 10% of the distribution



Outline

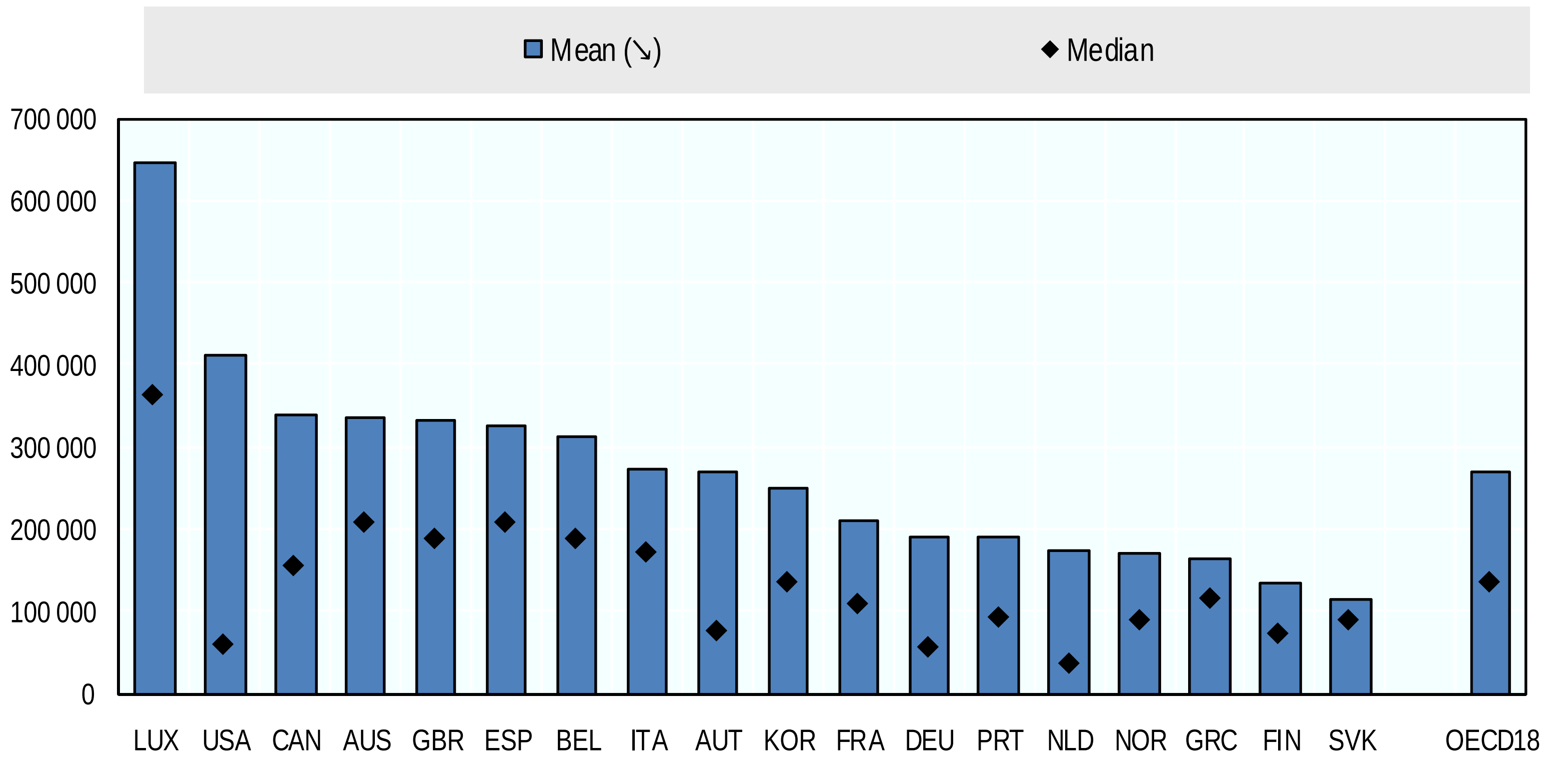
- Average and median wealth
- Wealth inequality
- Drivers of household wealth
  - Asset real prices
  - Who owns what?
- Debt and over-indebtedness
- What happened during the Great Recession?

High mean wealth countries include Luxembourg, Spain and English-speaking countries

Shifting from mean to median net wealth does not change dramatically the ranking except for USA, AUT, DEU

Figure 6.1. Mean and median net wealth per household in micro-data

2010 or latest available year, values in 2005 USD

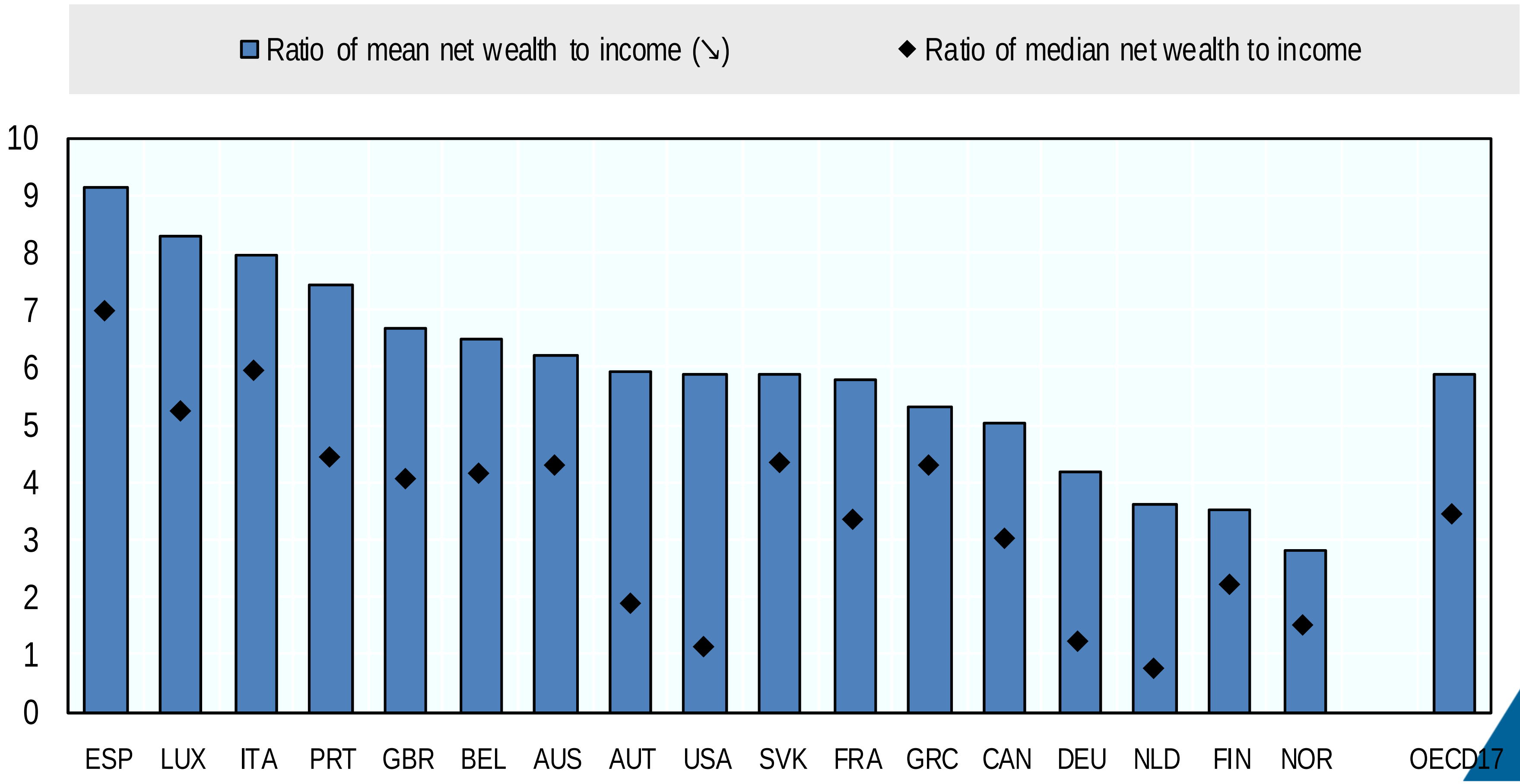


When wealth is expressed relatively to income, USA-CAN-PRT-ITA shift position…

…but the overall ranking is maintained (correlation 0.66)

Figure 6.2. Mean and median net wealth relative to household income

2010 or latest available year, values in 2005 USD

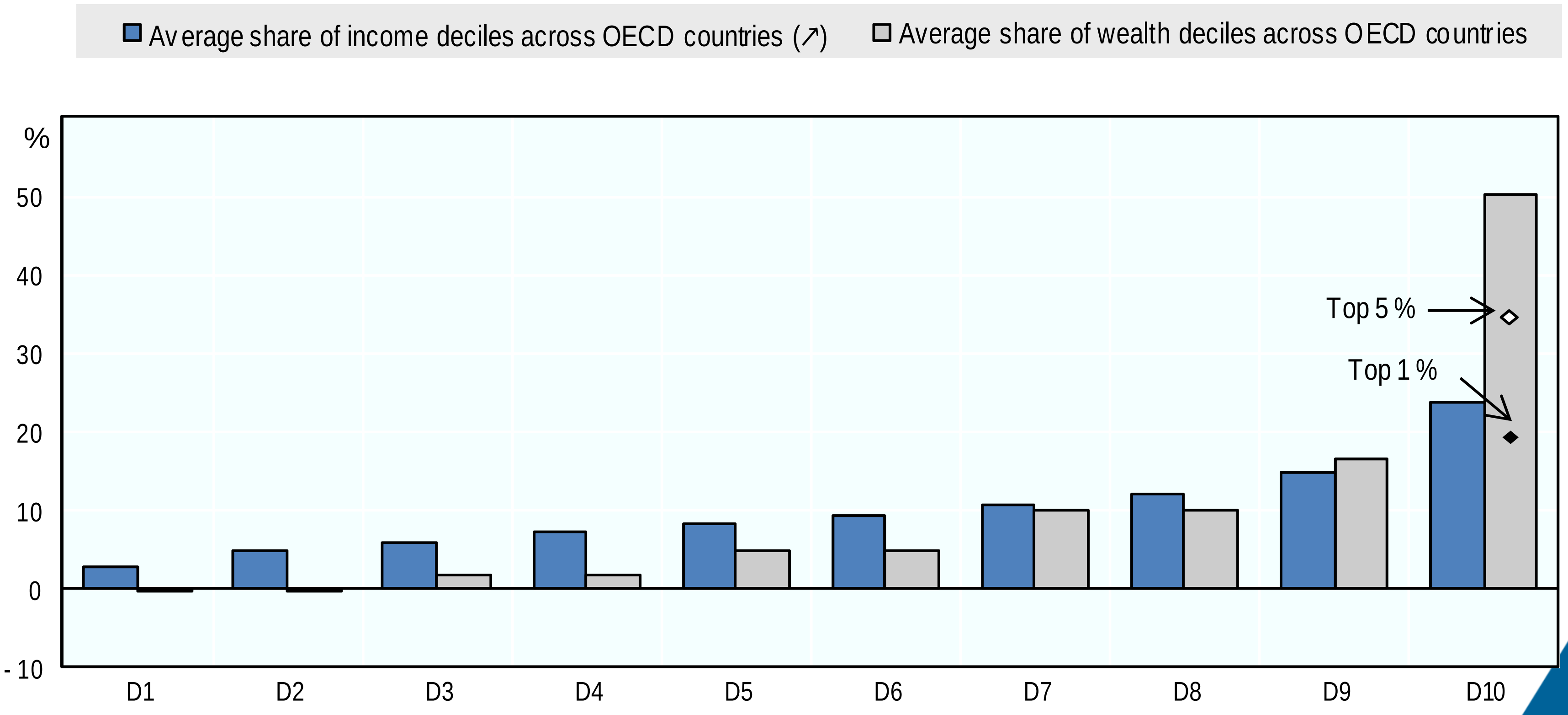


Wealth is much more concentrated than income

The top 10 holds about 50% of total wealth versus 25% for income

Figure 6.5. Distributions of household disposable income and net wealth across deciles

Average of 18 OECD countries, 2010 or latest available year

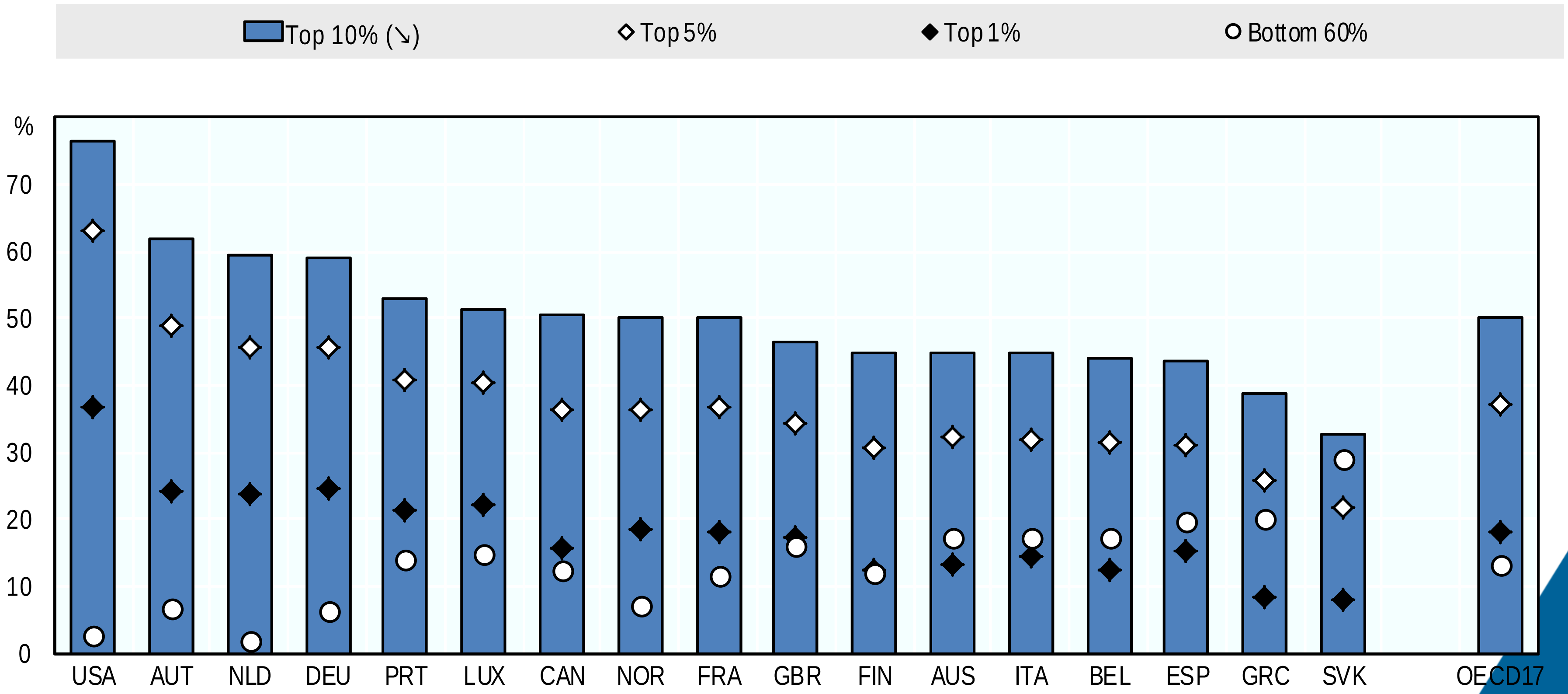


Wealth is highly concentrated at the (very) top of the distribution

On average, the top 1% holds 18% of total wealth versus 13% for the Bottom 60%

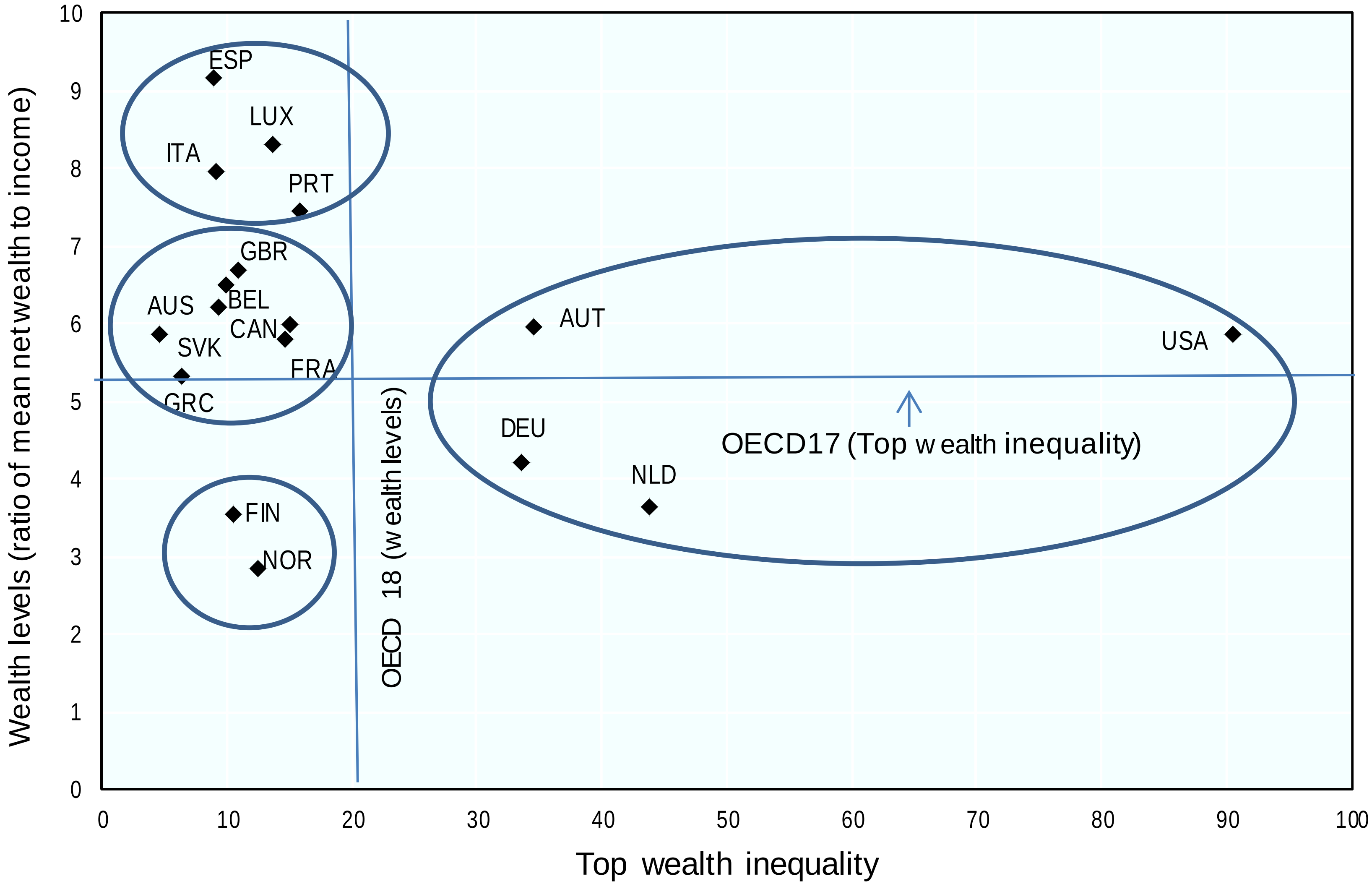
Figure 6.7. Wealth shares of top percentiles of the net wealth distribution

2010 or last available year



Overview: 4 groups of countries

Figure 6.9. Mean net wealth and top wealth inequality



The drivers of household wealth

- Strong cross-country correlation between:
  - growth rate of real house prices (deflated by CPI) and median net wealth
  - Growth rate of real stock prices and top wealth shares (10/5/1%)
- With Piketty panel data, strong correlation between mean relative wealth, asset prices and economic growth (but not with savings rate): $\beta = s.p^r/g$

Table A.2. Long-term determinants of private wealth in 8 OECD countries 1970-2010

	(1)	(2)	(3)
	Dependent variable is private capital as a share of GDP per capita		
Gross national savings rate	-0.054***	-0.014	-0.007
	(0.008)	(0.010)	(0.009)
Economic growth	-5.389***	-5.673***	-5.006***
	(0.946)	(1.261)	(1.158)
Relative house prices	1.890***	1.315***	1.015***
	(0.157)	(0.174)	(0.150)
Relative stock prices	0.696***	0.487***	0.491***
	(0.082)	(0.105)	(0.094)
Lagged dependent variable			0.334***
			(0.049)
Country dummies	Yes	Yes	Yes
Time dummies	No	Yes	Yes
N	298	298	274
R^2	0.91	0.94	0.99

note: to avoid unit roots problem, the fifth lag of the dependent variable is used

Who owns most wealth?

- On average, young households (those with a head less than 34 year-old) own about 5 times less than the middle-aged households (55-64 year-old)

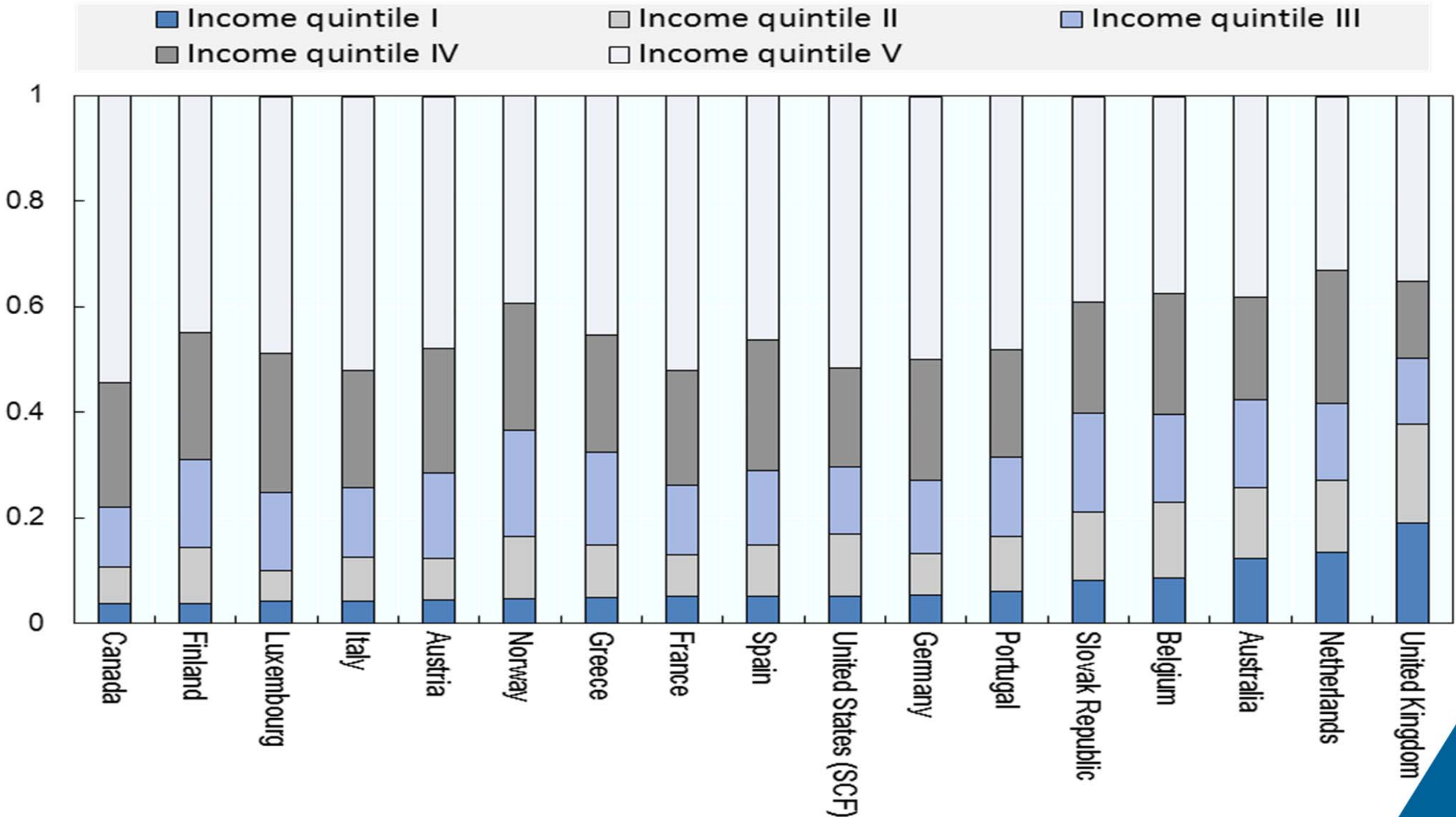
- Households headed by a college graduate have a larger net wealth than households whose head has upper secondary education (+73%) and lower secondary or primary education (+230%)

- The main income source of the wealthiest households is property income

- Wealthiest households are headed by a retired person and includes two people or more

Wealth-rich households are often income-rich as well

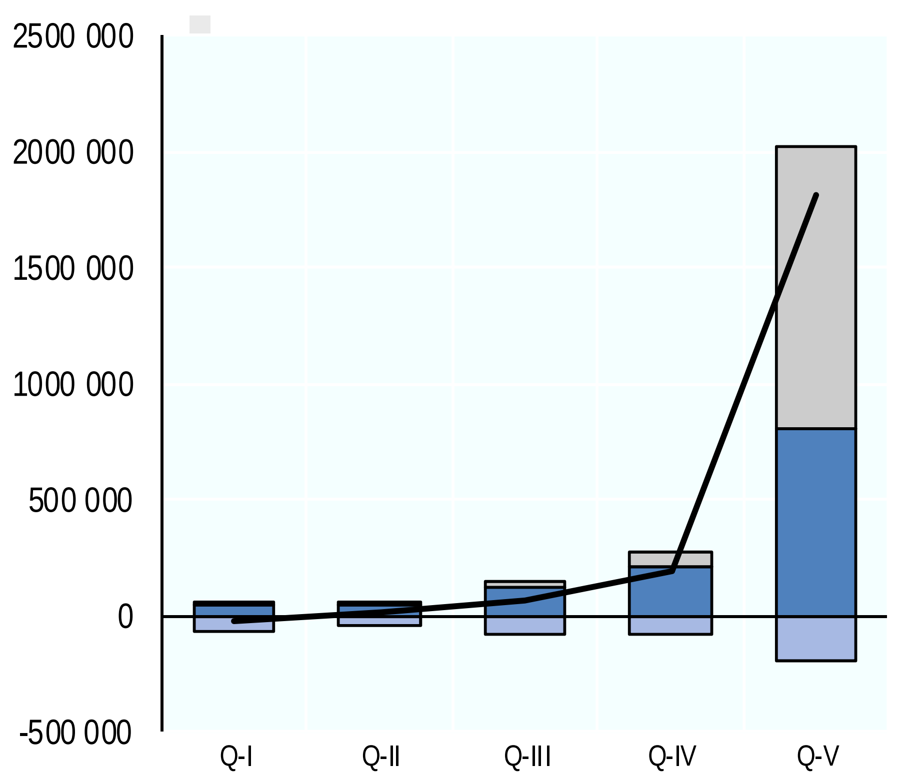
Income distribution of the top wealth quintile

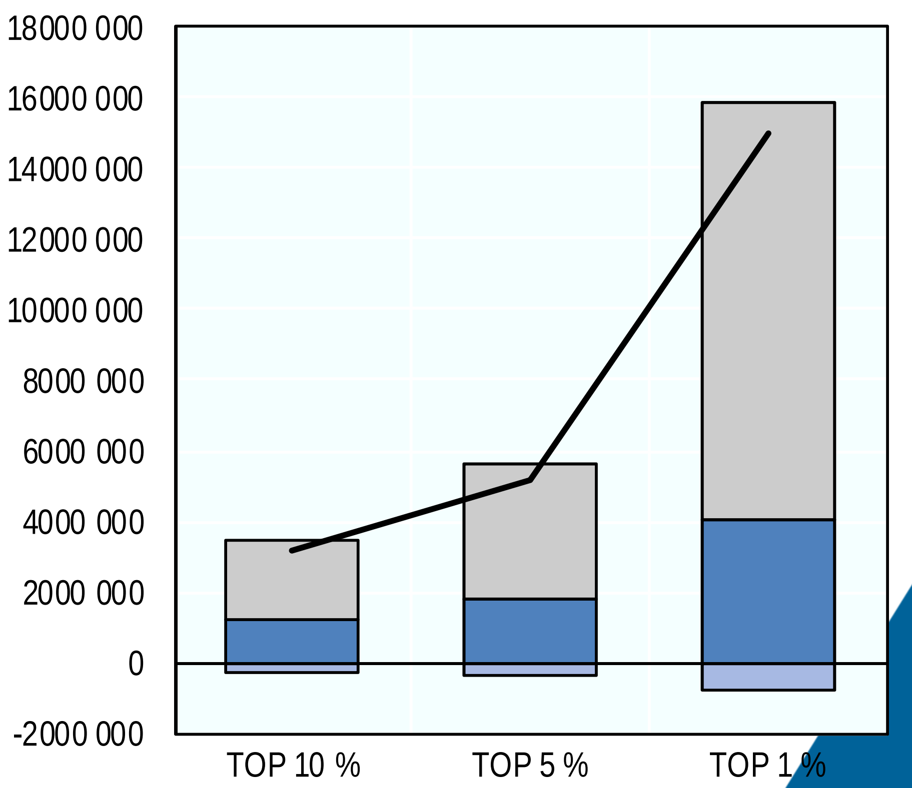


Wealth composition

Non-financial assets constitute the most important assets with a share of total assets of 75% on average, versus 50% for the Top 1%. The US is an exception (60% and 20% respectively)

United States	United States



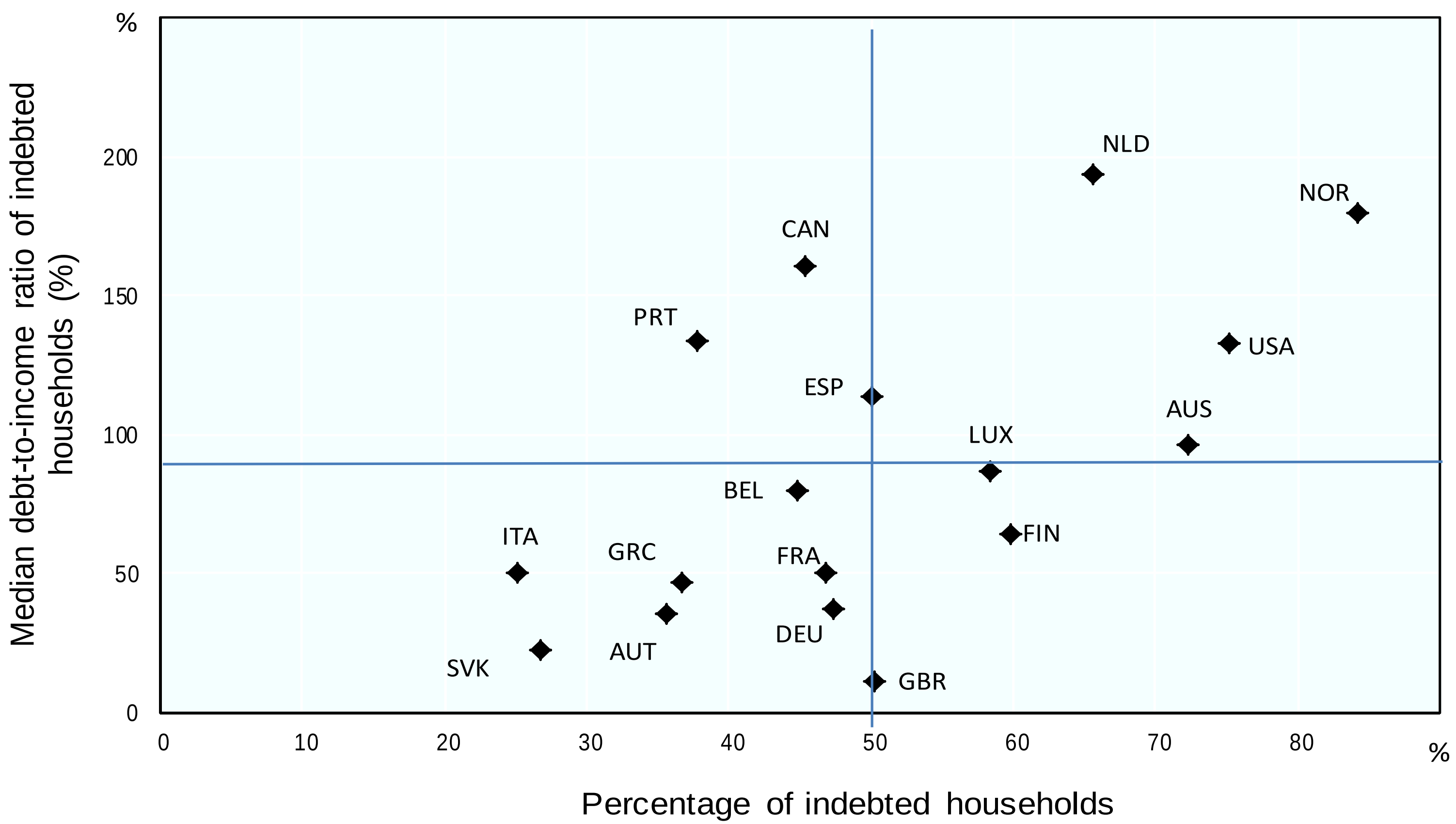


Household debt is both widespread and deep in NLD, NOR, USA

High levels of indebtedness expose households to high risks in the event of sudden changes in asset prices

Figure 6.20. Depth of indebtness for indebted households

2010 or latest available year, values in 2005 USD



Wealth inequality increased markedly in NLD, GBR, USA and ITA during the crisis

Table 6.6. Changes of mean net wealth between 2006 and 2012

Annual percentage change

	Mean	Median	Bottom quintile	Middle three quintiles	Top quintile	Top 10%	Top 5%	Top 1%	Top w ealth inequality	Bottom w ealth inequality	Observed period
Australia	1.0	1.0	-4.0	1.1	1.0	0.8	0.3	-2.7	-0.7	0.3	2006-2012
Canada	5.1	5.9	3.4	6.0	4.7	4.1	3.5	1.3	-1.8	0.1	2005-2012
Italy	-1.3	-2.2	-25.3	-2.1	-0.8	-0.6	..	..	..	0.4	2006-2012
Netherlands	-1.6	-6.0	1.9	-3.6	-0.8	-0.5	-0.3	0.3	9.3	2.8	2006-2012
United Kingdom	-0.1	-2.5	5.0	-1.9	1.1	2.0	3.1	8.4	7.2	-0.3	2006-2012
United States	-2.3	-7.1	-26.4	-5.6	-1.7	-1.5	-1.5	-1.2	9.9	4.0	2007-2013

Summary and conclusions

- On average, wealth is much more concentrated than income (the top 10 holds about 50% of total wealth versus 25% for income)
- The real appreciation of assets over time has increased wealth levels and wealth inequality, and the crisis has not reversed that unequalitarian process in USA, NLD, GBR and ITA.
- Wealthiest households earn higher income, they are more educated, they are in their 60s and 50% of their wealth is financial assets.
- Debt is both widespread and deep in USA, NLD and NOR.
- For future research: integration of tax data.